

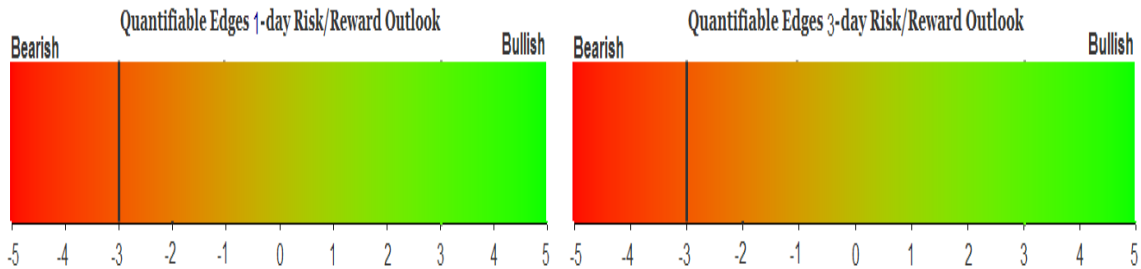
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 19, 2015

Volume 8 Issue 201

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- 20-day highs below the 200ma have often been followed by pullbacks – especially since 2002.
- The Fed's System Open Market Account hit a new high for the 1st time since January. Continued highs would mean increasing liquidity provided to the market, which would be a bullish development.

Short-term Outlook

The Bottom Line

Evidence points south and the market is overbought. There appears to be a solid short-term bearish edge.

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						
October 19, 2015	20 high < 200ma	1-2 days	Bearish			
October 16, 2015	Gap up. Close < 200 but top 10% 1 & 10	1-3 days	Bearish			
October 16, 2015	5 low to 10-high < 200	1-2 days	Bearish	-1.90%		
October 15, 2015	1st 5 low in 10 days	1-4 days	Bullish			
Active - Long Term						
October 9, 2015	Zweig Breadth Thrust	1-20 days	Bullish			
October 6, 2015	SPX up 3+ days. Up Vol % > 90%	1-14 days	Bullish			
September 29, 2015	CBI >= 11	1-20 days	Bullish			
September 9, 2015	FTD on mild breadth & volume	int term	Bearish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

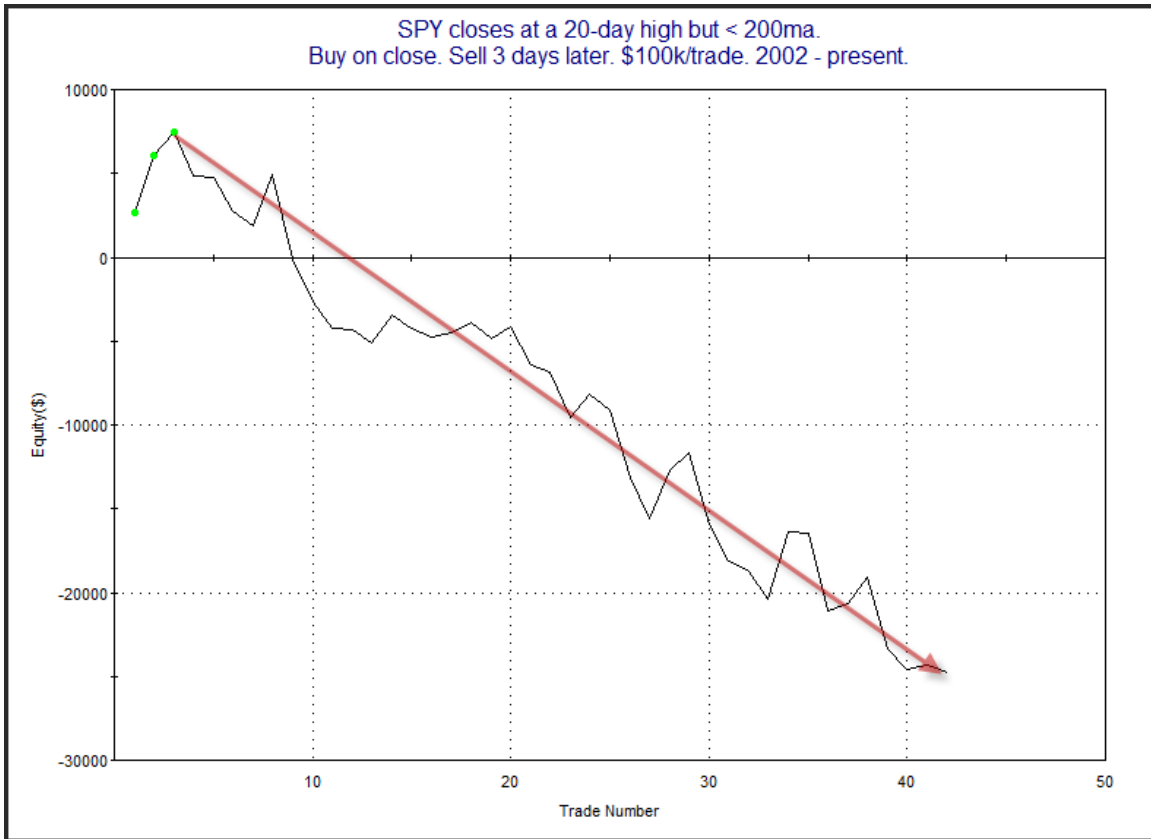
The Evidence

Friday was a mixed day for the market. The SPX gained 0.5%, the NASDAQ rose 0.3%, and the Russell 2000 lost less than 0.1%. Breadth was positive as the NYSE Up Issues % came in at 57% and the Up Volume % was 53%. Total NYSE volume rose for the 4th day in a row.

The action did not generate a whole lot of new evidence – it was mostly repeats that appeared in the Quantifinder. There was one study from the 9/10/10 letter that looked at other times SPY made a 20-day high on lower volume and closed under its 200ma. I took a closer look at that study tonight. I found a few things. First, the SPY volume did not seem to have a significant impact on the results. Second, the edge has been more substantial since about 2002. So I updated that study a bit. A stats table is below.

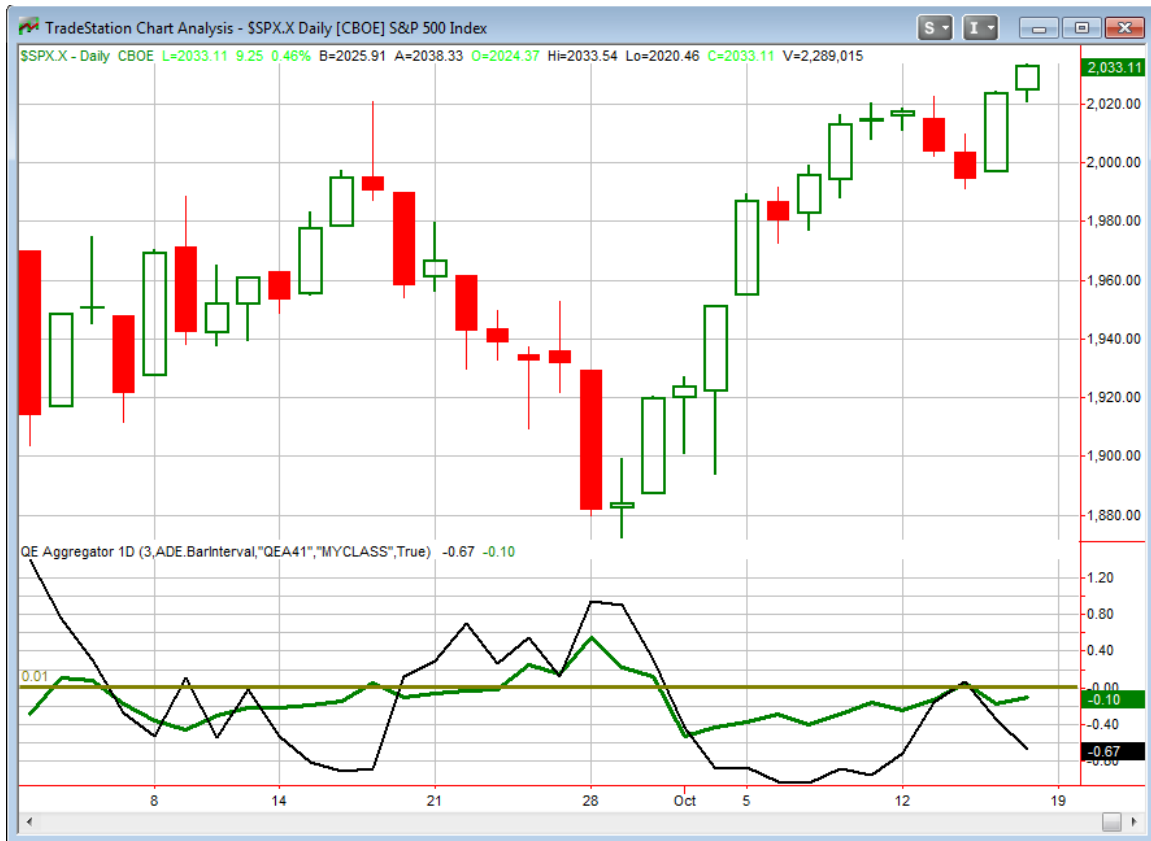
SPY closes at a 20-day high but < 200ma. Buy on close. Sell X days later. \$100k/trade. 2002 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-13,964.32	52	27	24	51.92	1,488.60	5,434.00	-2,256.52	-6,223.36	0.66	0.74	-268.54
4	-18,276.14	57	26	31	45.61	1,408.27	5,718.80	-1,770.68	-5,244.16	0.80	0.67	-320.63
3	-30,698.93	66	23	42	34.85	1,644.66	4,331.15	-1,631.57	-5,133.72	1.01	0.55	-465.14
2	-31,777.81	80	37	42	46.25	885.82	5,354.82	-1,536.98	-5,196.96	0.58	0.51	-397.22
1	-26,358.55	115	51	64	44.35	711.65	3,972.12	-978.95	-4,190.20	0.73	0.58	-229.20

The 1st 3 days show a solid pullback tendency. Below is a profit curve to see how it has played out over time.



The downslope has been pretty strong and steady since near the end of 2002. I have included this study on the Active List tonight. (Though since we also saw a 20-day high on Thursday I have only used it for estimates for the next 2 days rather than 3 days.)

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



With tonight's study factored in 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 remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and 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 stayed short at the close.

Based on the current Active Studies, expectations are slated to remain bearish on Monday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1987.11 on Monday. That is 2.2% below Friday's close. This means that for SPX to turn from overbought to oversold versus expectations on Monday it will need to close down a very large 2.2% or greater. That is a longshot. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

I like the short side here from an evidence standpoint. I also like the fact that the Differential Pivot is quite far away. That increases potential reward. I do already have some short exposure. I would consider adding to that exposure if I can get a favorable fill on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/19 – neutral

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

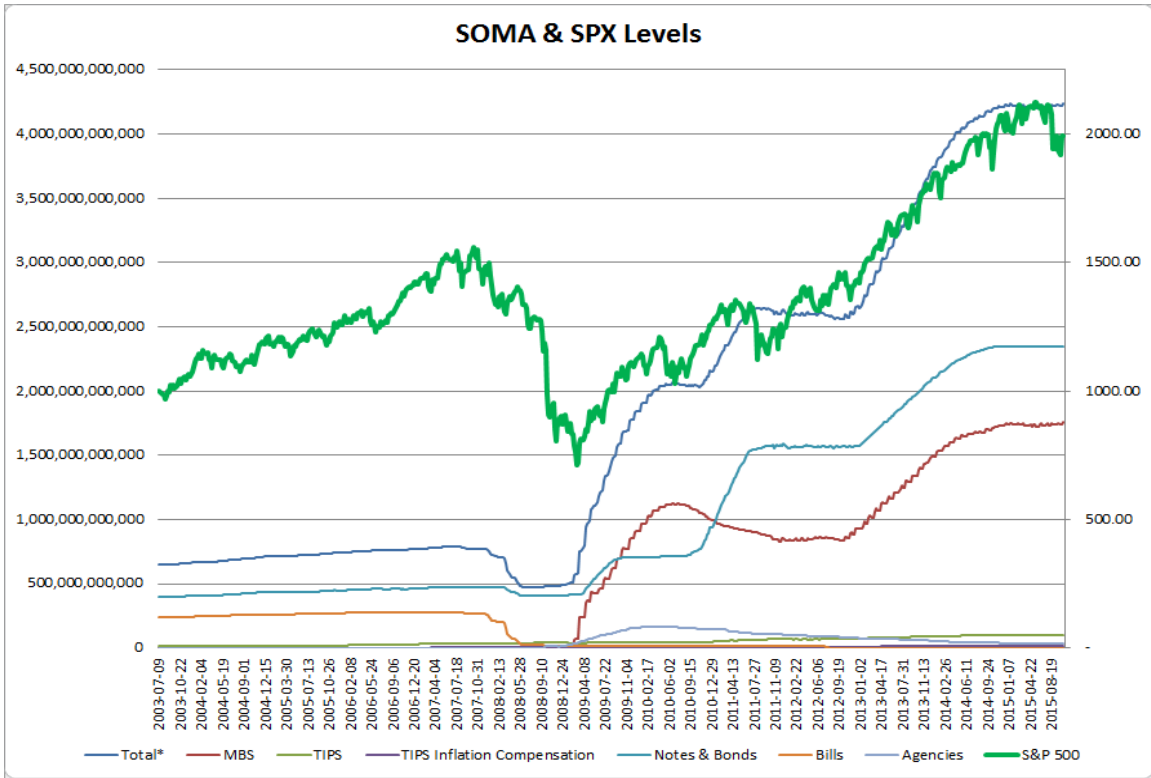
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The SPX finished up for the 3rd week in a row. This week the rise was a little less than 1%. The action did not inspire anything in the way of new intermediate-term studies. But SOMA action was interesting.

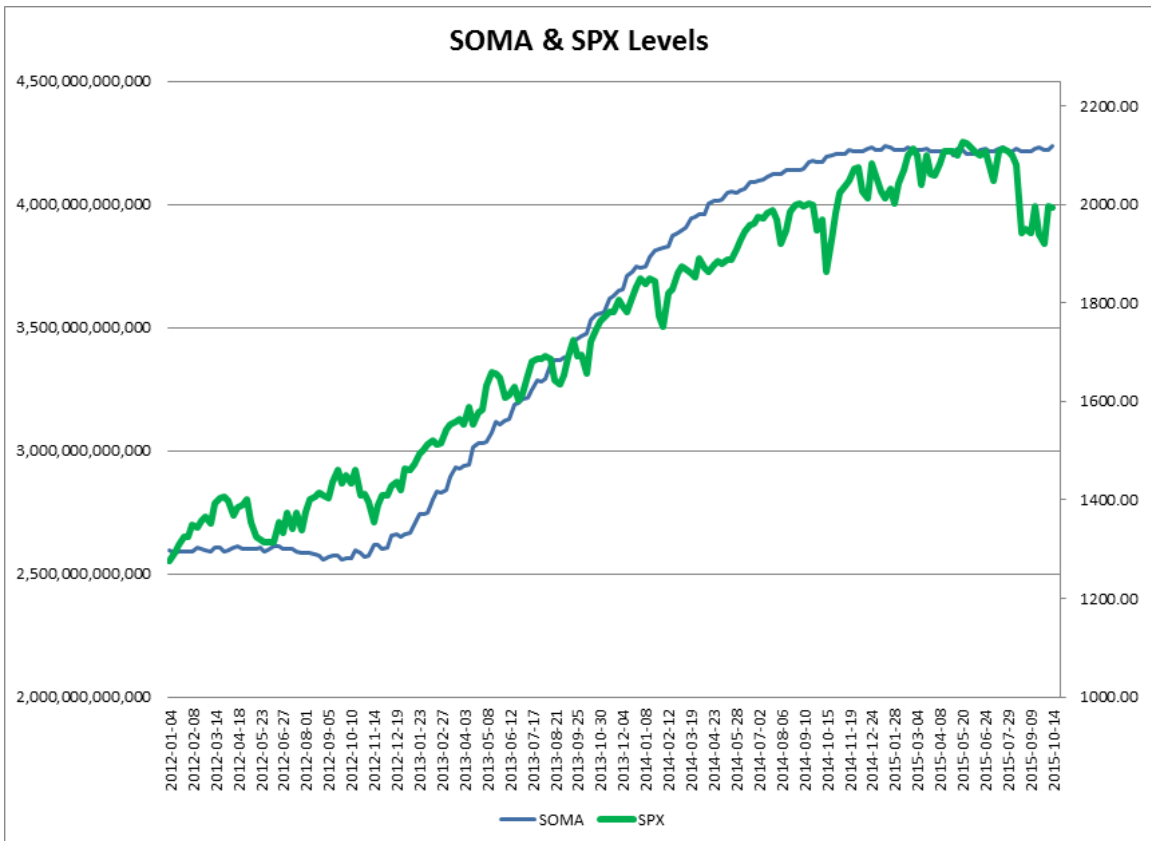
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



The SOMA posted some notable gains this past week. It rose 0.36%, which was the largest % increase since June. And the big rise also meant a new high level for the SOMA. This is the first new high since January. And it breaks the SOMA out of the long-term range it has been in for about a year. The Fed has not indicated that it plans to increase liquidity support, but a rising SOMA would do just that. If the SOMA continues to rise, it could provide a real boost for the bulls. The breakout here is a development that needs to be monitored closely.

Intermediate-term indications are still mixed. Aside from the improving SOMA, not much changed this past week. We still have some active breadth studies suggesting a bullish edge. But we also still only have one of the four QE Market Timing Course indicators pointing bullish. I will remain “neutral” for the intermediate-term. But I will also be keeping a close eye on SOMA. If that continues to rise, I will likely start leaning bullish in the next few weeks.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Broad Market Large Cap CBI – 0

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 @ \$203.83 LIMIT ON OPEN. If not filled on open and look to enter same order @ \$203.83 LIMIT ON CLOSE. Based on the short-term section above I will look add some to my short position if the market either gaps up or closes up strongly.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	10/16/2015	\$202.83	\$203.27	-0.22%		shorted 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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