

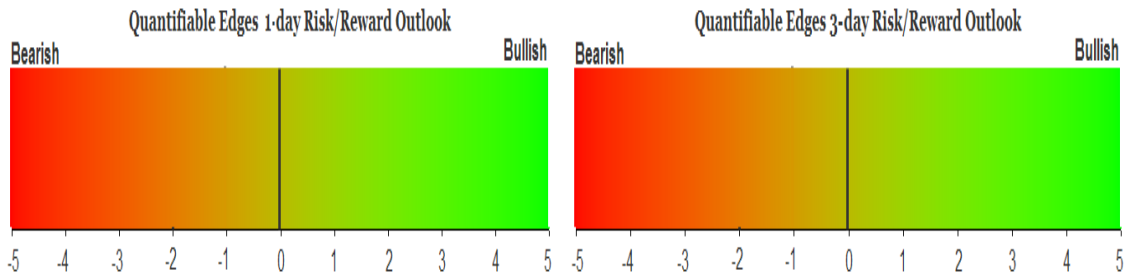
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 31, 2015

Volume 8 Issue 167

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	Flat	Flat

Tonight's Research Points

- 3 days up from a 50-day low is often followed by more rallying.
- 3 days of strong Nasdaq breadth are often followed by a down day.
- The NASDAQ is now back to a leading position vs the SPX.
- The SPX posted a "Death Cross" on Friday. It has failed to make gains over the years when this has been the case.

Short-term Outlook

The Bottom Line

The 3-day rally has the market short-term overbought. Evidence is mixed, but still pointing bullish for the time being. That could soon change, but for now, I am neutral.

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 31, 2015	NASDAQ breadth 3:2 negative x3	1 day	Bearish			
August 31, 2015	NR7 & 3up from 50-day low.	1-3 days	Bullish			
August 28, 2015	2% Rally. Low Volume 5 days.	1-5 days	Bearish			
August 27, 2015	1% drop, 50-low. Big reversal.	1-5 days	Bullish			
August 24, 2015	CBI > 10. SPX < 200.	1-8 days	Bullish			
August 24, 2015	Fri dn 1.5x 20-day ATR	1-6 days	Bullish			
Active - Long Term						
August 31, 2015	NASDAQ leading SPX	int term	Bullish			
August 21, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
July 22, 2015	4th Hindenburg Signal	1-35 days	Bearish	-6.40%	2.70%	4.80%
February 1, 2012	Golden Cross	int term	Bullish			

The Evidence

A late rally allowed most of the indices to post moderate gains. The SPX rose 0.1%, the NASDAQ rallied 0.3%, and the Russell 2000 gained 0.8%. Breadth was positive as the NYSE Up Issues % came in at 65% and the Up Volume % was 64%. Total NYSE volume declined for the 2nd day in a row.

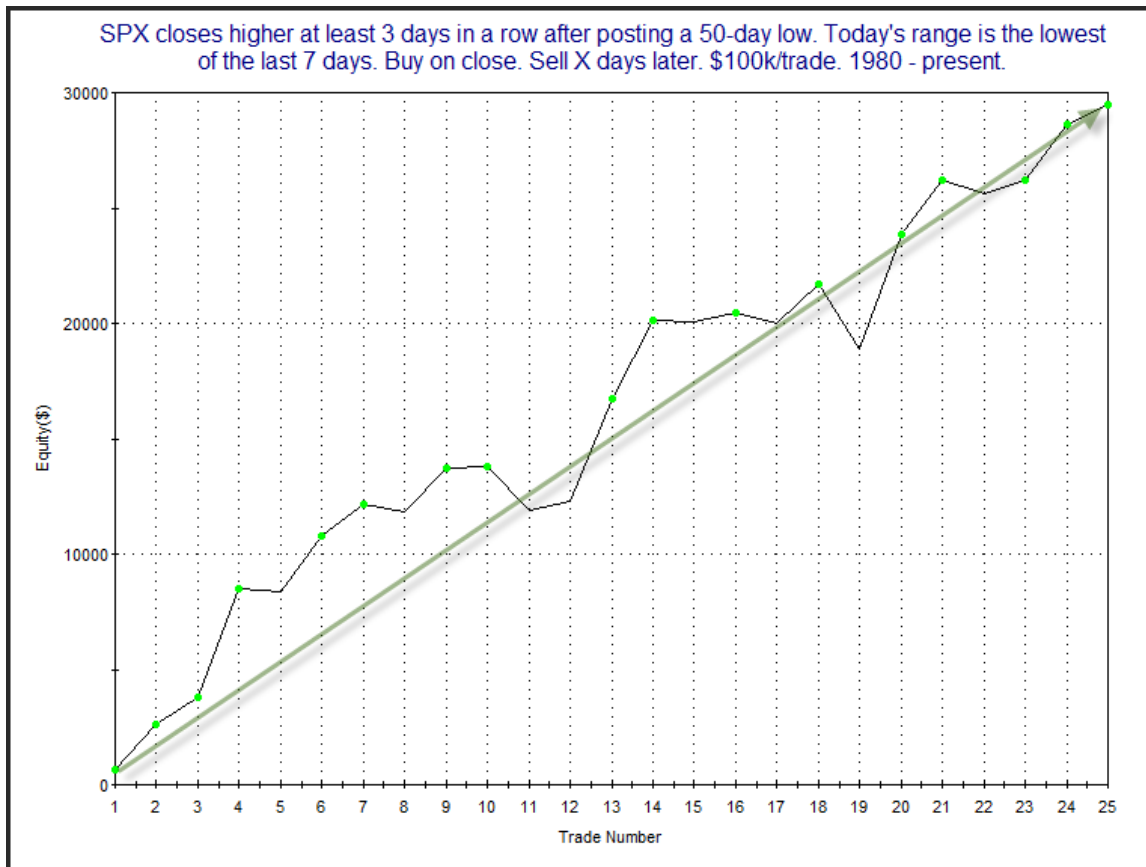
A number of studies triggered in the Quantifinder. Below are the ones I found most compelling.

This first study was last seen in the 7/15/15 letter. It examined what happened other times the SPX posted 3 up days from its 50-day low and underwent a volatility contraction.

SPX closes higher at least 3 days in a row after posting a 50-day low. Today's range is the lowest of the last 7 days. Buy on close. 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
5	25,444.96	25	18	7	72.00	2,206.24	6,877.04	-2,038.20	-3,446.97	1.08	2.78	1,017.80
4	22,855.76	25	18	7	72.00	1,904.62	5,068.10	-1,632.49	-5,663.22	1.17	3.00	914.23
3	29,479.72	25	18	7	72.00	1,987.43	4,989.60	-899.15	-2,830.50	2.21	5.68	1,179.19
2	14,274.00	26	19	7	73.08	1,319.75	2,947.84	-1,543.05	-5,264.73	0.86	2.32	549.00
1	3,319.73	31	20	11	64.52	898.80	4,699.94	-1,332.38	-8,883.33	0.67	1.23	107.09

30 of 31 instances (97%) closed above the entry price at some point in the next 5 days.

Results here appear quite compelling. The incredible consistency noted at the bottom of the table is especially impressive. Below is a profit curve that assumes a 3-day holding strategy.



The consistency of the curve serves as confirmation of the bullish edge.

If we do not concern ourselves with the tight range, then you'll see that 3 up days from a 50-day low below the 200ma has also produced strong results over the last 14 years. The study below was last seen in the 10/21/14 letter. Stats are updated.

SPX closes up for exactly the 3rd day in a row but < 200ma. It closed at a 50-day low just prior to the rally. Buy on close. Sell X days later. \$100k/trade. 7/1/2001 - 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	33,719.59	13	11	2	84.62	3,247.60	7,515.60	-1,002.01	-1,775.70	3.24	17.83	2,593.81
4	26,888.78	13	10	3	76.92	2,868.52	5,800.13	-598.80	-995.28	4.79	15.97	2,068.37
3	20,622.94	13	10	3	76.92	2,593.77	4,890.00	-1,771.57	-4,776.88	1.46	4.88	1,586.38
2	21,183.42	13	13	0	100.00	1,629.49	4,506.60	0.00	0.00	100.00	100.00	1,629.49
1	16,296.30	13	9	4	69.23	1,923.53	4,699.94	-253.87	-808.35	7.58	17.05	1,253.56

Prior to 2001 the setup did not appear to suggest any edge.

It has been quite a hot streak since 2001 with these setups. Prior to that, no edge was evident in either direction. I also decided to list below all instances assuming a 2-day exit strategy.

SPX closes up for exactly the 3rd day in a row but < 200ma.
 It closed at a 50-day low just prior to the rally.
 Buy on close. Sell X days later. \$100k/trade. 7/1/2001 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
07/27/01	Buy	\$1,205.82	0.45%	\$1,387.44
07/31/01	Sell	\$1,211.23		(\$443.62)
10/14/02	Buy	\$841.44	2.21%	\$4,699.94
10/16/02	Sell	\$860.02		\$0.00
01/02/03	Buy	\$909.03	2.20%	\$2,501.40
01/06/03	Sell	\$929.01		(\$655.60)
03/14/03	Buy	\$833.27	3.98%	\$4,040.40
03/18/03	Sell	\$866.45		(\$732.00)
07/29/04	Buy	\$1,100.43	0.56%	\$735.30
08/02/04	Sell	\$1,106.62		(\$312.30)
08/17/04	Buy	\$1,081.71	0.88%	\$1,238.32
08/19/04	Sell	\$1,091.23		(\$255.76)
11/29/07	Buy	\$1,469.72	0.18%	\$1,306.96
12/03/07	Sell	\$1,472.41		\$0.00
07/18/08	Buy	\$1,260.66	1.30%	\$1,324.04
07/22/08	Sell	\$1,277.01		(\$934.57)
11/25/08	Buy	\$857.39	4.53%	\$4,507.76
11/28/08	Sell	\$896.24		(\$1,858.32)
03/12/09	Buy	\$750.74	0.42%	\$3,164.07
03/16/09	Sell	\$753.89		(\$1,101.24)
07/08/10	Buy	\$1,070.25	0.79%	\$979.29
07/12/10	Sell	\$1,078.75		(\$199.95)
10/06/11	Buy	\$1,164.97	2.57%	\$2,544.90
10/10/11	Sell	\$1,194.89		(\$1,250.35)
10/20/14	Buy	\$1,904.01	1.21%	\$2,355.60
10/22/14	Sell	\$1,927.11		\$0.00

 **Circled instances are those that saw their volume decline the last 2 days.**

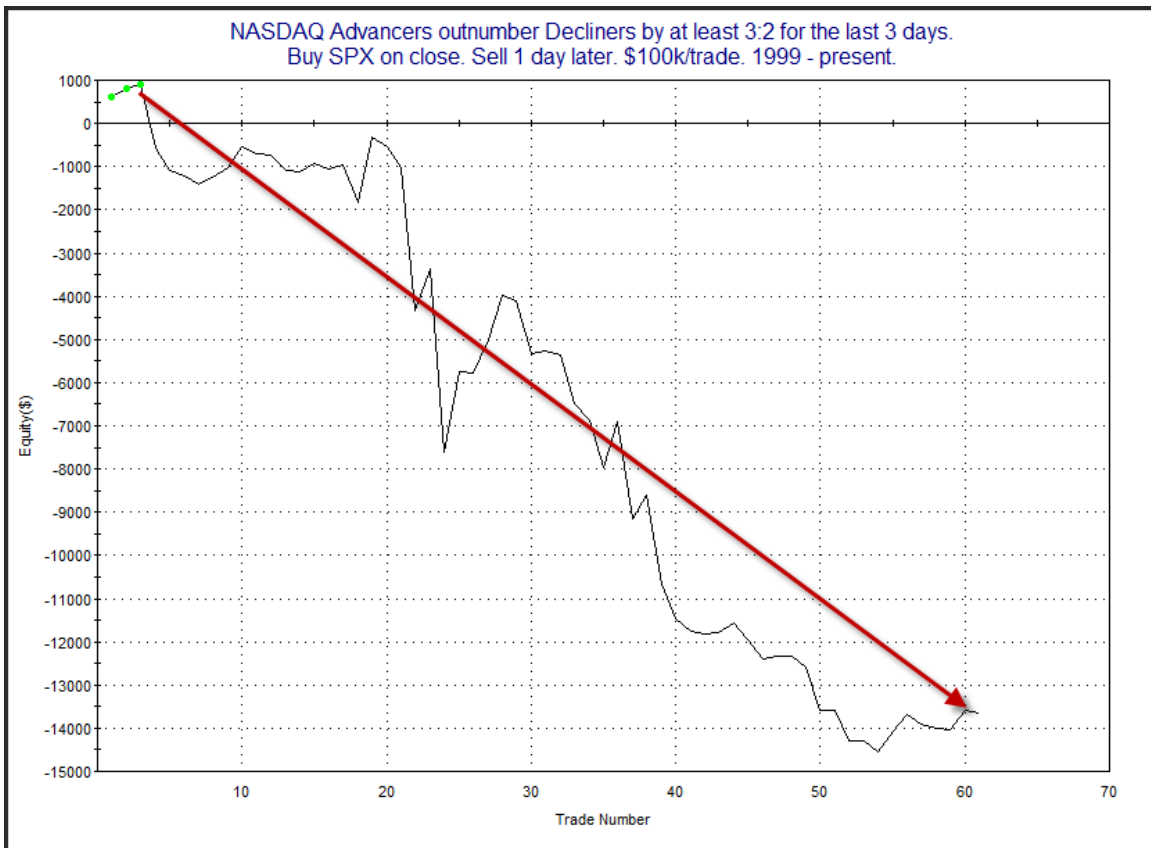
There were some studies in the Quantifinder that suggested the decline in volume over the past 2 days may be a concern. In relation to this particular study, that does not appear to be the case. There were 6 such instances of 2 days of declining volume. They are all circled above.

Another study that appeared in the Quantifinder tonight looked at times Nasdaq advancers outnumbered decliners by more than 3:2 for 3 days in a row. It suggested a possible 1-day downside edge. I last showed it in the 5/18/15 letter and have updated the results below.

NASDAQ Advancers outnumber Decliners by at least 3:2 for the last 3 days.
 Buy SPX on close. Sell 1 day later. \$100k/trade. 1999 - present.

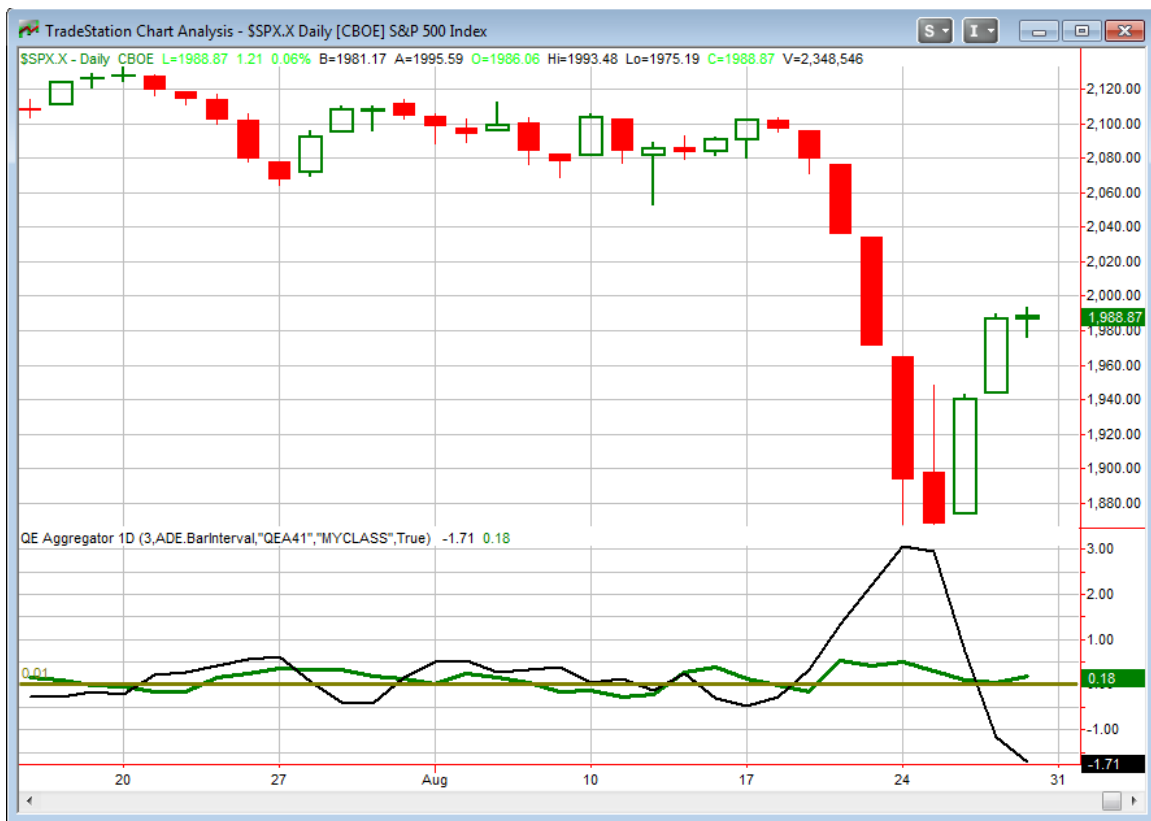
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	(\$13,661.45)	Profit Factor	0.46	
Gross Profit	\$11,568.46	Gross Loss	(\$25,229.91)	
Total Number of Trades	61	Percent Profitable	39.34%	
Winning Trades	24	Losing Trades	37	
Even Trades	0			
Avg. Trade Net Profit	(\$223.96)	Ratio Avg. Win:Avg. Loss	0.71	
Avg. Winning Trade	\$482.02	Avg. Losing Trade	(\$681.89)	
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)	

The numbers imply a bit of a downside edge. I also produced an equity curve.



It's definitely choppy, but it has moved from upper left to lower right for a long time. I decided to also include this study on the active list.

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



With today's studies factored in the green Aggregator Line remained 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 strongly below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but the SPX is overbought. 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 stayed flat at the close.

Expectations are currently set to turn bearish on Monday. Of course this could change if more strong bullish evidence emerges. The Differential Pivot will be 1957.77 on Monday. That is 1.6% below Friday's close. So for SPX to switch to short-term oversold it would need to close down at least 1.6% on Monday.

Evidence is clearly mixed. The studies tonight are mixed – as are the ones from the last few days. There is a good chance the Aggregator could change to a short signal on Monday. But right now the CBI sits at 15. That is a far cry from the peak a few days ago at 73, but it is still a bullish number. I personally will not be interested in taking on short positions until the CBI drops probably to 3 or lower. That could happen as early as

Monday afternoon if there is more strong buying on Monday. So for now, I am sidelined on my index positions. Things can change quickly in this market and I could be looking to get either long or short in the next few days depending on how things play out.

One thing I will note about the nature of downtrends (which by a few definitions we are now in), is that they are much more emotional than uptrends. Moves tend to be sharper, more exaggerated, and are often reversed more quickly. Opportunities generally exist in both directions but traders need to be nimble and willing to take profits quickly. This may be a different mindset for newer traders, who have enjoyed the QE-infused rally over the last few years. Bottom line is that traders will need to keep alert and be ready to move into and out of positions more quickly than they may have in recent years.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/31 – 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.) *Despite some changes to the indicators on Friday, there were no changes this past week to the Combo system signals.*

This was a rebound week for the market, as it has risen strongly after making new multi-month lows on Tuesday. Two significant developments from an intermediate-term perspective were the NASDAQ strength (bullish) and the SPX “Death Cross” (bearish). Let’s first discuss the NASDAQ relative strength.

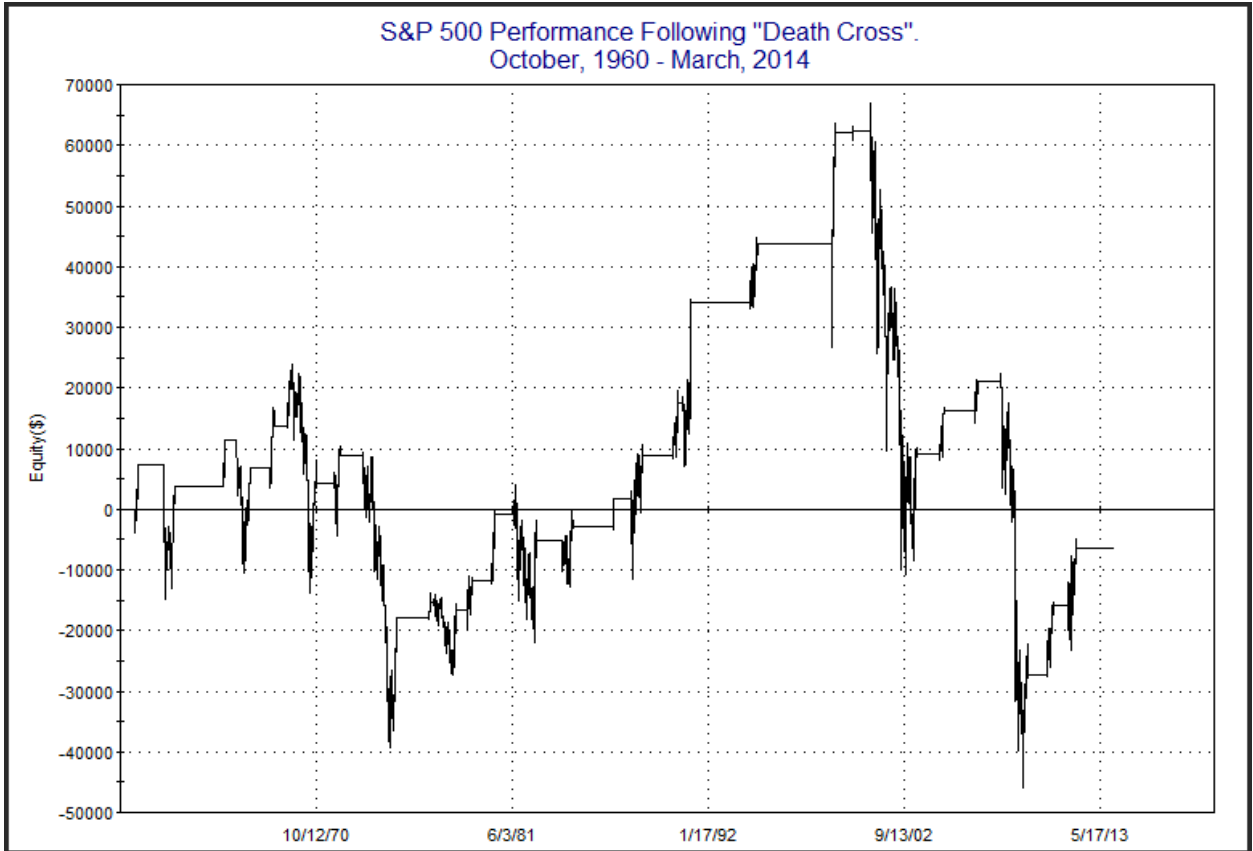
The relative outperformance of the NASDAQ helped it to retake a leading position based on our NASDAQ/SPX Relative Strength Indicator. It spent just 2 weeks in a lagging position. Below is a chart of the indicator from the website.

NASDAQ/S&P 500 Relative Strength Weekly



The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 1971, nearly all of the S&P 500 gains, and more than 100% of the NASDAQ gains, have occurred when the NASDAQ was leading. More on this indicator can be found in the Market Timing Course, or on its page (which can be found by clicking on the chart on the charts page). <http://quantifiableedges.com/nasdaq-weekly-strength-model/>

Also notable on Friday was that the 50-day moving average of the SPX fell below its 200-day moving average. This is often referred to as a “Death Cross”. (When the 50ma is above the 200ma that is a “Golden Cross”.) This is the first Death Cross since early 2012. While the SPX has struggled to make progress over the years while in a Death Cross formation, it has not been as bad as the name would indicate. Below is a chart that shows a cumulative gain/loss on a hypothetical \$100k account that would have only been invested since 1960 when the Death Cross was in effect.



(Note – I have not update this chart since 2014, but it has not changed since with the line just going straight sideways.)

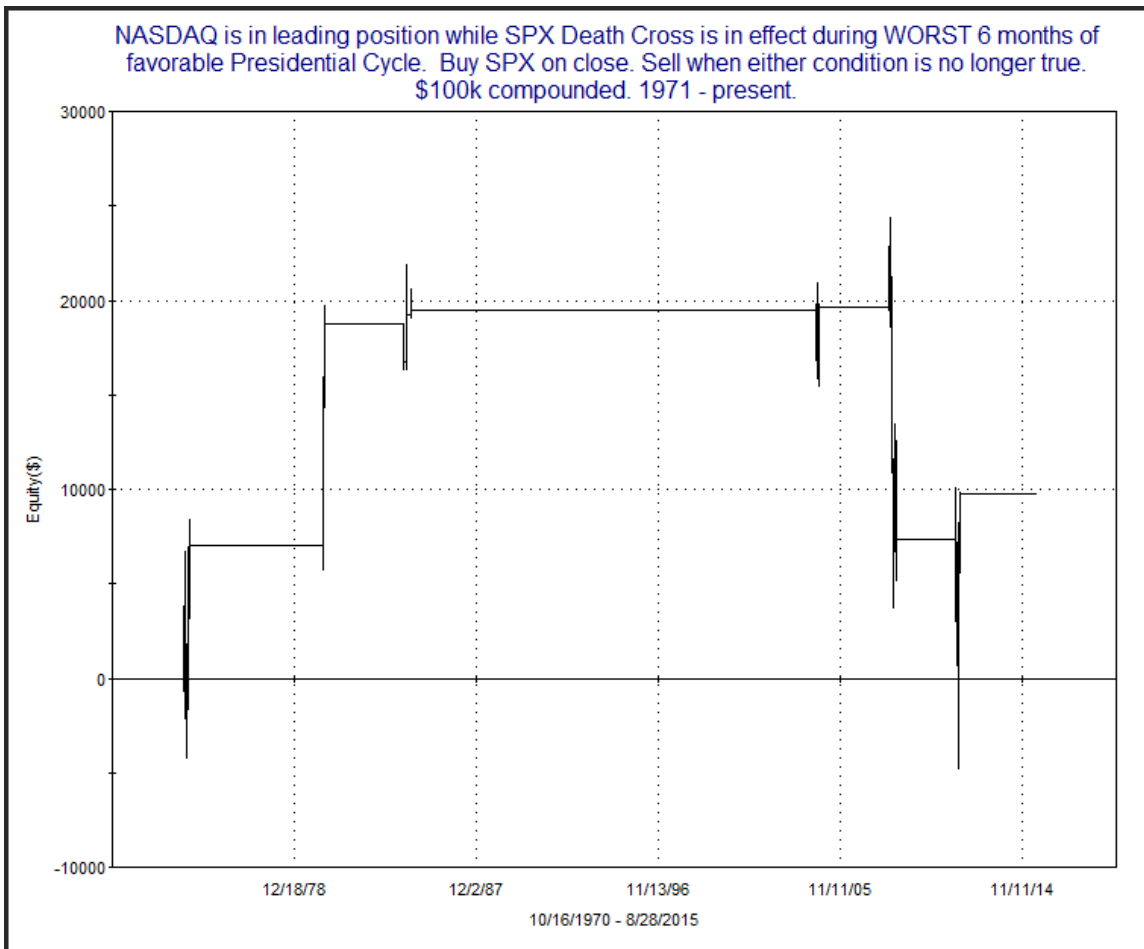
Results here are inconsistent and the net result since 1960 would have been a loss of 6.35% to the hypothetical portfolio.

I also took a look at how the strong NASDAQ / SPX Death Cross combination would have done with the Market Timing Course seasonality indicators set up the way they currently are.

NASDAQ is in leading position while SPX Death Cross is in effect during WORST 6 months of favorable Presidential Cycle. Buy SPX on close. Sell when either condition is no longer true. \$100k/trade. 1971 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$11,045.48	Profit Factor	1.66	
Gross Profit	\$27,718.04	Gross Loss	(\$16,672.56)	
Total Number of Trades	9	Percent Profitable	66.67%	
Winning Trades	6	Losing Trades	3	
Even Trades	0			
Avg. Trade Net Profit	\$1,227.28	Ratio Avg. Win:Avg. Loss	0.83	
Avg. Winning Trade	\$4,619.67	Avg. Losing Trade	(\$5,557.52)	
Largest Winning Trade	\$10,999.62	Largest Losing Trade	(\$10,315.44)	

The biggest takeaway here is that instances have been quite rare. They have managed to post modest gains over time. Below I also produced a profit curve assuming a \$100k portfolio.

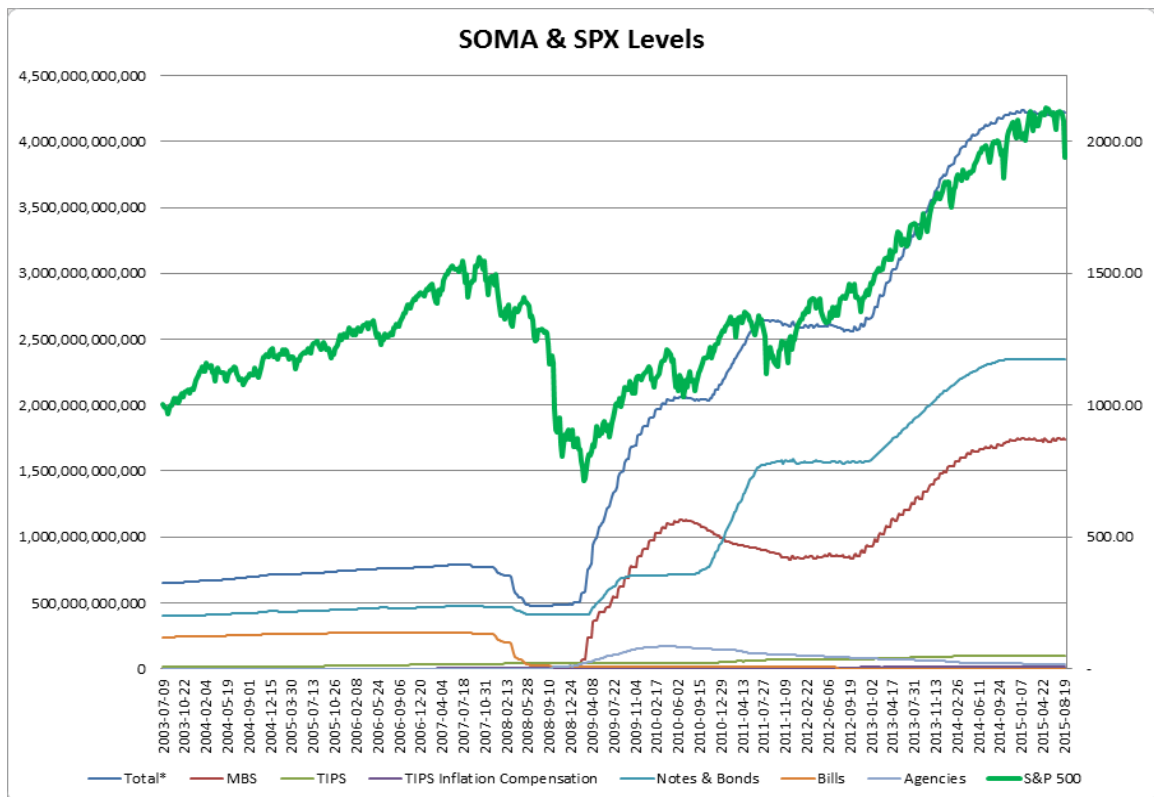


The market really has not seen this formation very much over the years. I am viewing this combination of indicators as basically neutral. The Death Cross does not seem to be a huge problem, though the indicator outlook would be more bullish if it were not in effect.

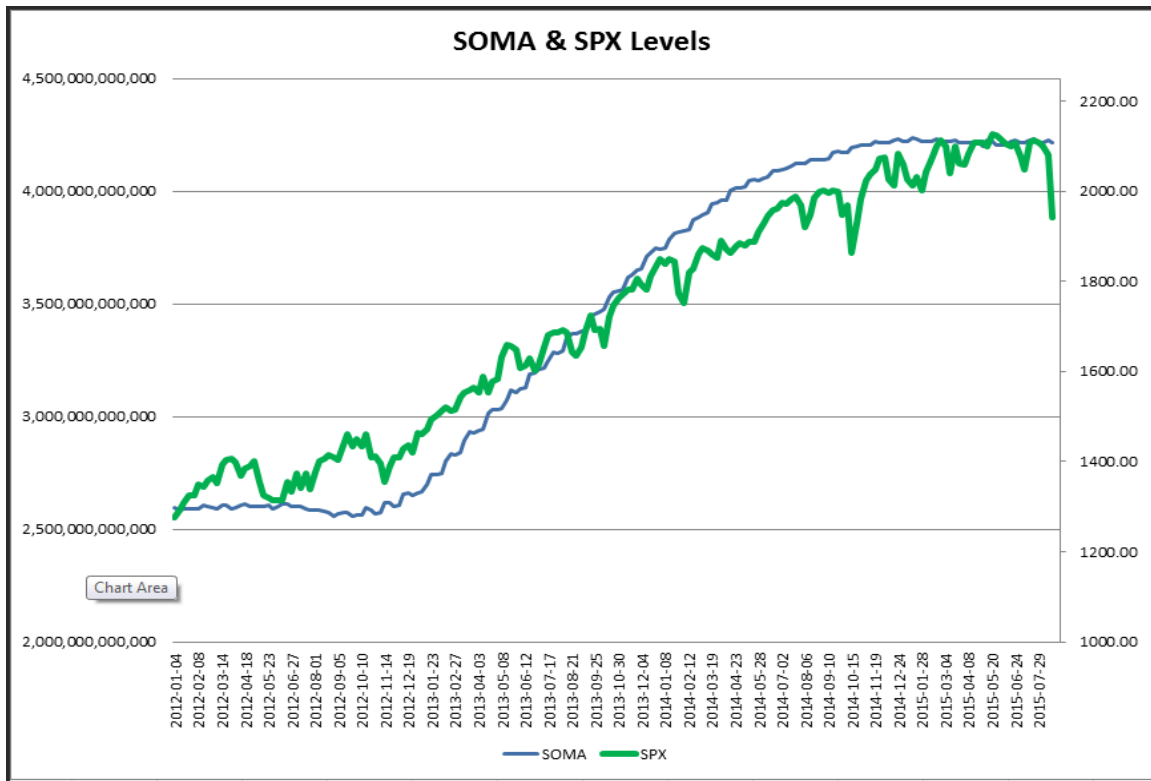
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



SOMA actually saw bit of a decline this past week. It still remains squarely within its range since QE3 ended at the end of October. As I have been noting for some time here in the letter, the market has struggled over the years when SOMA was not on the rise. With the sideways SOMA since October, the selloff held off for quite a while. But the lack of increased liquidity came to roost in the last couple of weeks and the market underwent some strong selling. There are a lot of eyes on the Fed. If they decide to tighten and shrink the SOMA that could aid the bears in generating a much deeper selloff. I'll continue to closely monitor SOMA levels and Fed activity, since they continue to act as a strong market influence. Watch the blue line in the coming weeks and months to see if it curls down and breaks the recent sideways range.

Intermediate-term indications remains split. I moved from bullish to neutral a couple of weeks ago and I am still not seeing anything to get me over-excited about either direction just yet. Bulls can point to the high CBI reading as well as the NASDAQ relative strength. Bears are banking on the weak Fed support and the diverging breadth. I'll also note I removed the Hindenburg Omen signal from July. While it did have some time left on it, the signal reached its target, so I have taken it off of the Active List. 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

PG – 1/3 @ \$73.91 (bought @ 73.55)

PG – 1/3 @ \$71.84 – 2nd lot

UTX – 1/3 @ \$93.01

ALL – 1/3 @ \$61.25

ALL 1/3 @ \$58.39 limit

IBM 1/3 @ \$143.47 limit

PG 1/3 @ \$69.14 limit – 3rd lot

SPG 1/3 @ \$182.07 limit

UTX 1/3 @ \$90.87 limit

ALL 1/3 @ \$56.99 limit

IBM 1/3 @ \$140.96 limit

MON 1/3 @ \$89.42 limit

QCOM 1/3 @ \$53.88 limit

SPG 1/3 @ \$177.09 limit

UTX 1/3 @ \$88.80 limit

Broad Market Large Cap CBI – 15

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
SPY(1/4)	8/21/2015	\$197.63	\$198.50	0.44%		<i>sold on open</i>
EBAY(1/3)	8/21/2015	\$26.33	\$26.98	2.47%		<i>sold on open</i>
COP(1/3)	8/21/2015	\$46.66	\$45.56	-2.36%		<i>sold on open</i>
PG(1/3)	8/21/2015	\$73.55	\$71.21	-3.18%		Catapult
EBAY(1/3)	8/24/2015	\$23.87	\$26.98	13.03%		<i>sold on open</i>
COP(1/3)	8/24/2015	\$41.98	\$45.56	8.53%		<i>sold on open</i>
PG(1/3)	8/24/2015	\$68.57	\$71.21	3.85%		Catapult
MO(1/3)	8/24/2015	\$48.71	\$53.70	10.24%		<i>sold on open</i>
GS(1/3)	8/24/2015	\$178.46	\$187.59	5.12%		<i>sold on open</i>
CVX(1/3)	8/24/2015	\$70.55	\$77.72	10.16%		<i>sold on open</i>
DVN(1/3)	8/24/2015	\$38.42	\$40.52	5.47%		<i>sold on open</i>
MDLZ(1/3)	8/24/2015	\$41.12	\$42.80	4.09%		<i>sell on open</i>
UTX(1/3)	8/24/2015	\$88.67	\$93.24	5.15%		Catapult
FOXA(1/3)	8/24/2015	\$24.82	\$27.48	10.72%		<i>sold on open</i>
ALL(1/3)	8/24/2015	\$60.11	\$58.63	-2.46%		Catapult
ALL(1/3)	8/25/2015	\$58.39	\$58.63	0.41%		Catapult
APA(1/3)	8/25/2015	\$40.49	\$42.67	5.38%		<i>sold on open</i>
COF(1/3)	8/25/2015	\$73.53	\$77.07	4.81%		<i>sold on open</i>
COP(1/3)	8/25/2015	\$42.93	\$45.56	6.13%		<i>sold on open</i>
CVX(1/3)	8/25/2015	\$72.12	\$77.72	7.76%		<i>sold on open</i>
DD(1/3)	8/25/2015	\$49.98	\$51.54	3.12%		<i>sold on open</i>
DOW(1/3)	8/25/2015	\$40.35	\$43.47	7.73%		<i>sold on open</i>
DVN(1/3)	8/25/2015	\$38.08	\$40.52	6.41%		<i>sold on open</i>
EMR(1/3)	8/25/2015	\$46.36	\$47.59	2.65%		<i>sold on open</i>
FCX(1/3)	8/25/2015	\$8.68	\$11.33	30.53%		<i>sold on open</i>
GS(1/3)	8/25/2015	\$179.46	\$187.59	4.53%		<i>sold on open</i>
IBM(1/3)	8/25/2015	\$143.47	\$147.98	3.14%		Catapult
MDLZ(1/3)	8/25/2015	\$41.96	\$42.80	2.00%		<i>sell on open</i>
MMM(1/3)	8/25/2015	\$138.58	\$143.02	3.20%		<i>sold on open</i>
MO(1/3)	8/25/2015	\$52.14	\$53.70	2.99%		<i>sold on open</i>
NSC(1/3)	8/25/2015	\$74.74	\$77.54	3.75%		<i>sold on open</i>
PG(1/3)	8/25/2015	\$69.14	\$71.21	2.99%		Catapult
SPG(1/3)	8/25/2015	\$182.07	\$184.34	1.25%		Catapult
TWX(1/3)	8/25/2015	\$69.81	\$72.50	3.85%		<i>sold on open</i>
UTX(1/3)	8/25/2015	\$90.87	\$93.24	2.61%		Catapult
XOM(1/3)	8/25/2015	\$68.72	\$74.71	8.72%		<i>sold on open</i>
SPY(1/4)	8/25/2015	\$189.55	\$199.16	5.07%		<i>sold at limit</i>
MO(1/3)	8/26/2015	\$51.82	\$53.70	3.63%		<i>sold on open</i>
APA(1/3)	8/26/2015	\$38.90	\$42.67	9.69%		<i>sold on open</i>
ALL(1/3)	8/26/2015	\$56.99	\$58.63	2.88%		Catapult
FCX(1/3)	8/26/2015	\$8.24	\$11.33	37.50%		<i>sold on open</i>
MDLZ(1/3)	8/26/2015	\$41.31	\$42.80	3.61%		<i>sell on open</i>
GE(1/3)	8/26/2015	\$23.27	\$24.92	7.09%		<i>sold on open</i>

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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