

Weekly Notes for October 28, 2016

"It was almost no trick at all... to turn vice into virtue and slander into truth, impotence into abstinence, arrogance into humility, plunder into philanthropy, thievery into honor, blasphemy into wisdom, brutality into patriotism, and sadism into justice. Anybody could do it; it required no brains at all. It merely required no character." Joseph Heller, Catch-22

Market Week

The week began with an excellent Markit PMI report putting manufacturing at 53.2, up 1.7 from September and the best since last October. Recently this kind of news would have been met with a selloff but we began this week with brisk trade to the upside. As has been the case in recent weeks, stocks faltered at mid-session and gave back nearly half of the early gains with the Dow ending up 53.76 after being up over 105 points.

Tuesday stocks went lower at the opening. Buyers came in briefly to rally the averages to break even but the selling resumed as oil prices were lower and the dollar higher for the day. The Dow was off 55 points. The Chicago Fed National Activity Index (CFNAI) was -0.14 in September, up from -0.72 in August. House prices were reported up 5.1% year over year so maybe Fed policy is finally beginning to trickle down to the citizenry at large. Venezuela announced that in December it will begin printing currency with denominations up to 200 times greater than the face amount of its current paper. Its largest banknote, the 100 Bolivar trades at about 8¢ on the street so the new 20,000 Bolivar note will buy about \$1,600.00 worth of goods and services assuming inflation – estimated currently at 500% per year or more than 40% per month – stays flat until then. Given the history of these things, this standard attempt to prevent hyper inflation will not end well. To add to the country's problems the Maduro regime is threatening to jail legislators in the National Assembly who voted Tuesday to put him on trial for violating democracy. Socialism as economic theory is proving Churchill right once more ***"...a philosophy of failure, the creed of ignorance, and the gospel of envy, its inherent virtue is the equal sharing of misery."***

Wednesday began with more selling as we see stock markets around the world reacting to their overall muddled economies. Following on Tuesdays house price news the Commerce Dept. reported that they revised August home sales lower from the initial report to 575,000 from 609,000. As has become typical, the headlines read that September new home sales were up from August to 593,000. In the past several reports the first government guess at sales has been revised lower, so this comes as no surprise but the High-fiving amongst the cheerleaders for this sloppy economic environment have yet to explain why the current 593,000 number is still well below 2007's 1,000,000 sales, which was down from 2006.

The averages chopped around during the day mirroring equally choppy oil trading and ended mixed with the Dow up and the others down.

Thursday brought headlines that OPEC members "might" cut production by 4% and this sent energy prices higher. Our markets took the cue and opened up as well but all seemed to miss the statement by Russia that it will not cut. Indeed, with the Thugs' economy as precariously perched on the ledge that it is, he cannot cut. The Labor Department reported that new unemployment claims dropped 3,000 to a seasonally adjusted 258,000 in the week ended Oct. 21. The good news was dulled a bit by another Commerce Dept. report that Durable goods orders fell 0.1% in September vs. expert's opinions that we would see a 0.1% uptick. Stocks had another bad day and the S&P was off 6.39 points for the session. Friday the news was about a preliminary report of a 2.9% growth in GDP for the third quarter led by soybean exports (+0.96%) and inventory increases (+1.77%). Governmental spending was also up +0.39%. Consumer spending on goods and services was -1.41% while fixed investments were at -0.09%. Stocks opened well and things were moving in a positive direction until 1 PM EST. when the FBI sent a letter to Congress saying it might re-open the criminal investigation into the Clinton email scandal. The market hit an air pocket on the news and lost all of the day's gains. By 2 PM the Dow had gone from +87 to -163. Traders shook off the stunning news and stocks rallied a bit but still closed the day off slightly across the board. The S&P 500 gave up 6.63 points for the day and was down 1.15% for the week. QPM Radar™ moved down to 32.79% positive from last week's 41.53%.

Sources: Markit; Federal Reserve Bank of Chicago; WSJ; Bundesbank; Reuters; Commerce Dept. DOL; BEA; Consumer Metrics Institute

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High Frequency Nonsense

Bundesbank, after an exhaustive study has finally reached the same conclusion many of us have been talking about for several years. High Frequency Trading which ***“makes up nearly 50% of the trading volume in the most liquid segments of the US and European markets”*** can cause increased volatility in the short term; can improve price discovery but only for microseconds and therefore has questionable economic value and while it does, in some instances, improve liquidity it can just as easily discourage liquidity at other times. The report states that ***“Taken together, the different behaviors of active and passive high-frequency trading firms indicate a heightened risk of periods of short-term excessive volatility, which could encourage market upheavals as far as flash events,”*** explaining that ***“In a calm market environment, HFT market participants contribute a significant amount of liquidity, however, during highly volatile market phases, the research shows that HFT market makers in both Bund and DAX futures markets temporarily reduce liquidity. HFT actors are especially active in times of strong market fluctuations and can therefore contribute to trend-enhancing price developments.”*** This basically negates the main argument made by HFT firms and strengthens our view that it puts investing into a game format that defeats the purpose of the markets in general and puts non-HFT investors and traders at a disadvantage while adding nothing to market transparency.

The Quacera Index ETF Portfolio Trend Report

With the exception of NASDAQ & the QQQs, the ETF Index portfolio has now switched sides and the longs are negative; the shorts positive. Those wishing to avoid most of an impending 11th post 2008 spike lower in the past 8 years, should be out. For the adventurous, the inverse ETFs raise the possibility of potential profits. The average drawdown of the previous ten sell offs was 10.47% and there's always the prospect that we could see a replica of the 2008 smash.

October 28, 2016	Symbol	Today's Price	QPM Score	Trend	Started	Starting Price	% Change Since Start
Broad Market							
High Yield Equity Dividend	PEY	15.38	D1-1	Negative	26-Oct-16	15.50	0.77%
Total Market Vanguard VIPERs	VTI	108.82	D1-1	Negative	26-Oct-16	109.55	0.67%
Large Cap							
Dow Jones Industrial SPDR	DIA	181.36	D1-1	Negative	29-Sep-16	181.22	0.08%
Dow Jones Ultra Long ProShrs	DDM	70.14	D1-1	Negative	29-Sep-16	70.00	0.20%
Dow Short ProShrs	DOG	20.86	A3-3	Positive	26-Oct-16	20.82	0.19%
Dow Ultra Short ProShrs	DXD	17.06	A3-3	Positive	26-Oct-16	17.00	0.35%
S&P SPDR	SPY	212.54	D1-1	Negative	6-Oct-16	215.78	1.50%
S&PSPDR Ultra Long	SSO	68.38	D1-1	Negative	26-Oct-16	69.15	1.11%
S&P SPDR Short ProShr	SH	38.74	A3-3	Positive	26-Oct-16	38.52	0.57%
S&P SPDR UltraShort ProShr	SDS	16.97	A3-3	Positive	28-Oct-16	16.97	0.00%
Power Shrs QQQ	QQQ	117.10	A3-3	Positive	14-Jul-16	111.98	4.57%
Ultra Long QQQ	QLD	84.05	A3-3	Positive	14-Jul-16	77.05	9.09%
Short QQQ ProShrs	PSQ	48.19	D1-1	Negative	5-Jul-16	52.86	8.83%
Ultra Short QQQ Pro Shrs	QID	24.87	D1-1	Negative	27-May-16	29.13	14.62%
Mid Cap							
S&P Mid Cap 400 iShrs	MDY	272.80	D1-1	Negative	6-Oct-16	280.86	2.87%
S&P 400 Mid Cap Ultra Long iShrs	MVV	76.86	D1-1	Negative	6-Oct-16	81.57	5.77%
Mid Cap S&P 400 Short Pro Shrs	MYZ	14.59	A3-3	Positive	26-Oct-16	14.41	1.25%
Mid Cap S&P400 Ultra Short Pro Shrs	MZZ	32.19	A3-3	Positive	26-Oct-16	31.50	2.18%
Small Cap							
Russell 2000 iShrs	IWM	118.03	D1-1	Negative	26-Oct-16	119.73	1.42%
Russell 2000 Ultra Long ProShrs	UWM	85.35	D1-1	Negative	26-Oct-16	87.89	2.90%
Russell 2000 Short Pro Shrs	RWM	56.55	A3-3	Positive	27-Oct-16	56.36	0.34%
Russell 2000 Ultra Short Pro Shrs	TWM	31.76	A3-3	Positive	27-Oct-16	31.58	0.57%
Growth							
iShr U.S. Core Growth	IUSG	82.30	A3-3	Positive	5-Nov-14	76.76	7.22%
Russell 1000 Growth iShrs	IWF	101.78	D1-1	Negative	7-Oct-16	103.31	1.48%
Large Cap Growth Schwab	SCHG	54.12	D1-1	Negative	26-Oct-16	54.61	0.90%
S&P 500 Growth iShrs	IVW	119.20	C3-1	Negative	25-Oct-16	120.60	1.16%
Russell Mid-Cap Growth iShrs	IWP	93.10	D1-1	Negative	7-Oct-16	96.06	3.08%
Russell 2000 Growth iShrs	IJK	139.41	D1-1	Negative	25-Oct-16	143.28	2.70%
Vanguard Small Cap Growth	VBK	124.21	D1-1	Negative	20-Oct-16	127.96	2.93%

Value							
iShr U.S. Core Value	IUSV	137.11	A3-3	Positive	13-Apr-15	136.50	0.44%
Russell 1000 Value iShr	IWD	103.90	C3-1	Negative	7-Oct-16	105.15	1.19%
S&P 500 Value iShr	IVE	93.47	D1-1	Negative	29-Sep-16	94.10	0.67%
Russell Mid-Cap Value iShrs	IWS	74.63	D1-1	Negative	21-Oct-16	75.46	1.10%
S&P Mid Cap 400 Value iShrs	IJJ	129.21	D1-1	Negative	26-Oct-16	130.62	1.08%
Russell 2000 Value iShrs	IWN	100.98	C3-1	Negative	28-Oct-16	100.98	0.00%
Vanguard Small Cap Value	VBR	106.76	D1-1	Negative	26-Oct-16	108.11	1.25%
Sector Index							
PHLX Semiconductor Index	SOX	818.88	A3-3	Positive	24-May-16	685.64	19.43%
Direxion Semiconductor 3x Bear	SOXS	15.63	D2-3	Negative	20-May-16	33.53	53.39%
All Signals Average Return							4.51%
Signals Accuracy							100.00%
Positive Signals Average Return							3.85%
Negative Signals Average Return							4.65%
Averages							
Dow Jones Industrial Average	DJIA	18161.19	D1-1	Negative	29-Sep-16	18143.45	-0.10%
NASDAQ OTC Composite	NASDAQ	5190.10	A3-3	Positive	12-Jul-16	5022.82	3.33%
Standard & Poor's 500 Composite	SP500	2126.41	C3-1	Negative	26-Oct-16	2139.23	0.60%

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