

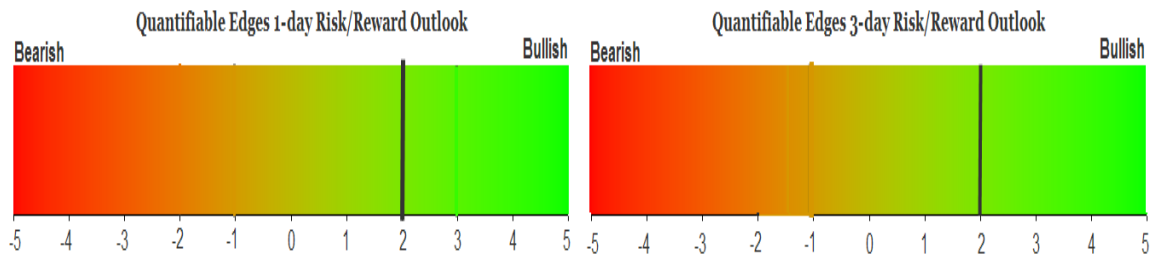
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 6, 2017

Volume 10 Issue 214

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- No new short-term evidence emerged tonight.
- SOMA declined for the 2nd week in a row.

Short-term Outlook

The Bottom Line

Evidence is weak and the SPX is mildly overbought. I do not see a strong directional edge for the next few days.

Summary of Recent Active Studies (see Letters from listed dates for details)

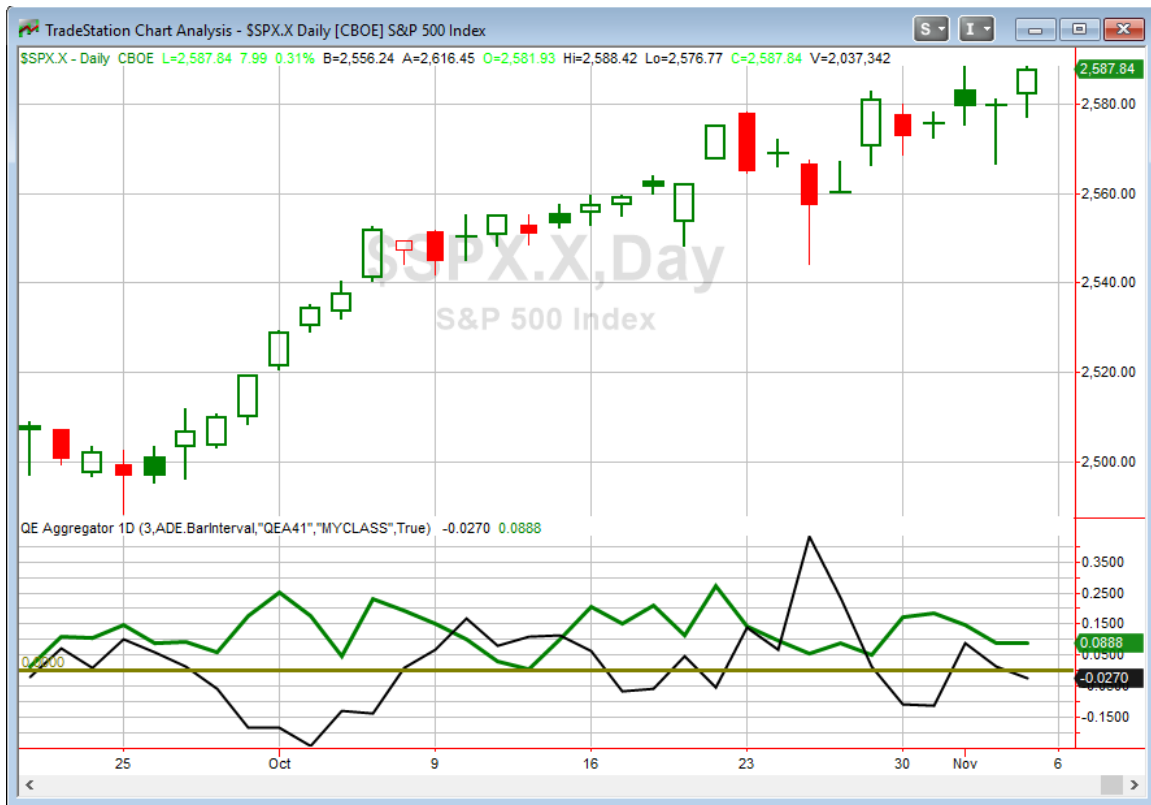
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
None tonight						
Active - Long Term						
October 24, 2017	SPX 20-high. NDX big drop	1-50 days	Bullish	6.30%	-2.80%	-5.50%
October 2, 2017	SOMA reduction begins	int term	Bearish			
September 19, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
November 3, 2017	Up 3 < 4 ago	1 day	Bullish			
November 2, 2017	Up 2 < 3 ago.	1-2 days	Bullish			
October 31, 2017	Tues-Fri Aft 4th Fri in Oct	1-4 days	Bullish			

The Evidence

The market was mixed on Friday. The SPX rose 0.3%, the NASDAQ gained 0.7% and Russell 2000 lost 0.1%. Breadth was negative as the NYSE Up Issues % was 46% and the Up Volume % came in at 49%. NYSE volume declined some from Thursday's level.

The move higher in the SPX, Dow and NASDAQ left all of those indices at new highs. The SPX posted its 4th positive close in a row. The move on Friday was not considered a fresh breakout since it just recently made new highs. And though we are at an extreme level, the new high has been achieved with moderate-sized moves, so it is not the kind of setup that will often trigger compelling new evidence. And that was the case on Friday. SPX is overbought, and it could remain overbought for a while longer. A pullback will happen, but there is not strong evidence that it will occur in the next few days, and there is also not strong evidence that it won't. So it is a situation where we need to wait a little longer for the market to tip its hand as to the next high-probability move. This does leave us without any studies on the Short-Term Active List, as the last 3 expired on Friday. The intermediate-term active list is still showing a fair amount of evidence.

I have updated the Aggregator chart below.



With tonight's study considered, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line dipped below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal turned flat at the close.

There are not any short-term studies currently active. With the intermediate-term outlook leaning bullish, expectations are currently set to remain bullish on Monday. Of course expectations could be greatly impacted by any new studies that emerge. The Differential Pivot will be *inverted* at 2592.36 on Monday. That is 0.2% *above* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX will need to close up at least 0.2% in order to remain overbought versus expectations. Anything shy of that and it will be considered "oversold" at the close on Monday as measured by the differential.

The Aggregator is neutral, the SPX is overbought, and evidence is lacking. This is not the kind of high-probability situation that gets me excited about taking on new trades. I intend to wait, observe, study, and be ready when the next favorable reward/risk opportunity arises.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/6– somewhat bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in [Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week all 3 Combo Systems are “Long”.*

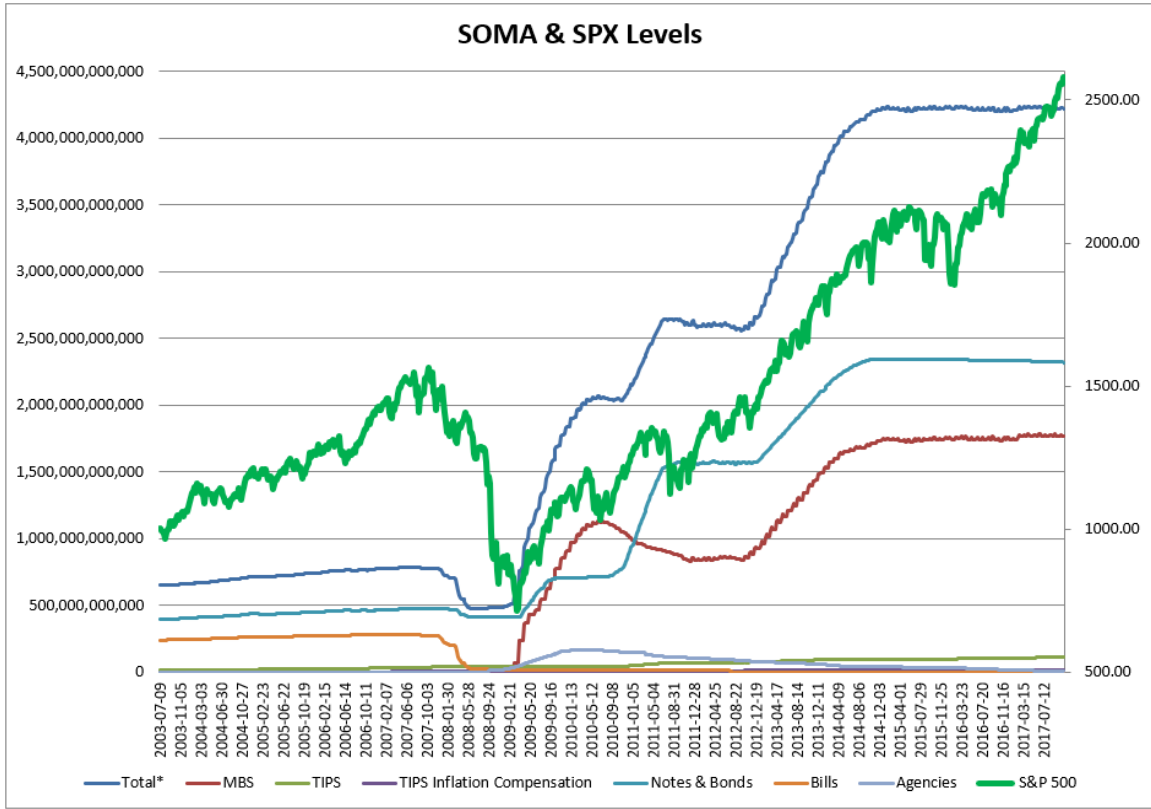
New highs were again made this week, and the SPX and NASDAQ closed Friday at new all-time highs. So the uptrend appears squarely intact.

One potential warning sign that arrived on Friday was a Hindenburg Omen signal. It was the 3rd such signal in the last couple of weeks. Hindenburg Omens look for split market conditions during uptrends that suggest the market is susceptible to a decline. Clusters of these can forewarn a market selloff. I typically update my research related to Hindenburg Omens when we get a cluster of 4 or more. But for those that would like a sneak peek/refresher, and full description of the signal, [you can link to the 6/21/17 letter here](#).

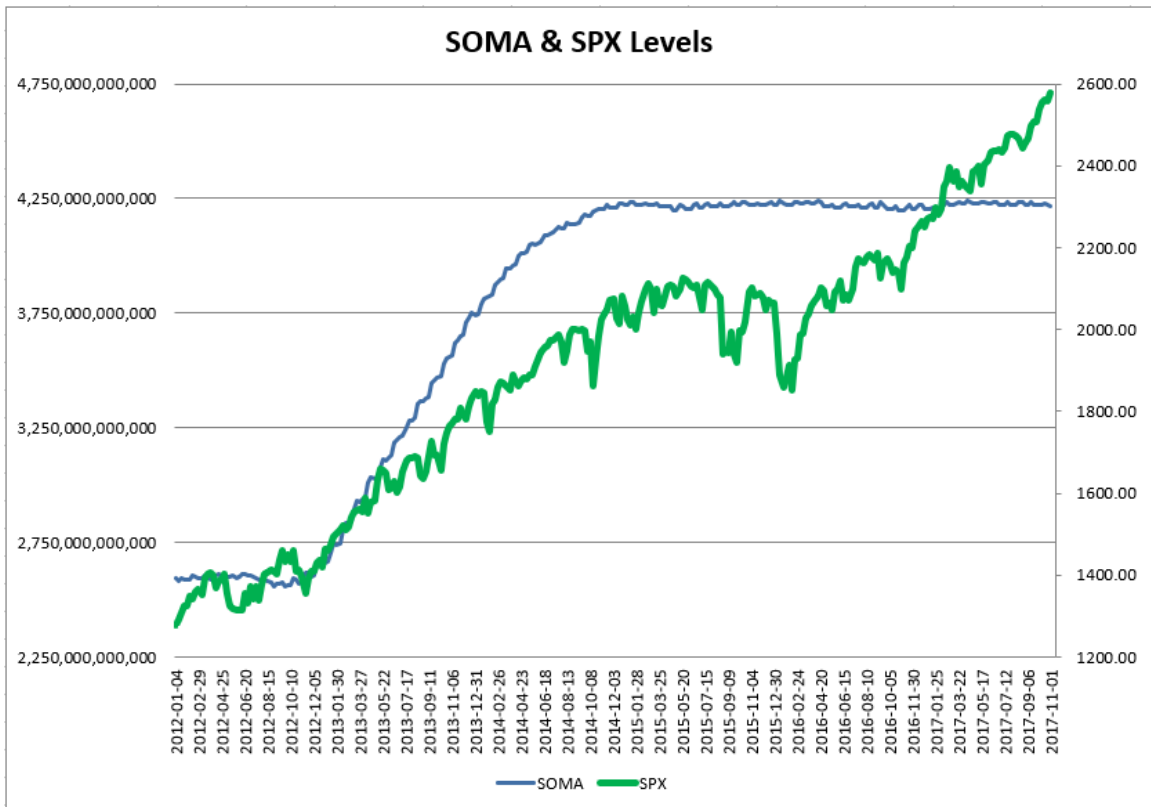
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities in the open market and increasing the size of its account. When the account has declined, the market has struggled. The obvious takeaway has been “don’t fight the Fed”. As far as intermediate-term indicators go, this has been as good as anything in recent years.

While the Fed is not making new QE purchases any longer, it is continuing to reinvest maturities. Therefore, the total assets in their System Open Market Account (SOMA) has not begun to dive like the old Quantifiable Edges POMO indicators did. Below are long and short-term views of SOMA and SPX. First, the long-term view (back to 2003).



And now the zoomed-in view (2012 – present).



The Fed's SOMA this past week (Wednesday to Wednesday) declined 0.14%. Fed announced at their September meeting that they were switching to a new policy of a \$10 billion per month SOMA reduction at the start of October. The 0.14% decline could align with either that or the previous policy, which was also expecting a mild decline this past week. I bring up the old policy because to this point the reinvestment schedule has remained exactly the same as that before the policy announcement. Historically, and through many policy periods, the market has performed better when the SOMA was expanding, and struggled when it has contracted. For some reason, the new policy did not seem to kick in completely in October. The SOMA decline in October amounted to about \$3.5 billion, rather than the stated \$10 billion. I'll continue to monitor actual flows. As I have stated repeatedly, a steady shrinking of the SOMA could create a real headwind for the bulls. So I am interested to see when the policy will kick into full force and how the market responds.

Evidence still appears to be somewhat favoring the bulls. While no new studies emerged this week, there are still some active studies from previous weeks. Additionally, the NASDAQ continues to lead, the trend is clearly up, and we are now in the best 6 months of the year. Fed policy, and its implications, remain my biggest concern. But there are no signs of a correction starting just yet. My outlook is again somewhat bullish. I will therefore be a bit more aggressive with long trades and a bit more conservative when considering short trades.

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

Open Catapult Triggers

CELG @ \$99.99 (bought 1/3 @ limit)

CELG @ \$98.17 (buy 1/3 @ limit) – not filled – cancel for now

CVX @ \$113.54 (bought 1/3 @ limit)

PM @ \$103.75 (bought 1/3 @ limit)

PM @ \$102.80 (buy 1/3 @ limit)

New

PM @ \$102.66 (buy 1/3 @ limit)

MON @ \$119.87 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 7(CELG-2, CVX, PM-3, MON)

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

PM – buy 1/3 Catapult position @ \$102.66 LIMIT. From the Catapult section above, this is the 3rd and last possible lot for PM.

MON – buy 1/3 Catapult position @ \$119.87 LIMIT. From the Catapult section above, this is the 1st of 3 possible lots for MON.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CELG(1/3)	10/27/2017	\$99.64	\$100.04	0.40%		Catapult
CVX(1/3)	10/30/2017	\$113.17	\$114.99	1.61%		Catapult
LLY(1/3)	10/31/2017	\$82.65	\$83.51	1.04%		<i>sell on open</i>
ABT(1/3)	11/1/2017	\$53.89	\$55.47	2.93%		<i>sell on open</i>
ABT(1/3)	11/2/2017	\$54.00	\$55.47	2.72%		<i>sell on open</i>
PM(1/3)	11/2/2017	\$103.71	\$102.66	-1.01%		Catapult
PM(1/3)	11/3/2017	\$103.00	\$102.66	-0.33%		Catapult

LLY and ABT reached their exit triggers and will be closed out at the open on Monday.

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