

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 5, 2018

Volume 11 Issue 43

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	3

Tonight's Research Points

- Compelling new short-term evidence is lacking.
- The SOMA saw a large decline this past week and it at its lowest level since 2014.

Short-term Outlook

The Bottom Line

The Aggregator is in a bullish formation, but the setup is only moderate. I am partially long, and I will look to exit my index exposure if SPX closes up strongly on Monday.

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

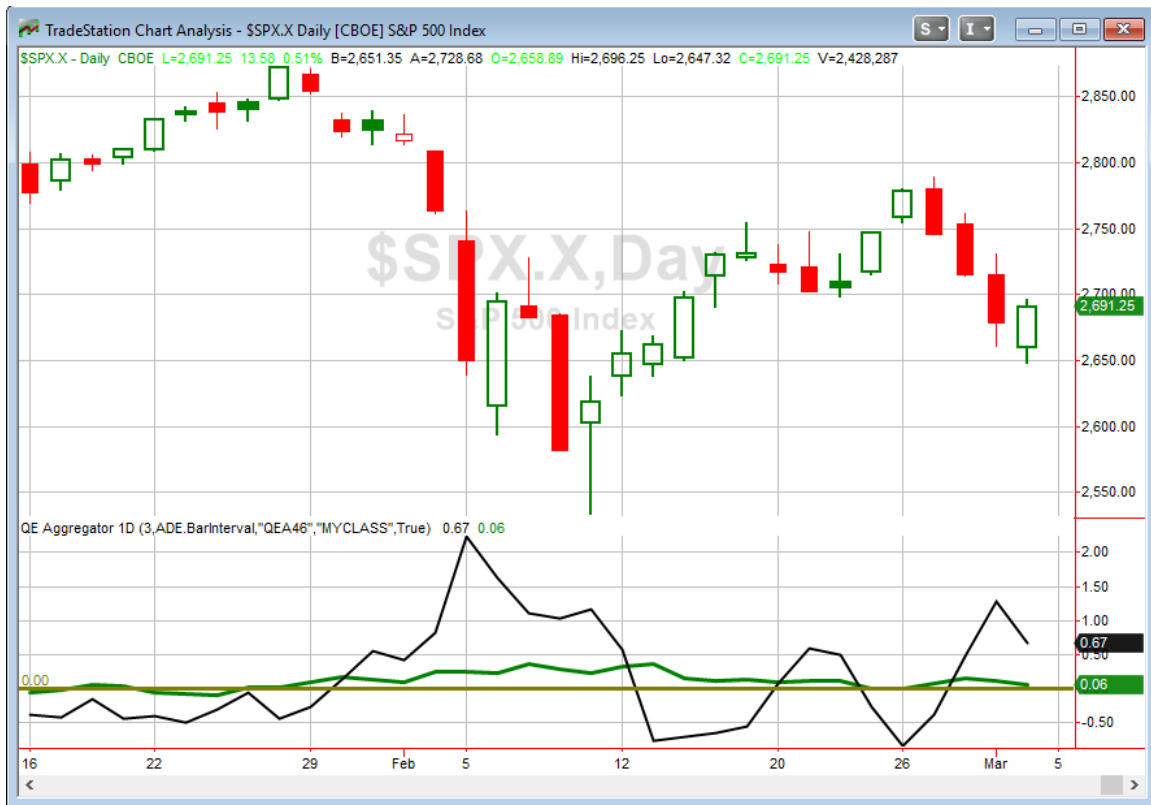
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
Active - Short Term						
February 21, 2018	5+ up. 1 down > 200ma	1-10 days	Bullish	2.00%	-1.10%	-2.30%
Active - Long Term						
February 16, 2018	5 up < 50-high > 20ma	1-15 days	Bullish	3.00%	-1.60%	-3.20%
February 15, 2018	FTD with moderate breadth & volume	int term	Bearish			
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 \$20billion	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

Friday started with a gap down and tough morning, but the market bounced back and put in some gains by the close. The SPX finished up 0.5%, the NASDAQ rose 1.1%, and the Russell 2000 rallied 1.7%. Breadth was negative as the NYSE Up Issues % was 62% and the Up Volume % came in at 69%. NYSE volume declined from Thursday's level.

From a short-term perspective, Friday failed to generate any studies that I felt were particularly compelling. I spent a good amount of time looking at bounces similar to what we saw on Friday relative to the prior pullback action. And after exploring several ideas that did not yield compelling results, I decided I had better not look TOO hard. The Quantifinder has over 1300 studies in it at this point. So it is rare to me to find a new pattern nowadays if nothing compelling is showing up there. The general message is that the market is currently undecided and fairly volatile. There is not an overwhelming edge in either direction for the short-term. We had some evidence Thursday night showing a moderate 1-day upside edge based on the 3-day pullback. That has already played out. The lone active short-term study looks back at the strong thrust higher that ended almost 2 weeks ago. Its potential influence is ending in the next 2 days. When compelling evidence is this hard to find, then the setup is generally not all that compelling.

I have updated [the Aggregator chart](#) below.



With nothing new being added today the green Aggregator 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 above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Monday. This could easily change if new bearish evidence emerges. The Differential Pivot will be 2720.06 on Monday. That is 1.1% above Friday's close. So it would take a rise of at least 1.1% on Monday to move SPX from oversold to overbought.

The Aggregator is still bullish. SPX still has a good amount of room to the upside before it flips to overbought. And it will take some new bearish evidence before expectations will turn. So I still like the long side – but not a whole lot. I have a small amount of index exposure. If Monday puts in a strong move higher, I will look to exit that at the close.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/5– very slightly bullish

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

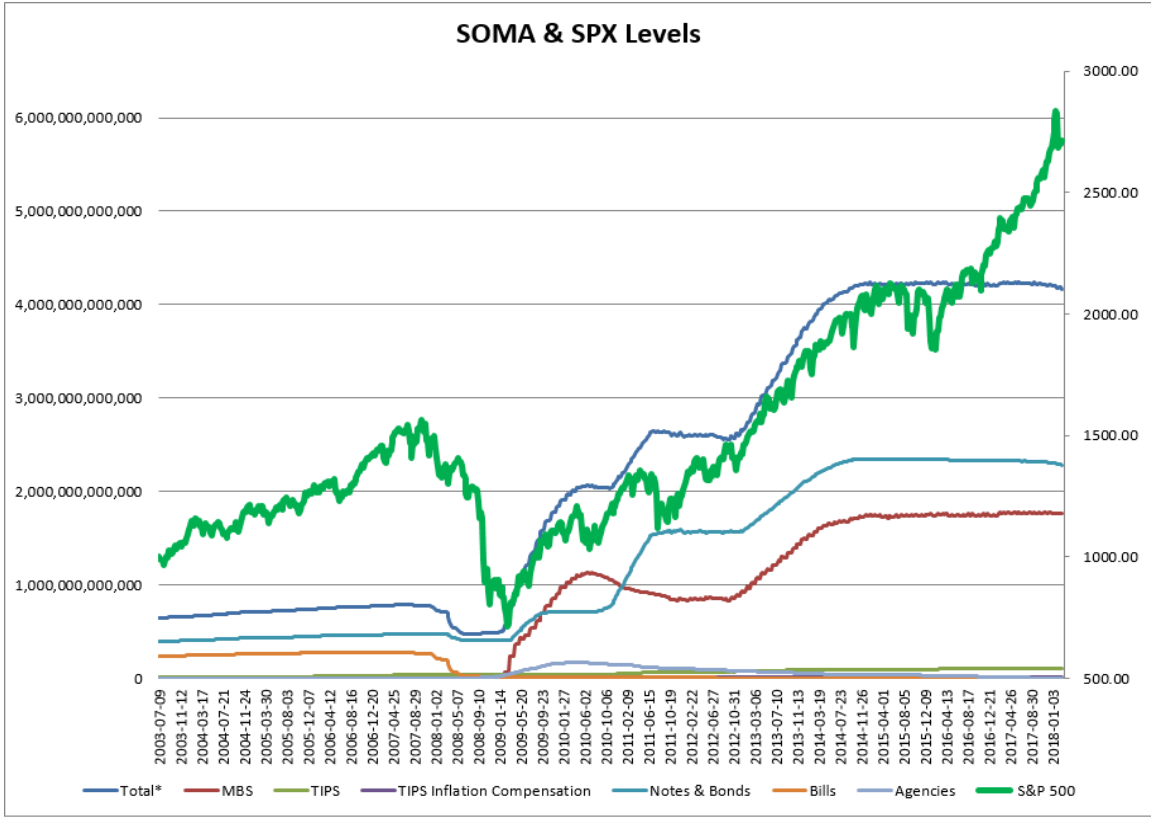
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

After 2 up weeks, the market gave back some this past week. The SPX finished Friday with a 2.0% loss from the previous week. The NASDAQ held up a little better with a 1.1% decline. There were no new studies that emerged with intermediate-term implications.

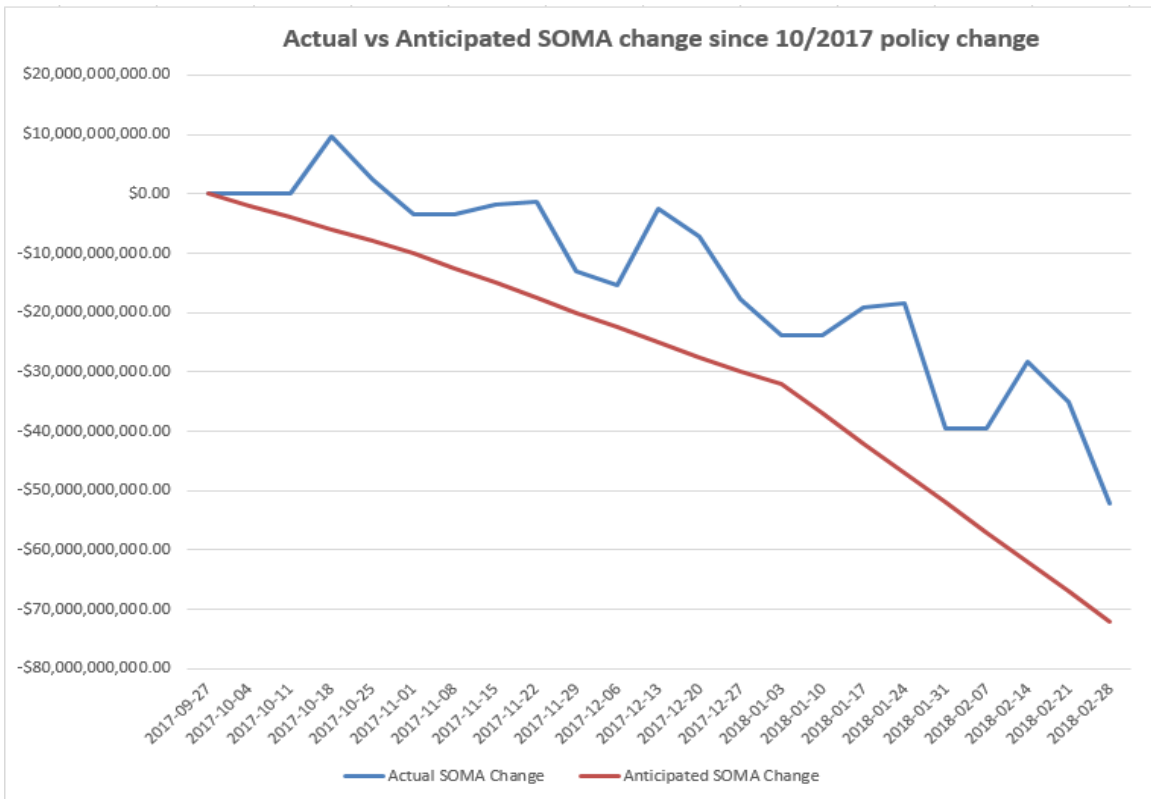
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



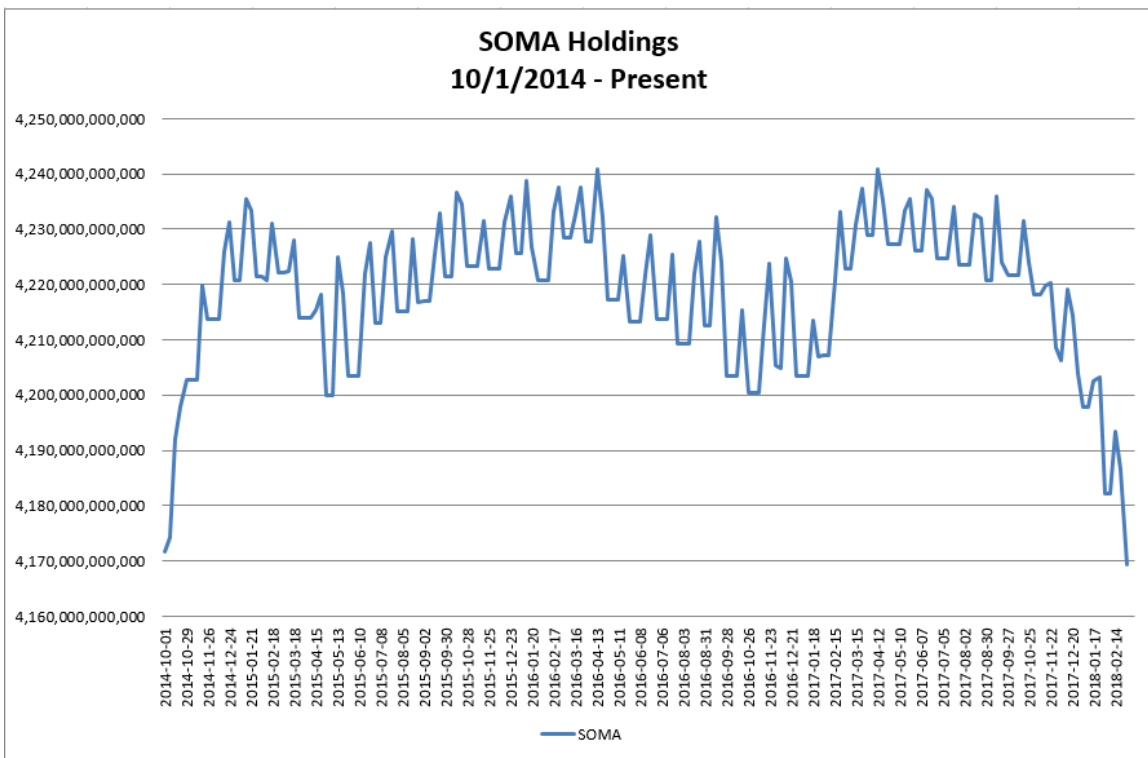
And now a zoomed-in view since October comparing expected reductions to actual.



The Fed's SOMA this past week (Wednesday to Wednesday) saw a strong move lower by over \$17 billion. That represents a reduction of about 0.41%. It is the 2nd largest decline we have seen since the Fed began its new reduction policy in October. But the big decline is not a big surprise, since the current schedule calls for a reduction of about \$20 billion / month, yet through the 1st 3 weeks in February, the SOMA had actually increased by about \$4.5 billion. So we expected a big drop to play some catch-up. This still leaves the reduction well shy of the \$20 billion target for February with a total monthly decline of about \$12.5 billion.

The substantial pullback that happened Tues-Thurs is not out of character for a time when the SOMA has dropped sharply. Over the last several years, the market has performed substantially better during times in which the SOMA balance expanded versus times 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.

This last chart shows SOMA levels since the end of QE3 in 2014.



As you can see, SOMA is now at its lowest level over this time period. While the decline is not as evident on the larger chart, it will be soon enough. I'll continue to monitor SOMA movement and Fed policy closely.

The intermediate-term evidence is generally mixed. With 3 of the 4 Market Timing Course indicators bullish and all 3 Market Timing Course combo systems pointing higher, the bulls have some things going their way. There is also the 5-day rally momentum study from a couple of weeks ago that is still active. But bears have hope as well. The bearish FTD study is still active, and the SOMA reduction remains my largest bearish concern. For now I am still leaning slightly bullish, but I could switch to neutral very easily at this point.

Catapult and Capitulative Breadth Statistics

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

OpenCatapult Triggers

LOW – 1/3 @ \$87.96 (bought)

New

LOW – 1/3 @ \$85.34 (buy @ limit)

MCD – 1/3 @ \$148.27 (buy @ limit)

Broad Market Large Cap CBI – 3(LOW-2, MCD)

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.

LOW – Buy 1/3 Catapult position @ \$85.34 LIMIT. From the Catapult & CBI section above. This is the 2nd of up to 3 possible lots for LOW.

MCD – Buy 1/3 Catapult position @ \$148.27 LIMIT. From the Catapult & CBI section above. This is the 1st of up to 3 possible lots for MCD.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	2/28/2018	\$271.65	\$269.08	-0.95%		see note below
LOW(1/3)	3/2/2018	\$86.88	\$85.34	-1.77%		Catapult

I will look to sell my SPY position on a close \geq \$272.00 (about the level of the Differential Pivot).

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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