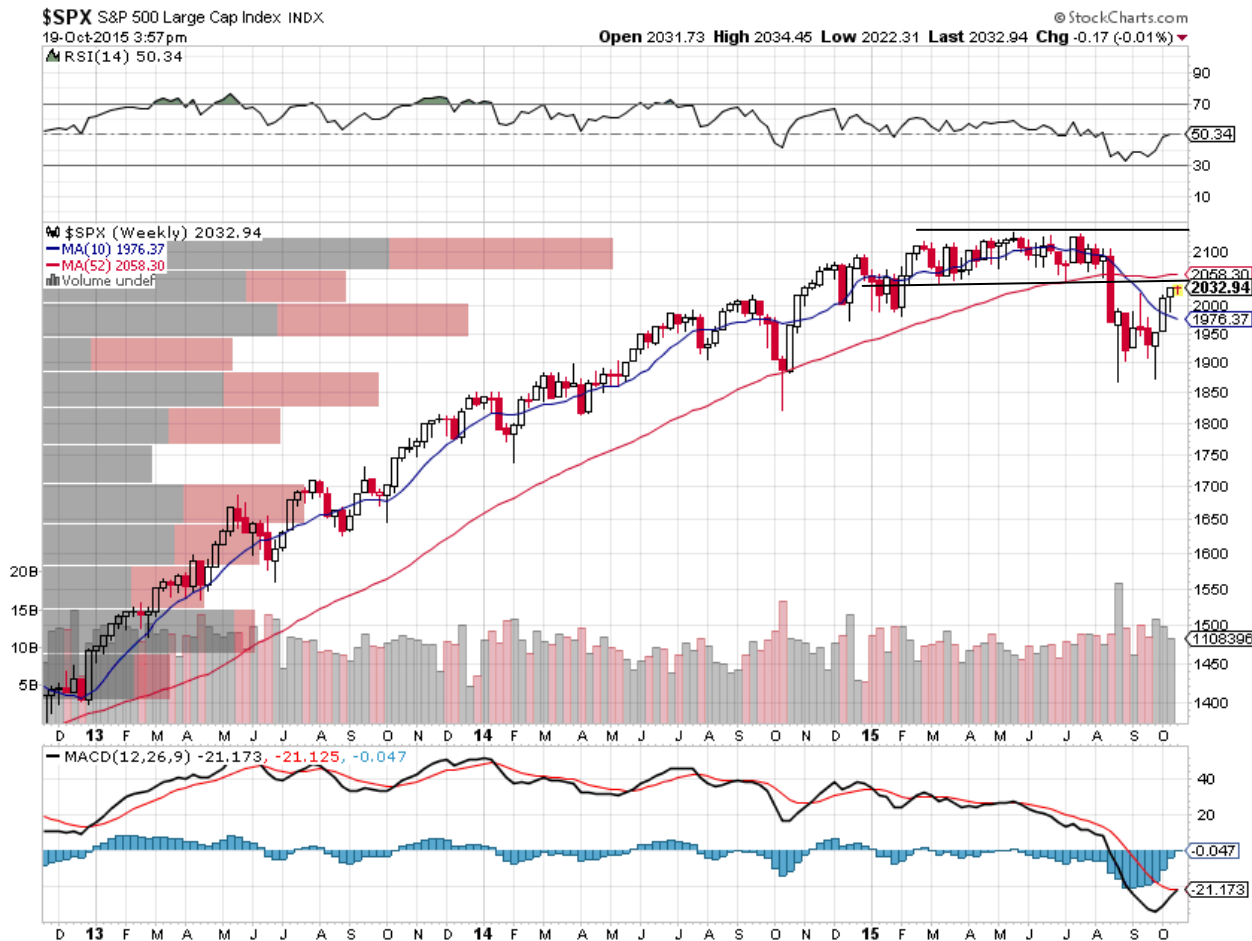


More probabilities

Equities rallied again this past week and are approaching what is likely overhead resistance price levels. In this issue we review the host of breadth signals that indicated the probability of at least a short term advance in U.S. equities... which I have suggested you temper somewhat as a result of the negative trend condition in U.S. equities (i.e. position of 10 and 40 week or 9 and 39 week sma and ema on the S&P 500). Moving on we also look at the S&P 500 and its relationship to it's 52 week moving average.



As a result of improving breadth outlined over the past few weeks the S&P is now trading above it's 10 week moving average. Yet these positive short term developments for now are in opposition to long term trend measures. The question of course... will breadth remain strong enough to continue to push equities higher into year end... and into price levels that represent overhead resistance (previous congestion zone outlined in the chart).

Breadth indicators provide an equal weighted measure the constant battle between the forces of supply and demand. Here is a review of some of the buy signals over the past 4 weeks:

10.12.2015: NYSE advance decline Zweig Breadth thrust

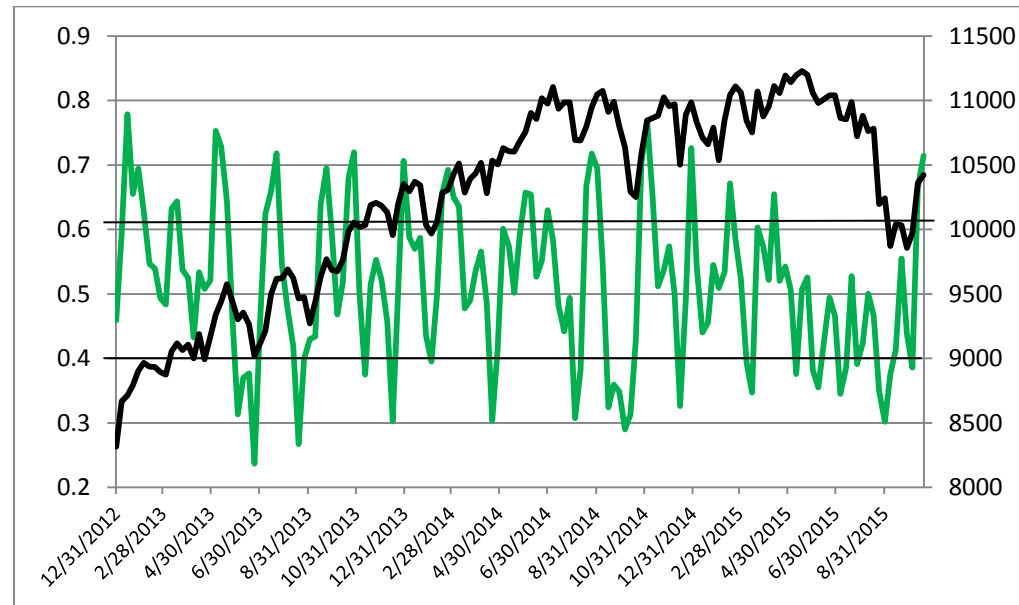
10.19.2015: Nasdaq advance decline Zweig Breadth thrust

9.14.2015: Absolute Breadth Index Nasdaq (advance decline)

10.12.2015 NYSE Volume Summation Index

Why do we test performance of these signals over short periods of time like 4 or 8 or 10 weeks? Does this mean we are only interested in stock market performance over the short term? Of course not. The reality is that the markets have an upward bias over time and as we move out in time horizon other factors undoubtedly come into play. Sometimes short term buy signals turn in to positive or bullish intermediate and/or long term trend momentum or trend signals. Sometimes they do not. Yet the reality is that these signals tend to speak at opportune times and are designed to help you become more confident and certain about the risks and opportunities of increasing equity exposure in the equity markets.

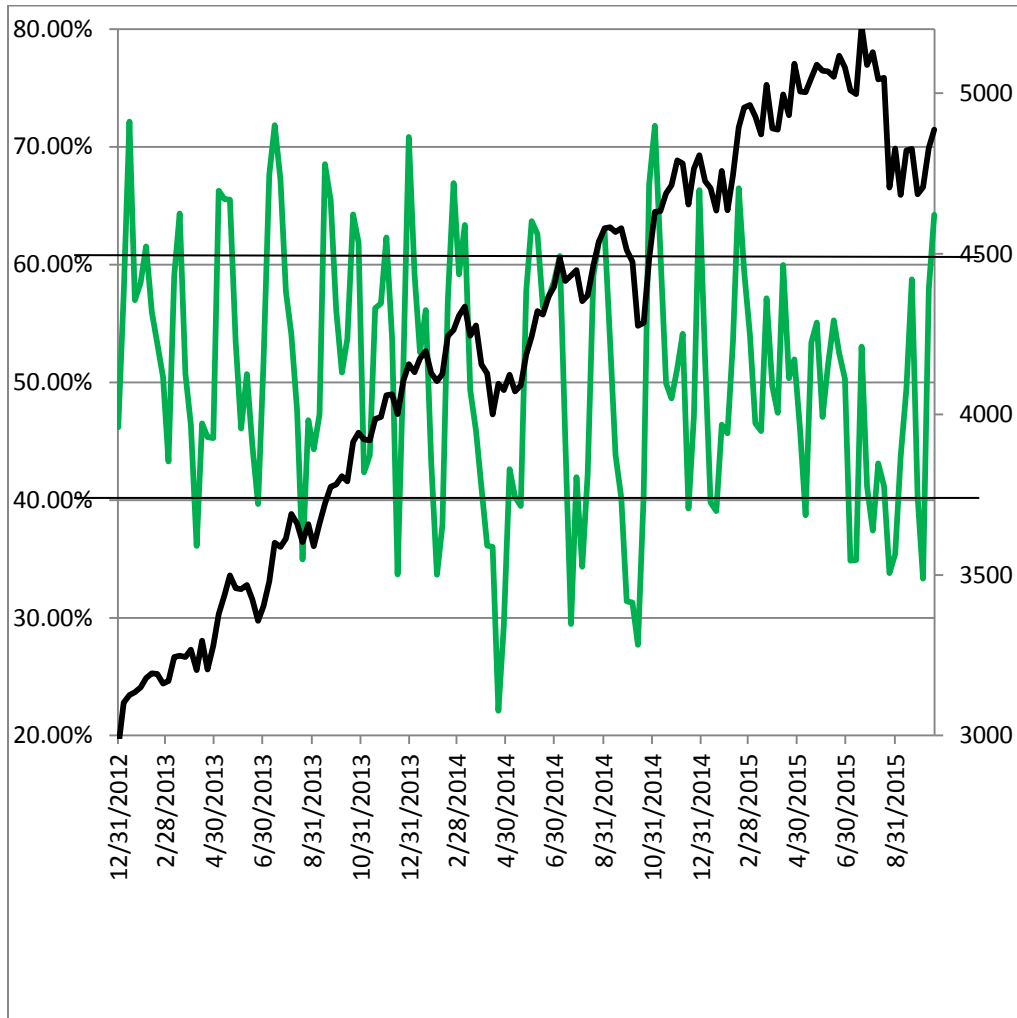
NYSE advance decline Zweig breadth thrust (weekly adaptation: 2 week moving average of the ratio of advancing stocks /total issues)



This indicator is calculated as a 2 week moving average of total advancing stocks divided by the total of advancing and declining stocks. A buy signal occurs when the 2 week ma moves from below 40% to above 61.5% in a 2 week period. Essentially this indicator detects a period of capitulation where sellers outnumbered buyers for a period of time driving the ratio below 40%. A buy signal occurs when this relationship reverses (i.e. the number of advancing stocks begins to outnumber declining stocks in a meaningful amount.

53 occurrences: 35 winners, 18 losers, avg. gain = 5.66%, avg. loss = -3.89%, (66% win rate)

Nasdaq advance decline Zweig breadth thrust

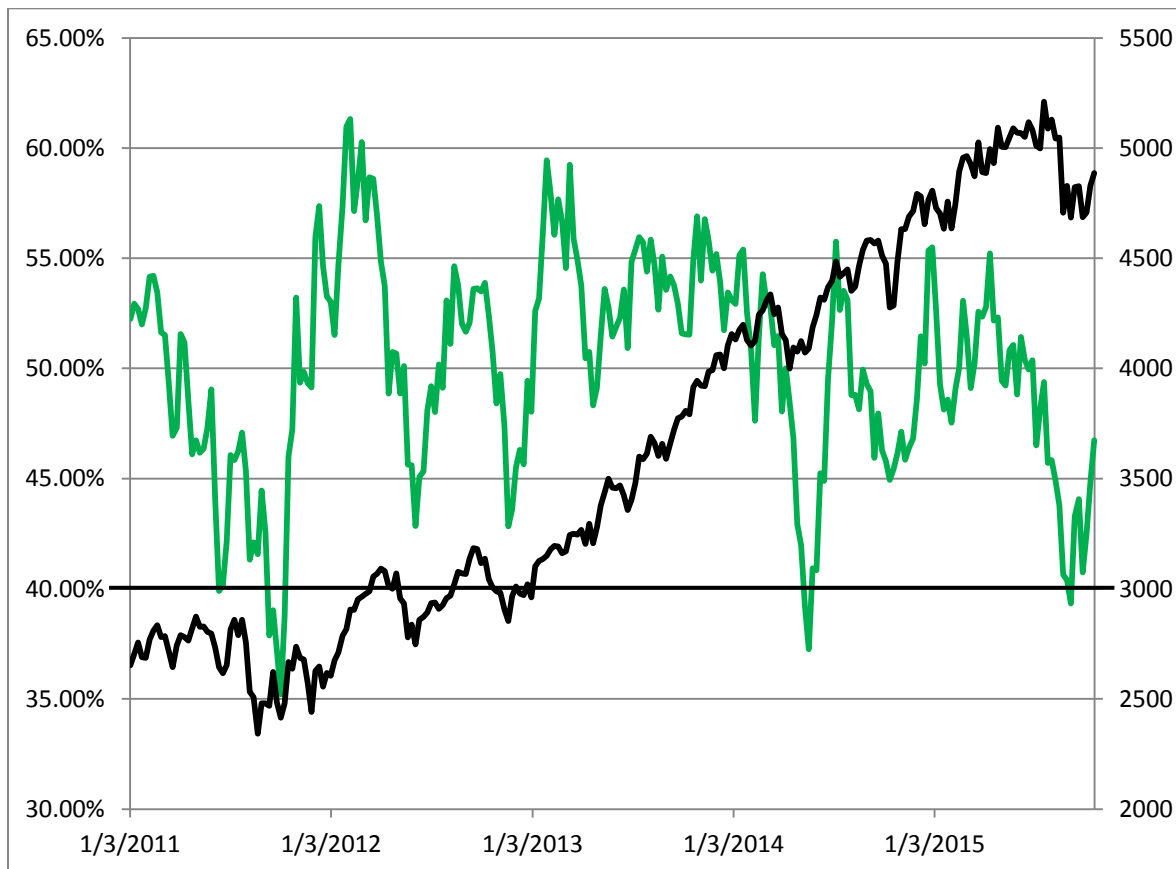


This table illustrates the number of advancing and declining Nasdaq stocks, advancing and declining % and the 2 week moving average. Again a buy signal occurs when the 2 week moving average of the ratio improves from below 40% to above 61.5% within a two week period.

Date	adv	dec	Adv %	dec %	2 wk ma
8/24/2015	536	2448	17.96%	82.04%	33.80%
8/31/2015	1573	1402	52.87%	47.13%	35.42%
9/7/2015	1021	1945	34.42%	65.58%	43.65%
9/14/2015	1908	1051	64.48%	35.52%	49.45%
9/21/2015	1566	1390	52.98%	47.02%	58.73%
9/28/2015	819	2142	27.66%	72.34%	40.32%
10/5/2015	1164	1820	39.01%	60.99%	33.33%
10/12/2015	2283	690	76.79%	23.21%	57.90%
10/19/2015	1527	1427	51.69%	48.31%	64.24%

30 occurrences since 1981: 20 wins, 10 losses, average gain= 7.17%, average loss = -4.5%, 66.67% win rate (8 week hold)

Absolute Breadth Index: this is perhaps a weekly adaptation of Norman Fosback's indicator. The adaptation involves utilizing weekly data and rather than subtracting advancers from decliners every week and then smoothing the data this indicator sums advancing and declining stocks separately over a ten week period and then divides total advancers by the sum of total advancing and declining stocks to create a ratio thereby standardizing this relationship. Similar to Fosback's original indicator a high ratio or number indicates a healthy relationship of advancing versus declining stocks i.e. a period supportive of generally rising stock prices. Yet this indicator provides a contrarian application as well as the indicator values tend to bottom below 40% and peak around 60%. A buy signal occurs when the indicator reverses up from below the 40% level. While this volatile indicator does not speak often the logic behind this signal is that selling pressure is washed out and a reversal up from below 40% occurs when buyers begin to outnumber sellers in a meaningful number or percentage.

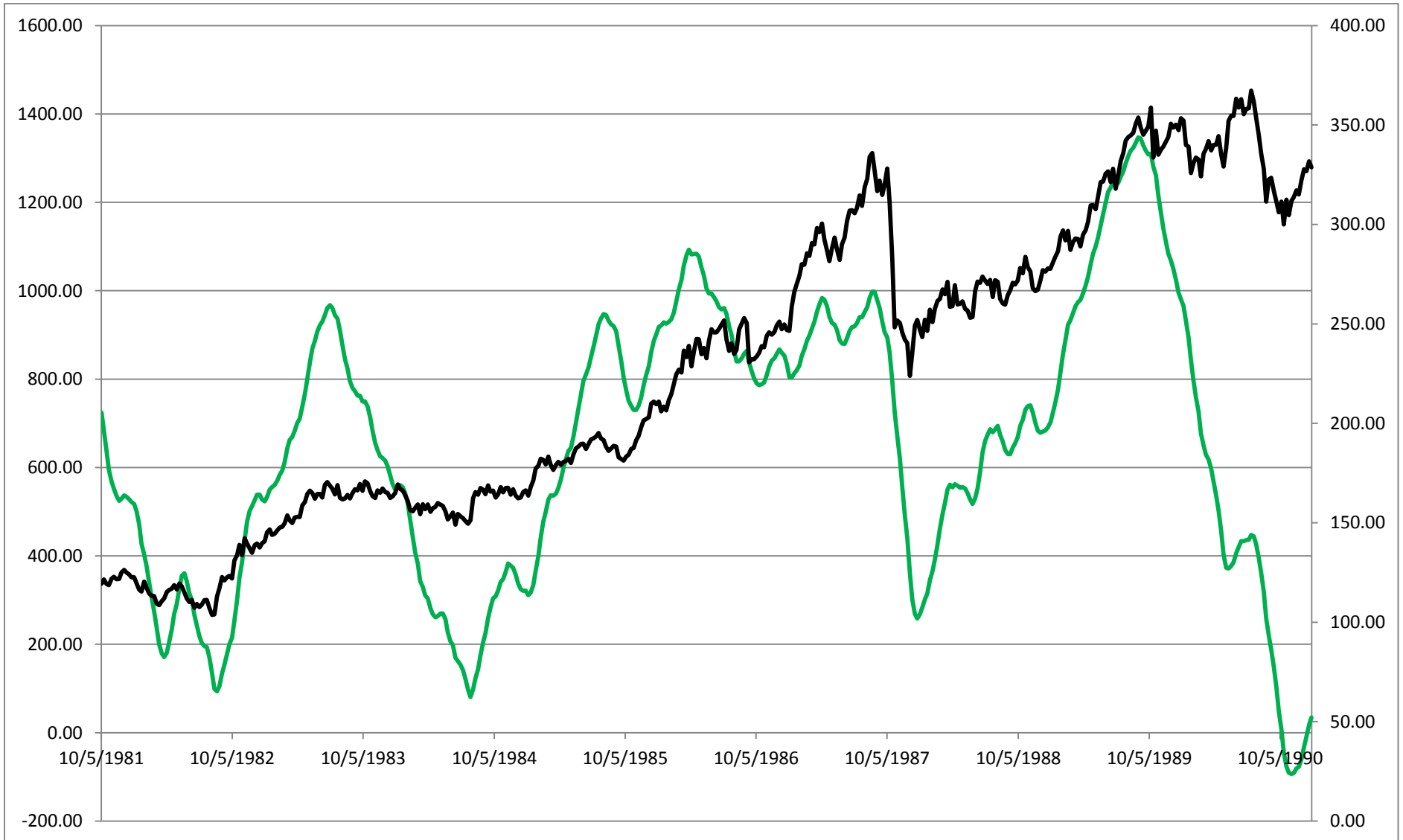


stats	4 week hold	10 week hold
# of wins	22	16
# of losses	5	10
avg. gain	5.91%	13.54%
avg. loss	-3.63%	-5.21%
% profitable	81.48%	61.54%

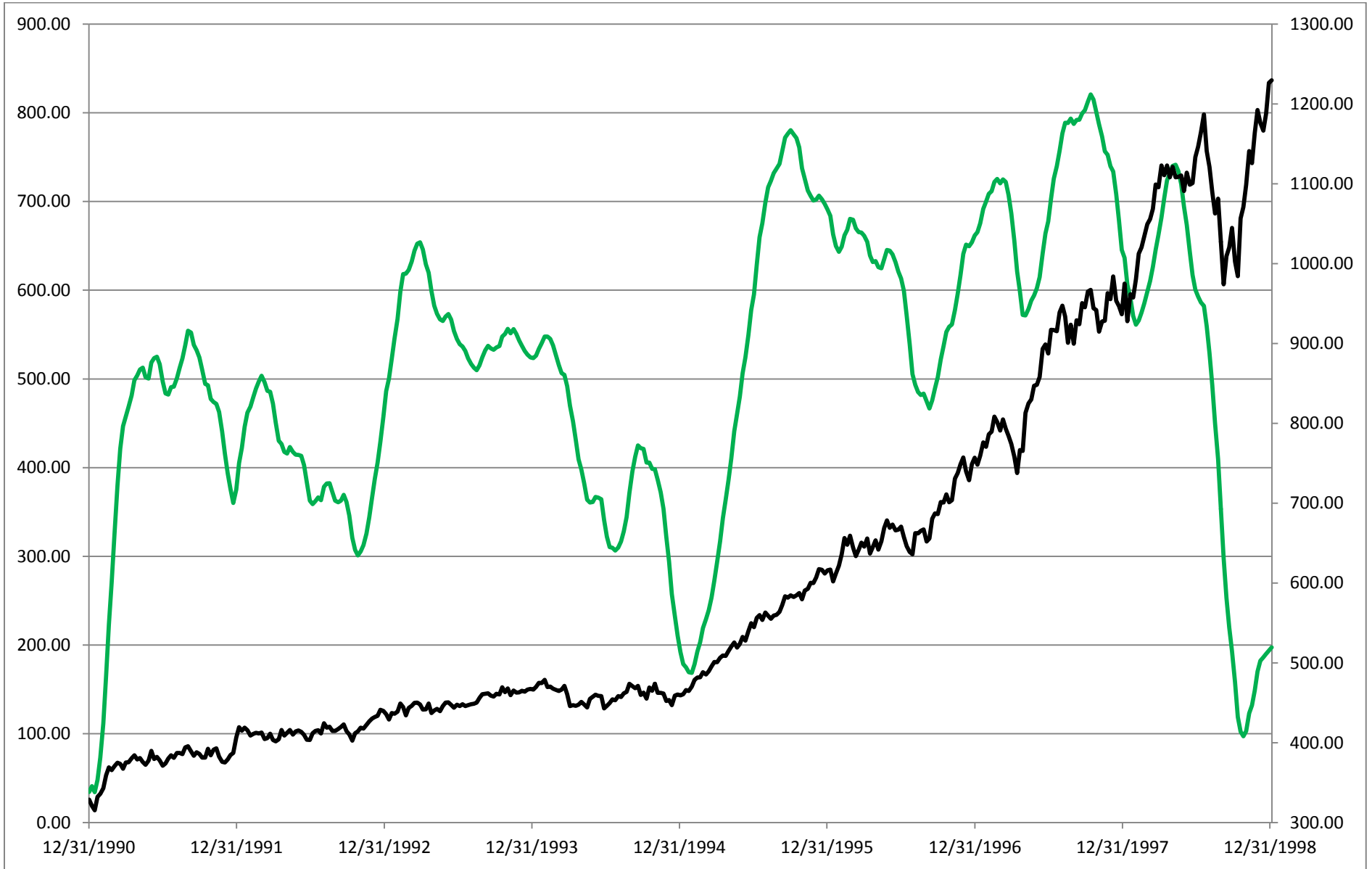
NYSE Volume Summation: identical to the original McClellan advance decline indicator except of course up and down volume are utilized in this indicator. Additionally weekly data is utilized instead of daily and the indicator is normalized utilizing the Meikka adjustment (courtesy of Greg Morris). This indicator signaled a buy on 10.12.2015. 87 buy signals have occurred in the data history which goes back to 1981. Rather than look at gains and losses over a specific time frame we look at the efficacy of the indicator in terms of whether or not there was an opportunity to take a profit at various % levels after establishing a position. Again a buy signal occurs when the indicator crosses above it's 2 week moving average while the indicator signals a "hold" as long as the indicator remains above it's 2 or 3 or 4 or 5 week moving average. As you can see from the table below 67 signals provided an opportunity to take a small profit while 20 signals offered no opportunity to profit and instead resulted in a loss. Varying profit opportunities and the # of occurrences are also provided below. At a minimum we can say that usually nothing "bad" typically happens to the stock market when this indicator is "on" as a majority of the losses were in the -1% and -2% range.

% gain	# of profit opportunities	probability	% loss	# of losses	probability
>0%	67	77.01%	<0%	20	22.99%
1%	60	68.97%	-1%	19	21.84%
2%	53	60.92%	-2%	11	12.64%
3%	41	47.13%	-3%	8	9.20%
4%	32	36.78%	-4%	5	5.75%
5%	27	31.03%	-5%	4	4.60%
6%	25	28.74%	-6%	4	4.60%
7%	23	26.44%	-7%	2	2.30%
8%	21	24.14%	-8%	2	2.30%
9%	19	21.84%	-9%	2	2.30%
10%	17	19.54%	-10%	2	2.30%
15%	14	9.20%	-15%	2	2.30%
20%	9	10.34%	-20%	0	0.00%

NYSE Up Down Volume Summation 1981-1990: (S&P 500 = black, NYSE Volume Summation = green)



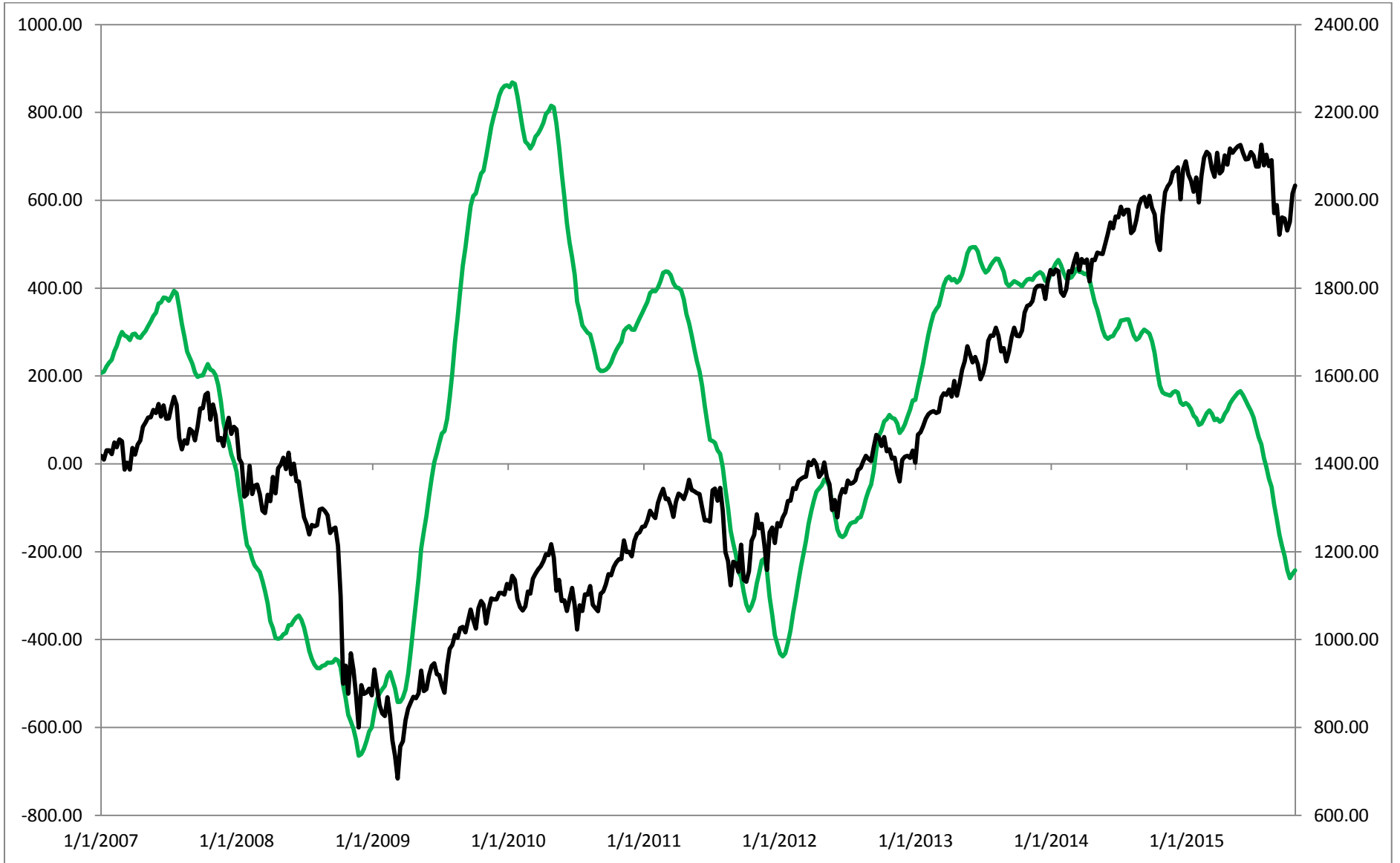
NYSE Up Down Volume Summation 1990-1998



NYSE Up Down Volume Summation 1999-2006



NYSE Up Down Volume Summation 2007 - current



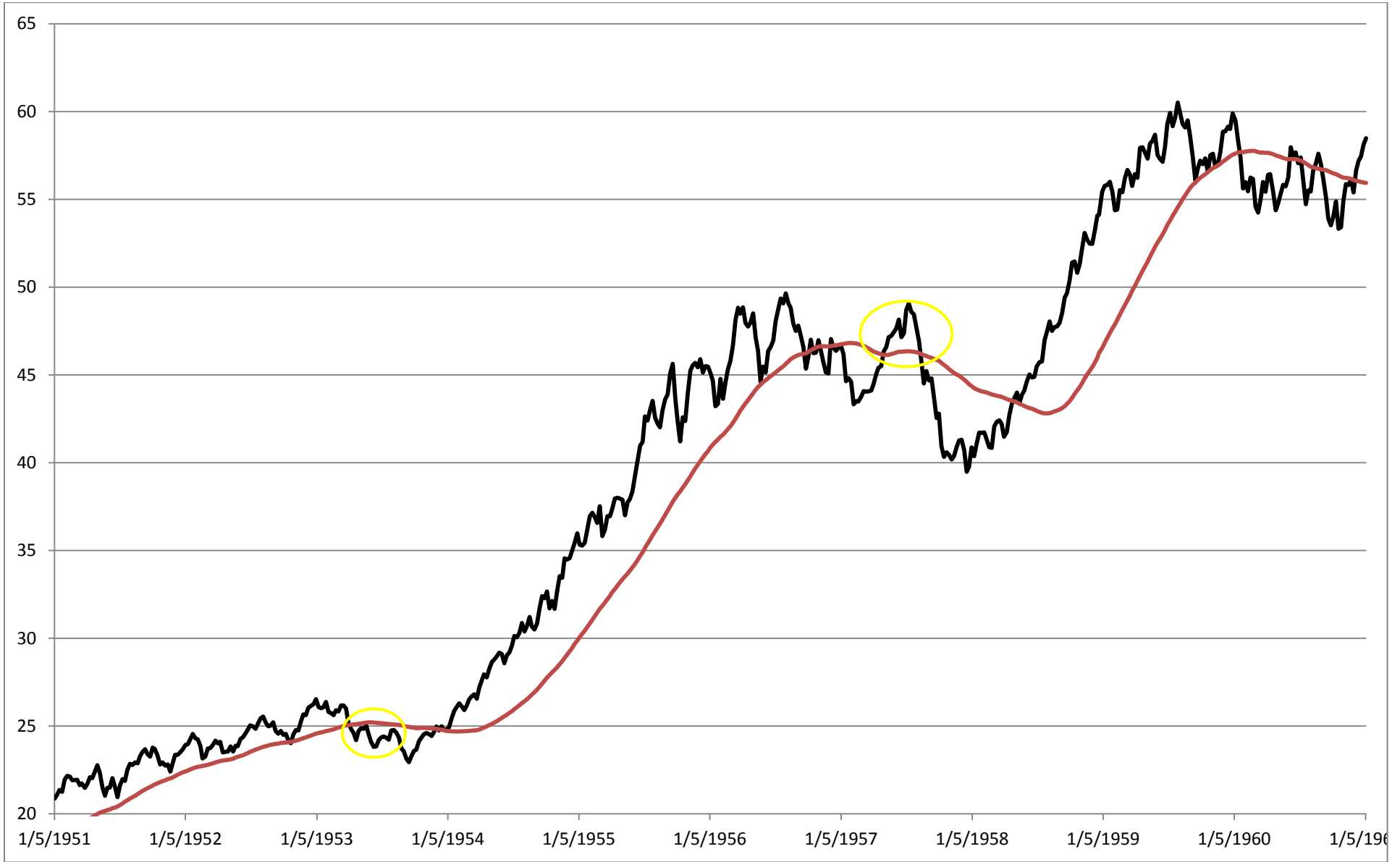
52 week moving average: The last pages of this report depict the weekly price of the S&P 500 in black and its 52 week moving average in red. Needless to say the moving average is a slow moving and blunt measure of long term trend as it rarely changes direction within a 52 week period. Additionally after an initial downturn in the moving average (which occurs after and as a result of a correction, the first rally out of a correction low tends to stall or fail as the price of the S&P 500 approaches the 52 week moving average. Furthermore the direction of the 52 week moving average tends to set the tone or general direction of the S&P 500 for some period of time following a turn down in the moving average.



1941-1950



1951-1960



1961-1970



1971-1980



1981-1990



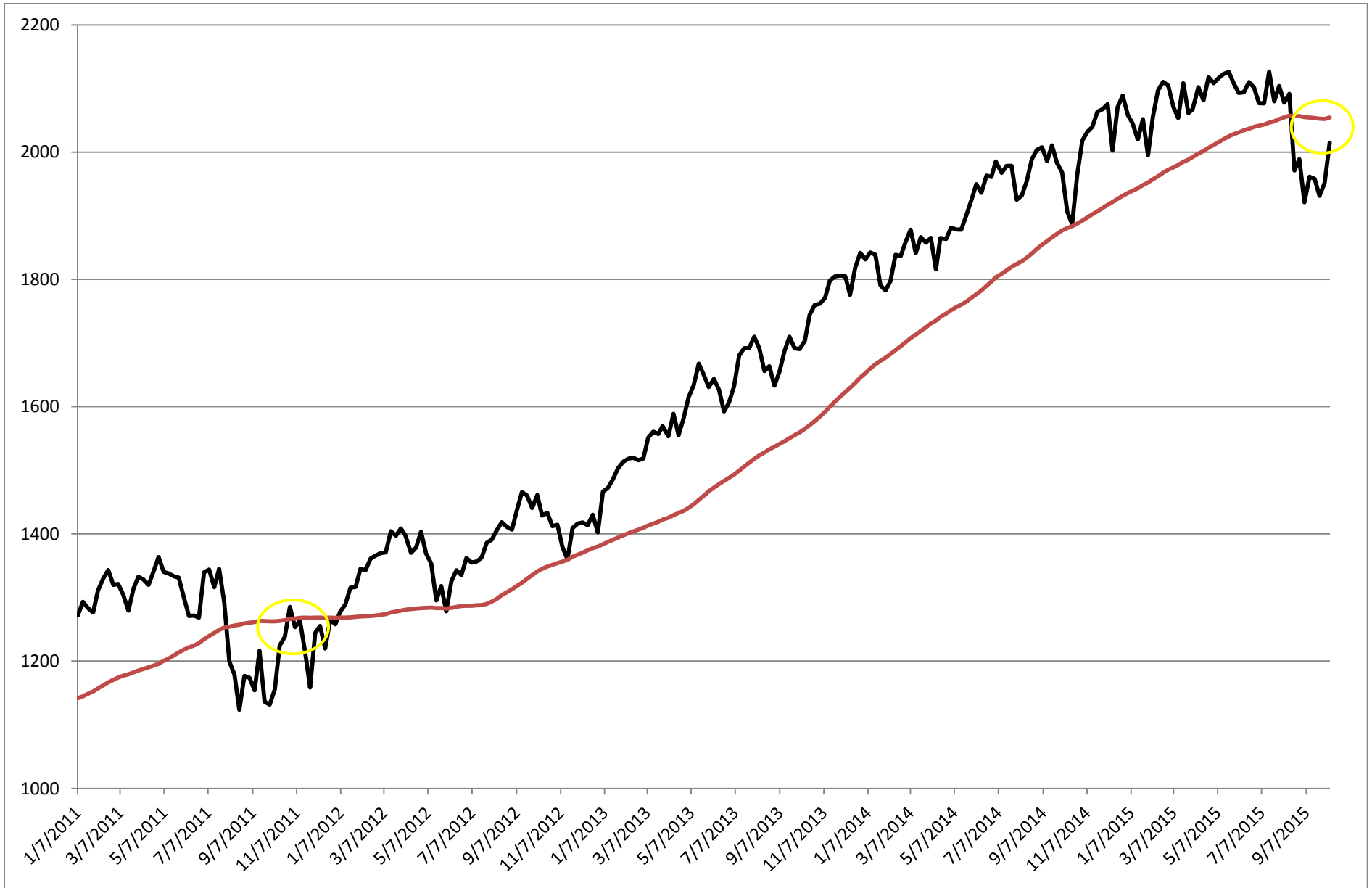
1991-2000



2001-2010



2011-current: 52 week moving average has recently turned up???



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