

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 27, 2017

Volume 10 Issue 228

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>
<b>Short</b>	<b>100% Short SPY</b>

## Tonight's Research Points

- The SPY pattern of 50-day high, inside day, new 50-day high, has often been followed by a pullback.
- Despite the stated Fed policy, the SOMA *increased* for the 2<sup>nd</sup> week in a row – a positive for bulls.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is pointing to a pullback, and the market is overbought, so there appears to be a bit of a downside edge. But it is not likely to last for long, and reward/risk is not strong enough to interest me in taking on a short index position.

*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
<b>Active - Short Term</b>						
November 27, 2017	50-high, inside day, 50-high	1-2 days	Bearish			
November 24, 2017	Thanksgiving Wed low volume	1-2 days	Bearish			
<b>Active - Long Term</b>						
November 15, 2017	1st 10-low in 30 days	1-10 days	Bullish	3.10%	-1.90%	-4.30%
November 14, 2017	SPX top 25% 20day rng. RUT bottom 25	1-40 days	Bullish	5.60%	-2.80%	-5.50%
November 13, 2017	Hindenburg Omen Cluster	1-35 days	Bearish			
November 8, 2017	5 higher 50-day, 1 day down	1-10 days	Bullish			
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			

**The Evidence**

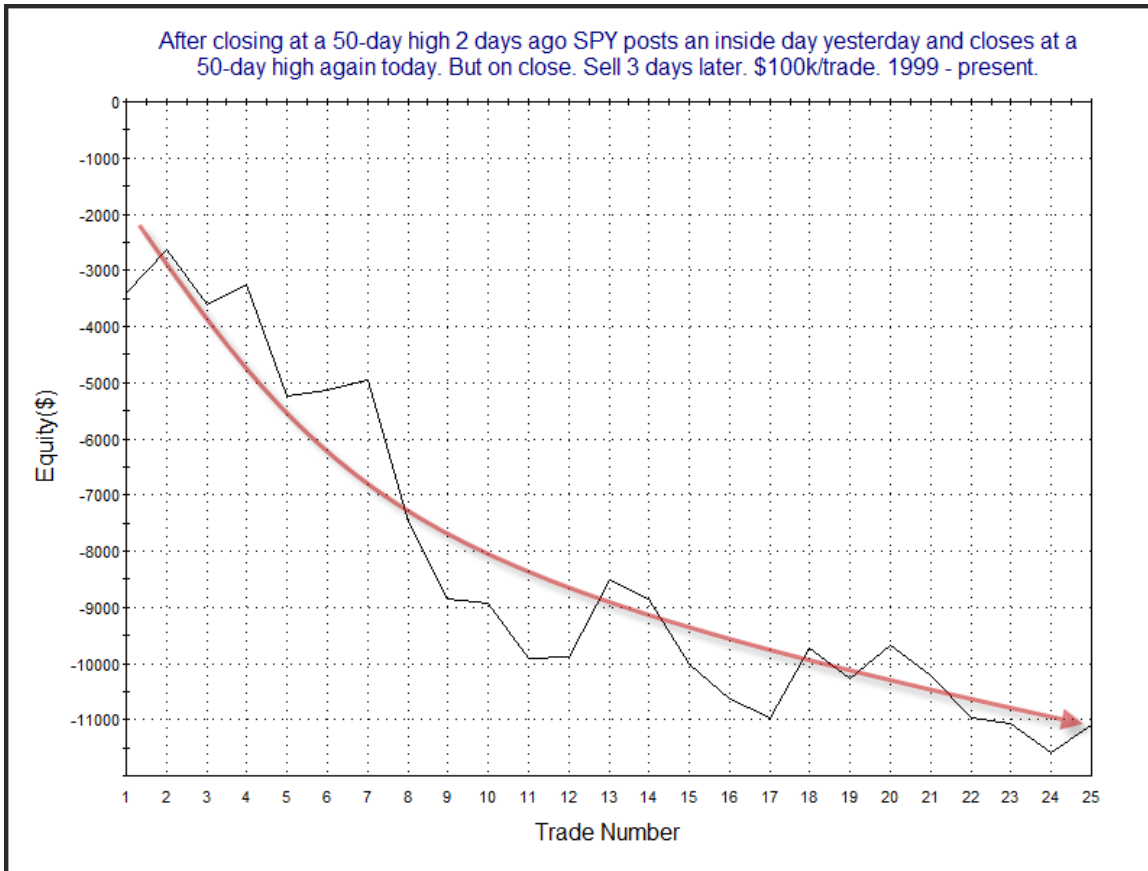
Friday was a quiet day that saw the market creep higher. The SPX and Russell 2000 each gained 0.2%, and the NASDAQ rose 0.3%. SPX and NASDAQ also posted new all-time highs. Breadth was positive as the NYSE Up Issues % was 60% and the Up Volume % came in at 59%. NYSE volume was extremely light as it typically is on the shortened day after Thanksgiving.

There were several volume-related studies that appeared in the Quantifinder, but since volume is basically always light on this day, they are not worth consideration. There was one study that I found notable.

After Tuesday's move to a new high in SPY, Wednesday put in an inside day. With Friday closing at another new high the study below triggered. It was last seen in the 11/28/16 subscriber letter. I have updated all statistics.

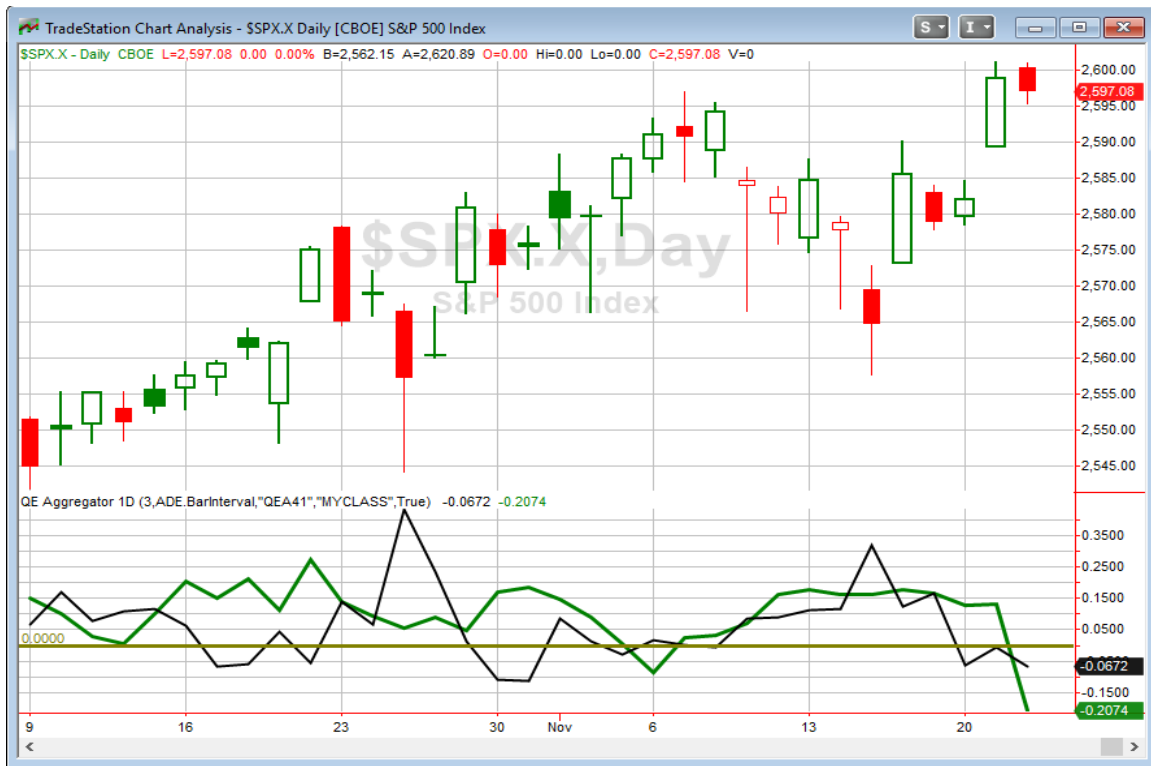
After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and closes at a 50-day high again today. But on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-16,165.51	25	8	17	32.00	677.14	1,413.21	-1,269.57	-3,754.10	0.53	0.25	-646.62
4	-11,765.88	25	9	16	36.00	697.48	1,245.97	-1,127.70	-5,106.46	0.62	0.35	-470.64
3	-11,093.98	25	9	16	36.00	573.41	1,367.56	-1,015.92	-3,417.34	0.56	0.32	-443.76
2	-10,557.28	25	7	18	28.00	644.95	1,132.23	-837.33	-2,737.00	0.77	0.30	-422.29
1	-5,038.95	25	5	20	20.00	469.77	651.42	-369.39	-1,405.62	1.27	0.32	-201.56

Stats here suggest a bearish inclination following action similar to the last 3 days. The three-day profit curve appeared to be the most appealing. You can see it below.



Not as steep as it once was, but this study still seems worth some consideration.

I have updated the Aggregator chart below.



With tonight's bearish study, the green Aggregator Line remained below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line held below 0. The negative Differential Line reading means SPX is "overbought" versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed short at the close.

Based on the current list of active studies, expectations are slated to remain negative on Monday. Of course, this could change if compelling new bullish evidence emerges. The Differential Pivot will be *inverted* at 2610.16 on Friday. That is 0.3% *above* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX is going to need to close up at least 0.3% on Monday in order to remain "overbought" versus expectations. Anything less than that and it will be considered "oversold".

I generally view inverted pivots as poor times to take on new index positions. This is because potential reward is basically limited to 1 day. If we enter short on Monday and it goes in our direction (or even slightly against us), then the SPX will move to "oversold" and the Aggregator signal will turn to neutral or bullish. With reward limited, and this being a counter-trend signal, I am not interested in pursuing a short position at this time. I will continue to wait for a more favorable reward/risk setup.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/27– somewhat bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Long</b>	<b>Long</b>	<b>Long</b>

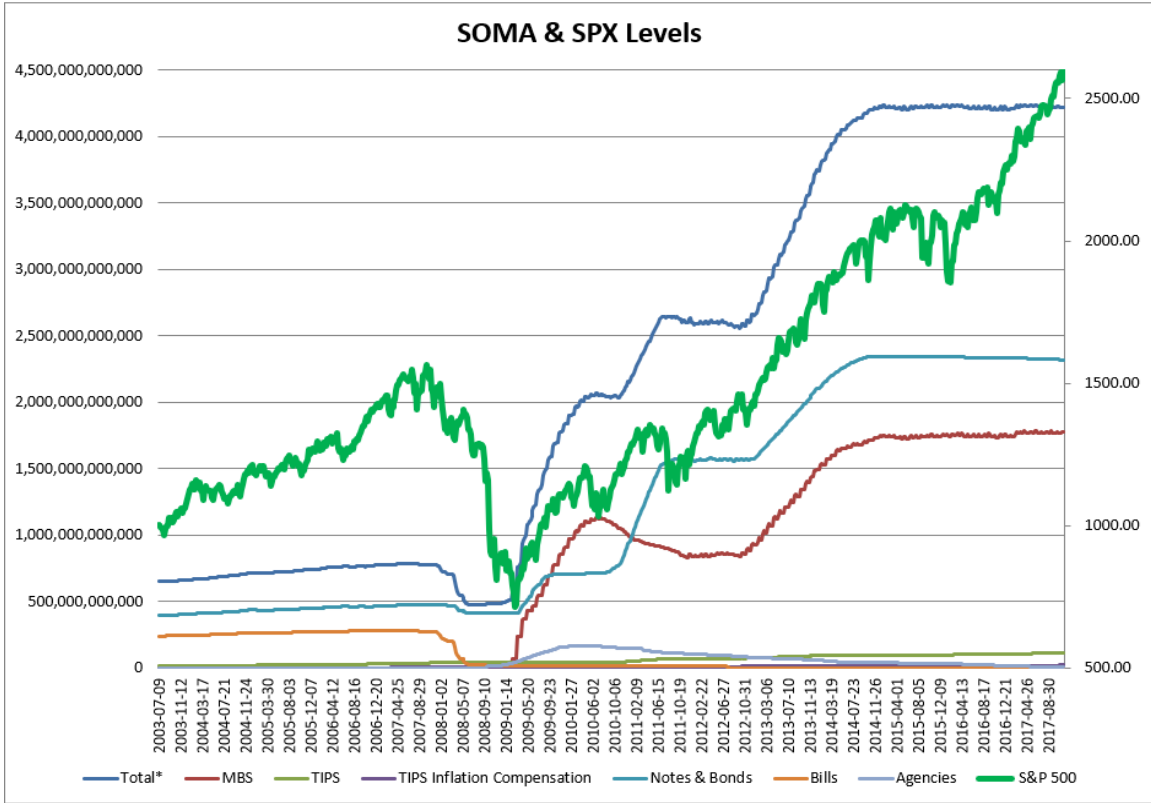
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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”.*

This past week was another good one for the bulls. The SPX and NASDAQ both closed Friday at new all-time highs. So there is little doubt that the long-term uptrend remains intact. While positive, the action was mostly quiet with it being a holiday week. So no new studies with intermediate-term implications emerged.

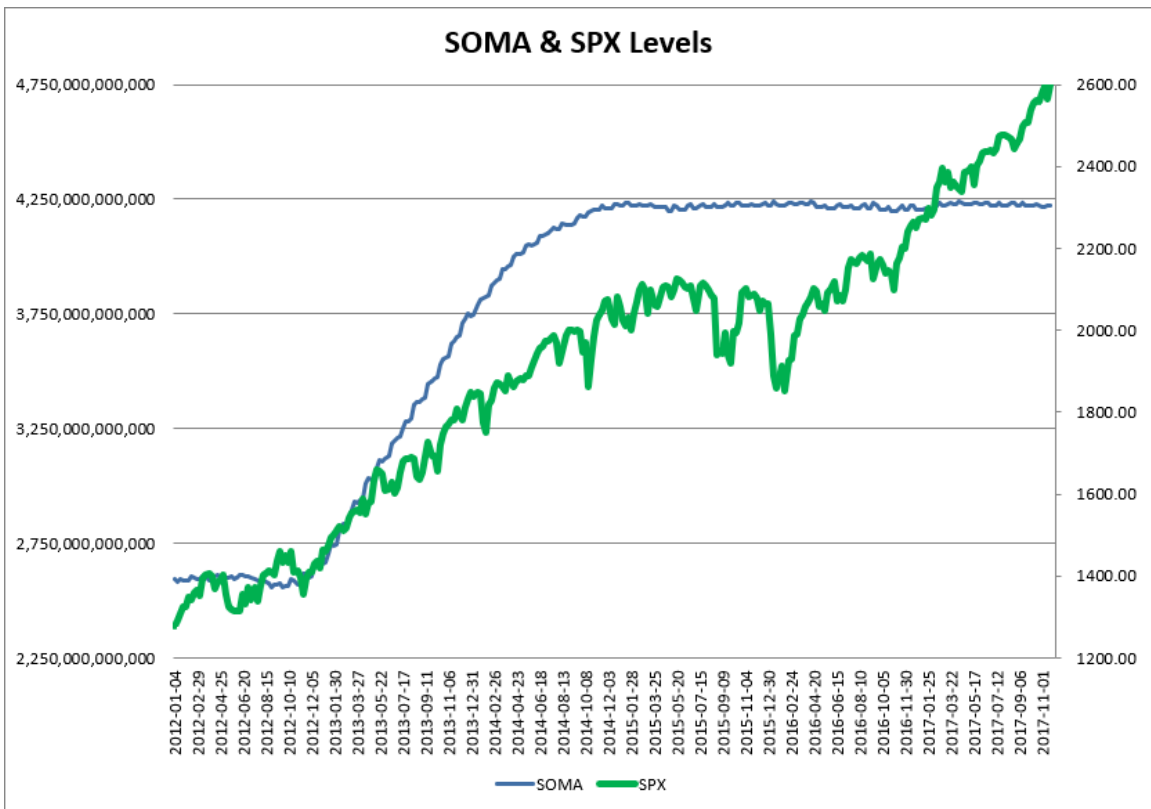
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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) managed to rise 0.01%. This is the 2<sup>nd</sup> week in a row we have seen an increase, despite the announced Fed policy of a \$10 billion / month reduction in the SOMA. October only saw a decline of \$3.5 billion, and November so far has seen the SOMA RISE \$2.2 billion. 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 has not yet seemed to kick in completely. Things may worsen if/when it does. I'll continue to monitor actual flows. As I have stated repeatedly, a steady shrinking of the SOMA could create a headwind for the bulls.

Evidence still appears to be somewhat favoring the bulls. There are several intermediate-term bullish studies that remain active. Additionally, the NASDAQ continues to lead, the trend is clearly up, and all 3 Market Timing Course Combo Systems are "long". On the downside, the Hindenburg Omen signals are somewhat troubling. But Fed policy, and its implications, remain my biggest concern. There are no signs of a market 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***

UTX @ \$117.07 (bought 1/3 @ limit)

#### ***Broad Market Large Cap CBI – 1(UTX)***

### **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.*

**None tonight.**

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
UTX(1/3)	11/14/2017	\$117.07	\$116.91	-0.14%		Catapult
<i>COP(1/3)</i>	<i>11/15/2017</i>	<i>\$50.74</i>	<i>\$50.45</i>	<i>-0.57%</i>		<i>sold on open</i>
<i>COP(1/3)</i>	<i>11/16/2017</i>	<i>\$50.40</i>	<i>\$50.45</i>	<i>0.10%</i>		<i>sold on open</i>
<i>COP(1/3)</i>	<i>11/17/2017</i>	<i>\$50.22</i>	<i>\$50.45</i>	<i>0.46%</i>		<i>sold on open</i>

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