

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 8, 2015

Volume 8 Issue 172

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	75% Long VXX	Flat

Tonight's Research Points

- On Employment Days such action has been followed by weakness the next day a high percentage of the time.
- Poor performance before a 3-day weekend has been a bad omen for the short-term.
- The CBI has remained elevated for longer now than it ever has in the past.
- The Fed's SOMA remained largely unchanged this past week.

Short-term Outlook

The Bottom Line

Evidence is mixed. It is leaning bearish and the market is overbought, but the high CBI and the fact that SPX is only likely to remain overbought for 1 day leaves me hesitant to view this as a compelling short opportunity.

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						
September 8, 2015	SPX dn 1% before 3-day US-only wknd	1-4 days	Bearish	-3.20%	1.00%	1.90%
September 8, 2015	Unfill 1% gap dn on Employment Day	1 day	Bearish			
September 4, 2015	Lowest volume in 10. SPX > 10ma < 200	1-5 days	Bearish			
September 3, 2015	SPY 1.5% drop. Unfill gap up > yest hi	1-3 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						
September 3, 2015	VXO 15% drop	1-2 days	Bearish			

The Evidence

Friday got off to a rough start and things never improved much throughout the day. The SPX finished down 1.5%, the NASDAQ declined 1.0%, and the Russell 2000 fell 0.8%. Breadth was negative as the NYSE Up Issues % came in at 24% and the Up Volume % was 10%. Total NYSE volume came in pre-holiday weekend light.

Despite the drop in the market on Friday, the evidence that emerged was primarily bearish. Employment Days will often occur in conjunction with a strong price move because the employment report is frequently viewed as an important piece of economic data. Still, it has been quite rare to see the employment report lead to a large gap down that never fills during the day. This happened on Friday. When it has occurred in the past selling has generally continued into the next trading session. This is something I last showed in the 4/8/13 subscriber letter. I have updated that study below.

SPY gaps fown > 1% on an Employment Day and fails to fill the gap during the day. Buy on close. Sell next day's close. \$100k/trade. 1994 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$2,922.56)	Profit Factor	0.53
Gross Profit	\$3,264.37	Gross Loss	(\$6,186.93)
Total Number of Trades	13	Percent Profitable	23.08%
Winning Trades	3	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	(\$224.81)	Ratio Avg. Win:Avg. Loss	1.76
Avg. Winning Trade	\$1,088.12	Avg. Losing Trade	(\$618.69)
Largest Winning Trade	\$1,439.15	Largest Losing Trade	(\$1,807.92)

The number of instances is a bit low but stats appear strongly negative. Below is a list of all instances.

SPY gaps fown > 1% on an Employment Day and fails to fill the gap during the day. Buy on close. Sell next day's close. \$100k/trade. 1994 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
03/08/96	Buy	\$63.50	1.15%	\$1,306.42
03/11/96	Sell	\$64.23		(\$676.82)
07/05/96	Buy	\$65.58	(0.41%)	\$624.84
07/08/96	Sell	\$65.31		(\$685.80)
12/06/96	Buy	\$74.31	1.44%	\$1,492.95
12/09/96	Sell	\$75.38		\$0.00
11/07/97	Buy	\$92.94	(0.60%)	\$967.50
11/10/97	Sell	\$92.38		(\$1,010.50)
09/07/07	Buy	\$146.07	(0.19%)	\$444.60
09/10/07	Sell	\$145.79		(\$1,190.16)
01/04/08	Buy	\$141.31	(0.08%)	\$650.44
01/07/08	Sell	\$141.19		(\$855.47)
07/02/09	Buy	\$89.81	(0.01%)	\$133.56
07/06/09	Sell	\$89.80		(\$1,279.95)
06/04/10	Buy	\$106.82	(1.25%)	\$739.44
06/07/10	Sell	\$105.49		(\$1,319.76)
06/03/11	Buy	\$130.42	(1.06%)	\$0.00
06/06/11	Sell	\$129.04		(\$1,187.30)
07/08/11	Buy	\$134.40	(1.81%)	\$0.00
07/11/11	Sell	\$131.97		(\$2,038.56)
09/02/11	Buy	\$117.85	(0.73%)	\$0.00
09/06/11	Sell	\$116.99		(\$2,942.56)
06/01/12	Buy	\$128.16	(0.05%)	\$452.40
06/04/12	Sell	\$128.10		(\$795.60)
04/05/13	Buy	\$155.16	0.68%	\$682.64
04/08/13	Sell	\$156.21		(\$264.04)

The 2013 instance was the 1st one since the beginning of 1997 that did not close negative. It was also the 1st one that intraday drawdown did not surpass intraday run-up. This still suggests a downside edge to me and I have included it on the Active List.

Thursday night I discussed how the Friday before Labor Day has had bullish inclinations over the last 55 years. It has been extremely rare to see the market selloff so hard on this day. In fact there've only been three other times when the SPX has lost more than 1% on this Friday. Those three instances occurred in 1987, 2008, and 2011. Of course you can't draw any solid conclusions from just 3 instances, but in the 9/6/11 letter I looked at how the market has performed following large selloffs prior to three day weekends. I also

decided to exclude weekends surrounding Christmas, New Year's, and Easter. Doing so didn't affect results greatly, but by focusing on Labor Day, Martin Luther King Day, Presidents' Day, Memorial Day, and Fourth of July I was able to incorporate the fact that foreign markets will be open while the US is closed on Monday. Since 2000 there have been 12 instances where there was a large selloff prior to the US-only 3-day weekend. Statistics from 1-5 days out are shown in the table below.

SPX closes down > 1% on the day before a U.S.-only 3-day weekend. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-23,098.15	12	3	9	25.00	439.85	702.00	-2,713.08	-5,973.00	0.16	0.05	-1,924.85
4	-24,494.82	12	1	11	8.33	1,758.24	1,758.24	-2,386.64	-4,441.80	0.74	0.07	-2,041.24
3	-13,604.44	12	4	8	33.33	1,096.55	1,607.76	-2,248.83	-3,701.20	0.49	0.24	-1,133.70
2	-7,520.04	12	5	7	41.67	1,048.46	2,095.25	-1,823.19	-3,510.44	0.58	0.41	-626.67
1	-6,983.23	12	4	8	33.33	658.27	1,249.60	-1,202.04	-1,875.60	0.55	0.27	-581.94

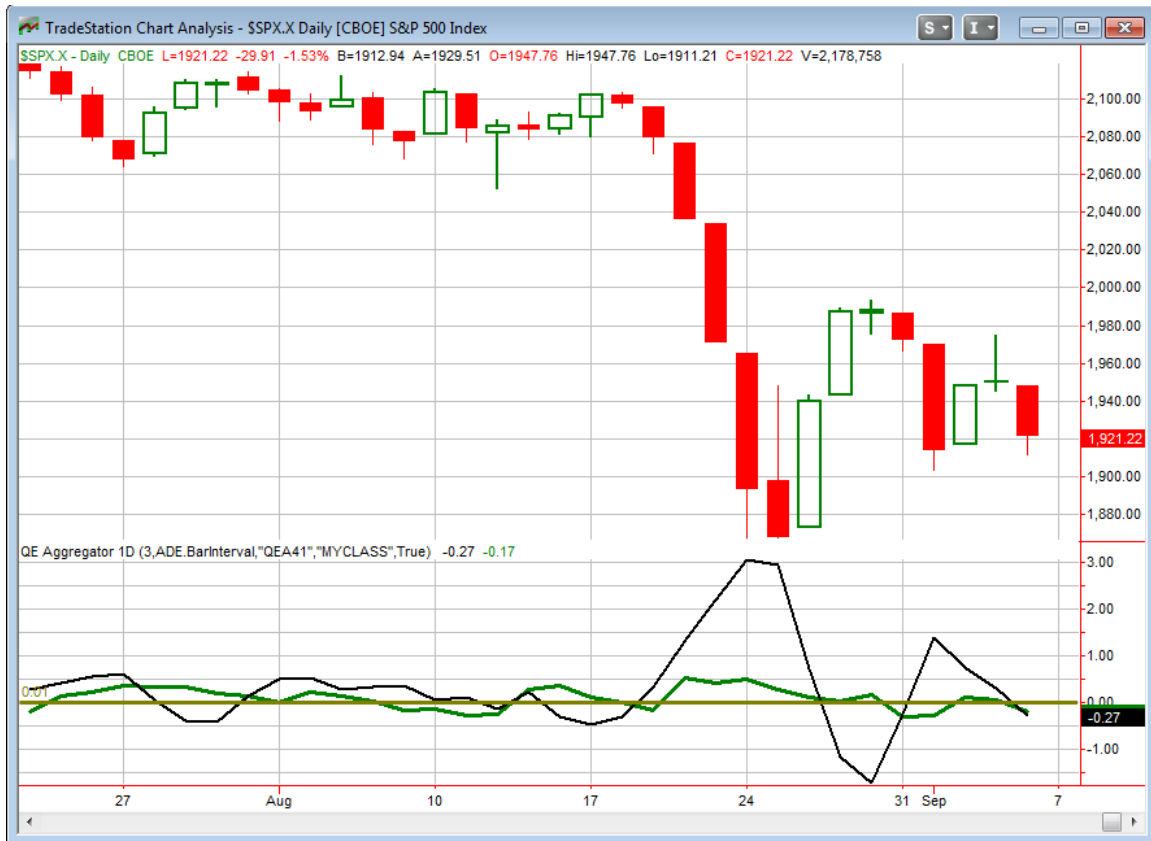
The initial reaction over the 1-4 day shortened week has been for downside follow-through. Below I have listed all 11 instances and assumed a 4-day holding period.

SPX closes down > 1% on the day before a U.S.-only 3-day weekend.
Buy on close. Sell 4 days later. \$100k/trade. 2000 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
02/18/00	Buy	\$1,346.09	(0.95%)	\$1,777.48
02/25/00	Sell	\$1,333.36		(\$1,253.56)
02/16/01	Buy	\$1,301.47	(4.30%)	\$432.44
02/23/01	Sell	\$1,245.47		(\$6,538.28)
05/25/01	Buy	\$1,277.90	(1.35%)	\$40.56
06/01/01	Sell	\$1,260.67		(\$2,491.32)
02/15/02	Buy	\$1,104.18	(1.30%)	\$0.00
02/22/02	Sell	\$1,089.84		(\$2,683.80)
05/24/02	Buy	\$1,083.82	(1.54%)	\$198.72
05/31/02	Sell	\$1,067.14		(\$2,719.52)
01/17/03	Buy	\$901.78	(4.48%)	\$464.20
01/24/03	Sell	\$861.40		(\$4,627.70)
05/23/08	Buy	\$1,375.93	1.77%	\$2,188.08
05/30/08	Sell	\$1,400.35		(\$205.92)
08/29/08	Buy	\$1,282.74	(3.15%)	\$1,563.10
09/05/08	Sell	\$1,242.31		(\$5,044.27)
07/02/09	Buy	\$896.42	(1.53%)	\$255.30
07/09/09	Sell	\$882.68		(\$3,008.10)
01/15/10	Buy	\$1,136.03	(3.90%)	\$1,268.96
01/22/10	Sell	\$1,091.76		(\$4,034.80)
05/28/10	Buy	\$1,089.41	(2.25%)	\$1,479.66
06/04/10	Sell	\$1,064.88		(\$2,630.81)
09/02/11	Buy	\$1,173.97	(1.68%)	\$2,586.55
09/09/11	Sell	\$1,154.23		(\$2,876.40)

With the average drawdown reaching 3.2% and the average run-up just 1.0%, downside risk has been over 3x the size of upside reward. This suggests bearish implication for the upcoming holiday-shortened week.

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



The bearish studies tonight 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 also fell below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal flipped to short at the close.

Expectations are currently set to remain bearish on Tuesday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be *inverted* at 1939.50 on Tuesday. That is 1.0% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. So in this case, SPX is going to need to close up at least 1.0% on Tuesday in order to remain "overbought" versus expectations. Anything short of that and it will be considered short-term "oversold" as of Tuesday's close.

So the Aggregator has flipped from bullish to bearish, but the overall setup is still not terribly appealing to me. The possible time horizon for this trade is very short thanks to the inverted pivot. If I were to attempt a short and I were right I would only have one day

to profit. This hurts potential reward/risk and leaves me awaiting a more compelling setup.

Amazingly, the CBI has remained at 15 for several days now. The strong back and forth chop has both kept the existing Catapults from hitting their (daily adjusted) exit targets and it has prevented new Catapults from emerging. Friday marked the 11th day in a row that the CBI closed ≥ 10 . This is the first time this has ever happened. Ten days was the previous record, and that was done on 12/17/96 and 10/1/01. Both of those instances saw strong bounces in the next two days. While that may seem encouraging for the bulls, it also means that the CBI remains in uncharted territory, which could be a warning. In any case, I remain hesitant to short with the CBI still so elevated. I will likely require a rally that puts the CBI back to neutral before I will consider taking on short positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/8– 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 indicators or the Combo system signals.*

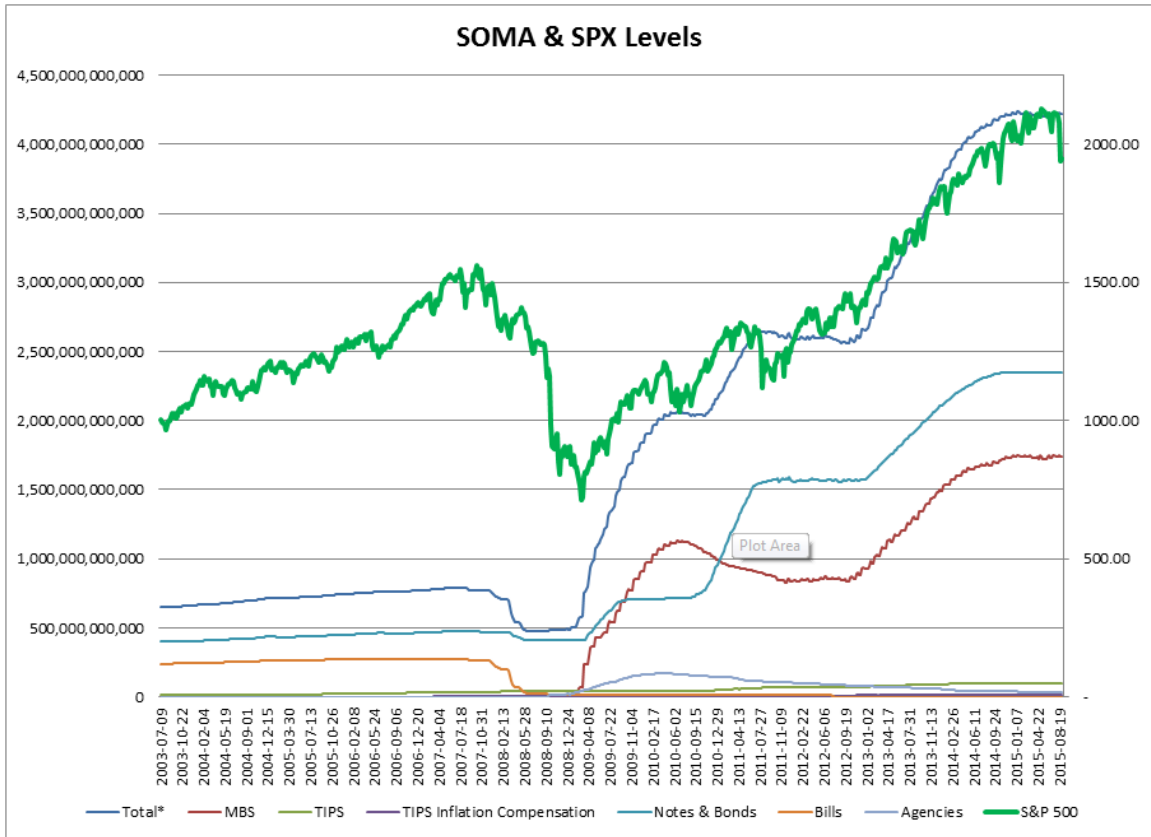
This was another bad week for the market as the SPX declined another 3.4%. It remains below its 10, 50, & 200-day moving averages, which are all sloping downward. From a research standpoint nothing new and substantial emerged with an intermediate-term impact.

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.

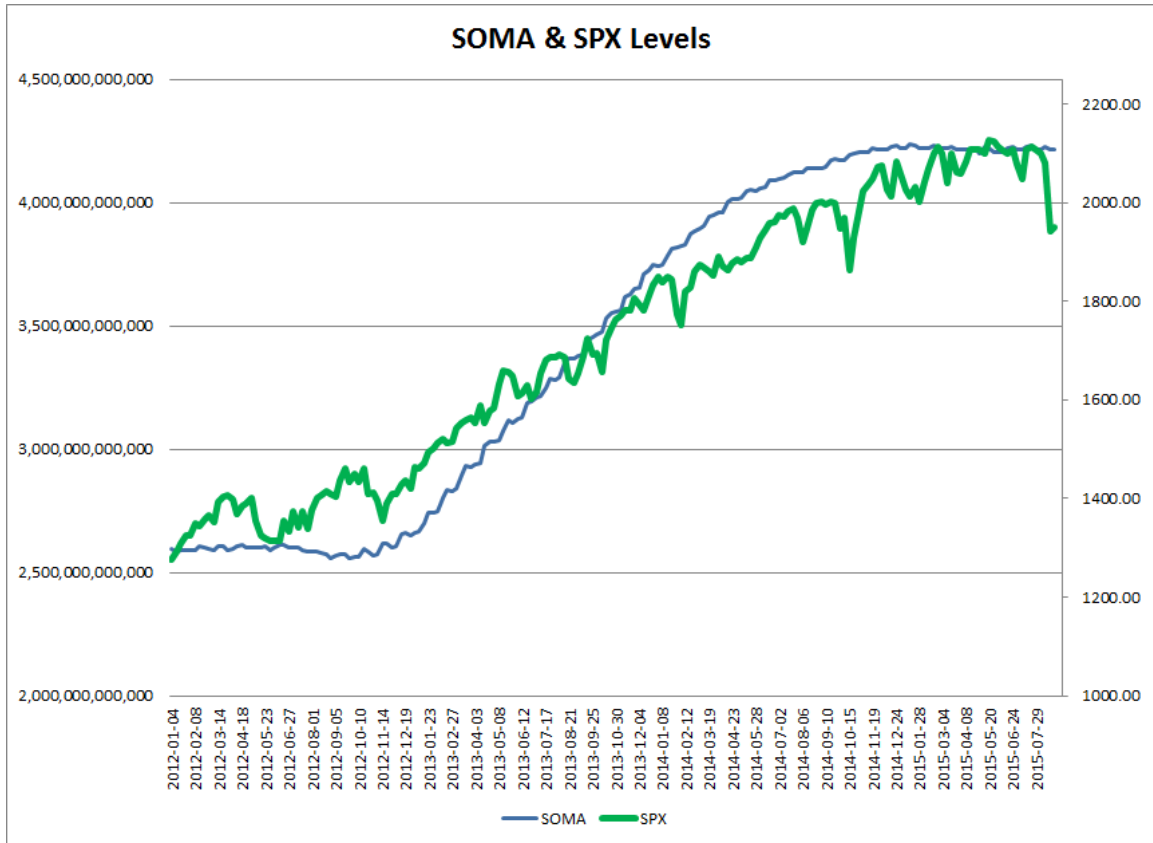
SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities 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 stayed almost unchanged this past week, with an indiscernible rise of less than 0.01%. 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 few 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 few 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 divergent breadth. 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
PG(1/3)	8/21/2015	\$73.55	\$68.76	-6.51%		Catapult
PG(1/3)	8/24/2015	\$68.57	\$68.76	0.28%		Catapult
UTX(1/3)	8/24/2015	\$88.67	\$90.68	2.27%		Catapult
ALL(1/3)	8/24/2015	\$60.11	\$57.04	-5.11%		Catapult
ALL(1/3)	8/25/2015	\$58.39	\$57.04	-2.31%		Catapult
IBM(1/3)	8/25/2015	\$143.47	\$144.57	0.77%		Catapult
PG(1/3)	8/25/2015	\$69.14	\$68.76	-0.55%		Catapult
SPG(1/3)	8/25/2015	\$182.07	\$174.92	-3.93%		Catapult
UTX(1/3)	8/25/2015	\$90.87	\$90.68	-0.21%		Catapult
ALL(1/3)	8/26/2015	\$56.99	\$57.04	0.09%		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.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2015 Hanna Capital Management, LLC.