

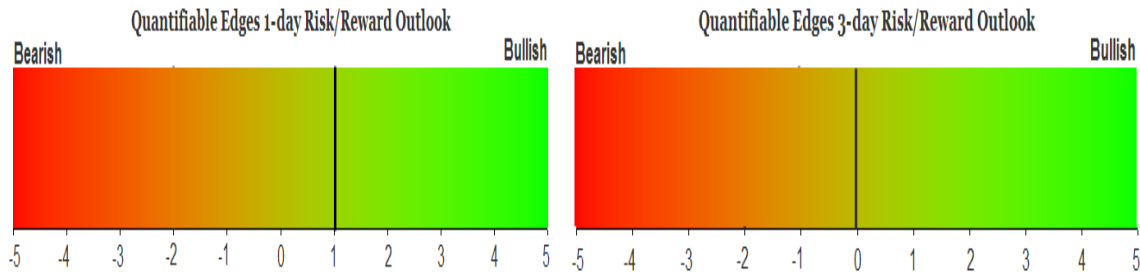
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 9, 2015

Volume 8 Issue 26

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Short

Tonight's Research Points

- Recent chop has resulted in a lack of compelling new evidence.

Short-term Outlook

The Bottom Line

Evidence is still leaning slightly bullish and the SPX no longer short-term overbought. There seems to be a very slight upside edge, but not one strong enough that I will look to take on index exposure just yet.

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						
None						
Active - Long Term						
January 26, 2015	NASDAQ leading SPX	int term	Bullish			
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
Dropped Tonight						
February 6, 2015	Employment Day hot streak	1 day	Bullish			

The Evidence

The market gapped up on Friday, but could not hold on to those gains and the indices finished lower. The SPX lost 0.3%, the NASDAQ dropped 0.4% and the Russell 2000 declined 0.3%. Breadth was negative as the NYSE Up Issues % came in at 38% and the Up Volume % was 47%. Total NYSE volume rose some from Thursday's level.

This is becoming a really boring market to analyze. Studies have been lacking recently, both short and intermediate-term. A quick look at price action will explain why. Friday the S&P 500 closed down. The day before it closed up. The day before that, it closed down. And the day before that it closed up. If you look at a weekly chart you'll see the S&P 500 closed up this week after closing down last week. The week before that it closed up. And the week before that, it closed down. In other words, the chart looks like a big, choppy mess. It is exactly the kind of conditions in which strong edges often fail to emerge.

As a trader I have found over the years that patience is very important. When I do not have an edge, I am ok sitting out. But as a researcher and publisher I still get frustrated when there is little that seems worth talking about. Still, not for lack of looking at a number of angles this weekend, there simply was nothing suggesting a short-term edge worth discussing.

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



With the Short-Term Active List now blank the green Aggregator Line just is slightly above 0. This is thanks to the intermediate-term studies. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line inched just above 0. The positive Differential Line reading means the SPX is now slightly oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal turned long at the close.

Expectations will again be largely dependent on new studies that emerge, but they would remain positive if nothing new emerges on Monday. The Differential Pivot will be *inverted* at 2048.68 on Monday. That is 0.3% *below* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close down at least 0.3% in order to remain oversold. Otherwise it will flip to being overbought versus expectations.

So the Aggregator is bullish, but it is about as weak of a signal as you'll find. And with the Differential Pivot inverted, the signal only has one day if it is right and the market rises on Monday. I don't see this as much of a trading opportunity. I am not inclined to take on new long exposure here and will wait for a better setup to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/9 – somewhat bullish

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

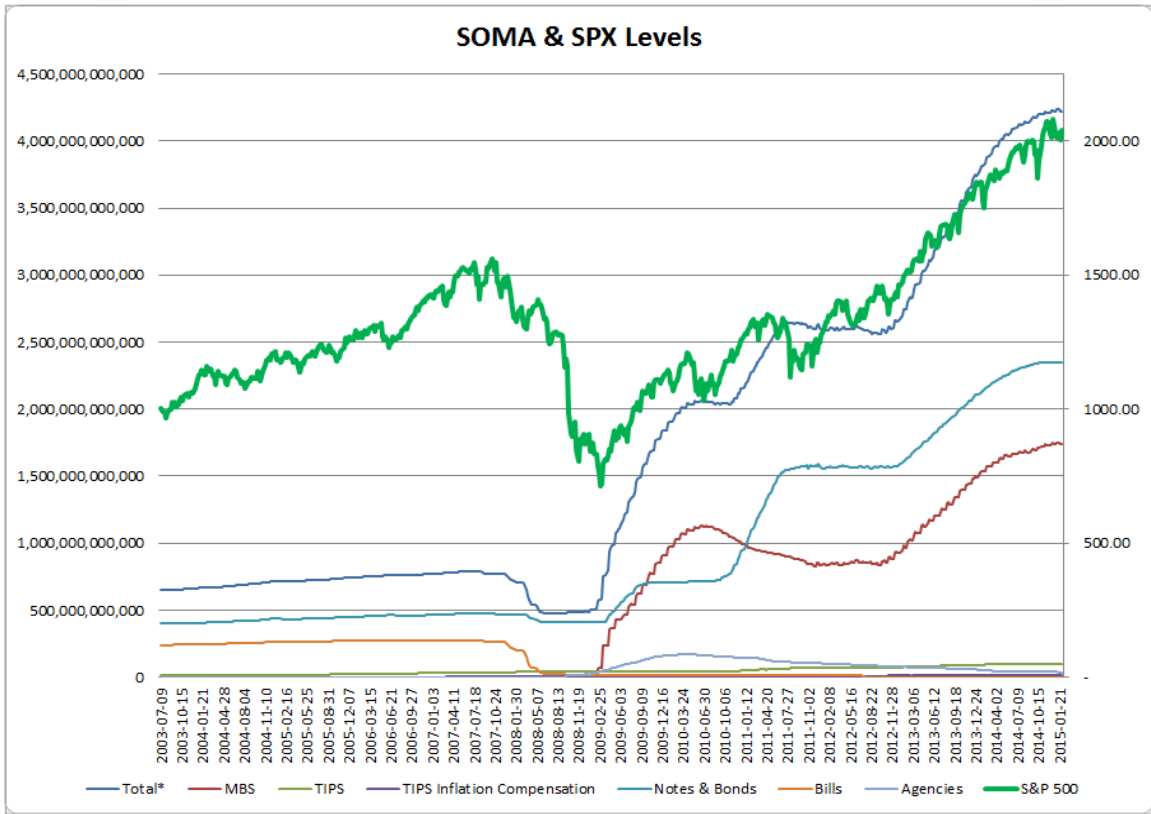
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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.)

Despite the down day on Friday the market put in a strong week with the SPX rising over 3.0% and posting its best week so far in 2015. As I mentioned earlier, the weekly chart looks much like the daily in that each bar for the last several has been heading in a different direction. And just like with the short-term, this has led to a decided lack of new evidence for the intermediate-term.

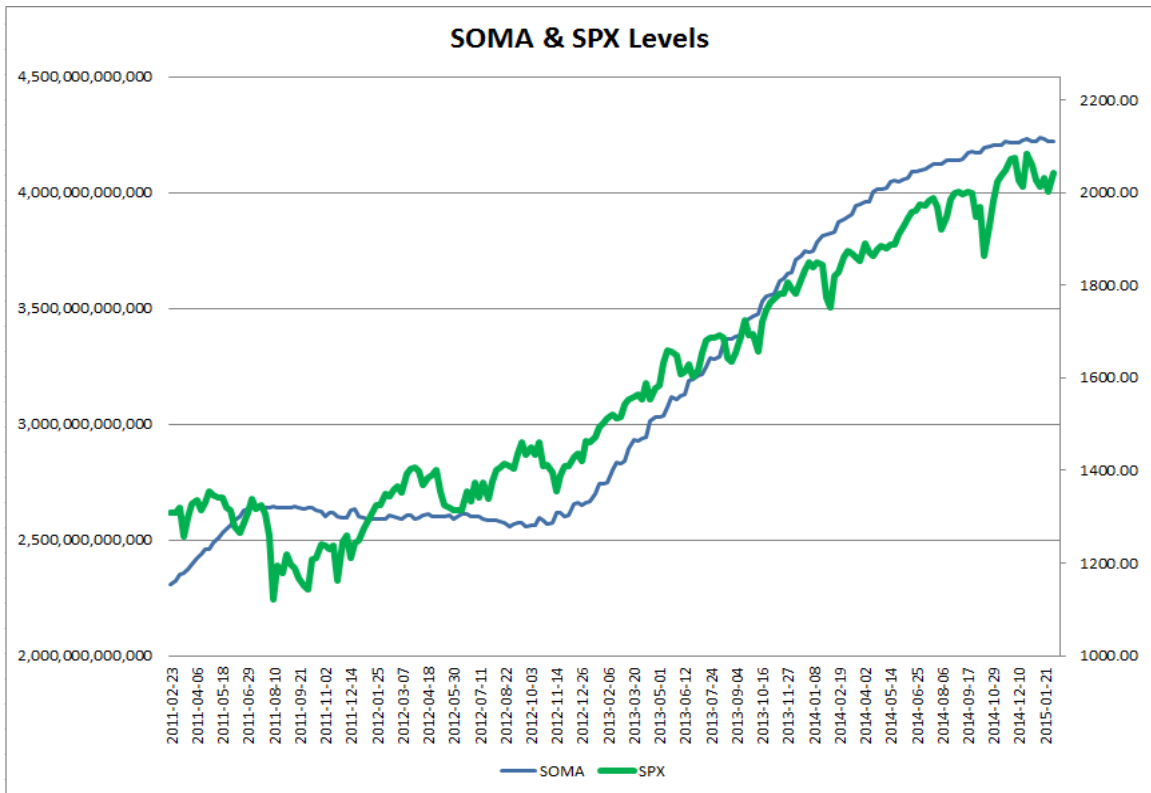
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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.

While the Fed is not making new QE purchases any longer, it is continuing to reinvest maturities. Therefore, the total assets in their System Open Market Account (SOMA) has not begun to dive like the old Quantifiable Edges POMO indicators did. Below are long and short-term views of SOMA and SPX. First, the long-term view (back to 2003).



And now the zoomed-in view (2011 – present).



SOMA balances actually inched up a little bit this week. SOMA has definitely flattened out, but it has not yet rolled over. Of course, in looking at the 1st chart you'll note that even flat SOMA readings have led to difficult markets over the last several years. Since quantitative easing ended in October the market has seen much choppier action, with more pronounced down moves than we saw during QE. But the market has not yet cracked. And perhaps flat SOMA is enough for now. I doubt a steadily declining one would provide much support for the market. So as I have been doing, I will continue to keep a close eye on Fed action and SOMA levels.

Let's do a quick review of some of the intermediate-terms factors that are influencing the Quantifiable Edges market bias at the moment. One factor pointing to a possible trouble is the limited amount of Fed stimulus. This can be seen in the SOMA account levels discussed above. The other bearish indication we have on the Intermediate-Term Active List is the continually floundering number of stocks hitting new highs since spring of 2013. This is a condition that preceded all major (20%+) corrections since 1970. More can be learned about it in the Study of Tops, [which subscribers may download for free](#).

Bulls can point to strong seasonality (Best 6 Months) as well as a continuing uptrend (Golden Cross) and [a leading NASDAQ](#). More details on the influence of these factors and how different combinations have performed can be found in the Market Timing Course.

Overall, the bullish evidence is still outweighing the bearish. Seasonality will persist for another few months, and the SPX 50-day moving average is still well above its 200-day moving average. NASDAQ leadership is a little shaky at the moment, but even without it we would still have more bullish evidence than bearish. I am keeping the intermediate-term outlook at "somewhat bullish" as it has been for the last several weeks. I remain more inclined to take on long positions than short ones, but will take either if short-term evidence is compelling enough.

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
XIV(1/2)	12/11/2014	\$34.03	\$26.65	-21.69%		Aggressive VIX

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