

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 26, 2018

Volume 11 Issue 58

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	9

## Tonight's Research Points

- Strong 1-day selloffs on the 4<sup>th</sup> Friday of the month have typically been followed by a sizable bounce.
- 2 strong down days of 1.5% in a week's time are typically enough to warrant a short-term bounce.
- The strongly negative closing TICK values of late have triggered a bullish setup for our TICK Tomoscillator.
- The CBI reached 9 and is knocking on the door of the 10+ reading that I consider strongly bullish. Even 9 has been solidly bullish.
- The SOMA declined some this past week, and will likely see an even larger decline this week. This is a headwind for the bulls.

## *Short-term Outlook*

### *The Bottom Line*

Evidence continues to build, and the market is now very oversold. There appears to be a strong upside edge. A bounce should ensue, but with market action very wild, there may be additional short-term pain before a strong short-covering rally emerges.

*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>						
March 26, 2018	TICK TomOscillator < 1%. SPX 10-low	1 day	Bullish			
March 26, 2018	SPX dn 1.5%+ 2nd time in a week > 200	1-7 days	Bullish			
March 26, 2018	SPX dn 1% on 4th Fri of month	1-6 days	Bullish			
March 23, 2018	VIX 25%+ above 10ma	1-2 days	Bullish			
March 23, 2018	SPX dn 2.5% after 5-low yest	1-2 days	Bullish			
March 23, 2018	System 110524	1-7 days	Bullish			
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
March 22, 2018	Fed Day. 10-low > 200ma	1-7 days	Bullish	2.00%	-1.10%	-1.85%
March 22, 2018	5-low, bottom 10% > 200	1-5 days	Bullish			
March 20, 2018	Gap 5-low, sell more > 200	1-5 days	Bullish	1.80%	-1.30%	-2.70%

***The Evidence***

No rebound arrived on Friday, and the market posted another sizable drop. The SPX lost 2.1%, the NASDAQ fell 2.4%, and the Russell 2000 dropped 2.2%. Breadth was strongly negative as the NYSE Up Issues % was 21% and the Up Volume % came in at 17%. NYSE volume came in at the highest level of the week.

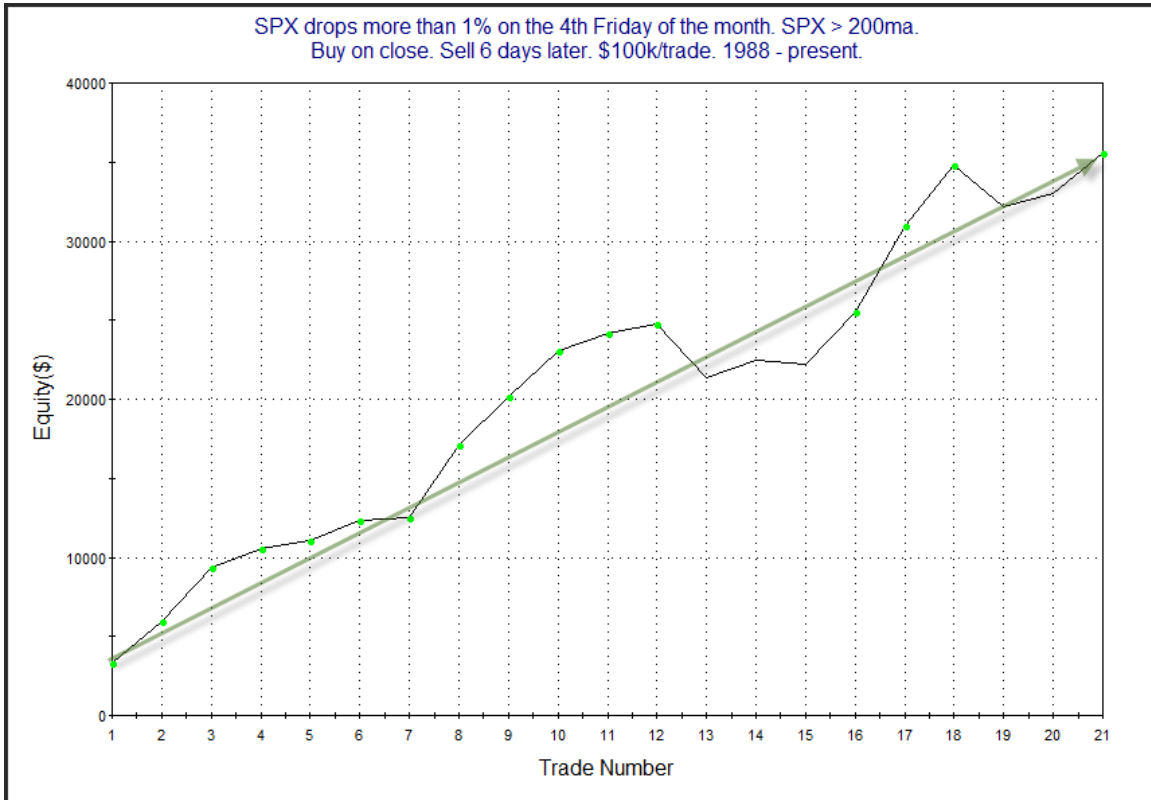
There was a large number of studies that triggered in the Quantifinder. I examined all of it, and will discuss those that I found most compelling. Strong selloffs that occur in positive seasonal periods will often see a short-term bounce. This is demonstrated in the study below – last seen in the 7/27/15 letter. It examines strong selloffs on the fourth Friday of the month. The stats table below is updated.

SPX drops more than 1% on the 4th Friday of the month. SPX > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1988 - 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	35,374.89	21	16	5	76.19	2,463.54	4,893.14	-808.35	-2,326.87	3.05	9.75	1,684.52
9	32,103.15	21	15	6	71.43	2,605.77	5,877.30	-1,163.91	-2,607.15	2.24	5.60	1,528.72
8	35,468.47	21	16	5	76.19	2,698.60	6,612.06	-1,541.82	-3,045.20	1.75	5.60	1,688.97
7	37,962.43	21	17	4	80.95	2,628.61	5,956.07	-1,681.00	-3,145.48	1.56	6.65	1,807.73
6	35,568.18	21	18	3	85.71	2,324.57	5,415.54	-2,091.37	-3,378.24	1.11	6.67	1,693.72
5	30,414.47	21	16	5	76.19	2,418.82	5,555.16	-1,657.34	-3,993.72	1.46	4.67	1,448.31
4	25,684.59	21	17	4	80.95	1,793.08	4,731.13	-1,199.46	-2,157.84	1.49	6.35	1,223.08
3	15,911.72	21	14	7	66.67	1,652.13	4,042.74	-1,031.17	-3,401.24	1.60	3.20	757.70
2	12,917.99	21	14	7	66.67	1,458.01	4,259.29	-1,070.59	-2,061.64	1.36	2.72	615.14
1	2,898.51	21	12	9	57.14	996.05	2,503.90	-1,006.01	-1,922.40	0.99	1.32	138.02

20 of 21 instances (95%) closed above the entry price at some point in the next week.

Both the consistency and the size of the moves appear to be quite strong. Below is an equity curve showing how the edge has played out over time. It assumes a 6-day hold.

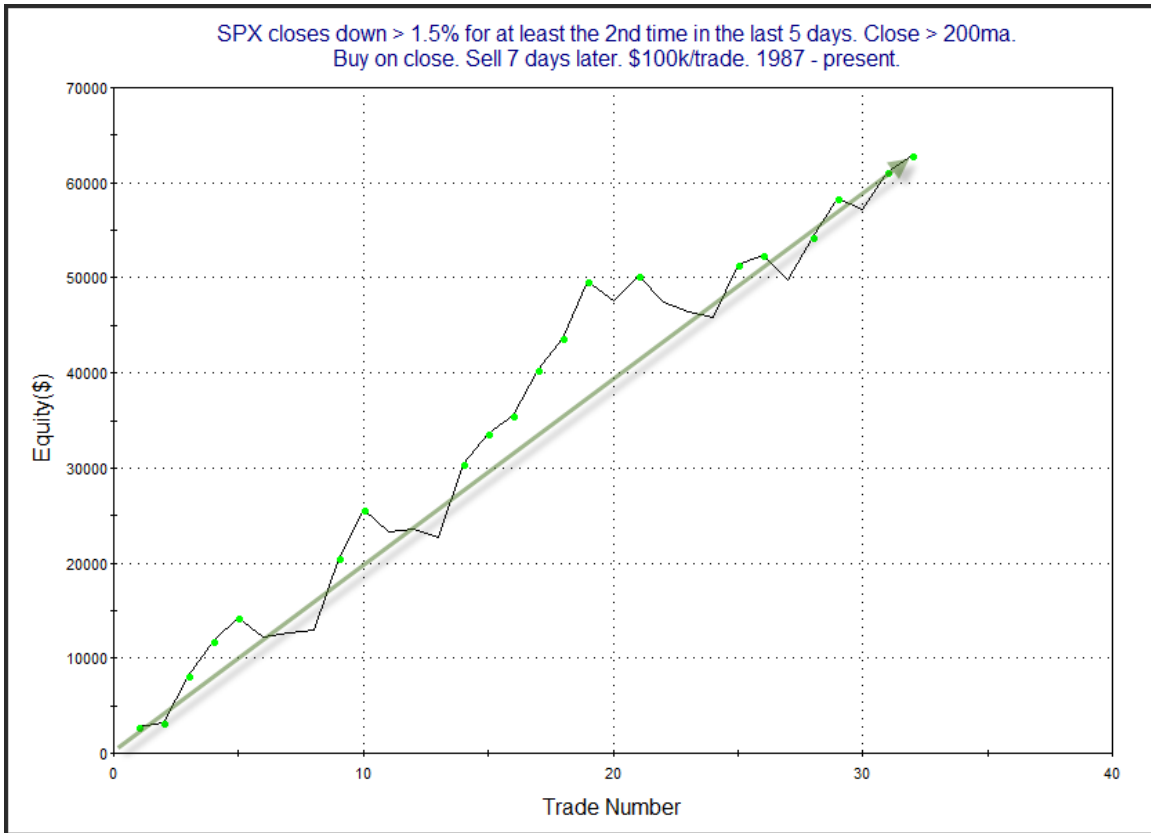


This curve is also impressive, and quite steady. The one caveat with this study is that most often the 4<sup>th</sup> Friday of the month is also the last Friday of the month. In this case, it is not. Still, I have included this study on the Active List for consideration.

Of course Friday was not the only strong selloff this past week. It followed an even stronger one Thursday. This triggered the study below, which was last seen in the 12/15/14 subscriber letter. It examines performance following 2 strong down days within a week. Results are updated.

SPX closes down > 1.5% for at least the 2nd time in the last 5 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1987 - 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	37,446.59	29	19	10	65.52	3,237.84	5,656.16	-2,407.23	-4,360.44	1.35	2.56	1,291.26
9	39,845.55	29	20	9	68.97	3,091.19	5,761.56	-2,442.02	-5,073.84	1.27	2.81	1,373.98
8	51,002.09	31	22	9	70.97	3,059.13	6,960.84	-1,810.97	-5,882.94	1.69	4.13	1,645.23
7	62,930.24	32	23	9	71.88	3,392.97	7,598.58	-1,678.68	-2,784.75	2.02	5.17	1,966.57
6	45,830.97	32	21	11	65.63	3,156.16	7,272.06	-1,858.94	-3,322.53	1.70	3.24	1,432.22
5	38,787.48	34	23	11	67.65	2,706.03	7,070.28	-2,131.94	-6,368.04	1.27	2.65	1,140.81
4	40,838.72	35	24	11	68.57	2,555.76	5,187.49	-1,863.59	-4,917.36	1.37	2.99	1,166.82
3	33,837.22	37	26	11	70.27	1,945.67	5,339.18	-1,522.74	-2,662.66	1.28	3.02	914.52
2	30,417.81	40	25	15	62.50	1,947.99	4,809.66	-1,218.79	-3,863.25	1.60	2.66	760.45
1	26,438.08	43	32	11	74.42	1,300.86	5,117.46	-1,380.86	-5,829.81	0.94	2.74	614.84

The suggestion by the stats table is that this kind of extreme action is often short-term exhaustive and that a bounce typically ensues. Below is the equity curve using a 7-day holding period.



It is a little choppier than I would prefer, but we are again at new profit highs and the general slope seems good enough to warrant consideration.

Of course, Friday was not just the 2<sup>nd</sup> big drop in a week. It was a big drop for the 2<sup>nd</sup> day in a row. If I tighten the parameters and look for two big drops in a row, we see the following results.

SPX closes down > 1.5% yesterday and today. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1987 - 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	118.29	9	4	5	44.44	1,973.12	2,638.79	-1,554.84	-2,326.87	1.27	1.02	13.14
9	528.96	9	5	4	55.56	1,928.15	3,081.36	-2,277.94	-3,536.10	0.85	1.06	58.77
8	14,201.17	9	9	0	100.00	1,577.91	3,860.78	0.00	0.00	100.00	100.00	1,577.91
7	14,977.50	9	9	0	100.00	1,664.17	3,339.49	0.00	0.00	100.00	100.00	1,664.17
6	10,180.17	9	7	2	77.78	1,592.21	2,745.86	-482.64	-731.40	3.30	11.55	1,131.13
5	7,430.06	9	6	3	66.67	1,871.64	4,398.75	-1,266.59	-1,759.84	1.48	2.96	825.56
4	12,160.81	9	6	3	66.67	2,467.65	4,983.36	-881.71	-1,087.43	2.80	5.60	1,351.20
3	8,477.43	9	7	2	77.78	1,698.40	5,471.10	-1,705.69	-2,513.78	1.00	3.49	941.94
2	5,071.03	9	5	4	55.56	1,832.98	4,041.90	-1,023.47	-2,689.62	1.79	2.24	563.45
1	6,404.83	9	8	1	88.89	1,529.33	4,396.50	-5,829.81	-5,829.81	0.26	2.10	711.65

Here we see 8 of 9 instances bounced the next day. And when we look out 7 days, they were all higher. So that is interesting. But what catches my eye here is the lone loser on Day 1. It lost about 6%. This is something to keep in mind. This study exemplifies well the current market situation. We are at a point where a bounce is extremely likely. In fact, I believe we will almost certainly see one in the next few days. And if you time it right, or if you are willing/able to hold through the possible drawdown, then you should make out ok. But volatility is high. And if we don't bounce immediately, the interim drawdown could be vicious.

The study below is one I already shared on Twitter earlier this morning. It exemplifies how unusual the market action has been.

SPX closes down > 2% yesterday and today. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1961 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/14/1987	Buy	\$279.15	1.89%	\$2,140.84
4/15/1987	Sell	\$284.43		\$0.00
3/31/1997	Buy	\$757.12	0.33%	\$576.84
4/1/1997	Sell	\$759.64		(\$773.52)
2/5/2018	Buy	\$2,648.94	1.74%	\$1,927.70
2/6/2018	Sell	\$2,695.14		(\$2,067.19)

Thursday/Friday was only the 4<sup>th</sup> time that back to back 2% down days occurred while SPX was above its 200ma. But it was the 2<sup>nd</sup> time THIS YEAR! This highly unusual market has made 2018 a challenging trading environment.

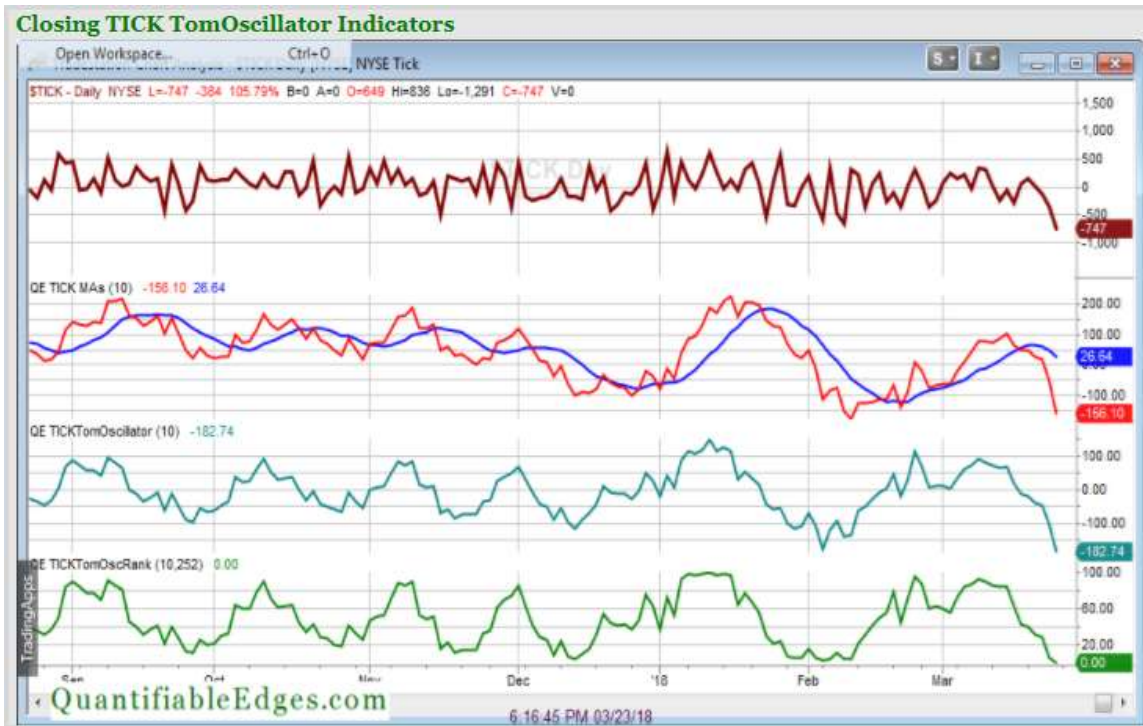
You may note that SPX is just barely above the 200ma at this point. And yes – back to back 2% down days are much more common when below it. This can be seen in the study below.

SPX closes down > 2% yesterday and today.  
Buy on close. Sell next day's close. \$100k/trade. 1967 - 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	18,653.31	27	18	9	66.67	3,078.40	8,609.40	-4,084.21	-16,693.05	0.75	1.51	690.86
4	30,271.86	28	17	11	60.71	3,962.28	17,851.68	-3,371.54	-13,302.85	1.18	1.82	1,081.14
3	-1,816.77	30	13	17	43.33	4,785.85	13,853.40	-3,766.64	-20,518.75	1.27	0.97	-60.56
2	25,919.59	32	21	11	65.63	3,976.39	14,891.76	-5,234.9	-24,538.75	0.76	1.45	809.99
1	22,822.77	36	25	11	69.44	2,601.11	10,716.03	-3,836.81	-20,424.58	0.68	1.54	633.97

The big loser there is the Crash of '87. This little study exemplifies my point a little further. We will ALMOST certainly bounce in the next few days – but there may be some more pain before we get there. I don't expect 1987-type pain, but further selling before the bounce is not out of the question.

There were also some studies that used the TICK TomOscillator. The TICK Tomoscillator is the brain child of my friend and fellow market analyst, Tom McClellan of McClellan Financial Publications (click for Tom's article on the indicator). It uses the NYSE closing TICK readings to measure recent end-of-day sentiment. I first introduced the TICK Tomoscillator in the 4/19/11 subscriber letter. For those that are not familiar with the TICK Tomoscillator, you may find a detailed description in the [May 13, 2011 blog](#). The Tomoscillator % Rank Friday came in below 1%, meaning Thursday's reading is among the lowest 1% in the last year. (In fact it was the lowest reading of the last year.) Subscribers may find Tomoscillator readings on the charts page every night. Below you can see the Oscillator reading from tonight's chart page:



The study below uses the Tomoscillator % Rank reading rather than just the raw reading. It is taken from the 6/16/16 letter.

**TICK TomOscillator 1-yr % Rank < 1% and SPX closes at a 10-day low. SPX > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1998 - 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	16,212.39	16	9	7	56.25	2,756.04	5,308.60	-1,227.43	-4,360.44	2.25	2.89	1,013.27
9	19,304.63	16	12	4	75.00	2,214.09	4,786.10	-1,816.12	-5,073.84	1.22	3.66	1,206.54
8	15,585.16	17	11	6	64.71	2,654.55	4,792.75	-2,269.15	-5,882.94	1.17	2.14	916.77
7	17,322.24	17	11	6	64.71	2,156.60	4,205.84	-1,066.73	-2,375.10	2.02	3.71	1,018.96
6	17,012.07	17	13	4	76.47	1,652.95	3,839.52	-1,119.06	-1,781.60	1.48	4.80	1,000.71
5	10,354.72	17	12	5	70.59	1,328.08	3,199.60	-1,116.46	-2,274.60	1.19	2.85	609.10
4	6,946.48	18	12	6	66.67	1,229.84	2,288.36	-1,301.93	-3,019.20	0.94	1.89	385.92
3	9,974.32	19	13	6	68.42	1,115.22	2,450.24	-753.92	-1,332.24	1.48	3.21	524.96
2	13,458.62	20	15	5	75.00	1,024.62	1,963.50	-382.13	-806.48	2.68	8.04	672.93
1	14,803.44	21	20	1	95.24	787.15	2,230.60	-939.60	-939.60	0.84	16.76	704.93

**All 21 instances closed above the entry price on either Day 1 or Day 2.**

There appears to be a strong inclination for the market to bounce immediately, and then eventually follow through with more upside. Below is a list of all instances with a 1-day exit.

TICK TomOscillator 1-yr % Rank < 1% and SPX closes at a 10-day low. SPX > 200ma. Buy on close. Sell 1 day later. \$100k/trade. 1998 - present				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/23/1998	Buy	\$1,139.74	0.09%	\$904.80
7/24/1998	Sell	\$1,140.80		(\$925.68)
8/4/1998	Buy	\$1,072.12	0.87%	\$1,179.24
8/5/1998	Sell	\$1,081.42		(\$1,374.54)
5/25/1999	Buy	\$1,284.38	1.59%	\$1,574.65
5/26/1999	Sell	\$1,304.76		(\$450.45)
7/24/2000	Buy	\$1,464.29	0.70%	\$811.92
7/25/2000	Sell	\$1,474.47		→ \$0.00
6/25/2003	Buy	\$975.32	1.08%	\$1,143.42
6/26/2003	Sell	\$985.82		(\$155.04)
6/30/2003	Buy	\$974.50	0.80%	\$893.52
7/1/2003	Sell	\$982.32		(\$1,264.80)
10/24/2003	Buy	\$1,028.91	0.22%	\$857.48
10/27/2003	Sell	\$1,031.13		→ \$0.00
2/22/2005	Buy	\$1,184.17	0.56%	\$785.40
2/23/2005	Sell	\$1,190.80		→ \$0.00
2/27/2007	Buy	\$1,399.14	0.55%	\$1,189.25
2/28/2007	Sell	\$1,406.82		(\$176.79)
3/2/2007	Buy	\$1,387.17	-0.94%	\$337.68
3/5/2007	Sell	\$1,374.12		(\$950.40)
3/5/2007	Buy	\$1,374.12	1.55%	\$1,712.16
3/6/2007	Sell	\$1,395.41		→ \$0.00
7/27/2007	Buy	\$1,458.95	1.03%	\$1,287.24
7/30/2007	Sell	\$1,473.91		(\$314.84)
10/28/2009	Buy	\$1,042.63	2.25%	\$2,299.00
10/29/2009	Sell	\$1,066.11		→ \$0.00
4/18/2011	Buy	\$1,305.14	0.57%	\$574.56
4/19/2011	Sell	\$1,312.62		(\$88.92)
6/10/2011	Buy	\$1,270.98	0.07%	\$472.68
6/13/2011	Sell	\$1,271.83		(\$416.52)
5/31/2013	Buy	\$1,630.74	0.59%	\$590.48
6/3/2013	Sell	\$1,640.42		(\$489.22)
11/7/2013	Buy	\$1,747.15	1.34%	\$1,346.91
11/8/2013	Sell	\$1,770.61		→ \$0.00
9/25/2014	Buy	\$1,965.99	0.86%	\$1,019.00
9/26/2014	Sell	\$1,982.85		→ \$0.00
6/29/2015	Buy	\$2,057.64	0.27%	\$798.72
6/30/2015	Sell	\$2,063.12		(\$63.36)
6/15/2016	Buy	\$2,071.50	0.31%	\$389.76
6/16/2016	Sell	\$2,077.99		(\$1,014.24)
6/17/2016	Buy	\$2,071.22	0.58%	\$1,413.12
6/20/2016	Sell	\$2,083.25		→ \$0.00

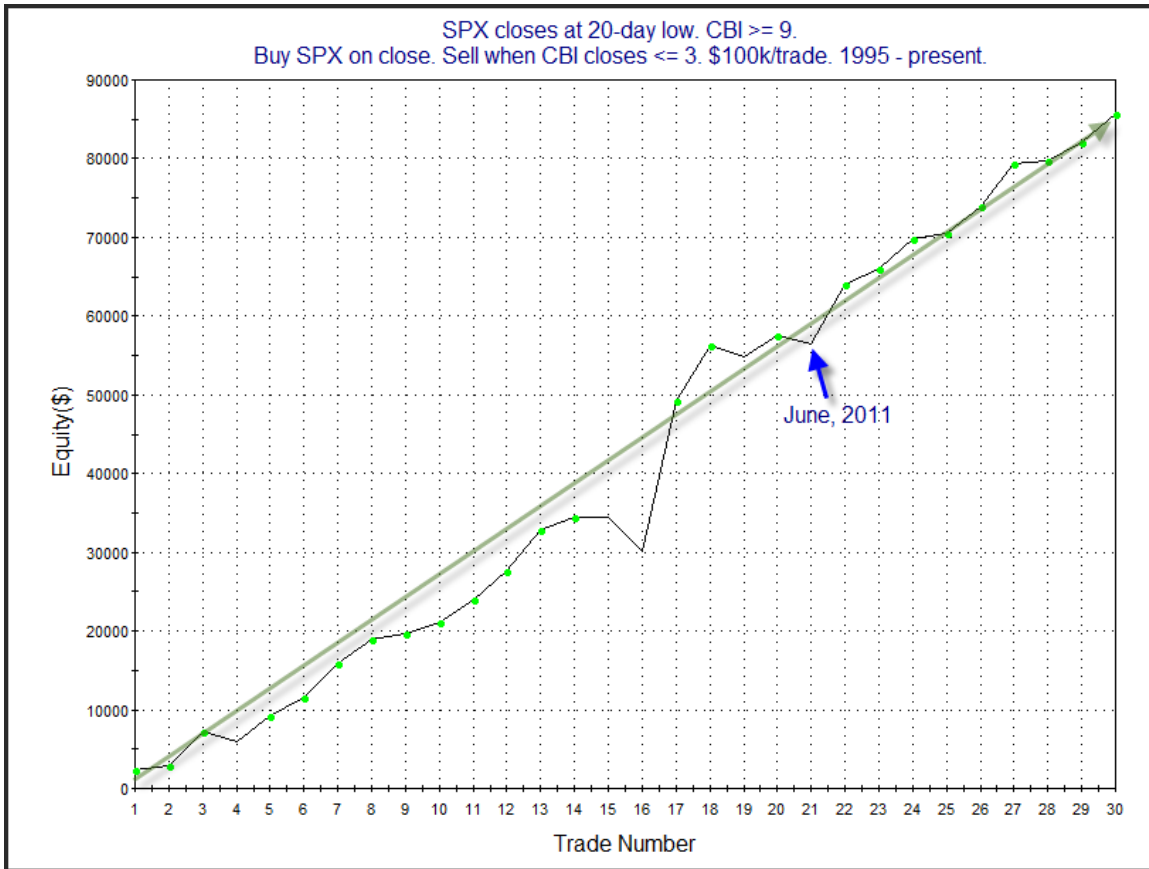
Not only did 20 of 21 close up the next day, but the 8 with the blue arrows next to them did so by leaving an unfilled gap up. I see no red flags here, and have included this study on the Active List.

Lastly, lets talk about the Quantifiable Edges Capitulative Breadth Indicator (CBI). The CBI reached 9 on Friday. Historically, I have viewed 10+ as the level that really gets me excited about a potential bounce. And recently I wrote [an in-depth research paper about the CBI](#). Today I thought I would take a slightly different look.

I decided to examine market performance other times the SPX closed at a 20-day low and the CBI reached a level of X of higher. In the study below I hold the market position until the CBI returns to 3 or lower.

SPX closes at 20-day low. CBI >= X. Buy SPX on close. Sell when CBI closes <= 3. \$100k/trade. 1995 - present.												
X	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	63,744.25	18	16	2	88.89	4,339.81	18,981.60	-2,846.35	-4,214.00	1.52	12.20	3,541.35
11	70,610.93	22	19	3	86.36	4,019.60	18,981.60	-1,920.48	-4,214.00	2.09	13.26	3,209.59
10	78,119.94	25	22	3	88.00	3,812.79	18,981.60	-1,920.48	-4,214.00	1.99	14.56	3,124.80
9	85,667.81	30	25	5	83.33	3,751.30	18,981.60	-1,622.92	-4,214.00	2.31	11.56	2,855.59
8	103,503.70	43	37	6	86.05	3,092.61	18,981.60	-1,820.51	-4,214.00	1.70	10.48	2,407.06
7	113,829.03	56	47	9	83.93	2,746.56	18,981.60	-1,695.45	-4,214.00	1.62	8.46	2,032.66

As you can see, results when it hits anywhere above 7 are fairly reliable. I have highlighted 9 above since that is the current setup. I also generated a profit curve using 9+ as the entry trigger.



The curve certainly seems to support the idea of a bullish edge. I noted the last loser on the chart, which occurred in June of 2011. I also thought it would be interesting to run this with a 200ma filter. Those results are below.

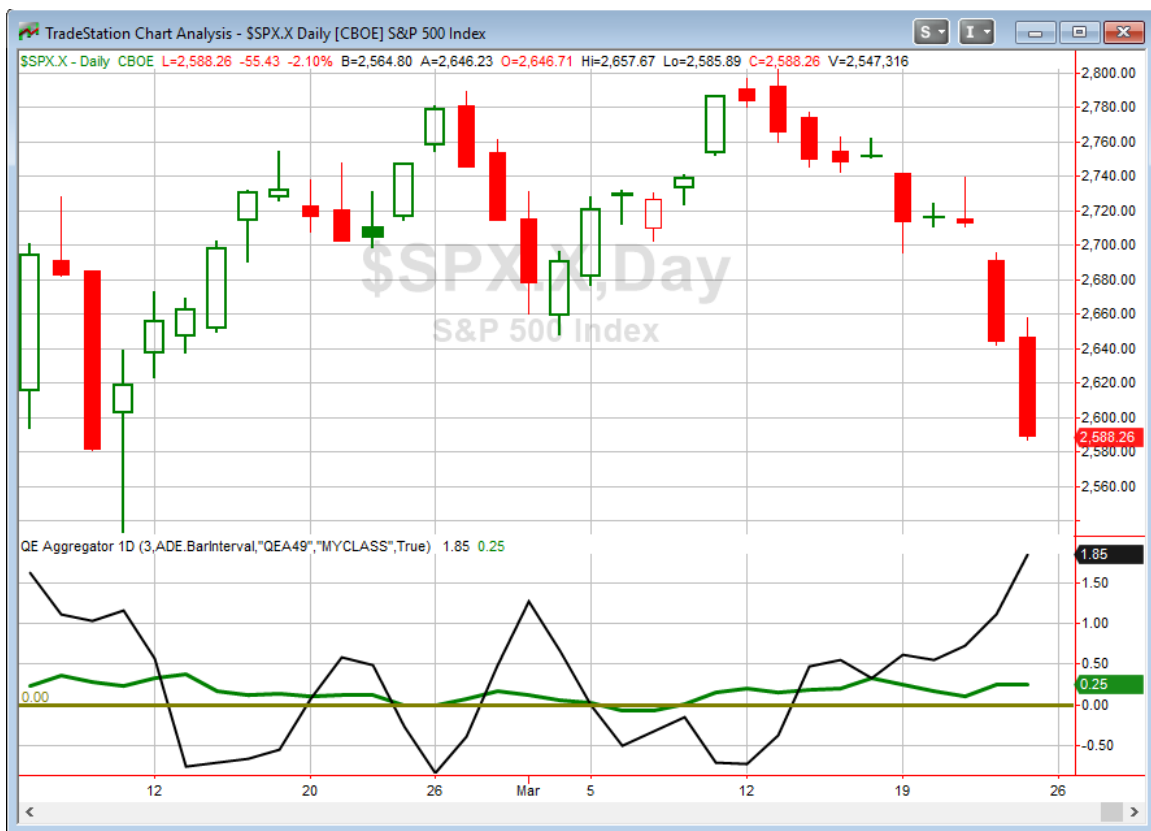
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Buy SPX on close. Sell when CBI closes <= 3. \$100k/trade. 1995 - present.

X	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
11	20,543.03	7	7	0	100.00	2,934.72	5,471.50	0.00	0.00	100.00	100.00	2,934.72
10	21,392.18	8	8	0	100.00	2,674.02	5,471.50	0.00	0.00	100.00	100.00	2,674.02
9	22,762.85	11	10	1	90.91	2,389.24	5,471.50	-1,129.59	-1,129.59	2.12	21.15	2,069.35
8	37,202.40	18	16	2	88.89	2,571.28	4,627.00	-1,969.00	-2,178.16	1.31	10.45	2,066.80
7	37,343.35	24	21	3	87.50	1,982.17	4,627.00	-1,427.42	-2,178.16	1.39	9.72	1,555.97

Similar story here. There appears to be a high likelihood of a bounce. Of course, there may be some benefit in waiting for the CBI to reach 10. In the 1<sup>st</sup> study there were only 5 instances that reached 9 and not 10. Those 5 instances only posted a 3-2 record. And the 3 that happened above the 200ma posted a 2-1 record.

As we look to Monday I will note that 10+ will almost certainly be achieved if BIIB or PG close down again. And there are a few other stocks that also have a chance to trigger. But it is unlikely we will see a massive spike in the CBI. I would not expect it to rise more than 4-5 more points on Monday.

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



With tonight's evidence 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 is now extremely far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is extremely 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 is highly unlikely to change. The Differential Pivot will be 2721.50 on Monday. That is a whopping 5.1% above Friday's close. So SPX will need to close up at least 5.1% on Monday to turn from oversold to overbought versus expectations. That is incredibly unlikely. A more likely scenario to work off the oversold condition would be a multi-day bounce or consolidation.

So evidence is strongly bullish. And the market is extremely oversold. And sellers should be just about exhausted. I expect a violent short-covering rally to emerge, but there is no guarantee it happens immediately. I am almost all-in from an index-trading standpoint. I considered putting in an order for my final lot of index exposure if we close down again on Monday, with the assumption that a down close would leave the CBI at 10+. But rather than jump the gun, I will wait for confirmation, examine any new evidence that emerges, and then possibly look to go in on (Turnaround?) Tuesday morning.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 3/26– neutral***

<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 remained “Long”.*

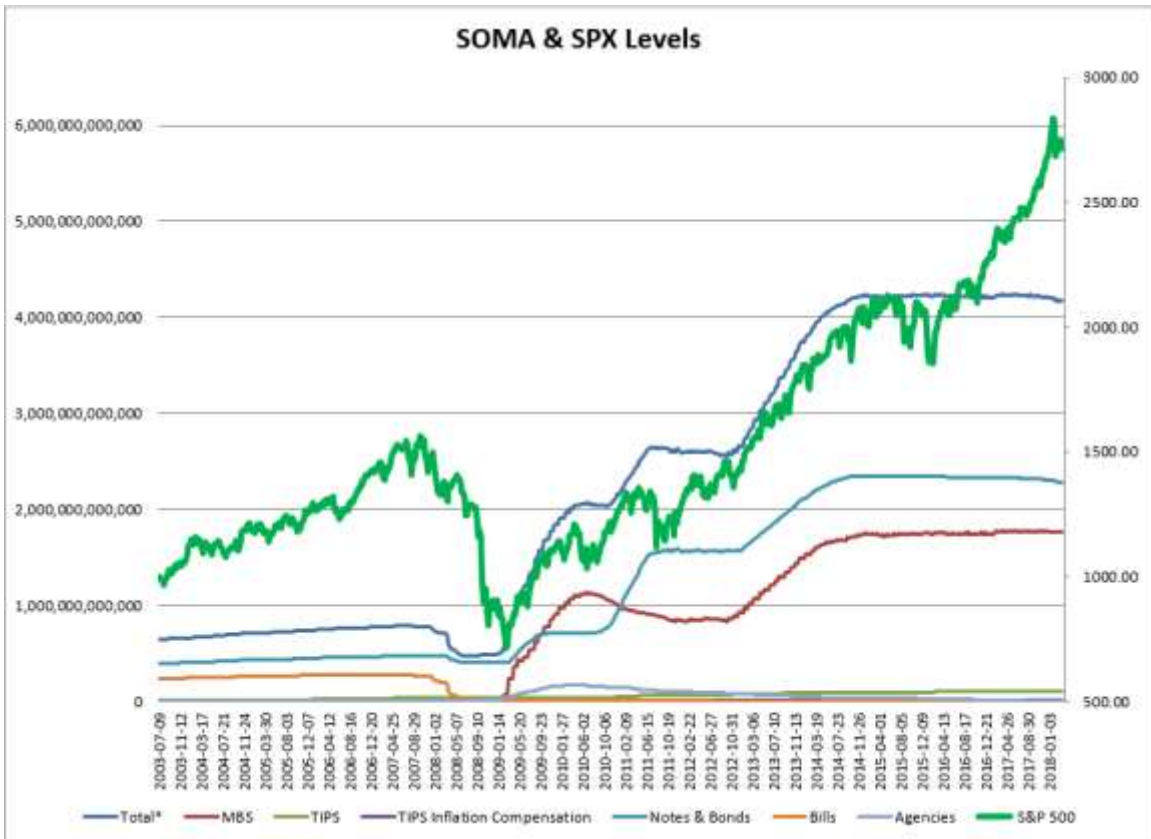
This past week was an all-around tough one for the market, with the SPX falling 6.0% and the NASDAQ losing 6.5%. There were no new studies that emerged with intermediate-term implications.

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.

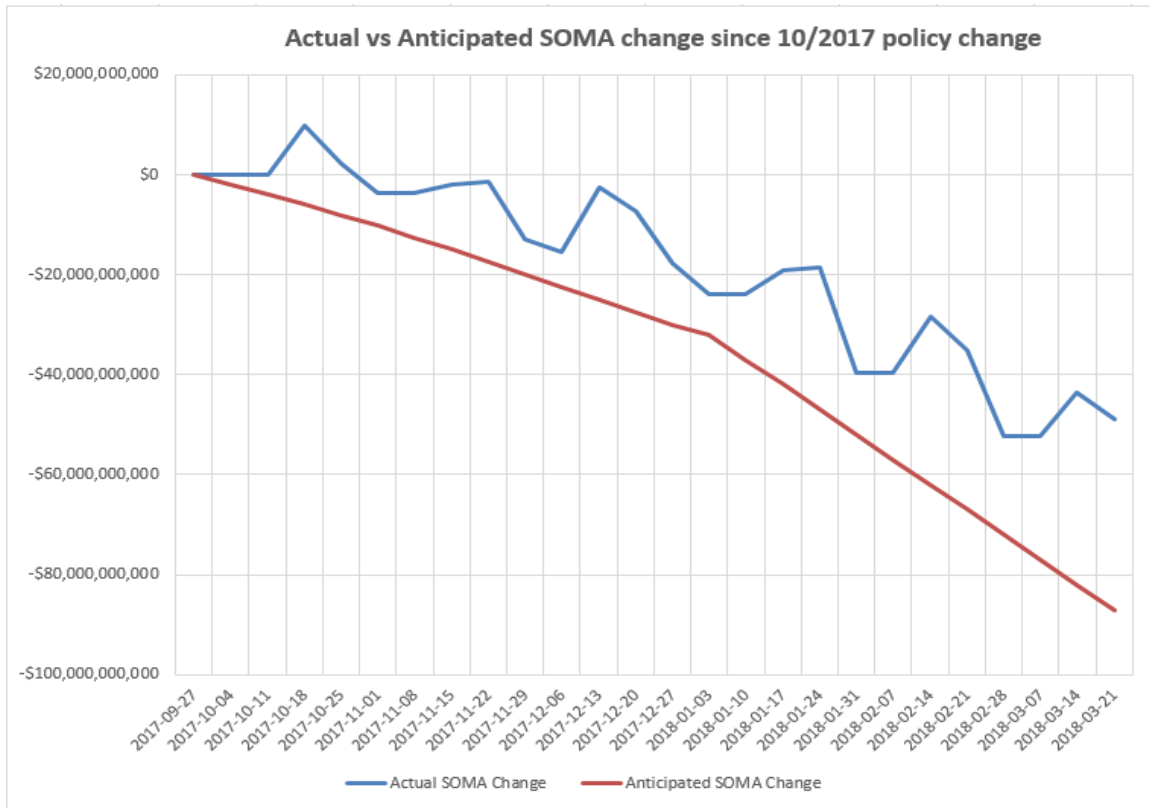
*SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities 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) declined about \$5.4 billion, or 0.13%. That is typical of what you would expect with a stated reduction rate of \$20 billion per month. But the SOMA is still over \$3 billion *higher* than it was at the end of February. This upcoming week should see a large reduction. March has a good amount of catch-up to still do, and we have seen the strongest declines occur at the end of months. So bulls have a Fed-induced liquidity headwind to contend with right now. And then starting in April that headwind will increase. The Fed confirmed this past week that it is going to increase the rate of SOMA reduction to \$30 billion/month. I stated last week that I continue to believe that liquidity events may cause volatility and corrective periods during 2018. We are now seeing the 2<sup>nd</sup> one so far this year. Unless the Fed does an about-face, I don't think it will be the last one.

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 moved my bias down to "neutral" last week, and I will keep it there for now. While the short-term appears primed for a bounce, intermediate-term evidence is underwhelming, and Fed headwinds are an issue. A neutral intermediate-term outlook means 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***

KHC – 1/3 @ \$63.95 (bought @ limit)

KHC – 1/3 @ \$63.18 (bought @ limit)

CMCSA – 1/3 @ \$34.57 (bought @ limit)

KHC – 1/3 @ \$61.99 (bought @ limit)

CMCSA – 1/3 @ \$34.49 (bought @ limit)

CMCSA – 1/3 @ \$33.23 (bought @ limit)

PG – 1/3 @ \$76.41 (bought @ limit)

### ***New***

BIIB – 1/3 @ \$260.13 (buy @ limit)

PG – 1/3 @ \$76.41 (buy @ limit)

***Broad Market Large Cap CBI – 9(KHC-3, CMCSA-3, PG-2, BIIB)***

### **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.*

***PG – buy 1/3 Catapult position @ \$75.91 LIMIT.*** Based on the Catapult trigger above. This would be the 2<sup>nd</sup> of up to 3 possible lots of PG.

***BIIB – buy 1/3 Catapult position @ \$260.13 LIMIT.*** Based on the Catapult trigger above. This would be the 1<sup>st</sup> of up to 3 possible lots of BIIB.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/15/2018	\$275.30	\$259.15	-5.87%		*dividend adjusted current
KHC(1/3)	3/20/2018	\$63.95	\$60.03	-6.13%		Catapult
KHC(1/3)	3/21/2018	\$62.53	\$60.03	-4.00%		Catapult
CMCSA(1/3)	3/21/2018	\$34.55	\$33.17	-3.99%		Catapult
KHC(1/3)	3/22/2018	\$61.73	\$60.03	-2.75%		Catapult
CMCSA(1/3)	3/22/2018	\$34.17	\$33.17	-2.93%		Catapult
QQQ(1/4)	3/22/2018	\$164.70	\$158.51	-3.76%		Aggregator
CMCSA(1/3)	3/23/2018	\$33.23	\$33.17	-0.18%		Catapult
PG(1/3)	3/23/2018	\$76.41	\$75.91	-0.65%		Catapult
SPY(1/4)	3/23/2018	\$258.05	\$258.05	0.00%		Aggregator

*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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