

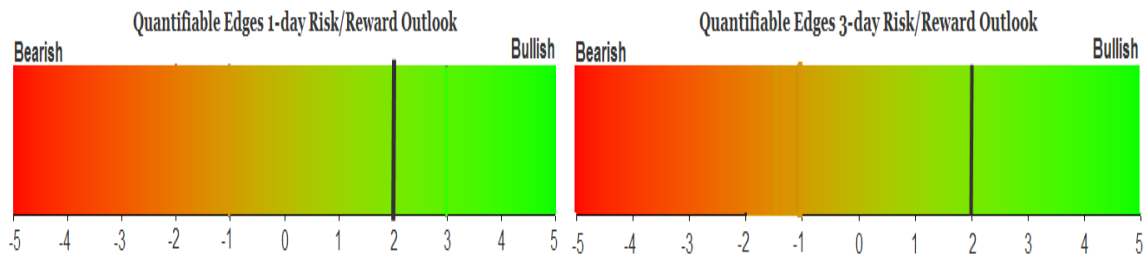
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 23, 2018

Volume 11 Issue 77

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	3

Tonight's Research Points

- The 1st low 5-day in over 2 weeks is often followed by a bounce, especially when SPY is still above its 10ma.
- SOMA rose a little this past week, but it is likely to decline strongly for the next couple.

Short-term Outlook

The Bottom Line

Expectations are somewhat bullish, and the market is a little oversold. There appears to be a moderate upside edge over the next few days.

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 23, 2018	1st 5-low in 10+ days. Close > 10ma.	1-3 days	Bullish	1.20%	-0.90%	-1.90%
Active - Long Term						
April 23, 2018	1st 5-low in 10+ days. Close > 10ma.	1-10 days	Bullish	2.20%	-1.30%	-2.60%
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

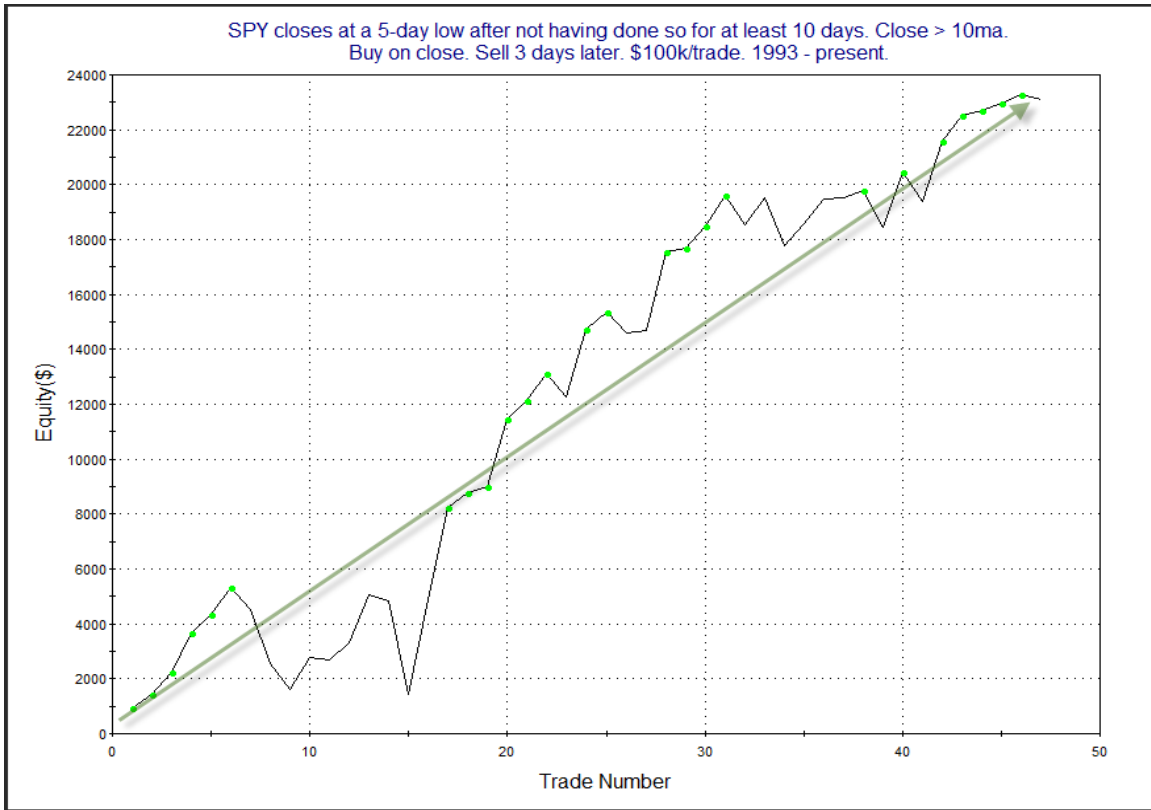
Friday saw the market pull back for a 2nd day. The SPX lost 0.85%, the NASDAQ fell 1.3% and the Russell 2000 dropped 0.6%. Breadth was negative as the NYSE Up Issues % was 31% and the Up Volume % came in at 33%. NYSE volume rose a little from Thursday’s level.

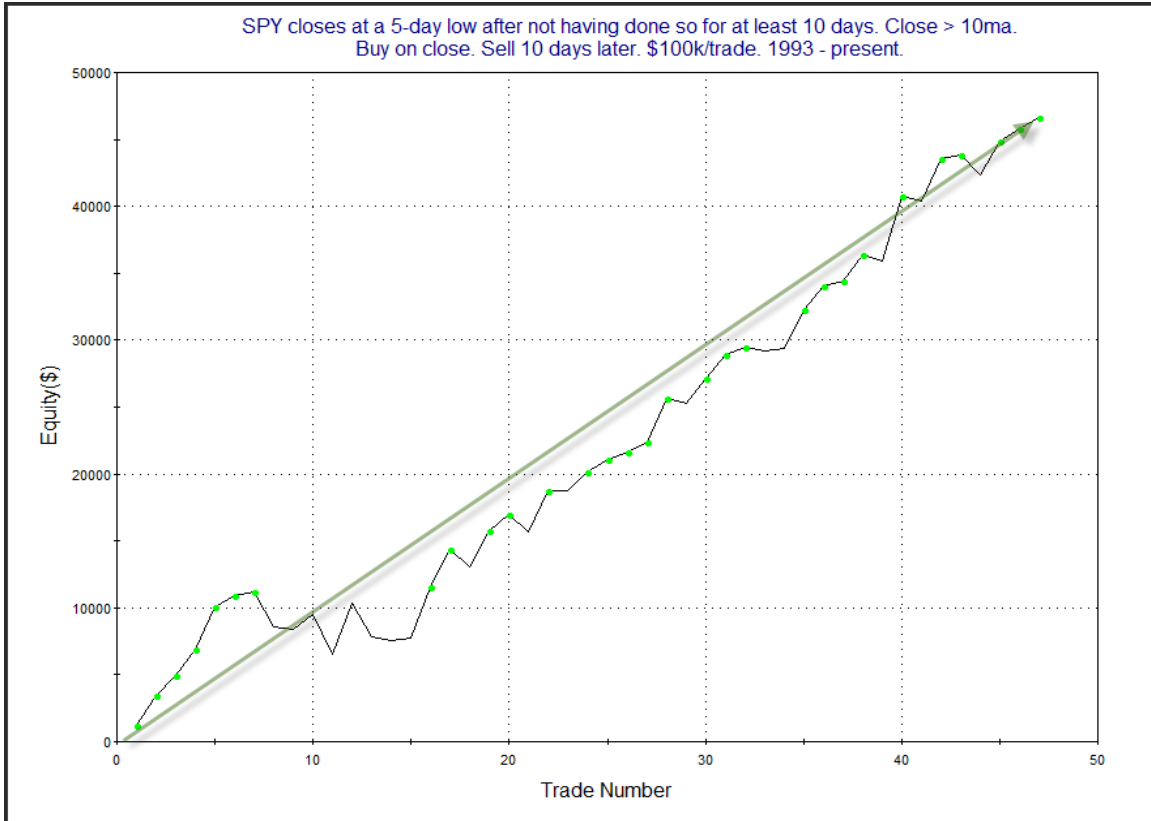
Friday’s action caused SPY to close in an interesting position. Traders could look at the chart and say it is “short-term oversold” due to the fact that it closed at a 5-day low. They might also say it is “short-term overbought” since it closed above its 10-day moving average. I have found that edges often arise when something is short-term overdone in one timeframe, but overdone in another direction in another timeframe. The study below looks at the current discrepancy. It was last seen in the 4/25/16 letter and has been updated.

SPY closes at a 5-day low after not having done so for at least 10 days. Close > 10ma. 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	46,665.97	47	34	13	72.34	1,792.46	4,839.66	-1,098.29	-2,972.16	1.63	4.27	992.89
9	44,127.53	47	36	11	76.60	1,634.23	5,293.08	-1,336.80	-3,319.71	1.22	4.00	938.88
8	40,132.21	47	35	12	74.47	1,553.32	4,734.72	-1,186.17	-2,602.71	1.31	3.82	853.88
7	35,683.04	47	35	12	74.47	1,557.14	4,118.22	-1,568.06	-3,472.29	0.99	2.90	759.21
6	32,063.54	47	32	15	68.09	1,440.48	4,307.28	-935.45	-2,992.38	1.54	3.29	682.20
5	28,877.47	47	32	15	68.09	1,357.54	4,496.34	-970.91	-3,570.00	1.40	2.98	614.41
4	24,526.72	47	32	15	68.09	1,220.88	3,149.62	-969.42	-2,475.20	1.26	2.69	521.85
3	23,106.15	47	34	13	72.34	1,104.99	3,452.40	-1,112.58	-3,393.78	0.99	2.60	491.62
2	13,174.80	47	30	17	63.83	947.10	3,809.72	-896.37	-3,737.28	1.06	1.86	280.31
1	4,883.74	47	26	21	55.32	726.53	2,225.48	-666.96	-3,909.03	1.09	1.35	103.91

44 of 47 instances (94%) closed above the entry price at some point in the next week.

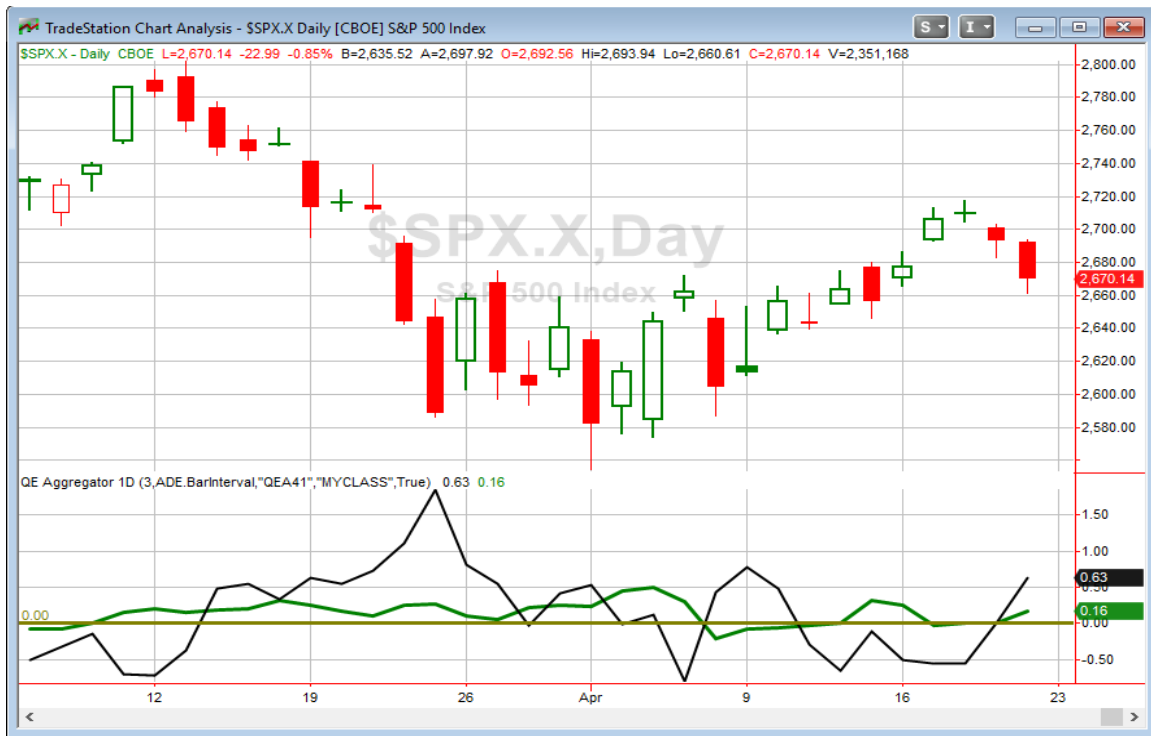
Results here suggest a solid edge over the next 1-10 days. And half of the gains have been realized in just the 1st 3 days. Below are profit curves for both the 3 and 10-day timeframes.





The strong, steady upslopes are impressive and serve as some confirmation of the bullish edge. I have added this study to both the short-term and intermediate-term active lists.

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



With tonight's studies factored in the green Aggregator Line crept above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also closed 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 turned long at the close.

Based on the current active studies, expectations are slated to remain bullish on Monday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2714.41 on Monday. That is a sizeable 1.7% above Friday's close. So SPX will need to close up at least 1.7% on Monday in order to flip from oversold to overbought versus expectations. That is a sizable move. A more likely scenario for working off the oversold condition would be a multi-day gain or consolidation.

So the Aggregator is suggesting a bullish edge. I am not quite there yet from a reward/risk standpoint. I would prefer bit more of a pullback before getting too excited about an entry. One thing the current setup does have going for it is that the potential reward is sizable. This is because there is plenty of room to the upside before the Differential Line will flip. But I also believe risk is a bit elevated being that we are in a period where we are likely to see a sharp decline in the SOMA. (More on that below.) I will sit out Monday. If we get another down day and a little more bullish evidence, I will likely become willing to start scaling into an index position. Just not quite yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/23– neutral

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

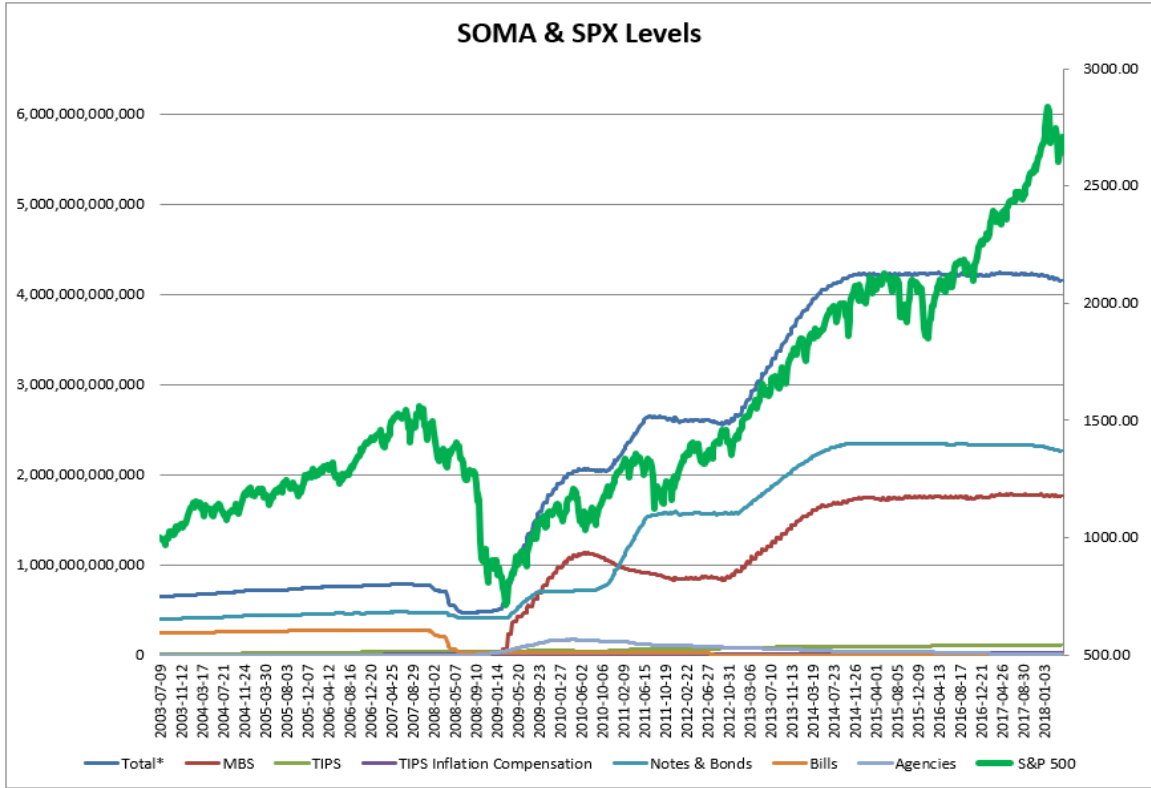
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 the selling of the last 2 days the SPX ended with a 0.5% gain on the week and the NASDAQ rose 0.6%. The only new study that emerged with intermediate-term implications was the one I showed in the short-term section above.

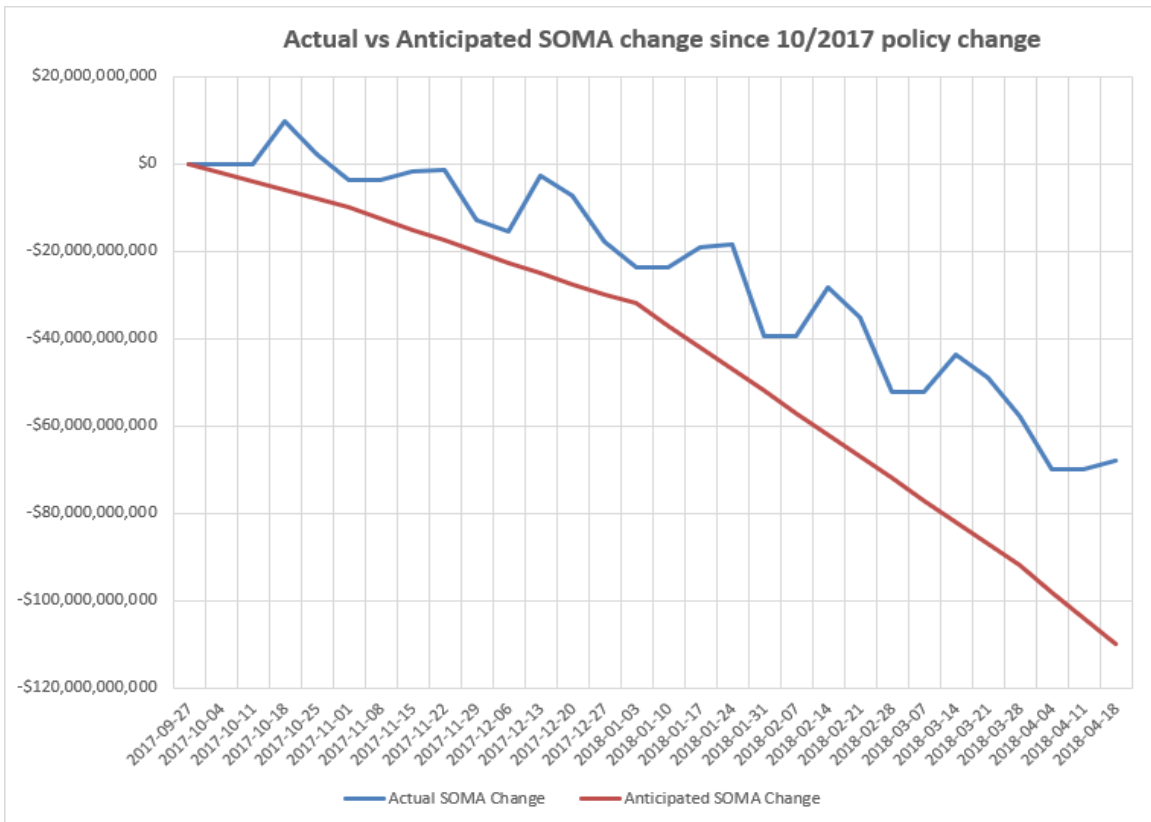
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) rose \$1.8 billion. This was not totally unexpected. As I mentioned last week, I did not expect to see a big reduction based on the schedule the Fed has stuck to over the last several months. You can see the pattern in the chart above. The move up came as it typically has at this time of the month. But the next 2 weeks will likely see a very substantial drop. The current stated reduction rate is \$30 billion / month, and so far this month the SOMA is down about \$10 billion. Therefore, the end of the month will need to see a sizable drop in the SOMA if it is to come anywhere close to that \$30 billion. With the Fed liquidity positive this past week, the SPX posted a strong gain of 2.5%. It will be difficult for the bulls to continue to post strong gains as liquidity winds shift from a breeze in the back to a gust in the face. Overall, I expect 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.

We also have the upcoming May – October “Worst 6 Months” period coming up. Next weekend I will show how this period has done in conjunction with it being an unfavorable year within the Presidential Cycle. This weekend I thought I would review a study I have shown in the past. Over the last several years I have looked at the “Worst 6 Months” and filtered it by whether the market has suffered a pullback at any point leading up to the end of April. To define “pullback” I started with a clean slate every year on January 1. The high of Jan 1 was the high for the year as of that date. Each time a new high was made I would measure the pullbacks from the highest high to-date. I broke “Sell in May” down by years the SPX had a 5% pullback before May versus years it did not. Three-quarters of the time we have seen a 5% pullback. The updated results table below shows times where there had NOT been a pullback at some point before May.

It is the last day of April. SPX has NOT pulled back > 5% at any point this year.
Buy on close. Sell on close last day of October. \$100k/trade. 1961 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$68,300.42	Profit Factor	7.57
Gross Profit	\$78,694.84	Gross Loss	(\$10,394.42)
Total Number of Trades	16	Percent Profitable	81.25%
Winning Trades	13	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$4,268.78	Ratio Avg. Win:Avg. Loss	1.75
Avg. Winning Trade	\$6,053.45	Avg. Losing Trade	(\$3,464.81)
Largest Winning Trade	\$12,957.26	Largest Losing Trade	(\$9,350.64)

Results here are actually quite positive. They suggest that when there has been a strong market headed into May that the May-October period has been pretty good. Of course, this

is not the case this year. In 2018 we have had a sizable pullback. And that leaves us looking at the study below.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$8,361.33)	Profit Factor	0.95
Gross Profit	\$154,754.69	Gross Loss	(\$163,116.02)
Total Number of Trades	41	Percent Profitable	58.54%
Winning Trades	24	Losing Trades	17
Even Trades	0		
Avg. Trade Net Profit	(\$203.93)	Ratio Avg. Win:Avg. Loss	0.67
Avg. Winning Trade	\$6,448.11	Avg. Losing Trade	(\$9,595.06)
Largest Winning Trade	\$19,909.20	Largest Losing Trade	(\$30,011.76)
Avg Run-up: 8.1% Avg Drawdown: -10.4% 15 of 41 years saw a drawdown of at least 10%, and 7 of them finished with a loss of greater than 10%.			

Of the 41 years where pullback had occurred, 15 of them saw the market drop more than 10% from its April closing price during the next 6 months. And 7 of them were more than 10% lower at the close of October. There were slightly more winning years than losing ones, but the losers were quite a bit bigger and the market has suffered net losses during the May – October period for these 41 years. This won't be in effect until the end of the month, but it appears the market could be susceptible to some poor seasonal influence over the May – October timeframe.

The intermediate-term evidence is still mixed. This week's study provides a bit more hope for the bulls. And with 2 of the 4 Market Timing Course indicators bullish and 2 of 3 Market Timing Course combo systems pointing higher, the bulls can make a case. But bears have hope as well. The bearish FTD study is still active, and the intensified SOMA reduction is a strong bearish force. The NASDAQ is still 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

BMY – 1/3 @ \$52.38 (bought @ limit)

BMY – 1/3 @ \$52.30 (buy @ limit)

BMY – 1/3 @ \$51.61 (buy @ limit)

Broad Market Large Cap CBI – 3(BMY-3)

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
BMY(1/3)	4/18/2018	\$52.35	\$51.17	-2.25%		Catapult
BMY(1/3)	4/19/2018	\$52.30	\$51.17	-2.16%		Catapult
BMY(1/3)	4/20/2018	\$51.61	\$51.17	-0.85%		Catapult

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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