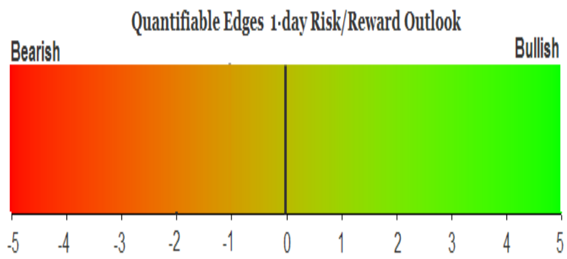
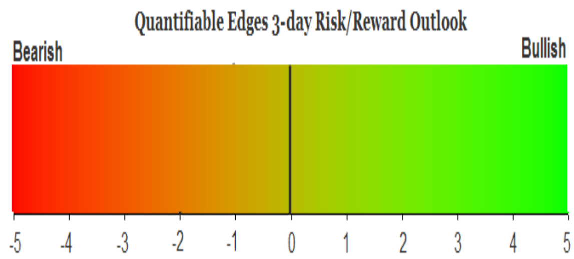
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 20, 2018 Volume 11 Issue 34

## Market Overview




## Signals Overview

| Aggregator | CBI Reading |
|---|---|
| Flat | 6 |

## *Tonight's Research Points*

- Overbought with strong momentum is not suggest substantial short-term edges.
- The Fed's SOMA increased this past week, but will likely see substantial declines in the 2nd half of February.

***Short-term Outlook***

***The Bottom Line***

Evidence is suggesting more upside, but the market is overbought to the point that I am not interested. I will remain ready for the next favorable reward/risk setup.



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### *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 | | | | | | |
| February 16, 2018 | 5 up < 50-high > 20ma | 1-10 days | Bullish | 2.30% | -1.30% | -2.65% |
| February 15, 2018 | Up 4 with 3 > 1% | 1-4 days | Bullish | 2.10% | -0.90% | -1.60% |
| February 9, 2018 | 1.5% drop 2x. 10-low > 200 | 1-7 days | Bullish | | | |
| Active - Long Term | | | | | | |
| February 16, 2018 | 5 up < 50-high > 20ma | 1-15 days | Bullish | 3.00% | -1.60% | -3.20% |
| February 15, 2018 | FTD with moderate breadth & volume | int term | Bearish | | | |
| February 7, 2018 | 20-low. 20 intra low, up close | 1-10 days | Bullish | | | |
| February 6, 2018 | CBI > 10 | 1-17 days | Bullish | | | |
| February 5, 2018 | Hindenburg Omen Cluster | 1-35 days | Bearish | | | |
| January 29, 2018 | VIX 100-day high. SPX > 100-day low | 1-15 days | Bullish | | | |
| January 16, 2018 | NASDAQ Leading | int term | Bullish | | | |
| January 8, 2018 | 1st 4 days of year close higher | 1-250 days | Bullish | 15.90% | -5.70% | -11.10% |
| January 8, 2018 | SOMA reduction intensifies to $20billior | int term | Bearish | | | |
| April 26, 2016 | Golden Cross | int term | Bullish | | | |
| July 22, 2013 | New High Divergence (Study of Tops) | int term | Bearish | | | |

### *The Evidence*

After a strong morning on Friday, some late-day selling left the indices mixed. The SPX was near breakeven with a 0.04% gain, the NASDAQ fell 0.2%, and the Russell 2000 rose 0.4%. Breadth was positive as the NYSE Up Issues % was 58% and the Up Volume % came in at 56%. NYSE volume rose a little from Thursday's level.

From a short-term perspective the market is strongly overbought, but it also has strong short-term momentum. The surge is coming from an intermediate-term low, which often helps to generate additional fuel from short covering. And it is above the 200ma, suggesting a long-term uptrend is in existence. The combination of strongly overbought, but with strong momentum coming off a low during a longer-term uptrend, is not one that generally presents very strong short-term edges. And that is what I am seeing right now. Consider a couple of studies I ran in examining the current setup.

After making a 50-day intraday low within the last 10 days, SPY closes up for at least the 5th day in a row and > 5% above the 50-day intraday low. Buy on close. Sell X days later. $100k/trade. 1993 - 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10 | 6,587.14 | 13 | 7 | 6 | 53.85 | 2,418.17 | 4,113.48 | -1,723.34 | -3,227.40 | 1.40 | 1.64 | 506.70 |
| 9 | 1,365.32 | 13 | 6 | 7 | 46.15 | 2,608.88 | 4,557.92 | -2,041.14 | -3,561.55 | 1.28 | 1.10 | 105.02 |
| 8 | -3,495.51 | 13 | 6 | 7 | 46.15 | 1,123.89 | 2,802.00 | -1,462.70 | -2,722.10 | 0.77 | 0.66 | -268.89 |
| 7 | -8,741.96 | 13 | 4 | 9 | 30.77 | 1,219.56 | 2,250.94 | -1,513.35 | -3,186.00 | 0.81 | 0.36 | -672.46 |
| 6 | -5,741.91 | 13 | 6 | 7 | 46.15 | 823.99 | 1,037.40 | -1,526.55 | -2,705.80 | 0.54 | 0.46 | -441.69 |
| 5 | -10,244.90 | 13 | 5 | 7 | 38.46 | 472.91 | 807.50 | -1,801.35 | -3,383.91 | 0.26 | 0.19 | -788.07 |
| 4 | -12,474.72 | 13 | 4 | 9 | 30.77 | 516.04 | 595.14 | -1,615.43 | -5,316.90 | 0.32 | 0.14 | -959.59 |
| 3 | -5,813.86 | 14 | 6 | 8 | 42.86 | 1,137.33 | 2,725.10 | -1,579.73 | -3,074.70 | 0.72 | 0.54 | -415.28 |
| 2 | -12,874.39 | 15 | 6 | 9 | 40.00 | 759.71 | 1,498.50 | -1,936.96 | -5,350.20 | 0.39 | 0.26 | -858.29 |
| 1 | -14,286.29 | 22 | 10 | 12 | 45.45 | 601.44 | 1,723.68 | -1,691.73 | -8,857.80 | 0.36 | 0.30 | -649.38 |



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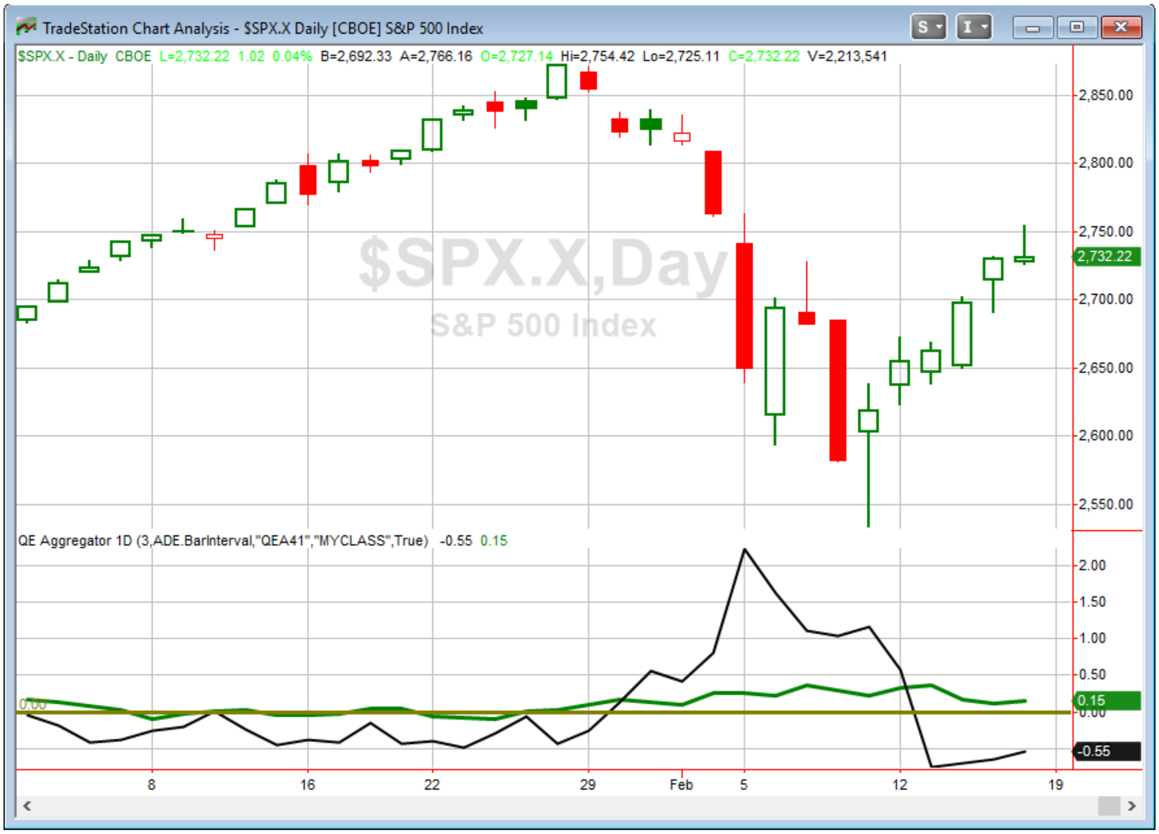
| SPX closes up for the 6th day in a row after closing at a 50-day low 6 days ago. Buy on close. Sell X days later. $100k/trade. 1961 - present. | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: 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 |
| 10 | 31,736.20 | 31 | 21 | 10 | 67.74 | 2,738.04 | 6,061.90 | -2,576.26 | -6,936.38 | 1.06 | 2.23 | 1,023.75 |
| 9 | 20,132.08 | 31 | 23 | 8 | 74.19 | 1,848.15 | 4,915.22 | -2,796.93 | -4,560.02 | 0.66 | 1.90 | 649.42 |
| 8 | 5,682.08 | 31 | 16 | 15 | 51.61 | 2,053.48 | 4,550.00 | -1,811.57 | -5,325.90 | 1.13 | 1.21 | 183.29 |
| 7 | -669.92 | 31 | 15 | 16 | 48.39 | 1,733.04 | 4,159.44 | -1,666.60 | -4,153.62 | 1.04 | 0.97 | -21.61 |
| 6 | -18,690.04 | 31 | 19 | 12 | 61.29 | 1,000.98 | 4,430.80 | -3,142.39 | -9,712.78 | 0.32 | 0.50 | -602.90 |
| 5 | -14,047.86 | 31 | 15 | 16 | 48.39 | 1,426.76 | 4,290.80 | -2,215.57 | -6,760.68 | 0.64 | 0.60 | -453.16 |
| 4 | -8,229.41 | 31 | 15 | 16 | 48.39 | 1,406.40 | 4,275.84 | -1,832.84 | -7,088.90 | 0.77 | 0.72 | -265.46 |
| 3 | -12,515.48 | 31 | 14 | 17 | 45.16 | 1,009.26 | 2,458.20 | -1,567.36 | -4,639.62 | 0.64 | 0.53 | -403.73 |
| 2 | -4,897.11 | 31 | 13 | 18 | 41.94 | 991.06 | 1,995.80 | -987.83 | -2,677.60 | 1.00 | 0.72 | -157.97 |
| 1 | 1,437.27 | 31 | 14 | 17 | 45.16 | 1,236.35 | 4,754.10 | -933.63 | -3,515.37 | 1.32 | 1.09 | 46.36 |

Neither of these is suggesting a substantial short-term edge. And that is pretty consistent with what I am seeing when examining this strong bounce.

I will note that VIX action continues to exemplify just how extreme this market has been. On Thursday the VIX closed at 72.52% of its 10-day moving average. This is the lowest reading ever, besting the 11/4/08 reading of 72.56%. Friday it closed just above 73%. At no time other than 11/4/08 or this week has it closed below 75%. While I would not look to just one prior instance to determine a tendency, I will note for those that are interested that 11/4/08 marked a short-term high before another leg down during that bear market.

I guess all this is a long-winded way to say that there are no new studies being added to the short-term active list tonight.

I have updated the Aggregator chart below.




With tonight's evidence 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 held 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 stayed flat at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Tuesday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2722.18 on Tuesday. That is 0.4% below Friday's close. Therefore, it will take a decline of at least 0.4% in order for SPX to move from overbought to oversold on Tuesday.

Much like last night, the Aggregator is neutral and so am I. I will also note that CBI is now down to 6. It was at 31 early in the week. Six is mildly bullish, but it is quickly approaching a level that I consider completely neutral. I do not anticipate trying to short against this momentum in the next few days, nor will I likely be looking to buy with the SPX so overbought. What could be telling, and will likely determine my next move, is how the market makes its next pullback. I expect more clues to emerge when that happens.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/20– 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 remained "Long".*

This week was basically straight up for the market. The SPX finished the week up 4.3%, making up a large portion of the losses seen the previous week. The NASDAQ did even better with a 5.3% gain. There was a mix of studies that emerged with intermediate-term implications.

In the 2/15 letter I examined Wednesday's strong up move on high volume, which qualified Wednesday as an IBD Follow Through Day (FTD). I have done a lot of research on FTDs over the years. Much of that research can be found on the blog. Here is a link.

http://quantifiableedges.com/category/ibd-follow-through-day/

One study I showed took into account the below average volume and the relatively weak breadth that were present during Wednesday's rally. I have copied it below.

Today is an IBD Follow Through Day. NYSE volume < 10ma and the 1-yr Up Issues % Rank < 95%.
Buy SPX on close. Sell X days later. $100k/trade. 1971 - 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 10 | -44,387.58 | 21 | 8 | 13 | 38.10 | 2,626.16 | 7,531.29 | -5,030.53 | -24,546.70 | 0.52 | 0.32 | -2,113.69 |
| 9 | -49,948.20 | 21 | 7 | 14 | 33.33 | 1,960.68 | 2,418.26 | -4,548.07 | -18,395.06 | 0.43 | 0.22 | -2,378.49 |
| 8 | -37,284.52 | 21 | 9 | 12 | 42.86 | 1,690.63 | 3,617.64 | -4,375.02 | -17,469.28 | 0.39 | 0.29 | -1,775.45 |
| 7 | -26,485.88 | 21 | 10 | 11 | 47.62 | 1,426.48 | 2,899.26 | -3,704.61 | -12,495.16 | 0.39 | 0.35 | -1,261.23 |
| 6 | -11,873.60 | 21 | 12 | 9 | 57.14 | 1,899.77 | 5,900.31 | -3,852.32 | -9,023.28 | 0.49 | 0.66 | -565.41 |
| 5 | -17,622.58 | 21 | 10 | 11 | 47.62 | 1,855.42 | 4,663.62 | -3,288.80 | -7,789.18 | 0.56 | 0.51 | -839.17 |
| 4 | -18,835.89 | 21 | 7 | 14 | 33.33 | 2,163.85 | 7,124.13 | -2,427.34 | -7,745.95 | 0.89 | 0.45 | -896.95 |
| 3 | -20,850.20 | 21 | 6 | 15 | 28.57 | 1,717.93 | 3,189.42 | -2,077.19 | -5,299.32 | 0.83 | 0.33 | -992.87 |
| 2 | -27,799.48 | 21 | 6 | 15 | 28.57 | 645.94 | 1,508.80 | -2,111.68 | -8,433.70 | 0.31 | 0.12 | -1,323.78 |
| 1 | -5,721.94 | 21 | 8 | 13 | 38.10 | 837.07 | 2,565.81 | -955.27 | -2,475.86 | 0.88 | 0.54 | -272.47 |

All 21 instances closed below the entry price at some point in the next week.
Only 4 of those 21 FTDs (19%) were followed by successful rallies.

The note at the bottom is the most striking evidence here for the intermediate-term. It suggests the early-February selloff could see another leg down.

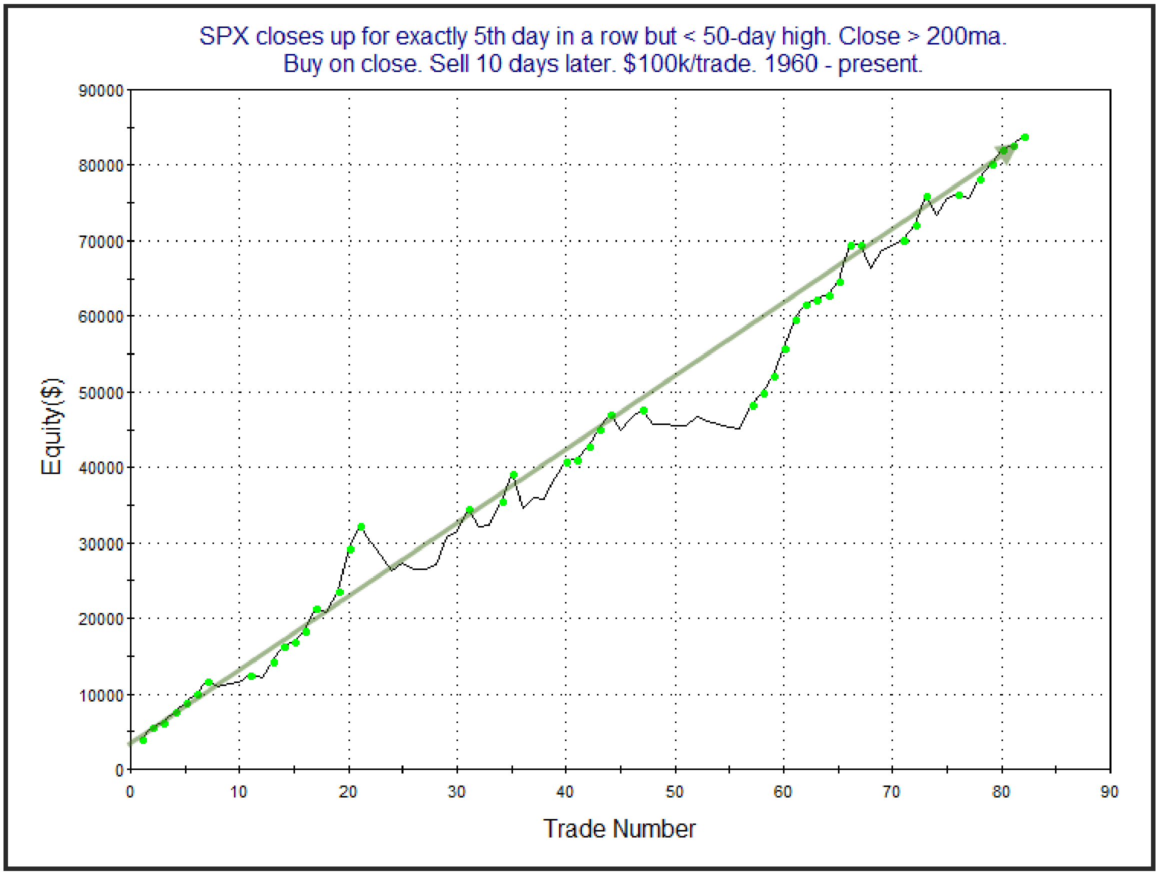
But in the 2/16 letter we saw a bullish intermediate-term study emerge. I have copied it below.

*There were a few studies that recognized the move higher over the last few days and suggested the momentum is likely to continue. The one I liked the best was perhaps the simplest. It was from the 9/1/17 letter, and it looked at 5 up days that closed above the 200ma, but failed to close at a 50-day high. I have updated the results below.*

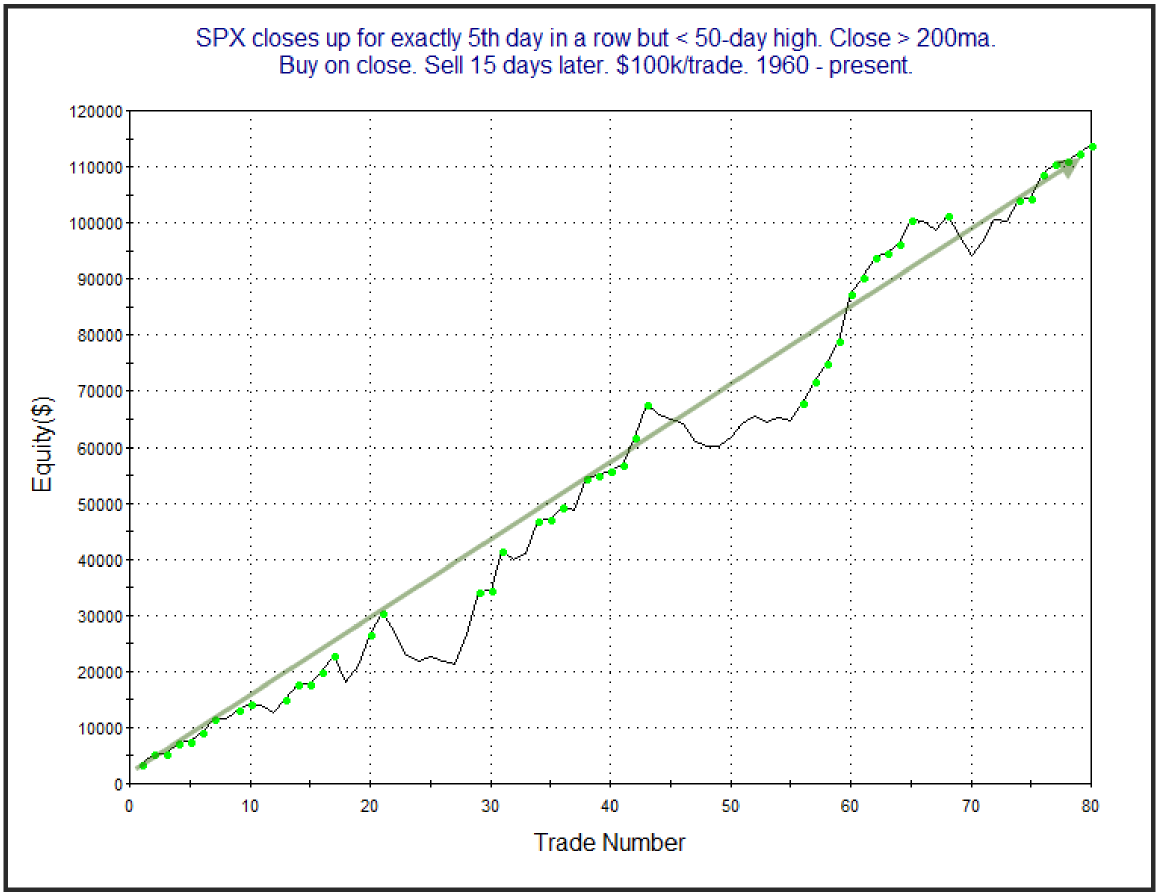
SPX closes up for exactly 5th day in a row but < 50-day high. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1960 - present.

| 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 15 | 113,703.84 | 80 | 56 | 24 | 70.00 | 2,685.65 | 8,288.00 | -1,528.86 | -4,879.10 | 1.76 | 4.10 | 1,421.30 |
| 14 | 103,236.10 | 80 | 55 | 25 | 68.75 | 2,585.83 | 8,272.60 | -1,559.38 | -4,738.50 | 1.66 | 3.65 | 1,290.45 |
| 13 | 104,235.62 | 80 | 59 | 21 | 73.75 | 2,421.15 | 6,401.50 | -1,838.68 | -3,773.44 | 1.32 | 3.70 | 1,302.95 |
| 12 | 95,406.54 | 81 | 60 | 21 | 74.07 | 2,195.24 | 5,925.50 | -1,728.93 | -3,661.77 | 1.27 | 3.63 | 1,177.86 |
| 11 | 80,285.92 | 82 | 56 | 26 | 68.29 | 2,090.95 | 6,074.75 | -1,415.68 | -4,894.24 | 1.48 | 3.18 | 979.10 |
| 10 | 83,925.44 | 82 | 60 | 22 | 73.17 | 1,876.23 | 5,675.25 | -1,302.19 | -4,684.28 | 1.44 | 3.93 | 1,023.48 |
| 9 | 80,894.42 | 82 | 57 | 25 | 69.51 | 1,915.94 | 5,228.75 | -1,132.56 | -4,910.55 | 1.69 | 3.86 | 986.52 |
| 8 | 75,306.72 | 83 | 61 | 22 | 73.49 | 1,630.36 | 5,146.50 | -1,097.51 | -3,376.64 | 1.49 | 4.12 | 907.31 |
| 7 | 67,755.70 | 83 | 58 | 25 | 69.88 | 1,646.01 | 5,698.75 | -1,108.52 | -3,500.70 | 1.48 | 3.44 | 816.33 |
| 6 | 55,700.03 | 83 | 62 | 21 | 74.70 | 1,373.34 | 5,134.75 | -1,402.24 | -3,366.60 | 0.98 | 2.89 | 671.08 |
| 5 | 44,329.90 | 83 | 59 | 23 | 71.08 | 1,237.97 | 4,476.75 | -1,248.26 | -3,716.53 | 0.99 | 2.54 | 534.10 |
| 4 | 29,925.19 | 83 | 53 | 30 | 63.86 | 1,089.03 | 3,983.25 | -926.45 | -3,494.78 | 1.18 | 2.08 | 360.54 |
| 3 | 28,987.49 | 83 | 56 | 27 | 67.47 | 995.48 | 2,796.50 | -991.09 | -3,359.36 | 1.00 | 2.08 | 349.25 |
| 2 | 14,704.82 | 83 | 54 | 29 | 65.06 | 764.36 | 2,479.25 | -916.23 | -3,748.50 | 0.83 | 1.55 | 177.17 |
| 1 | 9,209.35 | 83 | 53 | 30 | 63.86 | 514.03 | 2,211.54 | -601.15 | -2,200.96 | 0.86 | 1.51 | 110.96 |

*These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.*




*This appears to be quite a consistent curve and makes the study even more compelling. I also ran the 15-day profit curve.*

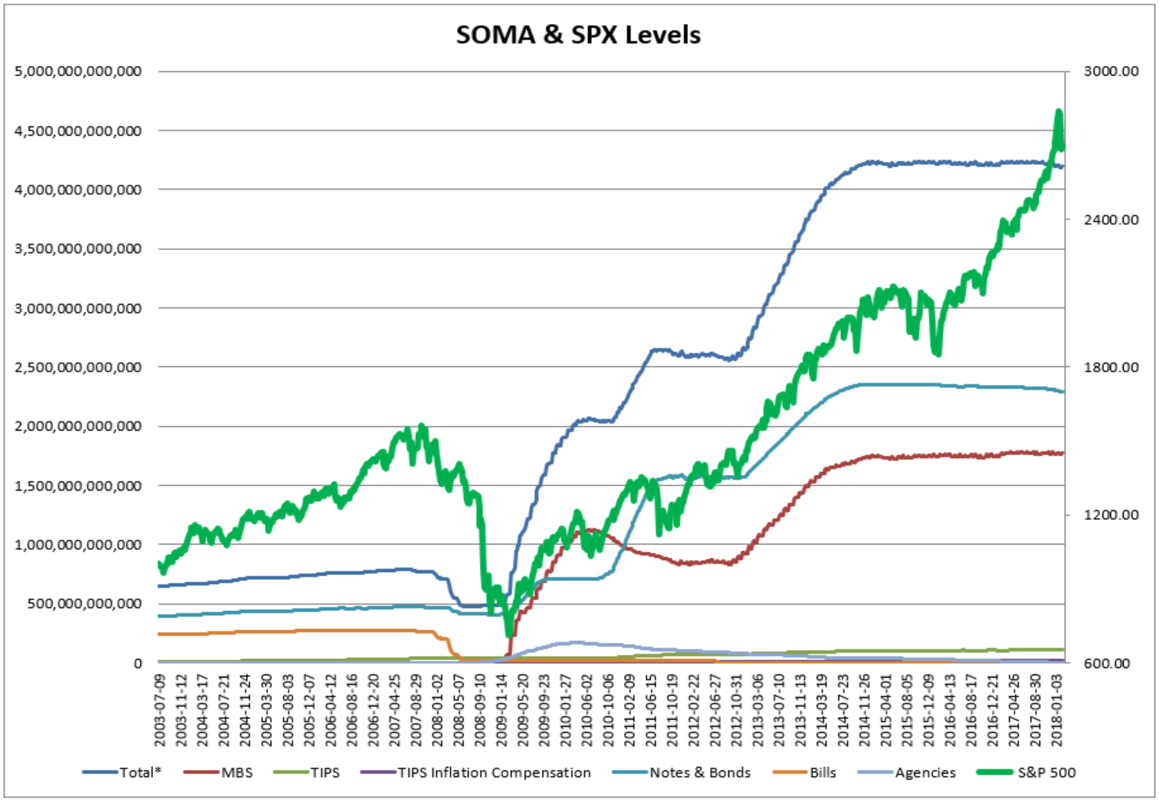



*Much like the 10-day curve, the 15-day shows impressive upslope. In addition to the short-term Active List, have also added this study to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.*

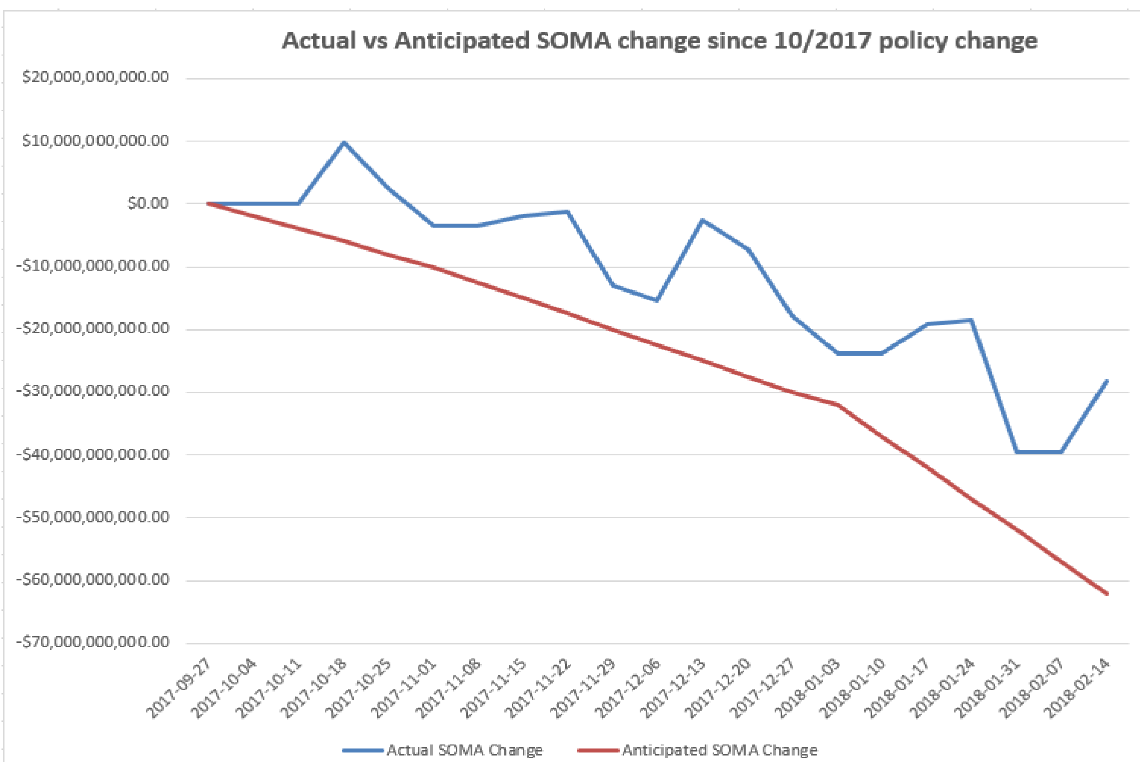
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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 a zoomed-in view since October comparing expected reductions to actual.



The Fed's SOMA this past week (Wednesday to Wednesday) rose a little over $11 billion. That represents a gain of about 0.27%. Not huge when put in those terms, but considering the SOMA supposed to be reduced by $20 billion / month right now, that is a sizable move in the opposite direction. With the SOMA being flat the 1st week in February, it will now have to drop about $31 billion in the last two weeks in order to keep pace with expectations. That may not happen. But I do believe we will see it play some catch-up here soon. The fact that the market bounced while the SOMA was expanding should be no surprise. Over the last several years, the market has performed substantially better during weeks in which the SOMA balance expanded versus weeks in which it shrank. Of course, we are now facing a general headwind. Each quarter this year the rate of decline is set to be upped by $10 billion / month. So it could go to $30 billion starting in April, and then $40 billion in July and $50 billion in October, where it is expected to remain and not increase further. I'll continue to monitor SOMA movement and Fed policy closely.

Most of the intermediate-term evidence is still pointing higher. The multi-day rally shows momentum that could continue to carry through for a while, and the Market Timing Course combo systems are all pointing higher. The FTD study from above is a bit discouraging for the bulls, and so is the fact that the SOMA reduction is likely to accelerate over the next couple of weeks. So we will see how action plays out and what new evidence emerges as aftershocks from the early-Feb correction are seen. For now I am still leaning a little bullish, and more inclined to get involved with long trades than short ones. That could certainly change depending how things unfold in the coming days and weeks.

## Catapult and Capitulative Breadth Statistics

*Catapult & CBI Presentation Link*

***OpenCatapult Triggers***

| Ticker | Trigger Price |
|---|---|
| UPS | $119.51 |
| LOW | $101.50 |
| CVX | $112.62 |
| LOW | $97.58 |
| UPS | $113.30 |
| UPS | $112.71 |
| | |

***Broad Market Large Cap CBI – 6(UPS-3, LOW-2, CVX)***



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## 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 |
|---|---|---|---|---|---|---|
| UPS(1/3) | 2/2/2018 | $118.99 | $108.31 | -8.98% | | Catapult |
| ***HD(1/3)*** | ***2/5/2018*** | ***$190.07*** | ***$185.06*** | ***-2.64%*** | | ***sold on open*** |
| LOW(1/3) | 2/5/2018 | $101.38 | $96.51 | -4.80% | | Catapult |
| ***F(1/3)*** | ***2/5/2018*** | ***$10.71*** | ***$10.77*** | ***0.56%*** | | ***sold on open*** |
| CVS(1/3) | 2/6/2018 | $72.50 | $70.49 | -2.77% | | ***sell on open*** |
| CVX(1/3) | 2/6/2018 | $111.20 | $112.53 | 1.20% | | Catapult |
| ***F(1/3)*** | ***2/6/2018*** | ***$10.24*** | ***$10.77*** | ***5.18%*** | | ***sold on open*** |
| ***FDX(1/3)*** | ***2/6/2018*** | ***$244.44*** | ***$244.00*** | ***-0.18%*** | | ***sold on open*** |
| ***HD(1/3)*** | ***2/6/2018*** | ***$178.62*** | ***$185.06*** | ***3.61%*** | | ***sold on open*** |
| ***HON(1/3)*** | ***2/6/2018*** | ***$147.68*** | ***$153.09*** | ***3.66%*** | | ***sold on open*** |
| LOW(1/3) | 2/6/2018 | $95.29 | $96.51 | 1.28% | | Catapult |
| UPS(1/3) | 2/6/2018 | $112.19 | $108.31 | -3.46% | | Catapult |
| UPS(1/3) | 2/7/2018 | $112.39 | $108.31 | -3.63% | | Catapult |
| XOM(1/3) | 2/13/2018 | $75.78 | $76.21 | 0.57% | | ***sell on open*** |

*A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 can be found here.*





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