

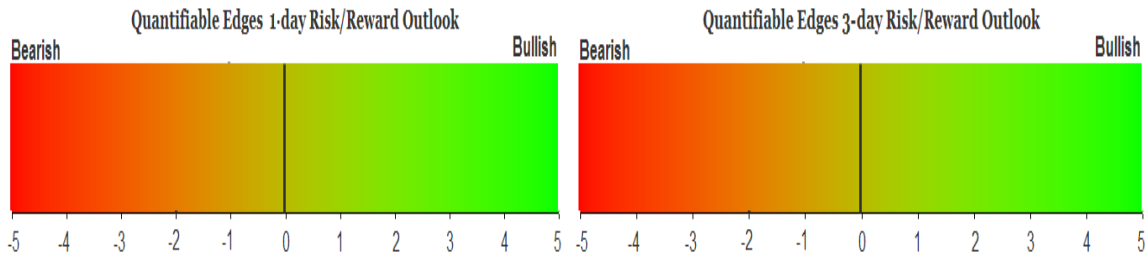
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 21, 2018

Volume 11 Issue 97

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The Russell has been making new highs, but that does not serve as a great short-term predictor for the other indices.
- SOMA declined some last week. This current week I expect mild movement, and then a sizable contraction starting after Wednesday. This will serve as a headwind for the market.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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						
May 16, 2018	Unfilled dn from 10-high. Open/close hi	1-3 days	Bearish			
Active - Long Term						
May 14, 2018	SPX 20-high. VIX 20-low. Volm 10-low	1-10 days	Bullish	1.80%	-1.40%	-2.75%
May 7, 2018	NASDAQ leading	int term	Bullish			
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

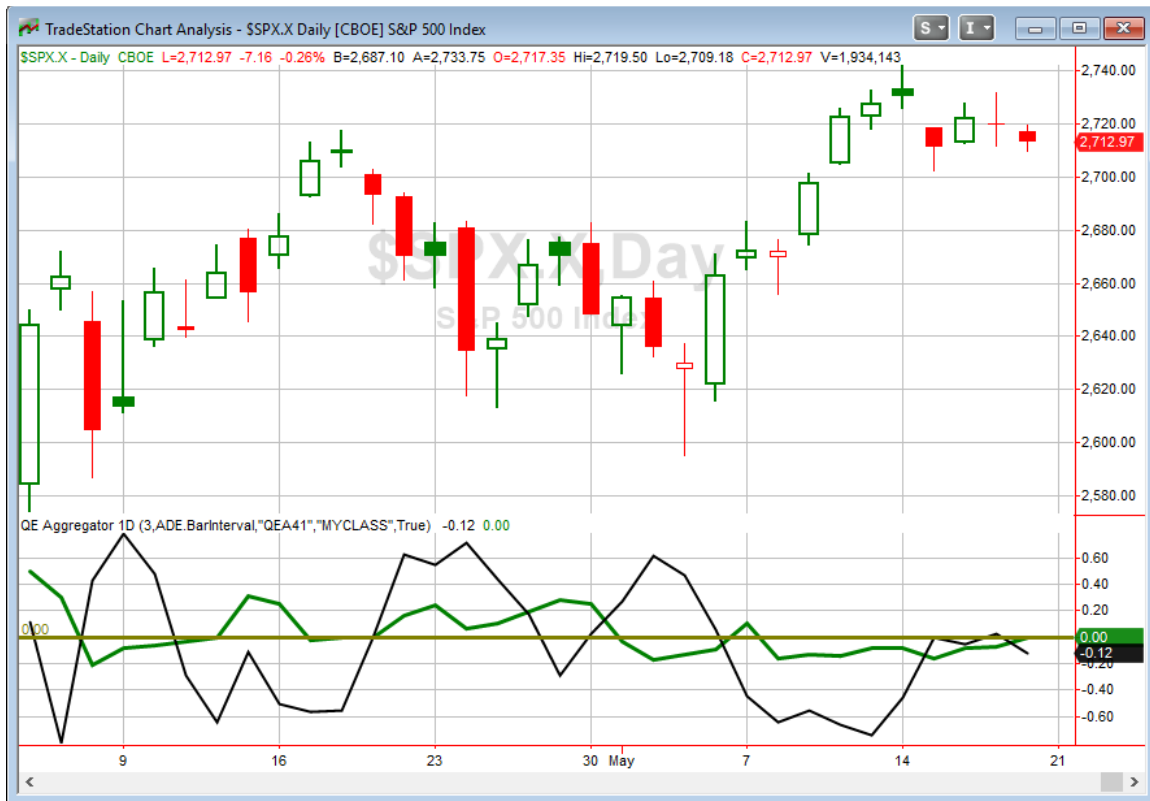
Friday was another mixed day for the market. SPX lost 0.3%, the NASDAQ fell 0.4% and the Russell 2000 rose 0.1% and closed at a new all-time high for the 3rd day in a row. Breadth was mixed as the NYSE Up Issues % was 51% and the Up Volume % came in at 36%. NYSE volume increased some from Thursday's level.

SPX has failed to do much of anything the last few days. Every close from Tuesday through Friday was within an 11-point range. The indecisive sideways chop has not generated strong evidence. Lack of compelling evidence is not unusual when we get into a choppy environment. The Russell action in persistently making new highs while SPX is chopping around is unusual. Unfortunately, it does not appear terribly predictive. The study below is an example of the kind of results I was seeing when examining the current setup.

Russell 2000 closes at a 200-day high for at least the 3rd day in a row. SPX has not closed at a 200-day high in at least 10 days, and has not closed at a 10-day high in the last 3 days. Buy SPX 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	5,222.85	12	7	5	58.33	1,451.00	3,224.32	-986.83	-1,421.40	1.47	2.06	435.24
9	2,425.90	12	8	4	66.67	1,066.12	2,712.84	-1,525.76	-2,515.05	0.70	1.40	202.16
8	-2,298.77	12	5	7	41.67	1,153.32	1,619.03	-1,152.20	-2,504.01	1.00	0.71	-191.56
7	-3,307.62	12	5	7	41.67	1,153.18	2,171.16	-1,296.22	-3,526.59	0.89	0.64	-275.64
6	-2,361.13	12	5	7	41.67	1,649.55	3,791.76	-1,515.56	-5,893.29	1.09	0.78	-196.76
5	-545.38	12	6	6	50.00	1,346.21	3,522.03	-1,437.10	-3,243.69	0.94	0.94	-45.45
4	998.52	12	7	5	58.33	1,337.25	3,283.38	-1,672.44	-2,862.12	0.80	1.12	83.21
3	717.15	14	6	8	42.86	1,367.65	3,485.40	-936.09	-2,517.12	1.46	1.10	51.23
2	-372.59	16	9	7	56.25	892.24	3,150.18	-1,200.39	-3,012.54	0.74	0.96	-23.29
1	-254.22	25	12	13	48.00	591.01	3,119.10	-565.10	-3,061.28	1.05	0.97	-10.17

No edge here. And no new studies will be making the short-term active list tonight.

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



With the last short-term active studies expiring and the intermediate-term neutral, the green Aggregator line finished right at 0. This means net expectations are flat for the next few days. Meanwhile the black Differential Line closed below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are flat and SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close fail to close on the same side of zero. Therefore, the Aggregator signal stayed flat at the close.

Action Monday and new studies that emerge will determine expectations for Tuesday and beyond. The Differential Pivot will be *inverted* at 2713.67 on Monday. That is less than 1 point *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close up a little bit in order to remain "overbought". Otherwise it will be considered oversold as of Monday's close.

Flat expectations, a neutral intermediate-term outlook, and an inverted pivot are *not* the makings of a compelling setup. The moderate chop will end at some point, and a strong edge will emerge. Until that happens, I'll remained flush with cash and ready to pounce.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/21– neutral

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

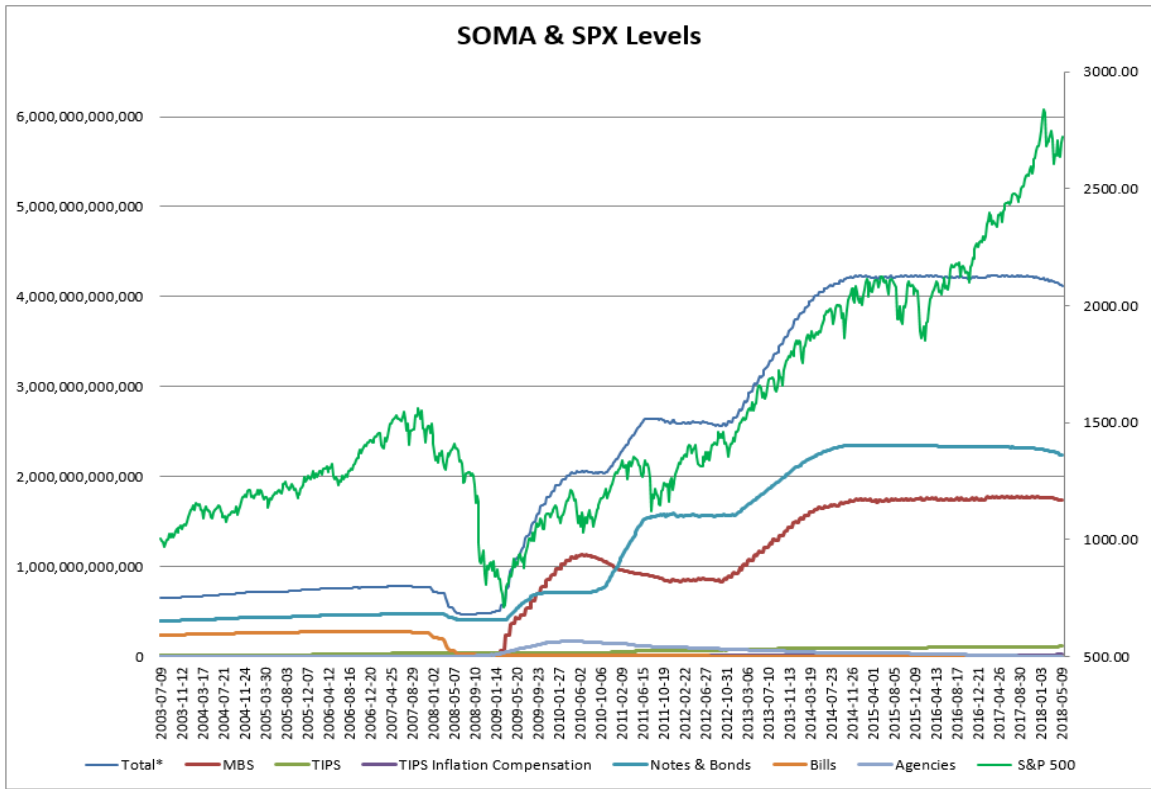
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 there were no changes to the Combo Systems. *There were no changes to the Combo Systems this week as #1 remained “flat” and #2 and #3 remained “long”.*

After a big week prior, most indices gave back a little bit this past week. The SPX finished down 0.5% on the week while the NASDAQ lost 0.7%. The Russell 2000 bucked the trend as it closed at all-time highs the last 3 days of the week. From an intermediate-term standpoint, the action did not trigger any new, compelling studies.

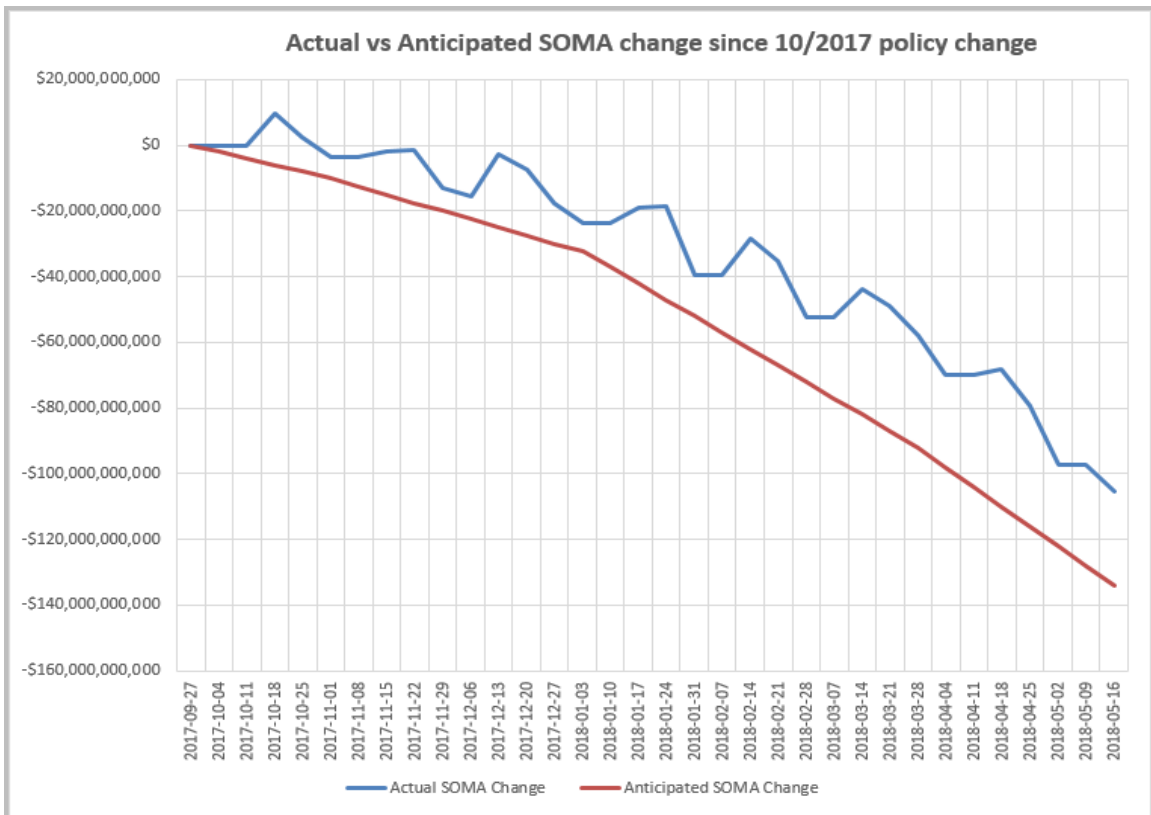
As I typically do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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.

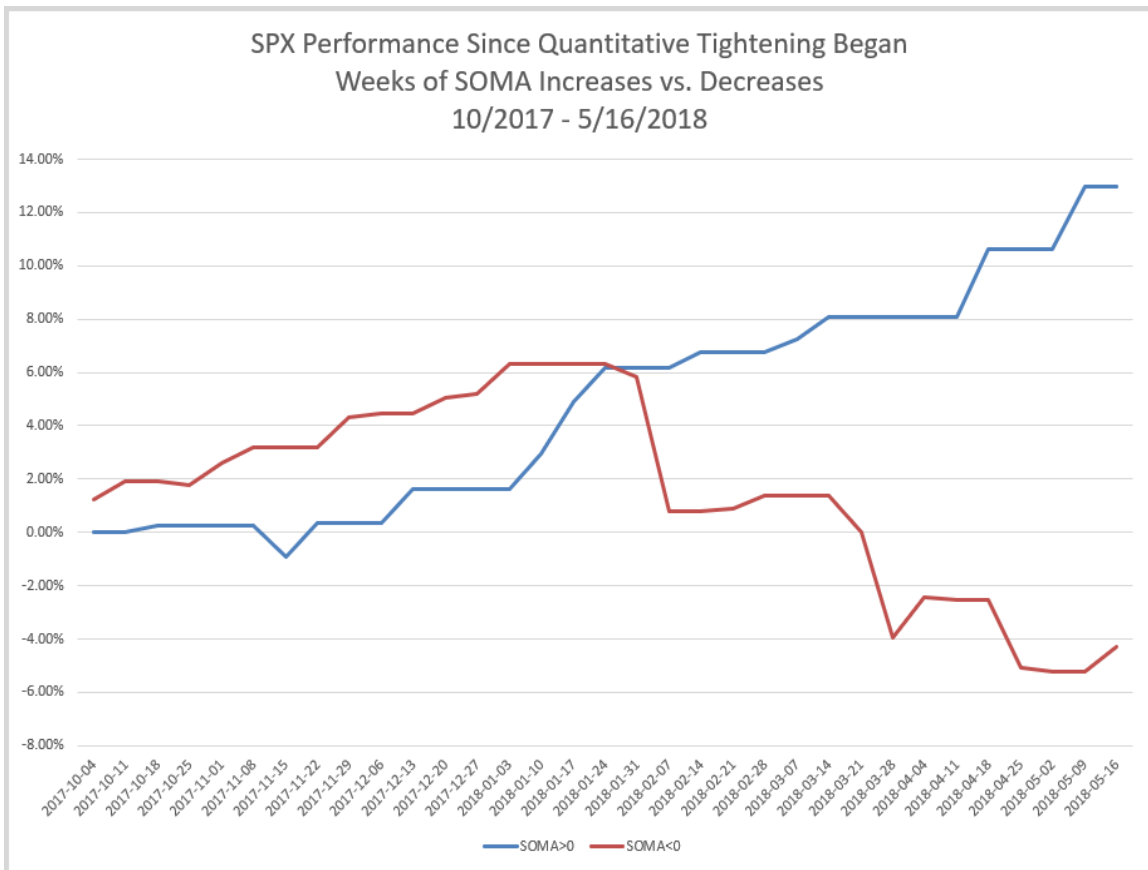
In October 2017 the Fed began reducing the size of the SOMA by not reinvesting some maturities in MBS and treasuries. That program is expected to continue for the next few years. Below are long and short-term views of SOMA and SPX. First, the long-term view (back to 2003).



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



The Fed's SOMA this past week (Wednesday to Wednesday) saw a decline this week of \$8 billion. So I was off this week in expecting it to rise slightly. Part of that was a dumb mistake on my part, but I still would have pegged it as neutral, rather than a substantial down week. But in this case, the expectations being off would not have mattered since the SPX rose a healthy 0.91% despite the SOMA contraction. That is one of the strongest weeks SPX has put in during a SOMA contraction week in a while. This can be seen in the chart below looking at SPX performance since Quantitative Tightening (QT) began in October 2017. The chart is updated from last week.



Looking forward, I do not expect this current week to show a substantial decline. It is the week after, from the 24th – 30th that I am expecting to see more substantial SOMA reduction numbers. Overall, the current Fed policy should continue to act as a headwind for the bulls and leave the market more prone to liquidity events and sharp selloffs.

Bulls have a few things going for them, including the intermediate-term study from last weekend, and the recent NASDAQ outperformance and Golden Cross formation, which has led to solid gains in the past. Quantitative Tightening is a substantial bearish force. I am keeping my outlook neutral. That means I am willing to take short-term trades in either

direction, though I will be a bit more conservative with entries for both longs and shorts. Should the NASDAQ begin to lag again, or other short-term bearish evidence emerge, then I could easily turn outright bearish. The market so far in 2018 has been quite volatile, and I do NOT expect we will see a slow grind higher this summer.

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.](#)

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