

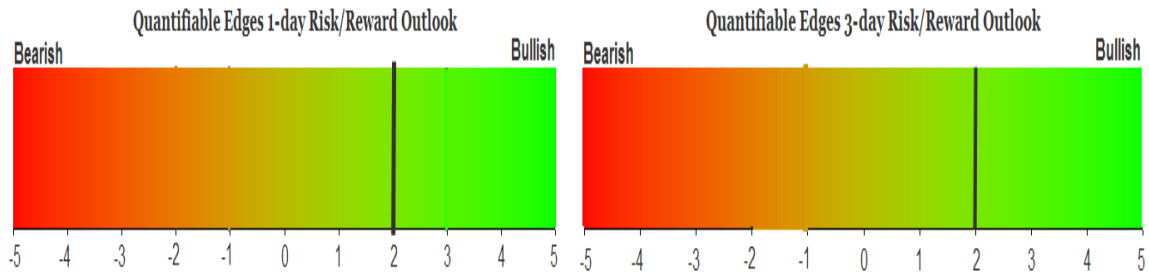
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 6, 2015

Volume 8 Issue 64

Market Overview



Signals Overview

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

Tonight's Research Points

- Good Friday employment reports that led to Monday gaps lower have been rare, but have been an overreaction each time.
- Intermediate-term evidence continues to favor the bulls.

Short-term Outlook

The Bottom Line

Evidence remains bullish and the market is still oversold. I believe there is a bit of a long-side 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						
April 1, 2015	Pullback into month end	1-5 days	Bullish			
April 1, 2015	Early April bullish	1-4 days	Bullish			
March 26, 2015	1% drop on weak breadth	1-9 days	Bullish	3.00%	-2.50%	-5.40%
Active - Long Term						
April 2, 2015	2 unfilled gaps down > 200ma	1-9 days	Bullish	2.40%	-1.60%	-3.00%
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						
April 2, 2015	<i>Holy Thursday bullish</i>	<i>1 day</i>	<i>Bullish</i>			
March 31, 2015	SPX up 2+ days low vol 10. Close > 200	1-3 days	Bullish	1.20%	-0.90%	-1.70%

The Evidence

The market put in a little morning rally and then drifted sideways for the rest of a quiet Thursday. The SPX finished up 0.4%, the NASDAQ gained 0.1%, and the Russell 2000 rose 0.3%. Breadth was strongly positive as the NYSE Up Issues % came in at 64% and the Up Volume % was 77%. Total NYSE volume came in light ahead of the long holiday weekend.

More interesting than the action on Thursday is perhaps what happened on Friday with the market closed. The employment report was released at 8:30am and the reaction in the futures was not good. ES sold down over 20 points in the next 45 minutes before closing for the day. So there is a good chance that traders are going to be faced with a sizable gap lower when the market opens on Monday morning.

Since inception of the SPY in 1993 there have only been 6 instances where the employment release came on Good Friday with the markets closed. And only 3 of those times did the market gap down to start the day on Monday. Here's is what happened between the open and the close on Monday after those 3 instances.

SPY gaps down on Monday following a Good Friday employment report. Buy on open. Sell on close. \$100k/trade. 1993 - present.					
Date/Time	Signal	Price	% Profit	Run-up Drawdown	
04/04/94	Buy	\$43.35	1.29%	\$1,524.56	
04/04/94	Sell	\$43.91		\$0.00	
04/08/96	Buy	\$63.88	0.80%	\$793.52	
04/08/96	Sell	\$64.39		(\$427.28)	
04/09/12	Buy	\$138.03	0.14%	\$536.25	
04/09/12	Sell	\$138.22		(\$135.85)	

There is nothing we can really learn with any degree of confidence based on just 3 instances. But it is a little encouraging for the bulls that the initial open lower was a bit of an over-reaction all three times.

Thursday's quiet trading left the Quantifinder without any new evidence emerging, but the evidence we already have continues to point higher.

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



There was not much change on Thursday. The green Aggregator Line again 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 stayed 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 2076.37 on Monday. That is 0.5% above Thursday's close. So SPX will need to close up at least 0.5% on Monday in order to move from oversold to overbought versus expectations.

Friday's employment report will almost surely be felt at the open on Monday. And there is little precedent for such a reaction when the report has been released on a day the market is closed. But the few times it has occurred the initial open was an overreaction. And we still have evidence based on price action and seasonality suggesting this oversold condition is likely to be followed by a pop higher. I already have some long exposure. While I considered looking to add to it on Monday, I decided I will just see how the day plays out. It should be an interesting market day, and if the move is strong then we will likely see additional evidence emerge. So I will wait until Monday night to consider adding any more long exposure, but I anticipate getting interested in increasing that long exposure on Tuesday if Monday does result in a selloff.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/6– 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 started off well with a pop higher on Monday. But the pullback the next 2 days left the SPX with just mild gains even after Thursday's up day. SPX continues to trade in a fairly tight range, and has made little progress in the last few months. There was one study that emerged this past week that showed possible bullish implications for the intermediate-term. It appeared in Wednesday night's letter and I have copied it below.

From a price action standpoint it was notable that Wednesday marked the 2nd day in a row that SPY left an unfilled gap down. In the 9/24/13 letter I showed that this suggested bullish implications when it occurred during a long-term uptrend. I have updated that study below.

SPY leaves an unfilled gap down for the 2nd day in a row. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1998 - 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	39,703.22	32	24	8	75.00	2,167.58	5,325.39	-1,539.84	-4,320.54	1.41	4.22	1,240.73
9	38,626.29	33	25	8	75.76	2,067.02	4,882.41	-1,631.14	-4,075.15	1.27	3.96	1,170.49
8	32,667.41	33	22	10	66.67	2,109.24	4,742.40	-1,373.58	-4,700.95	1.54	3.38	989.92
7	26,869.45	34	23	10	67.65	2,023.27	4,429.74	-1,966.58	-4,604.10	1.03	2.37	790.28
6	29,583.71	34	25	9	73.53	1,753.75	3,828.72	-1,584.44	-3,671.57	1.11	3.07	870.11
5	24,149.51	34	24	10	70.59	1,543.32	3,940.02	-1,289.03	-3,627.12	1.20	2.87	710.28
4	15,463.10	34	25	9	73.53	1,133.82	4,388.28	-1,431.37	-3,342.64	0.79	2.20	454.80
3	4,968.32	34	19	15	55.88	970.62	3,325.14	-898.23	-2,747.01	1.08	1.37	146.13
2	2,910.93	34	17	17	50.00	892.36	2,948.14	-721.13	-2,436.12	1.24	1.24	85.62
1	6,063.96	34	21	13	61.76	715.97	1,974.15	-690.10	-1,849.26	1.04	1.68	178.35

32 of 34 instances (94%) closed above the entry price at some point in the next week.

The first 3 days do not seem to show strong consistency, but once you get out past that the numbers are quite impressive. The high number that bounced at some point in the next week is also striking. Below is a profit curve for a 9-day holding period.

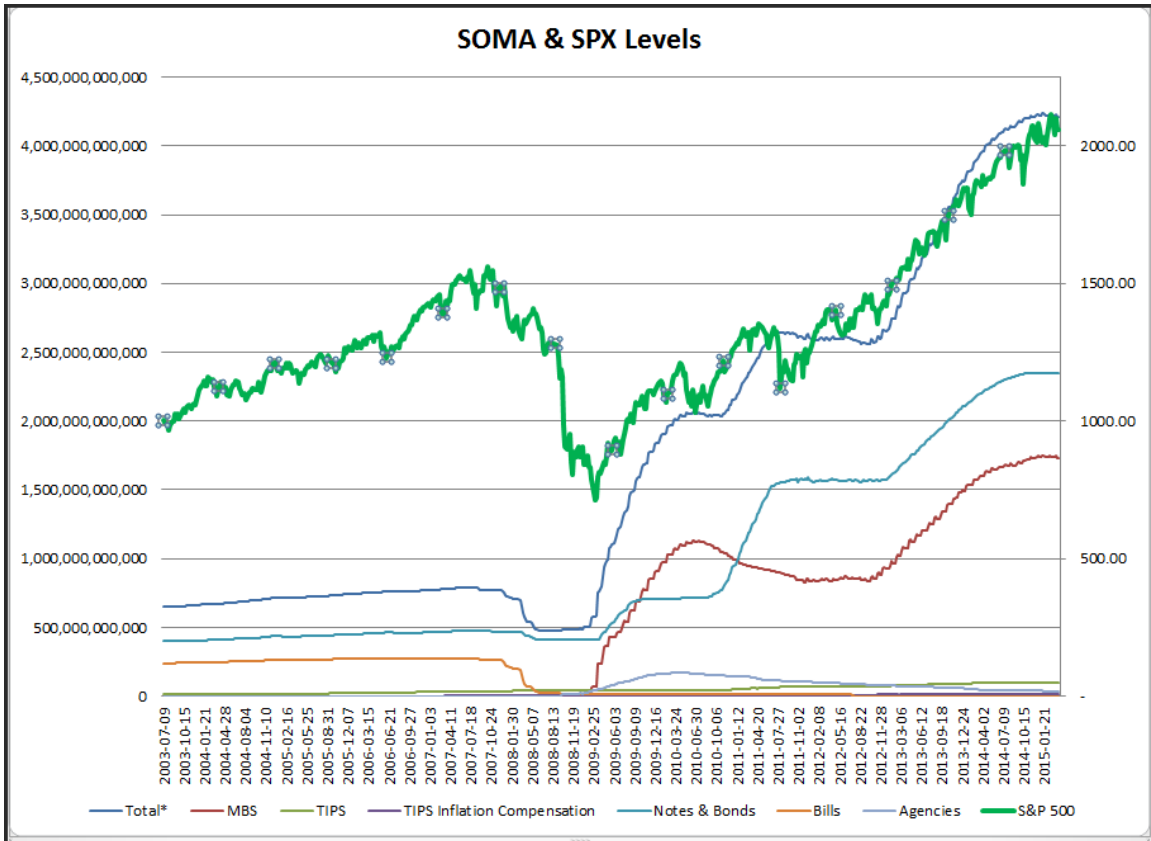


The curve is also impressive. With the inconsistent start I did not include this study on the short-term list but I did include it on the intermediate-term list tonight.

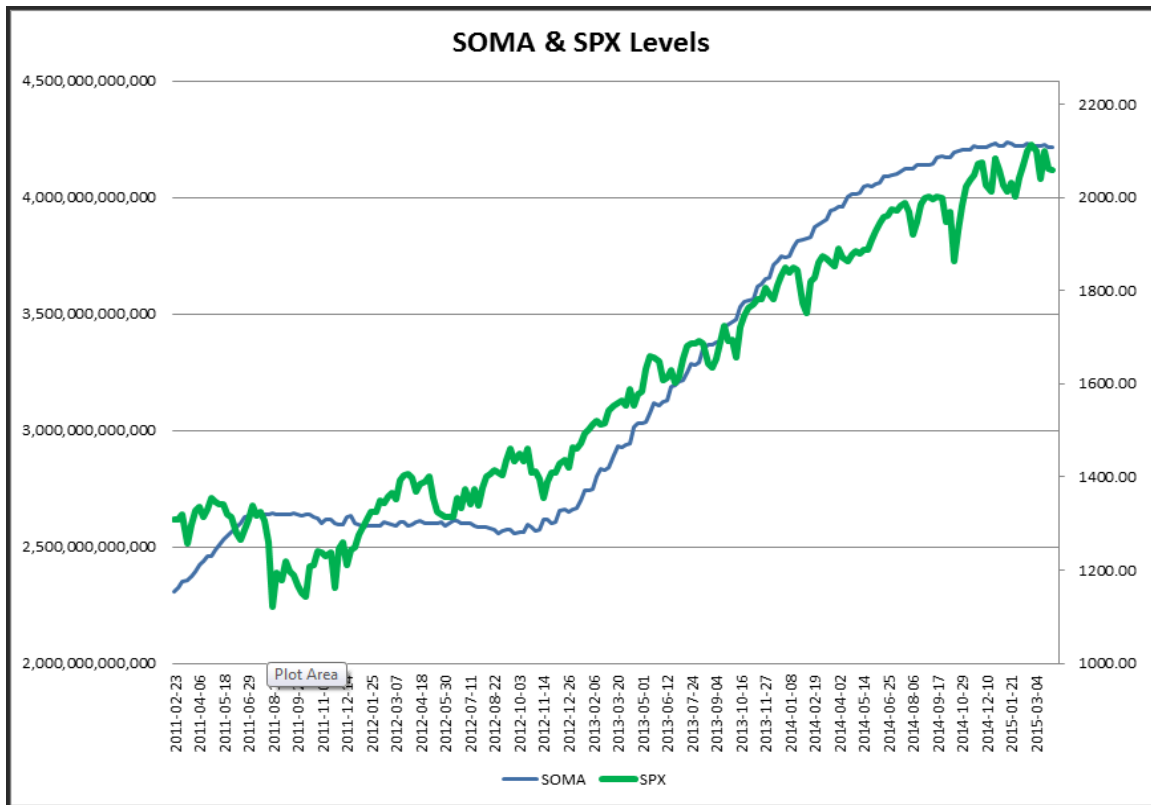
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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, very mild increase this week. That changed really nothing in my SOMA analysis. SOMA 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 again this 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](#). Additionally, the double-unfilled gap study shown above supports the bull case for the next week and a half.

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

UPS – 1/3 @ \$96.64 (bought)

UPS – 1/3 @ \$96.59 (not filled-cancel order)

Catapult for ETF’s Trades

None

Broad Market Large Cap CBI – 2 (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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$35.35	9.61%	\$32.69	Aggressive VIX
UPS(1/3)	3/27/2015	\$96.64	\$96.47	-0.18%		Catapult
SPY(1/4)	4/2/2015	\$205.50	\$206.43	0.45%		bought @ limit

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