

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 3, 2015

Volume 8 Issue 147

Market Overview



Signals Overview

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

Tonight's Research Points

- August has the weakest 1st day of the month, but Friday's poor close could give Monday a boost.
- The Fed's SOMA took a sizable dip last week.

Short-term Outlook

The Bottom Line

Expectations remain bullish and the market is back to oversold. There appears to be a short-term upside 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 31, 2015	Weak close on last day of month	1 day	Bullish			
July 29, 2015	Unfillgap up from 10lo. C>O. C<10ma	1-4 days	Bullish	1.80%	-1.20%	-2.30%
July 27, 2015	1% drop 4th Fri.	1-6 days	Bullish			
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

Friday started off strong but by the end of the day the indices were mixed. The SPX declined 0.2%, the NASDAQ was about breakeven with a 0.01% loss, and the Russell 2000 closed up 0.5%. Breadth was also mixed as the NYSE Up Issues % came in at 63% and the Up Volume % was 48%. Total NYSE volume rose a little from Thursday's level.

The strong Up Issue % did trigger a few studies since the SPX closed lower. But those studies have faltered a bit in recent instances. Combined with the fact that the Up Volume % closed below 50%, I decided those studies were not worth consideration.

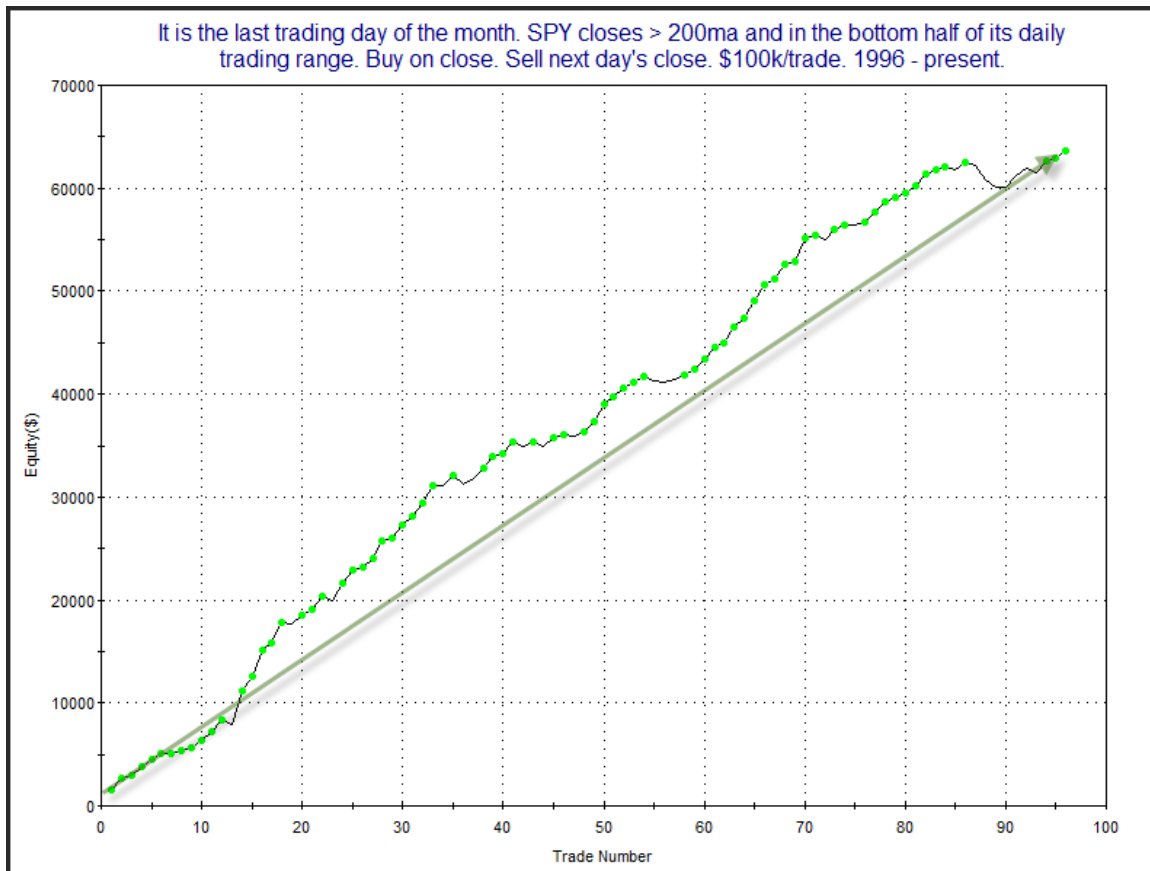
In Thursday night's letter I showed evidence suggesting a close in the lower part of the day's range on Friday could set up the market for a strong 1st day of the month on Monday. Below is an excerpt.

The edge on the 1st trading day of the month has been largely dependent on action the day before. The study below is from the 9/2/14 letter. It looks at all 1st days of the month and breaks them down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its daily trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$63,665.11	Profit Factor	10.31	
Gross Profit	\$70,502.47	Gross Loss	(\$6,837.36)	
Total Number of Trades	96	Percent Profitable	81.25%	
Winning Trades	78	Losing Trades	18	
Even Trades	0			
Avg. Trade Net Profit	\$663.18	Ratio Avg. Win:Avg. Loss	2.38	
Avg. Winning Trade	\$903.88	Avg. Losing Trade	(\$379.85)	
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)	

The stats here are pretty great. Gains blow away losses in every category. Gross gains are over 10x the size of gross losses. Let also check out the profit curve.



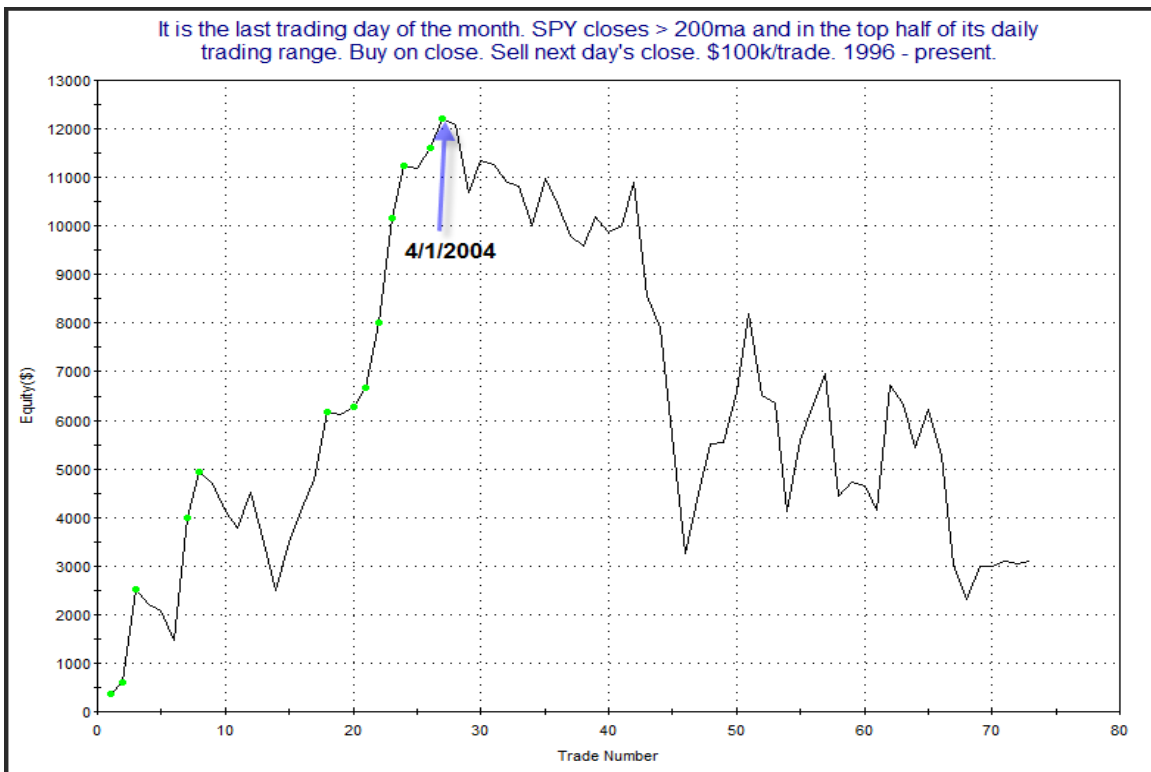
The strong steady upslope is impressive. There was a slight dip a little while ago, but the upslope appears to be back on track...

But what if SPY closes well?

It is the last trading day of the month. SPY closes > 200ma and in the top half of its daily trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

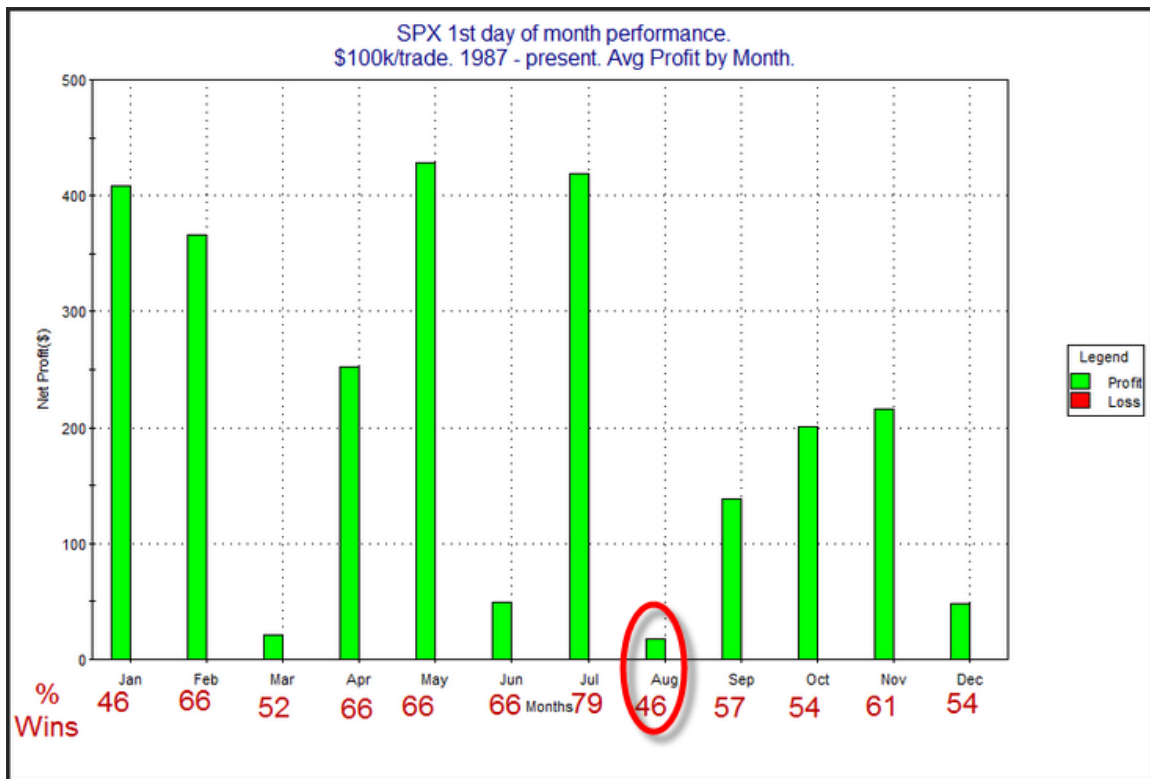
TradeStation Performance Summary			
All Trades			
Total Net Profit	\$3,109.24	Profit Factor	1.11
Gross Profit	\$32,005.51	Gross Loss	(\$28,896.27)
Total Number of Trades	73	Percent Profitable	50.68%
Winning Trades	37	Losing Trades	36
Even Trades	0		
Avg. Trade Net Profit	\$42.59	Ratio Avg. Win:Avg. Loss	1.08
Avg. Winning Trade	\$865.01	Avg. Losing Trade	(\$802.67)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Stats are basically breakeven. Here is a picture of the profit curve.



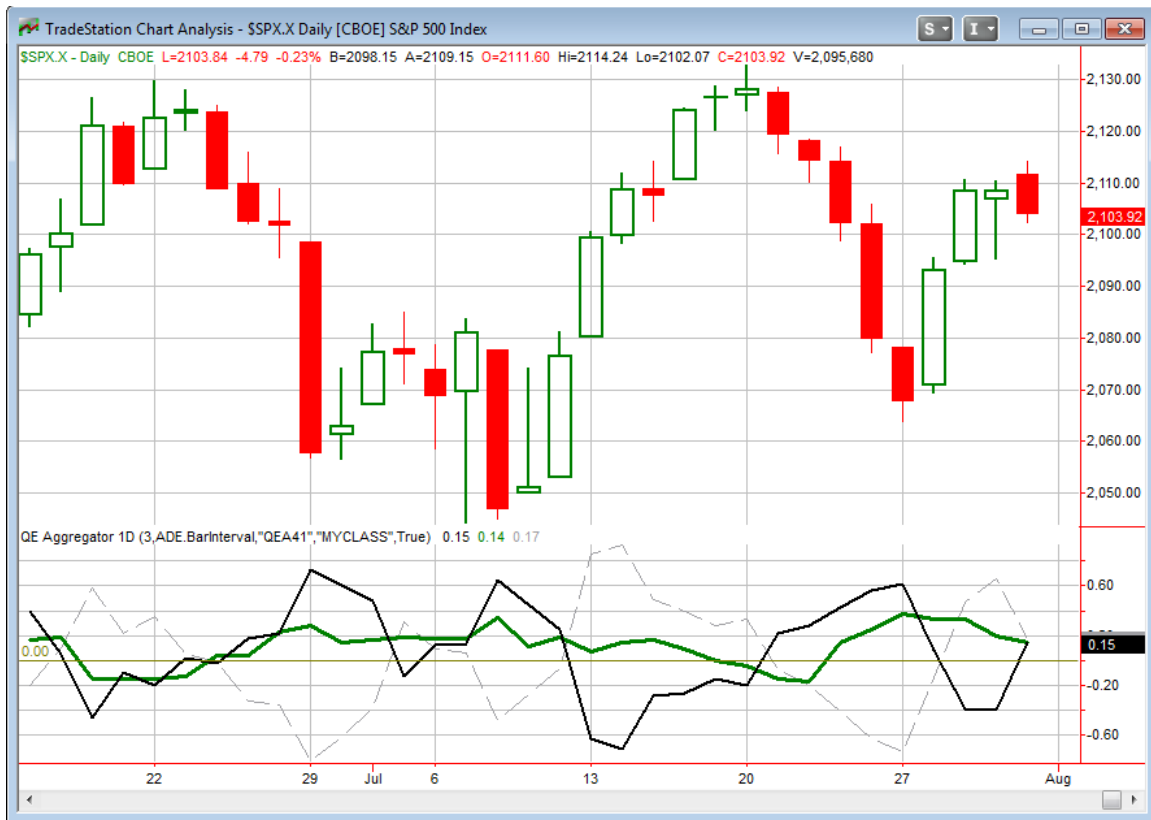
This paints an even bleaker picture. Strong closes have led to weak first days of the month over the last 11 years.

So the weak close on Friday could certainly be viewed as a positive for Monday. But there is one bit of information regarding this month that makes it a little less appealing than others. That is the fact that August has fared the worst of all months in terms of Win Rate and Avg Profits seen by the SPX on the 1st day of the month. This can be seen in the chart below, which is taken from the July 1, 2015 blog.



For me this does not eliminate the bullish outlook for Monday. It just tempers it a little.

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



Once again the green Aggregator line remained well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line moved back 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 turned long at the close.

All 3 of the short-term studies are set to expire on Monday afternoon. So expectations will be largely dependent on new studies that emerge. If nothing new emerges then expectations will remain positive, based on the slightly bullish intermediate-term outlook. The Differential Pivot will be 2130.28 on Monday. That is 1.3% above Friday's close. So for SPX to turn back to overbought on Monday it will need to close up a sizable 1.3%.

While bullish, the studies are not providing much of an edge beyond Monday. I believe there is a short-term upside edge, but it could be fleeting. I currently have a small (long) index position and I intend to hold it for another day. Whether I elect to take profits on Tuesday or whether I decide to add to that position will be largely determined by Monday's action and the evidence that emerges Monday afternoon.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/3 – slightly bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

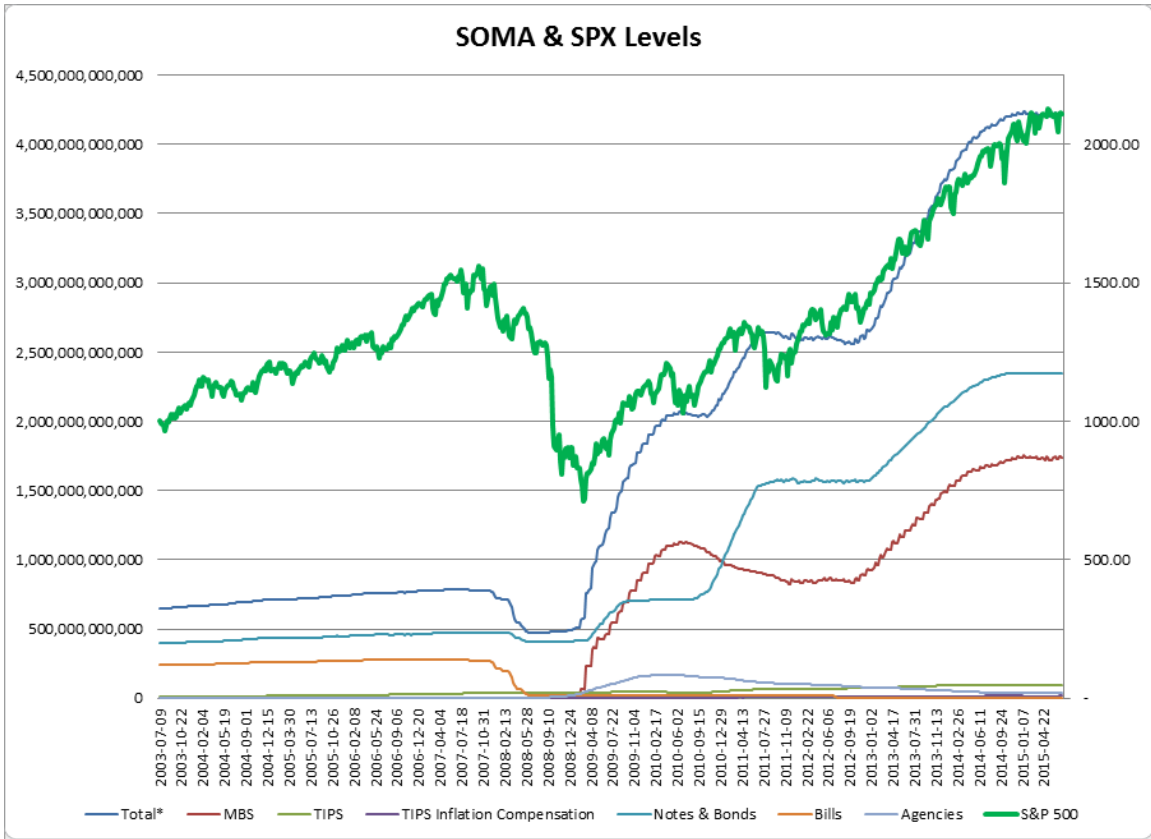
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 saw moderate gains for the market as the SPX closed up 1.2%. It hit a low on Monday before bouncing the next 3 days and then sliding back a little on Friday. Though it remains above its long-term moving averages, the averages are getting much closer as the market has churned sideways for most of 2015. Action this week did not generate any substantial new intermediate-term evidence.

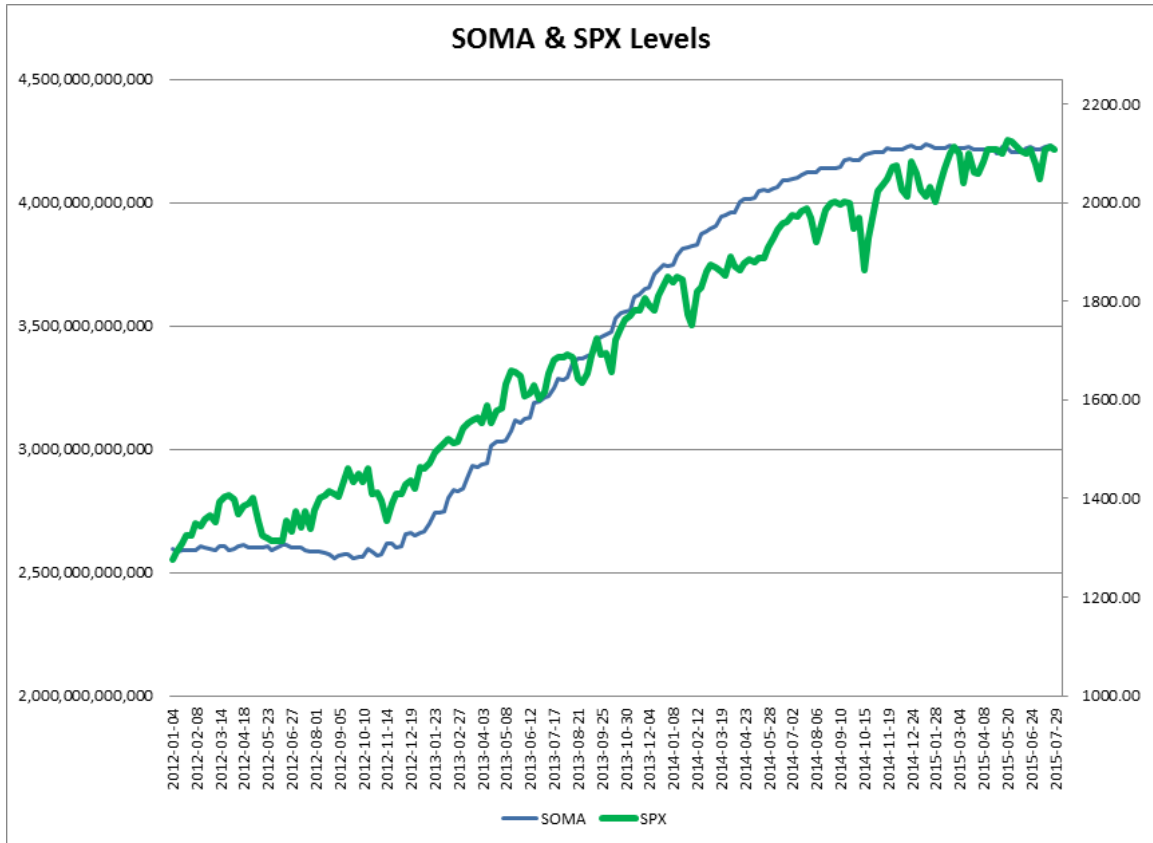
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 declined by the largest 1-week % amount since the end of May. It remains squarely within its range since QE3 ended at the end of October. The last few times we saw 1-week declines near this magnitude, the SOMA increased the following week. So it will be interesting to see if that behavior continues, or whether the Fed is going to begin reducing the SOMA. So far the market has held in a tight range along with the SOMA over the last several months. But in recent 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). The high CBI-study from last week also remains active. 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 study, 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

COP – 1/3 @ \$55.83 (bought @ limit)

COP – 1/3 @ \$55.83 (bought 2nd lot @ limit)

COP – 1/3 @ \$52.09

DD– 1/3 @ \$56.94

DD

DD– 1/3 @ \$55.90

Catapult for ETF’s Trades

None

Broad Market Large Cap CBI – 6/2(COP-3, DD-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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
COP(1/3)	7/23/2015	\$55.10	\$50.34	-8.64%		Catapult
UTX(1/3)	7/23/2015	\$101.55	\$100.92	-0.62%		<i>sold on open</i>
COP(1/3)	7/24/2015	\$53.95	\$50.34	-6.69%		Catapult
UTX(1/3)	7/24/2015	\$101.00	\$100.92	-0.08%		<i>sold on open</i>
COP(1/3)	7/27/2015	\$51.34	\$50.34	-1.95%		Catapult
DD(1/3)	7/27/2015	\$56.83	\$55.76	-1.88%		Catapult
UTX(1/3)	7/27/2015	\$98.78	\$100.92	2.17%		<i>sold on open</i>
DD(1/3)	7/28/2015	\$53.38	\$55.76	4.46%		Catapult
SPY(1/4)	7/28/2015	\$207.00	\$210.45	1.67%		Aggregator
DD(1/3)	7/29/2015	\$55.90	\$55.76	-0.25%		Catapult

UTX was exited as indicated in Thursday night's letter.

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