

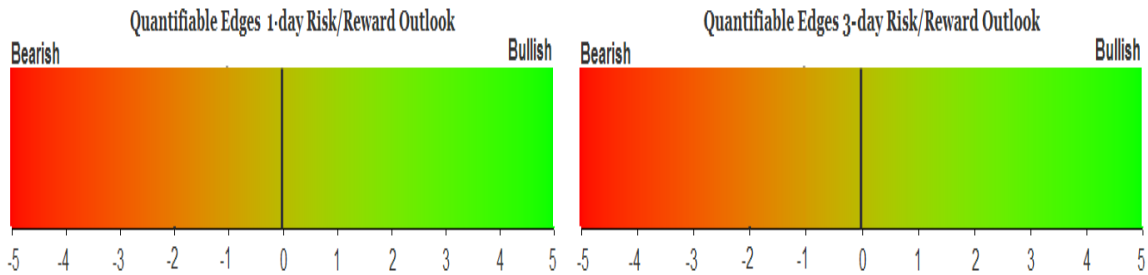
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 17, 2015

Volume 8 Issue 31

Market Overview



Signals Overview

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

Tonight's Research Points

- Low volume on the SPX breakout to a new high is a potential positive.
- The number of stocks hitting new highs continues to diverge.
- SOMA dipped a little this past week.

Short-term Outlook

The Bottom Line

Expectations remain bullish. SPX is again overbought. The Aggregator is still neutral and so am I.

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						
February 17, 2015	Low-vol breakout	1-5 days	Bullish			
February 13, 2015	Breakaway gap	1-5 days	Bullish			
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	Emplpoyment Day hot streak	1 day	Bullish			

The Evidence

Friday was another day of gains along with some new highs for the market. The SPX rose 0.4%, the NASDAQ rallied 0.8% and the Russell 2000 gained 0.6%. Breadth was positive as the NYSE Up Issues % came in at 63% and the Up Volume % was 65%. Total NYSE volume came in light.

While SPY broke out Thursday, SPX did not make a new high on a closing basis until Friday. This triggered the study below, which looks at the light volume on the breakout. It was last seen in the 2/28/14 Letter. It shows that low volume has actually been a positive. (Contrary to popular belief.)

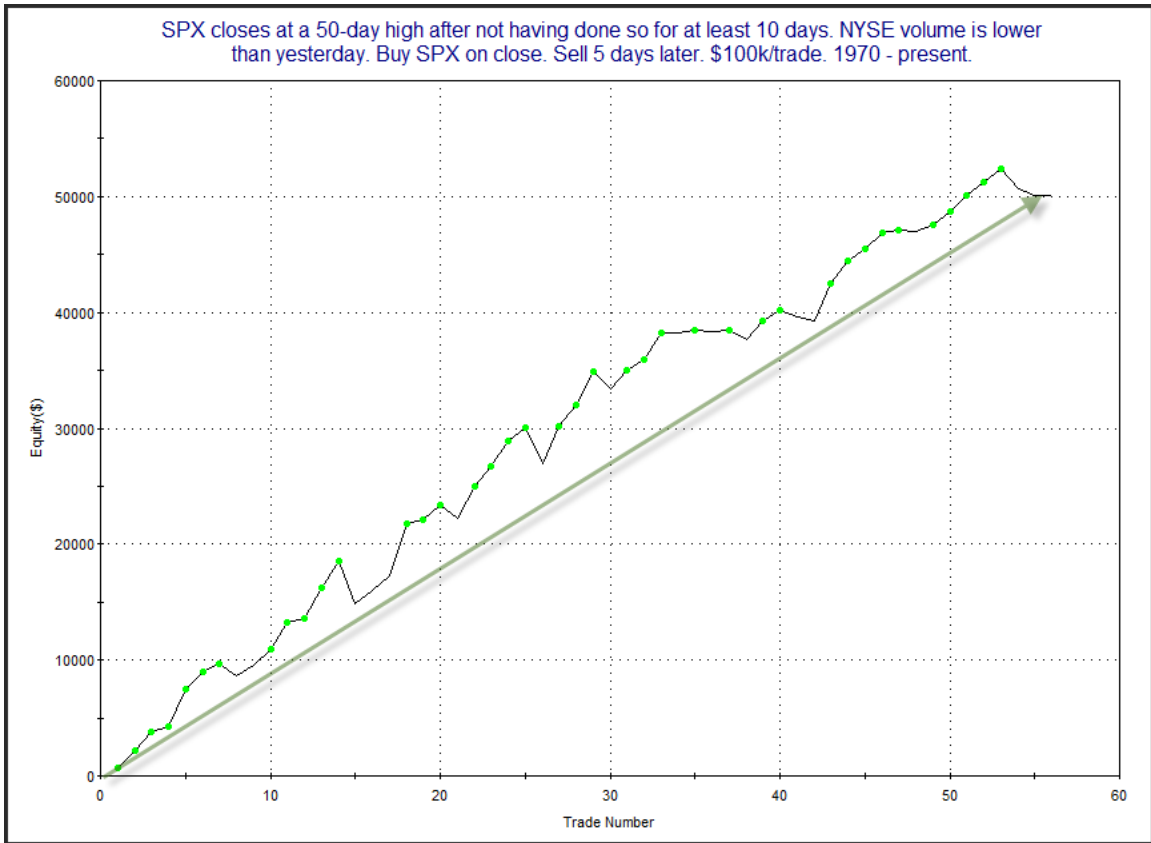
SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.

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
20	31,431.52	53	30	23	56.60	2,733.19	11,088.84	-2,198.44	-8,157.10	1.24	1.62	593.05
19	32,906.23	54	31	23	57.41	2,619.00	9,628.99	-2,099.26	-9,056.82	1.25	1.68	609.37
18	32,680.43	54	33	21	61.11	2,522.74	11,076.80	-2,408.09	-9,094.80	1.05	1.65	605.19
17	33,497.13	54	33	21	61.11	2,593.40	10,017.28	-2,480.25	-8,682.96	1.05	1.64	620.32
16	34,579.16	54	34	20	62.96	2,477.81	10,944.36	-2,483.32	-9,243.81	1.00	1.70	640.35
15	28,669.90	54	35	19	64.81	2,285.30	8,166.13	-2,700.82	-9,354.92	0.85	1.56	530.92
14	35,928.64	55	38	17	69.09	2,074.68	7,314.30	-2,524.08	-6,525.68	0.82	1.84	653.25
13	35,868.59	56	36	20	64.29	2,089.41	7,780.85	-1,967.51	-5,160.09	1.06	1.91	640.51
12	23,602.54	56	31	25	55.36	2,163.02	5,996.75	-1,738.04	-4,539.14	1.24	1.54	421.47
11	18,692.46	56	29	27	51.79	2,157.83	5,809.60	-1,625.35	-6,029.07	1.33	1.43	333.79
10	19,813.82	56	29	27	51.79	2,100.48	5,960.00	-1,522.22	-4,324.52	1.38	1.48	353.82
9	27,792.29	56	37	19	66.07	1,679.90	5,147.20	-1,808.63	-5,812.26	0.93	1.81	496.29
8	34,322.19	56	39	17	69.64	1,573.67	5,096.00	-1,591.23	-4,186.55	0.99	2.27	612.90
7	35,302.75	56	38	18	67.86	1,449.30	4,655.00	-1,098.38	-3,211.35	1.32	2.79	630.41
6	47,730.12	56	40	16	71.43	1,525.70	5,002.50	-831.13	-3,563.65	1.84	4.59	852.32
5	50,139.43	56	43	13	76.79	1,507.06	4,482.50	-1,128.01	-3,693.73	1.34	4.42	895.35
4	35,668.49	56	41	15	73.21	1,255.28	4,440.00	-1,053.21	-2,913.85	1.19	3.26	636.94
3	33,136.09	56	38	18	67.86	1,225.70	3,950.00	-746.69	-1,802.37	1.64	3.47	591.72
2	18,680.92	56	37	19	66.07	843.13	2,212.98	-658.68	-1,912.60	1.28	2.49	333.59
1	8,848.56	56	37	18	66.07	470.71	1,384.02	-475.98	-1,921.32	0.99	2.03	158.01

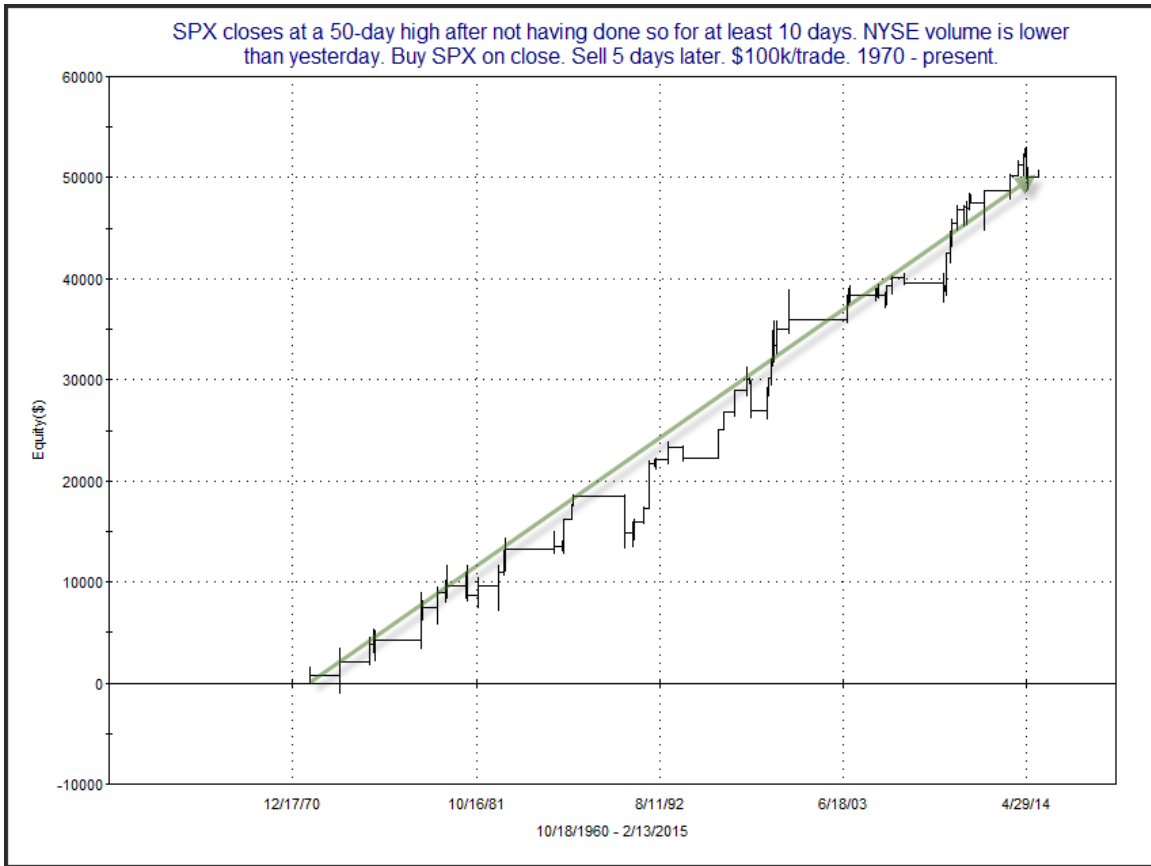
53 of 56 instances (95%) closed above the entry price at some point in the next week.

Here we see that there appears to be a strong upside inclination over the first week. Beyond that there isn't much of an edge.

To see how the 1-week edge has played out over time I have produced a profit curve below.



The last few instances have struggled a little bit, but the upslope certainly appears intact. I also ran it using time instead of instances in the x-axis.



This provides further illustration of the persistent upside edge.

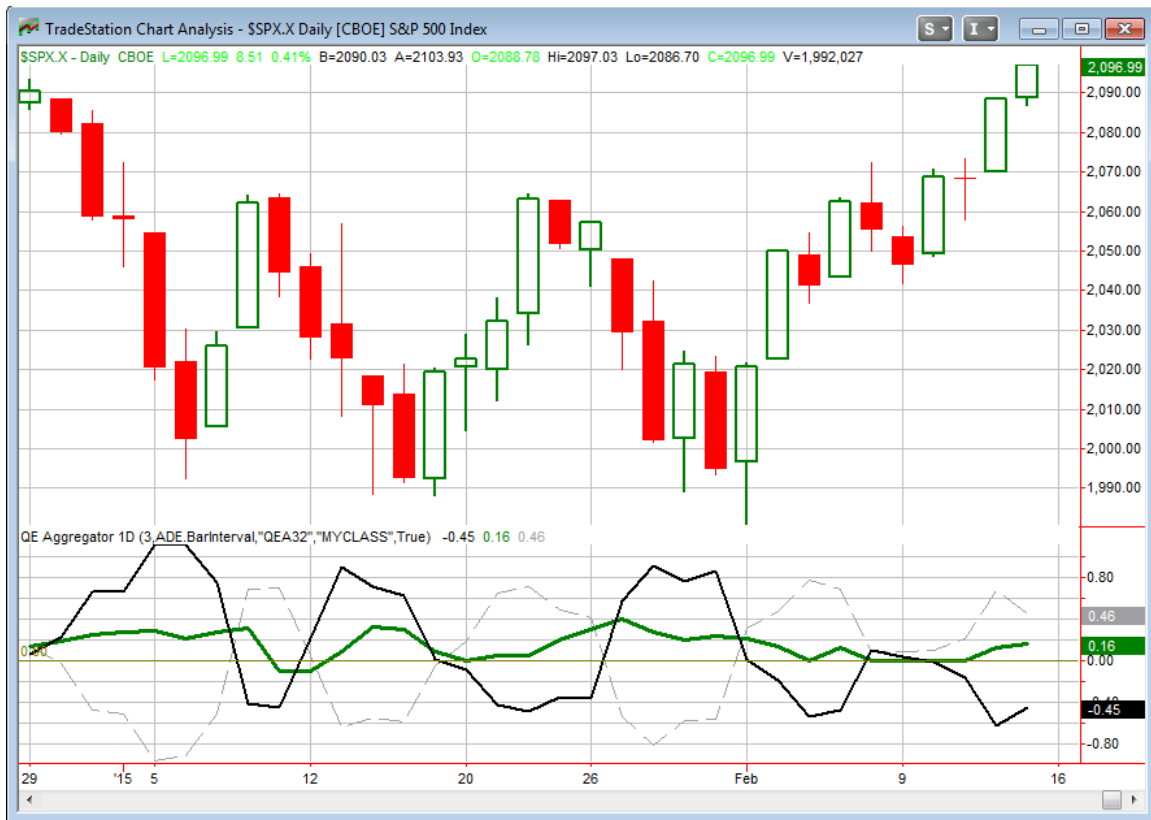
I have found in the past that a very strong rise in volume that accompanies a breakout can be a positive, but any rise less than extremely high volume has generally not been a good sign. So I adjusted the other study in the 2/28/14 subscriber letter to look at breakouts that occurred on higher volume, but not at a 20-day volume high.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	-6,309.72	93	44	49	47.31	3,372.06	13,393.77	-3,156.74	-11,548.62	1.07	0.96	-67.85
19	10,233.75	94	49	45	52.13	3,117.98	9,135.36	-3,167.72	-11,862.36	0.98	1.07	108.87
18	11,751.38	94	49	45	52.13	3,006.39	9,503.00	-3,012.48	-10,293.66	1.00	1.09	125.01
17	7,850.92	94	50	44	53.19	2,859.55	9,953.84	-3,071.06	-9,419.67	0.93	1.06	83.52
16	2,439.13	96	51	45	53.13	2,674.42	8,910.72	-2,976.81	-9,482.88	0.90	1.02	25.41
15	6,829.71	96	49	47	51.04	2,676.26	8,150.48	-2,644.83	-9,608.60	1.01	1.05	71.14
14	-6,884.75	96	53	43	55.21	2,312.10	7,702.40	-3,009.91	-10,120.46	0.77	0.95	-71.72
13	-7,945.59	96	50	46	52.08	2,315.11	7,911.80	-2,689.16	-9,725.34	0.86	0.94	-82.77
12	-14,602.40	96	51	45	53.13	2,135.80	10,197.98	-2,745.07	-9,878.00	0.78	0.88	-152.11
11	-8,070.58	96	48	48	50.00	2,290.95	10,372.44	-2,459.08	-9,482.88	0.93	0.93	-84.07
10	-15,549.82	96	45	51	46.88	2,204.33	10,507.25	-2,249.89	-8,683.66	0.98	0.86	-161.98
9	-10,645.40	96	44	52	45.83	2,131.83	8,413.73	-2,008.57	-6,878.68	1.06	0.90	-110.89
8	-15,283.07	96	49	47	51.04	1,691.00	8,524.75	-2,088.13	-7,085.22	0.81	0.84	-159.20
7	1,230.92	96	47	49	48.96	1,783.59	6,337.26	-1,685.67	-7,255.84	1.06	1.01	12.82
6	-1,236.00	96	51	45	53.13	1,479.43	6,819.80	-1,704.16	-7,103.18	0.87	0.98	-12.88
5	-5,358.47	96	43	53	44.79	1,589.43	8,516.82	-1,390.64	-6,088.44	1.14	0.93	-55.82
4	-13,346.99	96	48	48	50.00	1,228.56	6,716.71	-1,506.62	-5,585.56	0.82	0.82	-139.03
3	589.92	96	52	44	54.17	1,124.78	6,740.50	-1,315.88	-5,361.06	0.85	1.01	6.15
2	-3,075.11	96	55	41	57.29	731.01	4,028.44	-1,055.62	-4,276.16	0.69	0.93	-32.03
1	7,192.71	96	54	42	56.25	514.10	2,731.56	-489.74	-2,722.61	1.05	1.35	74.92

As you can see, higher volume breaks to new highs do not carry the same bullish implications. These stats appear to be almost dead neutral. But of course volume was lower on Friday. And that appears to be a positive.

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



Tonight's study helped the green Aggregator Line to move further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line closed again below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is 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.

If nothing new emerges, then expectations are set to remain positive on Tuesday. The Differential Pivot will be 2068.59 on Tuesday. That is 1.4% below Friday's close. This means that for SPX to move from overbought to oversold on Tuesday it is going to need to close down at least 1.4%. That would be a strong selloff. More likely we will need to see a multi-day decline or consolidation to work off the overbought condition.

The Aggregator remains neutral. And while we have a few breakout studies suggesting further upside is likely in the next several days, the market is just too overbought on a short-term basis to interest me in a swing trade. I will therefore wait until either a pullback presents a better long opportunity, or bearish evidence emerges and compels me to short. Until then, I remain in a holding pattern, patient and alert to new opportunities.

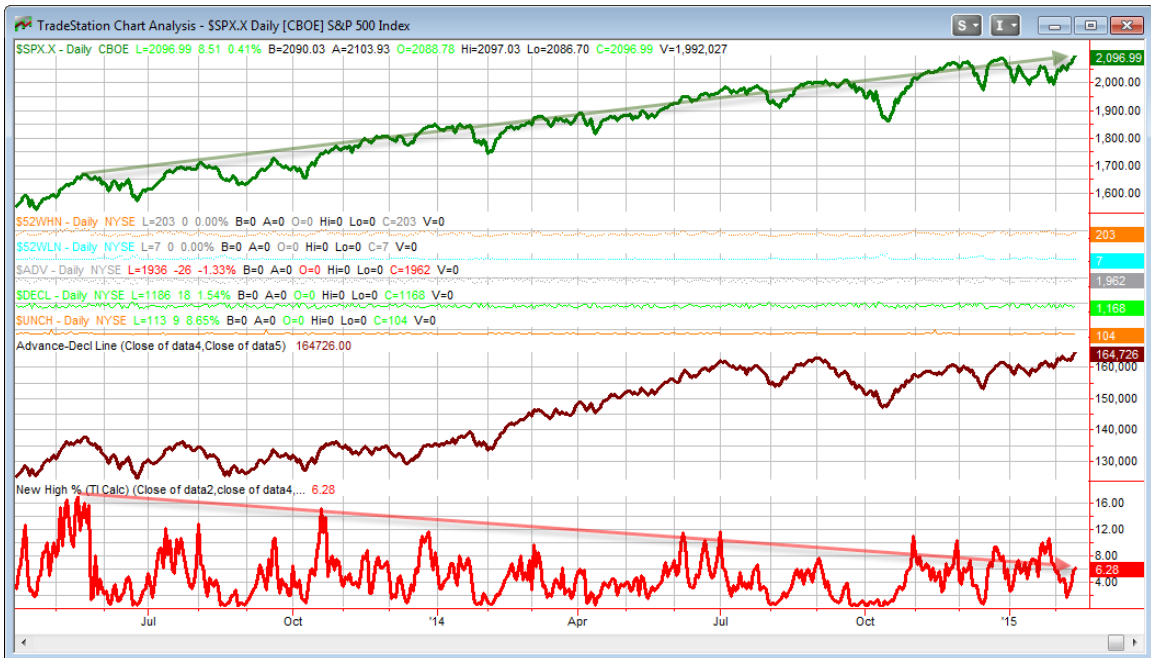
Intermediate-term Outlook (2 weeks – 2 months) – updated 2/17 – somewhat bullish

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.)

SPX put in its 2nd strong week in a row, rising over 2.0% this past week. While the breakouts on Thursday and Friday did provide some encouraging evidence for the short-term, they did not substantially change the long-term picture, except to confirm that the market’s uptrend remains intact.

It is notable that despite the new highs this week, the number of stocks hitting new 52-week highs continues to deteriorate. This keeps the divergence in place that we have noted for almost 2 years now. This can be seen on the chart below, which is similar to the one found on the QE charts page.



In fact, not only is the New High % diverging, it is still very far below the May 2013 level. And as I discussed in the Study of Tops ([available for Gold & Silver subscribers](#)

[on the special reports downloads page](#)) and have reiterated here a number of times, the divergent New High % is a condition that has preceded every major SPX decline since 1970.

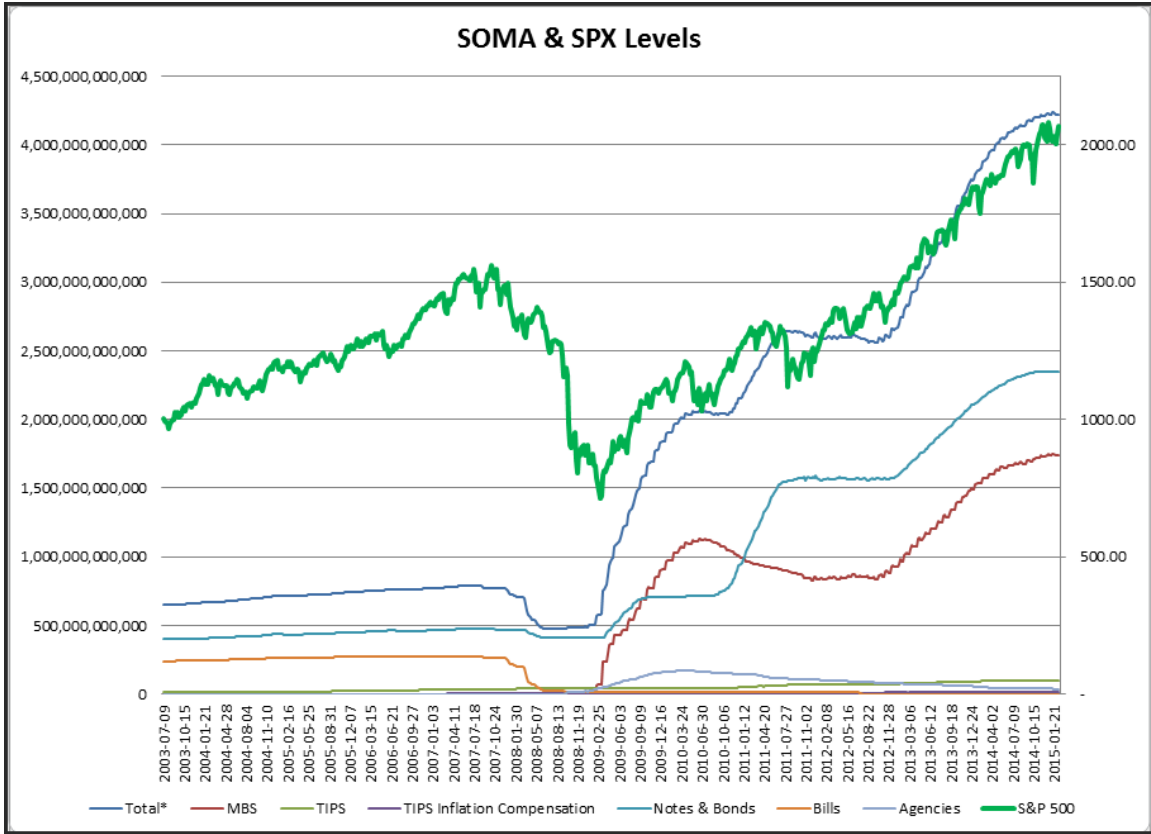
This opens up the possibility of a major top being put in. Note I said possibility, not probability. It needs to be understood that while the narrowing of New Highs and/or the turn down in the Advance/Decline Line has been a prerequisite for a top to take place, these breadth conditions have not been very useful in timing the tops. Often such divergences have persisted for many months, or even years (as in this case). I therefore view these breadth divergences as possible warning signs – not as timing signals. The current divergence is over 18 months old. It hasn't mattered yet, but if it persists, then it will matter at some point.

If the market continues higher and the New High % rallies to new highs as well, then that would suggest the market is unlikely to reach a major price top for at least another 2 months. I'll continue to keep an eye on it. For now it remains highly divergent. So the rally is occurring with fewer and fewer stocks making new highs. And from this point it will likely take quite a bit of work to get the New High % back to the May 2013 level, or even levels we saw at the end of October.

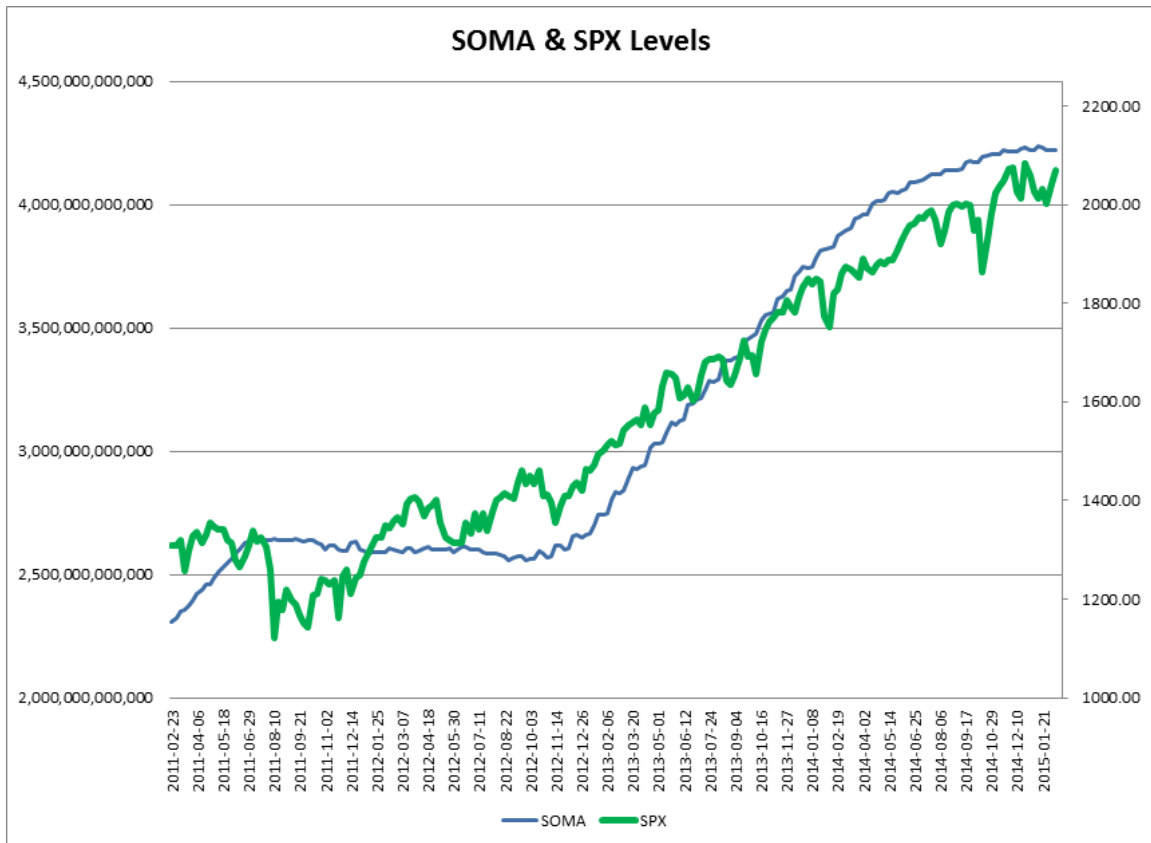
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 declined some this past 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 it has still managed new highs. 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.

The intermediate-term outlook from last week remains largely unchanged. One factor pointing to possible trouble is the limited amount of Fed stimulus. This can be seen in the SOMA account levels discussed above. The continually floundering number of stocks hitting new highs since spring of 2013 is also a potential warning sign.

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. (Included free with all annual subscriptions.)

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 also remains intact. 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	\$29.15	-14.34%		Aggressive VIX

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