

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 14, 2015

Volume 8 Issue 176

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The low volume on Friday appears to be a negative for the next few days.
- SOMA remained flat once again, and the Fed's policy meeting this week could have a large influence on the market going forward.

## *Short-term Outlook*

### *The Bottom Line*

Evidence continues to point bearish and the market is still overbought. With some room to the downside and the CBI nearing neutral, I am considering taking on short exposure.

*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 |
|----------------------------|--------------------------------------|-----------|---------|------------|------------|------------------------|
| <b>Active - Short Term</b> |                                      |           |         |            |            |                        |
| September 14, 2015         | Lowest volume in 10. SPX >10ma < 200 | 1-5 days  | Bearish |            |            |                        |
| September 9, 2015          | QE Buying Power System short signal  | 1-6 days  | Bearish |            |            |                        |
| <b>Active - Long Term</b>  |                                      |           |         |            |            |                        |
| September 9, 2015          | FTD on mild breadth & volume         | int term  | Bearish |            |            |                        |
| 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 |            |            |                        |

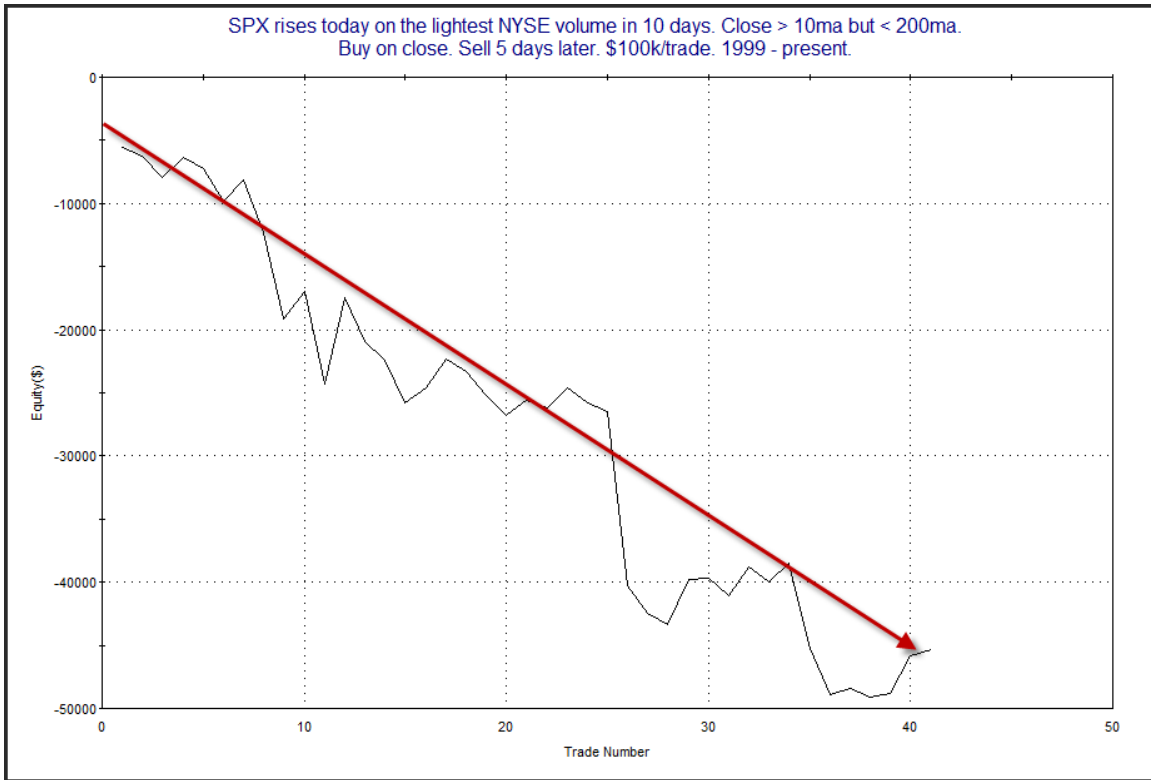
**The Evidence**

The market started off a little weak on Friday but some afternoon buying left the major averages all higher. The SPX and NASDAQ each rose 0.5% and the Russell 2000 gained 0.4%. Breadth was mixed as the NYSE Up Issues % came in at 47% and the Up Volume % was 52%. Total NYSE volume came in at the lowest level in a few weeks.

The Quantifinder generated a few ideas for pursuit. On close review the one that seems worthy of consideration is one that triggered recently and was shown in the 9/4/15 letter. It examined very low volume on an up day. It also considered the position of the market in relation to its short and long-term moving averages.

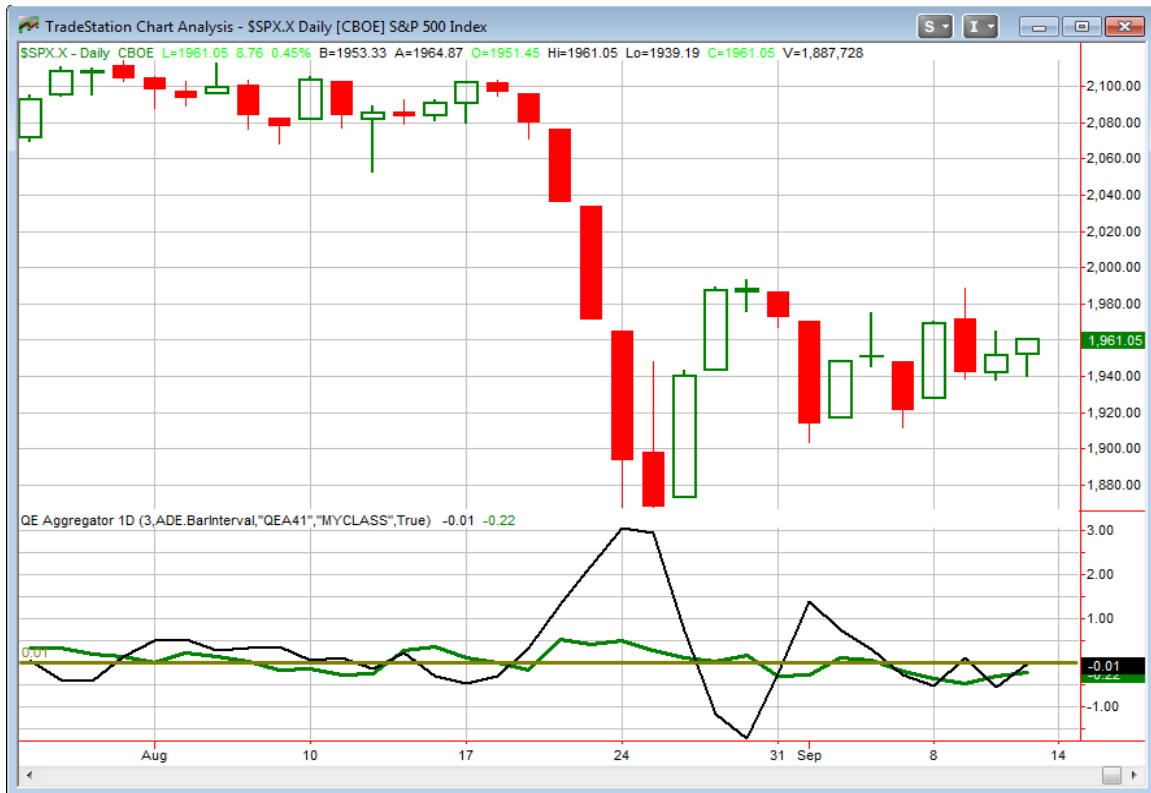
| SPX rises today on the lightest NYSE volume in 10 days. Close > 10ma but < 200ma.<br>Buy on close. Sell X days later. \$100k/trade. 1999 - present. |                 |                   |                     |                    |                   |                        |                        |                       |                       |                     |                   |                |
|---|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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 |
| 5   | -45,340.63      | 41                | 16                  | 25                 | 39.02             | 1,907.38               | 6,877.04               | -3,034.35             | -13,784.48            | 0.63                | 0.40              | -1,105.87      |
| 4   | -37,546.35      | 43                | 20                  | 23                 | 46.51             | 1,881.08               | 5,734.40               | -3,268.17             | -10,971.63            | 0.58                | 0.50              | -873.17        |
| 3   | -30,010.32      | 44                | 16                  | 28                 | 36.36             | 1,802.26               | 4,455.68               | -2,101.66             | -7,806.29             | 0.86                | 0.49              | -682.05        |
| 2   | -29,834.57      | 45                | 21                  | 24                 | 46.67             | 1,023.36               | 2,192.44               | -2,138.55             | -8,950.62             | 0.48                | 0.42              | -662.99        |
| 1   | -10,559.12      | 50                | 24                  | 26                 | 48.00             | 1,120.52               | 4,699.94               | -1,440.44             | -8,883.33             | 0.78                | 0.72              | -211.18        |
| <b>89% of instances closed below the entry price at some point in the next week.</b>  |                 |                   |                     |                    |                   |                        |                        |                       |                       |                     |                   |                |

The numbers here appear fairly compelling for the bears. Below is a profit curve for a 5-day holding period.



The strong and relatively smooth downslope suggests a bearish edge. I have again included this study on the active list.

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



Once again tonight the green Aggregator Line held 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 held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and 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 stayed short at the close.

Expectations are currently set to remain bearish on Monday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1922.47 on Monday. That is nearly 2.0% below Friday's close. So for SPX to move from overbought to oversold on Monday it would need to close down at least 2.0%. That is a sizable drop. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

I have been greatly hesitant to short because of the high CBI reading we have seen for the last couple of weeks. The CBI is now down to 5. While that is a little short of the 3 reading that I generally consider neutral, it is a far cry from the 73 reading that it spiked to in August. And really the move from 5 down to 3 or lower could easily occur Monday if the right stocks put in a decent performance. So with the Aggregator leaning bearish, the market overbought, and the Differential Pivot far away (which leaves plenty of room

for downside potential), I am going to look to take on some short exposure on Monday if SPY closes up on the day.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 9/14– 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.*

The market changed direction on a weekly basis for the 9<sup>th</sup> week in a row. This past week it was a 2.1% gain. From an intermediate-term standpoint, there was a Follow Through Day study that triggered and was shown in the 9/9 letter. It looked at other follow through days that occurred on relatively light volume and relatively light breadth. The results table is copied below.

| Today is an IBD Follow Through Day. NYSE volume < 10ma and the Up Issues % Rank <= 95%. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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   | -43,058.34      | 20                | 8                   | 12                 | 40.00             | 2,627.11               | 7,531.29               | -5,339.60             | -24,546.70            | 0.49                | 0.33              | -2,152.92      |
| 9  | -49,821.26      | 20                | 7                   | 13                 | 35.00             | 1,961.77               | 2,418.26               | -4,888.74             | -18,395.06            | 0.40                | 0.22              | -2,491.06      |
| 8  | -36,702.76      | 20                | 9                   | 11                 | 45.00             | 1,691.48               | 3,617.64               | -4,720.55             | -17,469.28            | 0.36                | 0.29              | -1,835.14      |
| 7  | -27,520.49      | 20                | 9                   | 11                 | 45.00             | 1,470.32               | 2,899.26               | -3,704.85             | -12,495.16            | 0.40                | 0.32              | -1,376.02      |
| 6  | -13,162.57      | 20                | 11                  | 9                  | 55.00             | 1,954.75               | 5,900.31               | -3,851.65             | -9,023.28             | 0.51                | 0.62              | -658.13        |
| 5  | -18,070.62      | 20                | 9                   | 11                 | 45.00             | 2,013.36               | 4,663.62               | -3,290.08             | -7,789.18             | 0.61                | 0.50              | -903.53        |
| 4  | -18,011.88      | 20                | 7                   | 13                 | 35.00             | 2,164.94               | 7,124.13               | -2,551.26             | -7,745.95             | 0.85                | 0.46              | -900.59        |
| 3  | -20,417.06      | 20                | 6                   | 14                 | 30.00             | 1,719.20               | 3,189.42               | -2,195.16             | -5,299.32             | 0.78                | 0.34              | -1,020.85      |
| 2  | -26,935.06      | 20                | 6                   | 14                 | 30.00             | 645.94                 | 1,508.80               | -2,200.77             | -8,433.70             | 0.29                | 0.13              | -1,346.75      |
| 1  | -4,336.80       | 20                | 8                   | 12                 | 40.00             | 837.07                 | 2,565.81               | -919.44               | -2,475.86             | 0.91                | 0.61              | -216.84        |

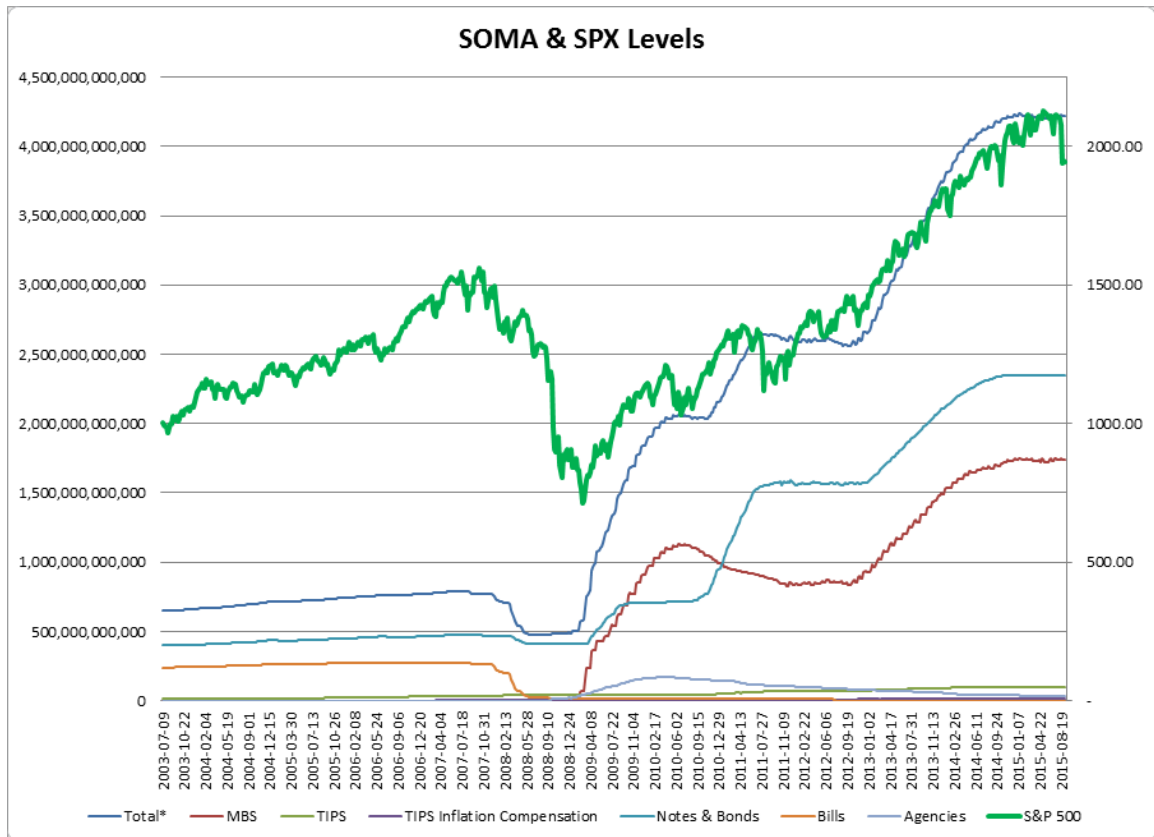
All 20 instances closed below the entry price at some point in the next 4 days. Only 4 of these 20 FTDs (20%) were followed by successful rallies.

The note at the bottom is what is most interesting from an intermediate-term standpoint. It suggests a good chance that SPX will fall below its 8/24 lows before it moves on to reach new highs.

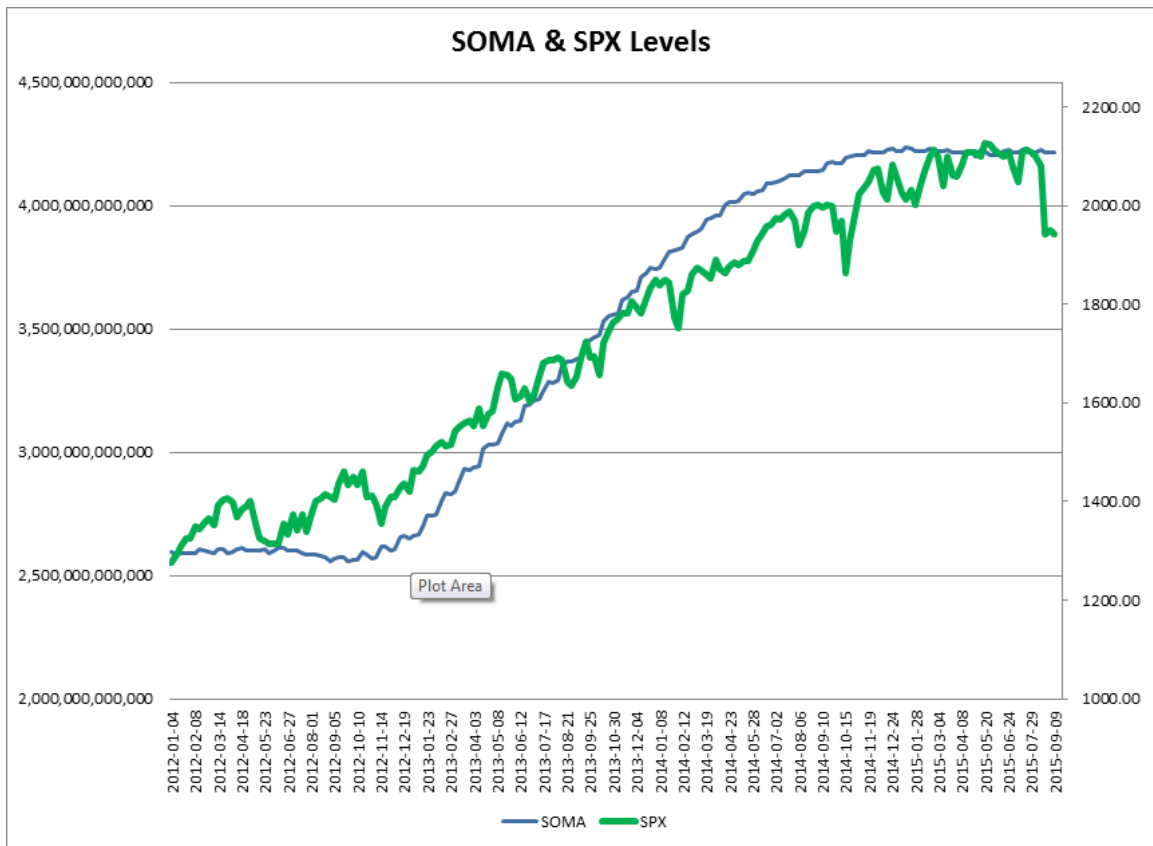
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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).



Again this past week SOMA stayed almost unchanged 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 August 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. This week's upcoming Fed Day will be an interesting one. 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 someone split. But the bearish case strengthened a little this past week with the Follow Through Day action. I thought about moving from neutral to bearish here. Bulls can point to the high CBI reading as well as the NASDAQ relative strength. Bears are banking on the weak Fed support, the divergent breadth, and the new Follow Through Day study. I'll remain neutral here for one more week. The

CBI study is set to expire in 6 more trading days. Unless more intermediate-term bullish evidence emerges this upcoming week I am likely to start leaning intermediate-term bearish as of next week.

### **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 – 2<sup>nd</sup> lot*

*PG 1/3 @ \$69.14 limit – 3<sup>rd</sup> lot*

*MON 1/3 @ \$89.42 limit*

*QCOM 1/3 @ \$53.88 limit*

#### ***Broad Market Large Cap CBI – 5***

### **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.*

***SPY – short ¼ index position @ \$196.75 LIMIT ON CLOSE.*** Based on the short-term outlook above, I will look to take on some short exposure if SPY closes higher again on Monday.

### **Current Open Trade Ideas**

| Symbol   | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes        |
|----------|------------|-------------|---------------|-------------|------|--------------|
| PG(1/3)  | 8/21/2015  | \$73.55     | \$68.42       | -6.97%      |      | Catapult     |
| PG(1/3)  | 8/24/2015  | \$68.57     | \$68.42       | -0.22%      |      | Catapult     |
| PG(1/3)  | 8/25/2015  | \$69.14     | \$68.42       | -1.04%      |      | Catapult     |
| SPG(1/3) | 8/25/2015  | \$182.07    | \$179.14      | -1.61%      |      | sell on open |
|          |            |             |               |             |      |              |
|          |            |             |               |             |      |              |
|          |            |             |               |             |      |              |
|          |            |             |               |             |      |              |

*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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