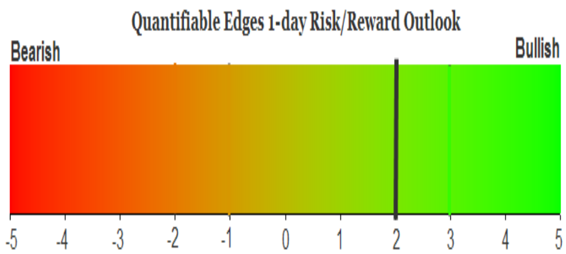
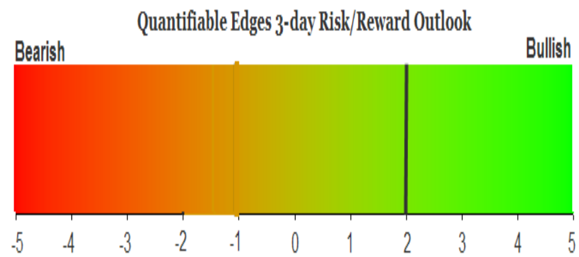
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 19, 2018 Volume 11 Issue 53

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Opex week bullishness did not materialize. When this has occurred in the past, the next week has typically done well.
- Consistently poor closes like SPY has endured this week have led to gains in the following days.
- SOMA expanded this past week, but is likely to see some significant reductions the next few weeks.

Short-term Outlook

The Bottom Line

The outlook is similar to the last 2 nights. Evidence is pointing up and the SPX is short-term oversold. There appears to be an upside edge.

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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 19, 2018	SPY closes bottom 33% 5 days in row	1-2 days	Bullish			
March 19, 2018	Bullish opex week fails to materialize	1-5 days	Bullish			
March 16, 2018	3+dn from 20-high. Today smallest	1-3 days	Bullish			
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

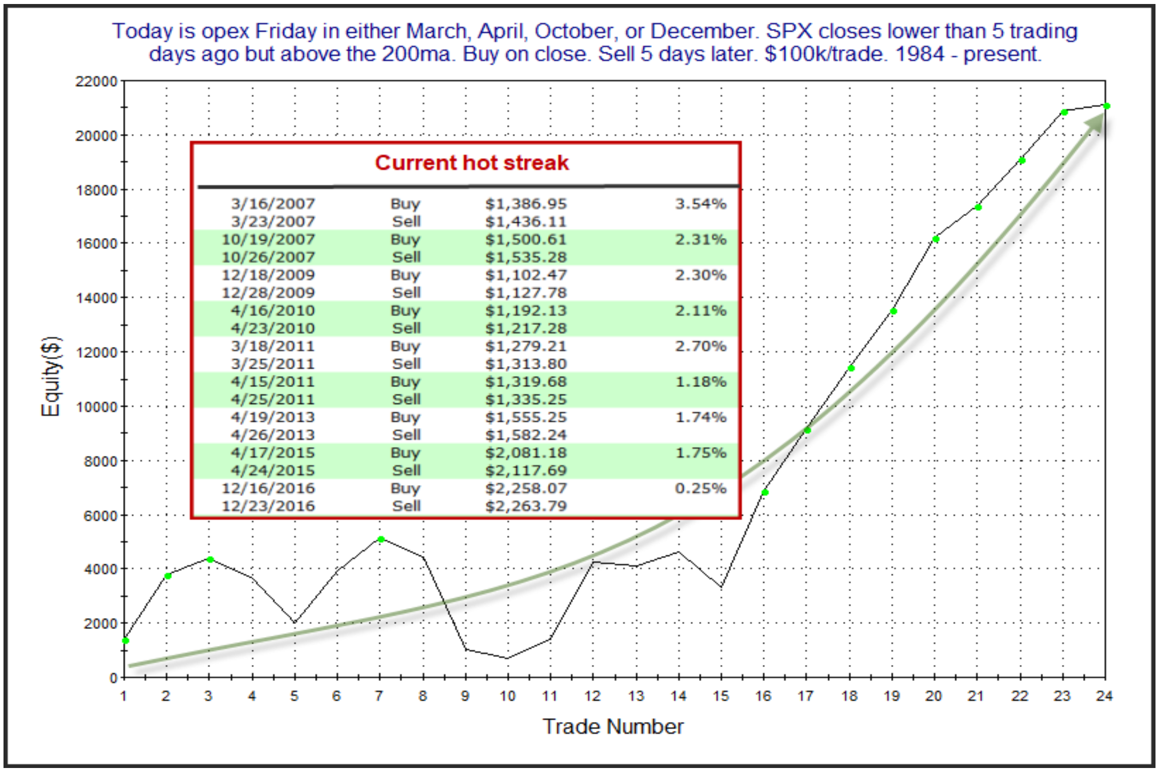
The market put in small gains on Friday. The SPX finished up 0.2%, the NASDAQ gained a fraction of a point, and the Russell 2000 rallied 0.6%. Breadth was positive as the NYSE Up Issues % was 65% and the Up Volume % came in at 71%. NYSE volume spiked higher as it typically does on opex Friday.

I discussed last weekend that monthly option expiration (opex) week is typically a bullish week, especially during the months of March, April, October, and December. Obviously, the bullish tendency did not play out this past week. So does this mean the bullish tendency may be delayed a week? Or is the market not doing what it is "supposed" to a sign that it is likely to continue lower? Or neither? I constructed some studies to find out. This 1st one looks at instances like we are currently experiencing where typically bullish opex weeks fail to deliver.

Today is opex Friday in either March, April, October, or December. SPX closes lower than 5 trading days ago but above the 200ma. Buy on close. 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	21,122.04	24	17	7	70.83	1,726.57	3,539.52	-1,175.66	-3,426.46	1.47	3.57	880.08
4	16,666.92	24	17	7	70.83	1,453.13	3,426.48	-1,148.03	-1,871.67	1.27	3.07	694.46
3	11,658.85	24	16	8	66.67	1,349.54	3,462.48	-1,241.73	-1,686.42	1.09	2.17	485.79
2	6,176.20	24	14	10	58.33	1,187.22	2,950.50	-1,044.48	-1,869.00	1.14	1.59	257.34
1	2,963.28	24	16	8	66.67	737.51	1,495.26	-1,104.62	-2,214.00	0.67	1.34	123.47

The numbers here all point towards an upside edge. The edge improves as we look out from 1 to 5 days. Below is a profit curve showing the how the 5-day edge has evolved.



As you can see, the curve has accelerated upwards recently, with the last 9 instances all posting gains. The list of instances is also shown. The setup is certainly on a hot streak over the last 11 years. But how does this differ from performance following instances that saw the bullish opex week tendency play out? For comparison, I flipped that requirement and have shared those results below.

Today is opex Friday in either March, April, October, or December. SPX closes **higher** than 5 trading days ago but above the 200ma. Buy on close. 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	-8,023.02	70	30	40	42.86	1,287.25	7,247.22	-1,166.02	-3,596.40	1.10	0.83	-114.61
4	-4,282.02	70	34	36	48.57	1,081.98	5,007.78	-1,140.82	-3,039.18	0.95	0.90	-61.17
3	-4,452.77	70	31	39	44.29	986.42	4,592.40	-898.25	-2,880.45	1.10	0.87	-63.61
2	-5,691.59	70	31	39	44.29	805.24	3,170.82	-786.00	-2,823.40	1.02	0.81	-81.31
1	-3,536.55	70	28	42	40.00	624.84	2,523.24	-500.77	-3,515.37	1.25	0.83	-50.52

So without the opex-weak selloff, the following week has not shown a bullish tendency. Based on all this, it appears the bullish tendency has typically arrived late, and it portends a bounce this upcoming week. (Thanks again to Tom McClellan of McClellan Market Publications for the idea on this particular study.)

Regardless of whether the market has closed up or down, SPY has consistently closed near the lower end of its range over the last 5 days. The study below looks at other instances where SPY closed in the bottom third of its daily range for five days in a row. It was last seen in the 5/17/12 letter.

SPY closes in bottom 33% of its daily range for the 5th day in a row.
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	17,085.43	8	6	2	75.00	3,090.02	6,157.71	-727.34	-1,022.72	4.25	12.75	2,135.68
9	20,976.11	8	7	1	87.50	3,111.54	5,991.51	-804.64	-804.64	3.87	27.07	2,622.01
8	24,813.32	8	8	0	100.00	3,101.67	8,001.28	0.00	0.00	100.00	100.00	3,101.67
7	25,338.48	8	7	1	87.50	3,698.21	10,895.36	-548.96	-548.96	6.74	47.16	3,167.31
6	21,438.10	8	5	3	62.50	4,639.88	10,627.84	-587.10	-1,205.36	7.90	13.17	2,679.76
5	21,873.53	8	6	2	75.00	3,826.79	9,205.12	-543.62	-666.12	7.04	21.12	2,734.19
4	15,517.69	8	6	2	75.00	2,702.25	5,069.10	-347.90	-473.76	7.77	23.30	1,939.71
3	11,665.41	8	6	2	75.00	2,126.03	4,348.05	-545.40	-646.72	3.90	11.69	1,458.18
2	11,084.56	8	7	1	87.50	1,915.46	4,479.35	-2,323.68	-2,323.68	0.82	5.77	1,385.57
1	3,513.33	8	6	2	75.00	1,288.46	3,024.84	-2,108.72	-2,736.00	0.61	1.83	439.17

Low instances, but very impressive returns. Below is the list of instances with their 2-day returns.

SPY closes in bottom 33% of its daily range for the 5th day in a row.
Buy on close. Sell 2 days later. $100k/trade. 1993 - present.

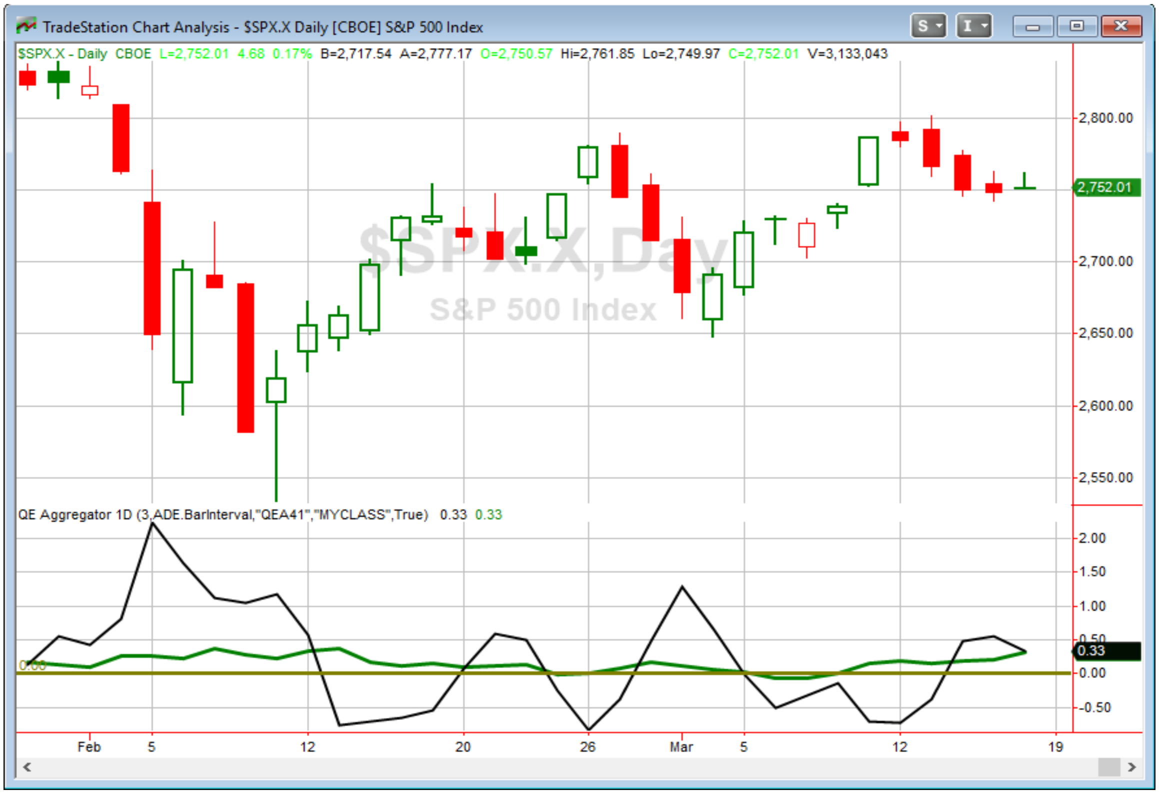
Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/22/2002	Buy	$82.20	3.07%	$3,550.72
7/24/2002	Sell	$84.72		($5,496.32)
1/5/2005	Buy	$118.01	0.36%	$1,033.34
1/7/2005	Sell	$118.44		$0.00
1/25/2005	Buy	$116.88	0.47%	$743.85
1/27/2005	Sell	$117.43		$0.00
3/29/2005	Buy	$116.53	1.23%	$1,655.94
3/31/2005	Sell	$117.96		$0.00
12/21/2005	Buy	$126.03	0.58%	$658.19
12/23/2005	Sell	$126.76		$0.00
12/19/2011	Buy	$120.29	3.23%	$3,382.17
12/21/2011	Sell	$124.17		$0.00
5/16/2012	Buy	$132.83	-2.33%	$142.88
5/18/2012	Sell	$129.74		($2,466.56)
12/16/2014	Buy	$197.91	4.48%	$7,605.30
12/18/2014	Sell	$206.78		$0.00

Avg Trade: 1.4%

Gapped up and 2 days without filling.

What I find most remarkable is not the fact that 7 of 8 instances closed higher 2 days later, but that 6 of them never saw any drawdown over the next 2 days. That means they gapped up on day 1 and went 2 days without filling. Instances are low, but results are so lopsided I decided to include this on the Active List.

I have updated the Aggregator chart below.



With tonight's studies considered, the green Aggregator line held 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 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 Friday. Of course this could change if strong new bearish evidence emerges. The Differential Pivot will be 2764.44 on Monday. That is 0.5% above Friday's close. So SPX will need to close up at least 0.5% on Monday to turn from oversold to overbought versus expectations.

Short-term evidence continues to point to the bull case. I am not seeing anything suggesting a strong downside edge. And the SPX remains oversold versus recent expectations. Overall, I continue to like the long side. I have a partial long position and intend to hold onto it for at least another day.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/19– neutral

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".*

As discussed in the short-term section above, the market pulled back some this week. SPX finished 1.2% lower than the previous week. The NASDAQ had a similar week with a 1.0% loss. 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).

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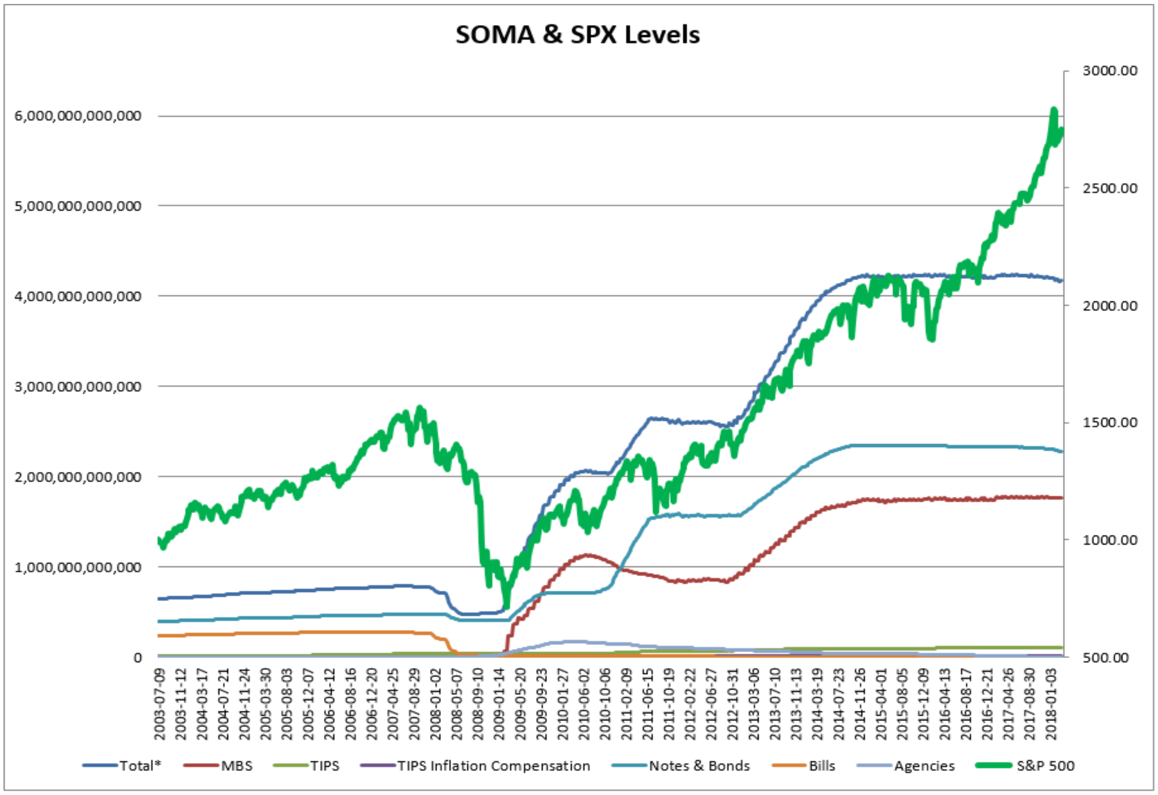
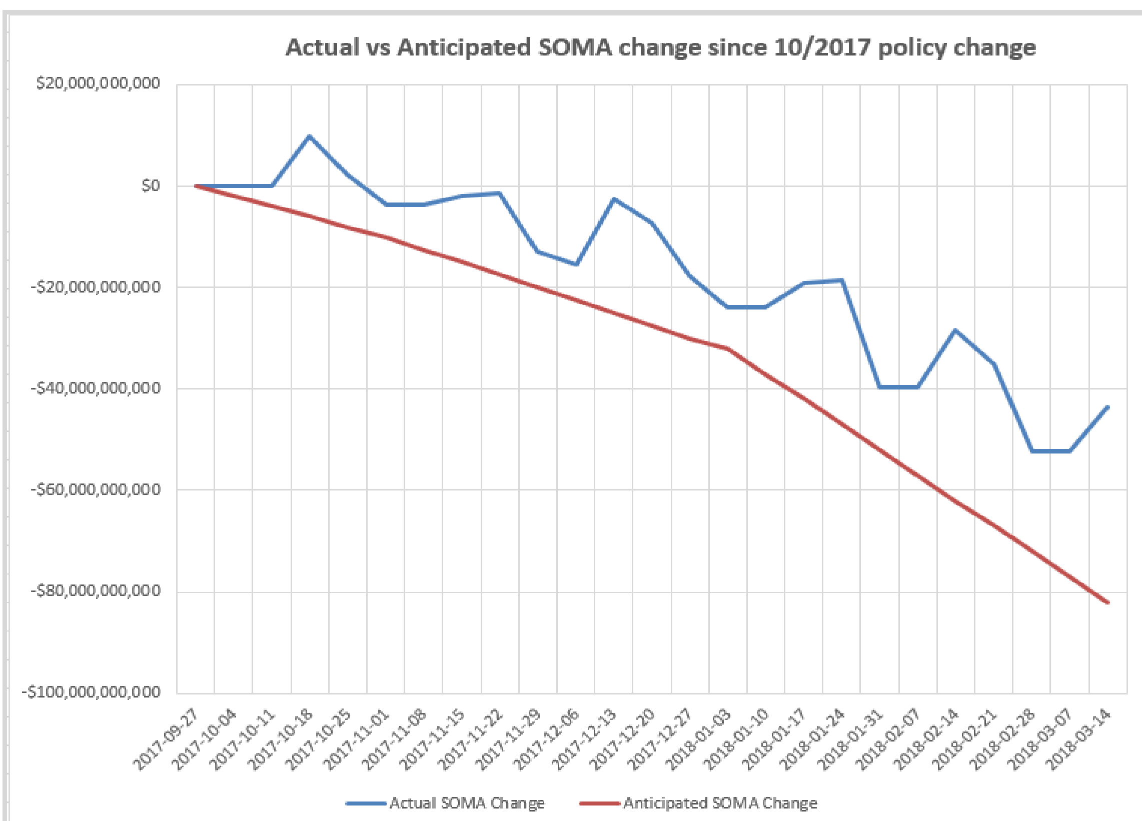


And now a zoomed-in view since October comparing expected reductions to actual.



The Fed's SOMA this past week (Wednesday to Wednesday) rose about $8.6 billion. That represents a gain of about 0.21%. That is a substantial gain considering the policy at the moment is for a reduction of $20 billion per month. But as I pointed out last week, the 2nd week of the month has often seen SOMA increases since the reduction policy was implemented in October. So it was not surprising to see this gain occur. But the last couple of weeks in a month have been accompanied by sizable SOMA declines. And I would expect the next couple of weeks to follow suit. So bulls will have a Fed-induced liquidity headwind to contend with over the next few weeks. And then starting in April we are likely to see the monthly reduction rate increase from $20 billion to $30 billion. I continue to believe that liquidity events may cause volatility and corrective periods during 2018.

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. I have moved my bias down to "neutral" for the 1st time in a while. While the short-term appears primed for a bounce, intermediate-term evidence is underwhelming, and SOMA activity the next few weeks could be an issue. Obviously, I could move from neutral back to bullish fairly quickly if new evidence emerges. For now, I am considering short-term trading opportunities to the long or short side with similar enthusiasm.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

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
SPY(1/4)	3/15/2018	$275.30	$275.30	0.00%		*dividend adjusted current

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