

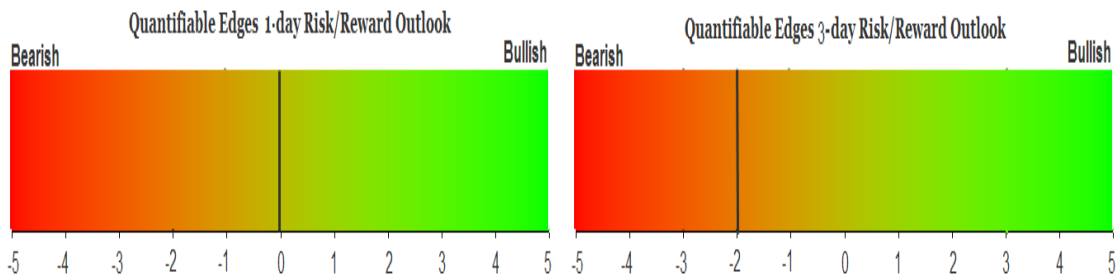
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 20, 2015

Volume 8 Issue 137

Market Overview



Signals Overview

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

Tonight's Research Points

- A SOX decline combined with a strong NDX has often been followed by a market pullback over the last 14 ½ years.

Short-term Outlook

The Bottom Line

With the SPX still overbought, evidence has turned bearish. There appears to be a bit of a downside edge.

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 17, 2015	NDX up 1%. SOX dn.	1-6 days	Bearish	-3.10%	1.80%	4.00%
July 17, 2015	SPX top 1-% 10-day range opex Thurs	1-5 days	Bearish	-1.60%	0.90%	1.75%
July 16, 2015	3+ Higher hi, low, close. Dn close.	1-4 days	Bullish	1.45%	-0.75%	-1.50%
July 14, 2015	VIX 10% to 10% below 10ma	1-8 days	Bullish			
July 14, 2015	QE Buying Power Short	1-6 days	Bearish			
Active - Long Term						
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						
July 9, 2015	VIX 100 high. SPX 20-low < 100-low	1-20 days	Bullish	3.10%	-1.60%	-3.20%
July 15, 2015	3+ up from 50-low. Narrow range 7.	1-3 days	Bullish	2.10%	-1.00%	-2.80%

The Evidence

Friday was an odd day for the market, as the major indices finished mostly higher but breadth was very weak. The SPX closed up 0.1% and the NASDAQ rallied 0.9%, but the Russell 2000 lost 0.45%. Breadth was negative as the NYSE Up Issues % came in at 34% and the Up Volume % was 40%. Total NYSE volume rose some from Thursday's level, but it was not terribly high for an options expiration day.

One interesting aspect of Friday's action was the discrepancy between the NDX and the SOX. While the NDX rose 1.5% on Friday, the SOX declined 0.2% - which is quite unusual action. It brought about a study last seen in the 4/27/15 Letter, which I have updated below.

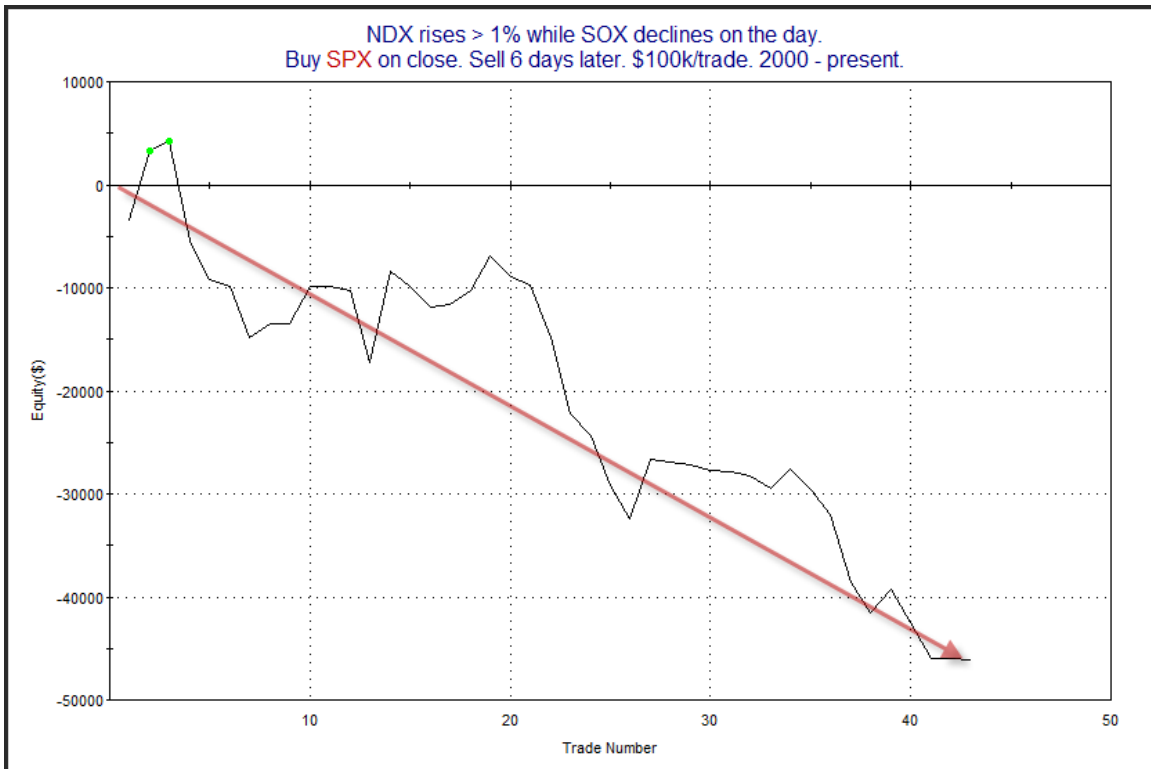
NDX rises > 1% while SOX declines on the day. Buy NDX on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-81,005.85	41	16	25	39.02	4,885.26	18,826.33	-6,366.80	-13,954.56	0.77	0.49	-1,975.75
9	-78,611.02	41	13	28	31.71	5,566.44	22,154.89	-5,391.95	-15,780.45	1.03	0.48	-1,917.34
8	-74,771.12	42	12	30	28.57	6,143.82	30,307.45	-4,949.90	-13,288.50	1.24	0.50	-1,780.26
7	-87,344.55	43	10	33	23.26	7,565.22	31,628.02	-4,939.30	-17,436.00	1.53	0.46	-2,031.27
6	-115,367.83	43	10	33	23.26	6,786.44	23,421.19	-5,552.49	-21,090.48	1.22	0.37	-2,682.97
5	-82,728.47	44	15	29	34.09	4,162.09	12,749.43	-5,005.51	-12,790.08	0.83	0.43	-1,880.19
4	-52,623.71	44	20	24	45.45	3,053.56	11,322.33	-4,737.29	-12,796.24	0.64	0.54	-1,195.99
3	-28,796.43	45	18	27	40.00	4,324.74	15,615.69	-3,949.69	-15,779.50	1.09	0.73	-639.92
2	-5,819.05	47	21	26	44.68	3,418.57	16,624.43	-2,984.96	-9,160.50	1.15	0.93	-123.81
1	-3,230.73	49	22	27	44.90	2,635.69	9,397.52	-2,267.26	-6,256.64	1.16	0.95	-65.93

Six days later 77% of the instances were losers and the average occurrence was a 2.7% loss. That seems to be a fairly substantial edge. I also updated how the SPX performed while this was all going on.

NDX rises > 1% while SOX declines on the day.
Buy SPX 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
10	-17,926.63	41	17	24	41.46	2,831.05	9,774.70	-2,752.27	-8,478.02	1.03	0.73	-437.23
9	-26,712.11	41	18	23	43.90	2,641.24	9,278.30	-3,228.45	-8,963.07	0.82	0.64	-651.51
8	-34,067.71	42	19	23	45.24	2,220.79	9,165.45	-3,315.77	-7,574.41	0.67	0.55	-811.14
7	-42,097.88	43	19	24	44.19	2,102.23	10,101.57	-3,418.34	-11,391.59	0.61	0.49	-979.02
6	-46,129.65	43	13	30	30.23	2,802.31	8,753.07	-2,751.99	-9,589.14	1.02	0.44	-1,072.78
5	-41,417.35	44	18	26	40.91	1,750.93	6,877.04	-2,805.16	-7,519.22	0.62	0.43	-941.30
4	-27,158.48	44	21	23	47.73	1,659.24	5,068.10	-2,695.76	-11,917.40	0.62	0.56	-617.24
3	-13,355.83	45	20	25	44.44	1,888.68	6,877.26	-2,045.18	-9,480.90	0.92	0.74	-296.80
2	-6,984.07	47	20	27	42.55	1,602.90	5,842.98	-1,446.00	-6,411.90	1.11	0.82	-148.60
1	2,966.54	49	24	25	48.98	1,271.61	5,396.04	-1,102.08	-2,692.80	1.15	1.11	60.54

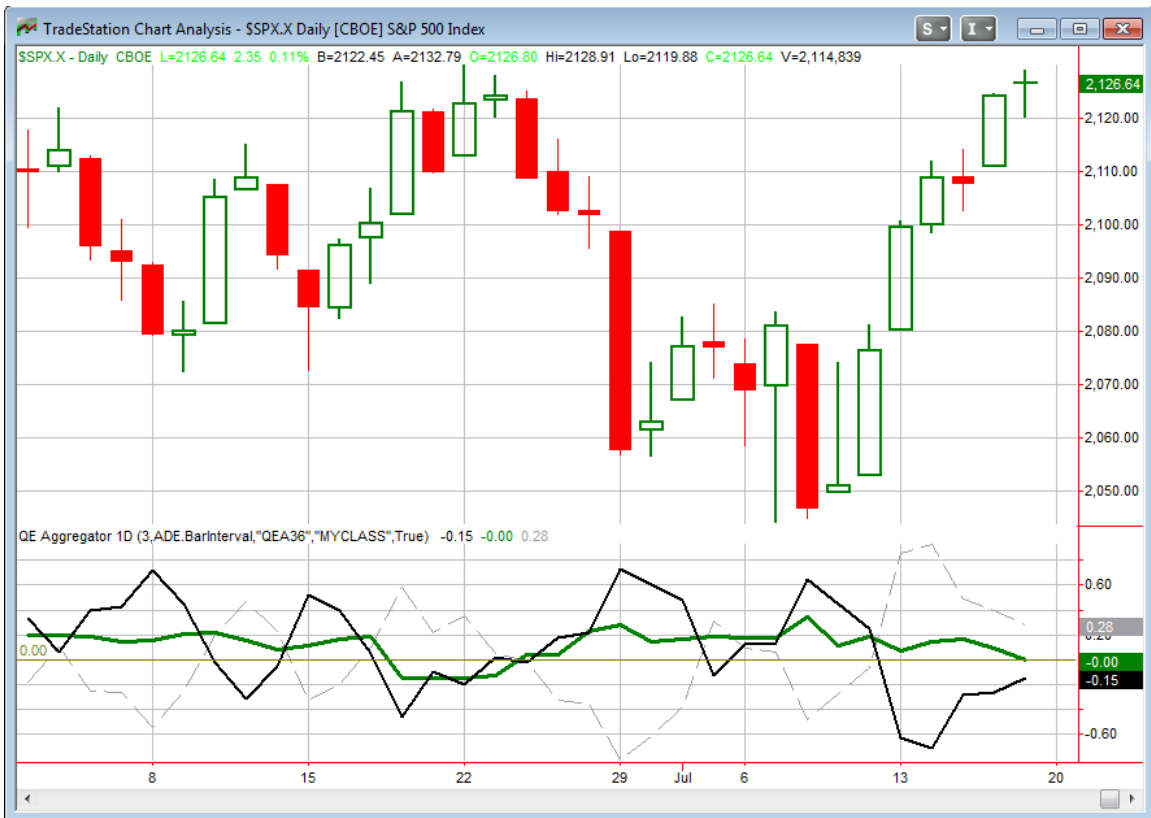
The pullbacks haven't been quite as reliable or as strong as the NDX but there still appears to be a decent downside edge. Below is an equity curve that assumes a 6-day holding period.



While choppy, it has persisted lower and continues to make new lows. Overall, this study appears worthy of consideration.

The market strength on days that breadth was so terrible was unusual. I had several old breadth studies that emerged related to the poor breadth, but they all have been less reliable in recent years. I also sliced and diced things a few different ways. For instance, a 1% NDX rise while the Nasdaq Up Issue % was below 40% has only happened 5 times. They were all in the 2000 – 2002 period. The dates were 1/31/00, 5/24/00, 3/22/01, 7/11/02, & 7/16/02. Interestingly, the NDX was higher 4 days later every time. But it was certainly a terrible period of time to hold on for longer-term gains. With only 5 instances, and having them all clustered in that time period, I am not reading too much into it. Poor (and diverging) breadth has historically been a negative for the intermediate-term, and has been a prerequisite for long-term tops. But the negative breadth on Friday did not generate strongly compelling short-term evidence.

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



The NDX/SOX study today shifted the green Aggregator line down just slightly below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line held 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 turned short at the close.

Based on the current active studies, expectations are set to remain negative on Monday. Of course this could change if additional bullish evidence emerges. The Differential Pivot will be 2115.35 on Monday. That is 0.5% below where SPX closed on Friday. So SPX will need to close down at least 0.5% on Monday to move from overbought to oversold versus expectations.

The Aggregator is bearish and there appears to be a bit of a downside edge. Aggressive traders could look to take advantage of this with a short position. I am generally a bit cautious when trading counter-trend positions. And while I considered taking on some short exposure, I elected against it for the time being. The SPX is only about 8 points (0.4%) below its all-time high. A break of that number could generate excitement and lead to a short-term upward acceleration. So I will wait another day or so to see if we get that break and I'll examine any new evidence that accompanies it.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/20– 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.*

It was a strong week for the market. SPX rose 2.4%, which was the biggest weekly % gain since March. It is now within a few points of new all-time highs. And the

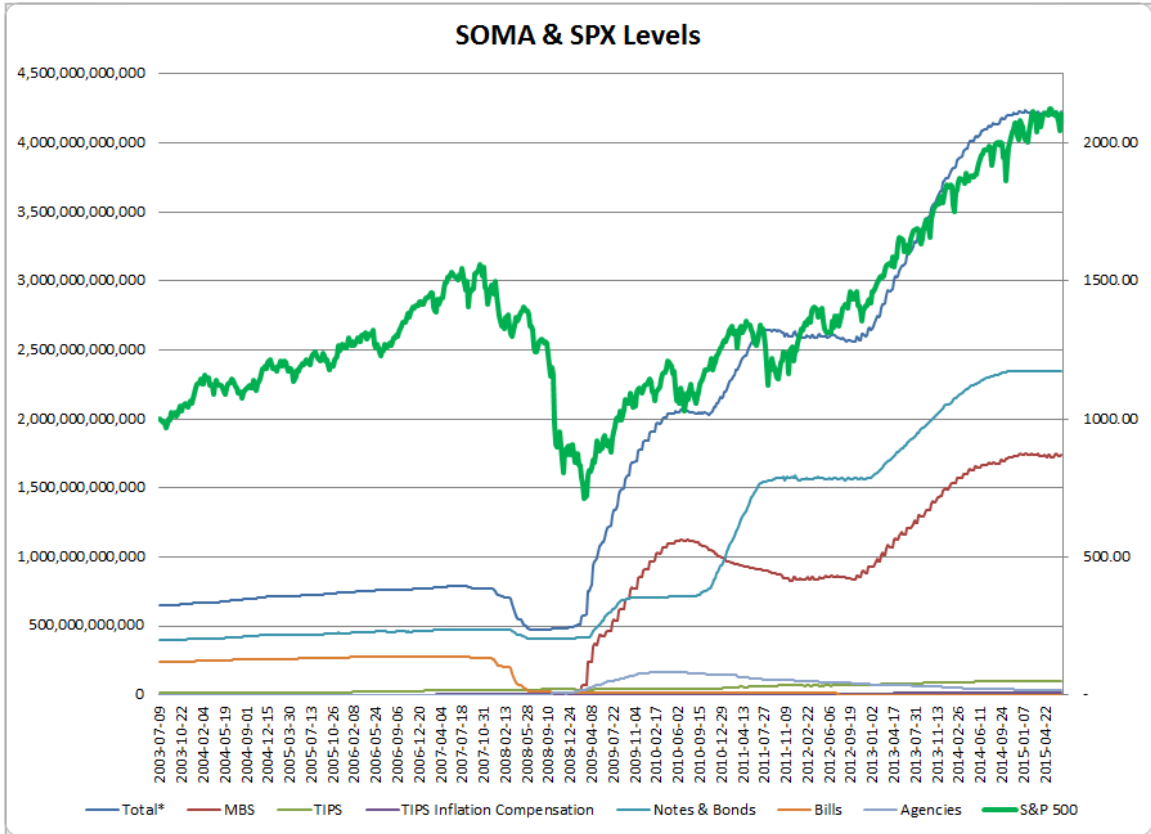
NASDAQ closed the week at new highs. So the uptrend appears to be intact, although it has been more of a drift than a trend so far this year.

From a studies standpoint, we did see one intermediate-term study reach its target, so it is now being removed from the Intermediate-Term Active List. No new compelling intermediate-term studies emerged.

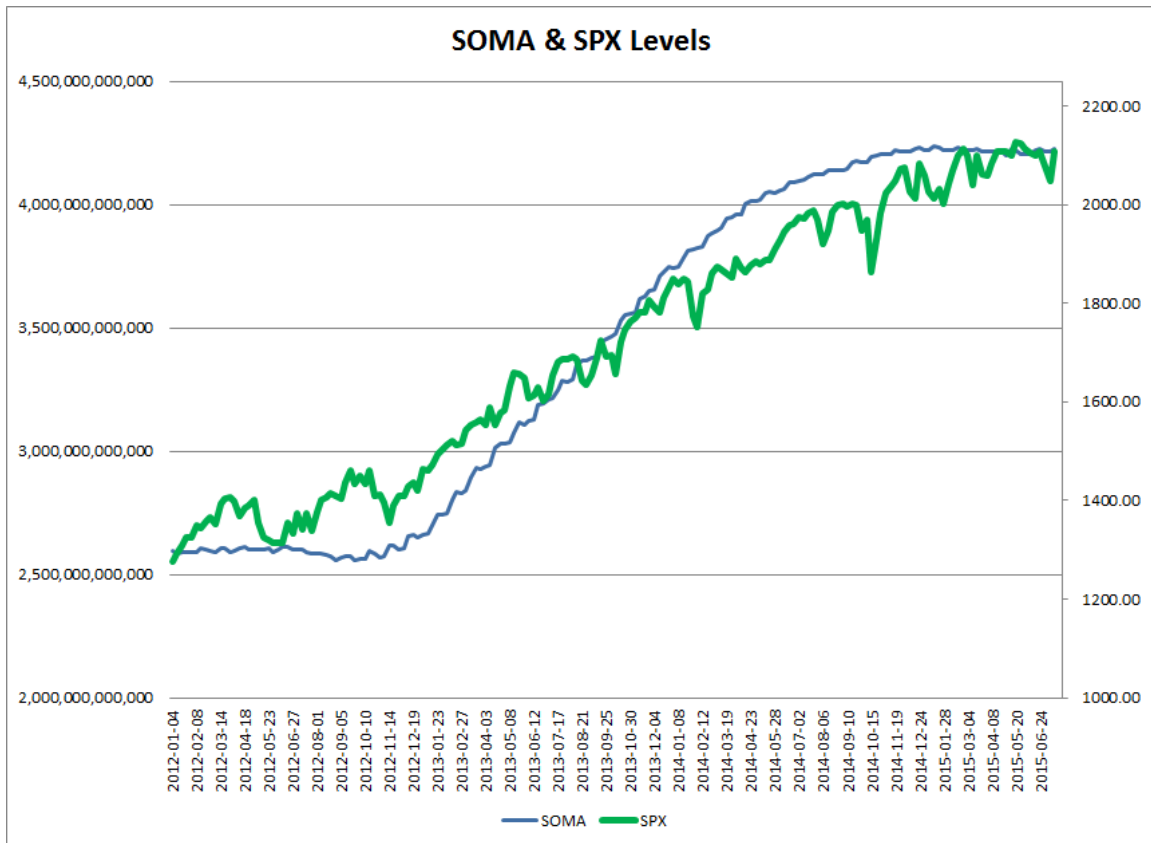
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 total this week saw a bit of a rise. This allowed it to hit its highest level since March. But it still remains squarely within the range it has been in since QE3 ended at the end of October. Interestingly, the market has held in a 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 could get interesting when the SOMA range is finally broken in a decisive way (up or down). 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 long-term uptrend still 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

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

None

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