

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 6, 2015

Volume 8 Issue 127

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Flat

## Tonight's Research Points

- Consolidations like we have seen the last 3 days after making new 20-day lows have shown a mild upside edge.
- The Fed's SOMA shrunk some last week for the 1<sup>st</sup> time in a while.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is still leaning bullish but the market is no longer oversold. This has me nearly neutral on the short-term.

**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>						
July 6, 2015	20-low then 3-day consolidation	1-5 days	Bullish	1.90%	-1.40%	-2.80%
July 2, 2015	2-day bounce from big drop	1-5 days	Bullish			
July 1, 2015	20 low reversal bar	1-5 days	Bullish	2.10%	-1.40%	-2.50%
July 1, 2015	1.75% drop then small bounce	1-3 days	Bearish			
June 30, 2015	20-low. Big drop on a Monday > 200	1-4 days	Bullish			
June 30, 2015	4 Lower Lows. 20-day low.	1-8 days	Bullish			
<b>Active - Long Term</b>						
July 1, 2015	20 low reversal bar	1-10 days	Bullish	2.90%	-1.85%	-3.40%
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			

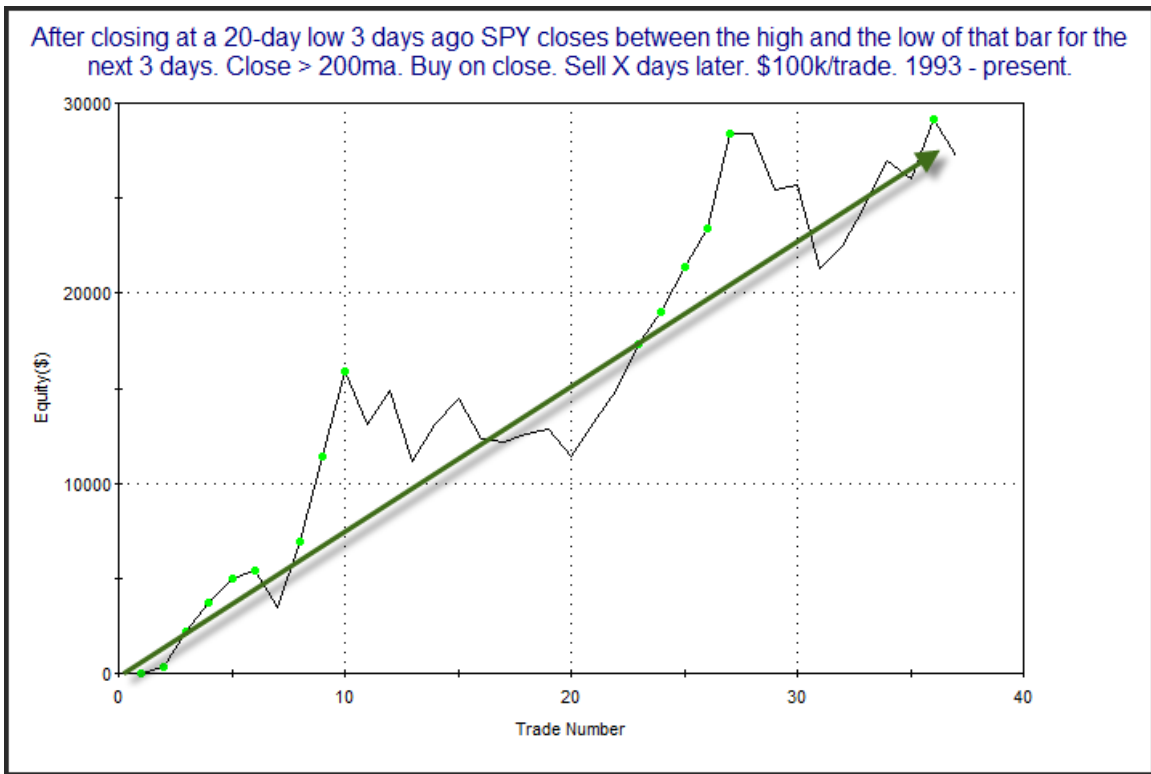
**The Evidence**

Thursday the market saw mostly mild declines. The SPX and NASDAQ each lost less than 0.1%, while the Russell 2000 closed down 0.65%. Breadth was very slightly negative as the NYSE Up Issues % came in at 50% and the Up Volume % was 47%. Total NYSE volume was light ahead of the long weekend.

After Monday's sharp selloff the market has floundered around. The bounce was weak, and some of was given back on Thursday. Neither bulls nor bears have been able to gain much traction. So we have seen a consolidation. It is often said that consolidations resolve in the direction of the trend. Many would say that means down, since we are around 20-day lows. Others could claim that the trend is up, since SPX is still above its 200ma. I refer back to the study below, which takes both into account. It last appeared in the 9/3/13 Letter.

After closing at a 20-day low 3 days ago SPY closes between the high and the low of that bar for the next 3 days. Close > 200ma. 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	27,217.39	37	26	10	70.27	1,902.46	4,984.19	-2,224.65	-4,326.19	0.86	2.22	735.61
4	18,245.96	38	25	13	65.79	1,716.43	4,855.07	-1,897.29	-4,345.88	0.90	1.74	480.16
3	18,203.44	38	22	16	57.89	1,786.32	4,577.32	-1,318.47	-4,248.64	1.35	1.86	479.04
2	13,483.11	39	24	15	61.54	1,338.73	4,932.84	-1,243.09	-2,818.42	1.08	1.72	345.72
1	8,505.99	41	24	15	58.54	889.87	2,355.32	-856.73	-2,101.88	1.04	1.66	207.46

Closing between the high and low of the bar that put us at a 20-day low means 1) the selloff day was probably pretty large, and 2) the market has been moving sideways since. Results here, though not overwhelming, would seem to favor the bull case. And even though the size of the gains is not great, the % Profitable appears pretty good. I also examined the profit curves. The 5-day can be found below.



While inconsistent, this curve has persisted higher and recently made a new high. It is not my favorite curve, but it seems worthy of inclusion on the Active List for now. Certainly it shows that the sideways movement of the last few days does not doom the bounce.

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



Tonight's study helped the green Aggregator line to inch a little further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dropped down a little below 0. The negative Differential Line reading means SPX is now a little overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are set to remain positive on Monday. It would take strongly bearish evidence to change that. The Differential Pivot will be 2076.44 on Monday. That is less than  $\frac{1}{2}$  SPX point below Thursday's close. So just about any down close would cause SPX to flip to "oversold" versus expectations.

I think a further decline here should be buyable. I was bullish going into Thursday, but I took profits on the long index trade ideas and am now flat. My outlook for Monday is slightly bullish, but with the market no longer oversold I am fine stepping aside for a day or so to reassess. I considered saying I would be looking to buy a decline on Monday, but I think I'll take it a little slow. The SPX is not far above the 200ma at this point. A drop through there could cause further selling to ensue. So I would rather examine evidence on a day by day basis rather than worry about missing out on a long entry.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 7/6– 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.*

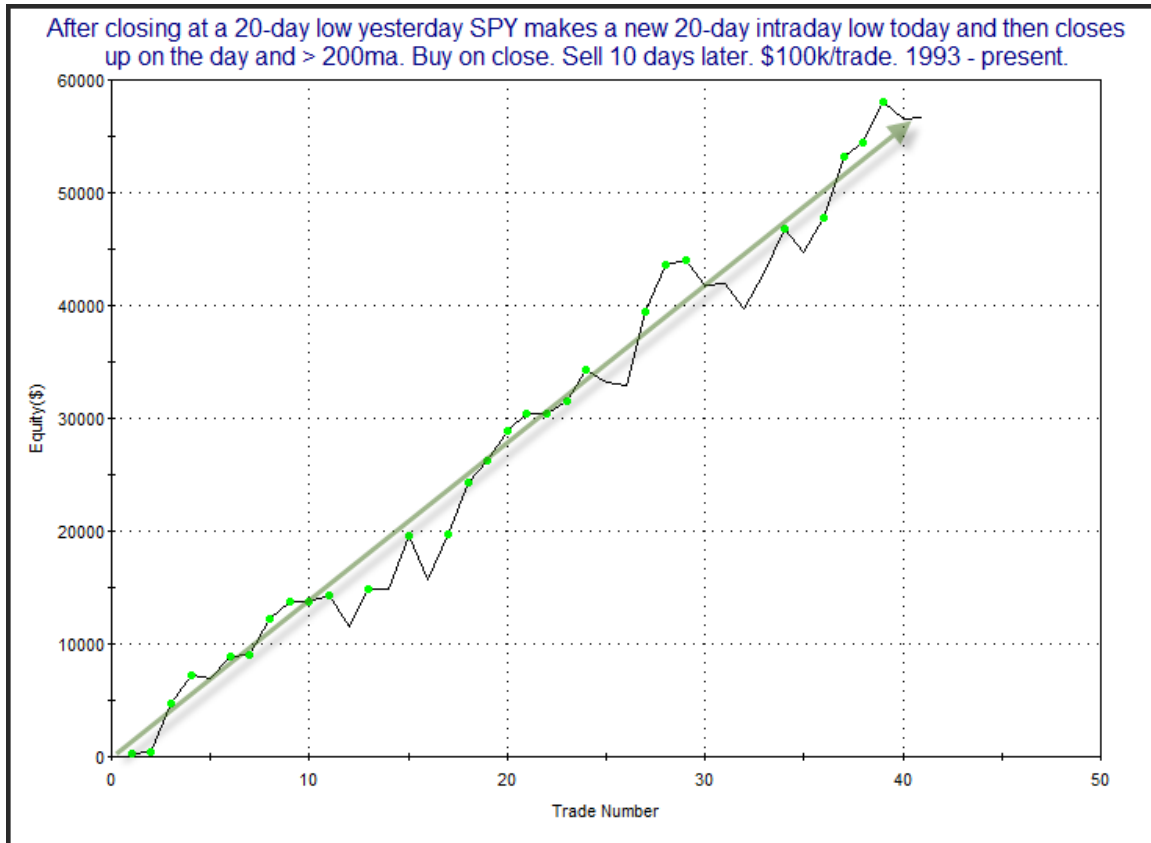
The market sold down for the 2<sup>nd</sup> week in a row and the SPX now sits at its lowest weekly closing level since 4/3. While that sounds like a really low level, it is still just 2.5% below the all-time closing high set in May. So we still appear to be in a lengthy sideways consolidation.

There was only one study from the letter this past week that made the intermediate-term Active List. It was from the 7/1 letter. It looked at reversals off of 20-day lows. I have copied the results table from that letter below.

After closing at a 20-day low yesterday SPY makes a new 20-day intraday low today and then closes up on the day and > 200ma. 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
10	56,696.67	41	31	10	75.61	2,357.58	6,600.62	-1,638.83	-3,844.83	1.44	4.46	1,382.85
9	50,825.54	42	29	13	69.05	2,598.18	5,915.43	-1,886.28	-4,258.20	1.38	3.07	1,210.13
8	44,681.24	43	30	13	69.77	2,427.36	5,306.40	-2,164.58	-4,268.86	1.12	2.59	1,039.10
7	49,195.24	44	30	14	68.18	2,390.64	5,585.14	-1,608.85	-3,531.11	1.49	3.18	1,118.07
6	45,002.44	45	33	12	73.33	2,073.57	5,411.67	-1,952.13	-3,952.19	1.06	2.92	1,000.05
5	42,011.72	45	32	12	71.11	1,854.21	5,029.50	-1,443.58	-3,450.35	1.28	3.43	933.59
4	33,309.81	45	30	15	66.67	1,625.06	3,213.00	-1,029.47	-2,284.36	1.58	3.16	740.22
3	20,727.61	48	29	19	60.42	1,393.46	4,462.50	-1,035.93	-3,560.24	1.35	2.05	431.83
2	22,191.48	50	32	18	64.00	1,313.38	4,105.50	-1,102.04	-2,471.52	1.19	2.12	443.83
1	14,479.25	50	31	19	62.00	944.09	2,562.30	-778.30	-1,792.48	1.21	1.98	289.59

As you can see, the 10-day numbers look quite strong. Below is a look at the 10-day profit curve.

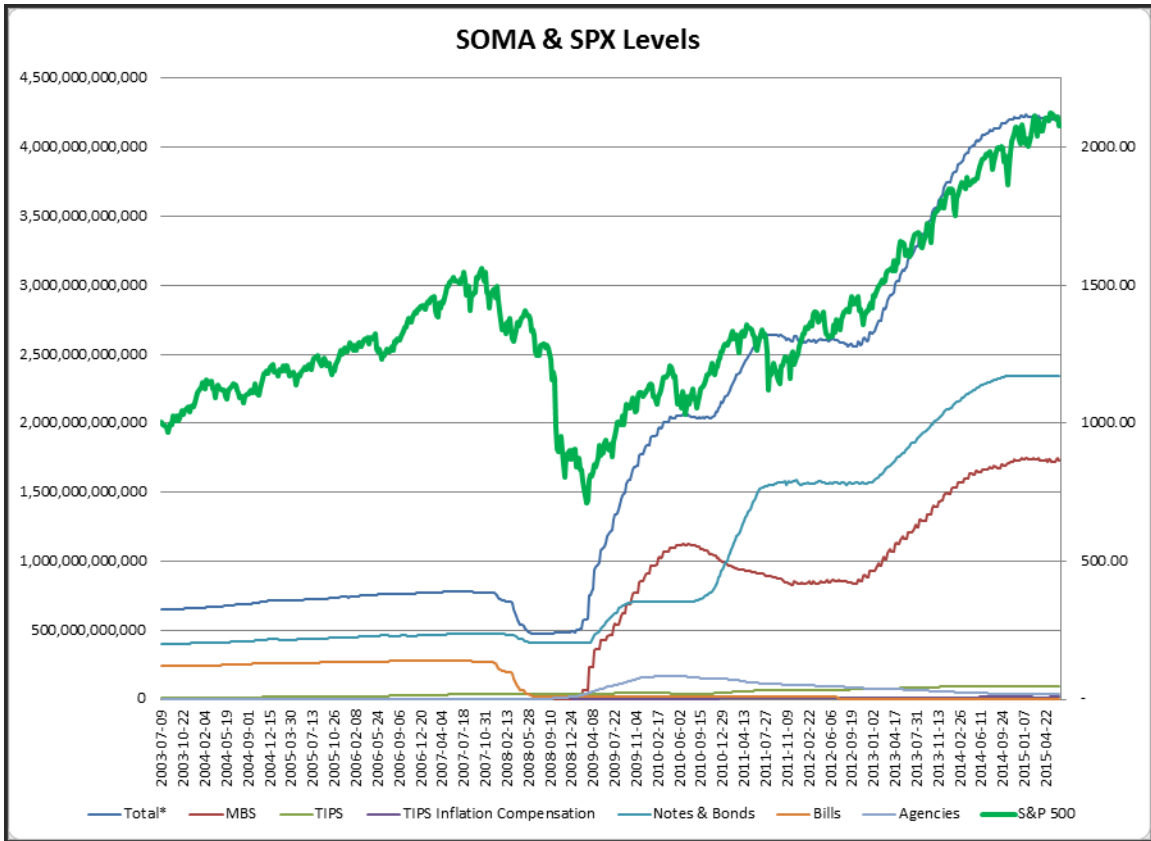


The strong-steady upslope is impressive and makes the study even more appealing.

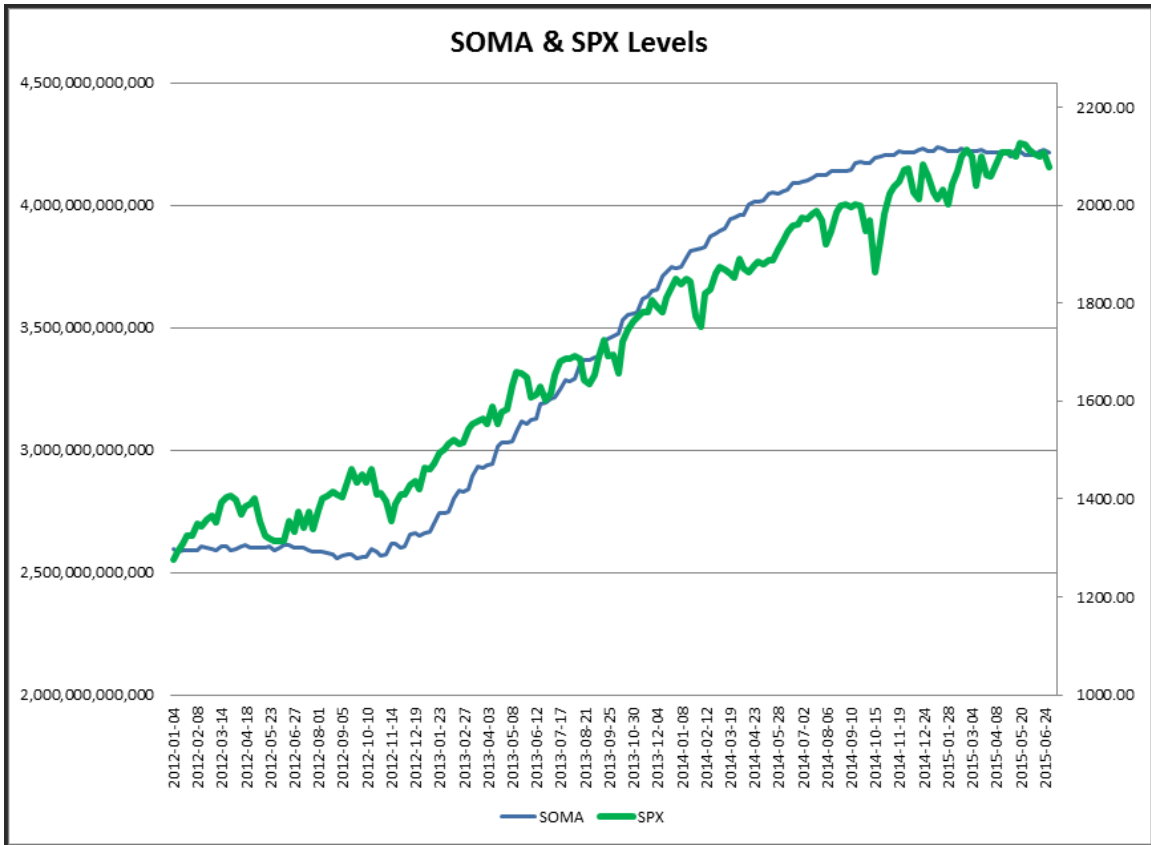
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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).



After inching higher the last 4 weeks, the Fed’s SOMA declined this past week. This leaves it 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). 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 long-term trend, the leading NASDAQ, and the MTC Combo Systems. And we did get a new intermediate-term study this past week with bullish implications up to 10 days out. 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**

RTN - \$97.79 (bought 1/3 @ limit)

RTN - \$97.92 (bought 1/3 @ limit)

RTN - \$95.68 (no fill) – see new limit in trade ideas section below

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

None

### **Broad Market Large Cap CBI – 3(RTN-3)**

### 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.

**RTN – buy 1/3 Catapult position @ \$95.56 LIMIT ON CLOSE.** This is a Catapult trade from above. It is the 3<sup>rd</sup> of 3 possible lots for RTN. I will be looking to enter it if RTN closes down on Monday. Though they have done well over time, Catapults tend to be quite volatile and are traded without initial stops. Those new to Catapults should examine the information on the [Catapult System page](#).

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
RTN(1/3)	6/29/2015	\$96.52	\$95.57	-0.98%		Catapult
<b>SPY(1/4)</b>	<b>6/29/2015</b>	<b>\$208.04</b>	<b>\$208.07</b>	<b>0.01%</b>		<b><i>sold on open</i></b>
<b>SPY(1/4)</b>	<b>6/30/2015</b>	<b>\$205.67</b>	<b>\$207.31</b>	<b>0.80%</b>		<b><i>sold on close</i></b>
RTN(1/3)	6/30/2015	\$95.92	\$95.57	-0.36%		Catapult

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