

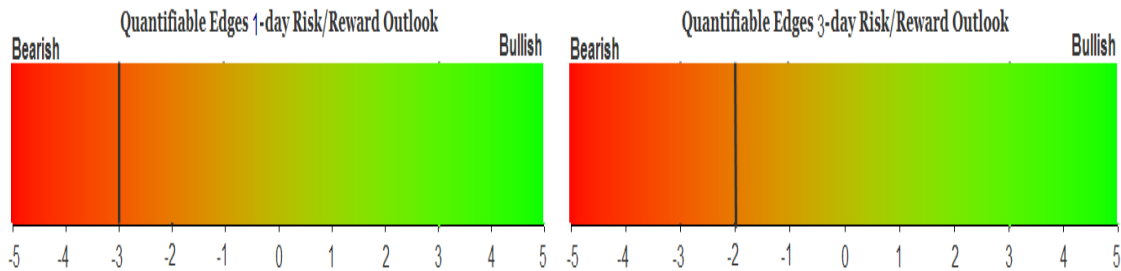
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 22, 2015

Volume 8 Issue 118

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- Seasonality may be a weakness this upcoming week.
- SOMA saw a decent increase this past week which could help the bulls.

Short-term Outlook

The Bottom Line

Despite Friday's selloff, the market remains short-term overbought and the evidence is still pointing South. But the overbought condition will expire on Monday afternoon unless SPX rallies. So while there appears to be a mild downside edge, I am not sure it is a strongly favorable reward/risk opportunity.

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 20, 2015	June post-opex weak	1-5 days	Bearish	-2.00%	1.00%	1.80%
June 19, 2015	QE Buy Pwr Short / Opex overbought	1-5 days	Bearish			
Active - Long Term						
June 16, 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			
Dropped Tonight						
June 10, 2015	4 lower lows. 20-day low > 200ma	1-8 days	Bullish	2.40%	-1.50%	-2.70%

The Evidence

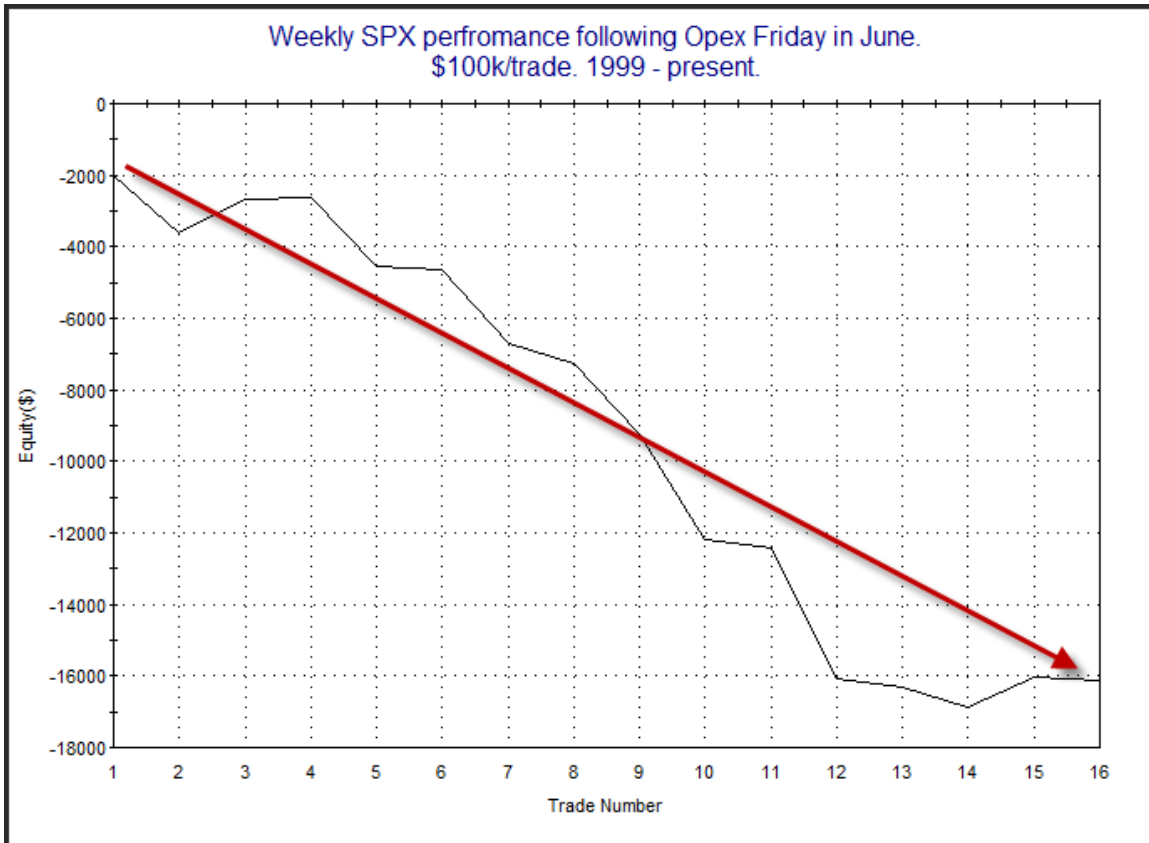
The market moved mostly lower on Friday. The SPX lost 0.5%, the NASDAQ fell 0.3%, and the Russell 2000 closed down a mere 0.02 points. Breadth was negative as the NYSE Up Issues % came in at 40% and the Up Volume % was 25%. Total NYSE volume spiked up as it typically does on Opex Friday.

The week after June opex is one that has struggled quite a bit in recent times. This is something I observed in the 6/24/13 letter. The table below is an updated version showing full-week performance this week dating back to 1999 when the bearish inclination seemed to kick in.

Weekly SPX performance following Opex Friday in June.
\$100k/trade. 1999 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
06/18/99	Buy	\$1,342.84	(2.05%)	\$612.72
06/25/99	Sell	\$1,315.31		(\$2,541.16)
06/16/00	Buy	\$1,464.48	(1.57%)	\$1,662.60
06/23/00	Sell	\$1,441.54		(\$1,779.56)
06/15/01	Buy	\$1,214.36	0.91%	\$2,122.16
06/22/01	Sell	\$1,225.42		(\$545.30)
06/21/02	Buy	\$989.14	0.07%	\$1,690.74
06/28/02	Sell	\$989.82		(\$3,658.22)
06/20/03	Buy	\$995.69	(1.96%)	\$0.00
06/27/03	Sell	\$976.22		(\$2,189.00)
06/18/04	Buy	\$1,135.02	(0.05%)	\$996.16
06/25/04	Sell	\$1,134.43		(\$937.20)
06/17/05	Buy	\$1,216.96	(2.09%)	\$215.66
06/24/05	Sell	\$1,191.53		(\$2,091.82)
06/16/06	Buy	\$1,251.54	(0.56%)	\$507.18
06/23/06	Sell	\$1,244.50		(\$1,135.23)
06/15/07	Buy	\$1,532.91	(1.98%)	\$286.65
06/22/07	Sell	\$1,502.56		(\$2,091.05)
06/20/08	Buy	\$1,317.86	(2.99%)	\$1,332.75
06/27/08	Sell	\$1,278.49		(\$3,439.50)
06/19/09	Buy	\$921.23	(0.25%)	\$83.16
06/26/09	Sell	\$918.90		(\$3,495.96)
06/18/10	Buy	\$1,117.51	(3.65%)	\$1,221.08
06/25/10	Sell	\$1,076.76		(\$4,416.18)
06/17/11	Buy	\$1,271.50	(0.24%)	\$2,114.58
06/24/11	Sell	\$1,268.45		(\$673.14)
06/15/12	Buy	\$1,342.84	(0.58%)	\$1,525.88
06/22/12	Sell	\$1,335.02		(\$1,363.82)
06/21/13	Buy	\$1,592.43	0.87%	\$1,713.68
06/28/13	Sell	\$1,606.28		(\$1,990.20)
06/20/14	Buy	\$1,962.87	(0.10%)	\$265.00
06/27/14	Sell	\$1,960.96		(\$909.00)

As you can see, it has been quite a streak of bearishness. Thirteen out of sixteen years have closed down. So it would seem we may be entering a week seasonal period. Here is a profit curve for the above trades.



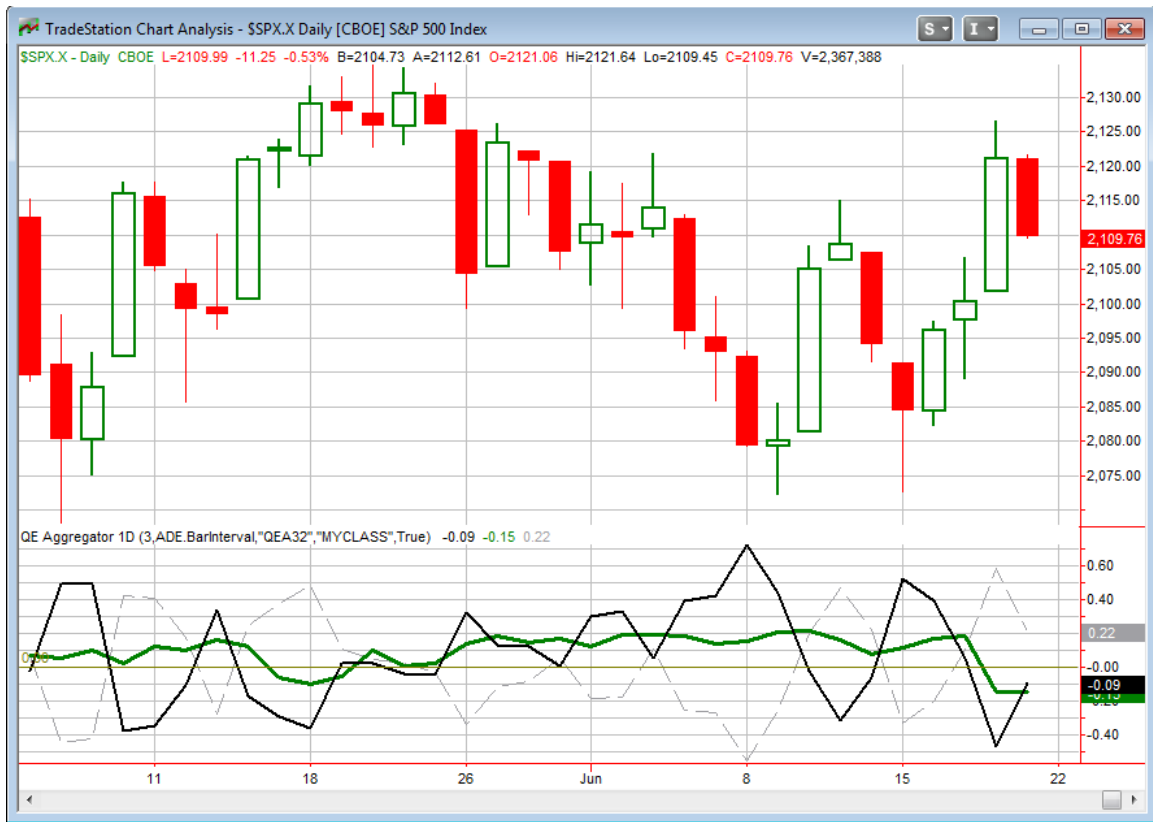
Most seasonal tendencies I have found I have also been able to think of why they may exist. Optimism going into a holiday or long weekend, and mutual fund flows occurring near the turn of the month are two such examples. In some cases I can't explain the "why", but it doesn't really matter if the edge has persisted for a long period of time. In this case the edge hasn't existed for *that* long. In fact, if you look back further, you'll find periods where this week appeared to show a bullish tendency. Below is the same seasonal study run from 1979 - 1989.

Weekly SPX performance following opex Friday in June.
\$100k/trade. 1979 - 1989.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
06/15/79	Buy	\$102.08	0.54%	\$1,057.32
06/22/79	Sell	\$102.63		(\$1,145.43)
06/20/80	Buy	\$114.05	1.71%	\$3,433.92
06/27/80	Sell	\$116.00		(\$613.20)
06/19/81	Buy	\$132.27	0.21%	\$1,534.68
06/26/81	Sell	\$132.55		(\$884.52)
06/18/82	Buy	\$107.27	1.73%	\$3,830.52
06/25/82	Sell	\$109.13		(\$876.08)
06/17/83	Buy	\$169.13	0.74%	\$2,139.42
06/24/83	Sell	\$170.39		(\$1,081.53)
06/15/84	Buy	\$149.02	3.65%	\$4,435.31
06/22/84	Sell	\$154.46		(\$335.50)
06/21/85	Buy	\$189.61	1.18%	\$1,180.48
06/28/85	Sell	\$191.85		(\$938.06)
06/20/86	Buy	\$247.58	0.82%	\$1,027.65
06/27/86	Sell	\$249.60		(\$1,265.42)
06/19/87	Buy	\$306.96	0.06%	\$1,075.75
06/26/87	Sell	\$307.15		(\$208.00)
06/17/88	Buy	\$270.67	1.15%	\$2,287.80
06/24/88	Sell	\$273.78		(\$1,162.35)
06/16/89	Buy	\$321.35	2.07%	\$2,068.15
06/23/89	Sell	\$328.00		(\$653.10)

So back then we had 11 years in a row of gains. For me, this somewhat diminishes the probability of the recent bearish inclination persisting for an extended period. I have listed the study on the Active List, but I have also somewhat reduced the negative expectations it carries.

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



With more bearish evidence emerging the green Aggregator Line held below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal stayed short at the close.

Based on the current active studies, expectations are set to remain negative on Monday. Of course this could change if strong bullish evidence emerges. The Differential Pivot will be *slightly inverted* at 2110.18 on Monday. That is just 0.19 points above Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, or order to remain "overbought" versus recent expectations, SPX will need to close up slightly on Monday. A flat or down close will cause it to turn short-term oversold.

There still seems to be a bit of a downside edge. I was looking to get short on Friday. Unfortunately, the unfilled gap down kept me from getting filled. At this point, with the Differential Pivot inverted, I am a bit wary of taking on a short. This is because my only opportunity to profit would be between the open and the close on Monday. Potential reward is limited because SPX will turn oversold if it moves lower as anticipated. But

risk is not nearly as limited, and I could have a short position move against me for several days. So I will stand pat on Monday and wait for a better reward/risk scenario to emerge before taking on new positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/22– 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.*

Despite the pullback the last couple of days, the market did manage to post gains on the week. The SPX finished the week 0.75% higher. The market remains fairly flat, as it has for the last several months, with bulls showing slight gains. There was one study with intermediate-term significance that emerged this week. It was from the Monday night letter. I have copied an excerpt below.

Notable about the price action over the last 2 days is that both Friday and Monday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured just recently in the 6/1/15 letter. Results are updated.

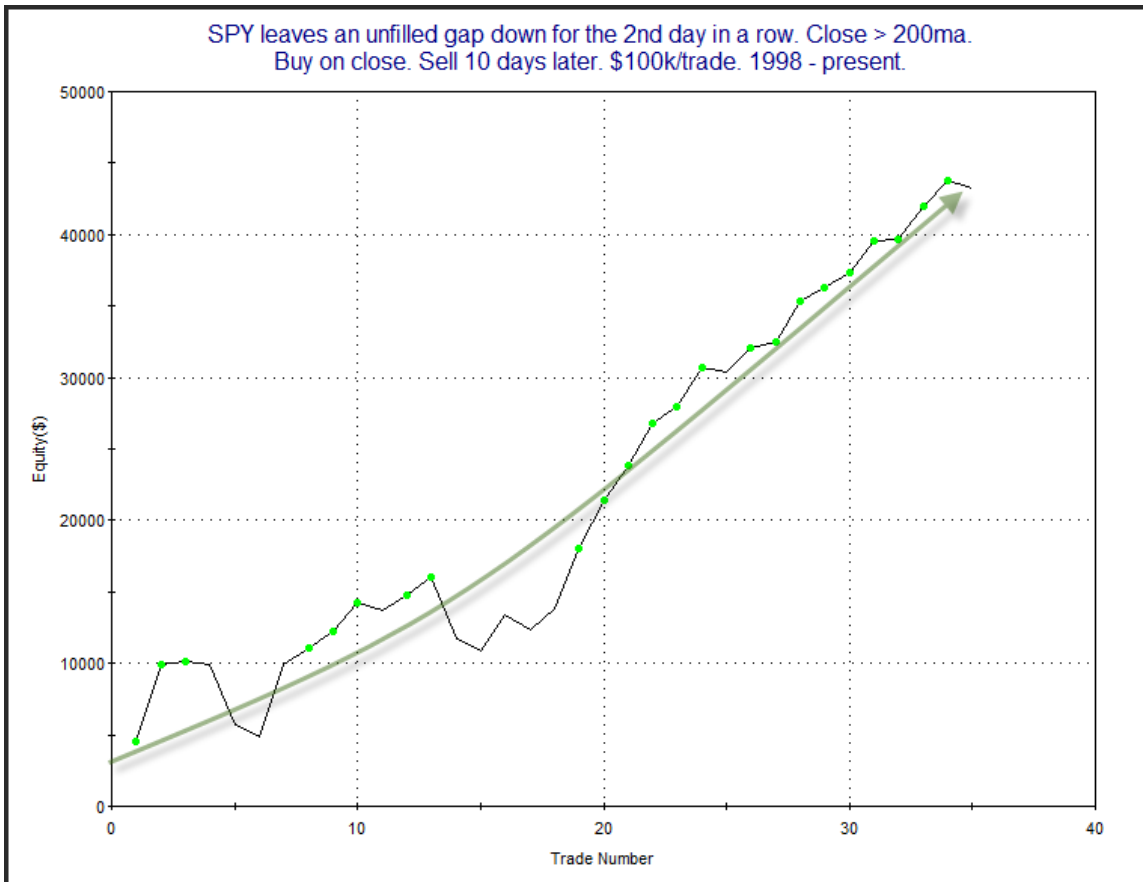
SPY leaves an unfilled gap down for the 2nd day in a row. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1998 - present.

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	43,234.60	35	26	9	74.29	2,157.22	5,325.39	-1,428.13	-4,320.54	1.51	4.36	1,235.27
9	41,904.08	36	28	8	77.78	1,962.62	4,882.41	-1,631.14	-4,075.15	1.20	4.21	1,164.00
8	35,147.56	36	24	11	66.67	2,040.55	4,742.40	-1,256.88	-4,700.95	1.62	3.54	976.32
7	28,269.68	37	25	11	67.57	1,968.31	4,429.74	-1,903.47	-4,604.10	1.03	2.35	764.05
6	31,948.41	37	27	10	72.97	1,758.02	3,828.72	-1,551.82	-3,671.57	1.13	3.06	863.47
5	25,253.09	37	26	11	70.27	1,491.98	3,940.02	-1,230.75	-3,627.12	1.21	2.87	682.52
4	15,892.27	37	26	11	70.27	1,132.83	4,388.28	-1,232.84	-3,342.64	0.92	2.17	429.52
3	6,315.90	37	22	15	59.46	899.51	3,325.14	-898.23	-2,747.01	1.00	1.47	170.70
2	5,420.11	37	20	17	54.05	883.97	2,948.14	-721.13	-2,436.12	1.23	1.44	146.49
1	7,704.67	37	24	13	64.86	694.83	1,974.15	-690.10	-1,849.26	1.01	1.86	208.23

35 of 37 instances (94%) closed above the entry price at some point in the next week.

The numbers appear to suggest a strong tendency for a bounce in the next few days... Since the 10-day numbers were also I strong I ran a profit curve for that as well.

SPY leaves an unfilled gap down for the 2nd day in a row. Close > 200ma.
Buy on close. Sell 10 days later. \$100k/trade. 1998 - present.

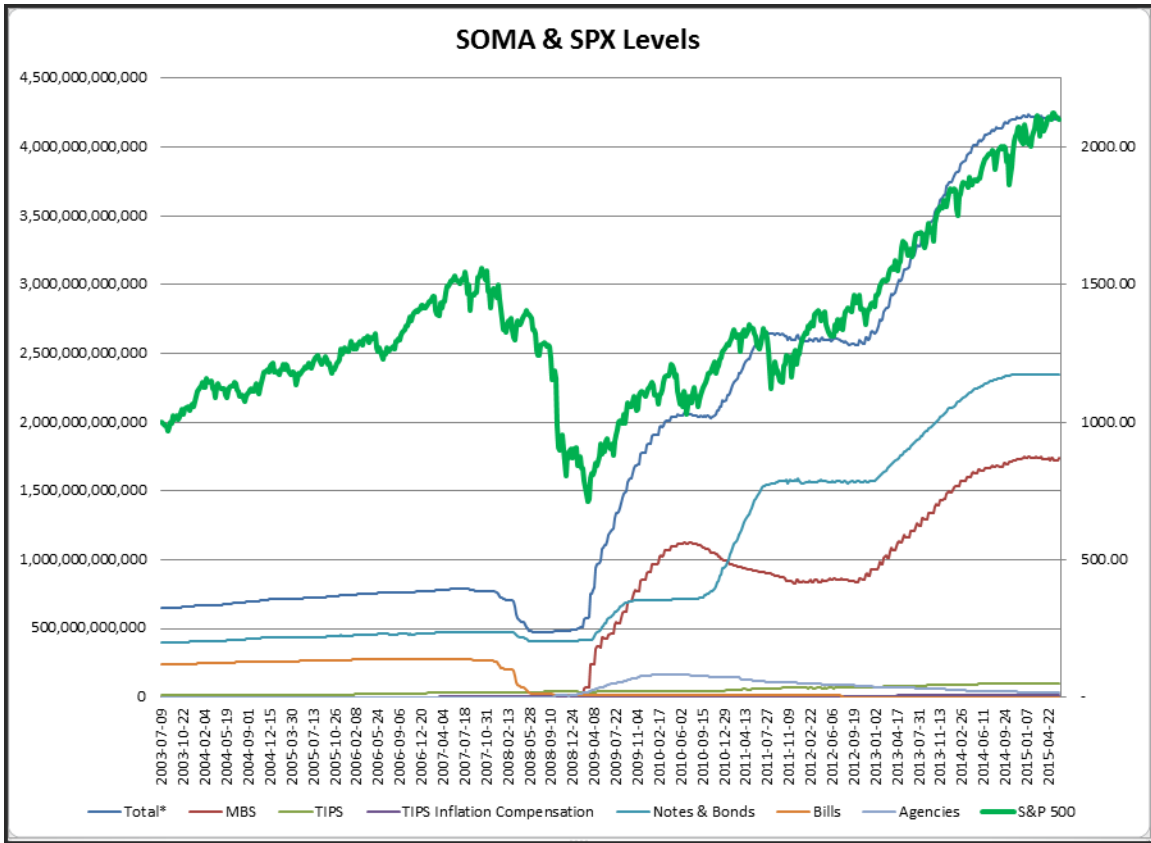


This is also impressive. I have included this study on both the Short and Intermediate-term Active Lists tonight.

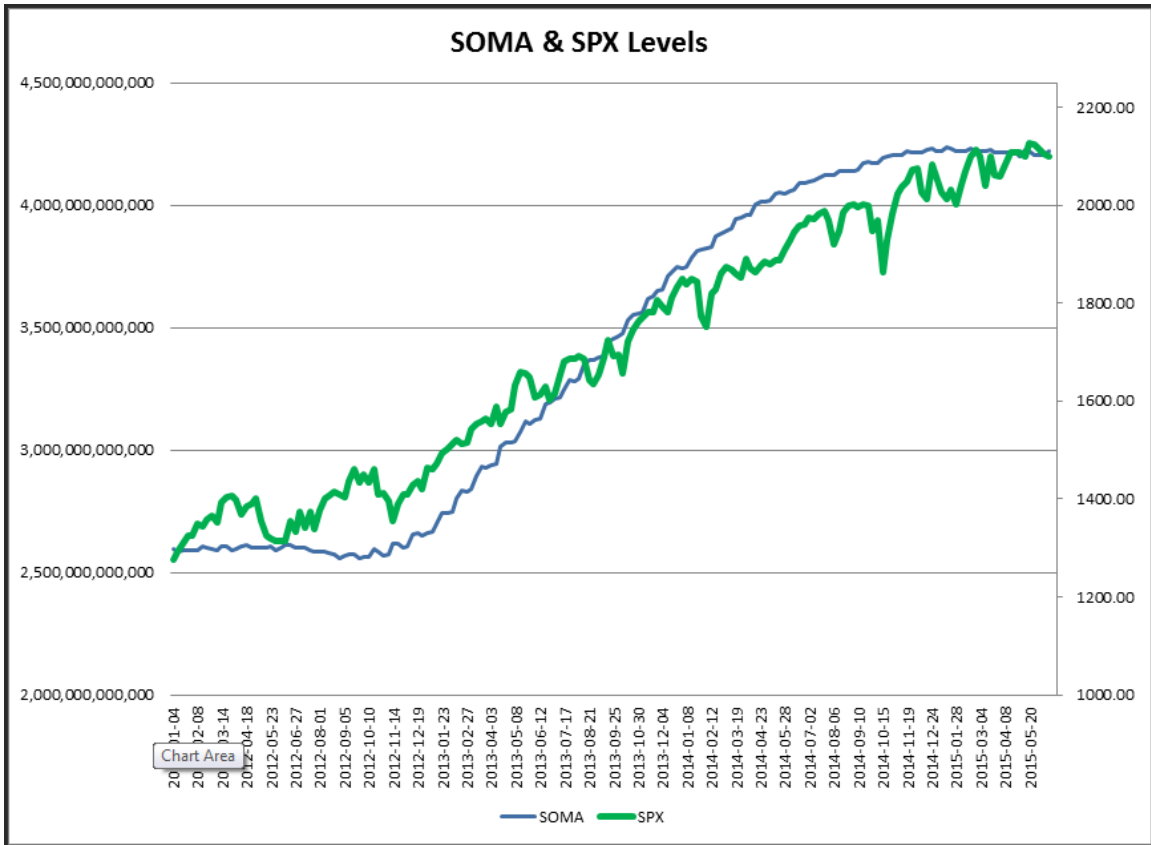
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 (2012 – present).



It is almost indecipherable, but the SOMA did post a decent rise this past week – putting it at the highest level since mid-May. Still, it is squarely within the range it has been in since QE3 ended at the end of October. Things should really get interesting when that range is finally broken in a decisive way. Fed policy and SOMA activity have had a huge market influence historically, and paying attention to them is critical. I will continue to monitor changes closely as I normally do.

Once again my intermediate-term outlook is largely unchanged. Our Market Timing Course indicators are still mostly bullish (and the MTC “Combo Systems” are all bullish). And we had a new price-action based study this past week suggesting a bullish 2-week inclination. 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, the MTC Combo Systems and the new bullish evidence. I therefore will remain “slightly bullish”. I am willing to trade both long and short, but I’ll be a bit pickier with short-side opportunities.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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	\$46.53	44.28%	\$41.95	Aggressive VIX

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