

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 2, 2015

Volume 8 Issue 211

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Short

Tonight's Research Points

- Pullbacks into the end of the month have typically been followed by a rebound over the next several days.
- We are now entering the Best 6 Months, which has been strongly favorable under similar circumstances.
- SOMA declined for the 2nd week in a row – a bad sign for the bulls.

Short-term Outlook

The Bottom Line

Expectations are somewhat positive but the market is currently overbought. This leaves me neutral and awaiting a better entry point.

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						
November 2, 2015	Poor close to good month	1 day	Bullish			
Active - Long Term						
November 2, 2015	Best 6 months	Nov-Apr	Bullish			
October 26, 2015	NASDAQ leading SPX	int term	Bullish			
October 9, 2015	Zweig Breadth Thrust	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			
Dropped Tonight						
October 6, 2015	SPX up 3+ days. Up Vol % > 90%	1-14 days	Bullish			
September 29, 2015	CBI >= 11	1-20 days	Bullish			
October 29, 2015	Fed 10-high, not 100 high	1-2 days	Bearish			
October 27, 2015	Tues-Fri after 4th Fri in October bullish	1-4 days	Bullish			

The Evidence

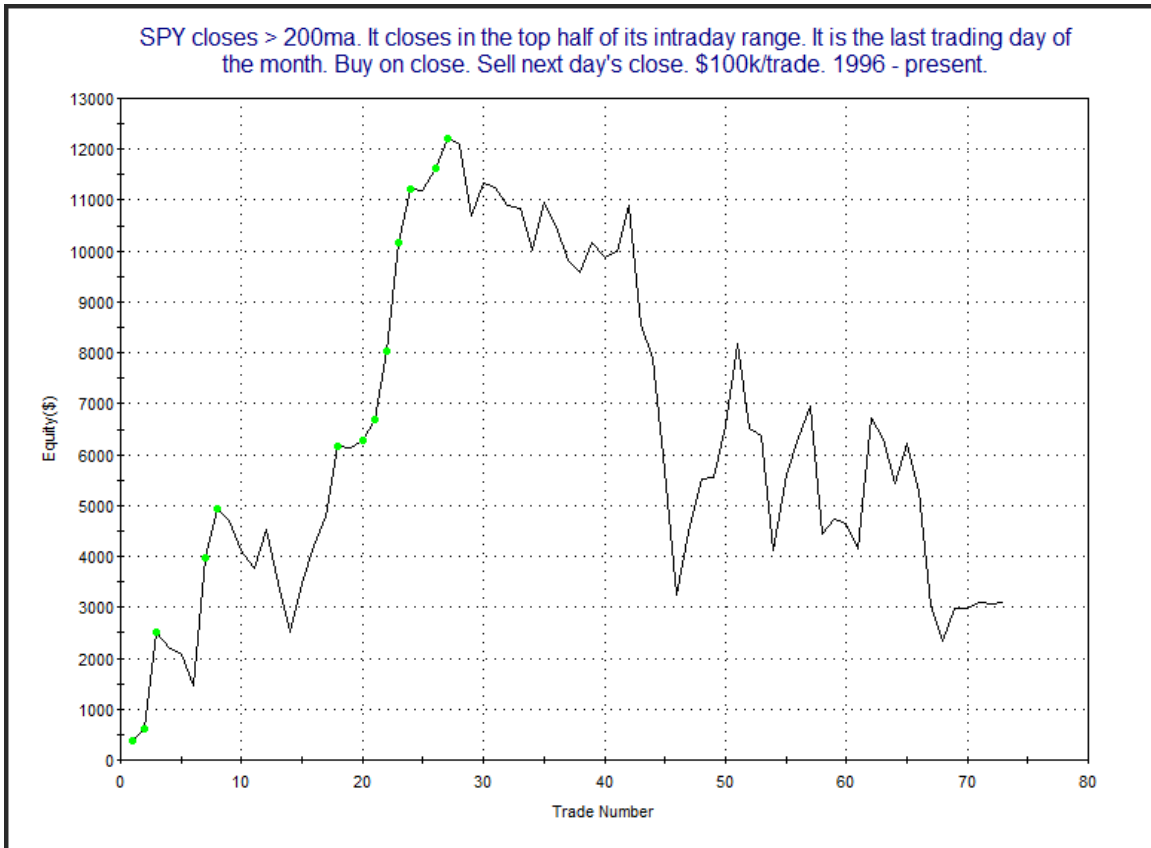
Friday saw moderate losses across the board, with a fair amount of selling coming near the end of the day. The SPX ended down 0.5%, the NASDAQ dropped 0.4%, and the Russell 2000 declined 0.3%. Breadth was mixed as the NYSE Up Issues % came in at 54% and the Up Volume % was 44%. Total NYSE volume rose some from Thursday's level.

With Monday being the first trading day of November a number of seasonality-related studies triggered. I've shown a few times that the 1st of the month bullishness has primarily played out during uptrends. In the 9/2/14 Letter I examined all 1st days of the month when SPY was above its 200ma. I broke them down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the top half of its range on the last day of the month.

SPY closes > 200ma. It closes in the top half of its intraday range. It is the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Collapse ↕			
All Trades			
Total Net Profit	\$3,109.24	Profit Factor	1.11
Gross Profit	\$32,005.51	Gross Loss	(\$28,896.27)
Total Number of Trades	73	Percent Profitable	50.68%
Winning Trades	37	Losing Trades	36
Even Trades	0		
Avg. Trade Net Profit	\$42.59	Ratio Avg. Win:Avg. Loss	1.08
Avg. Winning Trade	\$865.01	Avg. Losing Trade	(\$802.67)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

The numbers here don't suggest any substantial edge. Below is the profit curve.



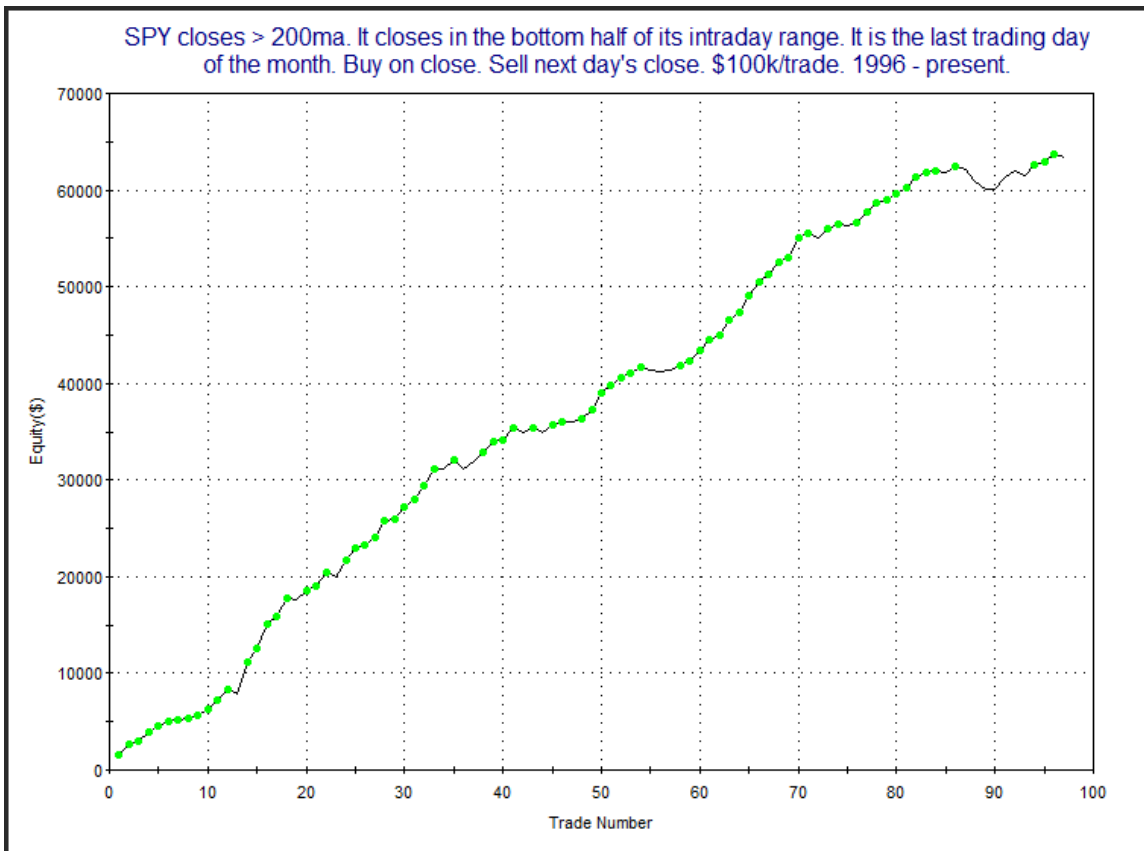
This paints an even bleaker picture.

But now let's look at the stats when SPY closed in the bottom half of its daily range, like Friday. (Stats are updated.)

SPY closes > 200ma. It closes in the bottom half of its intraday range. It is the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$63,327.86	Profit Factor	9.83
Gross Profit	\$70,502.47	Gross Loss	(\$7,174.61)
Total Number of Trades	97	Percent Profitable	80.41%
Winning Trades	78	Losing Trades	19
Even Trades	0		
Avg. Trade Net Profit	\$652.86	Ratio Avg. Win:Avg. Loss	2.39
Avg. Winning Trade	\$903.88	Avg. Losing Trade	(\$377.61)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are very strong. Gains blow away losses in every category. Gross gains are nearly 10x the size of gross losses. And the average win is almost as large as the **largest** loss. That's an impressive stat when you are looking at a sample size of 97 instances. And the profit curve...



That is an impressive looking profit curve as well.

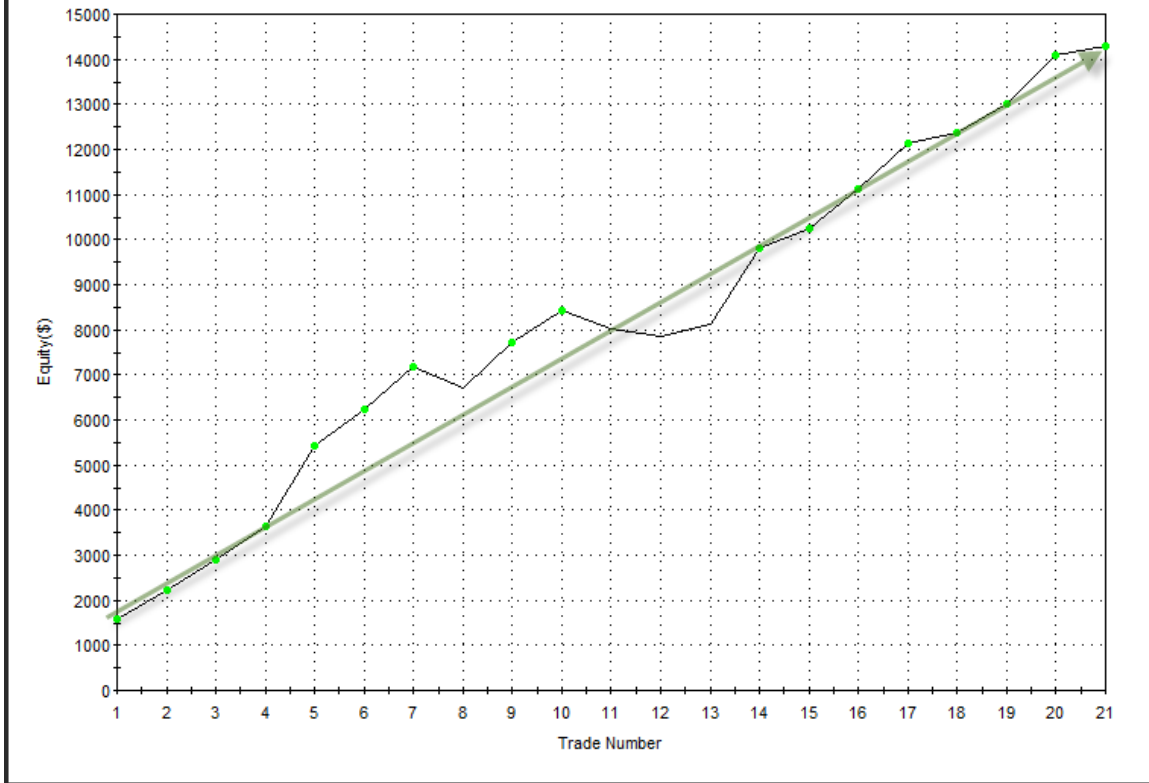
In the 11/1/13 letter I shared a study that showed 2+ down days into the end of a month when the month closed overall positive, was often followed by a rebound. Previously it looked like the rebound might carry out a few days, but recent instances that has not been the case. Still, day one has been strong. Below are results with those added filters.

SPY closes > 200ma. It closes in the bottom half of its intraday range & down the last 2 days, but positive on the month. It is the last trading day of the month. Buy on close.
Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$14,290.57	Profit Factor	14.98
Gross Profit	\$15,312.46	Gross Loss	(\$1,021.89)
Total Number of Trades	21	Percent Profitable	85.71%
Winning Trades	18	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$680.50	Ratio Avg. Win:Avg. Loss	2.50
Avg. Winning Trade	\$850.69	Avg. Losing Trade	(\$340.63)
Largest Winning Trade	\$1,792.50	Largest Losing Trade	(\$471.39)

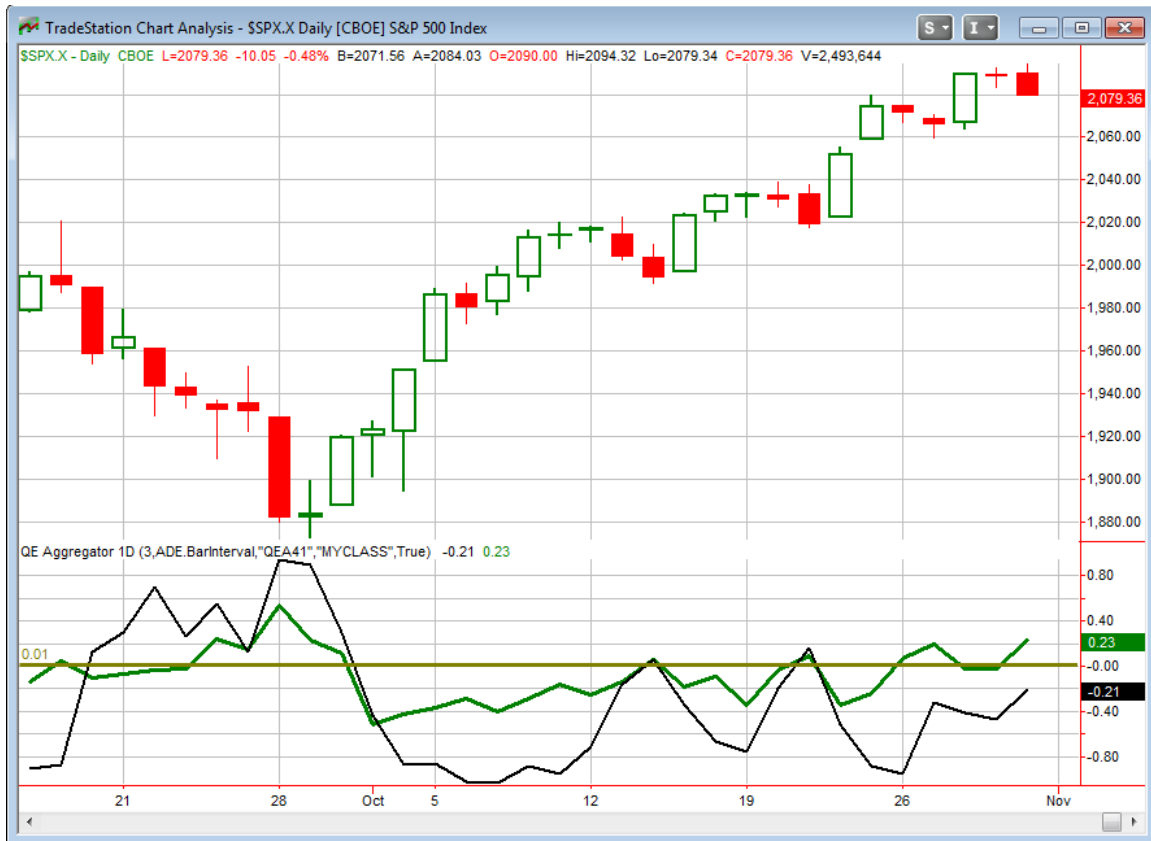
These are the strongest numbers of all. Below is a profit curve.

SPY closes > 200ma. It closes in the bottom half of its intraday range & down the last 2 days, but positive on the month. It is the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.



The solid upslope seems to confirm the bullish edge. I have included this study in the on the Active List tonight.

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



With turn of the month on us the green Aggregator Line moved above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line stayed 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 turned flat at the close.

The last of our current Short-Term Active Studies is set to expire on Monday. So short-term expectations will be highly dependent on any new evidence that emerges. The Differential Pivot will be *inverted* at 2095.46 on Monday. That is 0.8% *above* Friday's close. An inverted pivot means that the Differential Line will cross 0 if SPX closes flat. In this case SPX is going to need to close up at least 0.8% on Monday in order to remain overbought. Otherwise it will be considered oversold versus recent expectations as of Monday's close.

The Aggregator is neutral and so am I. There is a decent chance we could see the market oversold on Monday, with expectations still positive. But I won't get interested at this point until we get a bit more of a pullback. At least down below the 10ma and into the lower part of the recent range. For now I am in "alertly patient" mode.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 11/2 –slightly bullish*

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

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 are all positive.*

Gains this week were mild, as SPX closed up a mere 4 points. There were no new studies of intermediate-term significance that triggered during the week. But seasonality took a positive turn as of Friday’s close.

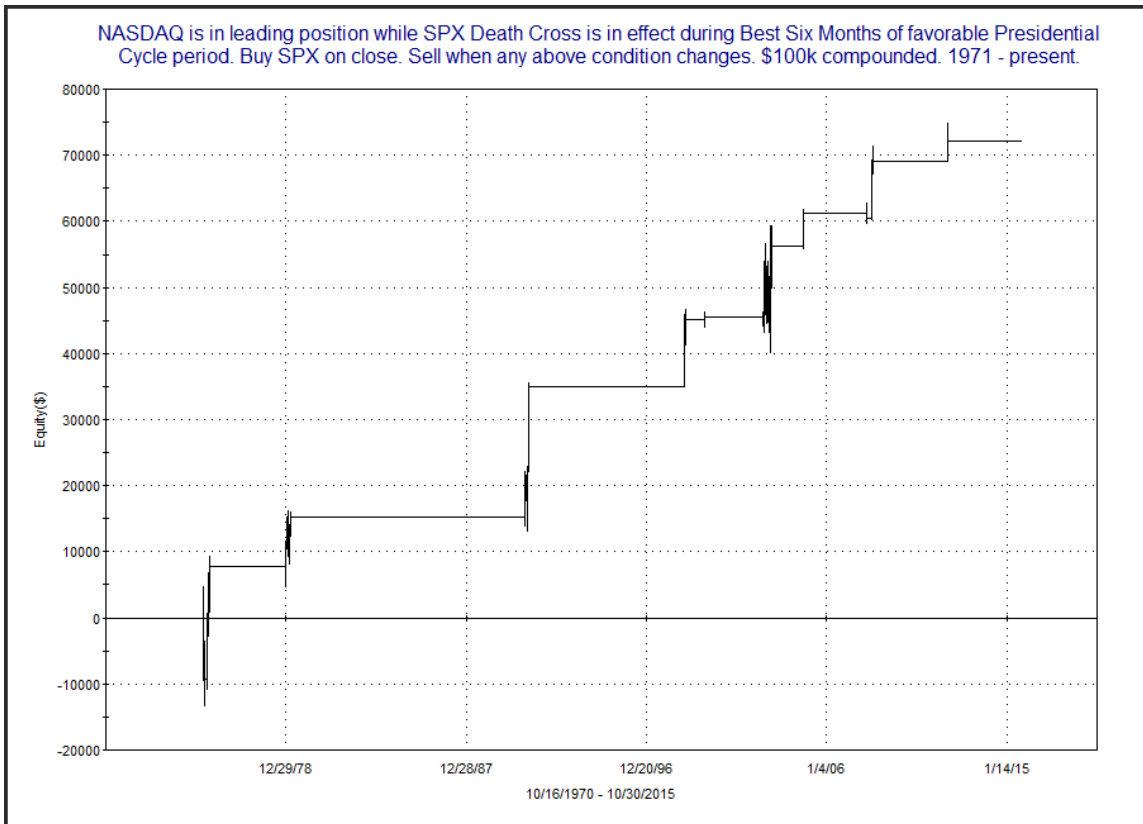
With the calendar now turning to November we are entering the “Best 6 Months” period of November – April. This long-term seasonal tendency is one I detailed in the QE Market Timing Course. Especially bullish about the upcoming 6 months is that it is occurring during the 4th year of a Presidential Cycle. The table below shows performance over this period for each instance going back to 1960.

SPX Performance During "Best 6 Months" of 4th Year of Presidential Cycle.
\$100k/trade. 1960 - 2012.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/31/63	Buy	\$74.01	7.36%	\$9,713.69
04/30/64	Sell	\$79.46		(\$6,120.03)
10/31/67	Buy	\$93.30	4.46%	\$5,687.01
04/30/68	Sell	\$97.46		(\$7,036.47)
10/29/71	Buy	\$94.23	14.26%	\$17,909.68
04/28/72	Sell	\$107.67		(\$5,188.29)
10/31/75	Buy	\$89.04	14.15%	\$17,507.57
04/30/76	Sell	\$101.64		(\$3,245.47)
10/31/79	Buy	\$101.82	4.38%	\$18,068.80
04/30/80	Sell	\$106.28		(\$4,026.20)
10/31/83	Buy	\$163.55	(2.14%)	\$3,635.45
04/30/84	Sell	\$160.05		(\$6,977.62)
10/30/87	Buy	\$251.78	3.79%	\$8,277.45
04/29/88	Sell	\$261.33		(\$12,124.38)
10/31/91	Buy	\$392.44	5.73%	\$7,297.42
04/30/92	Sell	\$414.94		(\$5,354.32)
10/31/95	Buy	\$581.50	12.50%	\$14,146.83
04/30/96	Sell	\$654.18		(\$78.66)
10/29/99	Buy	\$1,362.93	6.57%	\$13,865.62
04/28/00	Sell	\$1,452.43		(\$2,485.65)
10/31/03	Buy	\$1,050.71	5.38%	\$10,689.40
04/30/04	Sell	\$1,107.24		(\$1,853.45)
10/31/07	Buy	\$1,549.35	(10.57%)	\$0.00
04/30/08	Sell	\$1,385.58		(\$18,711.68)
10/31/11	Buy	\$1,253.30	11.54%	\$13,357.32
04/30/12	Sell	\$1,397.91		(\$7,476.56)

As you can see, the performance has been overwhelmingly positive, with 2007 – 2008 being the only really bad one.

I also looked at what happened when strong seasonality was in effect while the NASDAQ was leading (based on our indicator) and the SPX was not in a “Golden Cross” formation. This is the current setup. Below is a profit curve showing how this setup would have performed over the years.

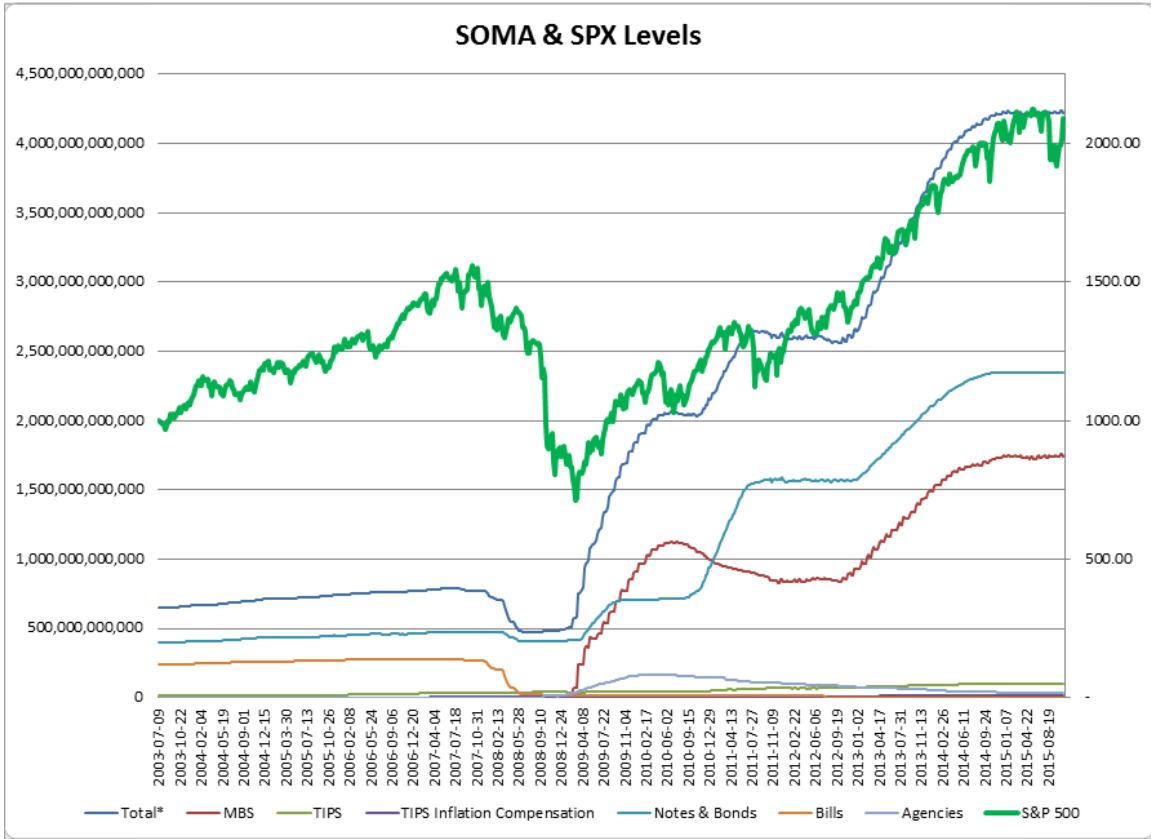


That is an impressive rise, with just a few minor hiccups along the way. The current setup certainly appears bullish based on the formation of our long-term market timing indicators.

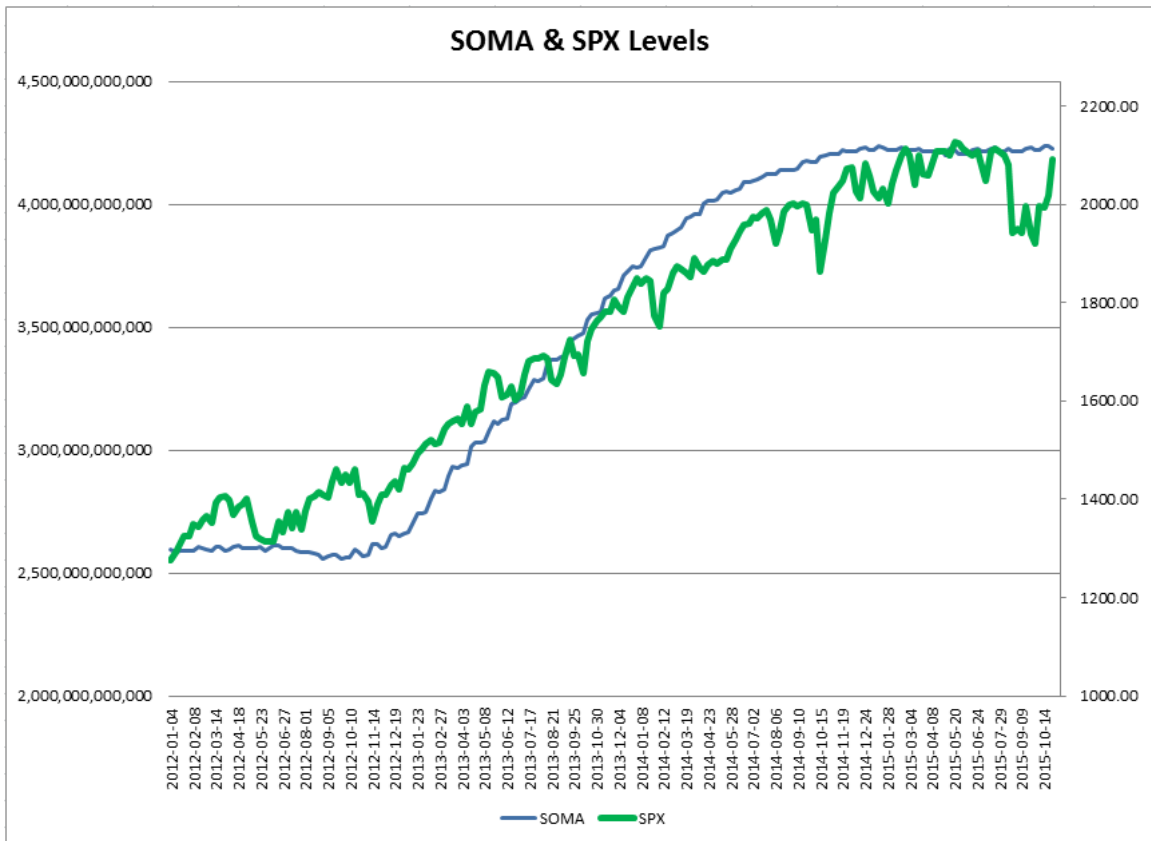
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 appeared to be breaking out 2 weeks ago, as it hit its first new high since January. But the last 2 weeks it has pulled back some. A rising SOMA has supported market gains consistently over the last several years. Flat or declining SOMA readings have led to market struggles. I will continue to keep a close eye to see if the SOMA goes on to new highs (bullish) or whether it continues to fade back into its previous range (bearish).

A couple of bullish breadth studies expired this week, but the Zweig Breadth Thrust study is still active. The Best 6 Months is now in effect, which has been especially bullish during a favorable period of the Presidential Cycle. And with the NASDAQ leading, the bulls seem to have the upper hand. The bears can point to the FTD study from a few weeks ago, the questionable Fed support, and the old breadth divergence study. But that evidence does not appear as strong as the bull case. For now I remain slightly bullish, and will be more aggressive with long trades than short ones.

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.

[None tonight.](#)

Current Open Trade Ideas

None

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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