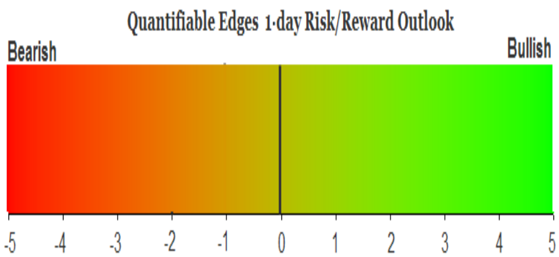
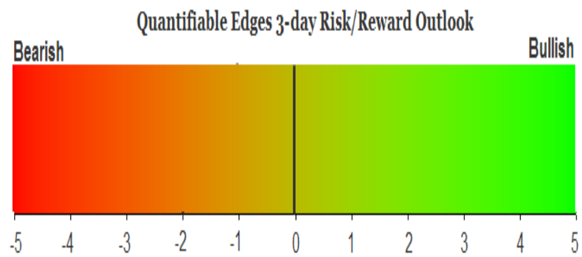
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 12, 2018 Volume 11 Issue 48

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- March Op-Ex week has historically been very strong, especially Mon-Thurs.
- The employment-sparked NASDAQ rally to a new high on Friday, appears to be a bullish indication for the next several days.
- The SOMA rose this past week. We expect another rise during the current week, and then a sizable decline late in the month.

Short-term Outlook

The Bottom Line

Evidence is pointing higher, but the market is quite overbought on a short-term basis. So I do not love reward/risk, and am waiting for a more favorable opportunity to emerge before putting new capital at risk.

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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						
March 12, 2018	NASDAQ up 1% 50-high. Jobs Day.	1-5 days	Bullish	2.00%	-1.00%	-2.00%
March 12, 2018	March Opex Bullish	1-4 days	Bullish	1.70%	-1.10%	-2.40%
Active - Long Term						
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 was a big rally day for the market. The SPX finished up 1.7%, the NASDAQ rose 1.8%, and the Russell 2000 gained 1.6%. Breadth was positive as the NYSE Up Issues % was 71% and the Up Volume % came in at 81%. NYSE volume increased from Thursday's level.

The employment report was the catalyst for the big rally Friday, and the NASDAQ hit new all-time highs. Thanks to a suggestion by Tom McClellan (@McClellanOsc), I looked back at other instances where the NASDAQ spiked higher and closed at a new high on the day of an employment report.

Today is an employment day. NASDAQ closes up >= 1% and at a 50-day high.
Buy on close. Sell X trading days later. $100k/trade. 1995 - 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	25,858.93	17	16	1	94.12	1,619.97	3,803.52	-60.52	-60.52	26.77	428.28	1,521.11
4	18,767.06	17	13	4	76.47	1,630.93	3,040.00	-608.75	-870.54	2.68	8.71	1,103.94
3	10,576.43	17	12	5	70.59	1,168.73	1,943.61	-689.66	-1,903.81	1.69	4.07	622.14
2	3,357.92	17	12	5	70.59	753.03	1,856.12	-1,135.70	-3,675.86	0.66	1.59	197.52
1	2,482.42	17	11	6	64.71	512.87	1,333.76	-526.52	-1,485.83	0.97	1.79	146.02

The results above appear quite compelling. I also wanted to see how SPX performed after the NASDAQ action. Results here were interesting.

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
Today is an employment day. NASDAQ closes up >= 1% and at a 50-day high. Buy **SPX** on close. Sell X trading days later. $100k/trade. 1995 - present.												
5	7,918.27	17	13	4	76.47	795.77	1,915.14	-606.67	-1,121.94	1.31	4.26	465.78
4	4,205.11	17	11	6	64.71	813.64	1,659.08	-790.83	-1,738.11	1.03	1.89	247.36
3	-2,143.32	17	10	7	58.82	602.66	1,114.47	-1,167.13	-2,971.50	0.52	0.74	-126.08
2	-5,418.15	17	9	8	52.94	456.42	848.70	-1,190.74	-3,748.50	0.38	0.43	-318.71
1	-3,081.73	17	6	11	35.29	345.54	621.56	-468.63	-1,252.30	0.74	0.40	-181.28

What is immediately evident is that none of the numbers are nearly as strong. While the indices often move together, the NASDAQ momentum did not seem to carry over very well for the SPX. Below I have listed at the instances assuming a 5-day holding period for both the NASDAQ and the SPX.

Today is an employment day. NASDAQ closes up >= 1% and at a 50-day high. Buy on close. Sell 5 trading days later. $100k/trade. 1995 - present.					SPX returns	
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**	**% Profit**	**Run-up Drawdown**
7/7/1995	Buy	$969.76	3.05%	$3,086.91	0.63%	$1,007.77
7/14/1995	Sell	$999.33		$0.00		($460.03)
10/4/1996	Buy	$1,247.56	0.06%	$732.80	-0.15%	$610.60
10/11/1996	Sell	$1,248.27		($1,193.60)		($1,153.04)
2/6/1998	Buy	$1,694.32	0.95%	$1,226.61	0.75%	$1,357.30
2/13/1998	Sell	$1,710.42		($478.49)		($604.66)
7/2/1999	Buy	$2,741.02	1.81%	$2,567.88	0.57%	$1,123.22
7/12/1999	Sell	$2,790.61		($562.32)		($442.33)
11/5/1999	Buy	$3,102.29	3.83%	$3,862.40	1.89%	$1,860.48
11/12/1999	Sell	$3,221.15		($1,069.76)		($722.88)
12/3/1999	Buy	$3,520.63	2.83%	$3,553.76	-1.13%	$58.65
12/10/1999	Sell	$3,620.23		($361.48)		($2,884.20)
3/3/2000	Buy	$4,903.99	2.95%	$4,570.60	-1.00%	$300.30
3/10/2000	Sell	$5,048.62		($3,637.00)		($4,378.50)
5/2/2003	Buy	$1,502.88	1.15%	$1,910.04	0.36%	$1,019.71
5/9/2003	Sell	$1,520.15		($1,054.02)		($1,108.52)
7/8/2005	Buy	$2,112.88	2.08%	$2,411.10	1.33%	$1,746.60
7/15/2005	Sell	$2,156.78		$0.00		$0.00
1/6/2006	Buy	$2,305.62	0.50%	$1,173.90	0.17%	$727.65
1/13/2006	Sell	$2,317.04		($107.07)		($205.59)
10/5/2007	Buy	$2,780.32	0.91%	$1,878.80	0.27%	$1,184.00
10/12/2007	Sell	$2,805.68		($789.60)		($695.68)
4/3/2009	Buy	$1,621.87	1.94%	$2,376.56	1.93%	$2,573.58
4/13/2009	Sell	$1,653.31		($3,807.01)		($3,300.46)
3/5/2010	Buy	$2,326.35	1.78%	$2,097.06	0.99%	$1,279.77
3/12/2010	Sell	$2,367.66		($25.62)		($330.60)
2/3/2012	Buy	$2,905.66	-0.06%	$850.68	-0.17%	$697.08
2/10/2012	Sell	$2,903.88		($696.66)		($664.52)
2/1/2013	Buy	$3,179.10	0.46%	$551.49	0.31%	$339.24
2/8/2013	Sell	$3,193.87		($1,504.43)		($1,197.90)
5/3/2013	Buy	$3,378.63	1.72%	$1,681.13	1.19%	$1,255.99
5/10/2013	Sell	$3,436.58		$0.00		($12.81)
8/5/2016	Buy	$5,221.12	0.23%	$330.98	0.05%	$251.10
8/12/2016	Sell	$5,232.90		($519.08)		($489.15)

Looking at the NASDAQ results, with the only loser closing down 0.06%, the stats are completely lopsided for the bulls. I have put blue boxes around the only other two instances in which the 50-day high came as a breakout from a basing formation of at least 10 days (like Friday). While you can't draw any conclusions from just 2 instances, it is encouraging to see that they both did well. In fact, they ***both saw the NASDAQ rise for at least 4 consecutive days*** following the employment day breakout.

But even more interesting to me is the comparison of the NASDAQ to the SPX results. In ***all 17 instances the NASDAQ outperformed the SPX over the next 5 days***. That is pretty astounding. It suggests to me that traders may be better off looking for opportunities to get long the NASDAQ as opposed to the SPX in the coming days. (Or spread traders could look to take advantage of this with a long NASDAQ / short SPX type trade.) Bottom line with this study is that it appears to suggest an upside edge, and that edge is substantially stronger with NASDAQ than SPX.

March opex is this upcoming week. This is something I discussed in the Thursday night letter. I have pasted the research and comments from that letter below.

But there is a seasonal influence that could have a bullish impact on the market next week. Op-ex week in general is pretty bullish. March, April, October, and December it has been especially so. S&P 500 options began trading in mid-1983. The table below is one I showed in the 3/13/17 Subscriber Letter. It goes back to 1984 and shows op-ex week performance broken down by month. I will show it again in this weekend's letter, but I thought I would update it tonight ahead of the weekend.

OpEx week SPX performance by month. $100k/trade. 1984 - present. (Excludes September 2001)

Month	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
12	29,033.77	34	26	8	76.47	1,458.03	5,868.16	-1,109.38	-4,176.33	1.31	4.27	853.93
11	5,787.67	34	21	13	61.76	1,418.95	3,718.25	-1,846.95	-8,351.64	0.77	1.24	170.23
10	26,245.77	34	25	9	73.53	2,142.44	7,282.10	-3,035.03	-9,109.98	0.71	1.96	771.93
9	15,176.65	33	21	12	63.64	1,523.50	5,313.08	-1,401.40	-4,975.04	1.09	1.90	459.90
8	-1,954.26	34	18	16	52.94	1,432.07	4,329.72	-1,733.21	-5,670.55	0.83	0.93	-57.48
7	1,522.27	34	18	15	52.94	1,418.70	6,921.25	-1,600.96	-7,953.12	0.89	1.06	44.77
6	-1,985.79	34	19	15	55.88	1,172.43	3,786.09	-1,617.47	-3,998.19	0.72	0.92	-58.41
5	2,345.79	34	17	17	50.00	1,821.90	4,850.40	-1,683.91	-4,959.45	1.08	1.08	68.99
4	30,132.39	34	22	12	64.71	2,194.65	5,731.96	-1,512.48	-3,580.15	1.45	2.66	886.25
3	30,457.88	34	24	10	70.59	1,933.52	7,515.60	-1,594.66	-6,711.66	1.21	2.91	895.82
2	16,205.42	35	21	14	60.00	1,605.48	4,281.46	-1,250.70	-6,814.80	1.28	1.93	463.01
1	5,478.21	35	16	19	45.71	2,094.03	5,389.00	-1,475.07	-5,383.93	1.42	1.20	156.52

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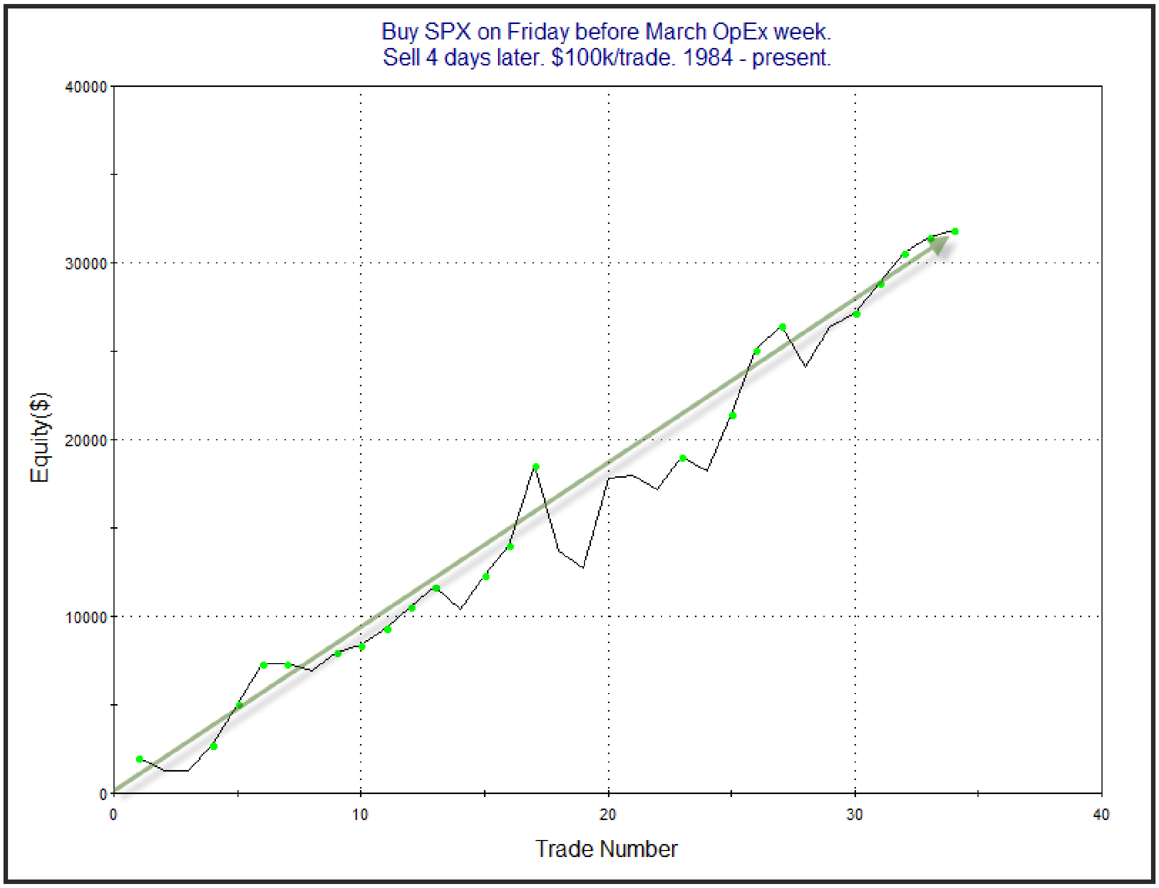
While December has been more reliable, March op-ex week has seen the most in total gains. As I did in that 3/13/17 Subscriber Letter, I also broke down March performance in more detail below.

Buy SPX on Friday before March OpEx week.
Sell X days later. $100k/trade. 1984 - 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	32,026.37	34	24	10	70.59	1,998.87	7,515.60	-1,594.66	-6,711.66	1.25	3.01	941.95
4	31,833.88	34	25	9	73.53	1,758.37	5,108.40	-1,347.26	-4,848.66	1.31	3.63	936.29
3	15,000.34	34	22	12	64.71	1,352.58	4,989.60	-1,229.70	-5,403.51	1.10	2.02	441.19
2	12,217.39	34	22	12	64.71	1,157.24	3,981.60	-1,103.49	-2,894.94	1.05	1.92	359.33
1	3,997.21	34	23	11	67.65	634.50	3,542.40	-963.31	-4,302.72	0.66	1.38	117.56

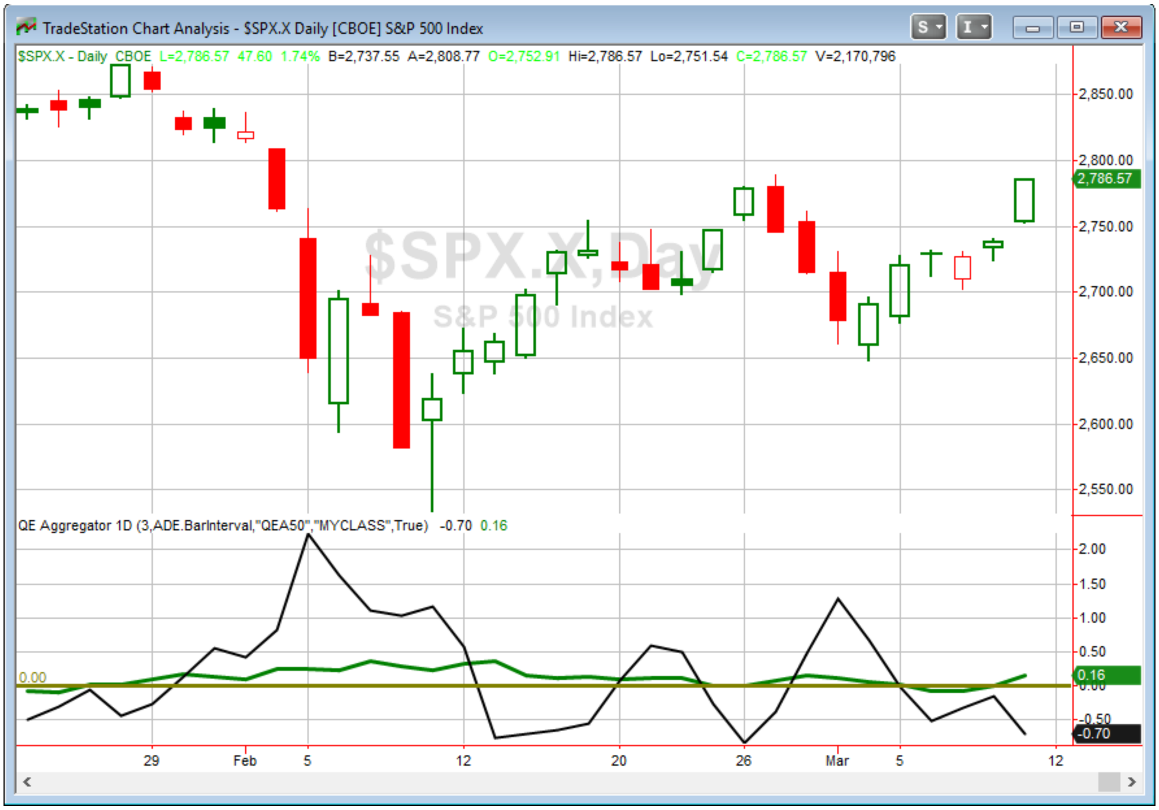
There have only been 4 years where SPX did not close above the entry price at some point during OpEx week. They were 1986, 1991, 2001, and 2011.

The upside edge seems to pretty much play out by Thursday. (Note that the 5 day stats differ slightly from the weekly above because of an occasional Easter influence.) Below is a visual representation of the Monday-Thursday returns.



The curve is impressive. Bottom line here is that seasonality next week could provide a bit of a wind at the markets' back.

I have updated the Aggregator chart below.



With today's studies taken into consideration, the green Aggregator line moved a little further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remained 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 Monday. Of course this could change if strong new bearish evidence emerges. The Differential Pivot will be 2722.76 on Monday. That is a whopping 2.3% below Friday's close. So SPX would need to close down at least 2.3% on Monday in order to flip from overbought to oversold. That is unlikely to happen in just 1 day, especially with expectations being positive. A more likely scenario to work off the overbought condition would be a multi-day decline of consolidation.

So up appears to be the more likely direction. But with SPX so overbought already, I don't like the reward/risk potential here. If we get a pullback in the next couple of days, that could very well be a nice buying opportunity. And there is a good chance I would look to take advantage of it with a NASDAQ position, rather than SPX. If we don't see a dip in the next couple of days, then I am content to pass on a move higher for the time being.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/12– very slightly bullish

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

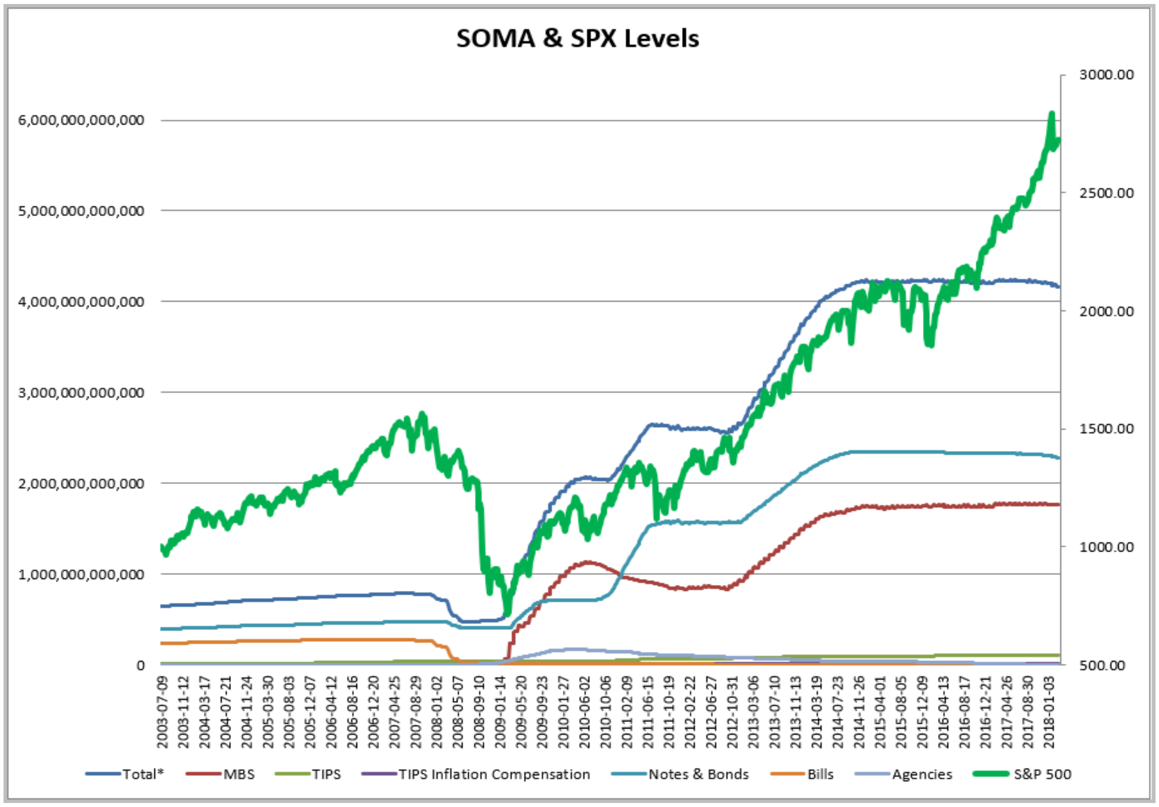
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

The market put in some strong gains this past week. Friday's rally helped SPX close up 3.5% from the previous week. The NASDAQ did even better with a 4.2% gain, and as noted earlier, closed at a new all-time high. So the NASDAQ at least remains in a long-term uptrend. There were no new studies that emerged with intermediate-term implications.

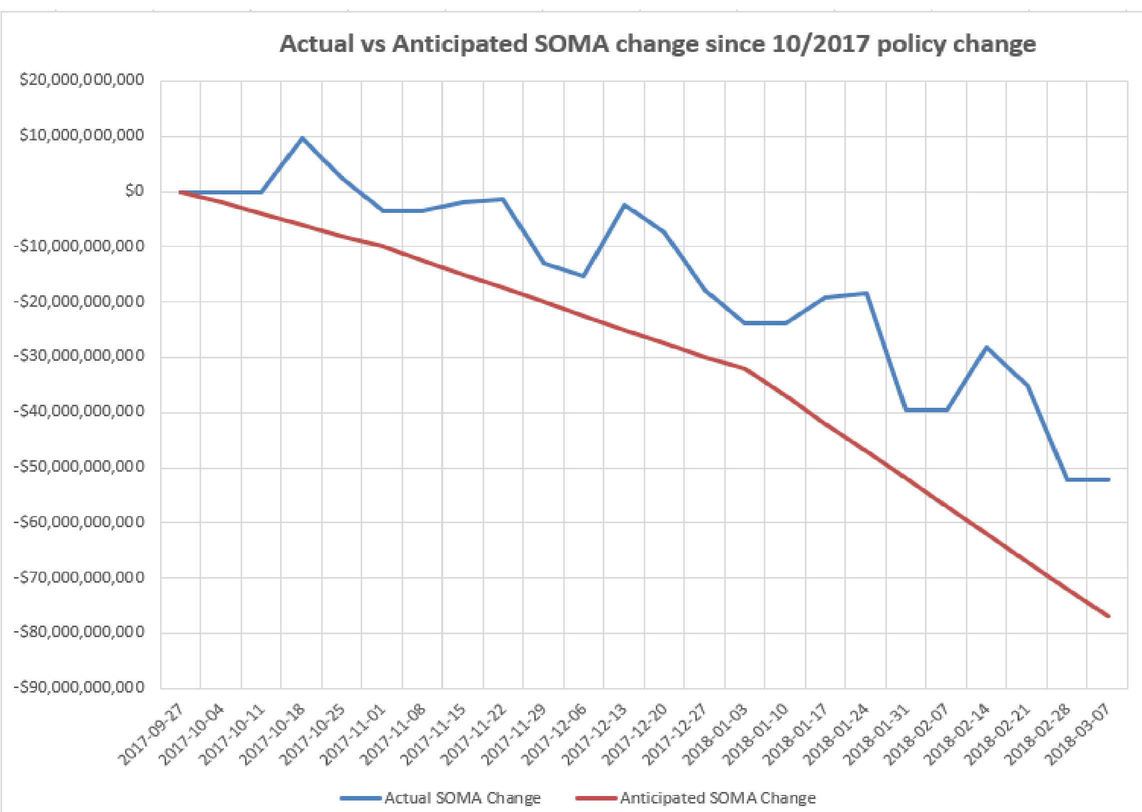
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 slight rise of about $19 million. That represents a gain of less than 0.01%. Of course any gain would seem sizable when the policy at the moment is for a reduction of $20 billion per month. It is not terribly surprising to see this gain occur though. Since the Fed began its reduction program, we have seen the SOMA declines all coming towards the end of months. The 1st week of the month has typically been near flat. And the 2nd week has often shown some gains. This can be seen in the 2nd chart above. So to have the market rallying last week (and perhaps this upcoming week), when the liquidity wind is not strongly in its face, is not unusual. Of course the 2nd half of March might be a different story. Over the last several years, the market has performed substantially better during times in which the SOMA balance sheet expanded versus times in which it shrank. 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. As the SOMA reductions intensify I expect the market to be more prone to sharp corrections and liquidity events like we saw in February. The strong rebound over the last four weeks has not changed my belief that 2018 could be a volatile year for the market.

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. But bears have hope as well. The bearish FTD study is still active, and the SOMA reduction remains my largest bearish concern. We could get through this upcoming week with further gains, but I would not be surprised if the bears gained some traction after that. For now I remain slightly bullish, meaning I will trade shorts a bit more cautiously than longs.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

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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
LOW(1/3)	3/2/2018	$86.88	$87.28	0.46%		sell on open
LOW(1/3)	3/5/2018	$85.06	$87.28	2.61%		sell on open
MCD(1/3)	***3/5/2018***	***$148.27***	***$155.62***	***4.96%***		***sold on open***

LOW reached its exit trigger on Friday and will be sold at the open on Monday.

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