

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 24, 2015

Volume 8 Issue 162

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Strong moves down on Fridays have led to reliable bounces over the next several days.
- SPX 2-period RSI < 2 and a 50-day closing low suggest a 1-2 day bounce.
- The already oversold market accelerated to the downside on Friday, suggesting an upside edge.
- 2 days Up Issue % under 20% has led to especially powerful bounces since 1999.
- The spiking CBI suggests a bounce.
- The big VIX spike also suggests a short-term upside edge.

## *Short-term Outlook*

### *The Bottom Line*

Strong bullish evidence emerged and the market is now very oversold. While the environment is a bit dangerous I believe there is a longside edge and I am looking increase my long exposure to take advantage of it.

**The Evidence**

The market got slammed again on Friday. The SPX declined 3.2%, the NASDAQ dropped 3.5%, and the Russell 2000 fell 1.3%. Breadth was strongly negative as the NYSE Up Issues % came in at 15% and the Up Volume % was 6%. Total NYSE volume hit a very high level.

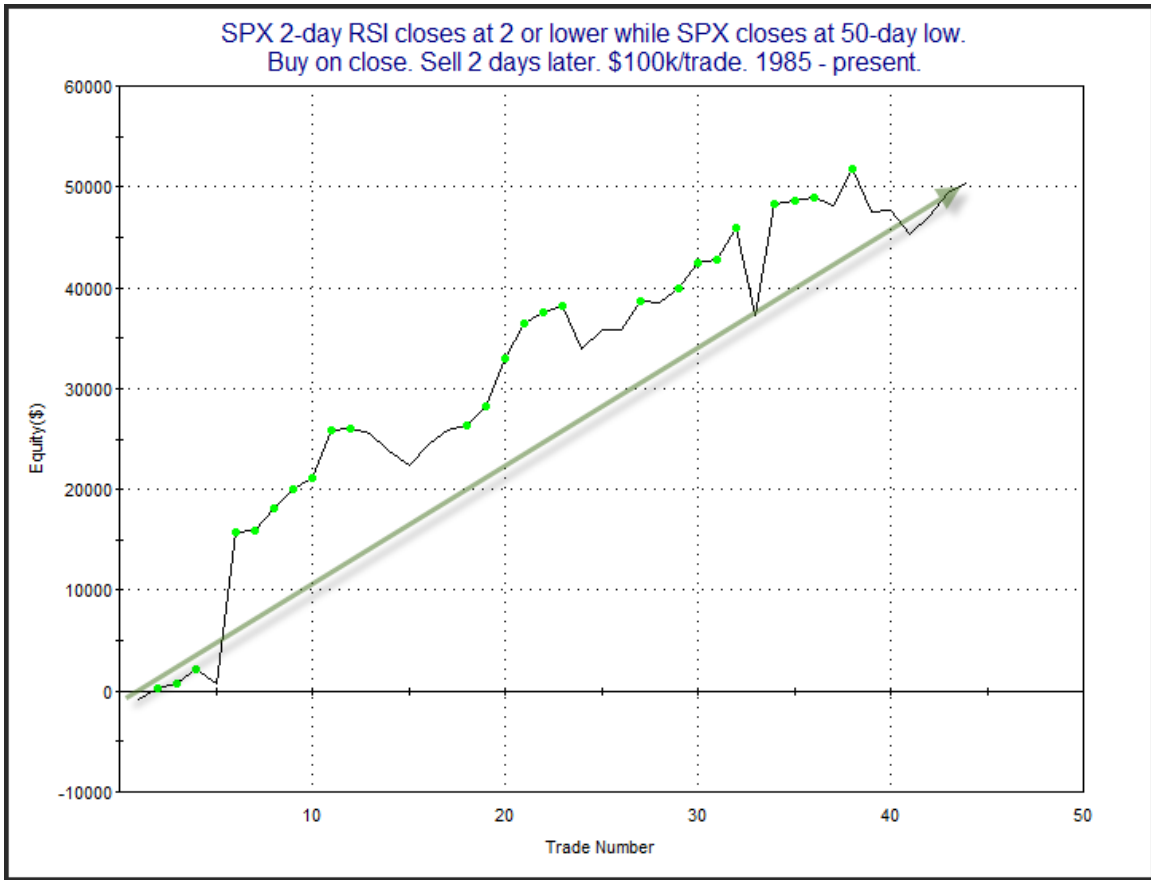
I don't believe I have ever seen the Quantifinder trigger so many studies in 1 day – and none of them were bearish. I'll review some of the most compelling below.

I like using short-term RSI to measure overbought and oversold. I have found the 2-period and 3-period RSI to be especially useful. The 2-period RSI for the SPX closed at 1.08 on Friday. Combined with the 50-day low, this triggered the below study, which I last discussed in the 11/16/12 subscriber letter. All stats are updated.

SPX 2-day RSI closes at 2 or lower while SPX closes at 50-day low. Buy on close. Sell X days later. \$100k/trade. 1985 - 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	17,379.21	38	26	12	68.42	3,113.49	9,572.31	-5,297.63	-27,309.65	0.59	1.27	457.35
4	36,402.94	39	28	11	71.79	2,566.85	10,385.16	-3,224.45	-10,632.61	0.80	2.03	933.41
3	42,981.88	39	28	11	71.79	2,306.88	10,398.48	-1,964.63	-4,879.68	1.17	2.99	1,102.10
2	50,426.12	44	33	11	75.00	2,324.87	14,891.76	-2,390.42	-8,657.72	0.97	2.92	1,146.05
1	47,507.64	56	39	17	69.64	1,927.41	11,558.43	-1,627.14	-7,577.02	1.18	2.72	848.35

**Only 2 instances failed to close above the entry price at some point in the next 4 days: 3/25/94 and 5/16/12.**

The positive implications are primarily seen in the first 2 days. And while we often see studies with larger expectancies, the consistency of this one has been remarkable. I say this because of the stat noted in red at the bottom of the table. Below is a profit curve using a 2-day holding strategy.



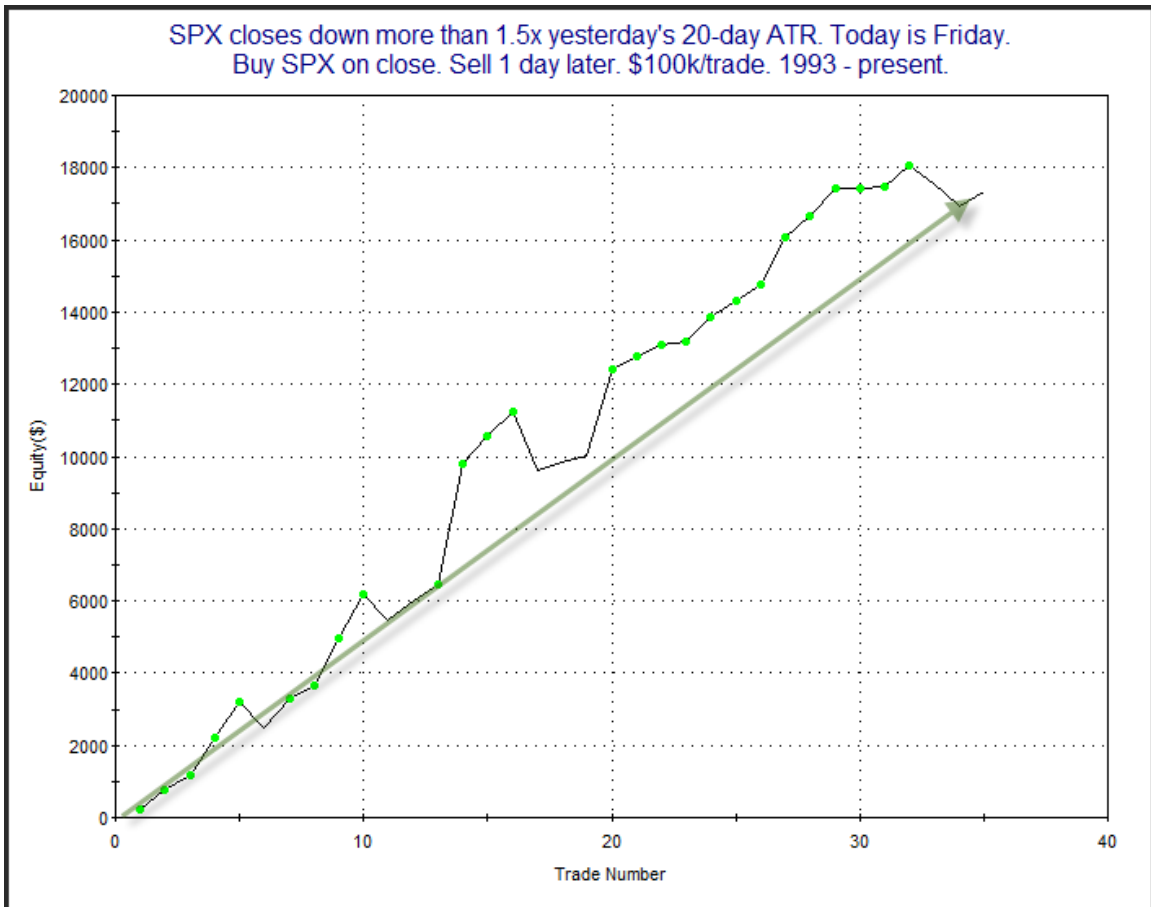
The consistency of the edge is also demonstrated by this equity curve.

Another very compelling study that appeared in the Quantifinder examined large drops on Fridays. Both the Crash of '29 and the Crash of '87 happened on Monday. The Crash of '87 is still remembered by many traders that are active today. There was a strong selloff on Friday and then all hell broke loose on Monday. But since then strong Friday selloffs have commonly been followed by bounces on Mondays. Perhaps this is due to the fact that fear of a crash causes what might otherwise be an ordinary selloff to become exaggerated and overdone on Fridays. Or perhaps it is just that people don't want to hold over the weekend. Whatever the reason, the tendency to bounce has been very strong. The study below looks at strong drops on Fridays and was last discussed in the 12/15/14 subscriber letter.

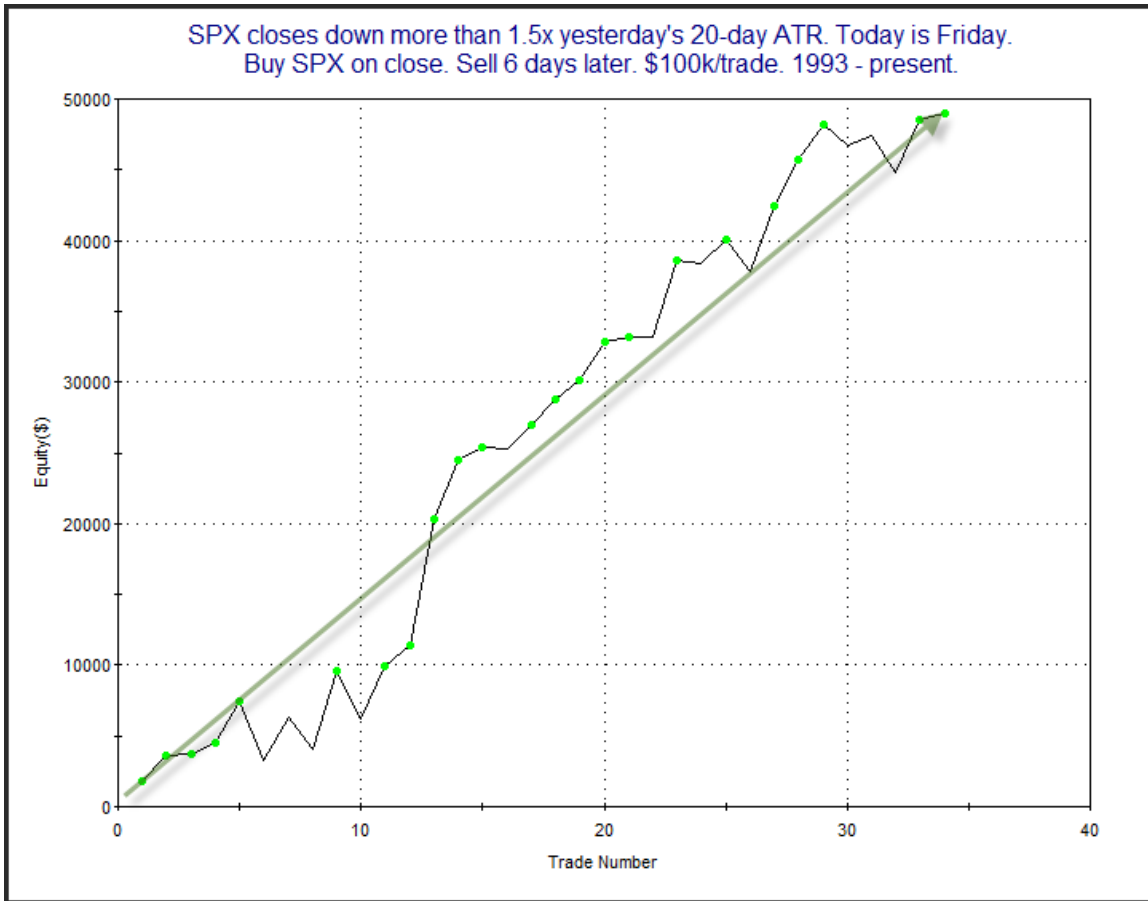
SPX closes down more than 1.5x yesterday's 20-day ATR. Today is Friday.  
Buy SPX on close. Sell X days later. \$100k/trade. 1993 - present.

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	36,101.95	34	22	12	64.71	3,004.40	9,241.60	-2,499.57	-6,049.40	1.20	2.20	1,061.82
9	37,252.77	34	22	12	64.71	2,837.37	7,602.40	-2,097.45	-5,483.80	1.35	2.48	1,095.67
8	43,581.70	34	23	11	67.65	2,803.22	7,949.70	-1,899.30	-3,550.72	1.48	3.09	1,281.81
7	42,392.09	34	22	12	64.71	2,860.43	7,662.81	-1,711.44	-4,599.52	1.67	3.06	1,246.83
6	49,003.44	34	25	9	73.53	2,622.27	8,870.96	-1,839.24	-4,202.80	1.43	3.96	1,441.28
5	34,893.49	35	24	11	68.57	2,294.18	5,393.97	-1,833.36	-6,368.04	1.25	2.73	996.96
4	25,906.14	35	23	12	65.71	1,899.93	5,731.96	-1,482.68	-4,917.36	1.28	2.46	740.18
3	23,400.87	35	22	13	62.86	1,771.10	5,215.85	-1,197.18	-3,492.36	1.48	2.50	668.60
2	18,579.63	35	23	12	65.71	1,394.69	6,245.15	-1,124.85	-4,320.06	1.24	2.38	530.85
1	17,339.30	35	30	5	85.71	717.86	3,322.23	-839.32	-1,614.72	0.86	5.13	495.41

The numbers here are all very impressive and suggest a strong bullish bias. I decided to look at the 1-day and 6-day returns in a little more detail. First, below is the profit curve for a 1-day holding period.



The Monday inclination has been strong, and I see no red flags here. For the 6-day I also produced a profit curve.



Here too the results remain impressive. This certainly seems to be a study worth taking under consideration.

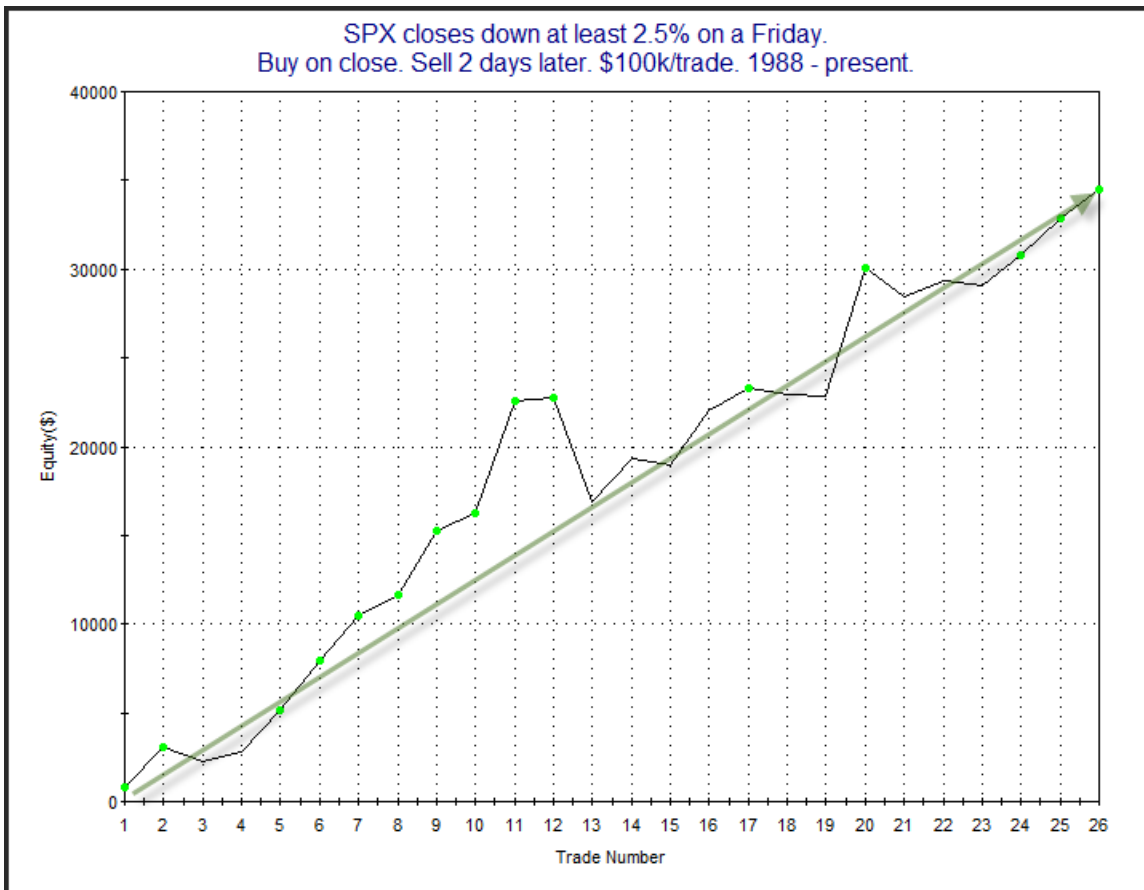
Below is another study that supported the Friday selloff idea. It is from the 9/12/11 letter and has been updated.

SPX closes down at least 2.5% on a Friday.  
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
5	41,181.06	25	18	7	72.00	3,273.67	10,485.72	-2,534.99	-8,351.64	1.29	3.32	1,647.24
4	29,064.70	26	17	9	65.38	3,154.43	8,814.48	-2,728.95	-13,776.90	1.16	2.18	1,117.87
3	34,762.62	26	21	5	80.77	2,219.83	6,078.48	-2,370.78	-7,604.94	0.94	3.93	1,337.02
2	34,514.82	26	19	7	73.08	2,308.51	7,266.36	-1,335.25	-5,855.85	1.73	4.69	1,327.49
1	6,784.89	26	18	8	69.23	1,174.40	3,322.23	-1,794.29	-3,264.30	0.65	1.47	260.96

25 of 26 instances closed above the entry price at some point in the next 5 days. The 11/14/08 instance took 8 days.

These stats appear quite bullish for the short-term. Below is an equity curve that assumes a two day holding period.



The strong upslope here seems to confirm the bullish edge.

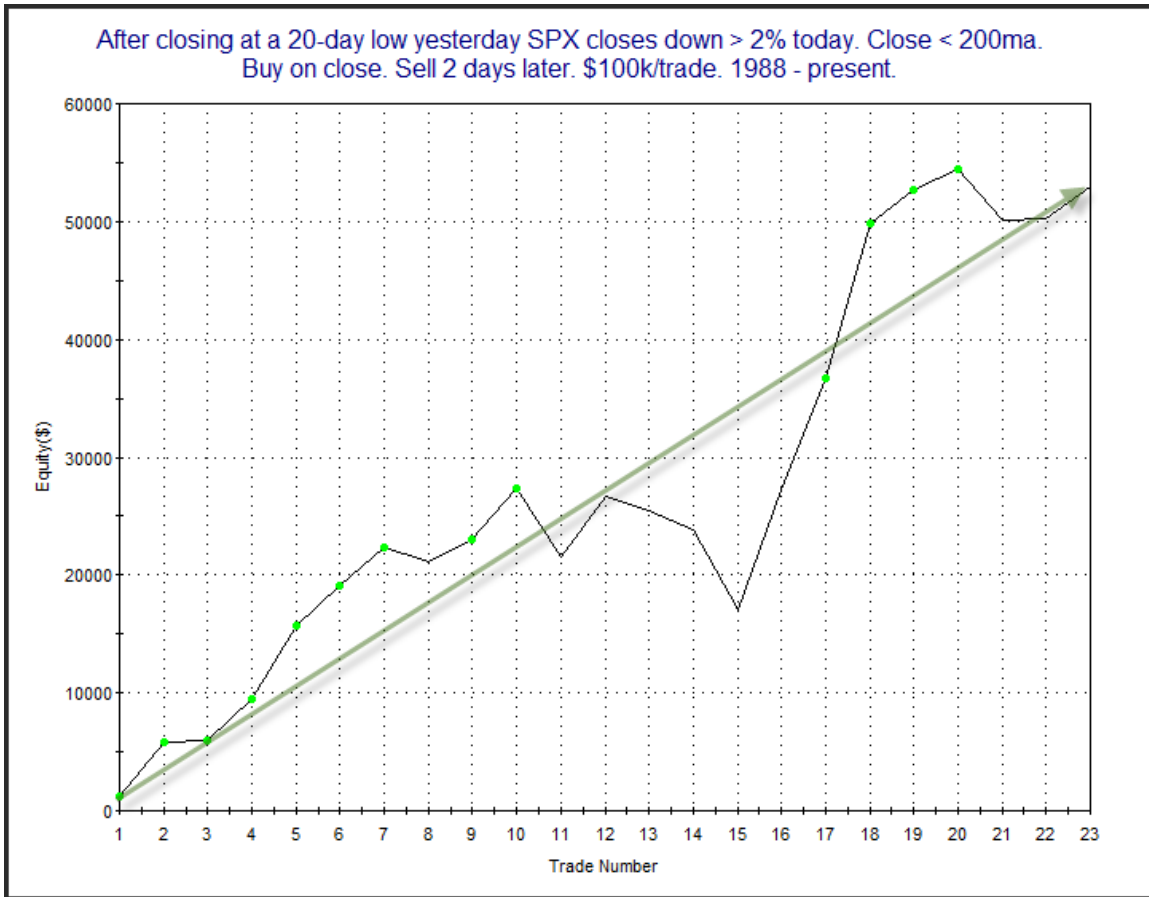
There were several studies that looked at larger drops that occurred after the market was already at low levels. The one below was from the 11/25/11 subscriber letter, and it represented what many were seeing.

After closing at a 20-day low yesterday SPX closes down > 2% today. 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
5	51,397.15	20	13	7	65.00	5,839.20	18,981.60	-3,501.79	-6,440.08	1.67	3.10	2,569.86
4	35,447.41	21	14	7	66.67	4,890.92	17,851.68	-4,717.92	-14,820.98	1.04	2.07	1,687.97
3	44,629.74	22	15	7	68.18	4,697.06	13,853.40	-3,689.46	-13,815.18	1.27	2.73	2,028.62
2	52,925.32	23	17	6	73.91	4,340.79	13,116.84	-3,478.01	-6,763.30	1.25	3.54	2,301.10
1	30,954.07	25	16	9	64.00	3,018.78	10,716.03	-1,927.38	-5,702.04	1.57	2.78	1,238.16

**24 of 25 instances (96%) closed above the entry price at some point in the next week. The lone failure triggered on 10/6/08.**

Strong numbers. Here is the 2-day curve.



The curve is a bit choppy, but certainly upward sloping and suggestive of a bullish edge.

On Thursday night I showed a study suggested 2 consecutive days with the NYSE Up Issues % came in below the 33% level provided an upside edge. But breadth the last two days was well below the 33% threshold. Therefore, as I did in the 11/18/11 letter I decided to examine the results under more extreme conditions. This test looked at back to back 20% up issues % days.

NYSE Up Issues % < 20% for exactly the 2nd day in a row. SPX < 200ma.  
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: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	59,080.41	9	9	0	100.00	6,564.49	0.00	100.00	100.00	6,564.49
4	44,488.62	9	8	1	88.89	6,284.05	-5,783.80	1.09	8.69	4,943.18
3	30,092.59	9	7	2	77.78	5,777.98	-5,176.65	1.12	3.91	3,343.62
2	26,166.22	9	8	1	88.89	4,349.65	-8,631.00	0.50	4.03	2,907.36
1	22,723.77	9	8	1	88.89	2,981.60	-1,129.00	2.64	21.13	2,524.86

While instances are a little low the numbers are astounding. A week out all nine instances were trading higher and the average gain was close to 6.5%. As you might suspect with gains this large there was a fair amount of variance. Below I have listed all 9 instances.

NYSE Up Issues % < 20% for exactly the 2nd day in a row. SPX < 200ma. Buy on close. Sell 5 days later. \$100k/trade. 1999 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
07/23/02	Buy	\$797.70	13.17%	\$14,013.75
07/30/02	Sell	\$902.78		(\$2,752.50)
08/15/07	Buy	\$1,406.70	4.08%	\$4,129.36
08/22/07	Sell	\$1,464.07		(\$2,563.10)
03/17/08	Buy	\$1,276.60	5.98%	\$6,480.24
03/25/08	Sell	\$1,352.98		\$0.00
10/07/08	Buy	\$996.23	0.18%	\$4,808.00
10/14/08	Sell	\$998.01		(\$15,643.00)
11/06/08	Buy	\$904.88	0.71%	\$5,177.70
11/13/08	Sell	\$911.29		(\$9,480.90)
11/20/08	Buy	\$752.44	19.11%	\$18,982.92
11/28/08	Sell	\$896.24		(\$1,453.32)
09/22/11	Buy	\$1,129.56	2.73%	\$5,834.40
09/29/11	Sell	\$1,160.40		(\$721.60)
10/03/11	Buy	\$1,099.23	8.70%	\$8,611.20
10/10/11	Sell	\$1,194.89		(\$2,201.40)
11/01/11	Buy	\$1,218.28	4.73%	\$4,860.14
11/08/11	Sell	\$1,275.92		\$0.00

I would be surprised to see the market gain close to 6.5% in the next week, but the potential for a sizable bounce is certainly there.

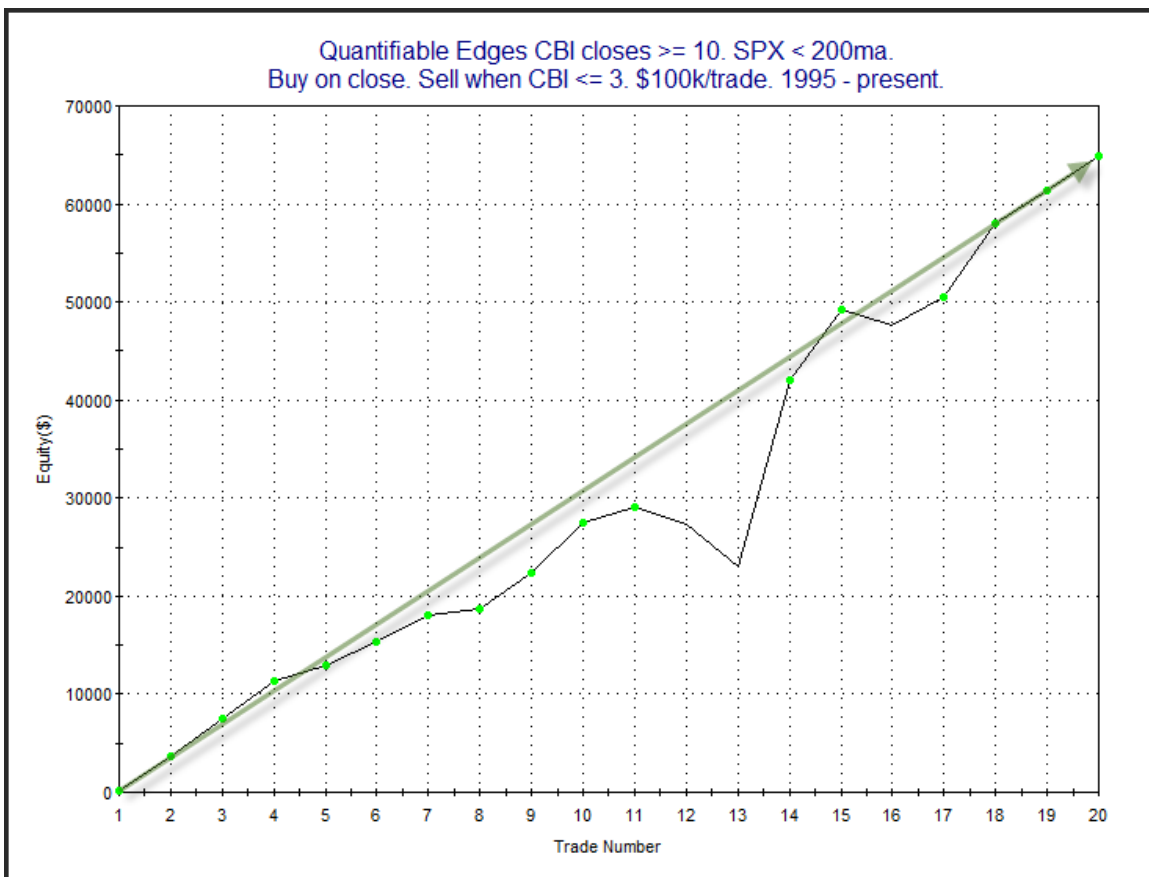
There was a massive spike in the CBI on Friday. Thursday's reading was 3, and on Friday it closed at 17. This is comfortably above the 10 or 11 that has historically been followed by a bounce on a reliable basis. I have included below a few CBI studies.

This first CBI-related study examines other times the CBI reached 10 while SPX was below 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  $\geq 10$ . SPX  $< 200ma$ .  
 Buy on close. Sell when CBI  $\leq 3$ . \$100k/trade. 1995 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$64,938.62	Profit Factor	9.59
Gross Profit	\$72,499.34	Gross Loss	(\$7,560.72)
Total Number of Trades	20	Percent Profitable	85.00%
Winning Trades	17	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$3,246.93	Ratio Avg. Win:Avg. Loss	1.69
Avg. Winning Trade	\$4,264.67	Avg. Losing Trade	(\$2,520.24)
Largest Winning Trade	\$18,981.60	Largest Losing Trade	(\$4,214.00)

The record is impressive. Below is the profit curve.



No red flags here. I also looked at these instances to see how they performed over the next 1-20 days. Those results are below.

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

Catapult SPX Reversal: barsin	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	98,611.21	20	18	2	90.00	5,986.96	17,878.08	-4,577.02	-9,103.22	1.31	11.77	4,930.56
19	89,949.87	20	17	3	85.00	6,140.91	17,534.88	-4,815.21	-9,779.42	1.28	7.23	4,497.49
18	92,661.91	20	17	3	85.00	6,229.98	20,061.36	-4,415.91	-6,608.14	1.41	7.99	4,633.10
17	98,749.71	20	17	3	85.00	6,429.16	21,217.68	-3,515.33	-4,241.44	1.83	10.36	4,937.49
16	85,611.06	20	17	3	85.00	5,751.56	15,329.16	-4,055.16	-6,614.00	1.42	8.04	4,280.55
15	81,935.49	20	16	4	80.00	5,909.00	17,338.20	-3,152.14	-6,494.46	1.87	7.50	4,096.77
14	57,954.72	21	16	5	76.19	5,100.14	15,991.80	-4,729.51	-14,731.00	1.08	3.45	2,759.75
13	64,825.20	21	15	6	71.43	5,901.75	19,377.60	-3,950.16	-11,946.00	1.49	3.74	3,086.91
12	66,986.25	21	16	5	76.19	5,427.98	17,982.36	-3,972.30	-8,812.00	1.37	4.37	3,189.82
11	72,070.28	21	16	5	76.19	5,671.18	20,758.32	-3,733.73	-9,945.00	1.52	4.86	3,431.92
10	66,546.04	21	17	4	80.95	4,642.07	16,319.16	-3,092.31	-4,579.54	1.50	6.38	3,168.86
9	70,470.18	22	17	4	77.27	4,884.35	12,246.96	-3,140.93	-5,391.54	1.56	6.61	3,203.19
8	58,273.90	22	17	5	77.27	4,453.25	15,615.60	-3,486.28	-5,568.00	1.28	4.34	2,648.81
7	56,167.49	22	16	6	72.73	4,448.33	12,720.84	-2,500.95	-4,980.00	1.78	4.74	2,553.07
6	46,107.79	22	15	7	68.18	4,407.69	18,349.11	-2,858.22	-8,839.00	1.54	3.30	2,095.81
5	51,450.05	22	15	7	68.18	4,694.11	18,981.60	-2,708.80	-5,174.95	1.73	3.71	2,338.64
4	48,069.25	22	14	8	63.64	4,609.92	17,851.68	-2,058.70	-4,365.00	2.24	3.92	2,184.97
3	12,848.78	23	13	9	56.52	3,825.78	13,853.40	-4,098.49	-9,701.00	0.93	1.35	558.64
2	15,203.70	23	13	10	56.52	3,460.96	13,116.84	-2,978.87	-8,631.00	1.16	1.51	661.03
1	18,354.62	23	14	9	60.87	2,692.79	10,716.03	-2,149.38	-6,760.90	1.25	1.95	798.03

Numbers here appear strong for both the short and intermediate-term.

While 10 has been a strong indication for a short-term bounce, 11 or higher has been a pretty reliable indication for the intermediate-term. Friday was just the 25<sup>th</sup> time the CBI reached as high as 11 (regardless of SPX position versus the 200ma). Looking out 20 days later, nearly every other instance has been trading higher. Below is the full listing of triggers and the 20-day results.

Quantifiable Edges CBI closes  $\geq 11$ .  
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
07/24/15	Buy	\$2,079.65	(5.23%)	\$1,660.32
08/21/15	Sell	\$1,970.89		(\$5,220.48)

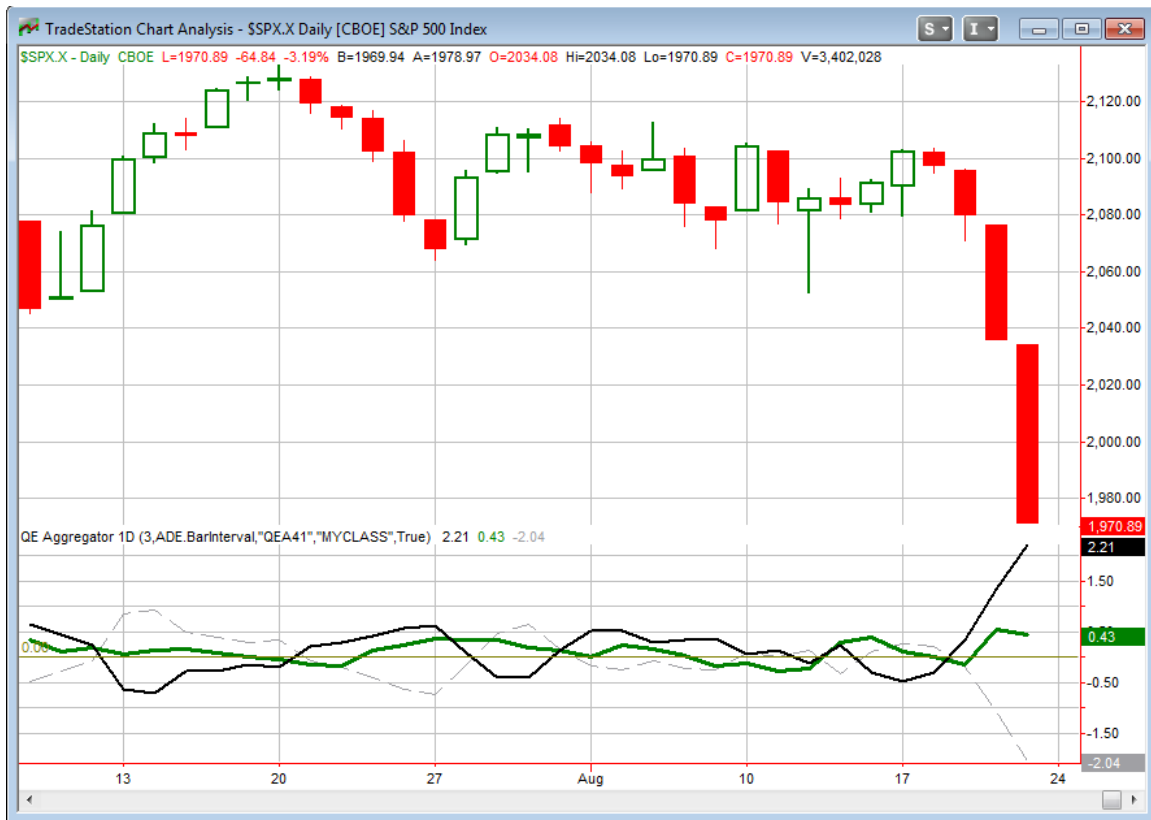
The last instance – which actually hit day 20 on Friday, was the first one to show a loss after 20-days. Of course it did have positive returns on days 2 through 18 before collapsing the last 2 days.

Another indicator that is hitting extreme reading is the VIX. It rose over 46% on Friday and is now up over 100% from where it was a week ago. The only other time the VIX has spiked over 100% in a 5-day period since 1990 was on 8/8/11. I looked at other times it spiked over 40% in 1 day. There have only been 5 instances. Below is the next-day performance.

VIX closes > 40% higher than yesterday. Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/15/91	Buy	\$382.62	0.68%	\$722.97
11/18/91	Sell	\$385.23		(\$767.34)
02/04/94	Buy	\$469.81	0.42%	\$483.36
02/07/94	Sell	\$471.76		(\$474.88)
02/27/07	Buy	\$1,399.14	0.55%	\$1,189.25
02/28/07	Sell	\$1,406.82		(\$176.79)
08/08/11	Buy	\$1,119.46	4.74%	\$4,754.38
08/09/11	Sell	\$1,172.53		(\$1,594.88)
04/15/13	Buy	\$1,552.36	1.43%	\$1,471.36
04/16/13	Sell	\$1,574.57		\$0.00

Too few instances for me to use the results in the Aggregator, but it is interesting that they all closed up. There certainly appears to be a lot pointing at a short-term bounce and perhaps even a rally beyond that.

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



With tonight's studies factored in the green Aggregator Line stayed 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 is now massively above 0. The positive Differential Line reading means SPX is strongly 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.

Expectations are currently set to remain bullish on Monday. With all the current short-term bullish evidence we are seeing this is unlikely to change. The Differential Pivot will be 2074.66 on Monday. That is over 100 points (and 5.3%) above Friday's close. So it would take a historic rally on Monday in order to turn the market to an overbought condition. More likely we will need to see a multi-day rally or consolidation in order to work off the oversold condition.

Bullish evidence is plenty, the market is strongly oversold, and there is a lot of room to the upside for potential gains. I believe there is a strong upside edge. I took on a fair amount of long exposure on Friday and I will look to increase it further on Monday. The spike in the CBI will have me looking to trade a lot of Catapults. I may also add a 3<sup>rd</sup> (of 4 possible) lot of SPY if it sells off much more on Monday. Of course it is important to keep in mind that the selloff is quickly becoming historic. Between the massive spikes in

the CBI and the VIX we are seeing plenty of signs of this. This means that trading conditions are abnormal. And abnormal trading conditions suggest increased risk. High CBI readings like this will often lead to a bounce within a matter of a few days. But a few days in a free-falling market can contain a very large drawdown before the bounce arrives. Traders should keep this in mind when considering their own approach.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 8/24 – neutral***

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

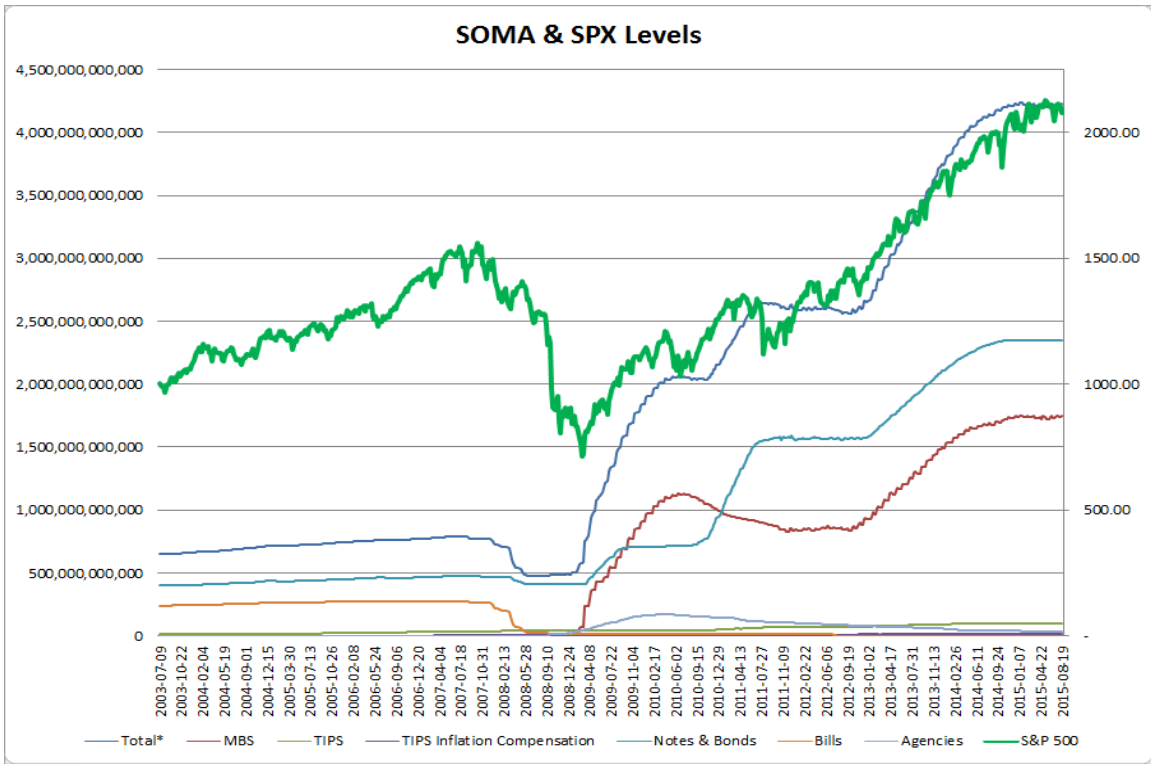
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The market got hammered this past week more than any other week since 2011. Interestingly, there were not a lot of studies that emerged with intermediate-term consequences. The exception was the CBI studies shown in the short-term section above.

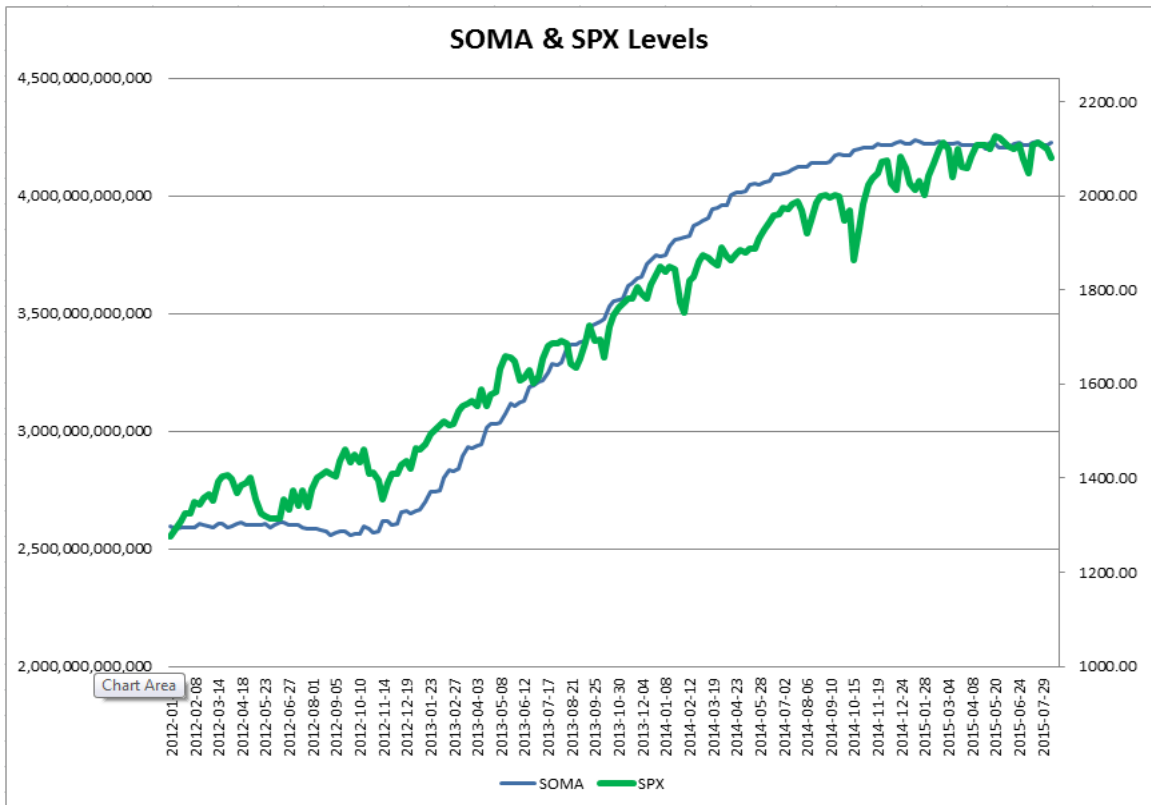
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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).



It is important to keep in mind that the SOMA chart is as of Wednesday each week. That is the SOMA value date for the Fed, so that is also the day I post the SPX number. That is why you are not seeing the big selloff of the last 2 days reflected on the charts. SOMA actually saw a small increase this past week. It still remains squarely within its range since QE3 ended at the end of October. The market now appears to have broken the relatively tight range it was in over the last several months. In the last several years flat SOMA's have been accompanied by strong selloffs. While that had not yet been the case so far with this one, it may be the case now. I'll continue to closely monitor SOMA levels and Fed activity, since they continue to act as a strong market influence.

I was planning on moving from "neutral" to "slightly bearish" this week prior to the big Thursday – Friday selloff and CBI spike. But with the CBI now back at a very high level it is suggesting an intermediate-term upside edge. So I will hold off on changing to bearish for now. But there still seems to be evidence suggesting we could be in for more of a correction. As I showed last week, the current configuration of the Market Timing Course indicators is one where the market has struggled to make upward progress. With the SPX now firmly below the 200ma, the long-term uptrend could be over. Bears can also point to the open Hindenburg Omen signals as well as the diverging number of stocks hitting new highs, and the questionable Fed support. If not for the high CBI I would be turning intermediate-term bearish at this point. I'll remain neutral for the time being, and willing to play both sides of the market for short-term opportunities.

### **Catapult and Capitulative Breadth Statistics**

[\*Catapult & CBI Presentation Link\*](#)

#### ***Open Catapult Triggers***

*EBAY – 1/3 @ \$26.52 (bought @ \$26.33)*

*COP – 1/3 @ \$47.00 (bought @ \$46.66)*

*PG – 1/3 @ \$73.91 (bought @ 73.55)*

#### ***New***

*EBAY – 1/3 @ \$25.77 - 2<sup>nd</sup> lot*

*COP – 1/3 @ \$45.39 – 2<sup>nd</sup> lot*

*PG – 1/3 @ \$71.84 – 2<sup>nd</sup> lot*

*MO – 1/3 @ \$53.94*

*GS – 1/3 @ \$187.74*

*CVX – 1/3 @ \$75.76*

*DVN – 1/3 @ \$41.09*

*MDLZ – 1/3 @ \$43.20*

*AMZN – 1/3 @ \$494.47*

*UTX – 1/3 @ \$93.01*

AAPL – 1/3 @ \$105.76

FOXA – 1/3 @ \$27.94

NOV – 1/3 @ \$37.21

ALL – 1/3 @ \$61.25

### ***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 17/14(EBAY-2, COP-2, PG-2, MO, GS, CVX, DVN, MDLZ, AMZN, UTX, AAPL, FOXA, NOV, ALL)***

### **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.*

### **Catapults:**

***EBAY – 1/3 @ \$25.77 - 2<sup>nd</sup> lot***

***COP – 1/3 @ \$45.39 – 2<sup>nd</sup> lot***

***PG – 1/3 @ \$71.84 – 2<sup>nd</sup> lot***

***MO – 1/3 @ \$53.94***

***GS – 1/3 @ \$187.74***

***CVX – 1/3 @ \$75.76***

***DVN – 1/3 @ \$41.09***

***MDLZ – 1/3 @ \$43.20***

***AMZN – 1/3 @ \$494.47***

***UTX – 1/3 @ \$93.01***

***AAPL – 1/3 @ \$105.76***

***FOXA – 1/3 @ \$27.94***

***NOV – 1/3 @ \$37.21***

***ALL – 1/3 @ \$61.25***

All prices shown above are LIMIT prices.

**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 @ \$195.70 LIMIT ON CLOSE IF SPY ALSO CLOSES < OPEN.** Based on the short-term outlook above, I will continue scaling into a long position. With so many Catapults that I will be buying into at the open I will wait until the close for a potential entry into my next lot of SPY.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/21/2015	\$201.73	\$197.63	-2.03%		bought on open
SPY(1/4)	8/21/2015	\$197.63	\$197.63	0.00%		bought on close
EBAY(1/3)	8/21/2015	\$26.33	\$25.77	-2.13%		Catapult
COP(1/3)	8/21/2015	\$46.66	\$45.39	-2.72%		Catapult
PG(1/3)	8/21/2015	\$73.55	\$71.84	-2.32%		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.*

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