

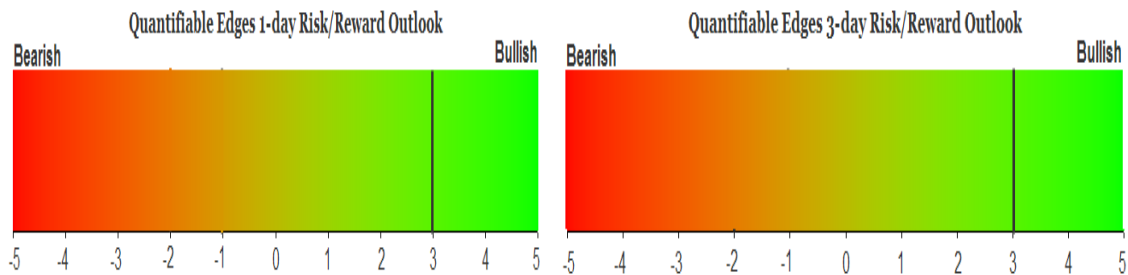
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 1, 2015

Volume 8 Issue 103

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A combination of factors are suggesting turn of the month is likely to see gains.
- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.

## *Short-term Outlook*

### *The Bottom Line*

Bullish evidence is building, the market is still oversold, and there is room to the upside before it would be considered overbought. This all suggests a bullish edge over the next few days.

**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>						
June 1, 2015	2x unfilled gap down > 200ma	1-6 days	Bullish	2.00%	-1.40%	-2.50%
June 1, 2015	End of month pullback	1-2 Days	Bullish	1.50%	-0.40%	-0.80%
May 27, 2015	50-high to 8 low in 2 days	1-5 days	Bullish	1.80%	-1.20%	-2.25%
May 27, 2015	3 up high,low, close. Dn close others up	1-4 days	Bullish	1.80%	-1.20%	-2.35%
<b>Active - Long Term</b>						
June 1, 2015	2x unfilled gap down > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.00%
May 18, 2015	NASDAQ leading SPX	int term	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			

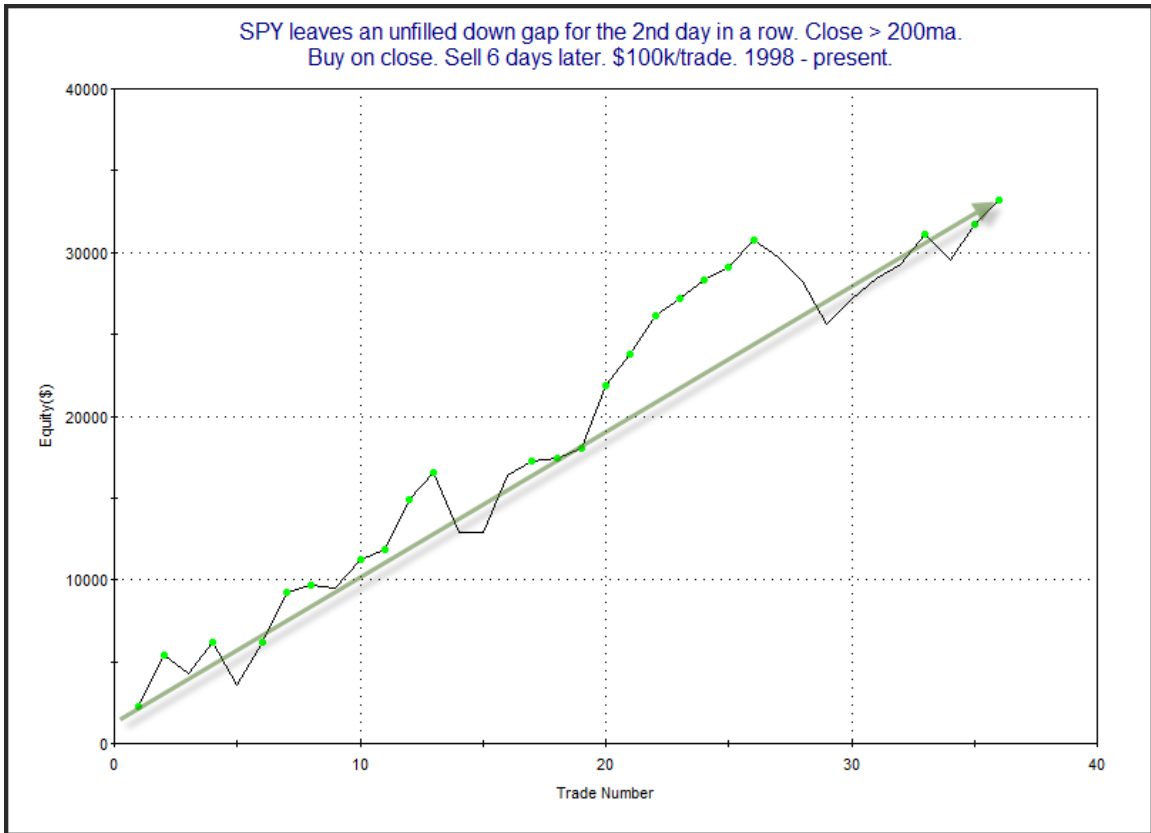
**The Evidence**

Friday saw a bit of a selloff. The SPX, NASDAQ, and Russell 2000 all closed down 0.5%-0.6%. Breadth was negative as the NYSE Up Issues % came in at 31% and the Up Volume % was 29%. Total NYSE volume came in at the highest level in several weeks.

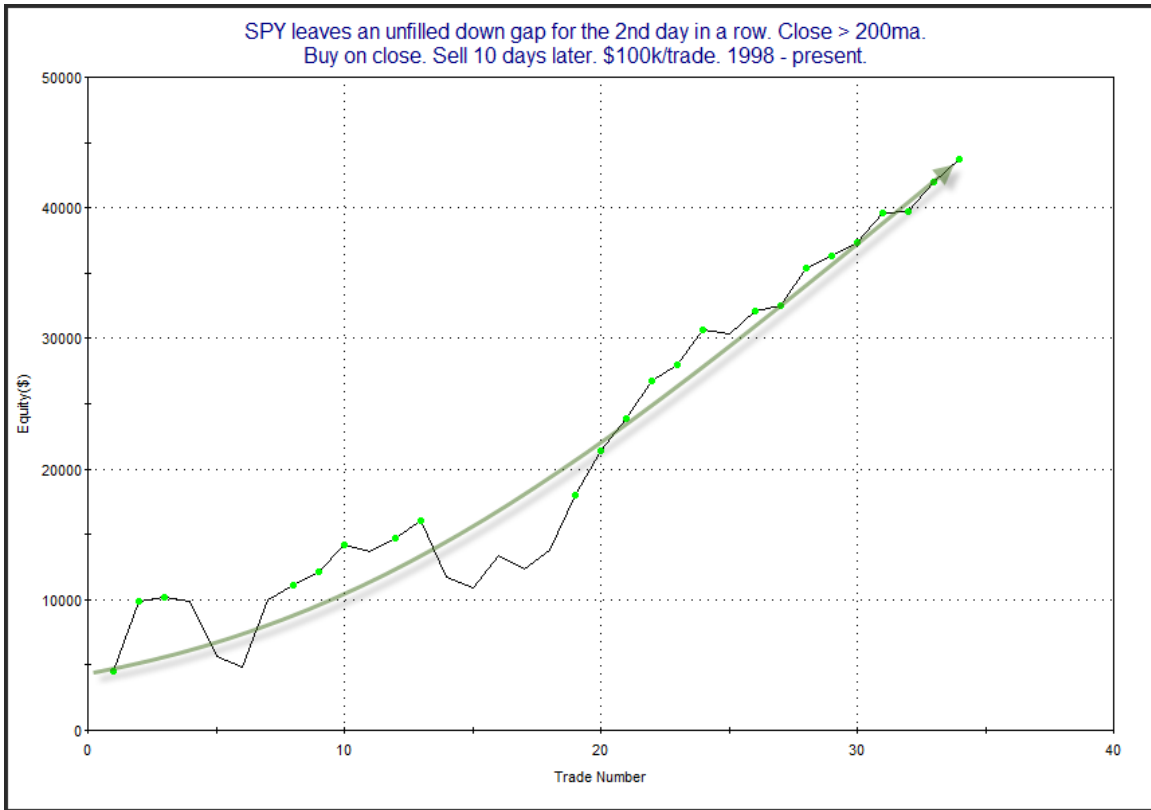
Notable about the price action over the last 2 days is that both Thursday and Friday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 9/24/13 letter. Results are updated.

SPY leaves an unfilled down gap 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	43,769.09	34	26	8	76.47	2,157.22	5,325.39	-1,539.84	-4,320.54	1.40	4.55	1,287.33
9	41,672.31	35	27	8	77.14	2,026.72	4,882.41	-1,631.14	-4,075.15	1.24	4.19	1,190.64
8	35,237.43	35	24	10	68.57	2,040.55	4,742.40	-1,373.58	-4,700.95	1.49	3.57	1,006.78
7	29,542.05	36	25	10	69.44	1,968.31	4,429.74	-1,966.58	-4,604.10	1.00	2.50	820.61
6	33,206.59	36	27	9	75.00	1,758.02	3,828.72	-1,584.44	-3,671.57	1.11	3.33	922.41
5	25,901.10	36	26	10	72.22	1,491.98	3,940.02	-1,289.03	-3,627.12	1.16	3.01	719.47
4	16,370.00	36	26	10	72.22	1,132.83	4,388.28	-1,308.35	-3,342.64	0.87	2.25	454.72
3	5,946.96	36	21	15	58.33	924.78	3,325.14	-898.23	-2,747.01	1.03	1.44	165.19
2	5,316.05	36	19	17	52.78	925.01	2,948.14	-721.13	-2,436.12	1.28	1.43	147.67
1	7,501.28	36	23	13	63.89	716.20	1,974.15	-690.10	-1,849.26	1.04	1.84	208.37
<b>34 of 36 instances (94%) closed above the entry price at some point in the next week.</b>												

The numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 6-day holding period.



The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.



This is also impressive. I have included this study on both the Short and Intermediate-term Active Lists tonight.

Several studies related to turn of the month triggered in the Quantifinder. Beginnings of new months often arrive with seasonal strength. This has especially been true 1) during long-term uptrends, and 2) when the market is experiencing a short-term pullback, and 3) when it closes weakly on the last day of the month. In the study below I took these concepts, which were learned from past studies, and combined them. The results were surprisingly strong.

Today is the last trading day of the month. SPY closes > 200ma and positive on the month. It also closes < 10ma, down on the day, and in the lower 50% of its daily range.  
Buy on close. Sell X days later. \$100k/trade. 1993 - 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	37,759.36	26	21	5	80.77	2,221.96	5,025.88	-1,780.35	-6,349.55	1.25	5.24	1,452.28
4	33,463.72	26	20	6	76.92	1,974.33	3,718.84	-1,003.82	-4,936.67	1.97	6.56	1,287.07
3	30,257.64	26	20	6	76.92	1,753.14	4,245.00	-800.84	-1,673.59	2.19	7.30	1,163.76
2	26,761.08	26	25	1	96.15	1,113.84	3,135.34	-1,084.89	-1,084.89	1.03	25.67	1,029.27
1	21,349.29	26	24	2	92.31	907.63	1,792.50	-216.95	-257.40	4.18	50.20	821.13

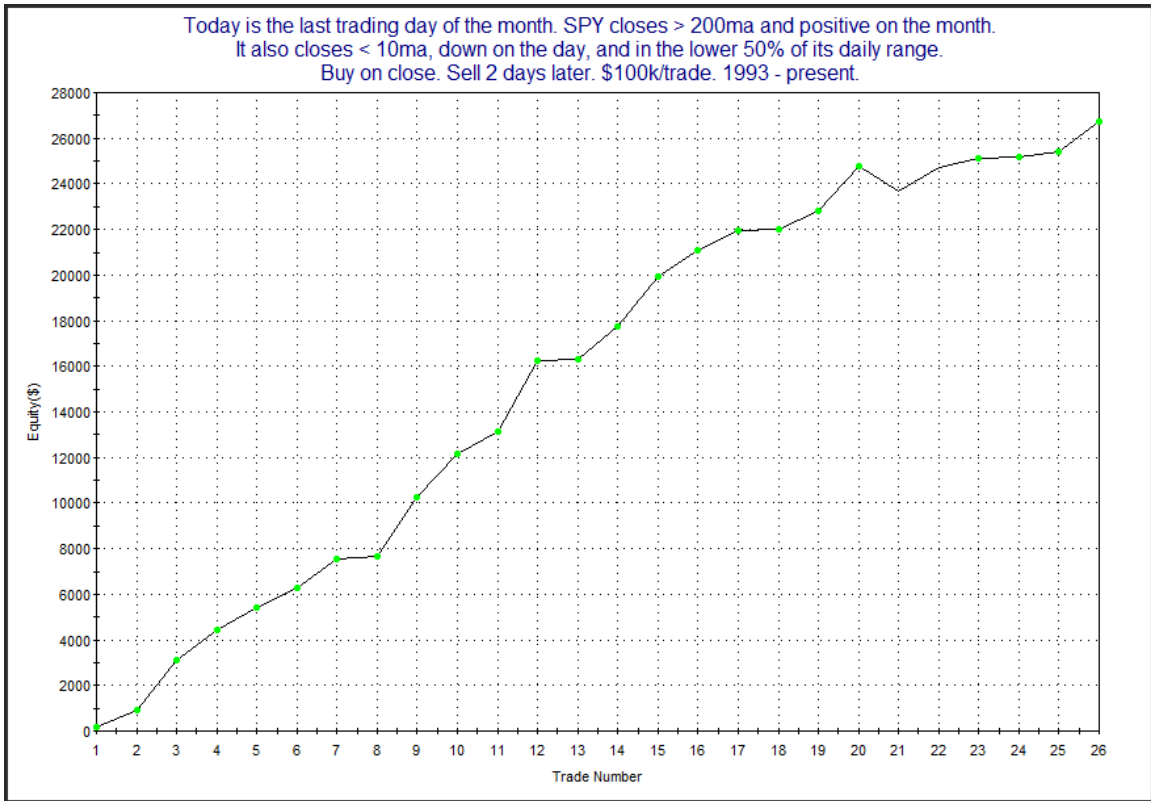
The lone 2nd-day loser DID close higher on day 1.  
It triggered on 4/30/10.

The reliability of a bounce over the next 1-2 days has been remarkable. So were the 2-day Run-up/Drawdown stats, which I have pasted below:

Today is the last trading day of the month. SPY closes > 200ma and positive on the month. It also closes < 10ma, down on the day, and in the lower 50% of its daily range.  
Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

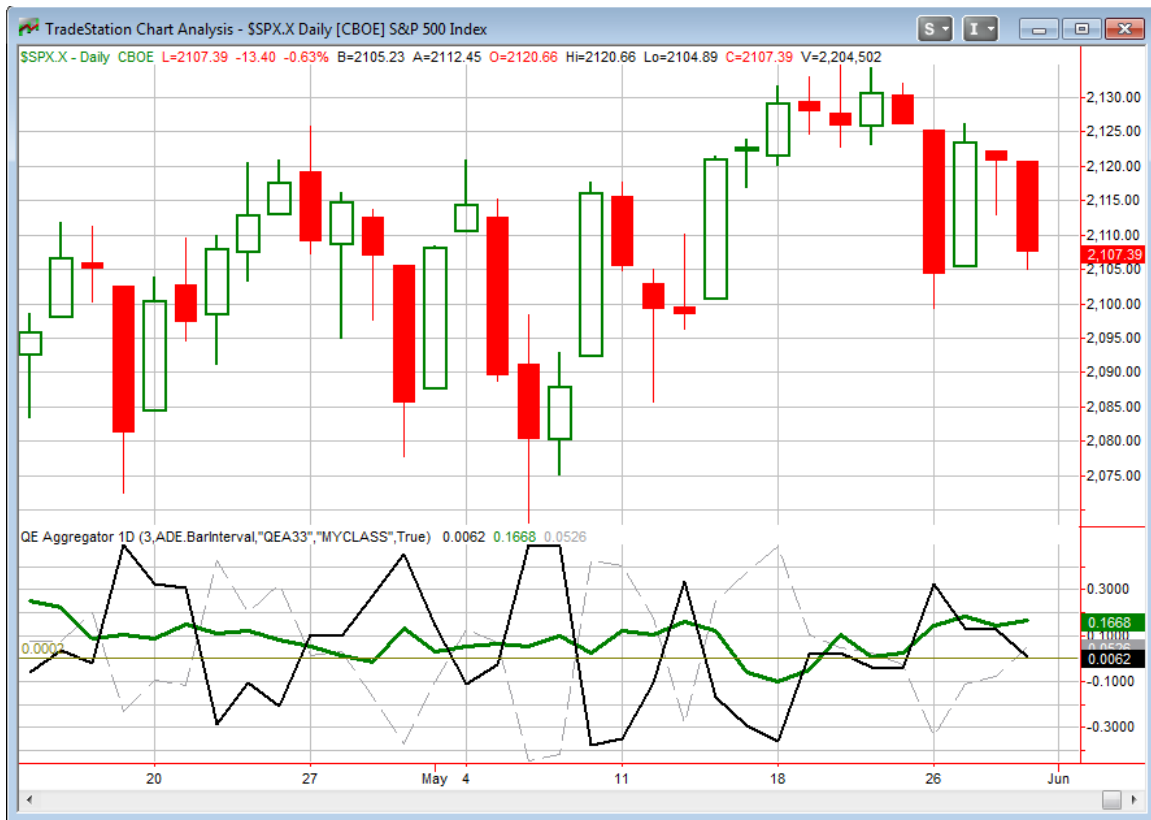
Run-up/Drawdown	Run-up	Drawdown
Max. Value	\$3,275.38	(\$1,589.49)
Max. Value Date	4/5/1999	5/4/2010
Avg. Value	\$1,552.05	(\$366.67)

The Avg Run-Up was nearly the size of the MAX Drawdown, and over 4x the size of the Avg Drawdown. Those are some impressive numbers. Here also is a profit curve.



Other than the 1-instance hiccup, it has been a steady ride higher. This study certainly seems worthy of consideration.

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



With the new studies included 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 is still just barely above 0. The positive Differential Line reading means 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 this could change if new bearish evidence emerges. The Differential Pivot will be 2130.77 on Monday. That is 1.1% above Friday's close. This means that SPX would need to close up over 1.1% for the Differential Line to close below zero and signal an overbought condition. The 1.1% cushion is a good size, which makes reward/risk more appealing.

I like the mix of upside evidence. Oversold going into a strong seasonal period is generally a solid setup. Combine that with the favorable price-pattern studies we are seeing and the upside edge looks fairly strong. I began to scale into a long index position at the close on Friday. If SPX bucks expectations and heads much lower on Monday I may scale in further.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 6/1– slightly bullish**

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

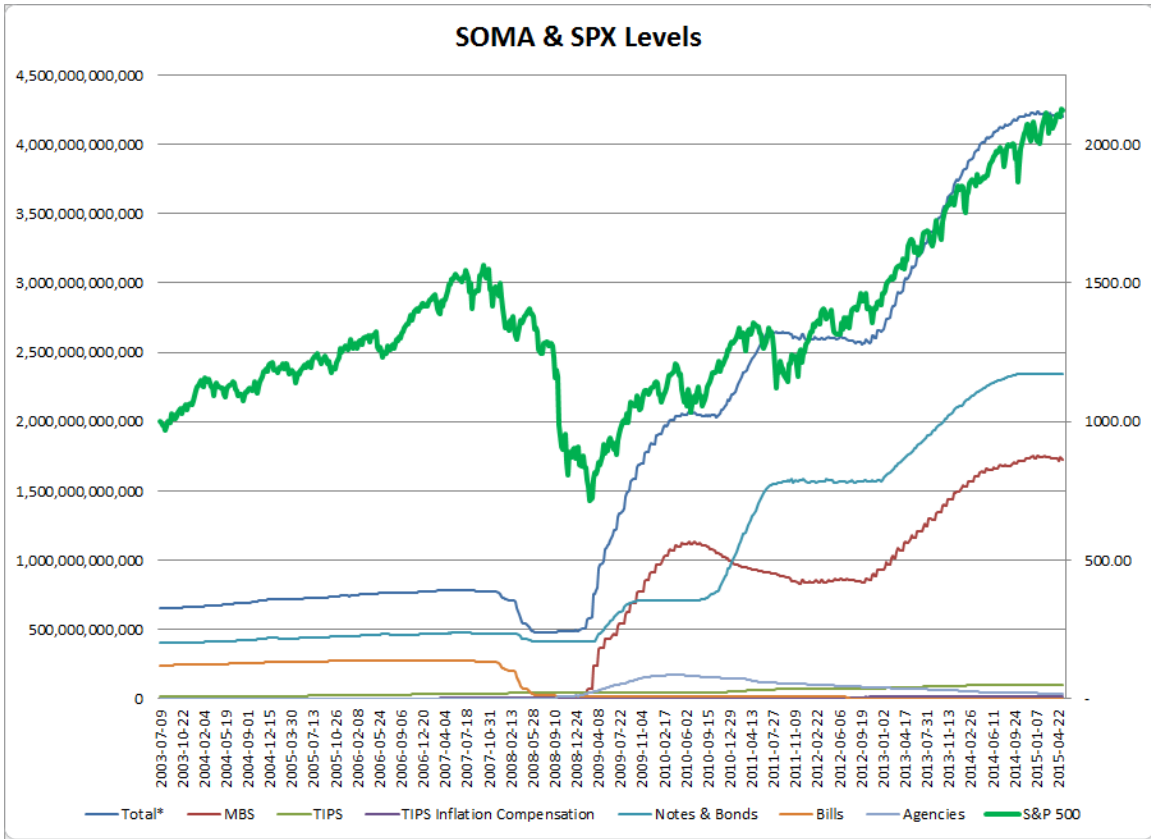
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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.) There were no changes this week to the different Combination Signals. All three remain long.

The market ended mixed this past week. SPX declined 0.9% for the week while the NASDAQ gained 0.2%. This allowed the NASDAQ to maintain its leading position with our NASDAQ/SPX Relative strength indicator. New highs were not made for either index, but there is no indication that the end of the uptrend is already upon us. From a studies standpoint, the 2x unfilled gap down study from the short-term section above is the only new evidence that emerged.

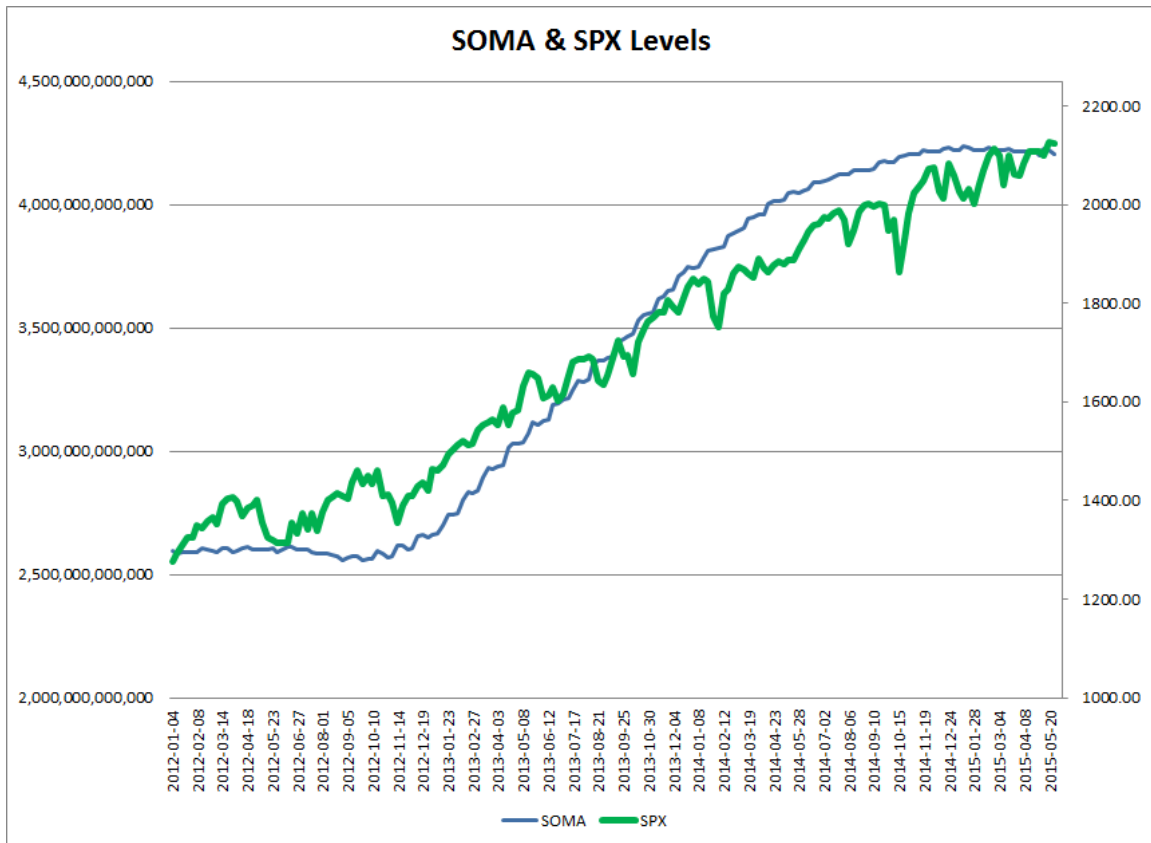
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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 (2012 – present).



The SOMA account saw a decline for the 2<sup>nd</sup> week in a row. And the decline this week was fairly sizable, bested only by the week of 4/29 in recent years. But while the drop was fairly large, the SOMA level is still within its range from October-present. Of course it is now at the lower end of that range. Further selling could cause a break below the range, and that might also encourage stock market selling as well. So the next couple of weeks could be vital. Fed policy and SOMA activity remain an important market influence. I will be monitoring it closely as I normally do.

The sideways market action this past week did not do much to impact the intermediate-term outlook. Our Market Timing Course indicators are still mostly bullish (and the MTC “Combo Systems” are all bullish). But other indicators continue to suggest a dangerous environment. This includes the diverging number of stocks making new highs and the questionable SOMA action. Overall, I am not inclined to bet against the trend, the leading NASDAQ, this weekend’s bullish study, and the mildly favorable seasonal period. I therefore will remain “slightly bullish”. I am willing to trade both long and short, but I’ll be a bit more picky with short-side opportunities.

## Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

### **Open Catapult Triggers**

HAL @ \$46.35 (bought 1/3 @ limit)

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

None

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

## 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.

**SPY – buy ¼ index position @ \$210.14 LIMIT ON CLOSE.** Based on the short-term outlook above I will continue to scale in on Monday if SPX closes down another \$1.00.

## Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$45.19	40.12%	\$37.90	Aggressive VIX
HAL(1/3)	5/8/2015	\$46.35	\$45.40	-2.05%		Aggregator
SPY(1/3)	5/29/2015	\$211.14	\$211.14	0.00%		bought on close

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