

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 16, 2018

Volume 11 Issue 72

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The SPY gap and reversal on Friday after an unfilled gap up on Thursday suggests an upside edge for Monday.
- Some bullish seasonality will be kicking in this week.
- SOMA saw a mild decline this past Wednesday - Wednesday. The current week is unlikely to see a large decline, but after this upcoming Wednesday, more substantial reductions are likely.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is suggesting we could get a move up in the next few days, but the market is currently overbought, and not offering a very favorable entry opportunity. This leaves me short-term neutral.

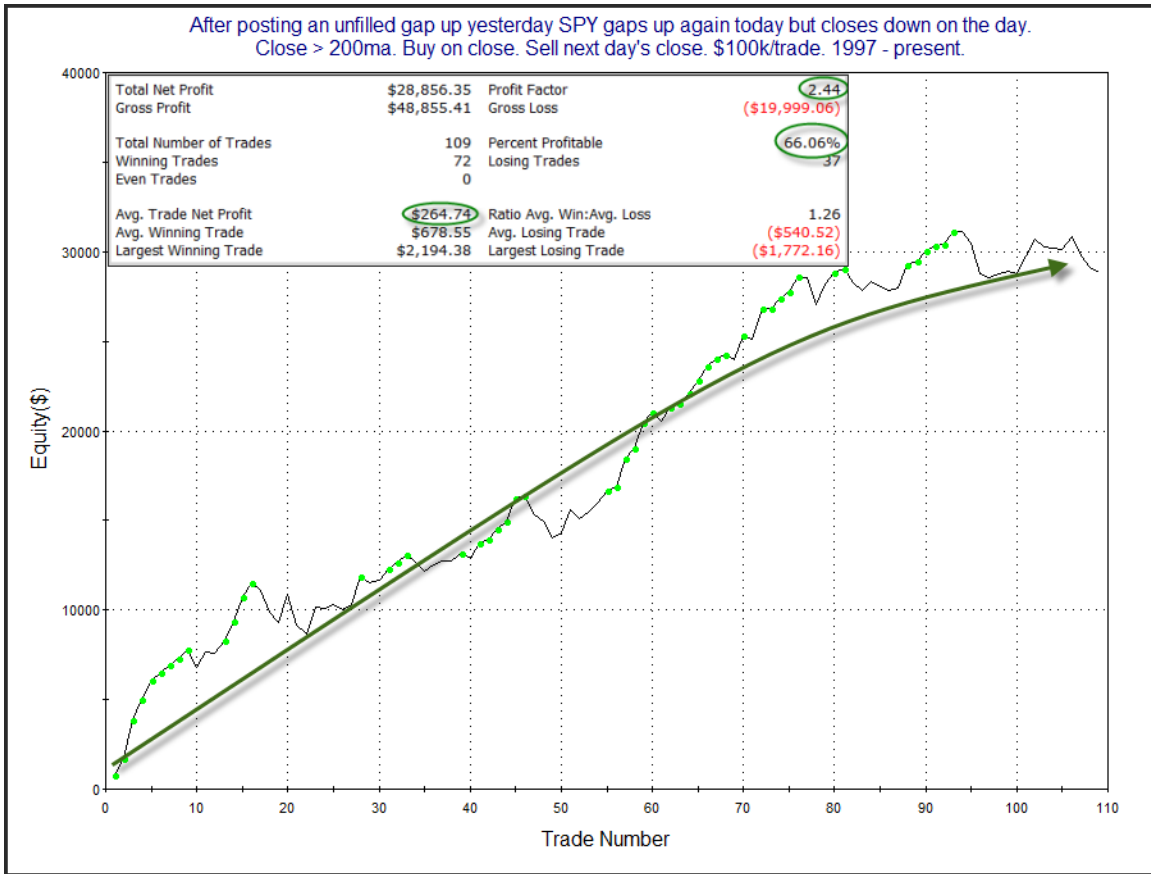
*Summary of Recent Active Studies (see Letters from listed dates for details)*

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
April 16, 2018	April Opex Week Bullish	1-3 days	Bullish	1.80%	-0.90%	-2.00%
April 16, 2018	Unfilled gap up, then gap up close down	1 day	Bullish			
<b>Active - Long Term</b>						
April 6, 2018	2%+ gain over 3 days. Offset HV < 0.25	1-19 days	Bullish	4.30%	-2.20%	-4.80%
April 2, 2018	SOMA reduction intensifies to \$30billion	int term	Bearish			
February 15, 2018	FTD with moderate breadth & volume	int term	Bearish			
January 8, 2018	1st 4 days of year close higher	1-250 days	Bullish	15.90%	-5.70%	-11.10%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

***The Evidence***

Friday saw the market sell off a bit. The SPX declined 0.3%, the NASDAQ fell 0.5%, and the Russell 2000 lost 0.5%. Breadth was negative as the NYSE Up Issues % was 41.1% and the Up Volume % came in at 40.8%. NYSE volume came in at the lowest level of 2018.

SPY gapped up and closed lower Friday after leaving an unfilled up gap on Thursday. In the 3/28/18 letter I examined similar price action in SPY with regards to how it gapped and finished. The study is updated below.



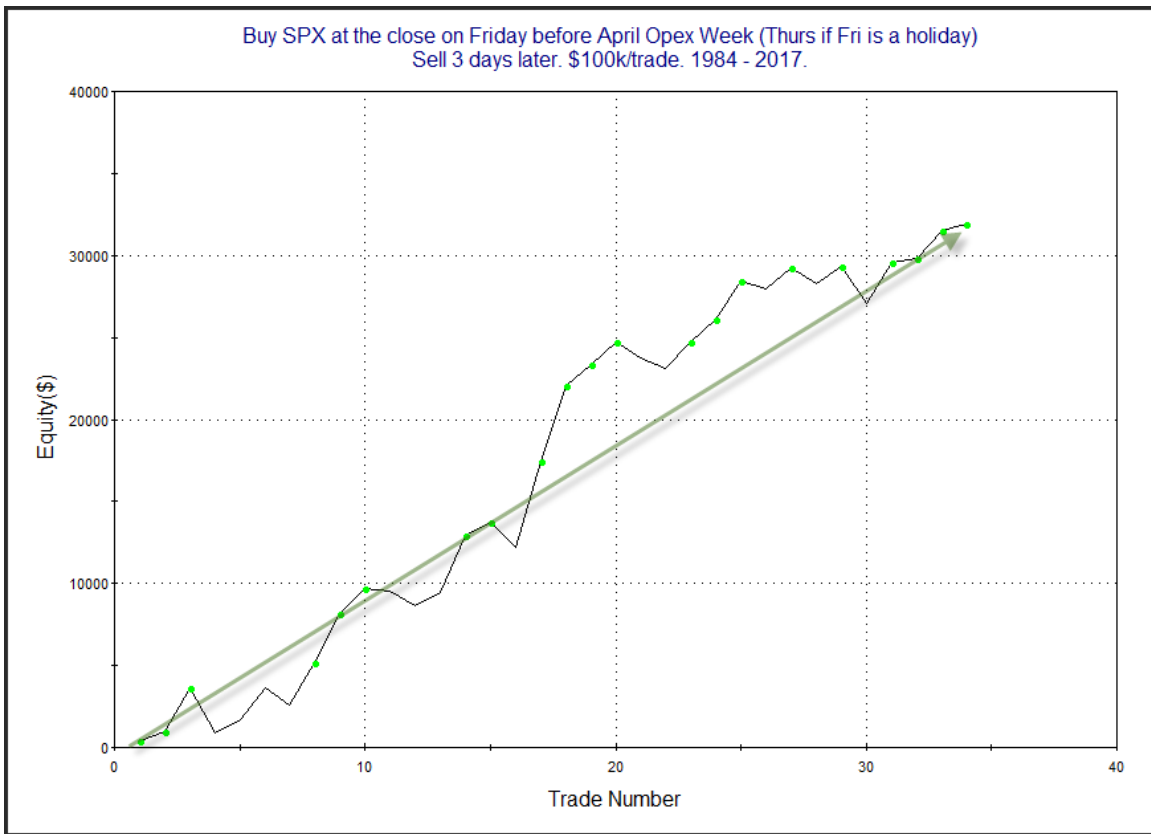
The numbers here all look solidly bullish. The profit curve is a little less encouraging, since it has endured some recent choppiness. I will allow this on the Active List tonight, but I am keeping a watchful eye on this study, and will soon put it on hold if it continues to struggle.

On Thursday I discussed the upcoming April opex week. That commentary is copied below.

*April expirations week is next week, and it has historically been very bullish. The study below, from the 4/11/16 letter shows this. Results are updated.*

Buy SPX at the close on Friday before April Opex Week (Thurs if Fri is a holiday) Sell X days later. \$100k/trade. 1984 - 2017.												
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	27,492.84	34	21	13	61.76	2,202.03	5,393.97	-1,442.30	-3,580.15	1.53	2.47	808.61
4	28,937.00	34	23	11	67.65	1,989.33	5,895.12	-1,528.87	-3,587.57	1.30	2.72	851.09
3	31,883.24	34	24	10	70.59	1,817.25	5,215.85	-1,173.07	-2,745.05	1.55	3.72	937.74
2	23,132.30	34	27	7	79.41	1,232.15	6,245.15	-1,447.96	-4,545.53	0.85	3.28	680.36
1	8,006.42	34	22	12	64.71	730.30	3,322.23	-671.67	-2,339.26	1.09	1.99	235.48

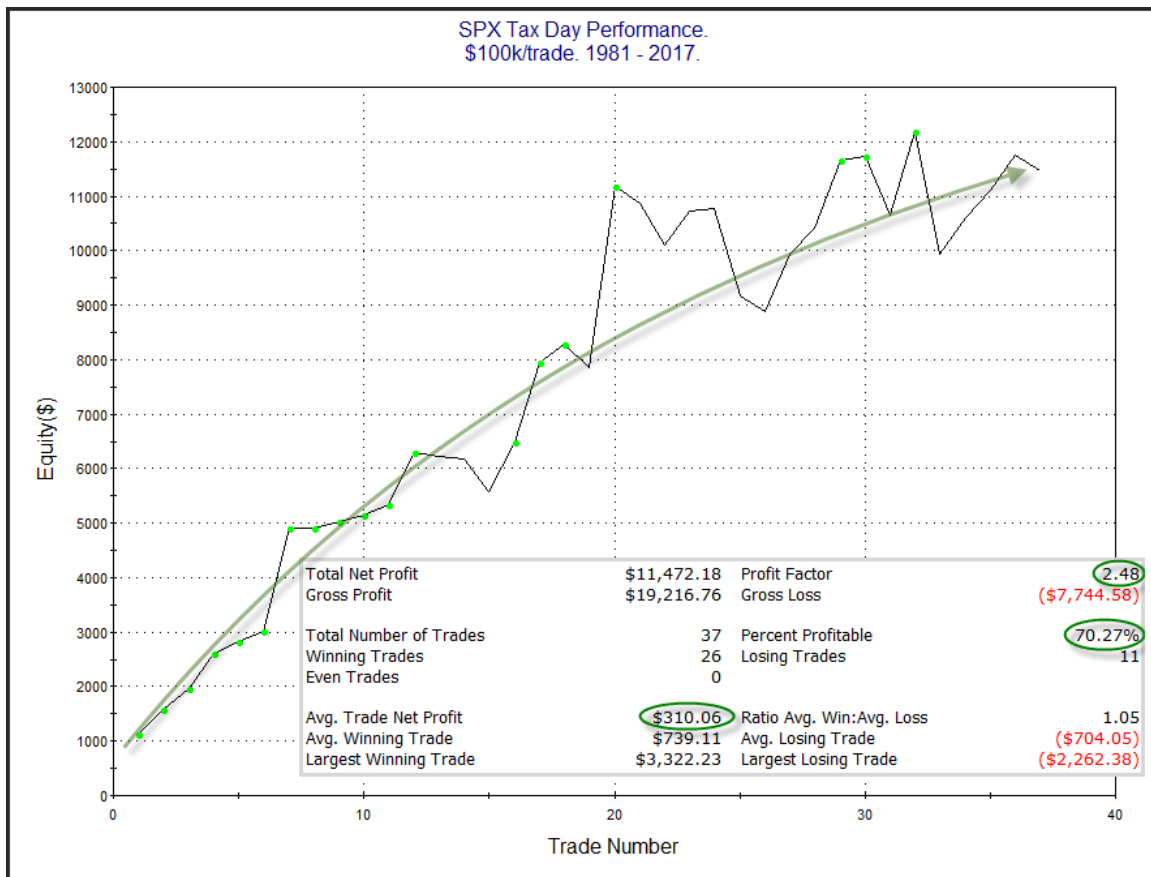
The consistency has been very impressive. It suggests an upside edge the first few days of the week. Below is a profit curve that assumes a 3-day holding period.

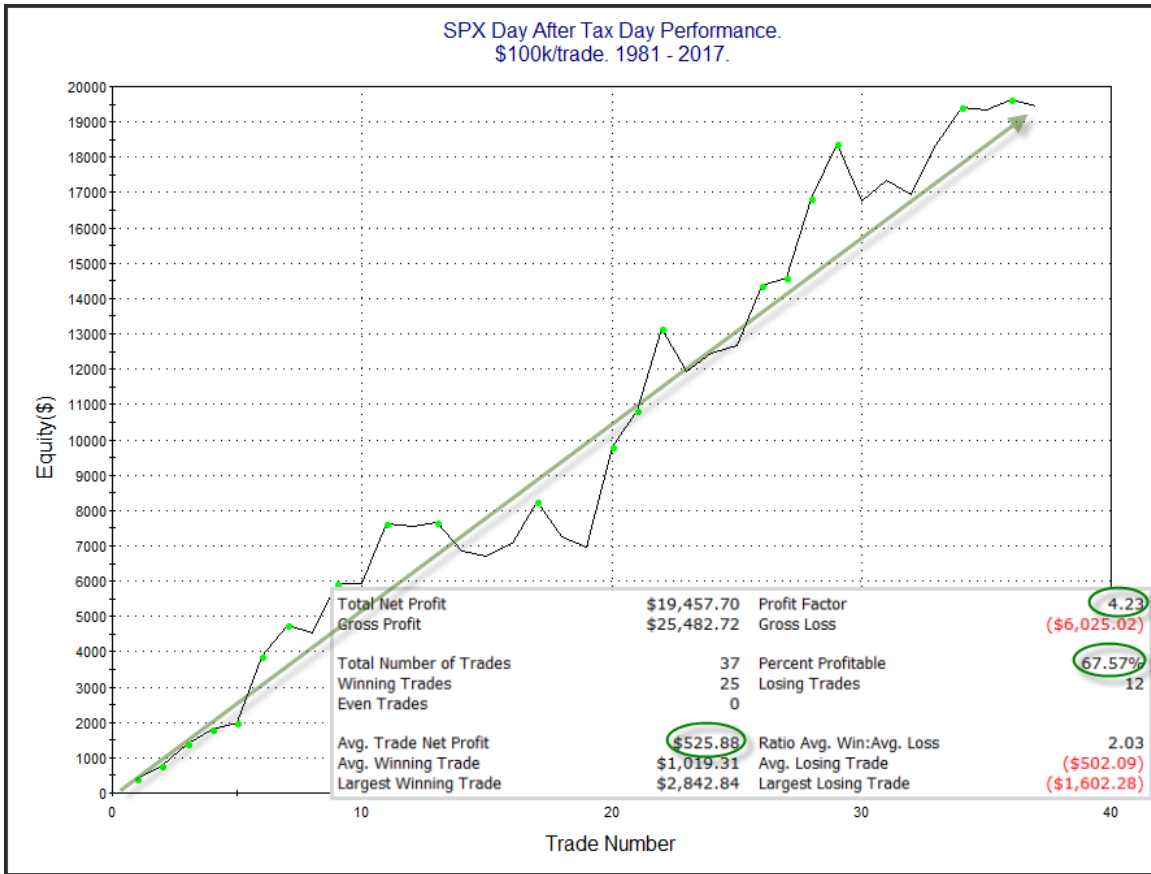


The strong, steady upslope is encouraging, and serves as some confirmation of the upside edge.

In the 4/17/17 letter I showed that there has been a strong historical tendency on tax day (normally April 15<sup>th</sup>, but Tuesday the 17<sup>th</sup> this year) and the day immediately after. The

reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April 15th. Fund managers will often put this money to work immediately and it creates a positive bias for the market. Below are some updated studies that demonstrate this.



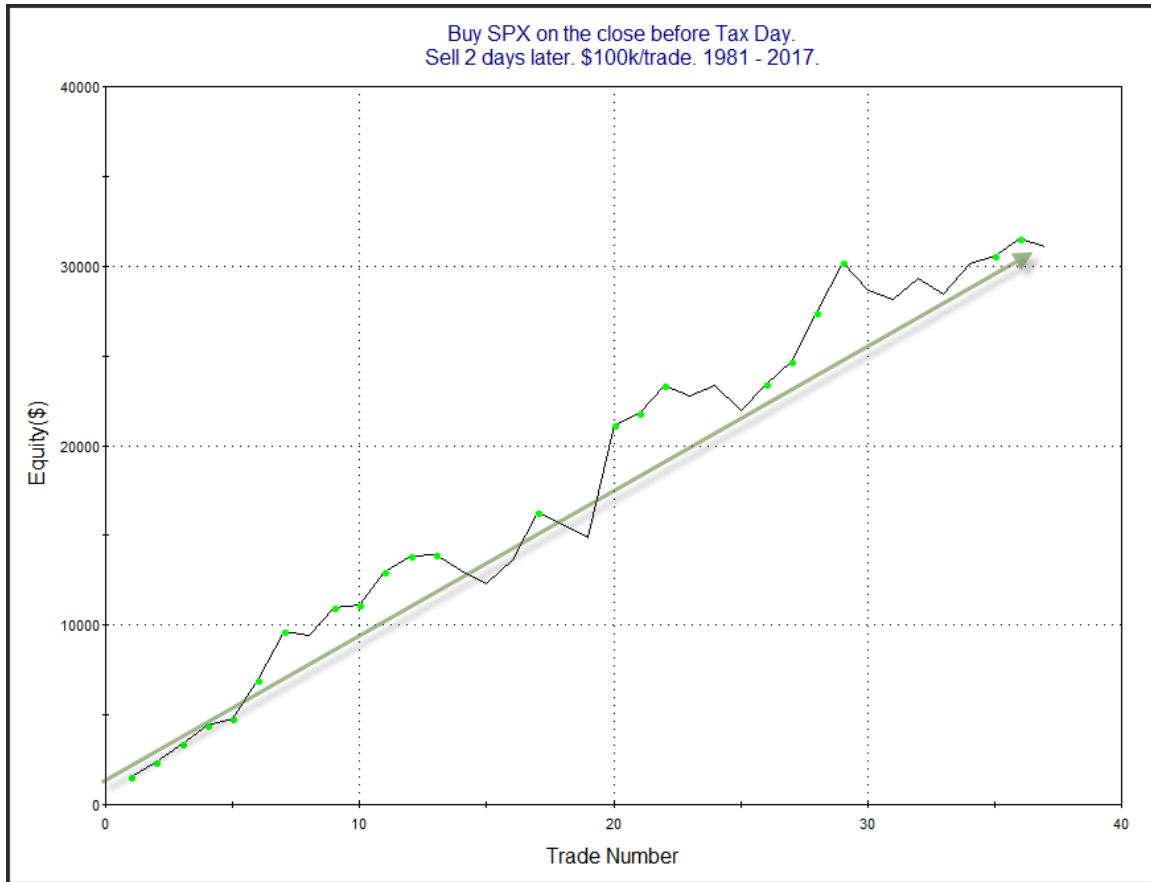


As you can see, both of these days seem to contain very solid upside edges. The study below looks at what happens if you hold for both days instead of just one.

**Buy SPX on the close before Tax Day.**  
Sell 2 days later. \$100k/trade. 1981 - 2017.

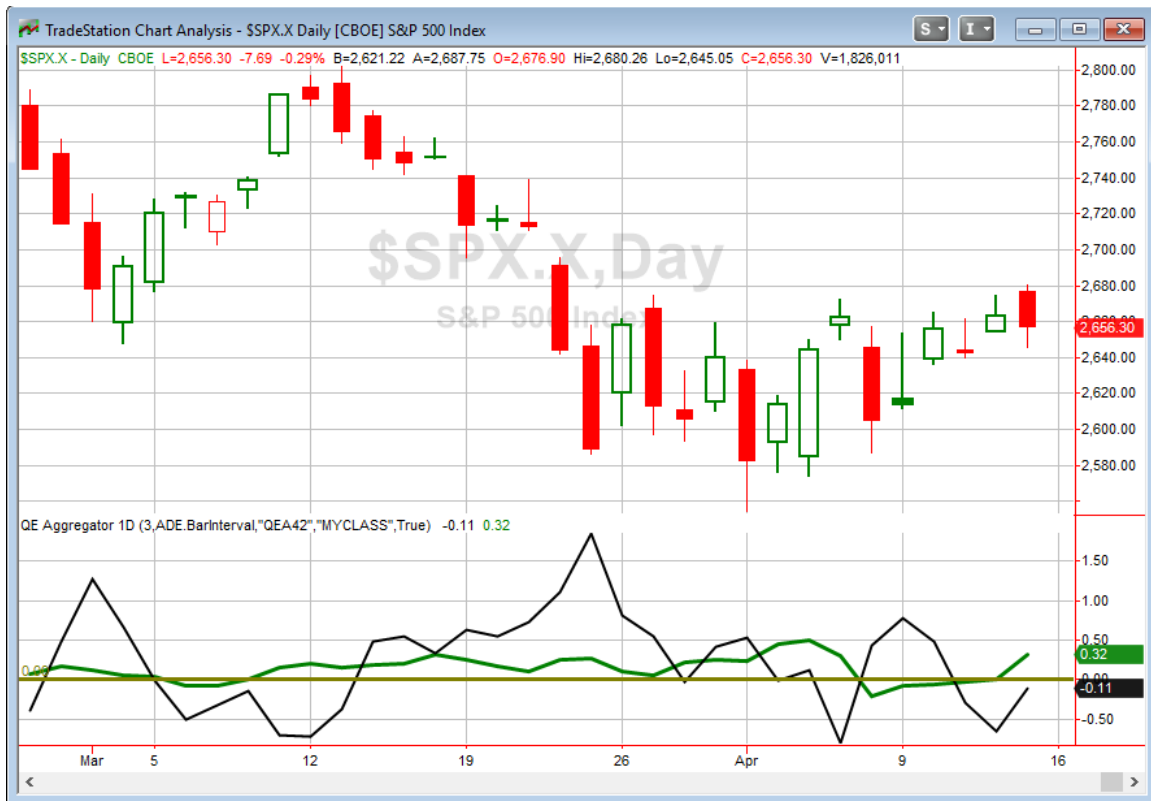
TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$31,050.34	Profit Factor	4.61
Gross Profit	\$39,641.52	Gross Loss	(\$8,591.18)
Total Number of Trades	37	Percent Profitable	70.27%
Winning Trades	26	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	\$839.20	Ratio Avg. Win:Avg. Loss	1.95
Avg. Winning Trade	\$1,524.67	Avg. Losing Trade	(\$781.02)
Largest Winning Trade	\$6,245.15	Largest Losing Trade	(\$1,518.64)

As you would expect, numbers here are nicely impressive. Below I have also included the profit curve.



A good looking curve that has moved from lower left to upper right. This study will be under consideration on Tuesday and Wednesday.

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



With tonight's studies factored in the green Aggregator Line finished above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dipped just barely 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 active studies, expectations are slated to remain bullish on Monday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2637.43 on Monday. That is 0.7% below Friday's close. So SPX will need to close down at least 0.7% in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is currently neutral. I am too. While evidence is pointing towards a move higher in the next few days, the overbought status could be problematic. SPX has been trying to break out of its recent range, and Friday appears to mark a failure. That does not mean it has to be a permanent failure, but it could see further selling. Purchases from oversold areas generally provide better reward/risk than from overbought ones. A move below the Differential Pivot, or below the 10-day moving average, or into the lower portion of the recent range all would serve to provide a more favorable reward/risk opportunity.

We are not there yet. And the market also has not begun to deal with the news of the attack on Syria. It did deal with rumors of it last week, so the reaction to the actual news can't necessarily be easily anticipated. Bottom line is that we are entering a favorable seasonal period with some evidence pointing towards possible higher prices. If we can get a bit more of a dip, then that could skew reward/risk enough to provide a compelling entry opportunity. SPX is not there yet. I will remain patient.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 4/16– neutral***

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

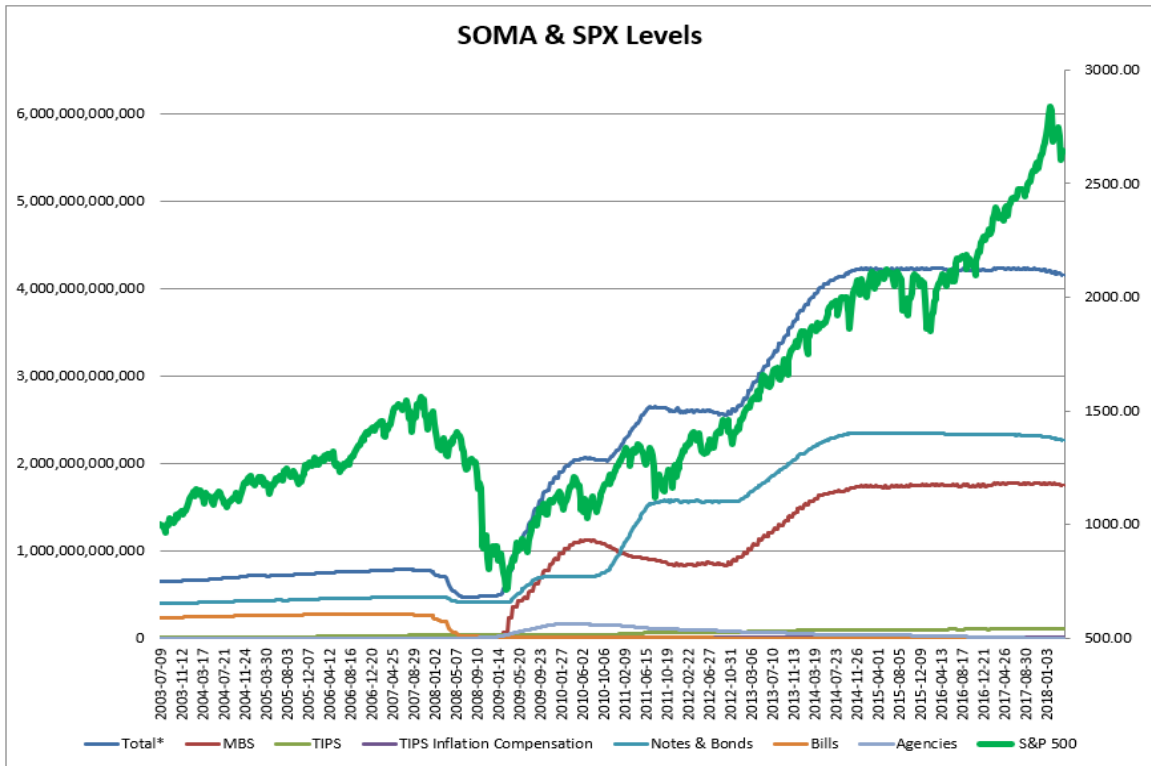
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 there were no changes to the Combo Systems.*

Despite Friday's selling the SPX ended with a 2.0% gain on the week and the NASDAQ rose 2.8%. There were no new studies that emerged this week with possible intermediate-term implications.

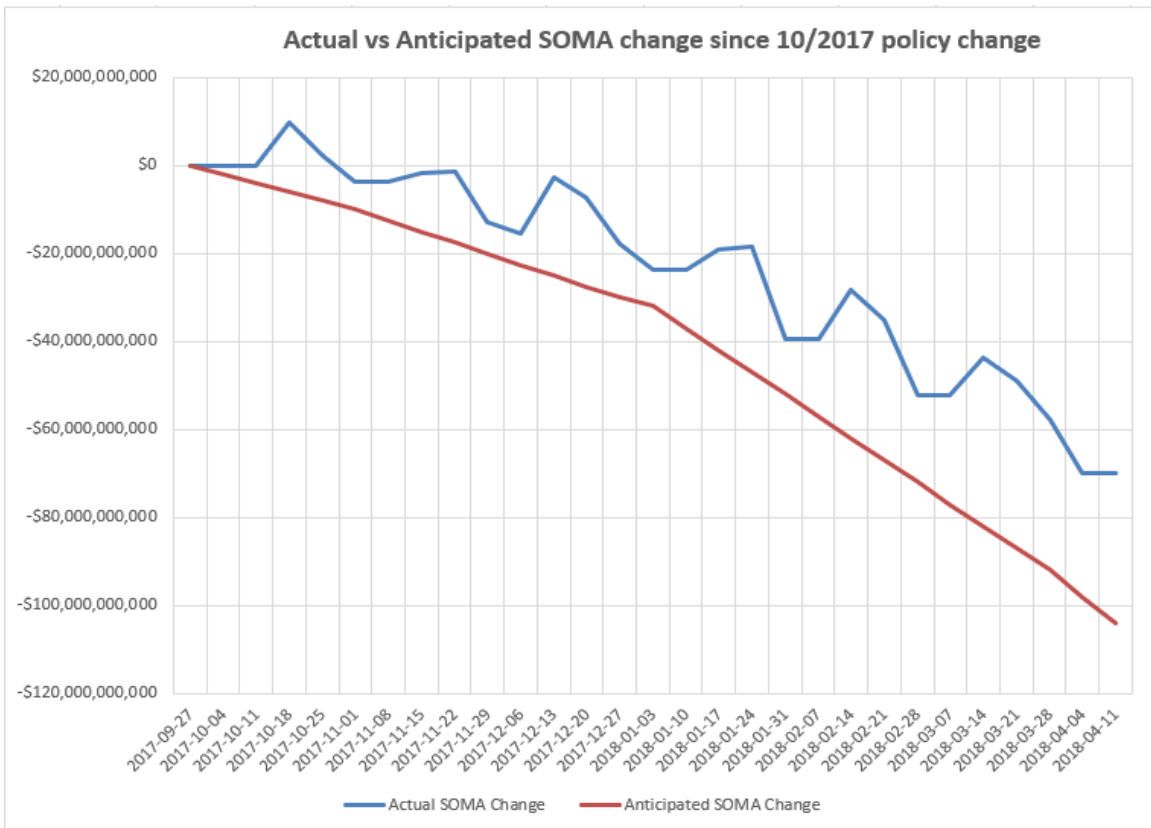
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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 \$100 million. While that sounds like a lot of money, it represents less than 0.01% of the SOMA. Over this same period the SPX also showed a slight decline of 0.09%. With a stated reduction rate of \$30 billion per month, the average week is set to endure substantially larger reductions than this. As you can see in the chart above, the greatest reductions have happened towards the end of the months. I do not expect to see a big reduction this week, but next week I do – especially with the new \$30 billion/month rate having just begun in April. I remain of the opinion that the current Fed policy will continue to act as a headwind for the bulls and leave the market more prone to liquidity events and sharp selloffs.

Overall, the intermediate-term evidence is still mixed. There is a price-action based study from last week that is still active. And with 2 of the 4 Market Timing Course indicators bullish and 2 of 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. The NASDAQ is now lagging, and we will soon be approaching the “Worst 6 Months” period. I am keeping my bias as “neutral” for now. I could very easily turn bearish in coming weeks. 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**

None

*A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).*

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2018 Quantifiable Edges, LLC.