

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 27, 2015

Volume 8 Issue 142

Market Overview



Signals Overview

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

Tonight's Research Points

- 4+ day pullbacks that experience the worst day of the pullback are normally primed for a bounce.
- Strong 1-day selloffs on the 4th Friday of the month have typically been followed by a sizable bounce.
- The Quantifiable Edges CBI has reached 15 – a strong indication of both a short and intermediate-term bottom in the past.

Short-term Outlook

The Bottom Line

Expectations are solidly positive and the market is oversold. This leaves the outlook bullish.

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 27, 2015	SPX dn 4. Big drop.	1-5 days	Bullish	2.10%	-0.85%	-1.50%
July 27, 2015	CBI reaches 10+. SPX > 200ma.	1-4 days	Bullish			
July 24, 2015	SPX dn 3. 3/10 Offset HV < 0.25	1-3 days	Bullish			
July 17, 2015	NDX up 1%. SOX dn.	1-6 days	Bearish	-3.10%	1.80%	4.00%
Active - Long Term						
July 27, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%
July 22, 2015	4th Hindenburg Signal	1-35 days	Bearish	-6.40%	2.70%	4.80%
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

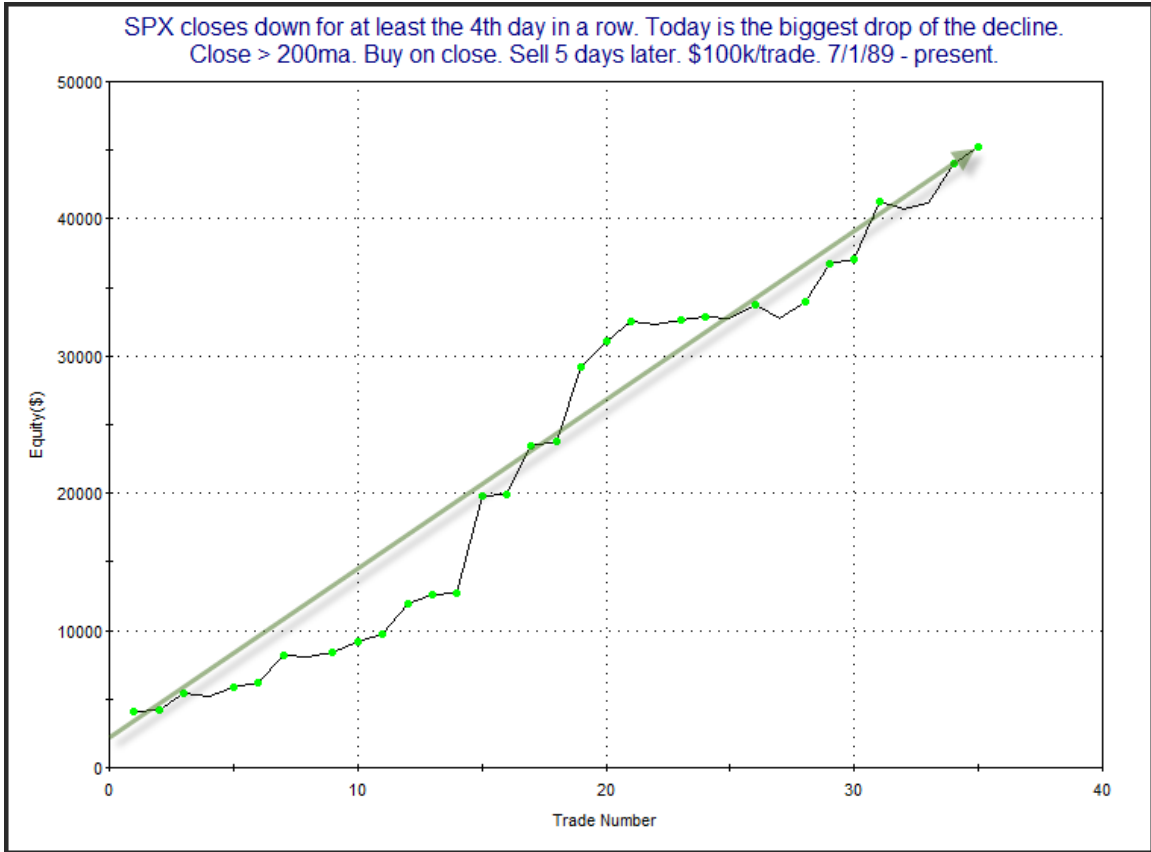
The market sold off again on Friday. The SPX lost 1.1%, the NASDAQ fell 1.1%, and the Russell 2000 declined 1.5%. Breadth was negative as the NYSE Up Issues % came in at 27% and the Up Volume % was 20%. Total NYSE volume rose some from Thursday's level.

Several studies appeared in the Quantifinder. I'll discuss the most compelling ones. The study below examined other multi-day selloffs that accelerated after already being down for a number of days. It was last seen in the 1/6/15 Subscriber Letter.

SPX closes down for at least the 4th day in a row. Today is the biggest drop of the decline. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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	45,206.72	35	29	6	82.86	1,634.00	7,070.28	-363.24	-909.36	4.50	21.74	1,291.62
4	39,219.83	35	27	8	77.14	1,678.87	5,187.49	-763.72	-1,776.42	2.20	7.42	1,120.57
3	40,198.17	35	28	7	80.00	1,565.61	5,339.18	-519.83	-849.87	3.01	12.05	1,148.52
2	34,039.94	36	28	8	77.78	1,403.96	4,809.66	-658.85	-1,343.84	2.13	7.46	945.55
1	20,394.39	39	27	12	69.23	1,035.14	5,117.46	-629.53	-1,699.92	1.64	3.70	522.93
100% of instances closed above the entry price at some point in the next 6 days.												

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of that over the last 8 years. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact just before the period shown there

were 2 trades that were losers. Still, the evidence appears strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



The consistently strong upslope makes this an appealing looking equity curve.

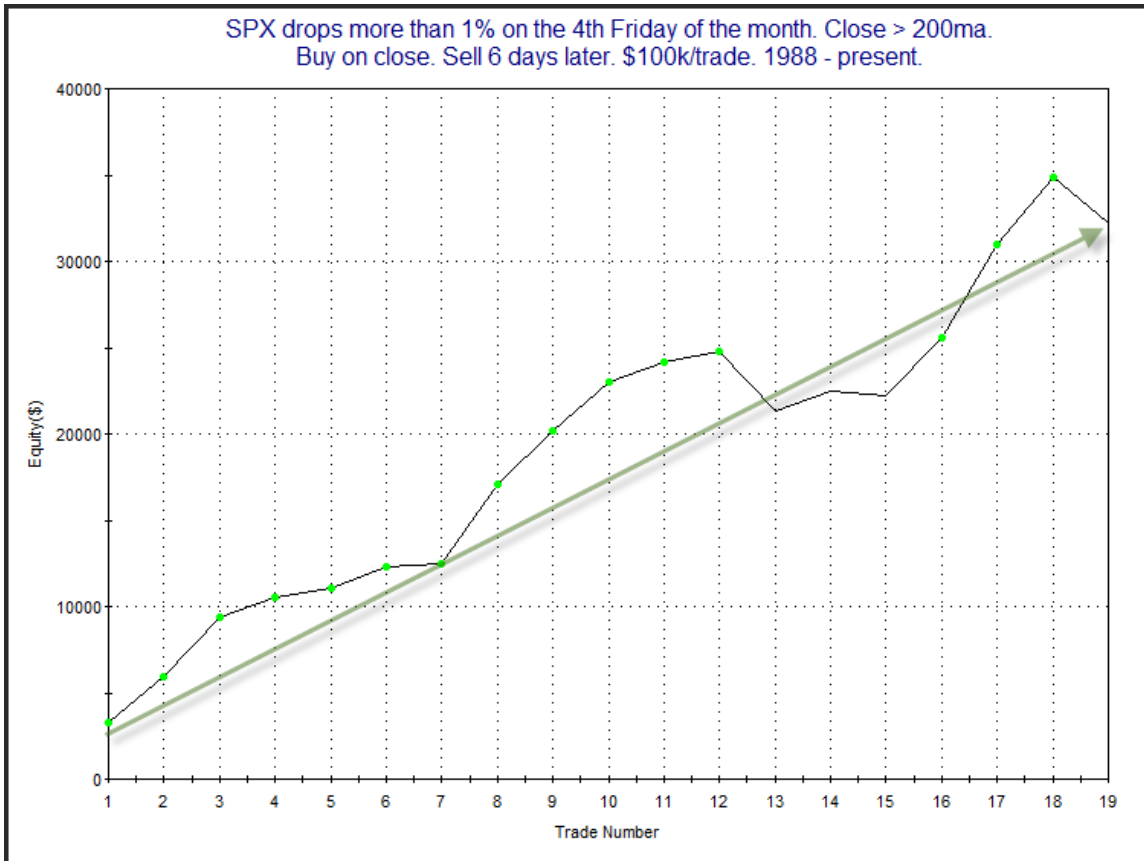
Strong one day selloffs that occur in positive seasonal periods will often see a short-term bounce. This is demonstrated in the study below – last seen in the 12/31/12 letter. It examines strong selloffs on the fourth Friday of the month. The stats table below is updated.

SPX drops more than 1% on the 4th Friday of the month. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1988 - 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	30,581.59	19	15	4	78.95	2,301.57	4,845.75	-985.48	-2,326.87	2.34	8.76	1,609.56
9	27,378.07	19	13	6	68.42	2,643.19	5,877.30	-1,163.91	-2,607.15	2.27	4.92	1,440.95
8	31,529.95	19	14	5	73.68	2,802.79	6,612.06	-1,541.82	-3,045.20	1.82	5.09	1,659.47
7	34,247.20	19	15	4	78.95	2,731.41	5,956.07	-1,681.00	-3,145.48	1.62	6.09	1,802.48
6	32,174.21	19	16	3	84.21	2,403.02	5,415.54	-2,091.37	-3,378.24	1.15	6.13	1,693.38
5	26,032.66	19	14	5	73.68	2,451.38	5,555.16	-1,657.34	-3,993.72	1.48	4.14	1,370.14
4	21,277.11	19	15	4	78.95	1,738.33	4,731.13	-1,199.46	-2,157.84	1.45	5.43	1,119.85
3	12,883.53	19	12	7	63.16	1,675.14	4,042.74	-1,031.17	-3,401.24	1.62	2.78	678.08
2	12,324.48	19	13	6	68.42	1,519.95	4,259.29	-1,239.14	-2,061.64	1.23	2.66	648.66
1	5,276.23	19	12	7	63.16	996.05	2,503.90	-953.77	-1,922.40	1.04	1.79	277.70

18 of 19 instances (95%) closed above the entry price at some point in the next week.

Both the consistency and the size of the moves appear to be quite strong. Below is an equity curve showing how the edge has played out over time. It assumes a 6-day hold.



This curve is also impressive, and quite steady. I have included this study on the Active List as well.

I noted on Thursday night that the Quantifiable Edges Capitulative Breadth Index (CBI) was reaching high readings. On Friday it spiked even further, and is now reaching fairly extreme levels. Friday's reading came in at 15, which is comfortably above the 10 or 11 that has historically been followed by a bounce on a reliable basis.

This first CBI-related study examines other times the CBI reached 10 while SPX was above its 200-day moving average. It only looks to exit the position after the CBI has returned to neutral (3 or lower).

Quantifiable Edges CBI closes ≥ 10 . SPX $> 200ma$.
Buy on close. Sell when CBI ≤ 3 . \$100k/trade. 1995 - present.

TradeStation Performance Summary Collapse \wedge			
All Trades			
Total Net Profit	\$18,654.20	Profit Factor	n/a
Gross Profit	\$18,654.20	Gross Loss	\$0.00
Total Number of Trades	12	Percent Profitable	100.00%
Winning Trades	12	Losing Trades	0
Even Trades	0		
Avg. Trade Net Profit	\$1,554.52	Ratio Avg. Win:Avg. Loss	n/a
Avg. Winning Trade	\$1,554.52	Avg. Losing Trade	\$0.00
Largest Winning Trade	\$5,471.50	Largest Losing Trade	\$0.00

The perfect record is impressive. Below is the full list of instances.

Quantifiable Edges CBI closes ≥ 10 . SPX $> 200ma$.
Buy on close. Sell when CBI ≤ 3 . \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.09%	\$1,116.22
12/19/96	Sell	\$745.77		(\$3,806.94)
04/03/97	Buy	\$750.32	0.59%	\$2,554.93
04/15/97	Sell	\$754.72		(\$2,231.74)
08/14/97	Buy	\$924.77	1.58%	\$1,574.64
08/20/97	Sell	\$939.35		(\$3,394.44)
01/26/00	Buy	\$1,404.09	0.37%	\$1,048.67
02/01/00	Sell	\$1,409.28		(\$3,836.84)
02/02/04	Buy	\$1,135.26	0.40%	\$809.60
02/09/04	Sell	\$1,139.81		(\$952.16)
03/23/05	Buy	\$1,172.53	0.76%	\$765.85
03/30/05	Sell	\$1,181.41		(\$751.40)
03/05/07	Buy	\$1,374.12	2.36%	\$2,594.16
03/12/07	Sell	\$1,406.60		\$0.00
03/17/11	Buy	\$1,273.72	1.94%	\$2,095.08
03/21/11	Sell	\$1,298.38		\$0.00
05/18/12	Buy	\$1,295.22	1.97%	\$2,561.79
05/24/12	Sell	\$1,320.68		\$0.00
02/05/14	Buy	\$1,751.64	2.59%	\$2,644.23
02/07/14	Sell	\$1,797.02		\$0.00
08/01/14	Buy	\$1,925.15	0.61%	\$1,007.25
08/11/14	Sell	\$1,936.92		(\$1,038.87)
12/16/14	Buy	\$1,972.74	5.55%	\$5,699.50
12/23/14	Sell	\$2,082.17		\$0.00

No red flags here. I also looked at these 12 instances to see how they performed over the next 1-5 days. Those results are below.

CBI reaches at least 10 and SPX $> 200ma$.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	13,015.78	11	10	1	90.91	1,360.14	3,854.34	-585.58	-585.58	2.32	23.23	1,183.25
4	14,026.76	11	10	1	90.91	1,482.13	3,882.27	-794.58	-794.58	1.87	18.65	1,275.16
3	8,857.97	11	7	4	63.64	1,569.54	2,747.40	-532.20	-683.73	2.95	5.16	805.27
2	2,959.61	11	6	5	54.55	1,527.01	2,586.66	-1,240.49	-3,119.03	1.23	1.48	269.06
1	3,413.02	11	7	4	63.64	940.59	1,599.29	-792.78	-2,587.68	1.19	2.08	310.27

Numbers here appear strong. Four to five days out the stats look especially appealing. Below is the list of instances, along with their 4-day returns.

Quantifiable Edges CBI closes ≥ 10 . SPX > 200 ma.
Buy on close. Sell 4 days later. \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.33%	\$1,116.22
12/10/96	Sell	\$747.54		(\$2,440.14)
04/03/97	Buy	\$750.32	1.37%	\$2,554.93
04/09/97	Sell	\$760.60		(\$835.24)
08/14/97	Buy	\$924.77	1.58%	\$1,574.64
08/20/97	Sell	\$939.35		(\$3,394.44)
01/26/00	Buy	\$1,404.09	0.37%	\$1,048.67
02/01/00	Sell	\$1,409.28		(\$3,836.84)
02/02/04	Buy	\$1,135.26	0.66%	\$662.64
02/06/04	Sell	\$1,142.76		(\$952.16)
03/23/05	Buy	\$1,172.53	0.76%	\$765.85
03/30/05	Sell	\$1,181.41		(\$751.40)
03/05/07	Buy	\$1,374.12	2.09%	\$2,594.16
03/09/07	Sell	\$1,402.85		\$0.00
03/17/11	Buy	\$1,273.72	1.87%	\$2,095.08
03/23/11	Sell	\$1,297.54		\$0.00
05/18/12	Buy	\$1,295.22	1.97%	\$2,561.79
05/24/12	Sell	\$1,320.68		\$0.00
02/05/14	Buy	\$1,751.64	3.89%	\$4,098.30
02/11/14	Sell	\$1,819.75		\$0.00
08/01/14	Buy	\$1,925.15	(0.81%)	\$906.27
08/07/14	Sell	\$1,909.57		(\$1,038.87)
12/16/14	Buy	\$1,972.74	5.36%	\$5,301.00
12/22/14	Sell	\$2,078.54		\$0.00

The August 2014 instance that showed a loss after four days was higher on the fifth day, and a strong rally kicked off from there. Overall, these results appear very strong.

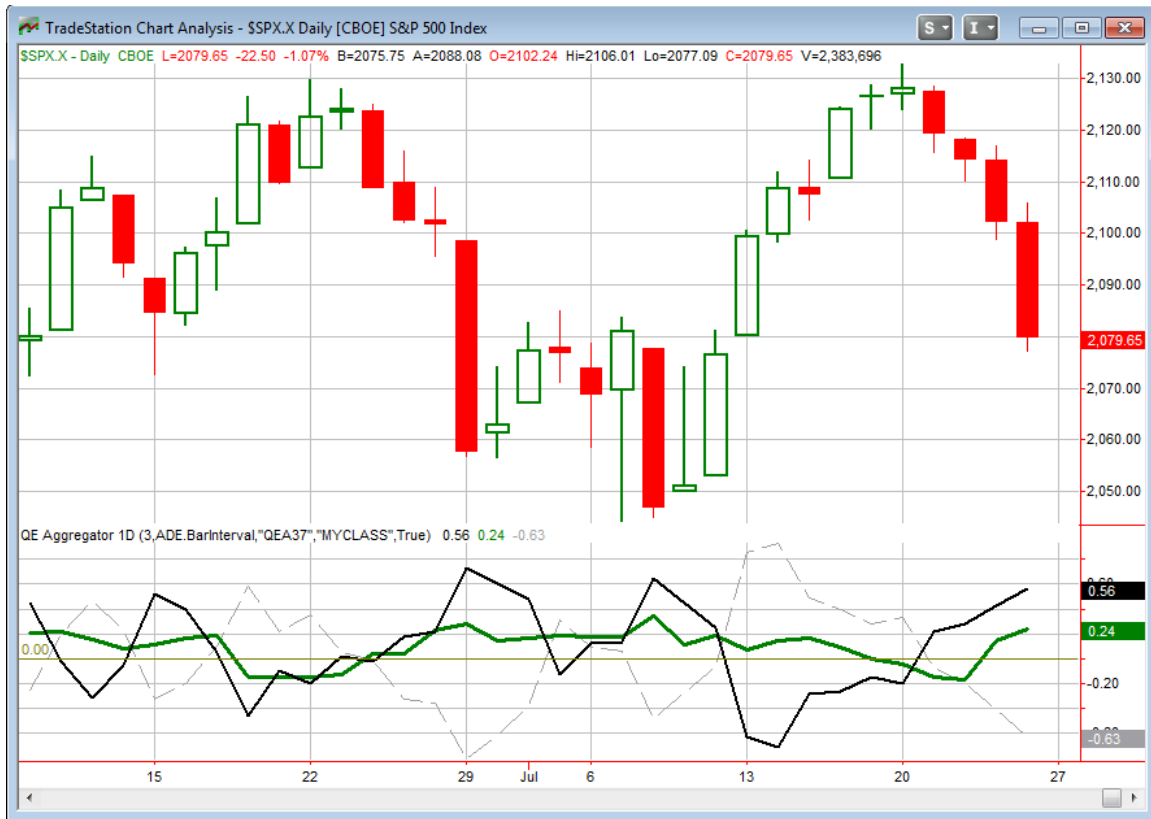
While 10 has been a strong indication for a short-term bounce, 11 or higher has been a reliable indication for the intermediate-term. Friday was just the 24th time the CBI reached as high as 11. Looking out 20 days later, every other instance has been trading higher. Below is the full listing of triggers and the 20-day results.

Quantifiable Edges CBI closes ≥ 11 .
 Buy on close. Sell 20 days later. \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.39%	\$1,889.40
01/03/97	Sell	\$748.03		(\$3,806.94)
04/03/97	Buy	\$750.32	6.43%	\$7,156.73
05/01/97	Sell	\$798.53		(\$2,231.74)
08/15/97	Buy	\$900.81	2.10%	\$4,391.16
09/15/97	Sell	\$919.77		(\$829.17)
08/28/98	Buy	\$1,027.25	2.09%	\$3,768.45
09/28/98	Sell	\$1,048.70		(\$8,463.25)
09/18/01	Buy	\$1,032.74	6.27%	\$6,616.32
10/16/01	Sell	\$1,097.54		(\$8,447.04)
07/18/02	Buy	\$881.56	5.52%	\$5,845.49
08/15/02	Sell	\$930.25		(\$11,964.44)
02/02/04	Buy	\$1,135.26	1.22%	\$2,087.36
03/02/04	Sell	\$1,149.10		(\$952.16)
04/18/05	Buy	\$1,145.98	1.72%	\$2,861.43
05/16/05	Sell	\$1,165.69		(\$855.21)
03/05/07	Buy	\$1,374.12	3.67%	\$4,663.44
04/02/07	Sell	\$1,424.55		(\$730.08)
01/22/08	Buy	\$1,310.51	3.78%	\$6,498.76
02/20/08	Sell	\$1,360.02		(\$3,074.96)
03/07/08	Buy	\$1,293.37	6.12%	\$7,189.49
04/07/08	Sell	\$1,372.53		(\$2,802.03)
07/02/08	Buy	\$1,261.53	0.46%	\$2,341.56
07/31/08	Sell	\$1,267.38		(\$4,826.11)
10/07/08	Buy	\$996.23	0.96%	\$4,808.00
11/04/08	Sell	\$1,005.75		(\$15,643.00)
11/20/08	Buy	\$752.44	18.00%	\$21,966.12
12/19/08	Sell	\$887.88		(\$1,453.32)
03/02/09	Buy	\$700.82	12.37%	\$18,762.46
03/30/09	Sell	\$787.53		(\$4,832.26)
05/20/10	Buy	\$1,071.59	4.29%	\$4,596.06
06/18/10	Sell	\$1,117.51		(\$2,865.33)
06/29/10	Buy	\$1,041.24	6.23%	\$7,652.16
07/28/10	Sell	\$1,106.13		(\$2,911.68)
08/08/11	Buy	\$1,119.46	4.09%	\$9,901.25
09/06/11	Sell	\$1,165.24		(\$1,594.88)
05/18/12	Buy	\$1,295.22	3.83%	\$4,081.00
06/18/12	Sell	\$1,344.78		(\$2,192.96)
11/16/12	Buy	\$1,359.88	5.18%	\$5,745.83
12/17/12	Sell	\$1,430.36		\$0.00
08/01/14	Buy	\$1,925.15	4.06%	\$4,074.39
08/29/14	Sell	\$2,003.37		(\$1,038.87)
10/13/14	Buy	\$1,874.74	8.72%	\$8,689.88
11/10/14	Sell	\$2,038.26		(\$2,866.24)
12/16/14	Buy	\$1,972.74	1.01%	\$6,040.50
01/15/15	Sell	\$1,992.67		\$0.00

This will be added to the intermediate-term active list.

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



The bullish studies tonight helped push the green Aggregator line 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 also pushed further 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. This is highly unlikely to change. The Differential Pivot will be 2106.12 on Monday. That is 1.3% above Friday's close. In order to move to overbought versus expectations, SPX will need to close up at least 1.3% on Monday. That is a tall order for 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

I like the bullish evidence. The market is strongly oversold short-term. And there is plenty of room to the upside before it could turn overbought. I am already partially long, and I will be looking to up my long exposure further on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/27– 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 tough week for the market. SPX fell 2.2%, and the NASDAQ did even worse. There was some intermediate-term evidence that emerged as well. The CBI study shown above was one for the bulls. But a bearish study was shown in the 7/22 letter. I have copied it below.

Notable about Tuesday is that a Hindenburg Omen signal triggered, making it the 4th one in the last 29 trading days. I discussed the Hindenburg Omen in detail in the 12/8/14 letter, and have updated the research and my thoughts below.

The Hindenburg Omen was created by Jim Miekka in 1995. It looks to identify times when there is a split market developing, which could signal trouble ahead.

Below are the rules for a Hindenburg Omen signal.

- 1. The daily number of NYSE new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically about 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% it made for too low of sample size to draw conclusions from when*

- looking at larger clusters. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.)
2. The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows.
 3. The McClellan Oscillator is negative on the same day.
 4. New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).

It is generally viewed that a single Hindenburg Omen signal is not a reliable indication of a market top, but that numerous signals provide a more reliable indication of danger. This is something I explored in the past and updated today. So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

Buy SPX when 1st Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	23,545.51	26	15	11	57.69	6,377.07	13,171.60	-6,555.51	-19,079.85	0.97	1.33	905.60
95	23,023.40	27	16	11	59.26	6,161.96	17,946.48	-6,869.81	-22,416.88	0.90	1.30	852.72
90	4,973.27	27	14	13	51.85	6,441.23	15,961.92	-6,554.15	-20,572.65	0.98	1.06	184.20
85	24,177.07	29	17	12	58.62	6,707.42	16,670.24	-7,487.42	-21,465.22	0.90	1.27	833.69
80	10,484.35	29	16	13	55.17	6,501.25	16,583.84	-7,195.06	-21,552.30	0.90	1.11	361.53
75	7,865.73	29	16	13	55.17	6,182.94	14,501.70	-7,004.72	-22,917.59	0.88	1.09	271.23
70	6,561.91	29	15	14	51.72	7,129.75	17,714.32	-7,170.31	-20,289.64	0.99	1.07	226.27
65	-7,074.57	29	15	14	51.72	6,435.18	16,609.84	-7,400.16	-21,508.76	0.87	0.93	-243.95
60	-25,624.26	29	14	15	48.28	5,822.82	17,197.44	-7,142.91	-24,323.31	0.82	0.76	-883.60
55	-46,604.17	30	15	15	50.00	4,965.35	14,306.24	-8,072.29	-27,246.71	0.62	0.62	-1,553.47
50	-27,358.45	30	14	16	46.67	5,411.37	14,509.04	-6,444.85	-29,846.67	0.84	0.73	-911.95
45	-16,603.91	31	17	14	54.84	4,469.26	13,151.98	-6,612.95	-23,971.88	0.68	0.82	-535.61
40	-22,115.83	31	14	17	45.16	5,381.13	12,520.58	-5,732.45	-23,520.93	0.94	0.77	-713.41
35	-19,192.18	33	16	17	48.48	4,841.57	12,021.20	-5,685.72	-24,659.19	0.85	0.80	-581.58
30	-10,688.09	33	17	16	51.52	4,304.04	9,855.58	-5,241.05	-22,460.42	0.82	0.87	-323.88
25	-3,207.54	36	18	18	50.00	4,398.21	9,781.64	-4,576.41	-27,340.01	0.96	0.96	-89.10
20	-15,501.87	37	20	17	54.05	3,421.37	9,257.67	-4,937.01	-19,533.91	0.69	0.82	-418.97
15	4,243.39	40	19	21	47.50	2,907.26	9,103.68	-2,428.31	-8,166.80	1.20	1.08	106.08
10	-8,295.06	46	23	23	50.00	2,136.82	9,012.33	-2,497.47	-7,899.90	0.86	0.86	-180.33
5	-21,763.56	59	22	37	37.29	1,632.69	4,926.56	-1,559.00	-5,775.12	1.05	0.62	-368.87

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period, which is a common time-period that Hindenburg watchers look for.

Buy SPX when 2nd Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	34,305.37	15	10	5	66.67	7,169.80	17,883.98	-7,478.53	-18,879.12	0.96	1.92	2,287.02
95	29,788.72	16	11	5	68.75	6,649.93	17,605.78	-8,672.11	-21,212.88	0.77	1.69	1,861.79
90	26,817.43	16	12	4	75.00	5,540.35	20,476.59	-9,916.68	-20,011.68	0.56	1.68	1,676.09
85	13,804.84	18	10	8	55.56	7,104.31	20,455.19	-7,154.78	-21,883.68	0.99	1.24	766.94
80	8,964.37	18	11	7	61.11	5,823.91	18,961.47	-7,871.24	-21,961.68	0.74	1.16	498.02
75	17,663.34	18	11	7	61.11	6,411.28	17,861.51	-7,551.54	-23,181.60	0.85	1.33	981.30
70	6,922.64	18	12	6	66.67	5,610.92	21,700.67	-10,068.06	-19,060.08	0.56	1.11	384.59
65	-15,090.33	18	10	8	55.56	5,735.17	20,504.41	-9,055.25	-23,131.68	0.63	0.79	-838.35
60	-9,677.19	18	10	8	55.56	5,072.71	19,457.95	-7,550.53	-22,011.60	0.67	0.84	-537.62
55	-24,246.03	19	11	8	57.89	4,423.41	18,625.49	-9,112.94	-26,329.68	0.49	0.67	-1,276.11
50	-17,303.50	20	11	9	55.00	4,868.78	17,961.02	-7,873.34	-29,889.60	0.62	0.76	-865.17
45	-19,706.14	21	10	11	47.62	4,617.24	16,345.32	-5,988.96	-24,766.56	0.77	0.70	-938.39
40	-23,112.45	21	9	12	42.86	4,877.02	14,615.13	-5,583.80	-24,853.92	0.87	0.66	-1,100.59
35	-16,942.45	21	10	11	47.62	4,399.15	13,303.31	-5,539.45	-22,211.28	0.79	0.72	-806.78
30	-22,943.93	21	11	10	52.38	3,720.50	11,007.09	-6,386.94	-20,354.88	0.58	0.64	-1,092.57
25	-16,594.45	24	13	11	54.17	3,591.87	10,173.56	-5,753.52	-23,381.28	0.62	0.74	-691.44
20	-33,013.99	25	10	15	40.00	3,256.33	8,886.35	-4,371.82	-22,295.52	0.74	0.50	-1,320.56
15	-5,340.01	26	12	14	46.15	2,361.26	8,305.02	-2,405.36	-6,748.56	0.98	0.84	-205.38
10	-12,125.71	32	10	22	31.25	2,563.36	9,247.23	-1,716.33	-5,748.21	1.49	0.68	-378.93
5	-4,702.40	42	16	26	38.10	1,960.83	6,245.73	-1,387.53	-4,179.84	1.41	0.87	-111.96

Some of these numbers look a little worse, but you'd probably need to squint to notice. I next checked instances that triggered a 3rd signal in a 30-day period.

Buy SPX when 3rd Hindenburg Omen triggers.
Sell X days later. \$100k/trade. 1980 - 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
100	31,255.80	12	9	3	75.00	5,799.12	18,512.90	-6,978.75	-16,085.07	0.83	2.49	2,604.65
95	21,536.76	12	8	4	66.67	5,723.83	16,070.66	-6,063.47	-16,770.54	0.94	1.89	1,794.73
90	7,206.66	12	7	5	58.33	6,178.98	18,595.58	-7,209.24	-19,277.67	0.86	1.20	600.55
85	14,858.80	12	8	4	66.67	6,010.87	18,884.96	-8,307.03	-21,362.25	0.72	1.45	1,238.23
80	-6,211.59	13	6	7	46.15	6,550.62	16,528.58	-6,502.19	-19,449.82	1.01	0.86	-477.81
75	4,795.65	13	6	7	46.15	8,754.60	18,289.24	-6,818.85	-22,758.23	1.28	1.10	368.90
70	-4,743.27	13	7	6	53.85	6,191.48	19,119.22	-8,013.93	-21,021.08	0.77	0.90	-364.87
65	-21,440.85	13	5	8	38.46	6,090.96	17,909.76	-6,486.96	-23,731.66	0.94	0.59	-1,649.30
60	-19,754.14	13	6	6	46.15	4,610.64	17,209.10	-7,903.00	-22,576.69	0.58	0.58	-1,519.55
55	-22,057.04	13	5	8	38.46	5,726.76	17,905.52	-6,336.35	-20,673.65	0.90	0.56	-1,696.70
50	-13,555.18	14	6	8	42.86	5,842.99	17,255.74	-6,076.64	-22,263.69	0.96	0.72	-968.23
45	-25,908.02	14	6	8	42.86	4,708.08	15,507.80	-6,769.56	-25,143.29	0.70	0.52	-1,850.57
40	-36,827.40	14	5	9	35.71	4,942.25	13,700.50	-6,837.63	-26,846.01	0.72	0.40	-2,630.53
35	-32,110.45	14	3	11	21.43	6,823.64	11,461.78	-4,780.13	-22,795.79	1.43	0.39	-2,293.60
30	-31,163.59	15	7	8	46.67	4,135.74	10,991.14	-7,514.22	-23,844.34	0.55	0.48	-2,077.57
25	-32,468.85	16	7	9	43.75	4,003.70	9,841.04	-6,721.64	-25,105.73	0.60	0.46	-2,029.30
20	-37,560.56	17	7	10	41.18	3,215.60	8,458.80	-6,006.98	-21,406.07	0.54	0.37	-2,209.44
15	-32,723.76	19	9	10	47.37	2,586.88	7,078.68	-5,600.56	-26,924.26	0.46	0.42	-1,722.30
10	-40,394.46	21	7	14	33.33	1,851.62	3,400.10	-3,811.13	-25,784.94	0.49	0.24	-1,923.55
5	-11,447.73	28	10	18	35.71	1,369.19	4,174.28	-1,396.64	-3,509.22	0.98	0.54	-408.85

Between 35 and 55 days out there appears to be somewhat weak returns on a small sample size.

With the 4th trigger occurring on Tuesday I also updated the stats when 4 signals occur.

Buy SPX when 4th Hindenburg Omen triggers.
Sell X days later. \$100k/trade. 1980 - 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
100	18,855.29	9	7	2	77.78	3,496.88	7,362.09	-2,811.44	-3,671.20	1.24	4.35	2,095.03
95	15,347.12	9	5	4	55.56	4,775.58	6,207.97	-2,132.70	-4,635.15	2.24	2.80	1,705.24
90	2,692.83	9	4	5	44.44	3,531.89	5,450.48	-2,286.94	-6,882.20	1.54	1.24	299.20
85	7,898.87	9	5	4	55.56	4,030.32	7,141.18	-3,063.18	-6,553.95	1.32	1.64	877.65
80	3,530.62	9	4	5	44.44	4,221.61	7,248.39	-2,671.16	-6,169.80	1.58	1.26	392.29
75	-4,075.75	10	4	6	40.00	5,234.61	8,515.03	-4,169.03	-9,034.35	1.26	0.84	-407.58
70	-5,627.14	10	6	4	60.00	2,614.22	5,115.04	-5,328.12	-9,322.50	0.49	0.74	-562.71
65	-20,911.89	10	3	7	30.00	1,952.18	4,280.64	-3,824.06	-10,467.60	0.51	0.22	-2,091.19
60	-21,049.69	10	5	5	50.00	1,426.49	4,358.48	-5,636.43	-11,602.80	0.25	0.25	-2,104.97
55	-18,913.39	10	4	6	40.00	2,245.27	5,385.52	-4,649.08	-8,851.04	0.48	0.32	-1,891.34
50	-15,773.30	11	5	6	45.45	2,550.91	3,934.12	-4,754.64	-9,493.04	0.54	0.45	-1,433.94
45	-21,535.46	11	3	8	27.27	2,821.99	3,730.16	-3,750.18	-14,483.52	0.75	0.28	-1,957.77
40	-24,678.87	11	3	8	27.27	2,665.81	3,315.35	-4,084.54	-11,889.84	0.65	0.24	-2,243.53
35	-38,364.31	11	2	9	18.18	2,112.64	3,328.16	-4,732.18	-14,149.68	0.45	0.10	-3,487.66
30	-19,199.05	12	5	7	41.67	2,329.77	5,262.60	-4,406.84	-13,738.80	0.53	0.38	-1,599.92
25	-16,823.82	13	6	7	46.15	2,555.45	6,253.80	-4,593.79	-12,343.52	0.56	0.48	-1,294.14
20	-27,142.68	13	3	10	23.08	3,445.45	4,796.40	-3,747.90	-9,672.80	0.92	0.28	-2,087.90
15	-17,691.63	13	5	8	38.46	2,432.10	4,301.89	-3,731.52	-8,414.48	0.65	0.41	-1,360.89
10	-15,797.74	17	6	11	35.29	1,538.77	2,854.88	-2,275.49	-6,566.95	0.68	0.37	-929.28
5	-16,041.48	19	5	14	26.32	1,426.03	2,929.92	-1,655.12	-4,884.75	0.86	0.31	-844.29

There are only 11 instances when looking out 35-45 days, but with 9 of them being down 35 days later these results warrant closer investigation. Below are the individual instances.

Buy SPX when 4th Hindenburg Omen triggers.
Sell 35 days later. \$100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
02/14/80	Buy	\$116.72	(14.16%)	\$1,001.52
04/07/80	Sell	\$100.19		(\$16,264.00)
07/24/86	Buy	\$237.94	(3.06%)	\$6,846.00
09/12/86	Sell	\$230.66		(\$3,864.00)
03/15/94	Buy	\$467.01	(3.35%)	\$873.12
05/05/94	Sell	\$451.38		(\$6,666.10)
12/08/99	Buy	\$1,403.88	(3.11%)	\$5,262.52
01/28/00	Sell	\$1,360.16		(\$3,385.28)
04/24/06	Buy	\$1,308.11	(6.45%)	\$1,412.84
06/13/06	Sell	\$1,223.69		(\$6,504.84)
07/20/07	Buy	\$1,534.10	(5.37%)	\$853.45
09/10/07	Sell	\$1,451.70		(\$10,627.50)
10/25/07	Buy	\$1,514.39	(3.07%)	\$2,532.42
12/14/07	Sell	\$1,467.95		(\$7,147.14)
06/04/13	Buy	\$1,631.38	3.34%	\$4,111.40
07/24/13	Sell	\$1,685.94		(\$4,334.05)
08/09/13	Buy	\$1,691.42	(0.58%)	\$2,267.96
09/30/13	Sell	\$1,681.55		(\$3,773.05)
12/17/13	Buy	\$1,781.00	0.90%	\$3,911.04
02/07/14	Sell	\$1,797.02		(\$2,412.48)
12/05/14	Buy	\$2,075.37	(3.53%)	\$872.64
01/28/15	Sell	\$2,002.16		(\$4,934.88)

Some of the recent instances have not played out as bearish as the previous ones. Still, even those instances that closed higher saw pullbacks of 2.4% and 4.3% from the trigger date's closing price at some point during the next 35 days. And the average drawdown is still about 2x the size of the average run-up. So the numbers still do seem to favor the bears. In my opinion the setup does not appear as menacing as the name might suggest, but there has been enough market damage following these signals that it is probably worth remaining cognizant of it. I have therefore listed it on the Intermediate-term Active List.

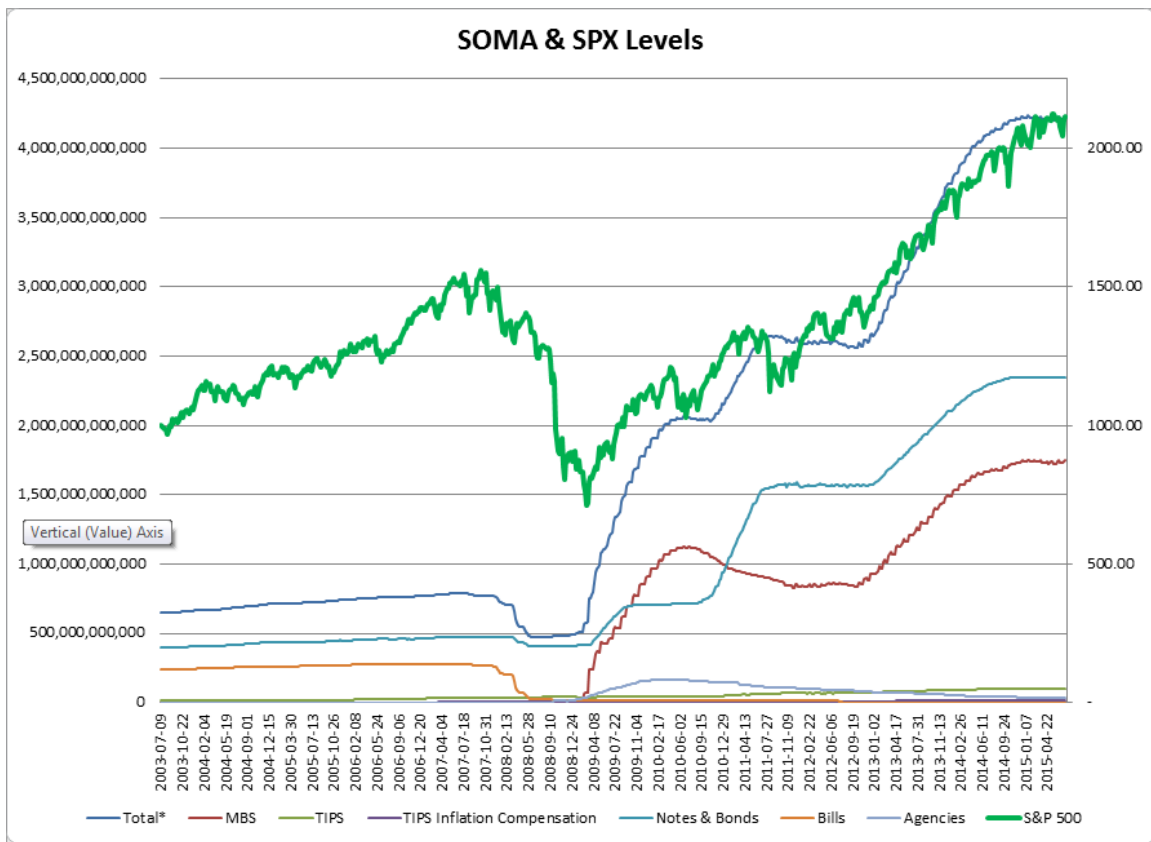
Subscribers that wish to study Hindenburgs more on their own may download the Tradestation strategy code from the member downloads section.

<http://quantifiableedges.com/other-code-spreadsheets/>

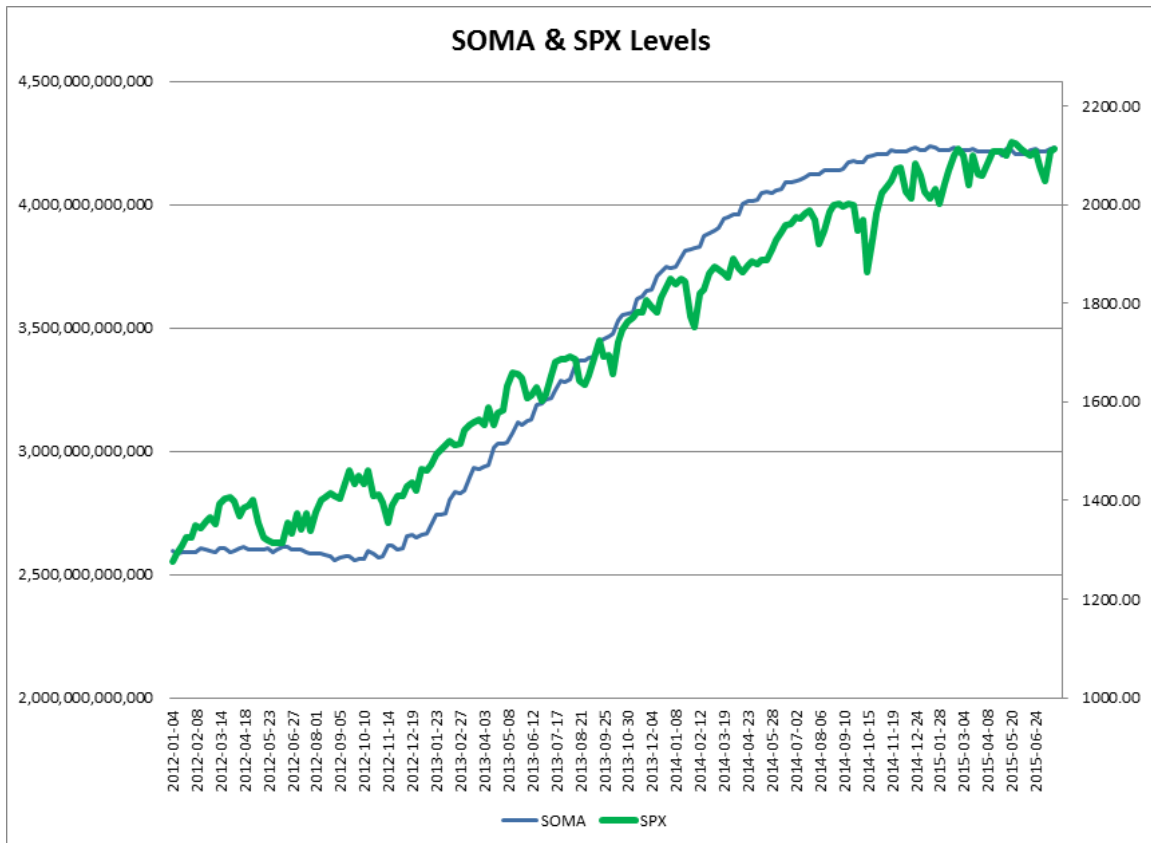
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 February. 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). And the very high CBI suggests a positive 4-week outlook. But other indicators continue to suggest a dangerous environment. This includes the diverging number of stocks making new highs, the questionable SOMA action, and the Hindenburg Omen signals. Overall, the leading NASDAQ, the MTC Combo Systems, the CBI, 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

APA – 1/3 @ \$47.53 (bought @ limit)
APA – 1/3 @ \$47.53 (bought 2nd lot @ limit)
OXY – 1/3 @ \$69.47 (bought @ limit)
COP – 1/3 @ \$55.83 (bought @ limit)
UTX – 1/3 @ \$101.55 (bought @ limit)
COP – 1/3 @ \$55.83 (bought 2nd lot @ limit)
UTX – 1/3 @ \$101.55 (bought 2nd lot @ limit)
ORCL– 1/3 @ \$39.00 (bought @ limit)

New

COP – 1/3 @ \$52.09
UTX – 1/3 @ \$99.31
ORCL– 1/3 @ \$39.00
APA – 1/3 @ \$45.08
EMR – 1/3 @ \$50.68
DD– 1/3 @ \$56.94
NSC – 1/3 @ \$82.96

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 15/8(APA-3, OXY, COP-3, UTX-3, ORCL-2, EMR, DD, NSC)

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.

ORCL – buy 1/3 Catapult position @ \$39.00 LIMIT. This is a Catapult trade from above. It is the 2nd of 3 possible lots for ORCL.

COP – buy 1/3 Catapult position @ \$52.09 LIMIT. This is a Catapult trade from above. It is the last of 3 possible lots for COP.

UTX – buy 1/3 Catapult position @ \$99.31 LIMIT. This is a Catapult trade from above. It is the last of 3 possible lots for UTX.

NSC – buy 1/3 Catapult position @ \$82.96 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for NSC.

EMR – buy 1/3 Catapult position @ \$50.68 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for EMR.

DD – buy 1/3 Catapult position @ \$56.94 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for DD.

APA – buy 1/3 Catapult position @ \$45.08 LIMIT. This is a Catapult trade from above. It is the last of 3 possible lots for APA.

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](#).

SPY – buy ¼ index position @ \$208.00 LIMIT. Based on the short-term outlook above, I will look to continue scaling into a long index position.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APA(1/3)	7/22/2015	\$47.32	\$45.08	-4.73%		Catapult
APA(1/3)	7/23/2015	\$47.32	\$45.08	-4.73%		Catapult
OXY(1/3)	7/23/2015	\$69.44	\$68.42	-1.47%		Catapult
COP(1/3)	7/23/2015	\$55.10	\$52.09	-5.46%		Catapult
UTX(1/3)	7/23/2015	\$101.55	\$99.31	-2.21%		Catapult
ORCL(1/3)	7/24/2015	\$39.00	\$39.00	0.00%		Catapult
COP(1/3)	7/24/2015	\$53.95	\$52.09	-3.45%		Catapult
UTX(1/3)	7/24/2015	\$101.00	\$99.31	-1.67%		Catapult
SPY(1/4)	7/24/2015	\$210.18	\$208.00	-1.04%		Aggregator

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