

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 2, 2018

Volume 11 Issue 62

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Turn of the month does not appear as strong as it would have if Thursday closed poorly.
- Early April seasonality has been bullish since the mid 90s.
- The CBI dropped from 7 to 0. It is now back to neutral.
- The Fed reduced the SOMA by \$8.8 billion last week. Reductions are set to accelerate now as we enter the 2nd quarter of the year.

Short-term Outlook

The Bottom Line

The bulls still seem to have a mild edge over the next few days. Seasonality could help.

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						
April 2, 2018	Early April bullish	1-4 days	Bullish	1.80%	-1.10%	-2.70%
March 27, 2018	Top 25% rng close after 3x bottom 25%	1-5 days	Bullish			
March 26, 2018	SPX dn 1.5%+ 2nd time in a week > 200	1-7 days	Bullish			
March 23, 2018	System 110524	1-7 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			
Dropped Tonight						
March 29, 2018	Holy Thursday Bullish	1 day	Bullish			

The Evidence

Thursday popped up nicely as Holy Thursday often does. The SPX finished up 1.4%, the NASDAQ rose 1.6%, and the Russell 2000 rallied 1.1%. Breadth was positive as the NYSE Up Issues % was 78% and the Up Volume % came in at 80%. NYSE volume came in holiday-light ahead of the long Easter weekend.

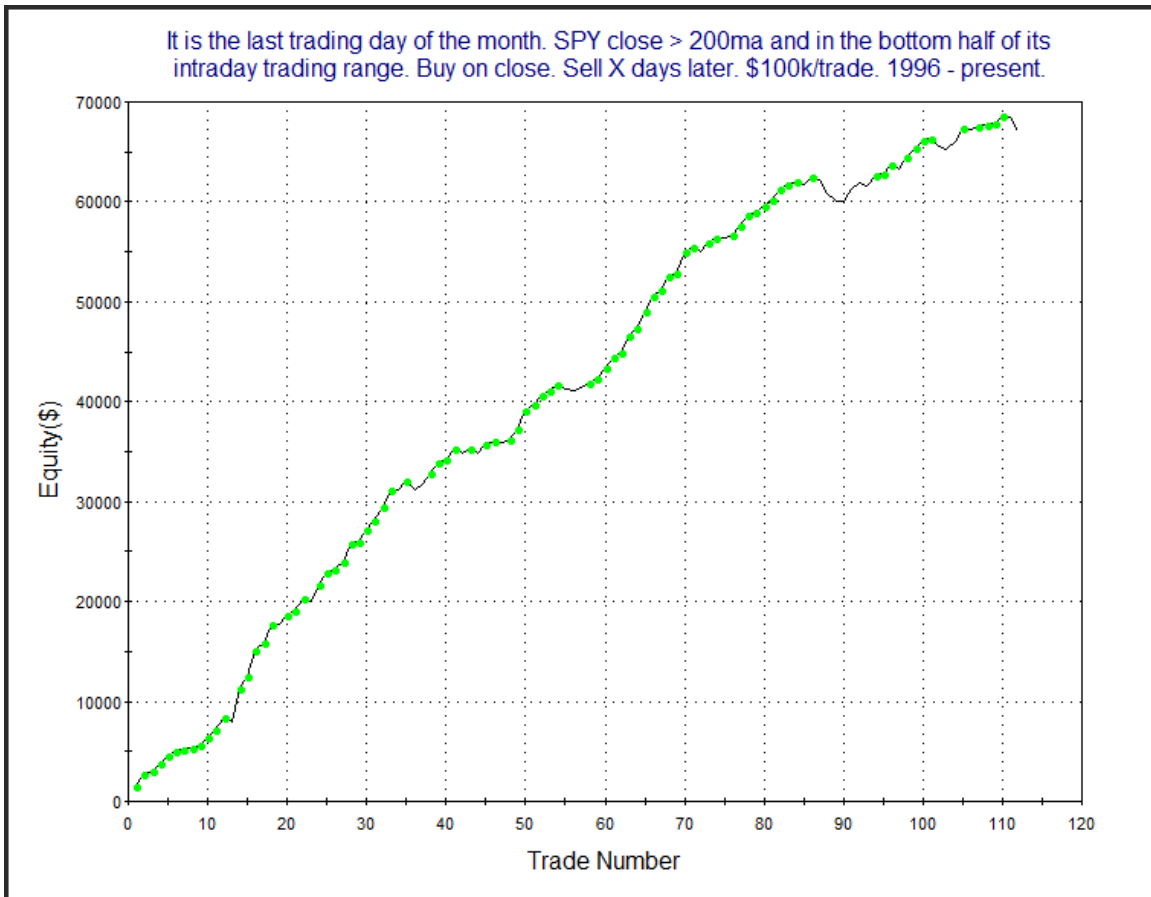
Seasonality dominated the Quantifinder. In the Wednesday night letter I discussed turn-of-the-month seasonality. I have copied that discussion below:

The first study looks at times where the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY close > 200ma and in the bottom half of its intraday trading range. Buy on close. Sell X days later. \$100k/trade. 1996 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$67,035.11	Profit Factor		7.70
Gross Profit	\$77,041.17	Gross Loss		(\$10,006.06)
Total Number of Trades	112	Percent Profitable		78.57%
Winning Trades	88	Losing Trades		24
Even Trades	0			
Avg. Trade Net Profit	\$598.53	Ratio Avg. Win:Avg. Loss		2.10
Avg. Winning Trade	\$875.47	Avg. Losing Trade		(\$416.92)
Largest Winning Trade	\$3,295.88	Largest Losing Trade		(\$1,453.60)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 7.7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 112 instances. Below is a profit curve.



The long and persistent upslope is impressive, and serves to confirm the numbers.

Let's also examine what the results have looked like when SPY closed in the top half of its intraday range. (Also from the 2/28/18 letter.)

It is the last trading day of the month. SPY closes > 200ma and in the **top** half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

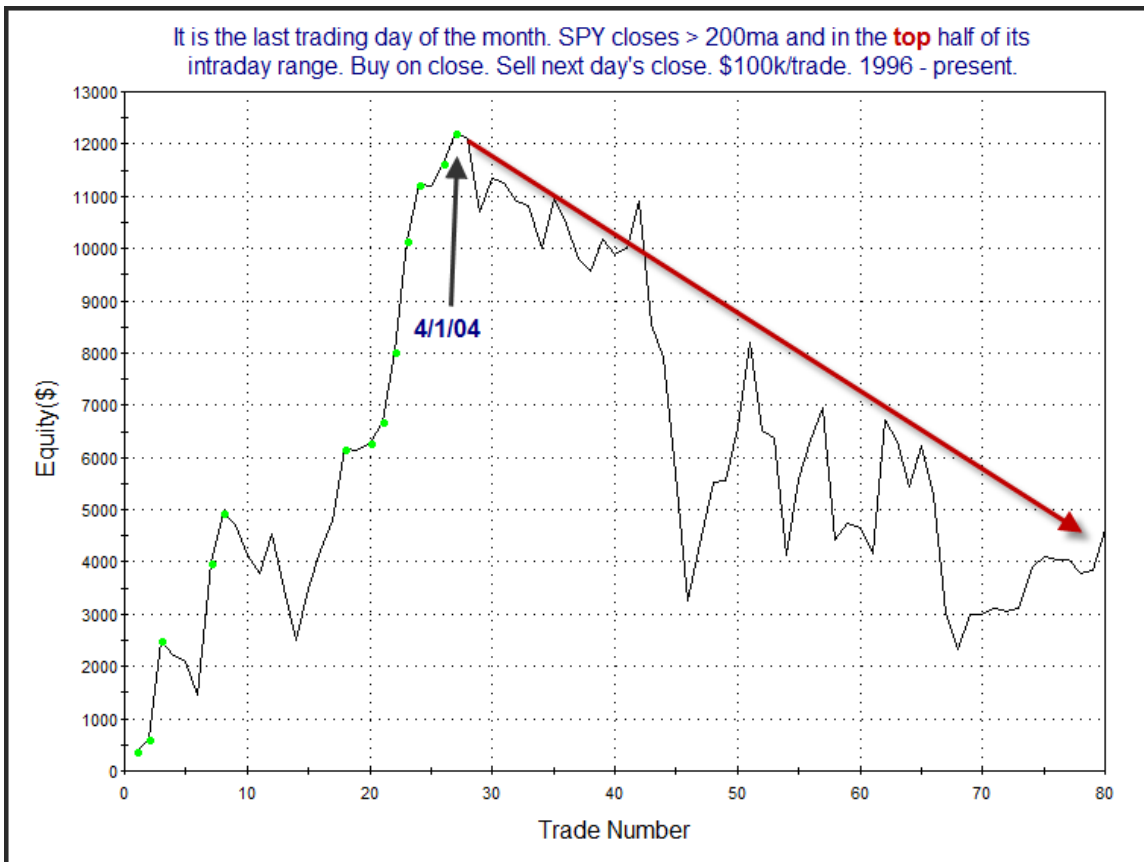
TradeStation Performance Summary

Expand ▾

All Trades

Total Net Profit	\$4,628.83	Profit Factor	1.16
Gross Profit	\$33,848.14	Gross Loss	(\$29,219.31)
Total Number of Trades	80	Percent Profitable	52.50%
Winning Trades	42	Losing Trades	38
Even Trades	0		
Avg. Trade Net Profit	\$57.86	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$805.91	Avg. Losing Trade	(\$768.93)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



This paints an even bleaker picture. So to set up an upside edge for Monday, traders would prefer a weak close on Thursday...

Of course the market closed quite well on Thursday. So the 2nd study is in play, and that has gone 14 years without showing an upside edge. In the Quantifinder tonight there were some studies that noted other things about the month-end setup which seemed to perhaps favor stronger odds. These were 1) the fact that SPY closed below its 10ma, and 2) the fact that the last day of the month came in front of a weekend. Just looking at these things in combination, there appears to be an appealing setup.

SPY closes < 10ma and > 200ma on the last day of the month and the last day of the week.
Buy on close. Sell next days close. \$100k/trade. 1993 - present.

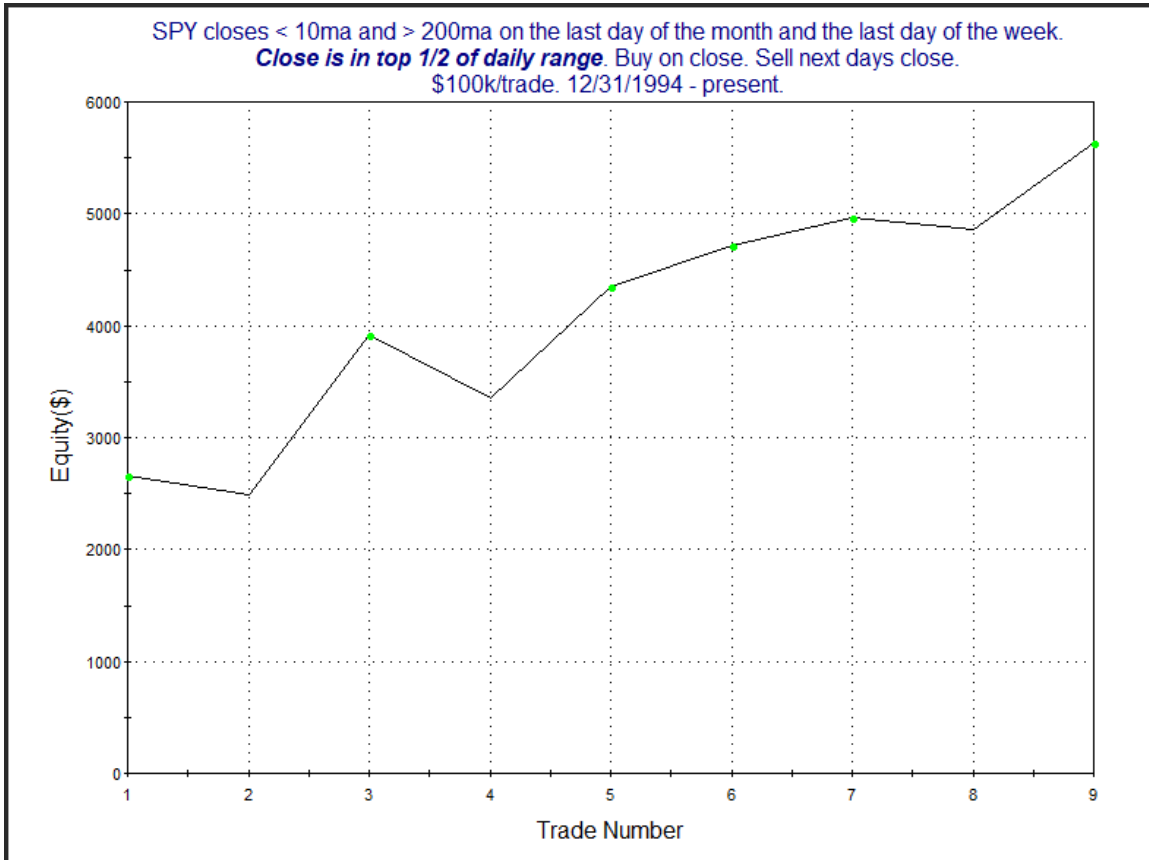
TradeStation Performance Summary			
All Trades			
Total Net Profit	\$26,656.07	Profit Factor	8.04
Gross Profit	\$30,442.15	Gross Loss	(\$3,786.08)
Total Number of Trades	41	Percent Profitable	82.93%
Winning Trades	34	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$650.15	Ratio Avg. Win:Avg. Loss	1.66
Avg. Winning Trade	\$895.36	Avg. Losing Trade	(\$540.87)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$2,249.61)

These stats look strong. But the close in the upper half of the day's range was the problem above. Are weekend and the close below the 10ma enough to overcome that? I decided to break down the above study and see how it looked.

SPY closes < 10ma and > 200ma on the last day of the month and the last day of the week.
Close is in top 1/2 of daily range. Buy on close. Sell next days close.
\$100k/trade. 1993 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	\$3,950.08	Profit Factor	2.43
Gross Profit	\$6,714.33	Gross Loss	(\$2,764.25)
Total Number of Trades	11	Percent Profitable	63.64%
Winning Trades	7	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$359.10	Ratio Avg. Win:Avg. Loss	1.39
Avg. Winning Trade	\$959.19	Avg. Losing Trade	(\$691.06)
Largest Winning Trade	\$2,519.52	Largest Losing Trade	(\$2,249.61)

The numbers are not bad, but there are very few instances. Below is the profit curve.



Half the gains came on the 1st instance. And the number of instances here is just too small to override the fact that over a substantial sample size, the close in the top half of the days range has been a problem for the last 14 years. For those that wonder why the close in the top half is a problem, my belief is that it is due to front-running. The 1st day of the month has long been known as a bullish day. The primary explanation is the rise of the 401k plan in the late 80s / early 90s. When people realized the 1st had bullish tendencies, they would look to front-run it with buying in the afternoon of the last day of the month. Front-running pushes it higher, and takes some of the edge off, as the front runners then look to sell on the 1st. When the market closes poorly on the last day of the month, then front-running is not evident, and the edge still holds.

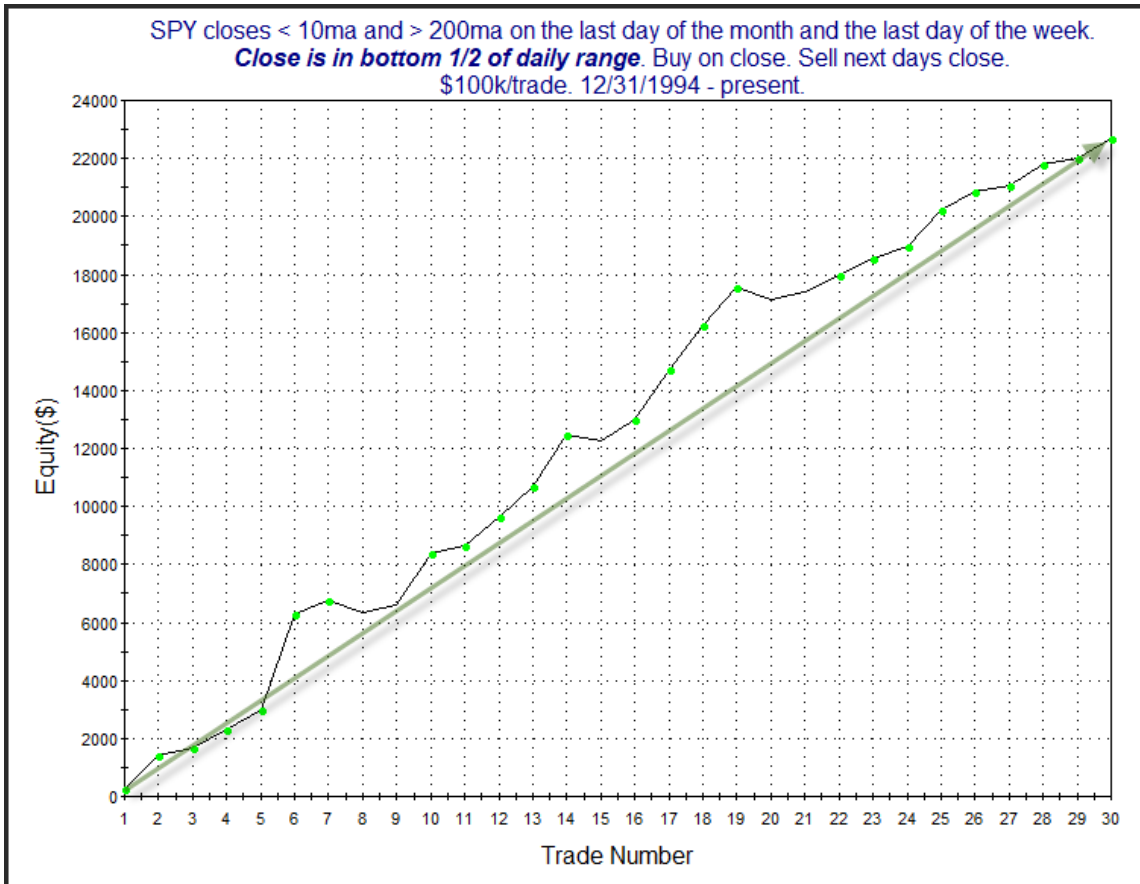
So you are probably wondering how the setup has done with the weekend, the 10ma filter, and the poor close. That is below.

SPY closes < 10ma and > 200ma on the last day of the month and the last day of the week.
Close is in bottom 1/2 of daily range. Buy on close. Sell next days close.
 \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾

All Trades

Total Net Profit	\$22,705.99	Profit Factor	23.22
Gross Profit	\$23,727.82	Gross Loss	(\$1,021.83)
Total Number of Trades	30	Percent Profitable	90.00%
Winning Trades	27	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$756.87	Ratio Avg. Win:Avg. Loss	2.58
Avg. Winning Trade	\$878.81	Avg. Losing Trade	(\$340.61)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$425.15)



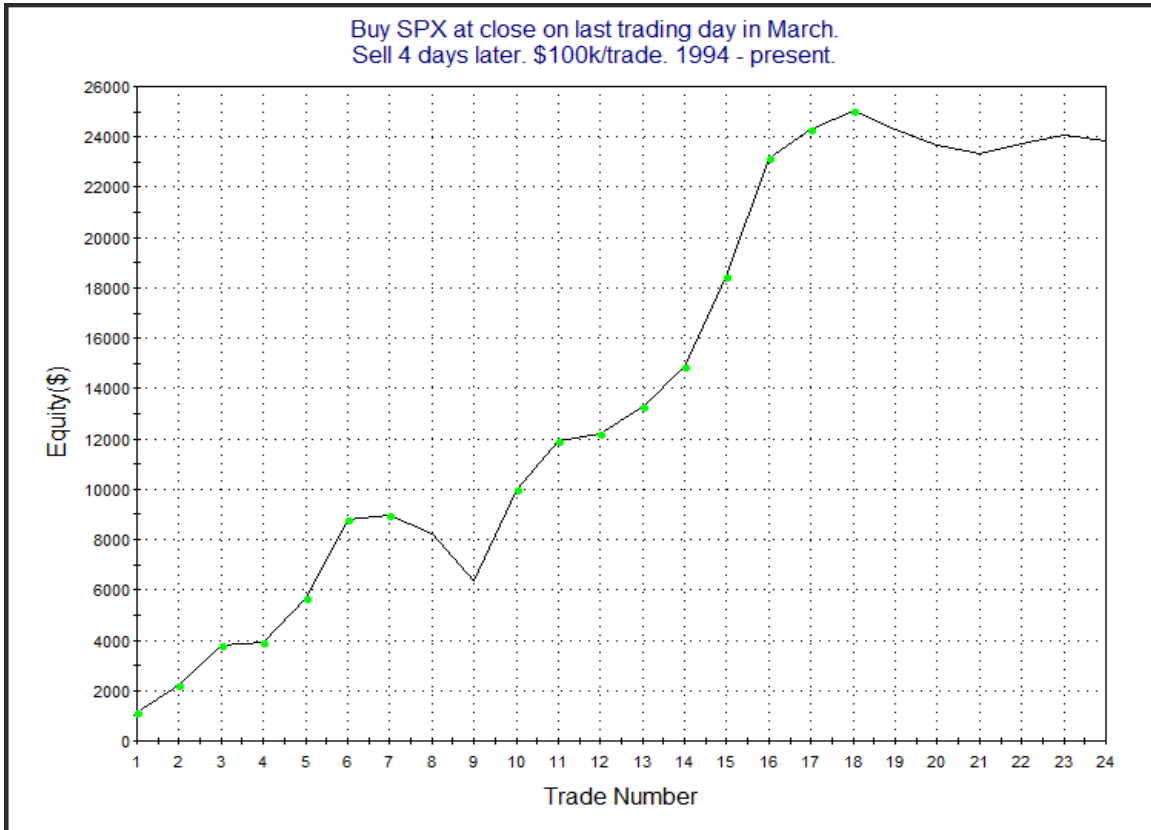
Pretty phenomenal numbers and curve. Our next chance for this would be the end of June.

But now is the beginning of April. And that in itself has generally been a pretty good thing. The study below is also copied from Wednesday night's letter.

In the 4/3/17 letter I showed how early April has exhibited strong seasonality since the mid 90s. Below I have updated that study.

Buy SPX at close on last trading day in March. Sell X days later. \$100k/trade. 1994 - 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	14,086.29	24	16	8	66.67	1,538.53	4,435.97	-1,316.26	-2,745.12	1.17	2.34	586.93
4	23,833.12	24	18	6	75.00	1,574.42	4,701.25	-751.08	-1,831.35	2.10	6.29	993.05
3	18,110.41	24	17	7	70.83	1,681.34	5,578.75	-1,496.05	-4,909.74	1.12	2.73	754.60
2	18,943.89	24	17	7	70.83	1,541.98	4,563.75	-1,038.53	-4,638.84	1.48	3.61	789.33
1	9,670.26	24	17	7	70.83	833.17	3,559.50	-641.95	-1,532.16	1.30	3.15	402.93

Numbers here appear impressive. Let's take a look at the profit curve based on a 4-day holding period.



Sixteen of the first eighteen years were higher on day 4, but recent years have seen some sideways chop. I still believe early April bullishness deserves some consideration as we ready to enter the new month.

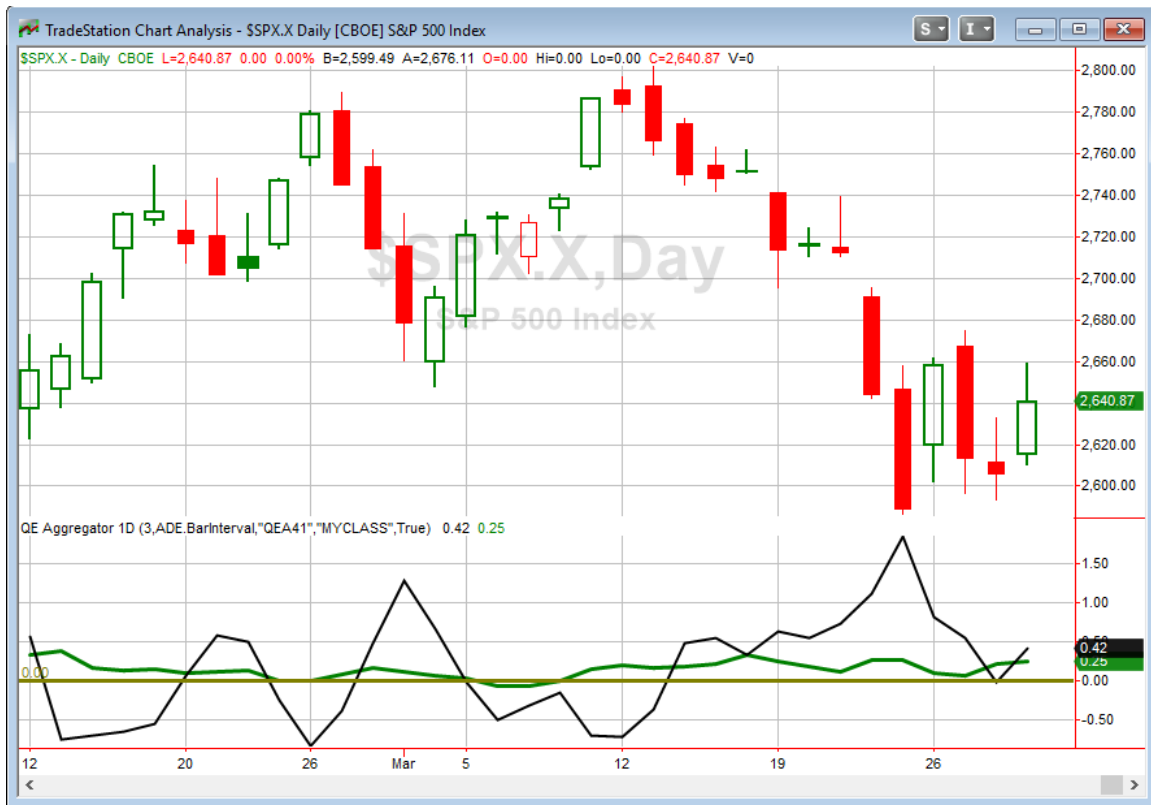
After alerting followers that the CBI was set to close at 0 on Thursday, I received a few questions asking about SPX performance following a CBI return to 0 from an elevated level. I looked at it a number of ways. Results are pretty much what I expected, but some of you might find them disappointing. Below is an example of one test I ran looking for an edge.

After closing as high as 9 in the last 10 trading days, the CBI closes at 0 today.
Buy SPX on close. Sell X 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
15	21,536.29	33	20	13	60.61	3,443.29	9,641.28	-3,640.73	-17,378.16	0.95	1.46	652.61
14	18,592.96	33	20	13	60.61	3,190.19	9,963.36	-3,477.75	-22,279.93	0.92	1.41	563.42
13	23,880.79	33	21	12	63.64	3,101.59	8,240.64	-3,437.71	-16,703.51	0.90	1.58	723.66
12	26,994.81	33	22	11	66.67	2,386.90	7,201.28	-2,319.73	-11,291.89	1.03	2.06	818.02
11	27,808.24	33	22	11	66.67	2,499.29	6,153.84	-2,470.56	-12,154.00	1.01	2.02	842.67
10	21,071.29	33	25	8	75.76	1,945.44	5,191.56	-3,445.60	-9,832.38	0.56	1.76	638.52
9	12,755.15	33	22	11	66.67	1,966.96	6,985.60	-2,774.36	-9,070.04	0.71	1.42	386.52
8	8,100.13	33	22	11	66.67	1,993.15	8,019.28	-3,249.93	-11,994.35	0.61	1.23	245.46
7	13,141.46	33	22	11	66.67	2,107.26	7,006.72	-3,019.85	-8,081.72	0.70	1.40	398.23
6	10,664.23	33	20	13	60.61	1,923.67	4,698.80	-2,139.17	-6,306.92	0.90	1.38	323.16
5	7,255.36	33	21	12	63.64	1,741.09	4,683.84	-2,442.29	-4,552.52	0.71	1.25	219.86
4	79.48	33	20	13	60.61	1,536.89	6,374.66	-2,512.18	-6,578.61	0.65	1.00	2.41
3	-9,407.34	33	17	16	51.52	1,323.71	5,127.10	-1,957.40	-8,395.18	0.66	0.71	-285.07
2	-604.64	33	21	12	63.64	1,105.99	7,608.64	-1,985.87	-5,164.42	0.56	0.97	-18.32
1	-3,545.25	33	14	19	42.42	1,018.77	3,640.30	-937.26	-3,199.28	1.09	0.80	-107.43

I don't find the numbers here to be compelling for either the bulls or the bears. This is not terribly surprising, since 0 is considered "neutral". Capitulative selling that was evident a few days ago has been exhausted. We'll need to wait a while until the CBI comes back into focus and again provides a possible edge worth considering.

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 moved back 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, as anticipated, the Aggregator signal turned long at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Monday. It would take some compelling new bearish evidence to change this. The Differential Pivot will be *inverted* at 2623.56 on Monday. That is 0.7% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down at least 0.7% in order to remain oversold. Anything other than that and it will be considered overbought versus expectations as of Monday's close.

Last weekend I had a fairly large index position built up. With Monday's bounce I formulated a plan for myself in which I would look to exit a few different ways. Last Monday we had an inverted pivot, and I determined I would take off 1 lot (out of 3) at the open on Tuesday. But with strong oversold conditions from intermediate-term lows, often there is a short-covering rally that traps bears and can last for multiple days. So I wanted

to give the market more of a chance to bounce before turning back to neutral. I determined I would take my 2nd SPY lot off when the CBI returned to 3 or less. On Thursday it dropped from 7 to 0, so the 2nd lot was taken off at the close on Thursday. For the last lot I have been looking for a reversion in the form of a close above the 10-day moving average. As a reminder, this is the standard exit for numbered system 110524, which triggered when I took one of the entries. I still believe we could get a bit more of a bounce here. And the early-April seasonality may help, along with the other price-action based studies that are already in place. So I still think there is a bit of an upside edge as suggested by the Aggregator, and I am still looking for a bounce above the 10ma to exit. I'll reevaluate as new evidence emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/2– 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”.*

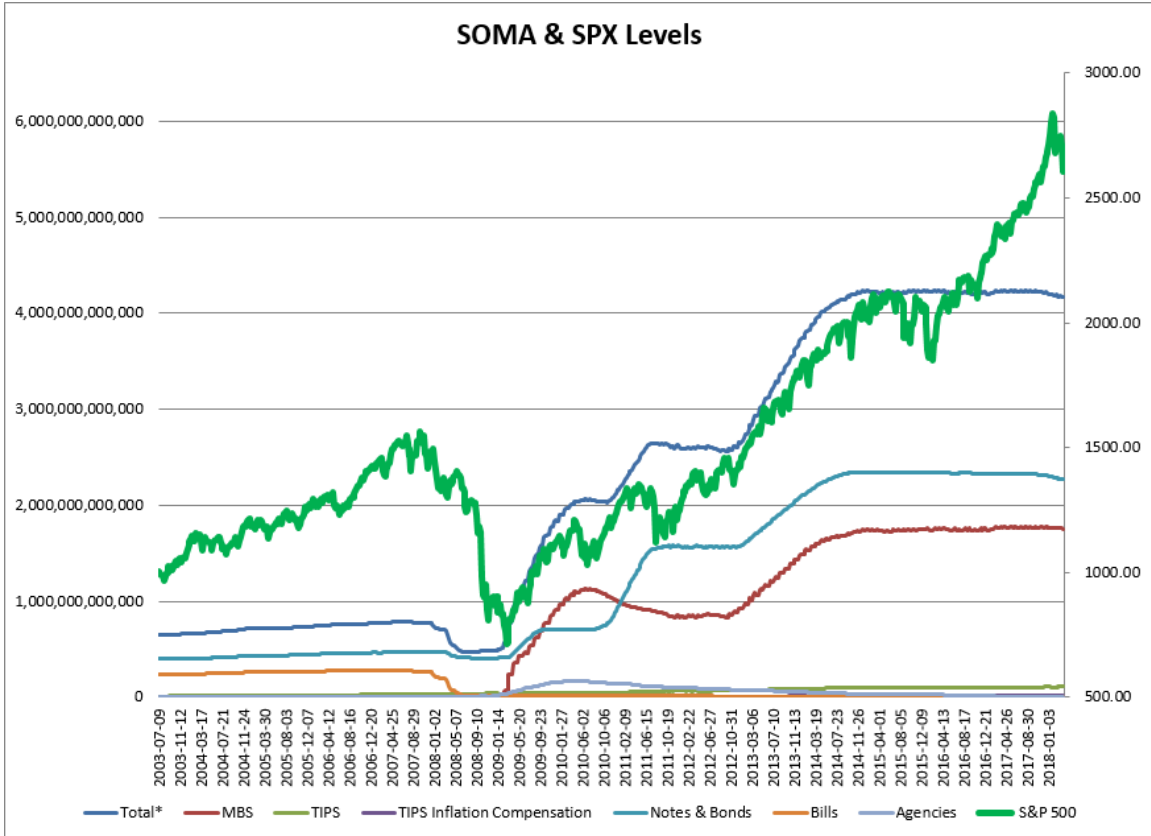
The short week had 2 up days and 2 down days, but the up days were stronger. The SPX ended with a 2.0% gain on the week and the NASDAQ rose 1.0%. Our NASDAQ/SPX relative strength indicator is still showing the NASDAQ as leading, but that could easily change this upcoming week, and is something to look out for. 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.

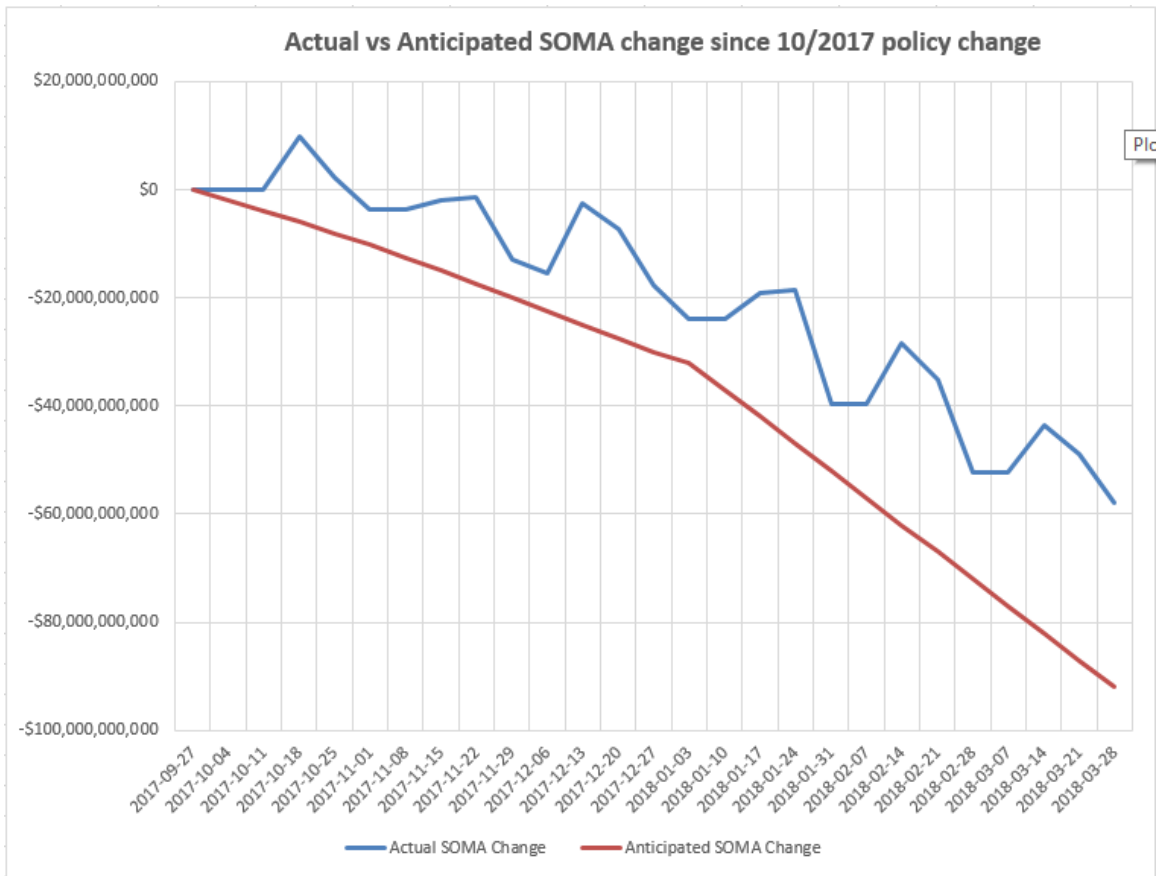
SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities 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 \$8.8 billion, or 0.21%. That is little strong for what you would expect with a stated reduction rate of \$20 billion per month. But the SOMA is still just \$5.6 billion lower than it was at the end of February. Perhaps this upcoming week, part of which is still in March, will see some further reduction. Of course as the calendar is now turning to April, the rate of reduction is also set to change. Starting this month, and through June, the Fed has stated they intend to up the reduction rate from \$20 billion/month to \$30 billion/month. That will provide an even larger headwind for the bulls as liquidity continues to tighten. As I have been discussing, I continue to believe that liquidity events may cause more volatility and corrective periods during 2018.

The early parts of months have not seen strong SOMA reductions. Much of it has been coming towards the end of the month. So combined with the early-April seasonality, we may get a bit of a relief bounce here in the 1st part of April. Later in the month as SOMA reductions ramp up and seasonality wanes, we could see another dive. And our "sell in May" indicator is in full effect this year. (More on that in coming weeks.)

Overall, the intermediate-term evidence is still 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 am keeping my bias as “neutral” for now. While the short-term could see more of 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

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	\$264.25	-4.01%		*dividend adjusted exit
KHC(1/3)	3/20/2018	\$63.95	\$62.29	-2.60%		<i>sell on open</i>
KHC(1/3)	3/21/2018	\$62.53	\$62.29	-0.38%		<i>sell on open</i>
CMCSA(1/4)	3/21/2018	\$34.55	\$34.17	-1.10%		<i>sell on open</i>
KHC(1/3)	3/22/2018	\$61.73	\$62.29	0.91%		<i>sell on open</i>
CMCSA(1/4)	3/22/2018	\$34.17	\$34.17	0.00%		<i>sell on open</i>
QQQ(1/4)	3/22/2018	\$164.70	\$160.13	-2.77%		Aggregator
CMCSA(1/4)	3/23/2018	\$33.23	\$34.17	2.83%		<i>sell on open</i>

As I indicated in the intraday update on Thursday, all of the Catapults reached their exit triggers. They will all be closed out at the open on Monday.

I will look for the following exit on the QQQ position: Exit QQQ if QQQ closes > \$162.65 or SPY > \$264.70 (10ma levels).

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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