

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 8, 2015

Volume 8 Issue 108

Market Overview



Signals Overview

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

Tonight's Research Points

- Mixed action on Friday did not generate any compelling new evidence.

Short-term Outlook

The Bottom Line

Evidence continues to point to a bounce and the market is still oversold. I continue to like the long side.

Summary of Recent Active Studies (see Letters from listed dates for details) –

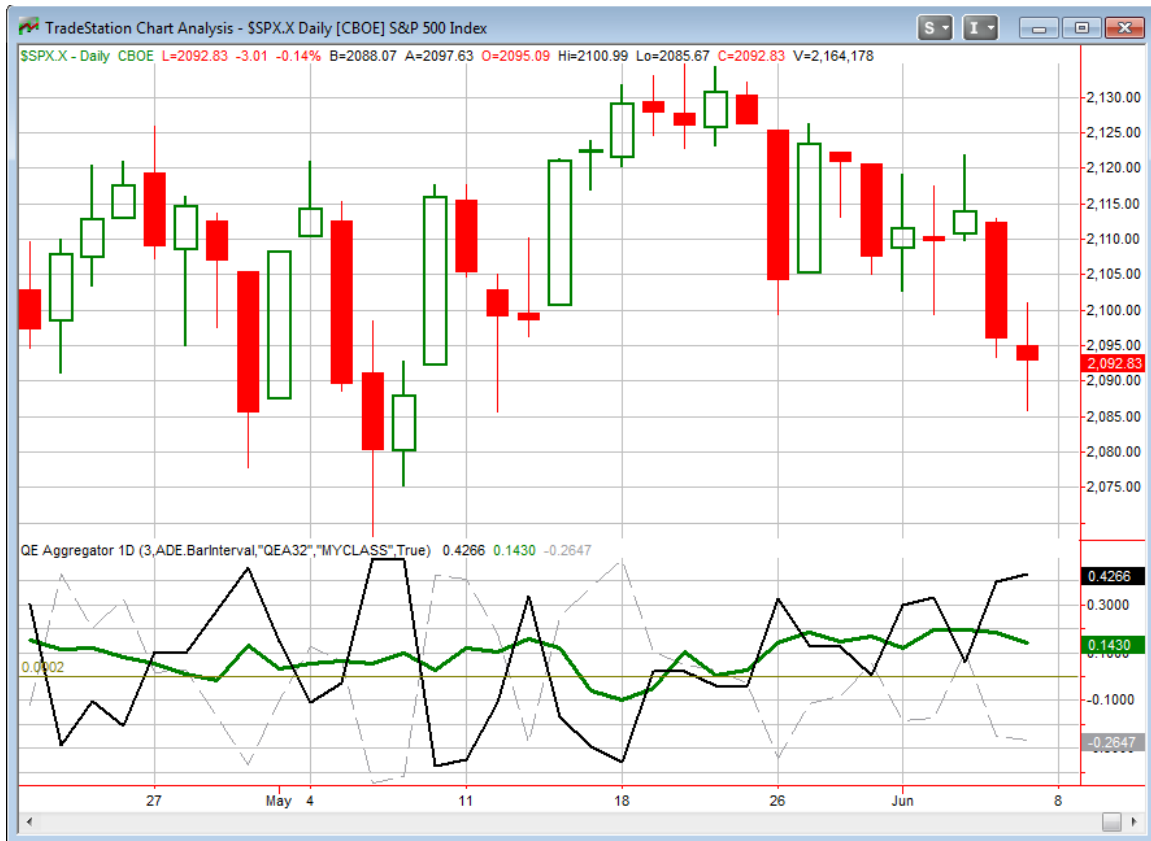
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
June 5, 2015	Gap to 5-low and close < open	1-4 days	Bullish			
June 3, 2015	1% drop then 5-day consolidation	1-3 days	Bullish			
June 1, 2015	2x unfilled gap down > 200ma	1-6 days	Bullish	2.00%	-1.40%	-2.50%
Active - Long Term						
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

The market put in a mixed day on Friday. The SPX declined 0.1%, the NASDAQ rose 0.2% and the Russell 2000 gained 0.8%. Breadth was also mixed as the NYSE Up Issues % came in at 46% and the Up Volume % was 52%. Total NYSE volume rose a little from Thursday's level.

SPX closed at a 20-day low on Friday. During a long-term uptrend this will often generate fairly compelling evidence of a bounce. We have especially seen it when there is a big one-day selloff that puts the SPX at a 20-day low. But that did not happen this time. I sliced and diced the data a number of ways. Things I examined included the being the 1st 20-day low in a while (without the big 1-day selloff), and 20-day lows above the 200ma on an employment day. Results were underwhelming. This leaves us without any new and compelling short-term directional evidence to add to the Active List. Of course we do still have a couple of studies on the list suggesting an upside edge.

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



Without any new evidence being added 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 also still holding 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 2124.69 on Monday. That is 1.5% above Friday's close. This means that SPX would need to close up at least 1.5% on Monday for the Differential Line to close below zero and signal an overbought condition. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

I still like the long side, and there is decent room to the upside providing good potential reward before the market turns overbought. I am already fairly long. And without new compelling evidence I am not inclined to up my index exposure further. So my bottom line is that I remain short-term bullish and that I intend to manage my current long exposure looking for a bounce in the next few days to possibly sell into.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/8– slightly bullish

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

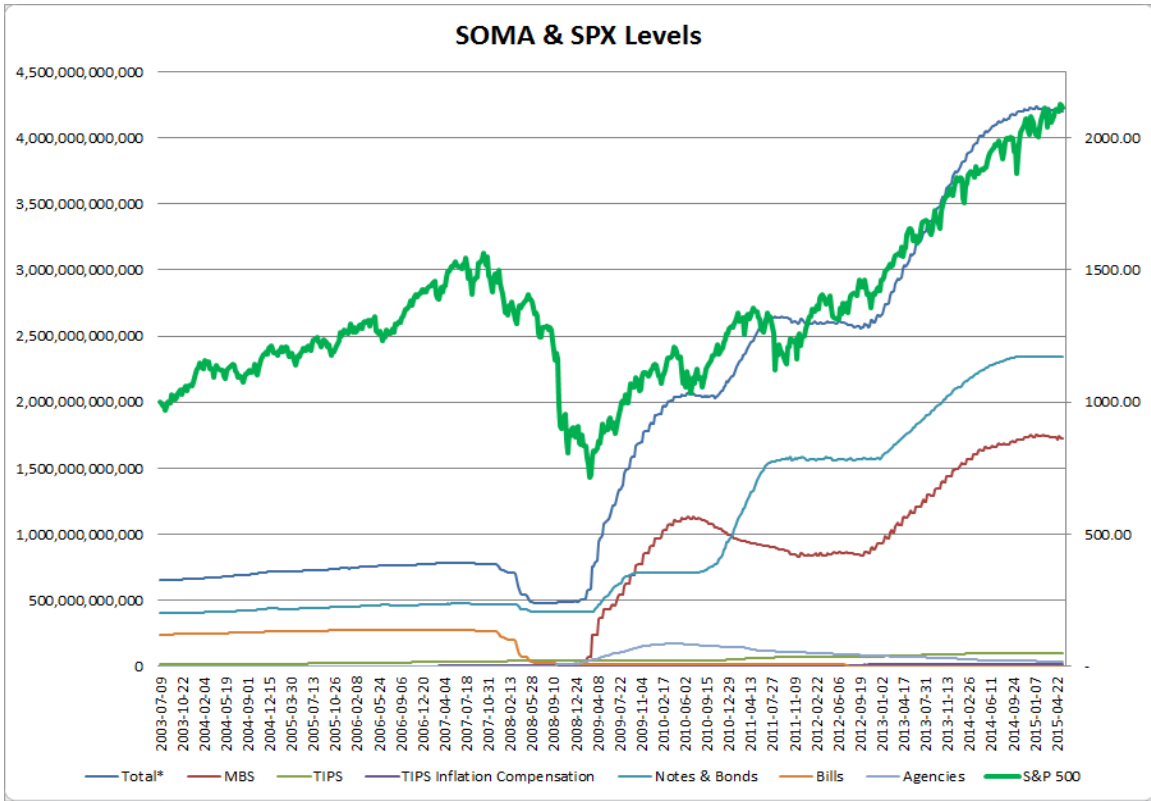
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 SPX closed down for the 2nd week in a row, this week losing 0.7%. Despite the pullback over the last couple of weeks, SPX is still less than 2% from an all-time high. I am not see strong indications that the long-term uptrend has reached its end. From a studies standpoint, the mostly mild and choppy action this past week failed to generate anything compelling from an intermediate-term standpoint.

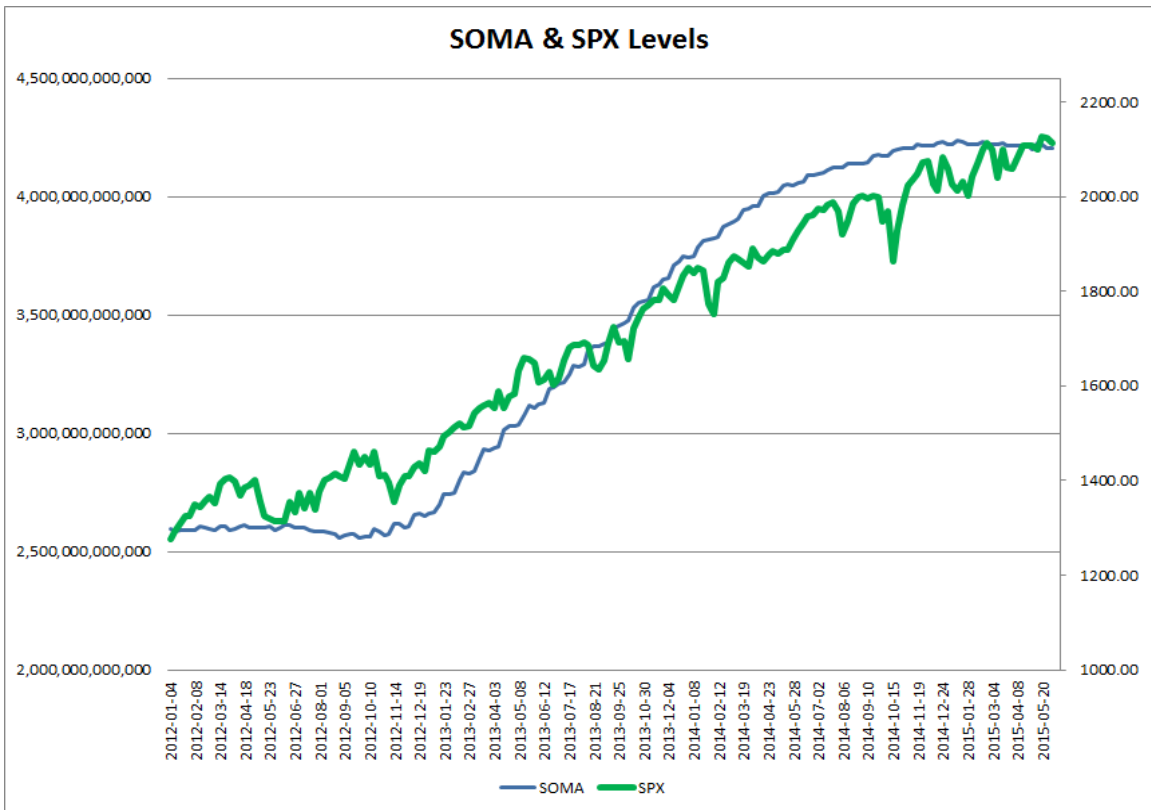
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



It is impossible to see on the chart, but after 2 weeks of shrinkage, the SOMA held steady this past week, actually gaining an extremely small amount. It is still near its lowest level since QE ended at the end of October. A drop down out of that range could lead to some more serious consequences for the market. So the next few weeks could be vital. Fed policy and SOMA activity remain an important market influence. I will be monitoring it closely as I normally do.

Overall my intermediate-term outlook is largely unchanged from last week. 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 then trend, the leading NASDAQ, and the other active bullish evidence. 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

BAX - \$65.62 (bought 1/3 @ limit)

New

BAX - \$65.02 (buy 1/3 @ limit) – 2nd lot

Catapult for ETF’s Trades

None

Broad Market Large Cap CBI – 2(BAX-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.

BAX – buy 1/3 Catapult position @ \$65.02 LIMIT. This is the 2nd of 3 possible lots. Catapults have done well over time, but are quite volatile and are not traded with initial stops. Traders new to Catapults & the CBI should check out the resources on the [Catapult System page](#).

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$44.85	39.07%	\$37.90	Aggressive VIX
SPY(1/4)	5/29/2015	\$211.14	\$209.77	-0.65%		Aggregator
SPY(1/4)	6/5/2015	\$209.95	\$209.77	-0.09%		Aggregator
BAX(1/3)	6/5/2015	\$65.50	\$65.02	-0.73%		Catapult

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