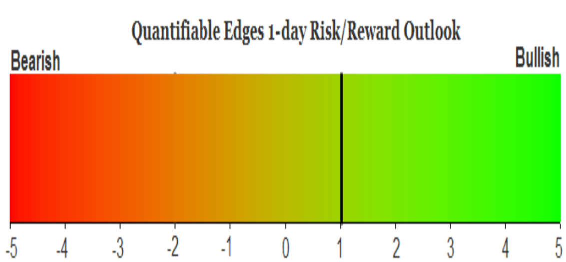
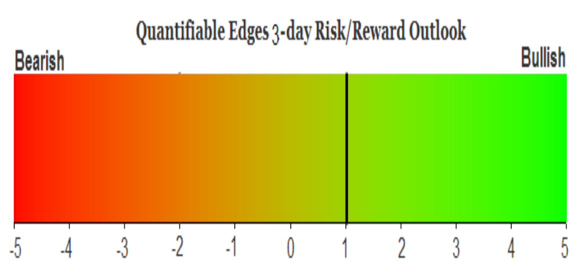
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 7, 2015 Volume 8 Issue 235

Market Overview





Signals Overview

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

Tonight's Research Points

- The bounce on Friday might have been too strong for a good chance at a continuation.
- The SOMA barely budged this past week. Increases are needed to support the bull case.

Short-term Outlook

The Bottom Line

Evidence is again leaning bullish, and despite the strong move up on Friday the market is still not overbought as measured by the Differential Line. This suggests a continued bullish edge – though perhaps not a very low risk entry.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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						
December 4, 2015	Up Issue % < 33.3% 2 days in row	1-2 days	Bullish			
December 3, 2015	10-high to 10-low in 1 day	1-3 days	Bearish			
December 3, 2015	5-day low bottom 10% of range	1-5 days	Bullish			
December 1, 2015	3 hi-3 low 3 low close	1-5 days	Bullish	2.10%	-1.30%	-2.70%
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			

The Evidence

Friday was a big rally day for the market. The SPX rose 2.1%, the NASDAQ gained 2.1%, and the Russell 2000 closed up 1.1%. Breadth was positive as the NYSE Up Issues % came in at 64% and the Up Volume % was 65%. Total NYSE volume declined from Thursday's level.

Friday's rally was interesting in that it came after a short-term low, contained an unfilled up-gap, and rose further between the open and the close. In the 1/8/15 letter I looked at other times where this occurred. I found that there has been a substantial difference in the results based on whether the day closed above or below the 10ma. First let's look at times (unlike now) when SPY closed below its 10ma.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. Buy on close. Sell X days later. $100k/trade. 1993 - 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	21,470.89	26	20	6	76.92	1,330.61	4,106.63	-856.89	-1,949.70	1.55	5.18	825.80
4	21,641.89	26	18	8	69.23	1,558.58	3,904.83	-801.57	-2,096.99	1.94	4.37	832.38
3	15,015.04	27	17	10	62.96	1,315.35	3,914.92	-734.60	-1,874.00	1.79	3.04	556.11
2	10,589.29	27	17	10	62.96	1,205.67	2,828.00	-990.70	-2,183.21	1.22	2.07	392.20
1	1,999.25	27	14	12	51.85	866.82	1,773.46	-844.68	-2,895.33	1.03	1.20	74.05

All 27 instances closed above the entry price at some point in the next week.

These results suggest a strong bullish inclination with the above setup. But SPY closed ABOVE its 10ma on Friday. Let's see how results are impacted when that one filter has flipped.

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5	-2,570.65	14	7	7	50.00	777.28	1,647.78	-1,144.51	-2,249.52	0.68	0.68	-183.62
4	-1,001.34	14	7	7	50.00	679.37	1,903.47	-822.42	-1,769.04	0.83	0.83	-71.52
3	-2,903.03	14	7	7	50.00	583.23	1,393.05	-997.95	-2,475.20	0.58	0.58	-207.36
2	-798.01	14	8	6	57.14	579.64	1,325.28	-905.86	-2,293.20	0.64	0.85	-57.00
1	-2,929.07	14	7	7	50.00	478.47	949.00	-896.91	-2,591.68	0.53	0.53	-209.22

As you can clearly see, instances like this did not provide a reliable upside edge. Part of the reason for this is likely that such strong bounces work off the oversold condition that may have been partially responsible for creating the upside edge.

Unfortunately, this is the setup that SPY is in right now. And no other studies emerged suggesting a compelling edge. So nothing new will be added to the Active List tonight.

I have updated the Aggregator chart below.

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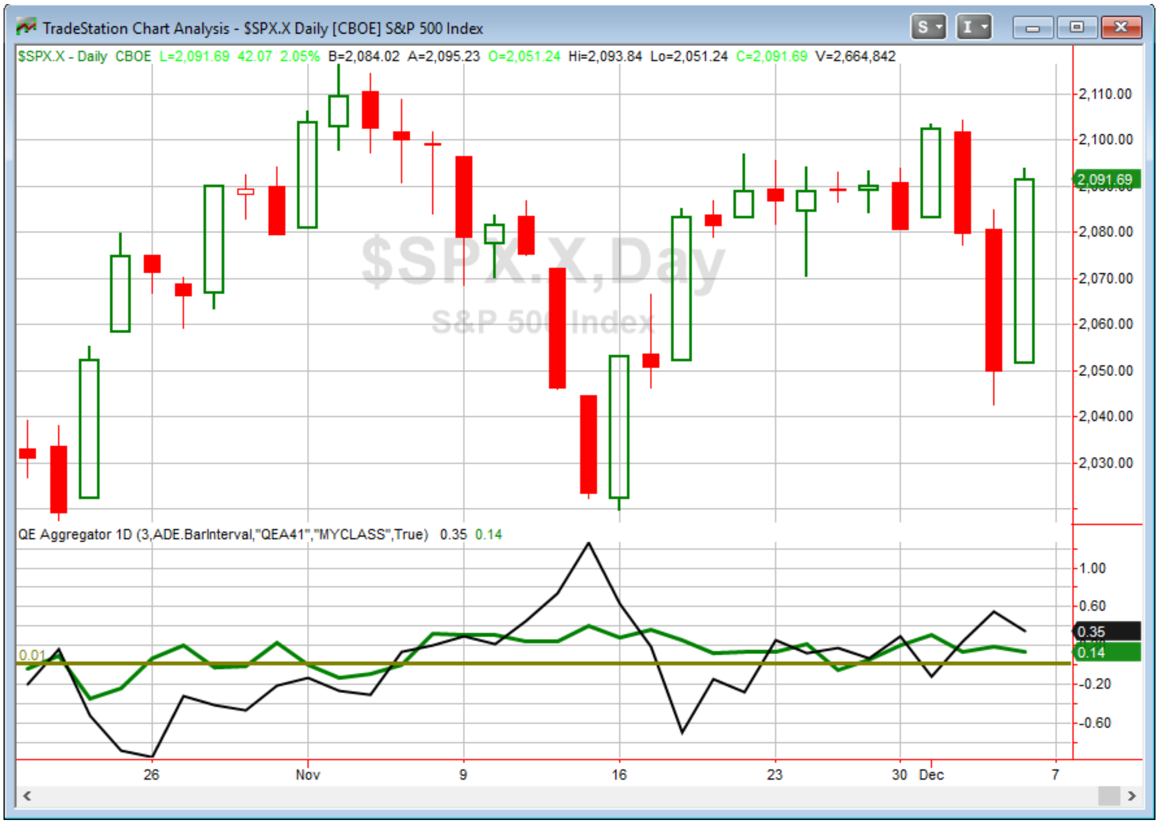


Without anything new being added tonight the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also still above zero. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is short-term 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.

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 2092.41 on Monday. That is less than 1 point above Friday's close. So SPX will be considered "oversold" on any down close and "overbought" on just about any up close.

The Aggregator is still suggesting more of a bounce here. If I was long, I would likely be looking to hold a little longer and go for more gains. But the unfilled gap up kept me from getting into a position on Friday. As we saw in tonight's studies, the strong move up on Friday may have exhausted a good portion of the upside edge. So I am not inclined to get involved here. I will instead see what happens on Monday while I await a better reward/risk entry point.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/7 –slightly bullish

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

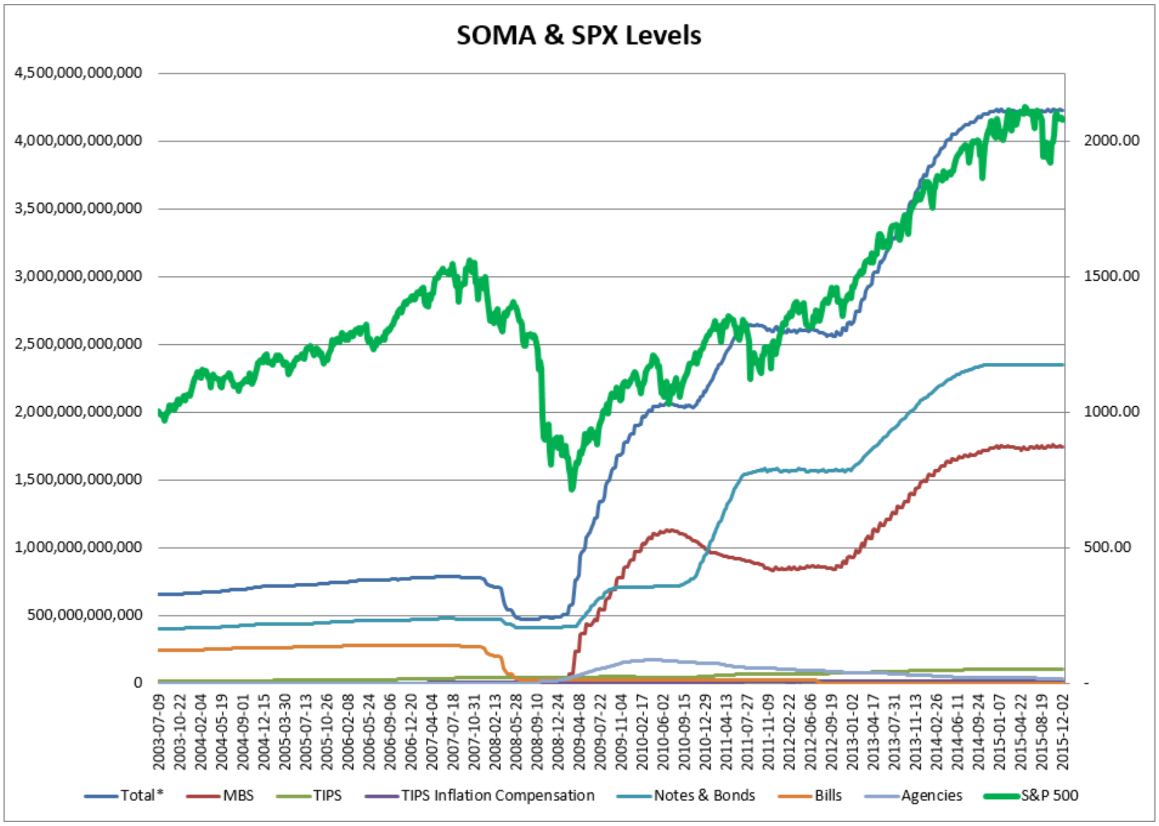
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which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

While the market traded in a wide range this past week, the end result was nearly flat for the 2nd week in a row. SPX finished up just over 1 point versus the previous Friday. And despite the back and forth nothing new and compelling triggered from an intermediate-term standpoint.

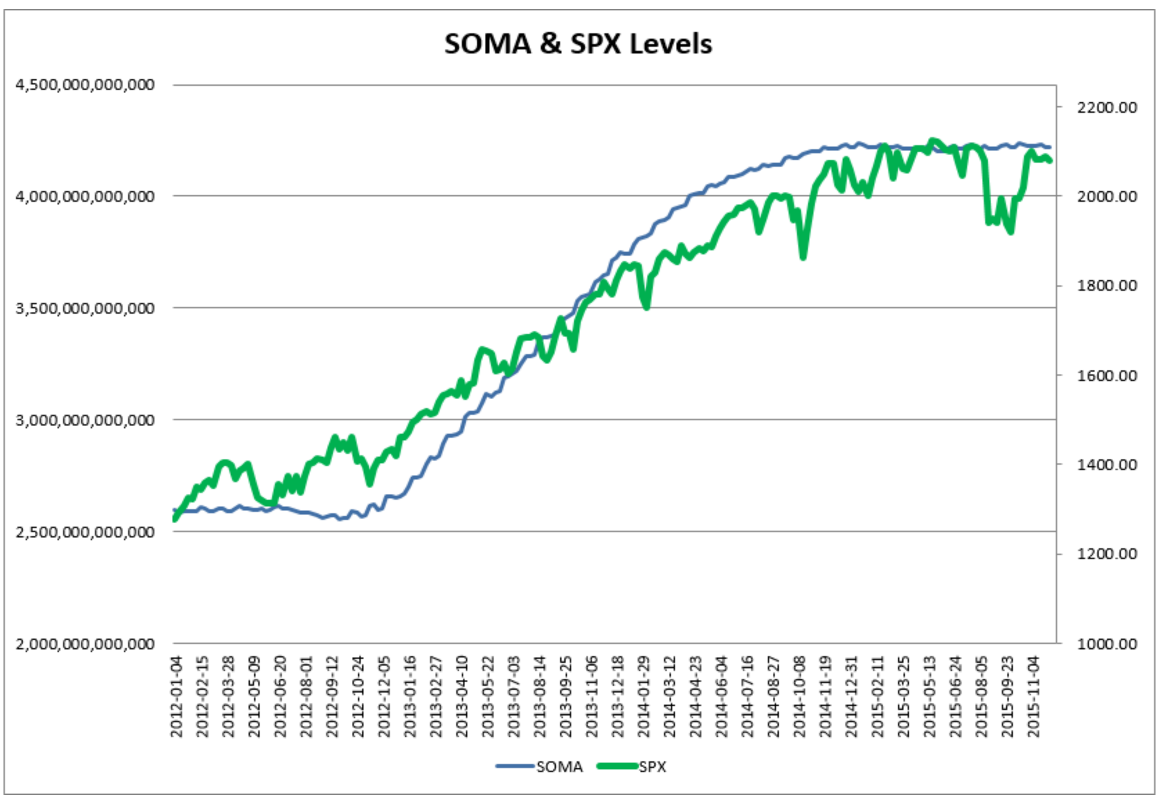
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



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The SOMA saw very little change this past week, as it declined an indiscernible amount. Flat or declining SOMA readings over the last few years have led to market struggles. And the SOMA has struggled to gain traction over the last month and a half after briefly breaking out to new highs. If it can get back on track and again start hitting new highs then the stock market would have a good chance to follow. If not, then there could be more trouble ahead for the market. 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 are mostly bullish. And the persistency study from the 11/10 letter also suggests more upside, but that will expire in a few days. The bears can point to the FTD study from a while back, the questionable Fed support, and the old breadth divergence study. None of these appear strongly bearish on their own. Overall, I still think evidence tilts moderately 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

New

KMI – 1/3 @ $16.82 (buy @ limit)

Broad Market Large Cap CBI – 1(KMI)

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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.

KMI – buy 1/3 Catapult position @ $16.82 LIMIT. From the Catapult section above, this would be the 1st of 3 possible lots for KMI.

Though they have done well over time, Catapults tend to be quite volatile and are traded without initial stops. Those new to Catapults should examine the information on the Catapult System page.

Current Open Trade Ideas

None

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952