

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 16, 2015

Volume 8 Issue 50

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- March Op-Ex week has historically been very strong, especially Mon-Thurs.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is still pointing higher and the market is not yet overbought. I believe there is a good chance that the market bounces this upcoming week.

**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>						
March 16, 2015	March op-ex week bullish	1-4 days	Bullish	1.70%	-1.10%	-2.50%
March 12, 2015	5 low & bottom of daily range 2x	1-5 days	Bullish	2.10%	-0.70%	-1.70%
March 11, 2015	System 110524	1-7 days	Bullish			
March 9, 2015	Big Friday drop	1-6 days	Bullish	2.60%	-1.70%	-3.70%
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
March 10, 2015	Bounce frm 10-low < 10ma > 200ma	1-4 days	Bullish	1.90%	-1.20%	-2.20%

**The Evidence**

The market could not follow through on Thursday's gains, and suffered some selling on Friday. The SPX lost 0.6%, and the NASDAQ and Russell 2000 each fell 0.4%. Breadth was negative as the NYSE Up Issues % came in at 29% and the Up Volume % was 26%. Total NYSE volume rose a little from Thursday's level.

The back and forth chop the last few days has not triggered much in the way of compelling price-action based edges. But there is a seasonal influence that could have a bullish impact on the market this week. Op-ex week in general is pretty bullish. March, April, October, and December it has been especially so. S&P 500 options began trading in mid-1983. The table below is one I showed in the 3/17/13 Subscriber Letter. It goes back to 1984 and shows op-ex week performance broken down by month. All statistics are updated.

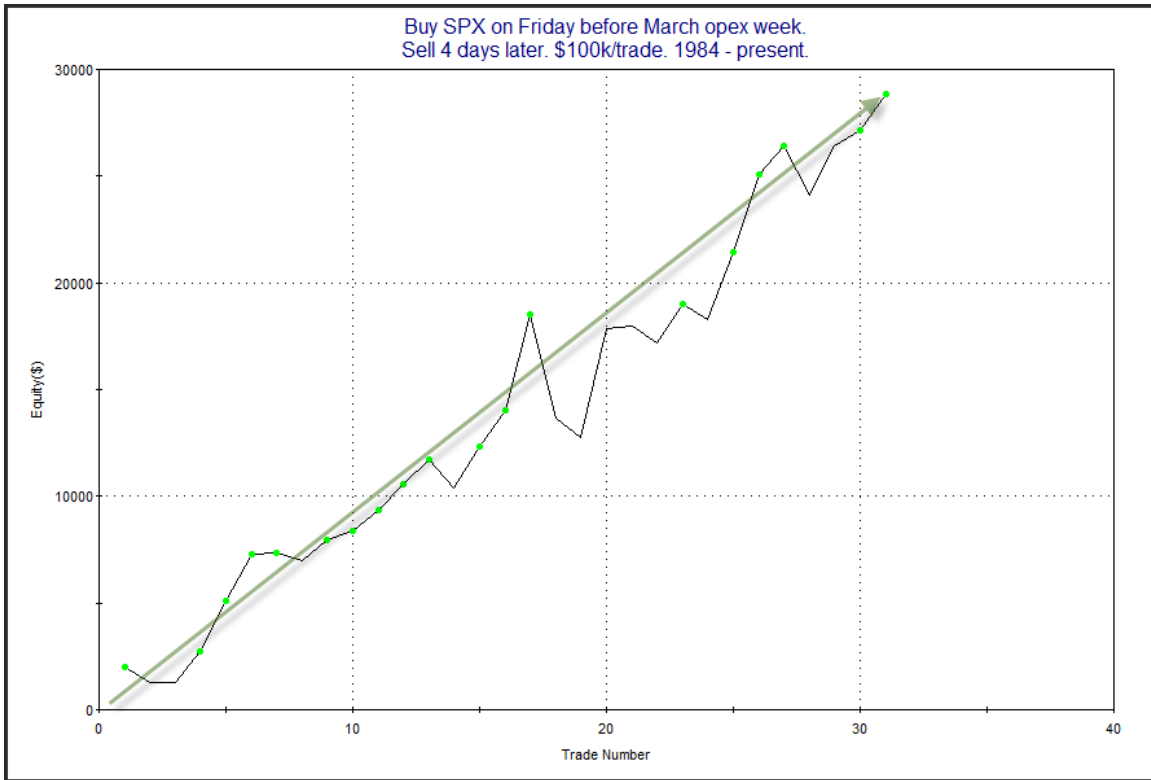
Op-Ex Week SPX Performance by Month. \$100k/trade. 1984 - present. (Excludes September 2001.)												
X Month	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
12	28,528.05	31	25	6	80.65	1,480.13	5,868.16	-1,412.53	-4,176.33	1.05	4.37	920.26
11	1,875.70	31	19	12	61.29	1,355.52	3,718.25	-1,989.93	-8,351.64	0.68	1.08	60.51
10	24,123.24	31	22	9	70.97	2,338.11	7,282.10	-3,035.03	-9,109.98	0.77	1.88	778.17
9	13,251.05	30	19	11	63.33	1,574.71	5,313.08	-1,515.30	-4,975.04	1.04	1.79	441.70
8	4,355.19	31	18	13	58.06	1,432.07	4,329.72	-1,647.84	-4,643.52	0.87	1.20	140.49
7	-2,874.13	31	15	15	48.39	1,409.35	6,921.25	-1,600.96	-7,953.12	0.88	0.88	-92.71
6	-1,609.97	31	17	14	54.84	1,263.77	3,786.09	-1,649.57	-3,998.19	0.77	0.93	-51.93
5	2,129.77	31	15	16	48.39	2,025.78	4,850.40	-1,766.05	-4,959.45	1.15	1.08	68.70
4	28,700.79	31	20	11	64.52	2,293.46	5,731.96	-1,560.77	-3,580.15	1.47	2.67	925.83
3	26,262.25	31	21	10	67.74	2,009.95	7,515.60	-1,594.66	-6,711.66	1.26	2.65	847.17
2	7,607.38	32	18	14	56.25	1,395.40	3,096.72	-1,250.70	-6,814.80	1.12	1.43	237.73
1	6,949.78	32	15	17	46.88	2,177.49	5,389.00	-1,512.51	-5,383.93	1.44	1.27	217.18

While December has been more reliable, March op-ex week has seen even more in total gains. As I did in that 3/17/14 Subscriber Letter, I also broke down March performance in more detail below.

Buy SPX on Friday before March opex week. Sell X days later. \$100k/trade. 1984 - 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
5	27,830.74	31	21	10	67.74	2,084.64	7,515.60	-1,594.66	-6,711.66	1.31	2.75	897.77
4	28,841.76	31	22	9	70.97	1,862.14	5,108.40	-1,347.26	-4,848.66	1.38	3.38	930.38
3	12,013.19	31	19	12	61.29	1,408.92	4,989.60	-1,229.70	-5,403.51	1.15	1.81	387.52
2	11,819.56	31	21	10	67.74	1,164.49	3,981.60	-1,263.48	-2,894.94	0.92	1.94	381.28
1	2,745.23	31	21	10	67.74	629.36	3,542.40	-1,047.14	-4,302.72	0.60	1.26	88.56

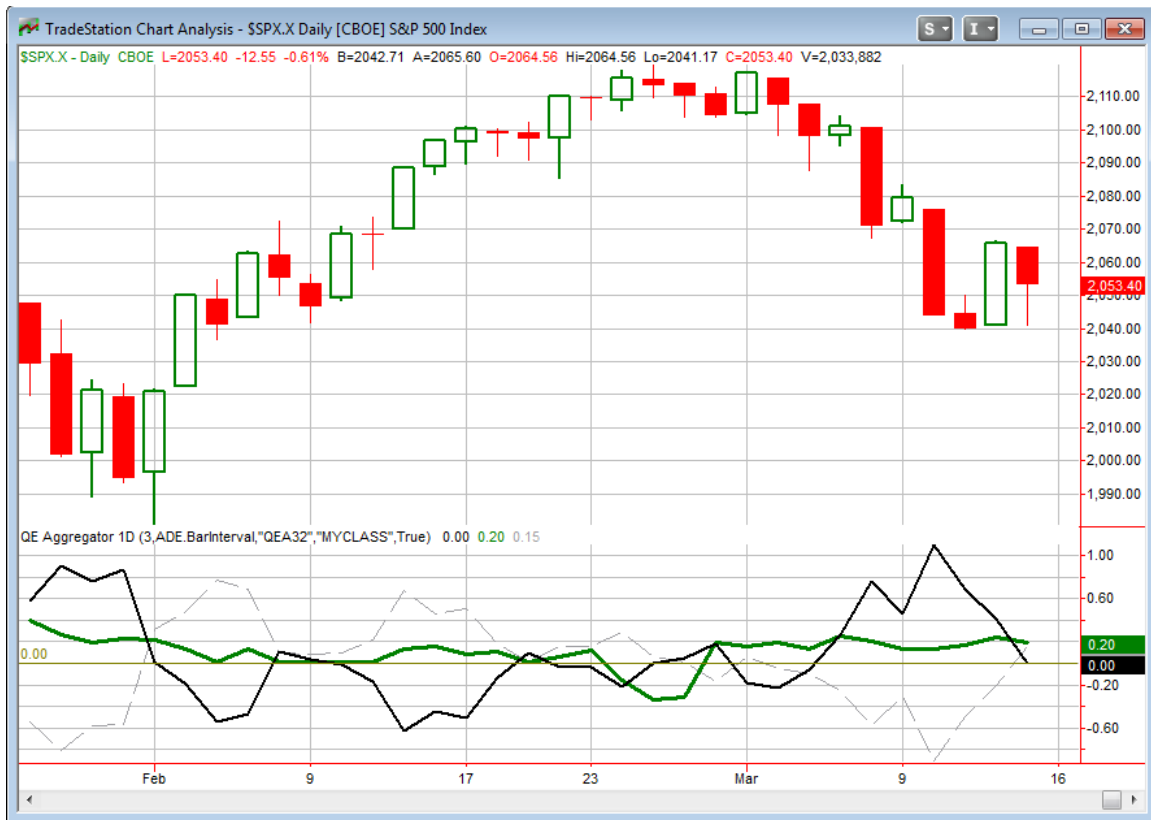
**There have only been 4 years in which SPX did not close above the entry price at some point during Opex week. They were 1986, 1991, 2001 and 2011.**

The upside edge seems to pretty much play out by Thursday. (Note that the 5 day stats differ slightly from the weekly above because of an occasional Easter influence.) Below is a visual representation of the Monday-Thursday returns.



The curve is impressive. Bottom line here is that seasonality this week could provide a bit of a wind at the markets' back.

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



With bullish op-ex seasonality now in play the green Aggregator Line again held firmly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is still (just barely) above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is slightly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal remained long at the close.

Based on the current active studies expectations are set to remain positive on Monday. That could possibly change if strong bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2048.83 on Monday. That is 0.2% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case in order to remain "oversold versus expectations" SPX is going to need to close down at least 0.2%. Anything short of that and it will flip to an "overbought" reading. I'll also note here that although the Differential Pivot is inverted right now, it will probably rise to around the mid-2070s on Tuesday. So an "overbought" reading on Monday will not last long unless the market actually manages to rally.

Oversold with some price-based studies is typically a solid time to get long. Oversold going into a strong seasonal period is also typically an opportune time to buy. We have

both right now, and that bodes well for the upcoming week. I believe there is a good chance we see a substantial bounce in the upcoming days. The only thing really lacking from my standpoint is the very low CBI reading. Capitulation is not a necessary ingredient for a pullback to reverse and bounce. But pullbacks with spiking CBIs have been more reliable, so it is nice to see. I already have a fair amount of long exposure, so I am not going to look to add any more just yet. I likely will if the market tumbles further early in the week.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 3/16 – 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.)

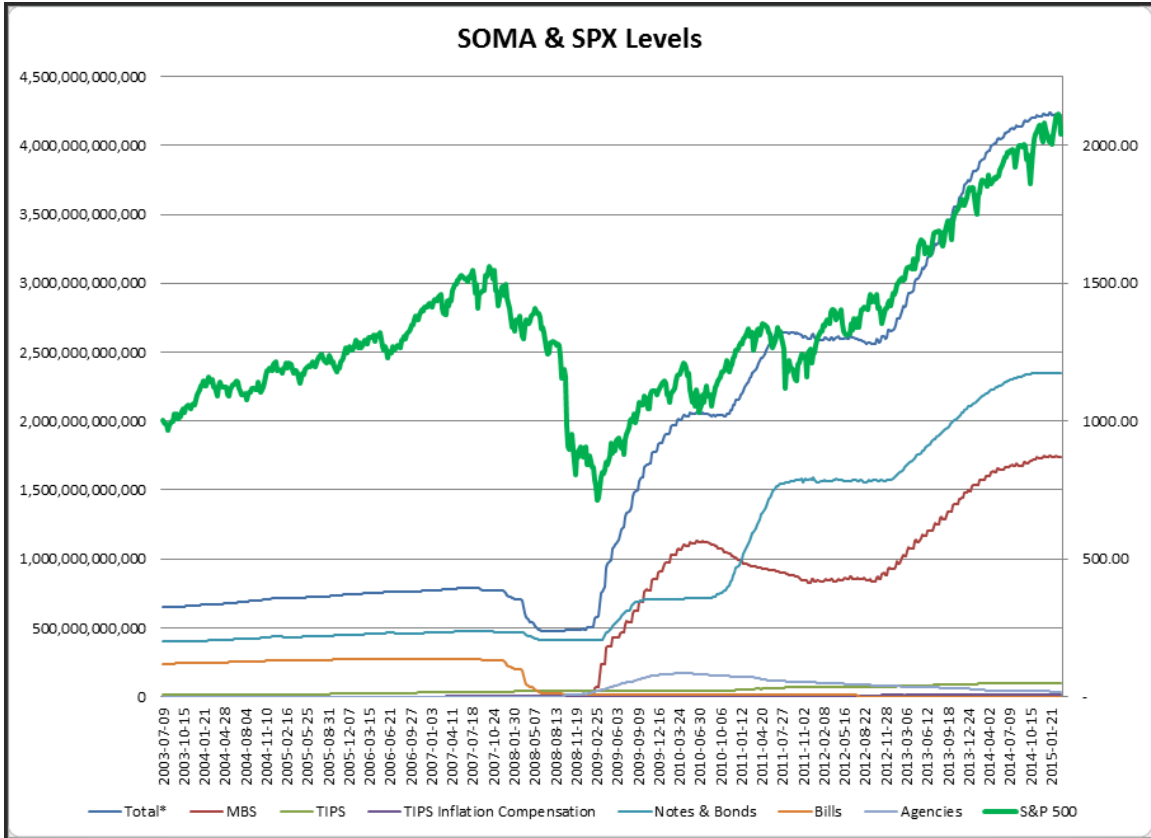
This was the 3<sup>rd</sup> week in a row that the SPX has declined. With Friday’s selling SPX finished down 0.9% for the week, and is now below its 50-day moving average. But the selling did not flip any of our intermediate-term indicators, nor did it generate any new bearish studies. The uptrend still does not appear to be broken.

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.

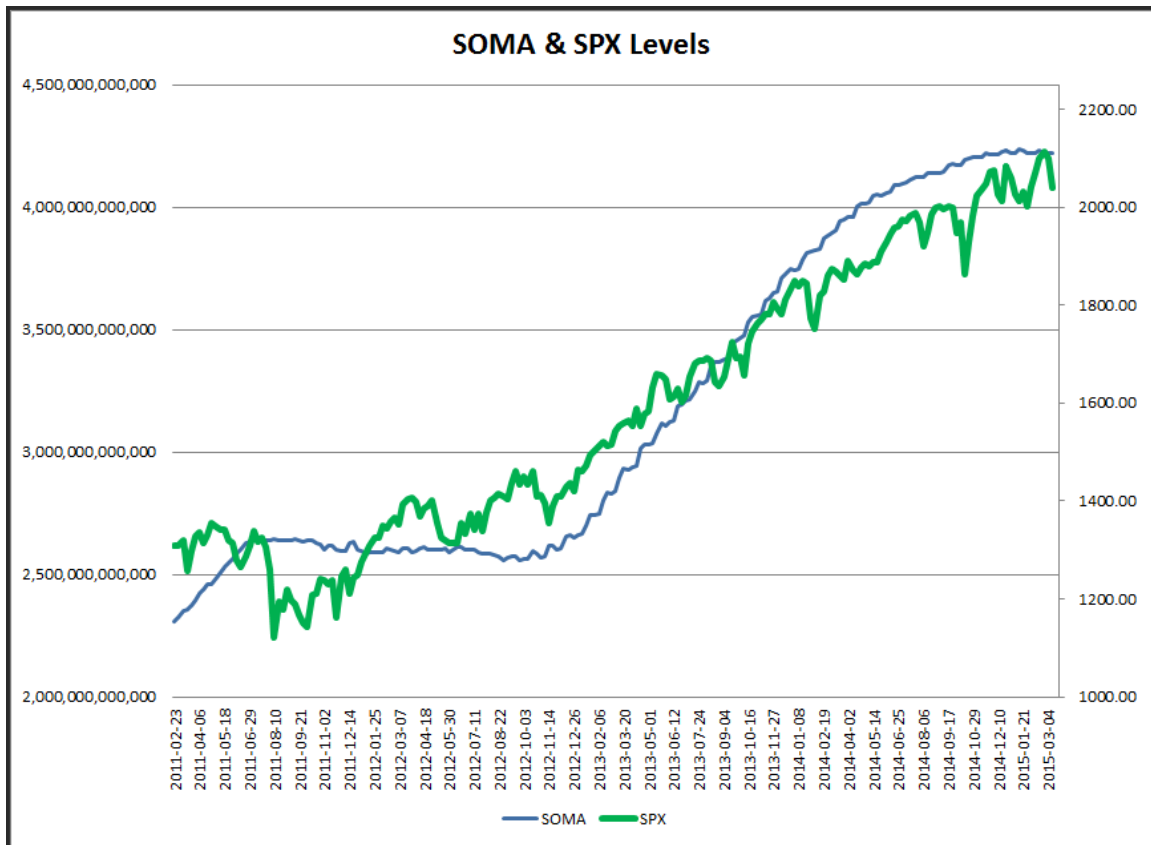
*SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities 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 saw a very slight rise this week and has basically continued to chop sideways over the last couple of months. In fact, the high came on January 14<sup>th</sup>, and changes since then have been minimal. But still the SOMA line has not rolled over. Of course, in looking at the 1<sup>st</sup> 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. There have been strong swings over the last several months, but the market has not accomplished much since then. Perhaps flat SOMA is enough to sustain the market for now, especially through the bullish seasonal period we are in until the end of April. I doubt a steadily declining one would support a positive market environment. 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. The lack of Fed stimulus and the continually floundering number of stocks hitting new highs since spring of 2013 are potential warning signs. Bulls can still 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.)

With bullish evidence still outweighing bearish, I am keeping the intermediate-term outlook at “somewhat bullish” as it has been for some time now. 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***

*MO – 1/3 at \$53.37 (filled @ \$53.20)*

#### ***Catapult for ETF's Trades***

*None*

#### ***Broad Market Large Cap CBI – 1(MO)***

### **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)	3/6/2015	\$209.42	\$205.83	-1.71%		Aggregator
XIV(1/2)	3/9/2015	\$32.25	\$31.79	-1.43%		Aggressive VIX
SPY(1/4)	3/11/2015	\$204.98	\$205.83	0.41%		Aggregator
MO(1/3)	3/11/2015	\$53.20	\$51.39	-3.40%		Catapult

*I will look to sell 1 lot of SPY @ \$207.80 LIMIT ON CLOSE, which would mark a close above the 10-day moving average for SPY.*

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