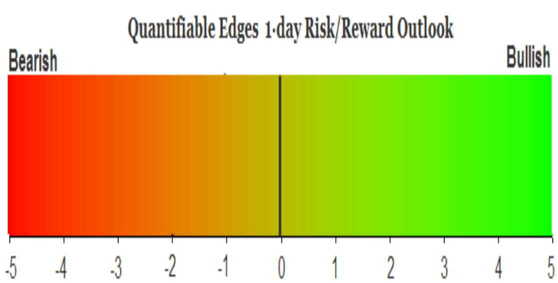
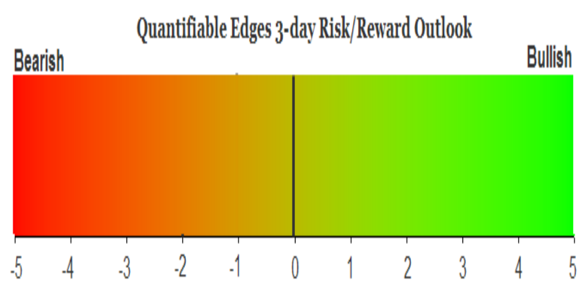
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 10, 2015 Volume 8 Issue 152

Market Overview





Signals Overview

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

Tonight's Research Points

- Intermediate-term lows in HV without highs in price are often followed by a price decline.

Short-term Outlook

The Bottom Line

Evidence has turned bearish but the market remains strongly oversold. This suggests poor reward/risk and leaves me with a neutral short-term outlook.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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						
August 10, 2015	HV low. SPX not high.	1-5 days	Bullish	-2.30%	1.20%	2.20%
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			
Dropped Tonight						
August 5, 2015	Down 3 days. 3/10 HV Offset < 0.25.	1-.3 days	Bullish	1.80%	-1.10%	-2.35%

The Evidence

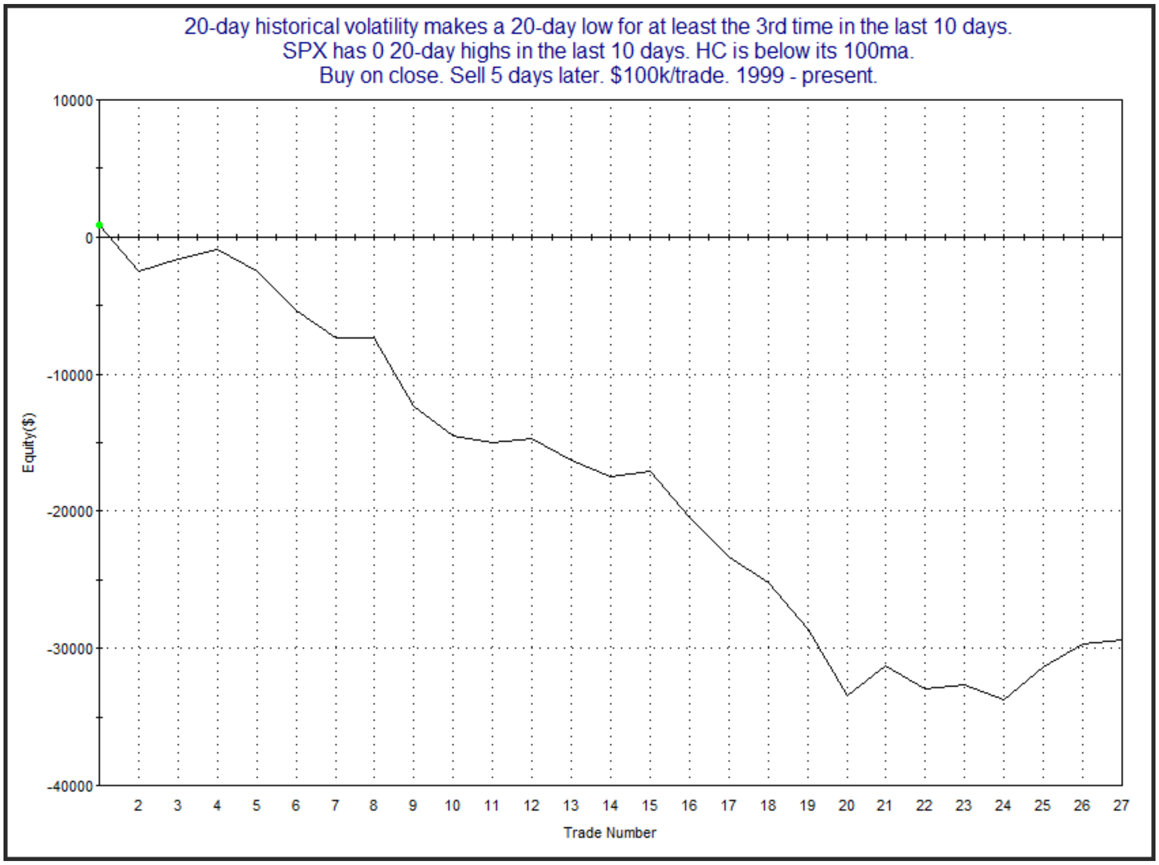
The market saw further declines on Friday. The SPX and NASDAQ each declined 0.3%, and the Russell 2000 fell 0.7%. Breadth was negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 32%. Total NYSE volume declined some from Thursday.

SPX has now closed lower 5 of the last 6 days. But there does not seem to be much panic. No new Catapults emerged the last several days. Additionally, SPX posted a 20-day low in historical volatility (HV) on Friday. HV often makes lows when the market is making new highs and participants are getting complacent. It is unusual to have historical volatility so low without SPX highs. The study below is from the 10/12/12 letter and it looks at repeated instances of 20-day lows in HV without price highs. It triggered o Friday and I have updated the results.

20-day historical volatility makes a 20-day low for at least the 3rd time in the last 10 days.
SPX has 0 20-day highs in the last 10 days. HC is below its 100ma.
Buy on close. Sell X days later. $100k/trade. 1999 - 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	-29,855.89	23	10	13	43.48	1,873.26	4,090.31	-3,737.58	-9,248.46	0.50	0.39	-1,298.08
9	-28,592.13	23	9	14	39.13	1,902.51	3,967.48	-3,265.34	-5,844.30	0.58	0.37	-1,243.14
8	-40,725.66	25	8	17	32.00	1,637.77	4,100.25	-3,166.34	-7,573.44	0.52	0.24	-1,629.03
7	-29,543.93	26	10	16	38.46	1,238.57	4,425.43	-2,620.60	-5,959.52	0.47	0.30	-1,136.31
6	-24,330.88	26	10	16	38.46	1,293.89	4,015.05	-2,329.36	-5,678.64	0.56	0.35	-935.80
5	-29,415.14	27	10	17	37.04	1,005.19	2,351.52	-2,321.59	-4,943.40	0.43	0.25	-1,089.45
4	-14,858.11	29	12	17	41.38	1,650.67	3,291.12	-2,039.19	-5,769.55	0.81	0.57	-512.35
3	-15,708.81	31	12	19	38.71	1,638.02	2,634.92	-1,861.32	-4,463.68	0.88	0.56	-506.74
2	-11,172.58	38	19	19	50.00	1,001.87	2,957.13	-1,589.90	-3,551.76	0.63	0.63	-294.02
1	-6,750.06	52	24	28	46.15	984.56	2,861.10	-1,084.98	-3,006.10	0.91	0.78	-129.81

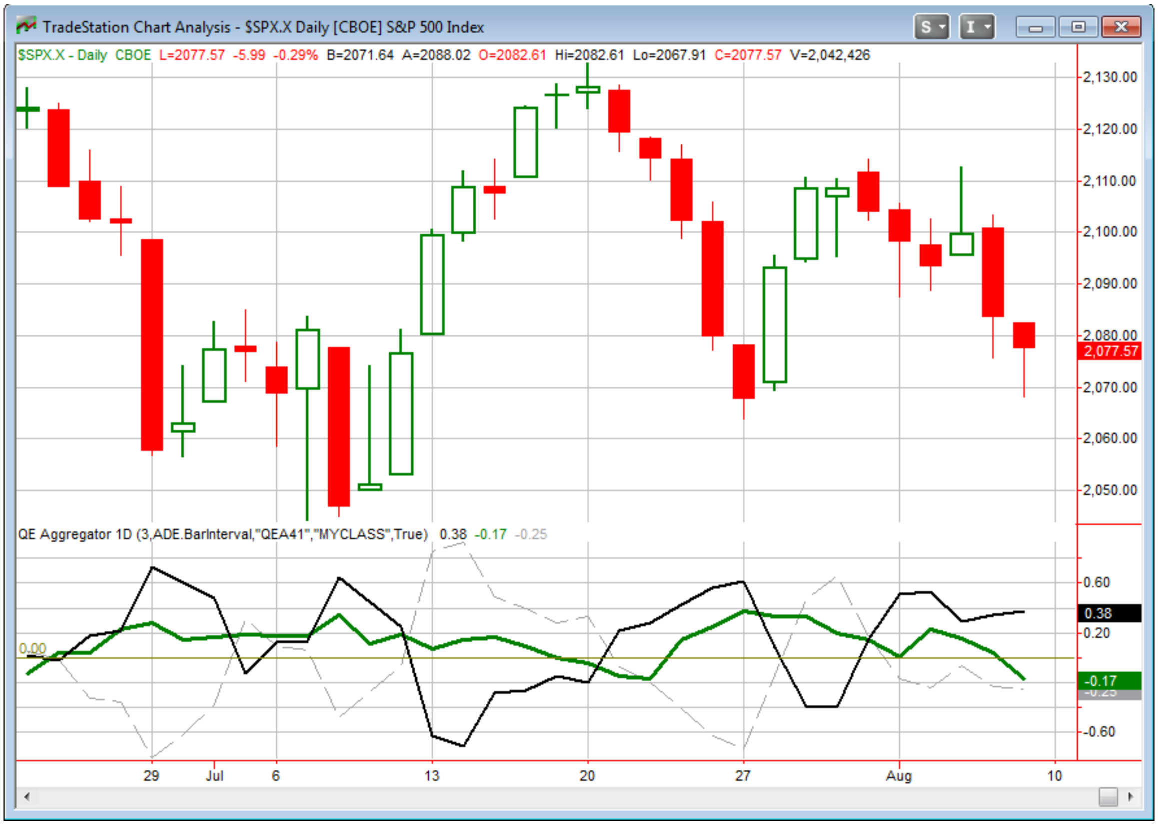
The stats all suggest a downside edge. Below is a profit curve using a 5-day exit strategy.



Recent instances have seen the curve flatten out a bit. I'll be keeping a close eye to see if the downside edge continues to flail or whether it reasserts itself. For tonight I have included it on the Short-Term Active List.

I have updated the Aggregator chart below.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952



Tonight's bearish study caused the green Aggregator Line to drop below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still well above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but the SPX is oversold. 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.

Expectations are currently set to remain bearish on Monday. Of course new bullish evidence emerging on Monday could change this. The Differential Pivot will be 2107.73 on Monday. That is 1.5% above Friday's close. So for SPX to turn back to overbought on Monday it will need to close up at least 1.5%. That is a sizable amount and unlikely to occur in just one day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So expectations are no longer bullish. They certainly could turn bullish in the next day or so if new bullish evidence emerges. But strongly oversold with negative expectations is not generally a good reward/risk combination. I am now neutral and awaiting more clarity before taking on new index exposure.

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

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

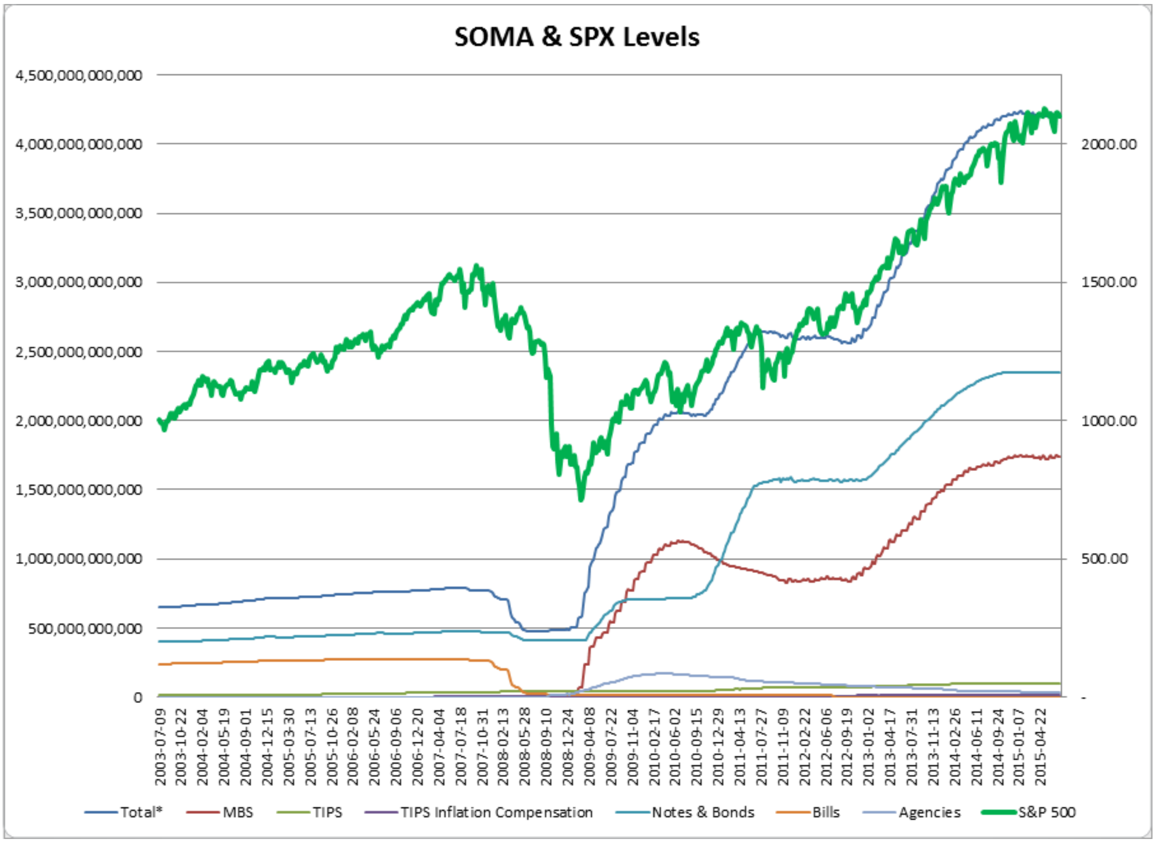
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which 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*.

SPX changed direction on a weekly basis for the 4th week in a row this past week. This time it was a 1.25% decline. On an intermediate-term basis, nothing new and compelling emerged.

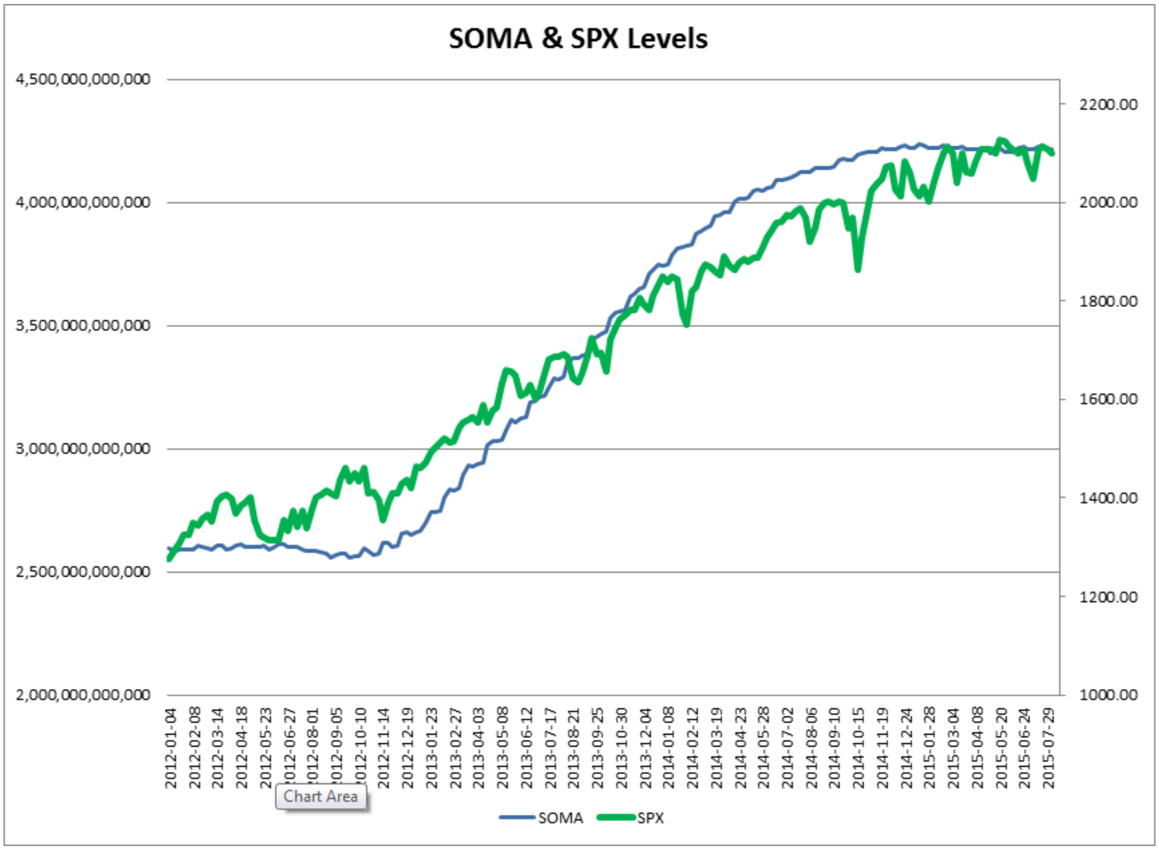
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



After a big decline the week before, the SOMA held steady this past week, with an indecipherable rise of less than 0.01%. It still remains squarely within its range since QE3 ended at the end of October. The market has also held in a relatively tight range over the last several months. But in prior years SPX has not even managed to breakeven when the SOMA has not been increasing. The recent sideways range is about as good as we have seen. Other periods of steady (or declining) SOMA suffered deep 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 July 27th high CBI study 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 (slightly) leading NASDAQ, the MTC Combo Systems, and the CBI study 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.

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Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
COP(1/3)	7/23/2015	$55.10	$48.84	-11.36%		Catapult
COP(1/3)	7/24/2015	$53.95	$48.84	-9.47%		Catapult
COP(1/3)	7/27/2015	$51.34	$48.84	-4.87%		Catapult
DD(1/3)	7/27/2015	$56.83	$53.43	-5.98%		Catapult
DD(1/3)	7/28/2015	$53.38	$53.43	0.09%		Catapult
DD(1/3)	7/29/2015	$55.90	$53.43	-4.42%		Catapult

Note: A full history of closed out trade ideas published in the Subscriber Letter since inception in 2008 can be found on the QE Trade Ideas Results Sheet. It can be downloaded from the website at any time.