

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 9, 2015

Volume 8 Issue 216

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Short

## Tonight's Research Points

- The 3-day pullback is showing indications that a bounce is likely.
- SOMA was flat this past week.

## *Short-term Outlook*

### *The Bottom Line*

Expectations are bullish and the market is mildly oversold, but the pullback has still not been very deep and SPX has gone a long time without a decent pullback. I think the bulls have an edge, but I do not think it is a strong edge and would like to see more of a pullback before looking to take advantage of it.

**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>						
November 9, 2015	Dn 3 from 20-high. Small drop today	1-3 days	Bullish	1.70%	0.80%	-1.80%
November 9, 2015	SPY down 3 but top 25% daily range	1 day	Bullish			
<b>Active - Long Term</b>						
November 2, 2015	Best 6 months	Nov-Apr	Bullish			
October 26, 2015	NASDAQ leading SPX	int term	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			
<b>Dropped Tonight</b>						
October 9, 2015	Zweig Breadth Thrust	1-20 days	Bullish			

**The Evidence**

Friday was another day of mixed returns. The SPX closed down less than 1 point while the NASDAQ rose 0.4% and the Russell 2000 closed up 0.8%. Breadth was negative as the NYSE Up Issues % came in at 37% and the Up Volume % was 46%. Total NYSE volume rose some from Thursday's level.

Three-day pullbacks will often suggest an upside edge, depending on certain factors. There were a few factors that seem to point favorably for the current pullback. These include the strong intraday close, the declining intensity, and the fact that is occurring after an intermediate-term high. Let's look at some studies to demonstrate.

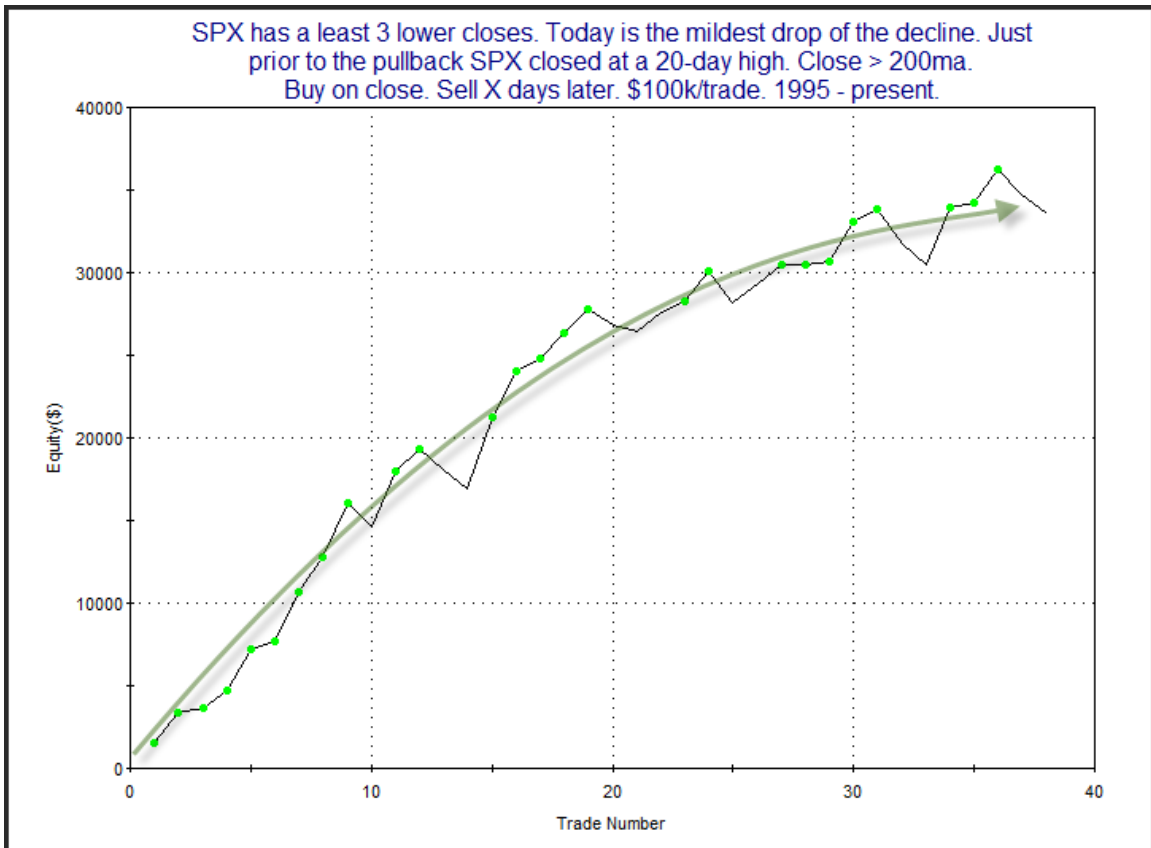
This first study was last seen in the 1/5/15 subscriber letter. It takes into consideration both that the SPX is coming off a 20-day high and that today's drop was the smallest of the decline. This can suggest the sellers are running out of steam. I have updated the stats below.

SPX has a least 3 lower closes. Today is the mildest drop of the decline. Just prior to the pullback SPX closed at a 20-day high. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	47,914.42	36	25	11	69.44	2,520.99	7,183.08	-1,373.68	-7,026.10	1.84	4.17	1,330.96
9	46,527.73	36	26	10	72.22	2,433.83	6,685.72	-1,675.20	-7,816.60	1.45	3.78	1,292.44
8	42,488.30	36	26	10	72.22	2,368.85	6,017.68	-1,910.17	-4,389.40	1.24	3.22	1,180.23
7	34,542.70	37	24	13	64.86	2,378.94	6,121.80	-1,734.76	-3,690.70	1.37	2.53	933.59
6	36,247.89	37	23	14	62.16	2,083.58	5,533.56	-833.89	-1,803.70	2.50	4.10	979.67
5	33,913.61	38	26	12	68.42	1,869.18	5,769.16	-1,223.76	-3,304.80	1.53	3.31	892.46
4	33,509.65	38	23	15	60.53	2,023.05	4,989.40	-868.03	-2,876.40	2.33	3.57	881.83
3	33,547.63	38	28	10	73.68	1,671.72	4,373.80	-1,326.06	-2,085.27	1.26	3.53	882.83
2	24,159.52	39	28	11	71.79	1,369.92	3,583.44	-1,290.76	-2,803.79	1.06	2.70	619.47
1	9,607.98	42	29	12	69.05	770.67	1,767.00	-1,061.79	-2,214.00	0.73	1.75	228.76

**Only 3 instances failed to close above the entry price at some point in the next week. They triggered on 7/22/98, 4/8/12 & 6/26/15.**

Here we see what appears to be a reliable setup with some powerful results. A 3-day profit curve can be found below.



While the last 2 instances have caused the curve to fade a little, it still appears quite strong. I have added this study to the Active List for tonight.

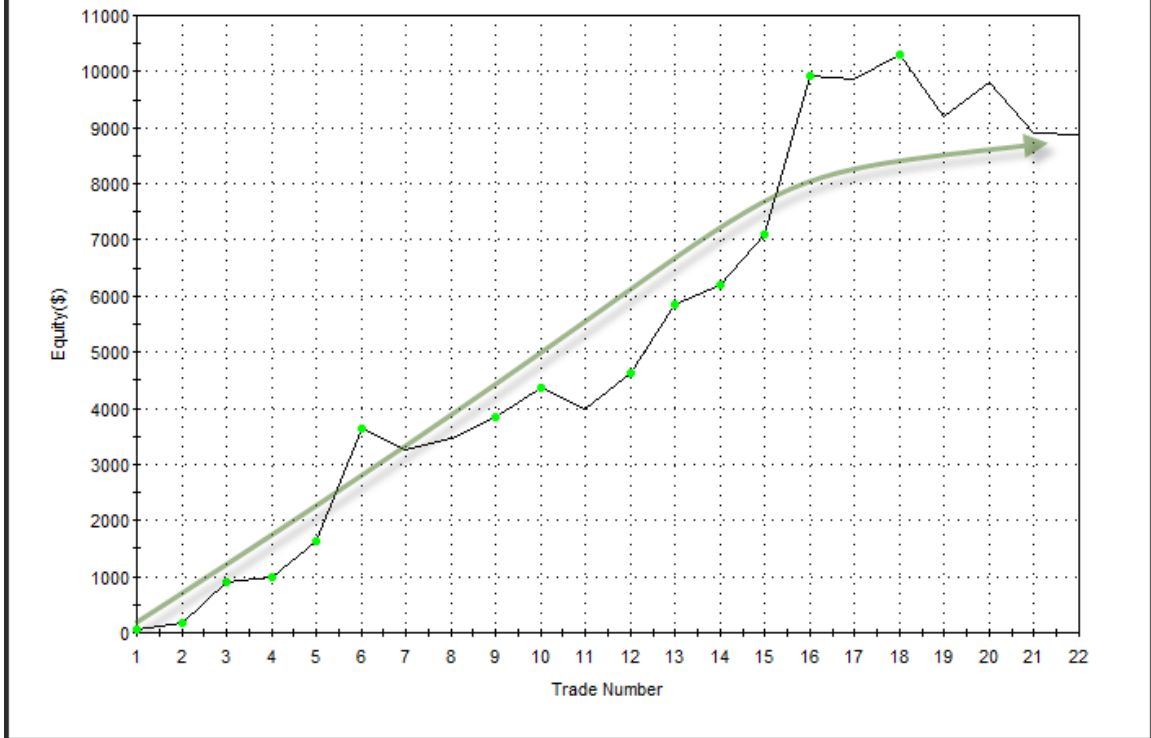
The next study noted that the market closed down but still enjoyed an intraday reversal. In the 1/15/15 letter I combined the multi-day pullback concept with the fact that the market saw a relatively strong close. Below are updated results of that study.

SPY closes down for at least the 3rd day in a row. Today's close is in the top 25% of the intraday range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$8,866.53	Profit Factor	4.12
Gross Profit	\$11,704.42	Gross Loss	(\$2,837.89)
Total Number of Trades	22	Percent Profitable	72.73%
Winning Trades	16	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$403.02	Ratio Avg. Win:Avg. Loss	1.55
Avg. Winning Trade	\$731.53	Avg. Losing Trade	(\$472.98)
Largest Winning Trade	\$2,818.20	Largest Losing Trade	(\$1,080.18)

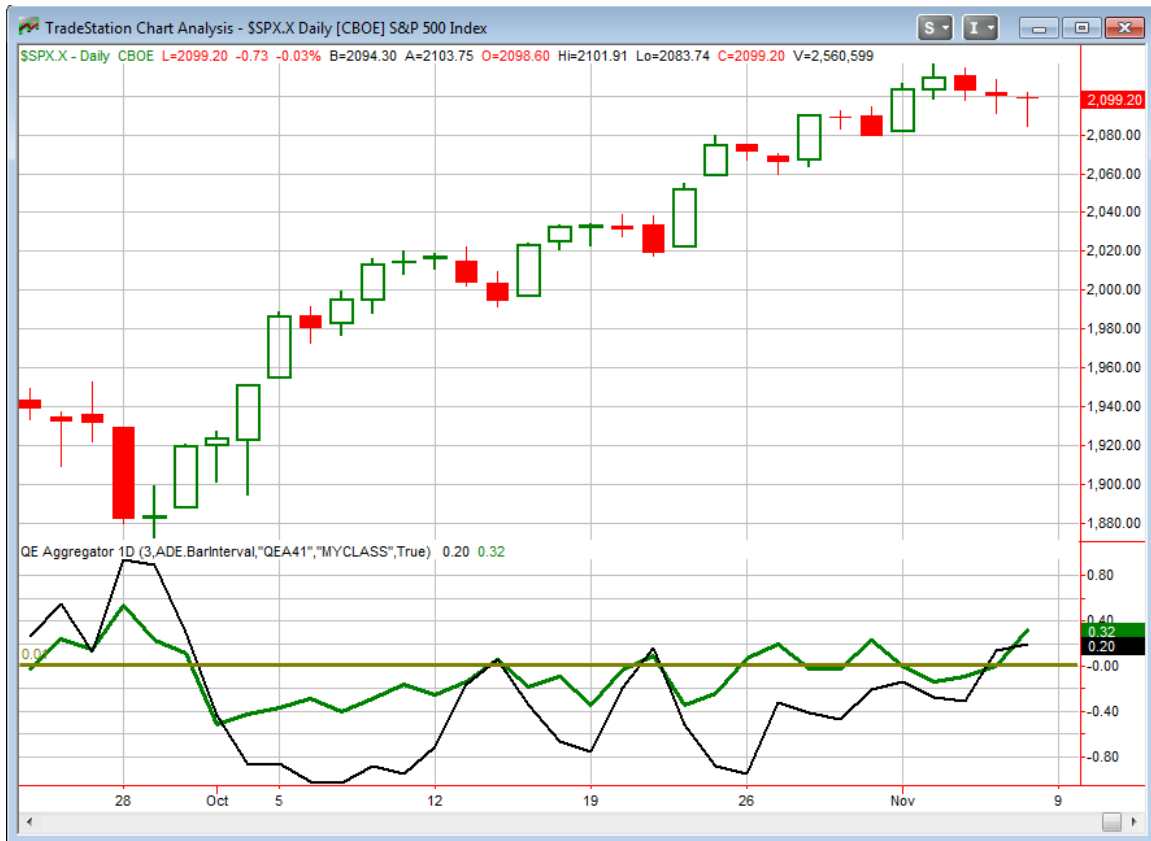
The stats here are strongly bullish. Not only is there a high percentage of winners, but the average win was 55% greater than the average loss. This made for a very large profit factor of over 4 and a good-sized average trade. I have also produced a profit curve.

SPY closes down for at least the 3rd day in a row. Today's close is in the top 25% of the intraday range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.



Three of the last four instances have failed to make gains. But the overall curve and numbers appear too strong to throw this one out just yet. I have added this study to tonight's Active List.

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



With tonight's studies taken into account 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 also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal stayed long at the close.

Expectations are set to remain bullish on Monday based on the current active studies. Of course this could change if new bearish evidence emerges. The Differential Pivot will be *inverted at 2097.55* on Monday. That is 0.1% *below* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close down at least 0.1% in order to remain oversold. Any flat or up close will cause it to turn overbought versus recent expectations.

I generally do not view inverted pivots as opportune times to take on new exposure. This is because they limit potential reward. With the current setup, while the expectation is for a rise, any up close would cause the Aggregator formation to change to either neutral or bearish. There is no opportunity to be right and ride the winner for more than 1 day. Of course the Aggregator formation could remain bullish if the market closed down.

Reward is quite limited, but risk is not. So I may look to get long on Monday, but only if we close down. And as I noted in the Thursday night subscriber letter, it has been over five weeks now since SPY closed below its 10ma. It is overdue for a deeper pullback. So I will not only demand a mild down close, but I want it to be below the 10ma as well. Otherwise, I will wait for a more favorable reward/risk opportunity to arise before putting capital at risk.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/9 –slightly bullish***

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

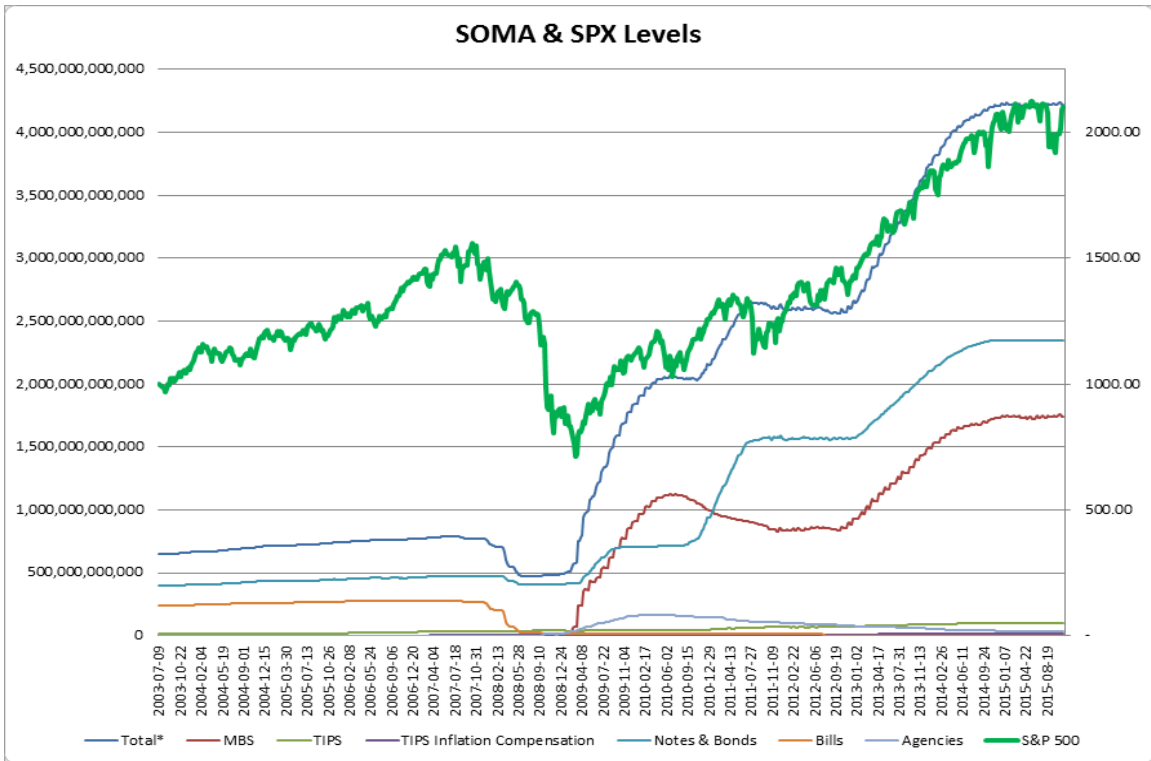
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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.) *There were no changes this week and the combo systems are all still positive.*

This past week marked the 6<sup>th</sup> in a row for SPX to close higher. It managed to gain about 1% despite pulling back the last 3 days. From an intermediate-term standpoint there were no new studies that emerged.

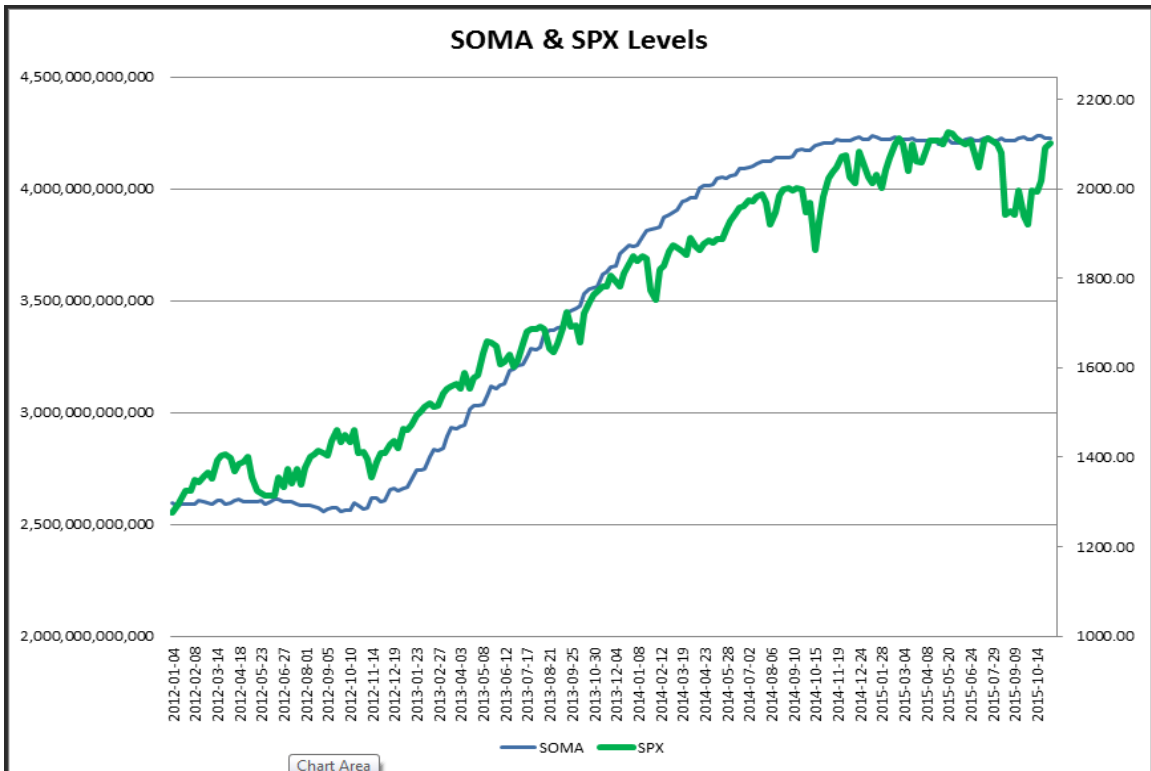
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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 total basically remained flat this past week, with a rise of less than 0.01%. A few weeks ago the SOMA appeared to be breaking out, as it hit its first new high since January. But there has been no upside follow through over the last 3 weeks. 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).

The Zweig Breadth study from a few weeks ago has now expired, which is reducing bullish evidence a little. Still, with intermediate-term seasonality favorable, the NASDAQ leading, and the market nearing new highs, 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.*

***SPY – buy ¼ index position @ \$209.35 LIMIT ON CLOSE.*** Based on the short-term outlook above, I will look to start scaling into a long position if SPY closes down and below its 10ma on Monday.

### **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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