

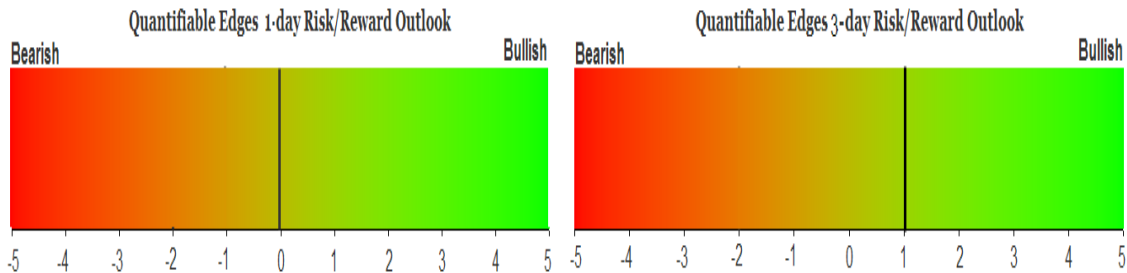
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 13, 2015

Volume 8 Issue 132

Market Overview



Signals Overview

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

Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying under similar circumstances.
- New intermediate-term bullish evidence emerged this past week.
- The size of the SOMA remained steady from last week.

Short-term Outlook

The Bottom Line

Evidence remains net bullish and the SPX is still oversold. But it is likely to turn overbought on Monday. The reward/risk here does not appear great despite the bullish evidence. So I am basically neutral, with only a slight bullish lean.

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						
July 13, 2015	2 up from 20-day < 3 days ago.	1-3 days	Bullish	1.50%	-1.00%	-1.90%
July 10, 2015	SPY close bottom 10% but + on day	1-3 days	Bullish			
July 10, 2015	VIX 100 high. SPX not 100low. 2x	1-4 days	Bullish			
July 10, 2015	SPX up small. VIX 100 high. Midwk.	1-2 days	Bearish			
July 9, 2015	VIX 100 high. SPX 20-low < 100-low	1-7 days	Bullish			
July 9, 2015	Unfill Gap Dn to 50-day low	1-3 days	Bullish			
Active - Long Term						
July 9, 2015	VIX 100 high. SPX 20-low < 100-low	1-20 days	Bullish	3.10%	-1.60%	-3.20%
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

Friday saw the market gap higher and never look back. The SPX rose 1.2%, the NASDAQ gained 1.5%, and the Russell 2000 closed up 1.45%. Breadth was positive as the NYSE Up Issues % came in at 79% and the Up Volume % was 80%. Total NYSE volume declined some from Thursday's level.

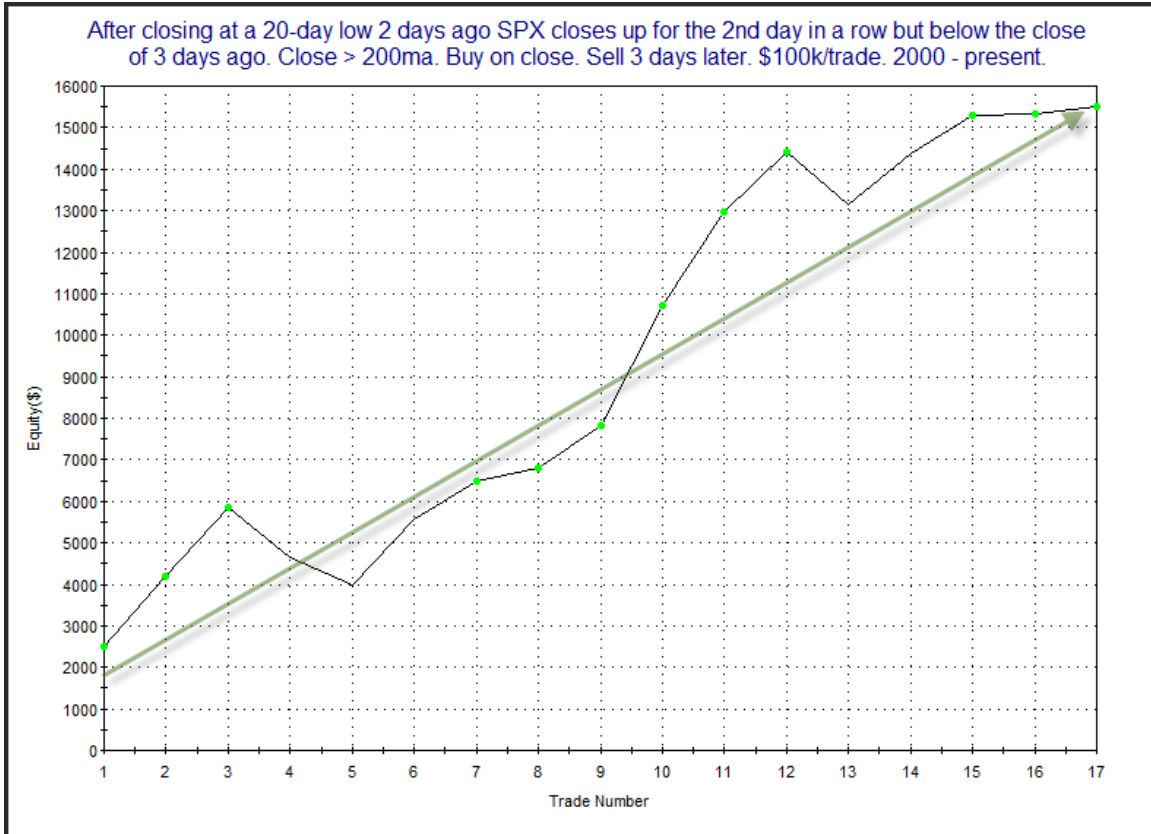
It was the 2nd day in a row that SPY put in an unfilled gap up (though Thursday ended with very small gains.) And while the move up on Friday was strong, it still was not strong enough to erase all of Wednesday's losses. Wednesday was a big down day that left SPX at an intermediate-term low. In the 8/30/13 Letter I examined other instances where SPX rebounded 2 days off a 20-day but failed to fully recover the losses of the previous day. I have updated that study below.

After closing at a 20-day low 2 days ago SPX closes up for the 2nd day in a row but below the close of 3 days ago. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	15,644.76	16	11	5	68.75	2,113.16	4,522.00	-1,520.00	-3,088.50	1.39	3.06	977.80
4	16,353.87	16	11	5	68.75	2,021.02	4,528.65	-1,175.47	-1,984.50	1.72	3.78	1,022.12
3	15,517.39	17	14	3	82.35	1,332.79	2,891.90	-1,047.20	-1,260.49	1.27	5.94	912.79
2	9,803.65	17	10	7	58.82	1,446.05	3,844.65	-665.26	-1,640.00	2.17	3.11	576.69
1	905.08	17	8	9	47.06	928.11	2,699.42	-724.42	-2,621.71	1.28	1.14	53.24

The only instance NOT to close above the entry price at some point in the next week triggered on 5/12/04.

Instances are a bit low here, but the stats are quite compelling. Below is a profit curve for a 3-day holding period.



The cure is strong and continues to make new highs. Though I'd prefer more instances, results here appear solid enough that the study deserves some consideration.

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



With the new evidence taken into account the green Aggregator line held 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 held 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. IT would take some very compelling bearish evidence in order to change this. The Differential Pivot will be *inverted at 2060.57* on Monday. That is *0.8% below* Friday's close. An inverted pivot means that the Differential Line will cross though 0 if SPX closes flat. In this case, for SPX to remain short-term "oversold" versus expectations it is going to need to close down at least 0.8%. Anything less than that and it will be considered "overbought" as of Monday's close.

I generally do not view times when we have an inverted pivot as great entry opportunities. The reason is that the inverted pivot negatively impacts reward/risk potential. While evidence suggests a move up is more likely over the next few days, the Aggregator long signal will expire on Monday unless there is a strong selloff. So at best the potential gains are between Monday's open and Monday's close. That is not a big

window of opportunity. But risk is high. A big move lower could leave the market oversold and in that case the long signal would remain. So only a big loser would see the long signal stay active, which is not a great situation. It was disappointing to miss out on entries the last couple of days, but chasing at this point does not seem the right thing to do. So I will sit back and see if a better reward/risk opportunity avails itself.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/13– 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.*

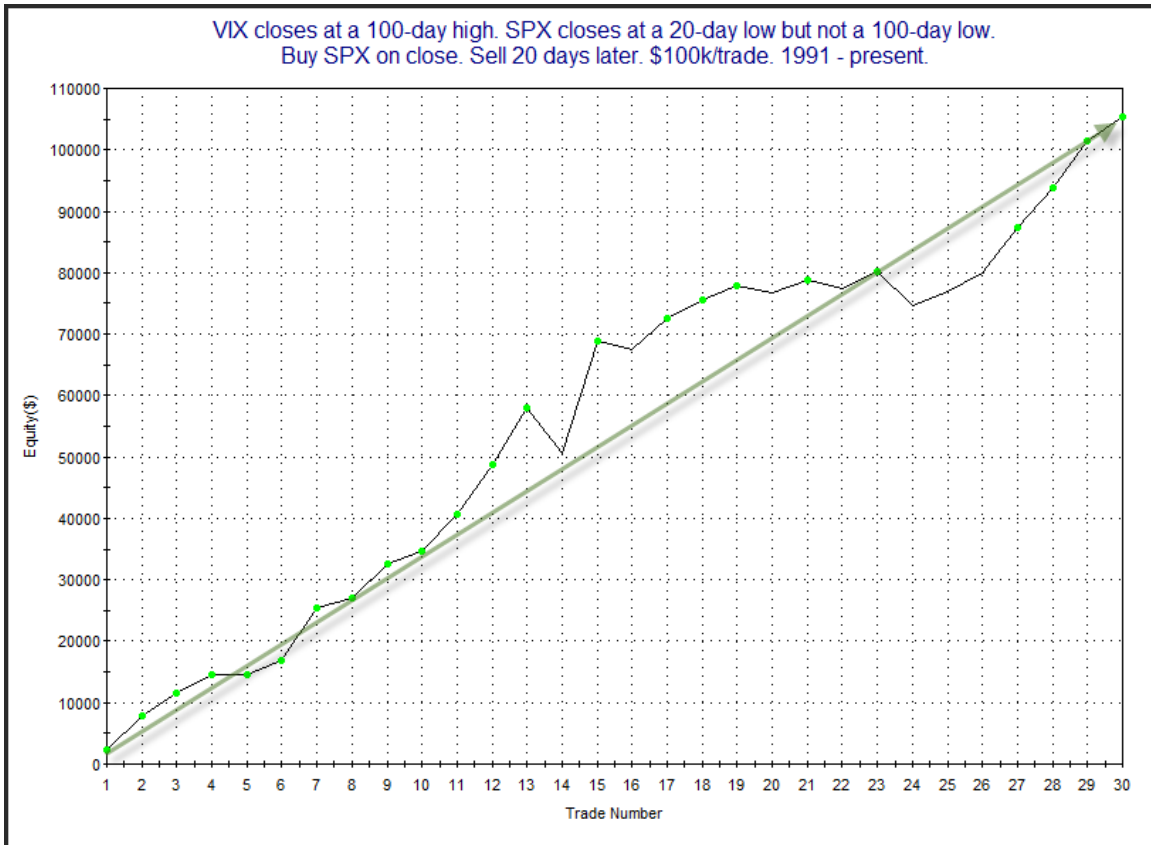
This past week was a volatile one, but SPX ended up almost exactly where it started. Friday’s close was just 0.16 points below the close of the previous week. During the week the SPX also probed the 200-day moving average, but it moved back above it on Friday. The 200-day moving average is not a magic level. But it can be a useful delineator when considering whether the market is in a long-term uptrend or downtrend. And while the long-term trend is now somewhat in doubt, we do not appear to be in a “confirmed downtrend” stage just yet. At this point the market remains well in the middle of the tight range that has persisted for all of 2015 so far.

There was one study from this past week that provided some compelling intermediate-term evidence. It was from the 7/9 letter and it considered the high VIX reading while SPX was at a 20-day low but not a 100-day low. I have copied the results table below.

VIX closes at a 100-day high. SPX closes at a 20-day low but not a 100-day low.
Buy SPX on close. Sell X days later. \$100k/trade. 1991 - 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
20	105,324.17	30	25	5	83.33	4,877.52	18,119.92	-3,322.76	-7,241.91	1.47	7.34	3,510.81
19	96,601.04	30	25	5	83.33	4,645.12	16,556.80	-3,905.37	-10,655.01	1.19	5.95	3,220.03
18	93,886.82	30	25	5	83.33	4,426.42	15,745.60	-3,354.73	-4,172.91	1.32	6.60	3,129.56
17	93,563.65	30	25	5	83.33	4,338.21	15,823.60	-2,978.30	-5,054.72	1.46	7.28	3,118.79
16	93,340.35	30	26	4	86.67	3,913.18	14,476.80	-2,100.59	-3,409.12	1.86	12.11	3,111.34
15	86,101.94	30	25	5	83.33	3,825.98	13,156.00	-1,909.53	-4,783.80	2.00	10.02	2,870.06
14	73,307.46	30	25	5	83.33	3,477.99	11,299.60	-2,728.45	-5,297.60	1.27	6.37	2,443.58
13	66,060.58	30	25	5	83.33	3,108.26	11,013.60	-2,329.21	-4,762.56	1.33	6.67	2,202.02
12	64,648.02	30	25	5	83.33	2,951.49	11,736.40	-1,827.87	-4,796.00	1.61	8.07	2,154.93
11	61,926.75	30	22	8	73.33	3,296.09	11,564.80	-1,323.40	-3,560.48	2.49	6.85	2,064.22
10	54,444.56	31	21	10	67.74	3,339.88	12,381.20	-1,569.30	-4,977.28	2.13	4.47	1,756.28
9	61,892.31	31	25	6	80.65	2,832.70	11,486.80	-1,487.55	-2,570.04	1.90	7.93	1,996.53
8	57,947.07	31	24	7	77.42	2,725.56	10,868.00	-1,066.63	-2,465.34	2.56	8.76	1,869.26
7	62,424.77	32	26	6	81.25	2,687.85	10,706.80	-1,243.23	-3,689.34	2.16	9.37	1,950.77
6	56,495.12	34	28	6	82.35	2,346.29	10,082.80	-1,533.48	-3,703.11	1.53	7.14	1,661.62
5	56,186.21	35	24	11	68.57	2,653.60	9,157.20	-681.84	-2,927.40	3.89	8.49	1,605.32
4	47,209.05	38	29	9	76.32	2,003.39	4,794.40	-1,209.91	-3,078.36	1.66	5.34	1,242.34
3	38,830.82	39	30	9	76.92	1,585.68	4,444.98	-971.08	-2,269.28	1.63	5.44	995.66
2	36,368.37	41	27	14	65.85	1,776.78	4,809.66	-828.90	-2,726.97	2.14	4.13	887.03
1	33,117.33	50	37	13	74.00	1,367.42	5,117.46	-1,344.41	-5,829.81	1.02	2.89	662.35

The numbers look strong even up to 20 days out. At that point 25 of 30 instances (83%) were trading higher and the average gain was over 3.5%. Below is a look at a profit curve using a 20-day exit.

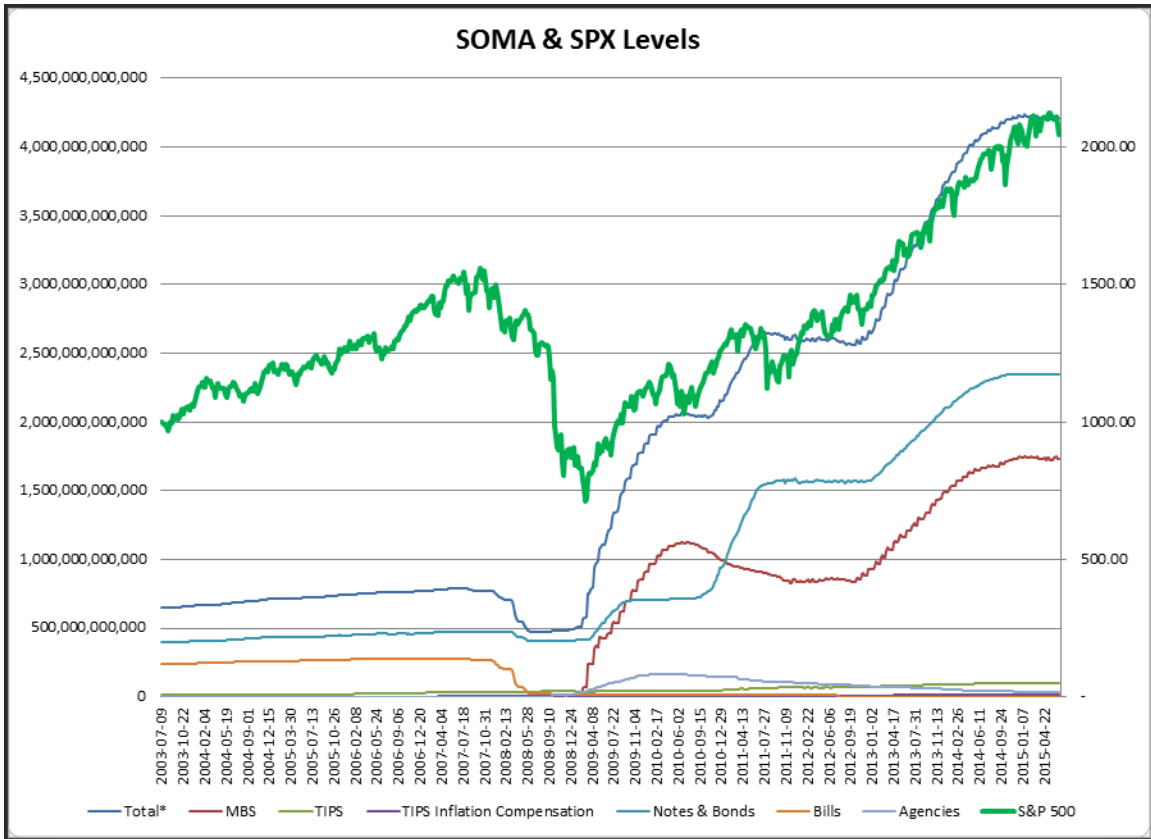


The strong-steady upslope is impressive. This study was added to the intermediate-term Active List.

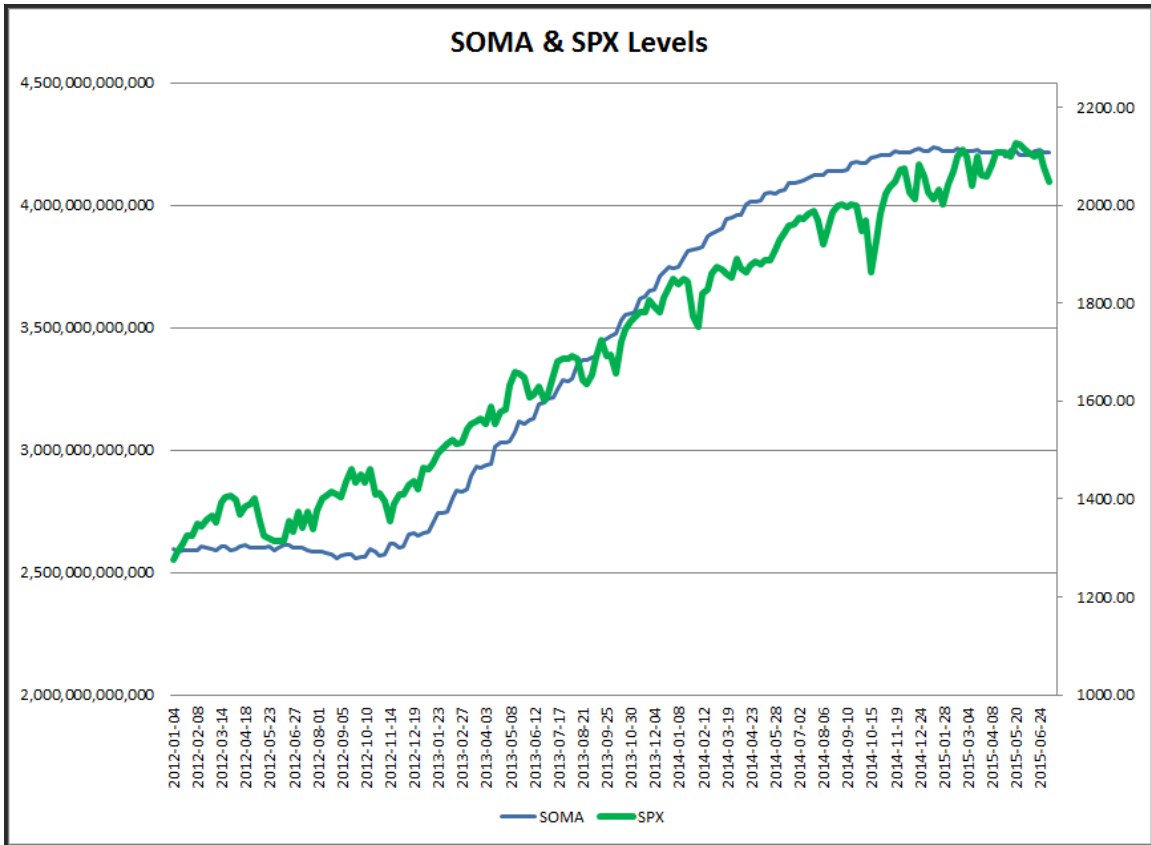
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 total this week was almost exactly the same as last week. It finished up less than 0.01% and is indiscernible on the charts. This again leaves it squarely within the range it has been in since QE3 ended at the end of October. Interestingly, the market has held in a tight sideways range during this period as well. Over the last several years, SPX has continually struggled when the SOMA has not been increasing thanks to Quantitative Easing. The recent sideways range is about as good as we have seen, with other periods of steady (or declining) SOMA suffering deeper pullbacks. Things should get interesting when the SOMA range is finally broken in a decisive way. Fed policy and SOMA activity have had a huge market influence over the last several years, 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, the leading NASDAQ, the MTC Combo Systems, and the new intermediate-term VIX study have me leaning bullish. 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

CVX - \$94.77 (bought 1/3 @ limit)

DD – 1/3 @ 58.16 (bought @ limit)

DD – 1/3 @ 58.16 (buy @ limit) – not filled – cancel for now

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(CVX, DD-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
CVX(1/3)	7/7/2015	\$94.41	\$94.41	0.00%		Catapult
DD(1/3)	7/9/2015	\$58.16	\$58.25	0.15%		Catapult

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