

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 18, 2014

Volume 7 Issue 176

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long	Flat

## Tonight's Research Points

- The continued tapering by the Fed may be bad news at some point, but for the short-term Wednesday's news and reaction don't appear to be suggesting anything.

## *Short-term Outlook*

### *The Bottom Line*

There is a real lack of directional evidence, and the market is only very slightly overbought. In other words, no strong edge, and no desire on my part to get involved in index positions.

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

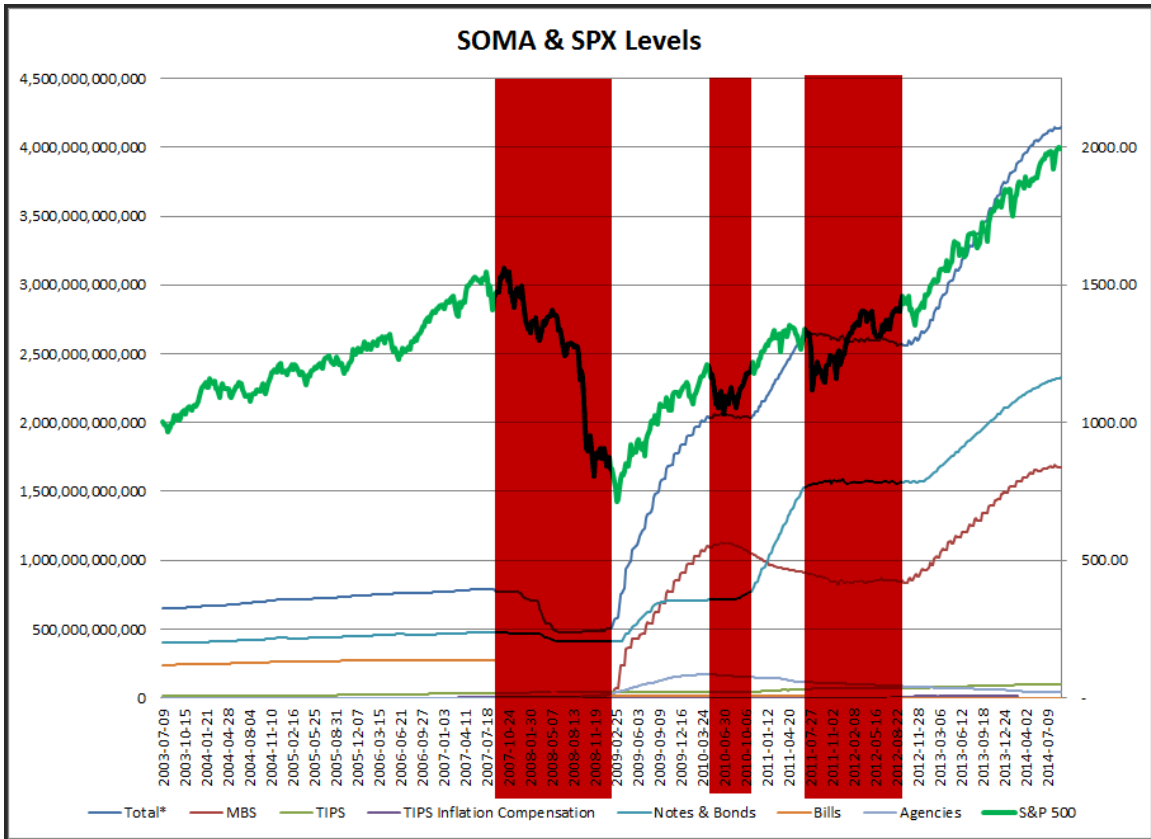
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
None						
<b>Active - Long Term</b>						
September 4, 2014	SPX 20-day high. NDX biggest loss in 20	1-50 days	Bullish	6.50%	-2.70%	-5.10%
August 22, 2014	50-low to 50-high in 2 weeks	1-17 days	Bullish	5.40%	0.90%	-1.90%
June 2, 2014	NASDAQ leading SPX	int term	Bullish			
April 28, 2014	Sell in May	6 months	Bearish			
December 23, 2013	QE Tapering	int term	Neutral			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
<b>Dropped Tonight</b>						
<b>September 17, 2014</b>	<b>Strong close prior to Fed Day</b>	<b>1 day</b>	<b>Bullish</b>			
September 17, 2014	Gap & reverse up after gap & reverse dn	1 day	Bearish			

**The Evidence**

The Fed announcement brought a fair amount of intraday volatility, but in the end the major indices all closed modestly higher. The SPX rose 0.1%, the NASDAQ gained 0.2%, and the Russell 2000 rose 0.25%. Breadth was just above breakeven as the NYSE Up Issues % came in at 51% and the Up Volume % was 52%. Total NYSE volume rose some from Tuesday's level.

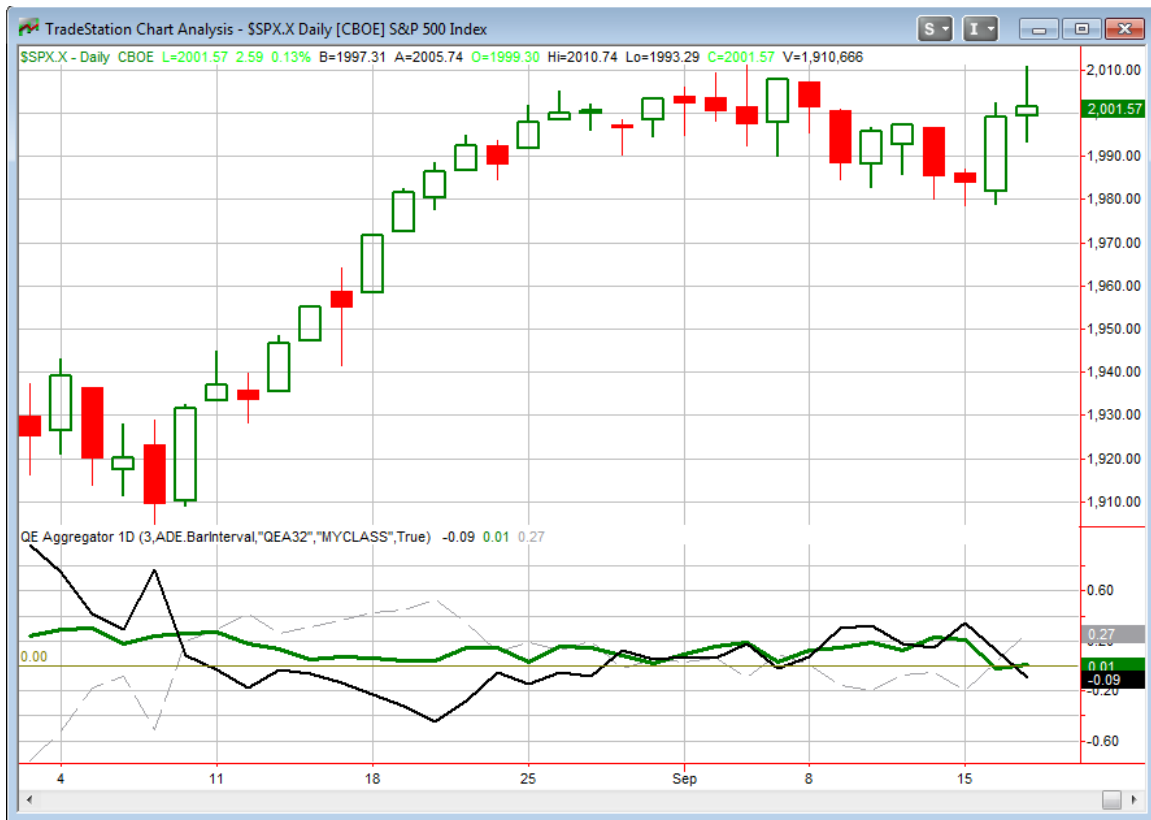
The modestly higher closes did nothing to generate any Quantifinder studies suggesting a strong edge. So I am going to keep it brief tonight, though the Fed deserves a bit of a comment.

The announcement indicated the amount of POMO & AMBS purchases is set to decline in October from the current \$25 billion down to \$15 billion. It possible the end could be announced at the October Fed meeting. All this buying has meant a giant liquidity boost. And in case you are wondering how it has correlated with stock market movement, I present the chart below, which I have not shown in a few months. It measures the SPX (green line) against the SOMA (System Open Market Account represented by the blue line), which is the Fed's account where all of these purchases are held.



As you can see there has been a strong correlation between stock market performance and the direction of the size of the SOMA. Periods highlighted in red are those in which the SOMA was declining. Obviously the SPX performed MUCH better during the non-red periods. Of course this is really just another way of representing the QE Buying Power Index chart that we show in the intermediate-term section of the letter each week. What is most notable here is that the SOMA total line has made very little progress over the last month. Once that begins turning down, it could again mean a difficult time for the market.

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



The lack of current short-term studies caused the green Aggregator Line to inch slightly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line fell just below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is now 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.

The lack of short-term evidence has the intermediate-term evidence ruling, which generates moderately positive expectations. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1995.20 on Thursday. That is 0.3% below Wednesday's close. So for SPX to move from overbought back to oversold it will only need to close down about 0.3% on Thursday.

It is rare that we don't have any studies on the short-term active list. With solid evidence I have no desire to put capital at risk. So I am stuck in neutral at the moment, waiting for the market to provide clues as to its next move.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 9/15– slightly bullish**

The intermediate-term outlook was last updated in the 9/15 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

**Open Catapult Triggers**

None

**Catapult for ETF's Trades**

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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/10/2014	\$199.32	\$200.77	0.73%		<i>sold on open</i>
HPQ	9/10/2014	\$36.79	\$36.67	-0.33%		<i>sold on close</i>

HPQ was sold at the close according to System 11111 exit criteria. ([Found here for subscribers.](#))

SPY was sold on the open as per last night's letter.

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