

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 23, 2015

Volume 8 Issue 226

Market Overview



Signals Overview

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

Tonight's Research Points

- Thanksgiving week has been seasonally bullish
- When the VIX moves from 10% above the 10ma to 10% below the 10ma in less than a week it has been typically followed by gains.
- SOMA increased this past week and it not far from new highs.

Short-term Outlook

The Bottom Line

I am seeing some evidence that the market is set to rise over the next week or so. But it is a bit overbought at this point, making a new entry somewhat risky. The leaves me overall neutral and awaiting a better setup.

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 23, 2015	VIX 10% above 10ma to 10% below	1-8 days	Bullish	2.40%	-1.10%	-2.20%
Active - Long Term						
November 10, 2015	1st close < 10ma in 25 days	1-20 days	Bullish			
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			
Dropped Tonight						
November 16, 2015	Unfilled gap down 2x. Close < 200ma	1-5 days	Bullish			

The Evidence

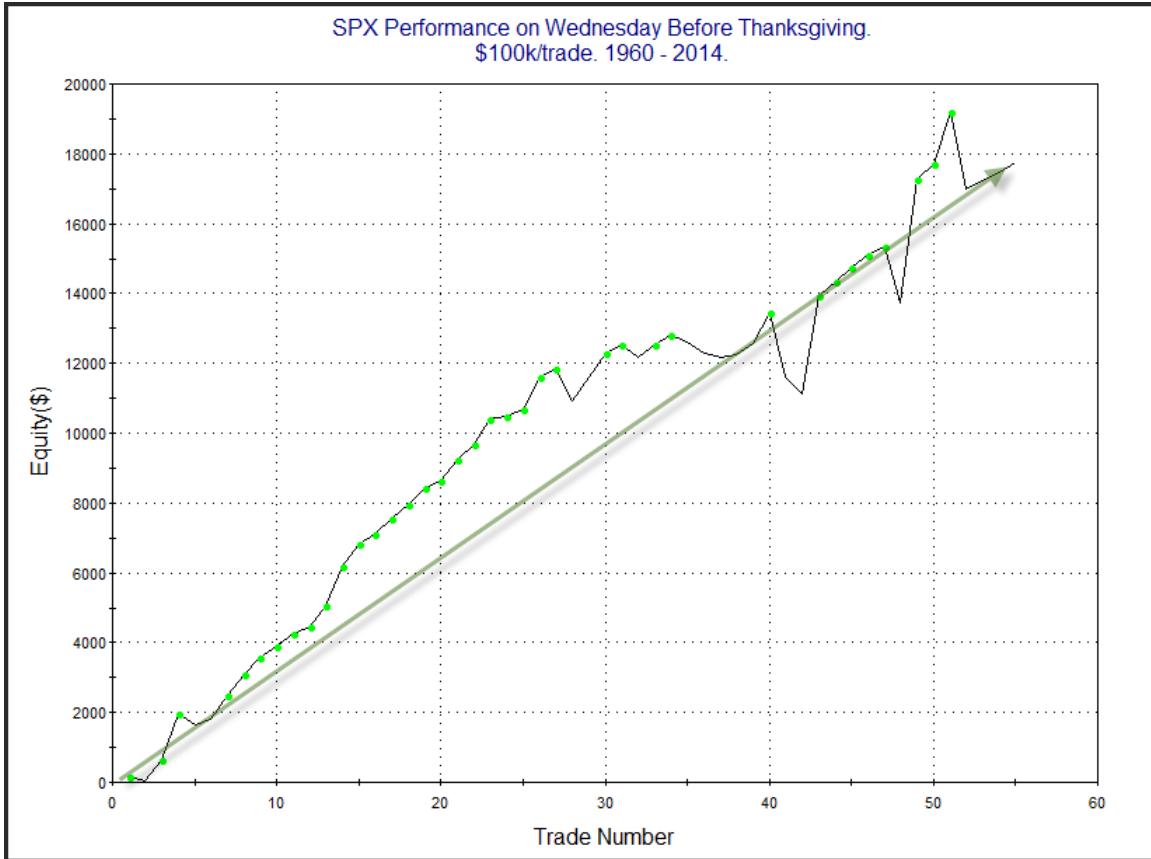
Friday was a pretty good day for the bulls. The SPX gained 0.4%, the NASDAQ rose 0.6% and the Russell 2000 rallied 0.7%. Breadth was mixed though as the NYSE Up Issues % came in at 60% and the Up Volume % was 49%. Total NYSE volume came in high as it normally does on opex Friday.

Thanksgiving week has shown some strong seasonal tendencies over the years. This is something I last showed in the 11/24/14 subscriber letter. I have re-run those studies and updated them below.

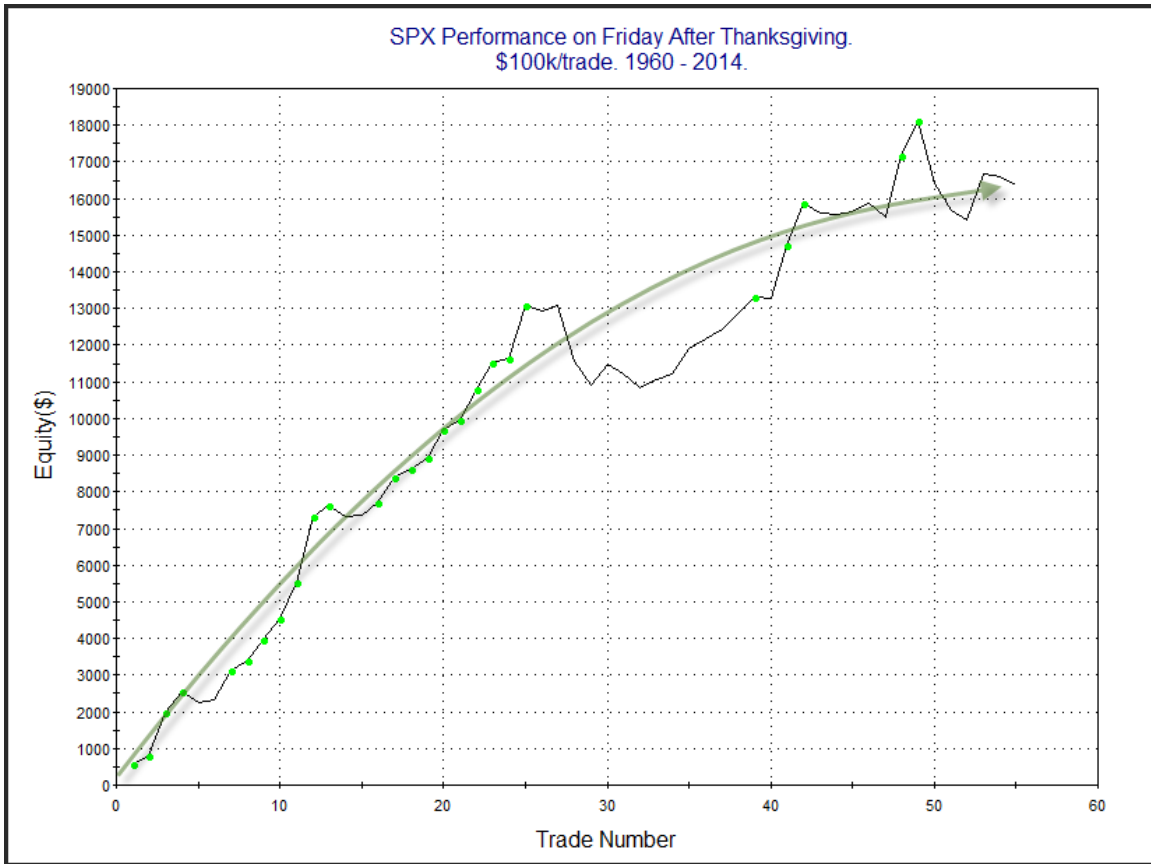
This first one breaks down performance during Thanksgiving week by day.

Thanksgiving Week Performance Broken Down By Day Of Week. Based on \$100k/trade in SPX. 1960 - 2014.												
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
Mon After	-20,080.83	55	20	35	36.36	911.59	2,913.68	-1,094.65	-8,883.33	0.83	0.48	-365.11
Fri	16,358.46	55	39	16	70.91	610.16	1,782.27	-464.87	-1,721.70	1.31	3.20	297.43
Wed	17,742.53	55	44	11	80.00	596.48	3,513.64	-772.95	-2,205.00	0.77	3.09	322.59
Tues	2,130.65	55	32	23	58.18	579.33	1,581.95	-713.38	-2,093.99	0.81	1.13	38.74
Mon	2,700.31	55	25	30	45.45	1,077.07	6,420.72	-807.55	-3,049.54	1.33	1.11	49.10

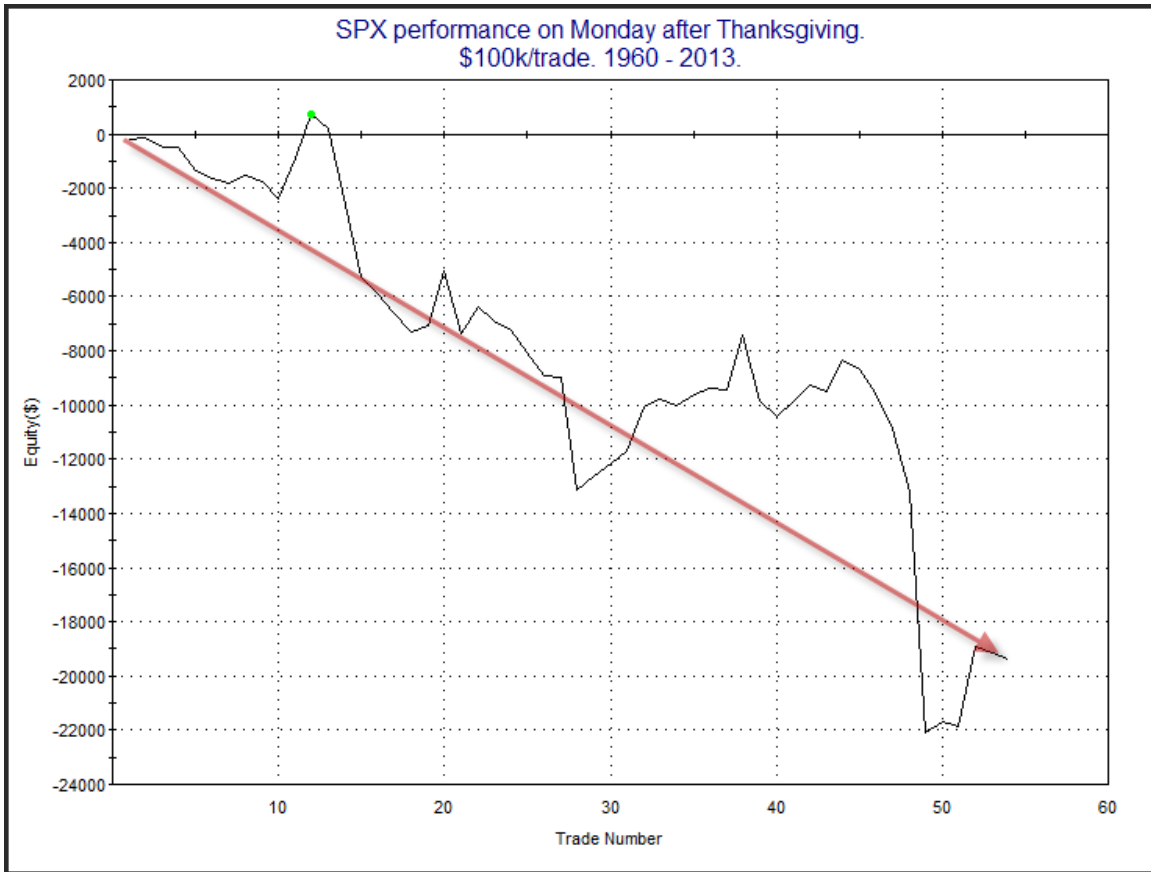
Monday and Tuesday don't show anything suggesting an edge. Wednesday and Friday, on the other hand, appear to be strongly bullish. And the Monday after Thanksgiving appears to exhibit a possible bearish edge. But before we jump to conclusions, let's examine the profit curves for Wednesday, Friday, and the following Monday. First below is Wednesday.



This curve looks to be strong. While there were a few bad Wednesdays, they were overwhelmed by the good ones. The next chart looks at Fridays after Thanksgiving.



This curve doesn't appear quite as strong as the Wednesday curve. Still, the general upslope still appears to be intact. To me it appears both Wednesday and Friday contain a seasonal upside edge. Now let's look at what has happened on the Monday after Thanksgiving.



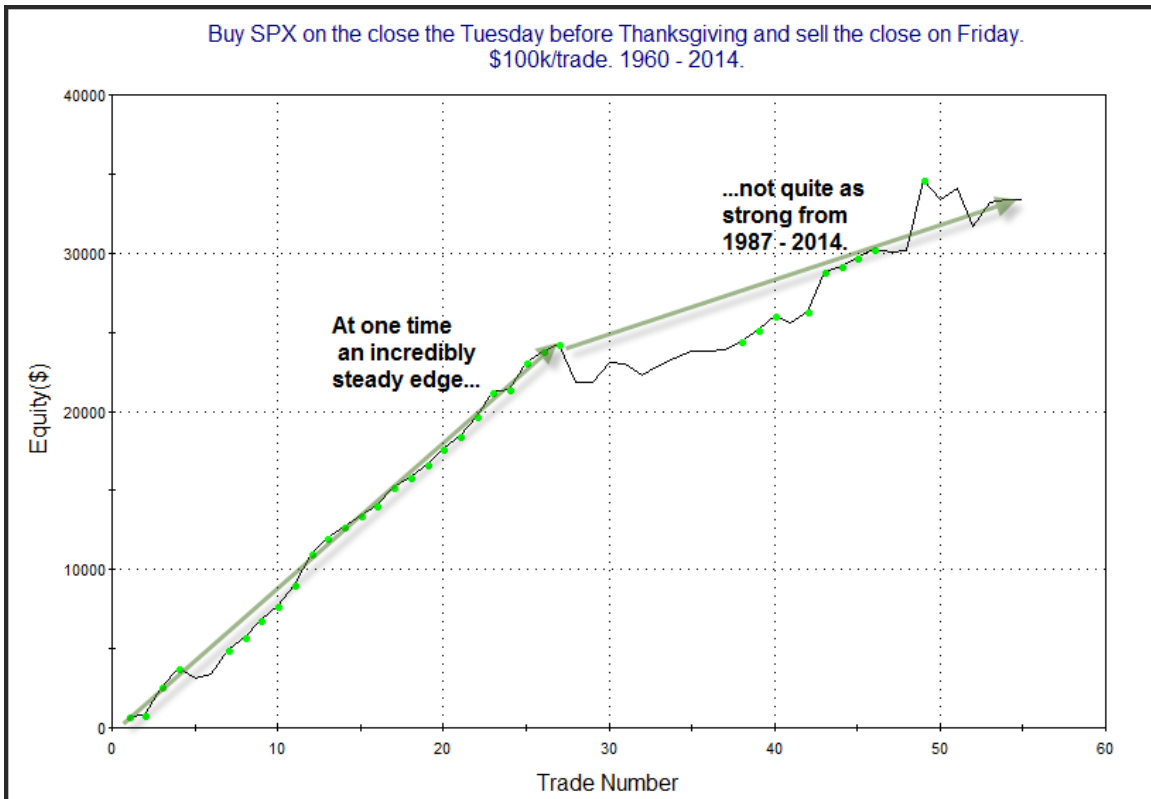
The numbers from the results table were extremely negative, but as you can see the downside edge has not been steady at all. While the trend has been down pretty much the entire time, a large portion of the downside move is thanks to a 9% drop in 2008. This suggests a seasonal downside edge does exist, but it is perhaps not as strong as the raw numbers would suggest.

With Wednesday and Friday both showing seasonal strength an obvious play would be to buy on Tuesday's close, and then sell at Friday's close. This strategy was first suggested by Yale Hirsch many years ago. I looked at it last year and have updated the results again below.

Buy SPX on the close the Tuesday before Thanksgiving and sell the close on Friday.
\$100k/trade. 1960 - 2014.

TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$33,390.83	Profit Factor	5.05
Gross Profit	\$41,627.85	Gross Loss	(\$8,237.02)
Total Number of Trades	55	Percent Profitable	83.64%
Winning Trades	46	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$607.11	Ratio Avg. Win:Avg. Loss	0.99
Avg. Winning Trade	\$904.95	Avg. Losing Trade	(\$915.22)
Largest Winning Trade	\$4,506.60	Largest Losing Trade	(\$2,467.08)
Max. Consecutive Winning Trades	22	Max. Consecutive Losing Trades	2

As you can see the numbers are extremely strong. Below is an equity curve.



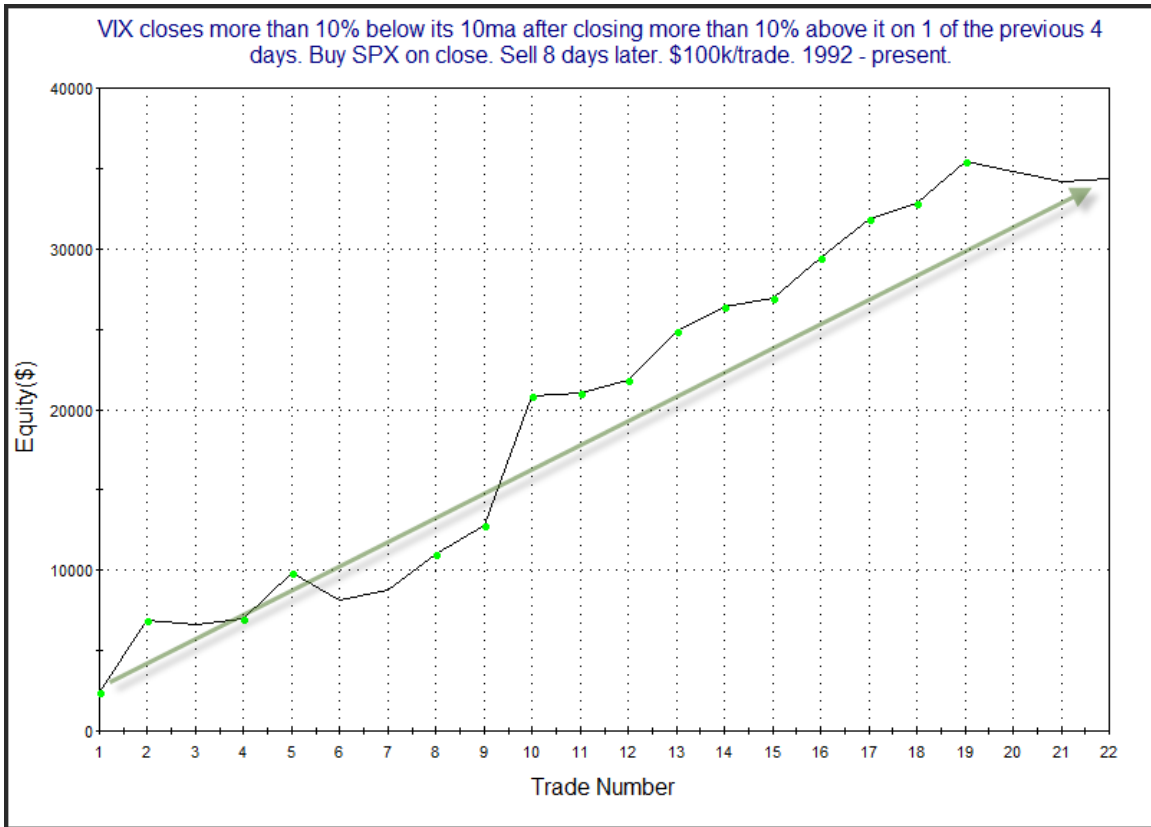
From 1960 through 1986 this trade would've worked fantastically. There was only one year during this period when it would have failed to make money. From 1987 to the present it has continued to do well, but not to the same degree as it had before. There have in fact

been seven losing years over this time period. Still, the curve looks nicely positive and traders could consider a trade along these lines if other indicators also seem to be lining up.

After closing at 18.84 on Tuesday, the VIX closed Friday at 15.47. The VIX is a measure of expected volatility in the market, and it tends to move up and down counter to the SPX. The Quantifinder study below considered the sharp drop in the VIX over the last few days after previously being extended upwards. It was last seen in the 7/14/15 subscriber letter. The results are updated.

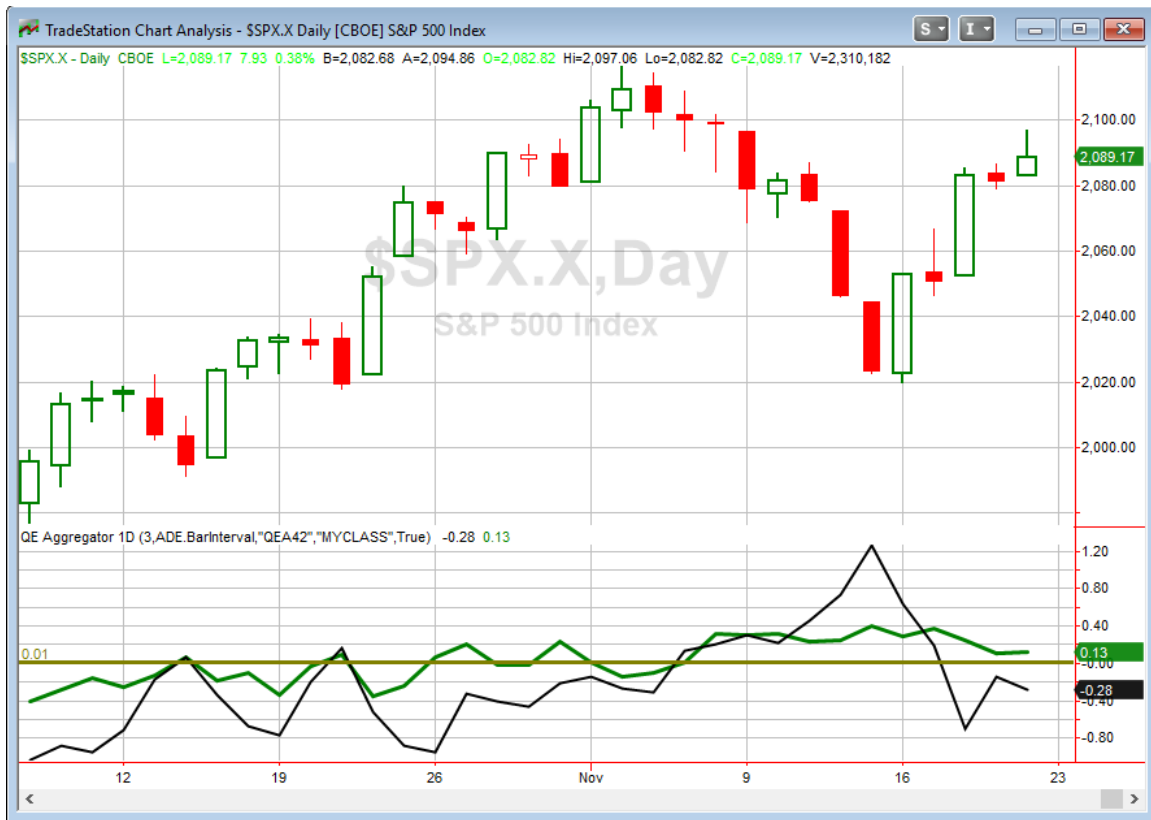
VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. Buy SPX on close. Sell X days later. \$100k/trade. 1992 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	29,180.70	22	16	6	72.73	2,575.93	8,115.80	-2,005.71	-3,412.50	1.28	3.42	1,326.40
9	29,546.68	22	15	7	68.18	2,439.11	8,397.40	-1,005.71	-2,403.36	2.43	5.20	1,343.03
8	34,332.14	22	18	4	81.82	2,082.54	8,076.20	-788.39	-1,733.94	2.64	11.89	1,560.55
7	31,045.74	22	17	5	77.27	2,130.84	7,749.50	-1,035.70	-2,030.40	2.06	7.00	1,411.17
6	27,166.94	22	16	6	72.73	2,092.99	5,305.30	-1,053.48	-3,271.68	1.99	5.30	1,234.86
5	26,640.17	22	15	7	68.18	2,151.97	5,361.40	-805.63	-2,011.20	2.67	5.72	1,210.92
4	15,841.73	22	17	5	77.27	1,431.63	4,981.90	-1,699.19	-2,927.52	0.84	2.86	720.08
3	9,650.42	23	15	8	65.22	1,123.08	3,799.40	-899.48	-1,683.22	1.25	2.34	419.58
2	7,948.81	23	13	10	56.52	1,058.42	3,839.00	-581.07	-1,767.90	1.82	2.37	345.60
1	6,636.39	23	14	9	60.87	727.09	2,952.40	-393.65	-1,582.62	1.85	2.87	288.54
1/22/15 marked the only instance where SPX failed to close above its entry price at some point in the next 4 days.												

The market condition that would typically accompany such VIX movement is one where you see a strong rebound from a sharp decline during a long-term uptrend. Results appear especially strong and consistent between days 4 and 8. Below I have provided the profit curve assuming an 8 day holding period.



Despite recent struggles this curve appears very strong and steady. It seems to support the idea of an upside edge. I have included this study on the Active List tonight.

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



With tonight's studies considered the green Aggregator Line again held above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained below zero. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is short-term 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 stayed flat at the close.

Based on the current studies evidence is set to remain positive on Monday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be *inverted at 2102.52* on Monday. That is 0.6% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case SPX is going to need to close up at least 0.6% in order to remain overbought. Otherwise it will be considered "oversold" versus recent short term expectations as of Monday's close.

Evidence appears bullish and seasonality is set to help out further in a few days. I don't see myself shorting any time this upcoming week. If there is some selling on Monday and/or Tuesday that could very well get me interested in the long side. But I am getting little ahead of myself there. For now, I simply intend to wait and remain alert for the next favorable opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/23 –slightly bullish

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

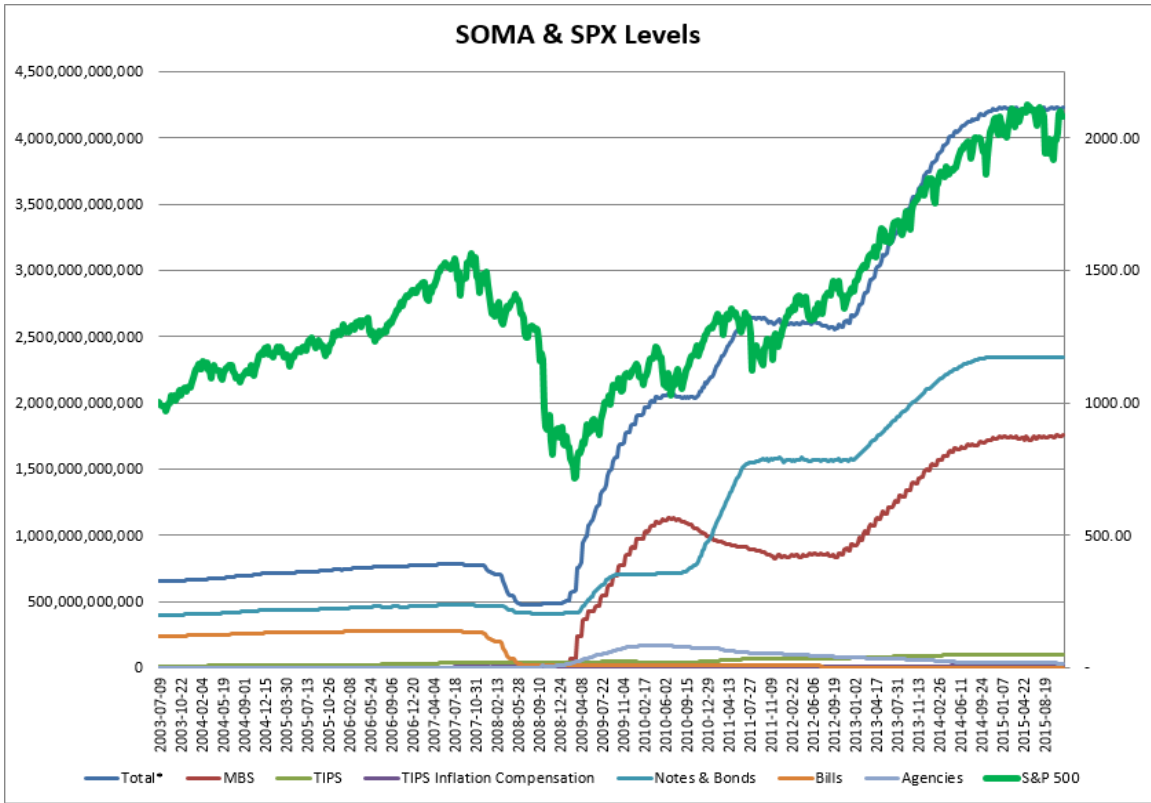
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The market put in a strong week this past week as SPX gained 3.3%, making up for most of the previous week’s losses. But the solid gains did not manage to generate any substantial intermediate-term studies.

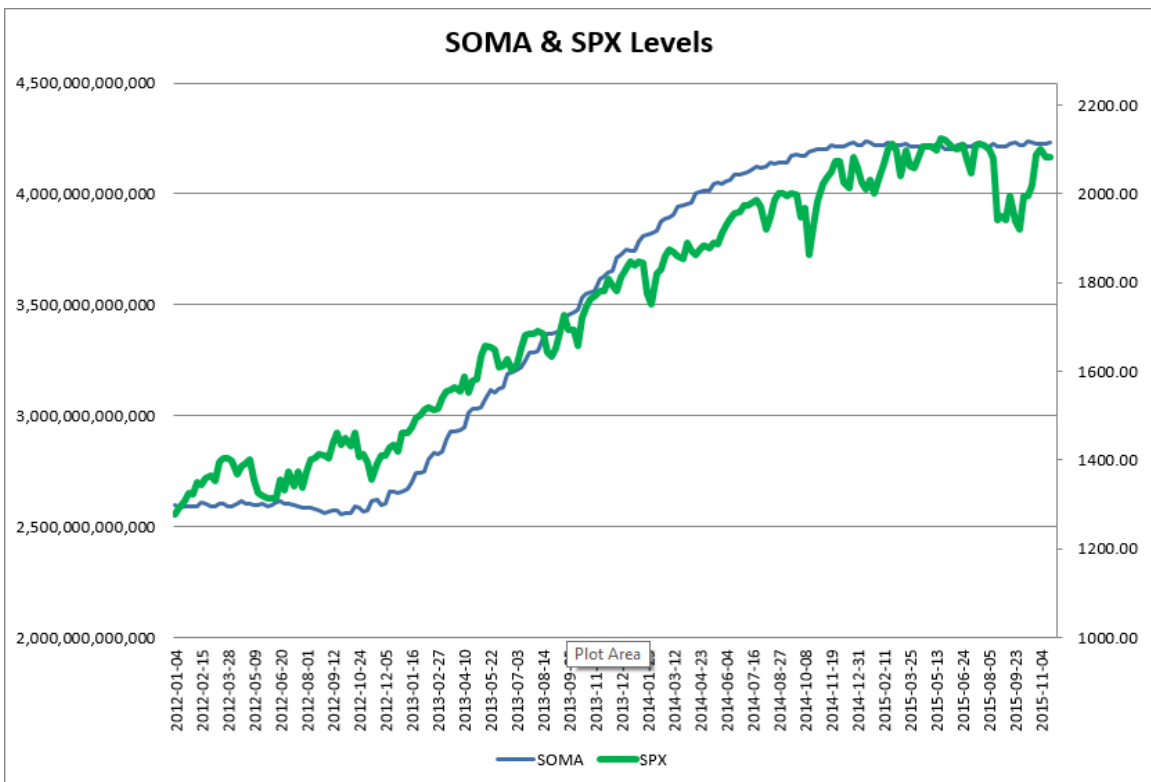
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



After two weeks of flat readings the SOMA popped up a bit this past week. It is not too far from its October highs. A break back above there would suggest Fed liquidity is positive and that would be good news for the stock market. But flat or declining SOMA readings over the last few years have led to market struggles. So it will be important to watch. 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).

Intermediate-term indications remain split. Intermediate-term seasonality remains favorable and the NASDAQ is still leading, so the Market Timing Course indicators remain mostly bullish. And the persistency study from the 11/10 letter also suggests more upside. The bears can point to the FTD study from a while back, the questionable Fed support, and the old breadth divergence study. Overall, I still think evidence tilts just slightly in favor of the bulls. For now I remain slightly bullish. I will be marginally more aggressive with long trades than shorts, but I am willing to trade both sides of the market if good short-term setups emerge.

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

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