

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 30, 2015

Volume 8 Issue 60

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX's inability to string together a couple of winning days has reached historic proportions.
- Early April has typically been a bullish time for the market.
- The Fed's SOMA shrunk a little this past week, which makes it more difficult on the bulls.

Short-term Outlook

The Bottom Line

Evidence is moderately bullish and the market is still oversold. This suggests a bit of an upside edge.

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						
March 26, 2015	1% drop on weak breadth	1-9 days	Bullish	3.00%	-2.50%	-5.40%
March 19, 2015	High volume up day > 200ma. No opex	1-10 days	Bullish	2.50%	-1.50%	-3.10%
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			

The Evidence

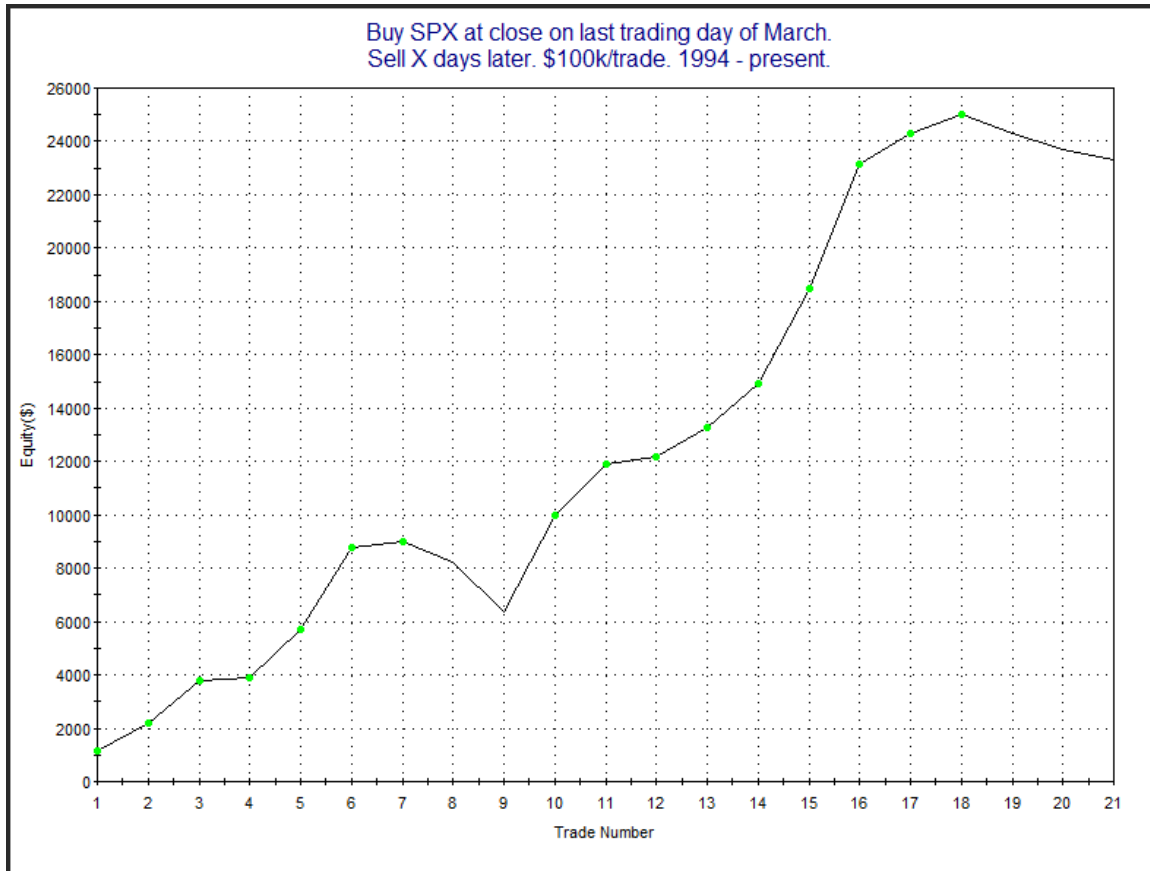
Friday was a day of moderate gains. The SPX closed up 0.2%, the NASDAQ gained 0.6%, and the Russell 2000 rose 0.7%. Breadth was mixed though as the NYSE Up Issues % came in at 57% and the Up Volume % was 45%. Total NYSE volume hit the lowest level of the week.

The market has really struggled to put together any kind of multi-day rally lately. In fact, it is nearly unprecedented how long SPX has gone without closing up for 2 days in a row. The last time it managed to close higher for more than 1 day was February 17th. It is now 28 days in a row without consecutive higher closes. There is not much I can glean from that since it has only happened 2 other times since 1960. They were 5/6/70 and 4/29/94. Unlike now, both of those streaks occurred with SPX locked in a long-term downtrend and trading below its 200-day moving average. Both streaks also ended the next day. If SPX closes up on Monday, then it too will end the streak at 28. If not, then it will mark an all-time record.

As we near April Fools Day on Wednesday it is worth noting that early April has been an especially strong period over the years. The table below is updated from the 4/1/13 letter.

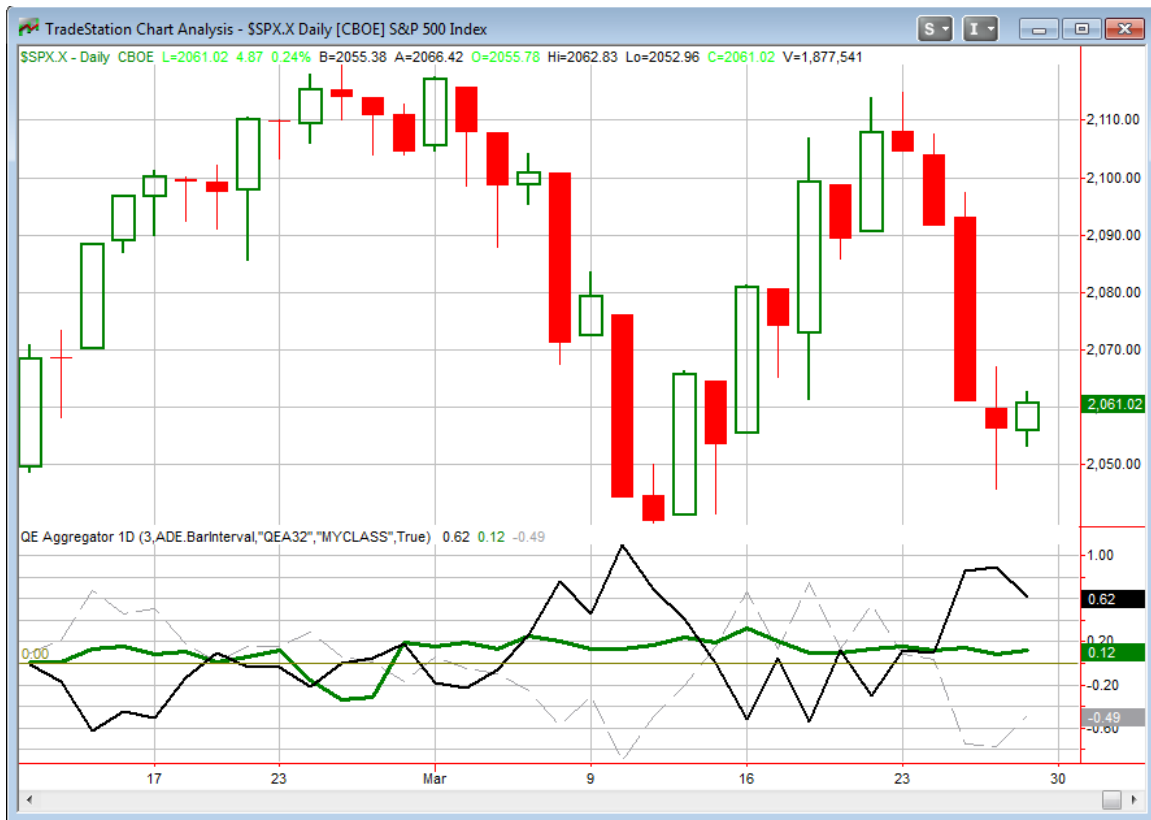
Buy SPX at close on last trading day of March. Sell X days later. \$100k/trade. 1994 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	14,571.21	21	15	6	71.43	1,596.26	4,435.97	-1,562.12	-2,745.12	1.02	2.55	693.87
4	23,315.50	21	16	5	76.19	1,725.14	4,701.25	-857.36	-1,831.35	2.01	6.44	1,110.26
3	18,609.07	21	16	5	76.19	1,748.23	5,578.75	-1,872.53	-4,909.74	0.93	2.99	886.15
2	18,789.33	21	16	5	76.19	1,619.18	4,563.75	-1,423.51	-4,638.84	1.14	3.64	894.73
1	9,600.90	21	16	5	76.19	846.13	3,559.50	-787.42	-1,532.16	1.07	3.44	457.19

The numbers here are quite impressive. The edge seems to max out on day 4. Below is a profit curve for a 4-day holding period.



Sixteen of the 1st eighteen years were higher on day 4, but the last 3 have seen mild declines. I still believe we will see some favorable seasonality in early April. (The 2-day time period has been up all of the last 3 years.) So this is something to keep in mind for later in the week.

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



Without any new studies factoring in for Monday the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line also held above 0. The positive Differential Line reading means the SPX is 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 stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Monday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 2069.70 on Monday. That is 0.4% above Friday's close. So for SPX to change from oversold to overbought it will need to close up at least 0.4% on Monday.

Friday didn't really do anything to change the short-term outlook. Evidence remains bullish, but somewhat modest. The market is still oversold. This has the Aggregator bullish, and I am as well. I already have some long exposure and I may look to add more if SPX sells off much on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/30– somewhat bullish

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

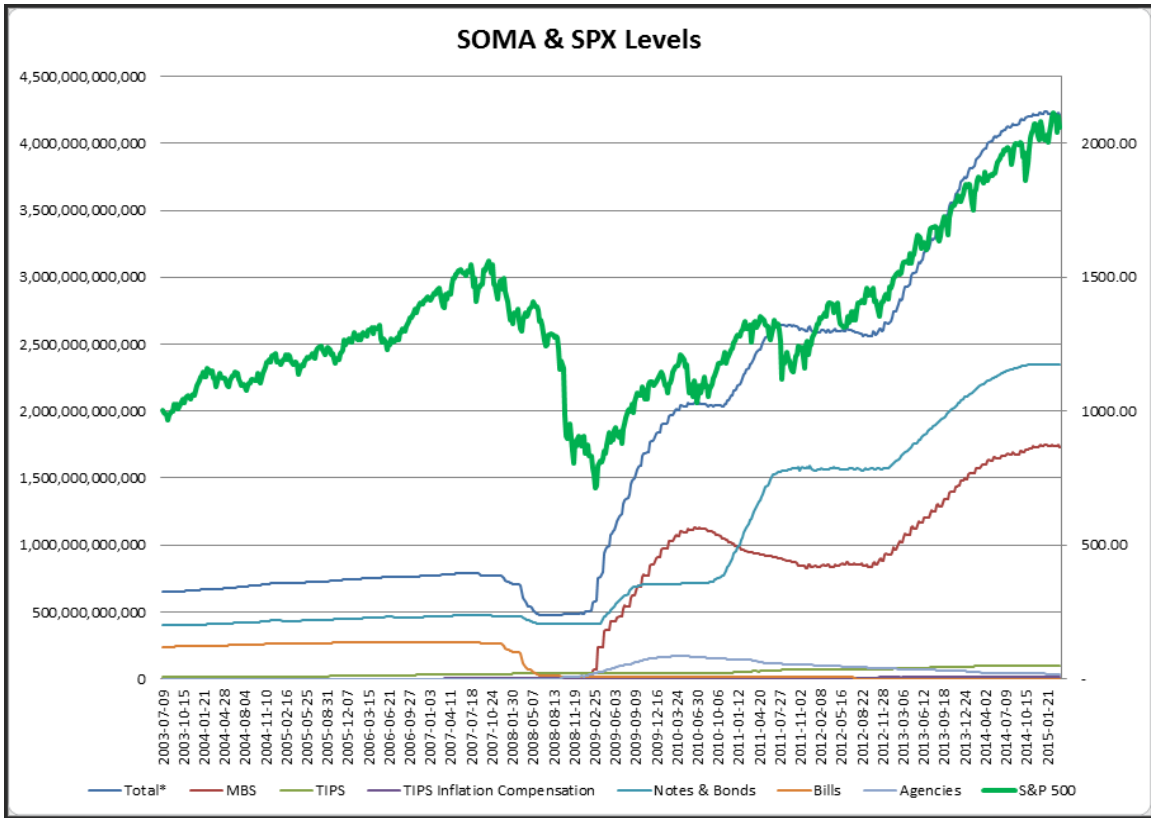
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 past week saw the market give back most of the gains it had made the previous one. 2015 continues to be a chop-fest. As of Friday the SPX is now up a mere 2 points on the year. Nothing of intermediate-term importance emerged this week. And it probably is no surprise in this sideways 2015 that our outlook has not changed much either.

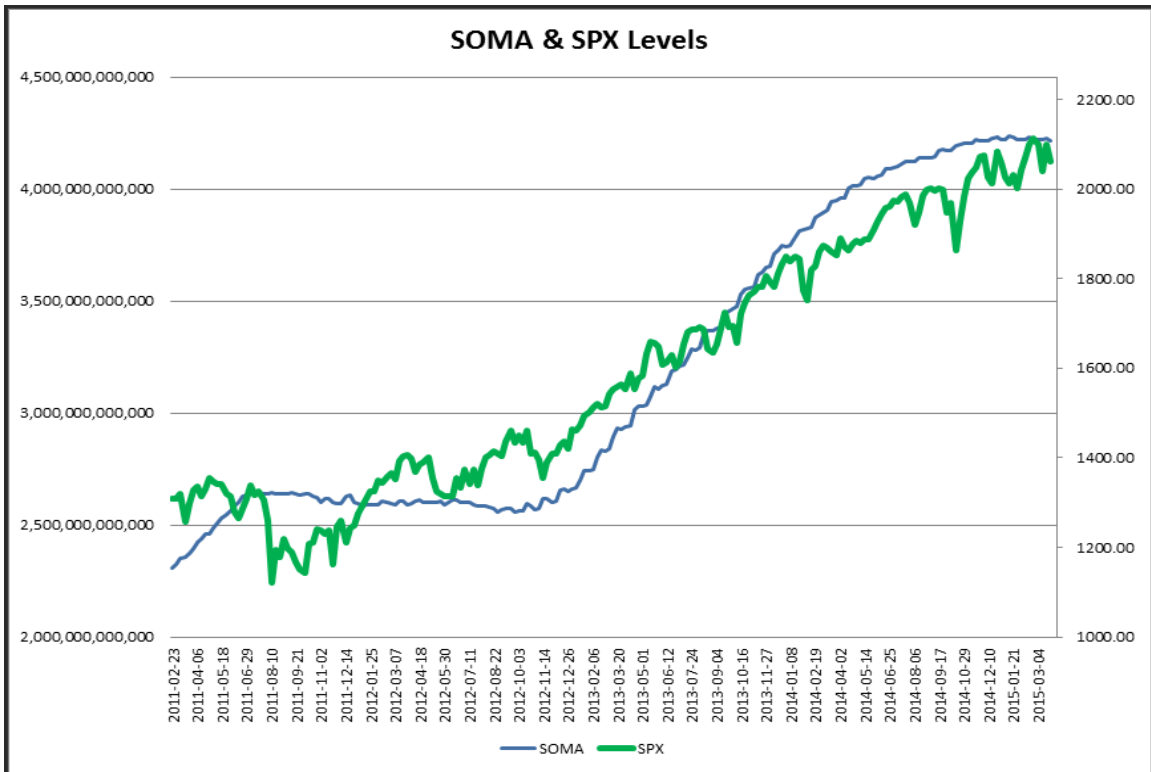
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 mild decline this week. It has basically chopped sideways over the last couple of months. The high came on January 14th, and changes since then have been minimal. But still the SOMA line 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. There have been strong swings over the last several months. The market has not made much progress but it also has not rolled over. 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. Fed policy changes and SOMA activity remain an important market influence. Therefore, 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 meandering SOMA levels 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](#).

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

BMY – 1/3 @ \$64.70 (bought)

UPS – 1/3 @ \$96.64 (bought)

New

UPS – 1/3 @ \$96.59 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3 (BMY, UPS-2)

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.

UPS – buy 1/3 Catapult position @ \$96.59 LIMIT. This is a Catapult trade idea. For those unfamiliar with Catapults, more information can be found on the [Catapult System page](#) on the website. This would mark the 2nd of 3 possible lots for UPS.

SPY – buy ¼ index position at \$205.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look the up my long exposure if SPY closes down much on Monday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$34.47	6.88%		Aggressive VIX
SPY(1/4)	3/25/2015	\$205.76	\$205.74	-0.01%		Aggregator
BMV(1/3)	3/26/2015	\$64.56	\$65.26	1.08%		Catapult
UPS(1/3)	3/27/2015	\$96.64	\$96.59	-0.05%		bought @ limit

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