

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 17, 2014

Volume 7 Issue 218

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The market is now at a record streak for days closing above the 5-day moving average.
- November opex week has not been consistent, but it has been volatile.

## *Short-term Outlook*

### *The Bottom Line*

Expectations are negative. The market is overbought by most measures, but it is not overbought versus expectations over the last few days. If it closes up much on Monday then it will be overbought versus expectations, and I will likely utilize such an opportunity to take on a little short exposure.

**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>						
November 14, 2014	SPX up. Up Issue & Up Vol % < 40%	1-3 days	Bearish	-2.40%	0.50%	0.90%
<b>Active - Long Term</b>						
November 13, 2014	5 up to 50 high then down day	1-10 days	Bullish			
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
October 30, 2014	VXO > 15% < 10ma 3 days thn no drop	1-20 days	Bullish	3.50%	-0.70%	-1.30%
October 27, 2014	NASDAQ leading SPX	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
<b>Dropped Tonight</b>						
November 13, 2014	5 up to 50 high then down day	1-2 days	Bullish			
September 4, 2014	SPX 20-day high. NDX biggest loss	1-50 days	Bullish	6.50%	-2.70%	-5.10%

**The Evidence**

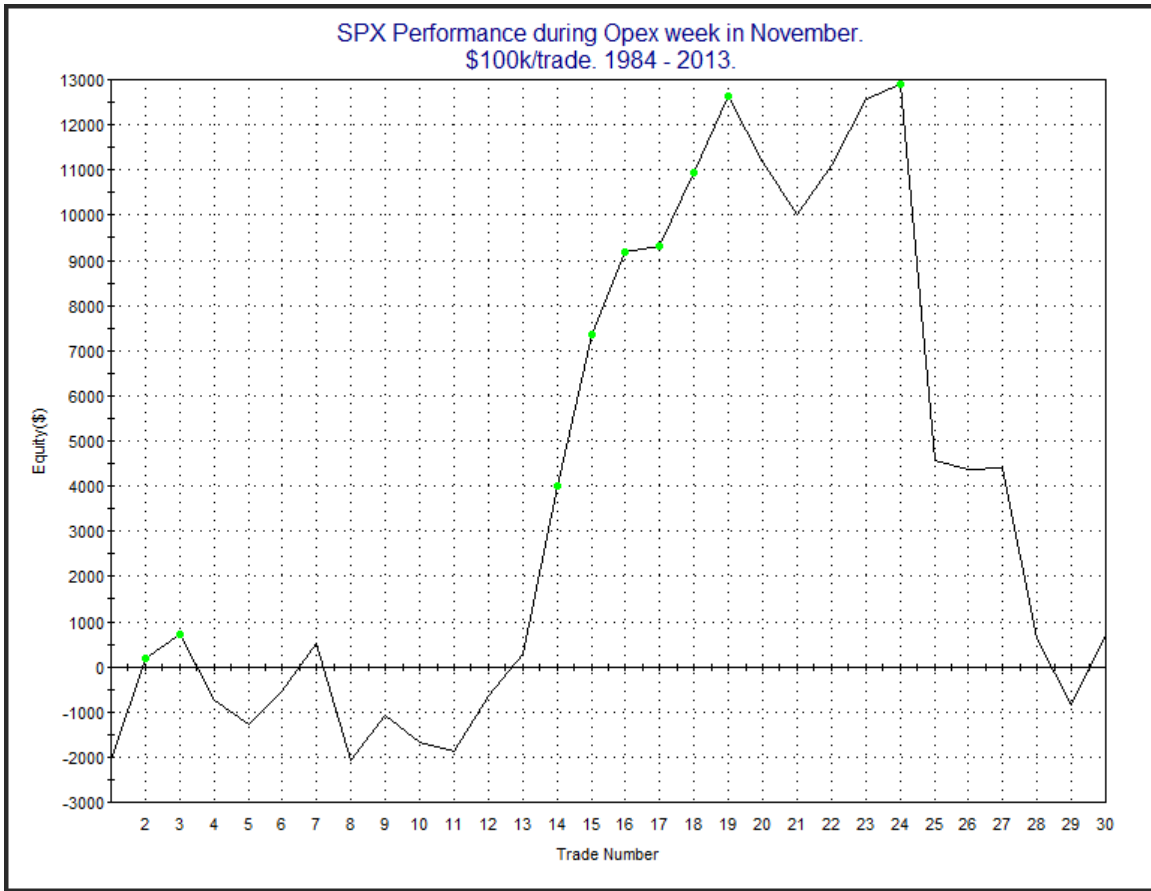
Friday was a quiet day for the market that seemed to accomplish very little. The SPX rose less than 1 point, the NASDAQ closed up 0.2%, and the Russell 2000 declined 0.1%. Breadth was positive as the NYSE Up Issues % came in at 53% and the Up Volume % was 59%. Total NYSE volume was very light.

The market is doing its best to make it hard to find much interesting to say about it. A number of studies appeared in the Quantifinder, but they have all been discussed over the last few days. Friday did see SPY close above its 5-day moving average for the 21<sup>st</sup> day in a row. That ties the all-time record. It needs to close above \$204.14 on Monday to make it 22 days in a row. This suggests the market is abnormally strong, but well overdue for a bit of a pullback.

The breadth study I examined in Thursday night's Gold Subscriber Letter also suggests a pullback is likely in the next couple of days. Also of interest from Thursday night's letter is the fact that the 3/10 Offset HV remains stretched to the downside with a 0.13 reading. The low reading suggests a volatility expansion is likely in the next few days. Rather than repeat everything from Thursday night, I have placed a link below if you want to review any of that information.

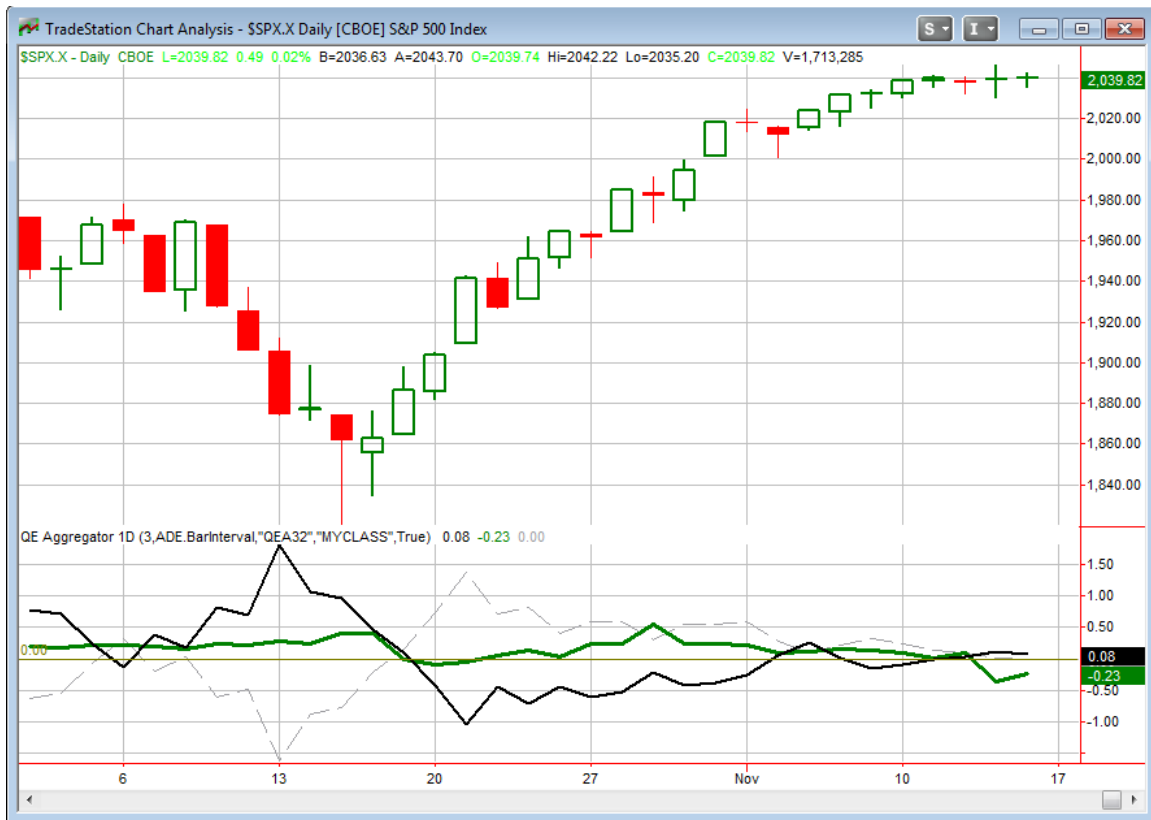
<http://www.quantifiableedges.com/trial/2014-11-14QESubscriberLetter.pdf>

The fact that this upcoming week is options expiration may also be worth considering. Opex week tends to be a strong seasonal week in many months, but returns during November opex have been inconsistent and have not shown a real bullish tendency over the years. Below is a profit curve that looks at performance of opex week in November since 1984 (when S&P options began trading).



As you can see, November opex week has been both inconsistent and very volatile. There have been some real strong rallies and real strong selloffs, especially over the last 20 years. This combined with the extremely low 3/10 Offset HV suggests the market could be in for some action this upcoming week. And if the short-term breadth study from Thursday night is correct, then it could be a sharp move lower.

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



With no new bullish evidence emerging the green Aggregator Line held below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line stayed slightly above 0. The positive Differential Line reading means the SPX is considered oversold versus recent expectations. It sounds very unusual to say the market is “oversold” while also at a new high. But it simply has not risen as much as expectations suggested over the last few days. Hence the reason it is “oversold” per the Differential Line. So expectations are negative but the SPX is a little oversold. 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 remained flat at the close.

With the current studies on the Active List, expectations are set to remain bearish on Monday. Of course this could easily change if compelling bullish evidence emerges. The Differential Pivot will be 2042.66 on Monday. This is 0.1% above Friday’s close. So SPX is going to need to close up at least this much in order to move from oversold to overbought versus expectations on Monday.

In addition to the other evidence discussed, the QE Buying Power Swing System remains negative. Liquidity is weak and that could aid the bears. And like Thursday night, while the market is oversold as measured by the Differential Line, it is overbought by just about any other measure. I have been cautious about getting short here for a swing trade

because it would mean a counter-trend trade in a strong seasonal environment (as measured by the QE Market Timing Course seasonal indicators). But between the evidence and the fact that it has been so long since a pullback occurred, I am inclined to try a short trade if SPX manages to close above its Differential Pivot on Monday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/17 – somewhat bullish***

Combo #1	Combo #2	Combo #3
Long	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.)

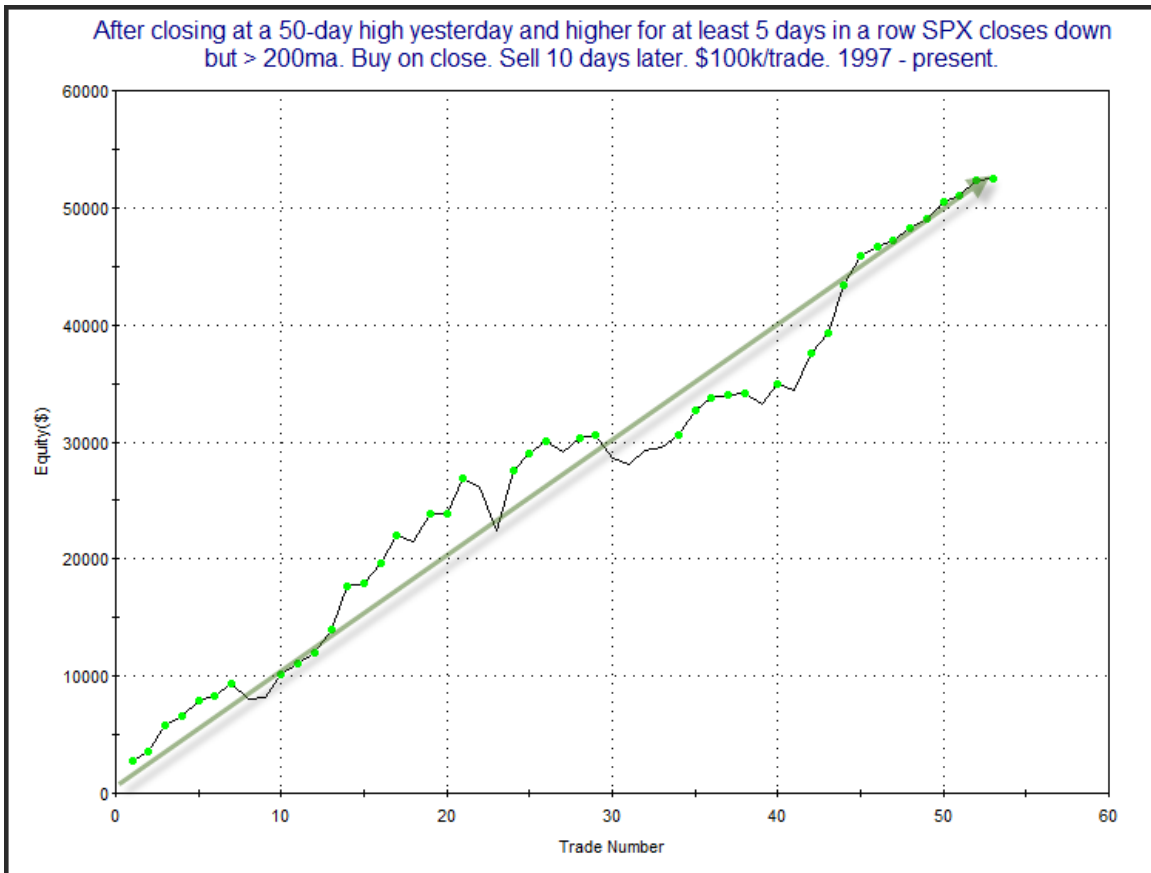
The major indices again managed new highs this past week, with SPX closing at a new all-time high on Friday. So the uptrend remains squarely in place. There was one study that emerged during the week with intermediate-term implications. It was published in the 11/13/14 letter. I have copied an excerpt from that letter below.

*One study that triggered tonight suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 6/24/14 Letter. I have updated the stats in the table below.*

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	52,451.96	53	44	9	83.02	1,445.42	5,131.35	-1,238.51	-3,672.90	1.17	5.71	989.66
9	52,640.62	56	46	10	82.14	1,453.76	5,023.20	-1,423.22	-4,151.40	1.02	4.70	940.01
8	46,849.87	57	40	17	70.18	1,662.88	4,878.08	-1,156.77	-4,874.10	1.44	3.38	821.93
7	37,469.20	58	39	19	67.24	1,514.26	3,874.76	-1,136.15	-3,912.48	1.33	2.74	646.02
6	37,221.61	60	41	19	68.33	1,381.58	4,307.20	-1,022.26	-3,637.71	1.35	2.92	620.36
5	27,442.10	60	37	23	61.67	1,226.99	4,252.50	-780.73	-2,466.75	1.57	2.53	457.37
4	29,548.62	60	37	23	61.67	1,255.34	3,843.00	-734.74	-3,003.39	1.71	2.75	492.48
3	17,354.64	60	38	22	63.33	923.60	2,472.85	-806.46	-1,992.34	1.15	1.98	289.24
2	16,768.86	60	41	19	68.33	782.90	2,437.50	-806.84	-2,614.95	0.97	2.09	279.48
1	9,263.03	60	38	21	63.33	540.59	1,751.19	-537.11	-1,744.10	1.01	1.82	154.38

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a quick little boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.

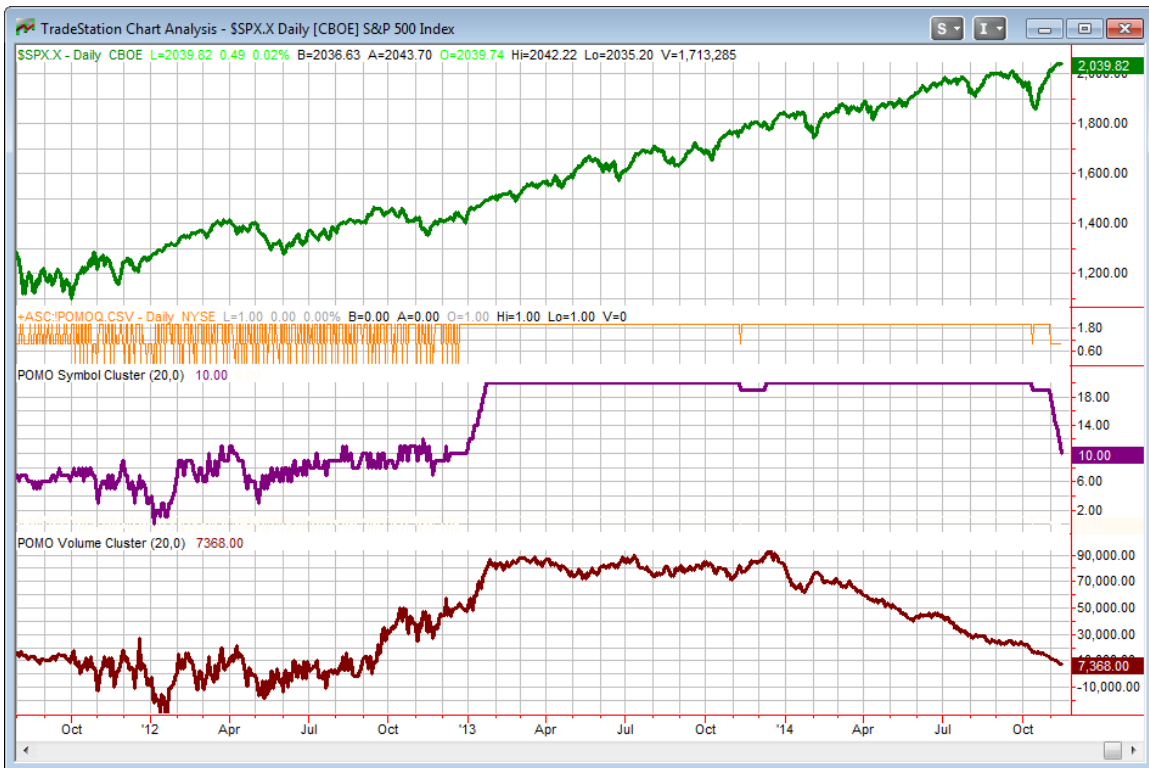


*The strong upslope appears to confirm the bullish edge.*

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

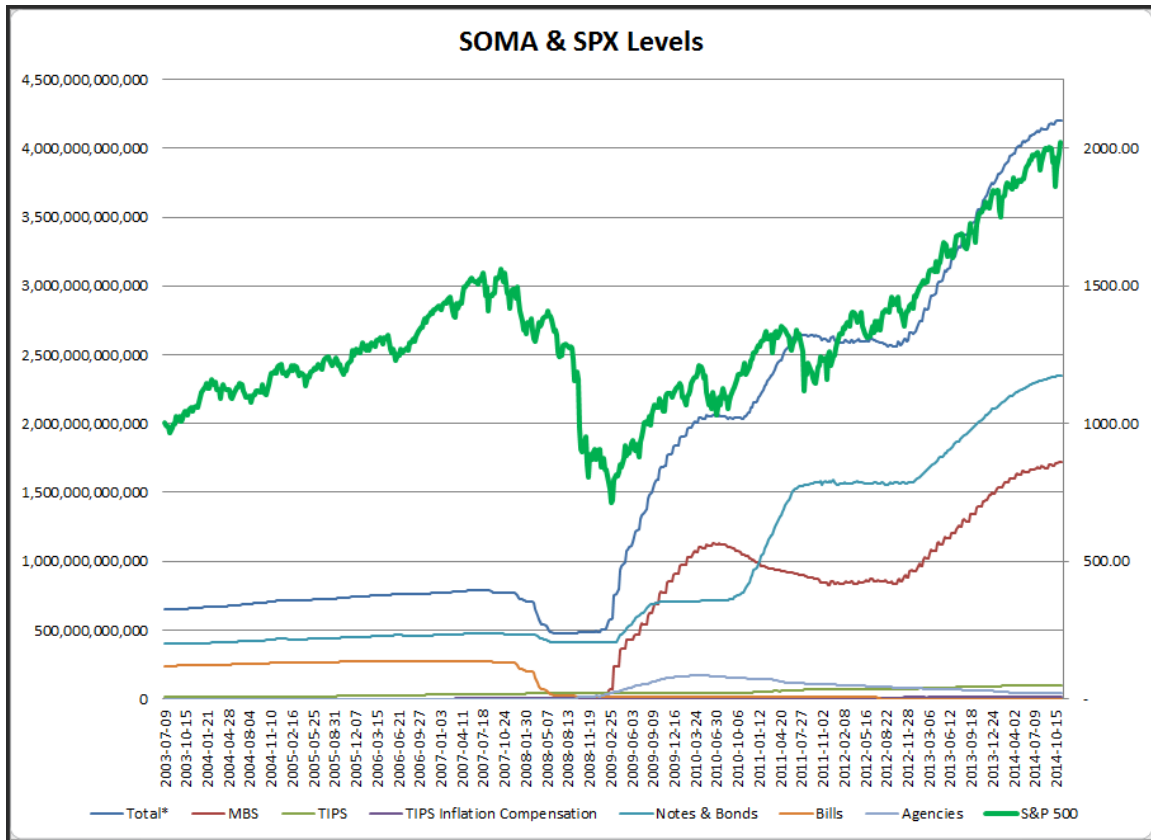
*POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators.*

*The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.*



The POMO/AMBS days indicator is now at 10 and working its way towards zero. The Volume indicator is locked in a similar decline. An with no new POMO purchases this

past week (or scheduled in the future), the Fed's System Open Market Account (SOMA) sank a little bit. The Fed is continuing to reinvest maturities, so the Total Assets line will not likely decline as sharply as our POMO indicators. And with the reinvestment there may even be some liquidity support. I have updated the SOMA chart again below.



The market has continually struggled over the years whenever the SOMA has not been increasing. This was the first week the “Total” did not rise in a while. So it will be interesting to see if the fade continues and how long it might take before the market is negatively impacted.

The story remains largely the same from last week. Strong seasonality and strong trend and price action indications are butting heads with a potential liquidity issue and overextended market. Additionally, the potential for a major decline still exists based on the Quantifiable Edges Study of Tops indicators.

I am still somewhat bullish overall. Despite the danger signs (liquidity, and Study of Tops breadth indicators), there is no sign of a letup with the rally. For now I will remain more willing to take on longs than shorts for my short-term trades. With the majority of intermediate-term indications still bullish, I feel long trades have a better reward/risk outlook.

## **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.*

**SPY – Sell short ¼ index position on close if SPX closes  $\geq$  2042.66.** Based on the short-term outlook above, I will look to take on a little short exposure if SPX manages to rise up and close above the Differential Pivot.

## **Current Open Trade Ideas**

*None*

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