

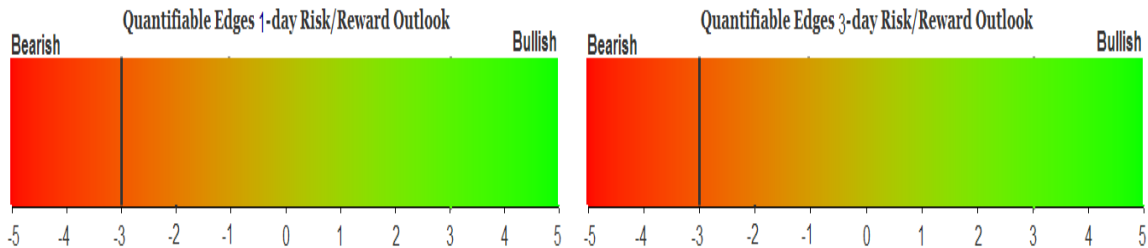
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 2, 2016

Volume 9 Issue 20

Market Overview



Signals Overview

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

Tonight's Research Points

- Strong closes within the daily and 10-day range during a long-term downtrend have led to short-term bearish inclinations.
- The QE Buying Power Swing System triggered short.
- Turn of the month has been bearish over the years under similar circumstances.
- The Follow Through Day (FTD) from earlier in the week suggests intermediate-term strength.
- The January Barometer shows that years with a poor January have been inconsistent the remainder of the year.

Short-term Outlook

The Bottom Line

Evidence is pointing lower, and the market is now strongly overbought. This suggests a 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 | | | | | | |
| February 1, 2016 | QE Buying Power Short Signal | 1-6 days | Bearish | | | |
| January 29, 2016 | NDX up 1%. SOX down. | 1-6 days | Bearish | | | |
| Active - Long Term | | | | | | |
| February 1, 2016 | 2 90% up days in 1 week | 1-9 months | Bullish | 23.10% | -6.60% | -15.10% |
| February 1, 2016 | FTD on strong breadth and weak vol | 1-10 days | Bullish | | | |
| January 19, 2016 | NASDAQ 100-day low. UpIss EMA < 37.5 | 1-19 days | Bullish | | | |
| November 2, 2015 | Best 6 months | Nov-Apr | Bullish | | | |
| November 3, 2014 | Quantitative Easing Ends | int term | Bearish | | | |
| July 22, 2013 | New High Divergence (Study of Tops) | int term | Bearish | | | |
| Dropped Tonight | | | | | | |
| January 26, 2016 | Unfilled Gap Up. Unfilled Gap dn. < 200 | 1-4 days | Bearish | | | |

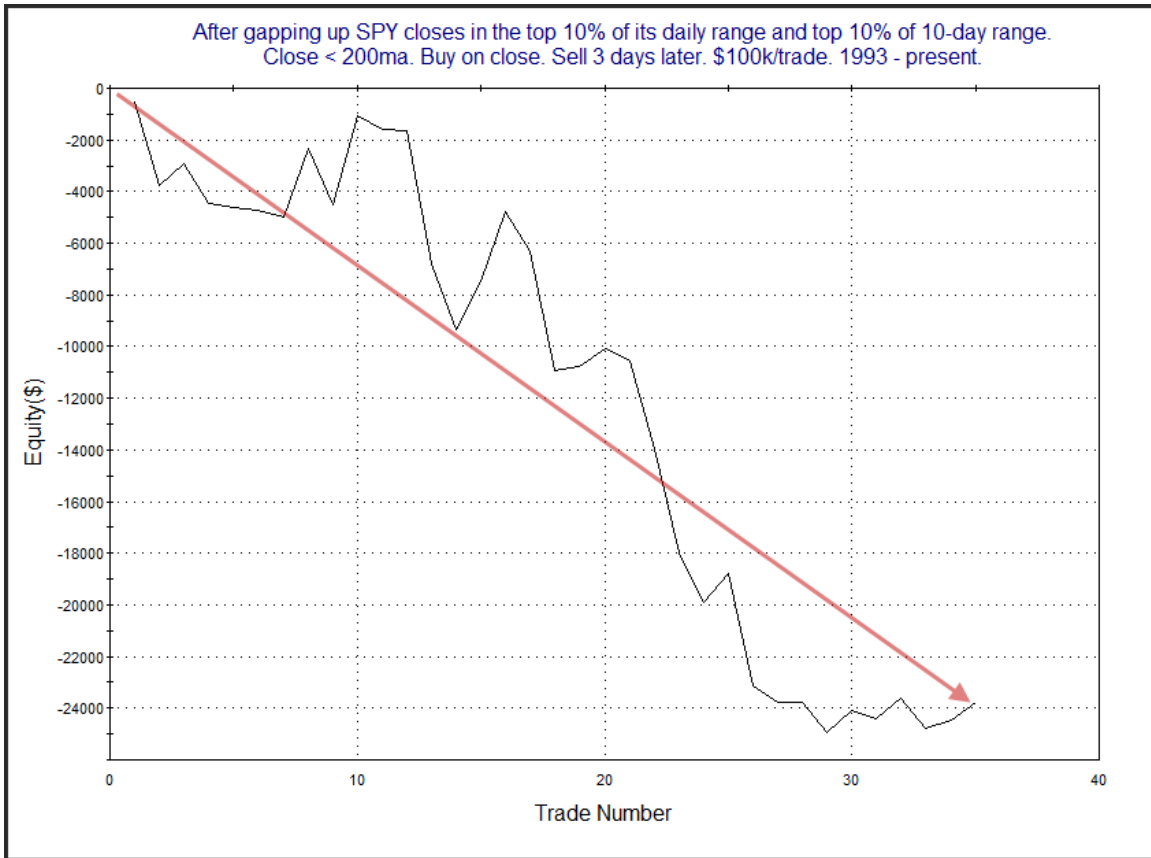
The Evidence

The market boomed on Friday. SPX rose 2.5%, the NASDAQ gained 2.4%, and the Russell 2000 rallied 3.2%. Breadth was extremely positive as the NYSE Up Issues % was 89% and the Up Volume % came in at 93%. Total NYSE volume came in higher than Thursday's level

There was a mix of evidence that emerged based on Friday's action. The gap up and strong close actually generated some bearish evidence, such as the study below, which was last shown in the 8/30/11 letter.

| After gapping up SPY closes in the top 10% of its daily range and top 10% of 10-day range. Close < 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 | -13,806.24 | 31 | 18 | 12 | 58.06 | 1,249.79 | 3,095.18 | -3,025.21 | -6,223.36 | 0.41 | 0.62 | -445.36 |
| 4 | -12,355.20 | 34 | 16 | 18 | 47.06 | 1,490.86 | 5,167.16 | -2,011.61 | -5,244.16 | 0.74 | 0.66 | -363.39 |
| 3 | -23,787.50 | 35 | 12 | 23 | 34.29 | 1,338.91 | 3,447.12 | -1,732.80 | -5,133.72 | 0.77 | 0.40 | -679.64 |
| 2 | -19,461.55 | 37 | 17 | 20 | 45.95 | 824.91 | 2,075.22 | -1,674.25 | -5,196.96 | 0.49 | 0.42 | -525.99 |
| 1 | -10,319.04 | 39 | 19 | 20 | 48.72 | 646.87 | 2,238.25 | -1,130.47 | -3,187.90 | 0.57 | 0.54 | -264.59 |

The numbers over the first few days appear squarely bearish. Below is a look at the 3-day profit curve.



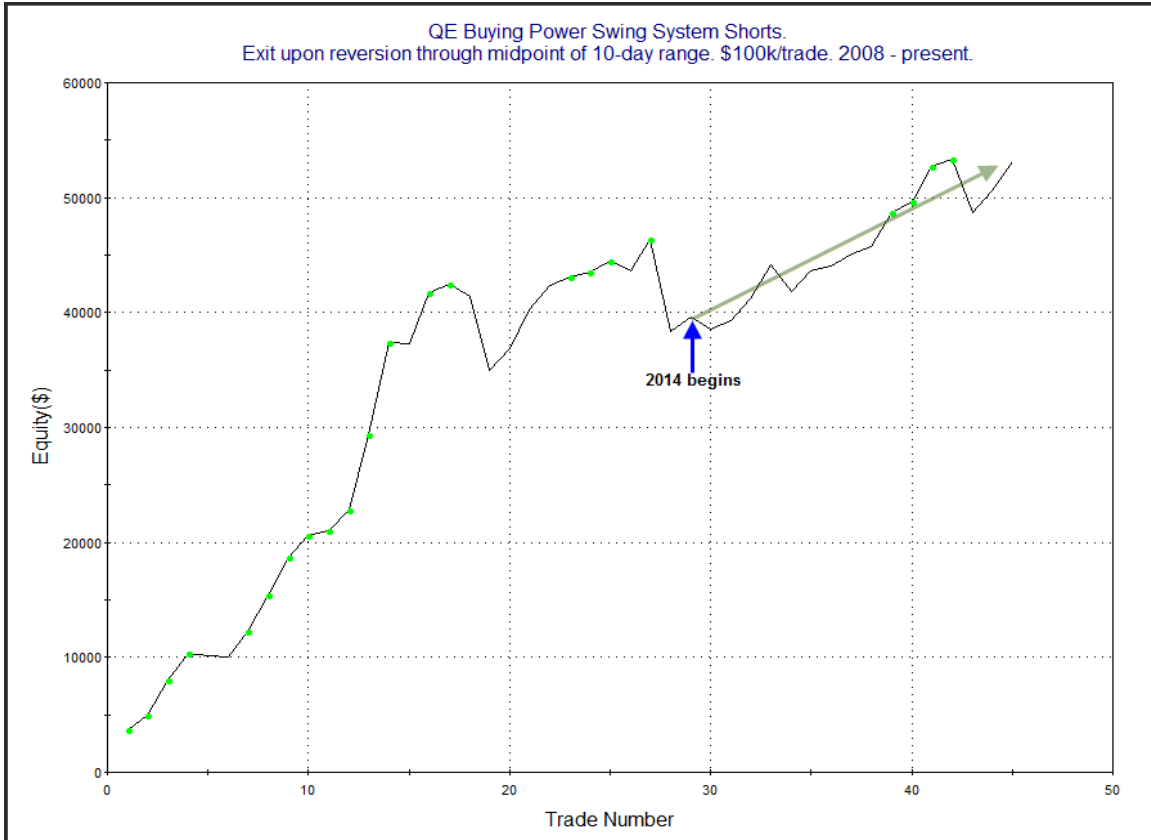
Recent instances have not been quite as bearish. This one appears a little borderline to me.

Of course the close in the upper part of the 10-day range also triggered a short signal in the QE Buying Power System. The performance table below shows updated hypothetical results of having taken all short signals since 2008, and then exiting upon a reversion to the lower half of the recent range. (A short signal simply requires the QE Buying Power Index ≤ 0 and the SPX closes in the top 20% of its 10-day range.) With no active Fed QE purchase plans currently the Buying Power Index has been locked at 0 since early November 2014.

| QE Buying Power Swing System Shorts. Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2008 - present. | | | |
|---|-------------|--------------------------|---------------|
| TradeStation Performance Summary | | | Expand ▾ |
| All Trades | | | |
| Total Net Profit | \$53,083.73 | Profit Factor | 3.13 |
| Gross Profit | \$78,028.63 | Gross Loss | (\$24,944.90) |
| Total Number of Trades | 45 | Percent Profitable | 77.78% |
| Winning Trades | 35 | Losing Trades | 10 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$1,179.64 | Ratio Avg. Win:Avg. Loss | 0.89 |
| Avg. Winning Trade | \$2,229.39 | Avg. Losing Trade | (\$2,494.49) |
| Largest Winning Trade | \$8,004.64 | Largest Losing Trade | (\$8,003.49) |

Results here are strong.

Below is a look at the profit curve, with a demarcation where QE3 ended and the 2014 - 2016 trades began.



Not as steep as it was during bear market environments, but still nice results for the shorts. Below is the list of individual triggers.

| QE Buying Power Swing System Shorts. Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2014 - present. | | | | |
|---|--------|------------|----------|--------------------|
| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
| 11/7/2014 | Short | \$2,031.92 | -1.06% | \$85.75 |
| 12/1/2014 | Cover | \$2,053.44 | | (\$2,148.16) |
| 12/3/2014 | Short | \$2,074.33 | 0.68% | \$962.88 |
| 12/8/2014 | Cover | \$2,060.31 | | (\$246.72) |
| 12/18/2014 | Short | \$2,061.23 | 1.97% | \$2,106.72 |
| 1/5/2015 | Cover | \$2,020.58 | | (\$1,551.36) |
| 1/22/2015 | Short | \$2,063.15 | 2.96% | \$2,959.68 |
| 1/28/2015 | Cover | \$2,002.16 | | \$0.00 |
| 2/3/2015 | Short | \$2,050.03 | -2.37% | \$638.88 |
| 3/4/2015 | Cover | \$2,098.53 | | (\$3,338.88) |
| 3/18/2015 | Short | \$2,099.42 | 1.83% | \$1,803.39 |
| 3/25/2015 | Cover | \$2,061.05 | | (\$725.68) |
| 4/9/2015 | Short | \$2,091.18 | 0.48% | \$884.07 |
| 4/17/2015 | Cover | \$2,081.18 | | (\$974.31) |
| 4/22/2015 | Short | \$2,107.96 | 1.07% | \$1,427.39 |
| 4/30/2015 | Cover | \$2,085.51 | | (\$844.12) |
| 5/8/2015 | Short | \$2,116.10 | 0.56% | \$1,434.91 |
| 5/26/2015 | Cover | \$2,104.20 | | (\$875.14) |
| 6/18/2015 | Short | \$2,121.24 | 3.00% | \$3,036.20 |
| 6/29/2015 | Cover | \$2,057.64 | | (\$405.61) |
| 7/13/2015 | Short | \$2,099.60 | 0.95% | \$1,057.97 |
| 7/24/2015 | Cover | \$2,079.65 | | (\$1,561.34) |
| 8/17/2015 | Short | \$2,102.44 | 3.17% | \$3,135.37 |
| 8/20/2015 | Cover | \$2,035.73 | | (\$48.41) |
| 9/8/2015 | Short | \$1,969.41 | 0.58% | \$1,611.00 |
| 9/18/2015 | Cover | \$1,958.08 | | (\$2,572.50) |
| 10/5/2015 | Short | \$1,987.05 | -4.61% | \$753.00 |
| 11/9/2015 | Cover | \$2,078.58 | | (\$6,471.50) |
| 11/20/2015 | Short | \$2,089.17 | 1.89% | \$2,200.54 |
| 12/3/2015 | Cover | \$2,049.62 | | (\$709.70) |
| 12/23/2015 | Short | \$2,064.29 | 2.50% | \$3,581.28 |
| 1/4/2016 | Cover | \$2,012.66 | | (\$828.96) |

October was the first trade that went very strong against the short position. The trades overall have done quite well. I still believe the system signals deserve some consideration within the Active List. This is especially true with the backing of the 1st study above that looked at the strong intraday and 10-day close. Since the overbought in a 10-day range concept is similar with both, I have elected to simply use the QE Buying Power System for estimates.

There were a few studies that examined the 1st day of the trading month, which has often been a bullish day. Two things this upcoming month has going against are 1) SPX is trading below its 200ma, and 2) SPX has closed up the last 2 days. I combined both of the negative factors and ran a study to see how the 1st of the month has performed under similar circumstances. Results are below.

| SPX closes up the last 2 days of the month but < 200ma. Buy on close. Sell next day's close. \$100k/trade. 1990 - present. | | | |
|---|--------------|--------------------------|---------------|
| TradeStation Performance Summary | | | Expand ▾ |
| All Trades | | | |
| Total Net Profit | (\$8,452.85) | Profit Factor | 0.54 |
| Gross Profit | \$10,006.71 | Gross Loss | (\$18,459.56) |
| Total Number of Trades | 18 | Percent Profitable | 33.33% |
| Winning Trades | 6 | Losing Trades | 12 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | (\$469.60) | Ratio Avg. Win:Avg. Loss | 1.08 |
| Avg. Winning Trade | \$1,667.78 | Avg. Losing Trade | (\$1,538.30) |
| Largest Winning Trade | \$3,300.73 | Largest Losing Trade | (\$8,883.33) |

Not a whole lot of instances, but initial results are pretty negative. I have not included this on the Active List, but it was a borderline decision, and next time I might.

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



With more bearish short-term evidence emerging the green Aggregator Line remained below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is now far below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is strongly 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.

Expectations on Monday are primed to remain negative if nothing new emerges. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be inverted at 1862.87 on Monday. That is a whopping 4.0% below Friday's close. So for SPX to move from overbought to oversold versus expectations it would need to close down 4.0% on Monday. That is a highly unlikely 1-day move. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

The short-term evidence is certainly suggesting a downside edge, and with the market strongly overbought, there is plenty of room to the downside to potentially profit. My only hesitation with getting aggressively short here is the FTD study which you will see below in the intermediate-term section. It exemplifies the powerful rallies that can occur when coming off long-term bottoms. I believe the short-side edge is strong enough that it is worth trying to take advantage of, but I will likely keep my position fairly light for at least the next couple of days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/2 – 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.) *There were no changes to the Market Timing Course indicators this week and all 3 combo systems remained flat.*

After chopping back and forth for most of the week, Friday’s big rally of 2.5% caused the SPX to finish squarely positive and up 1.7% for the week. There is some new intermediate-term evidence to consider as well.

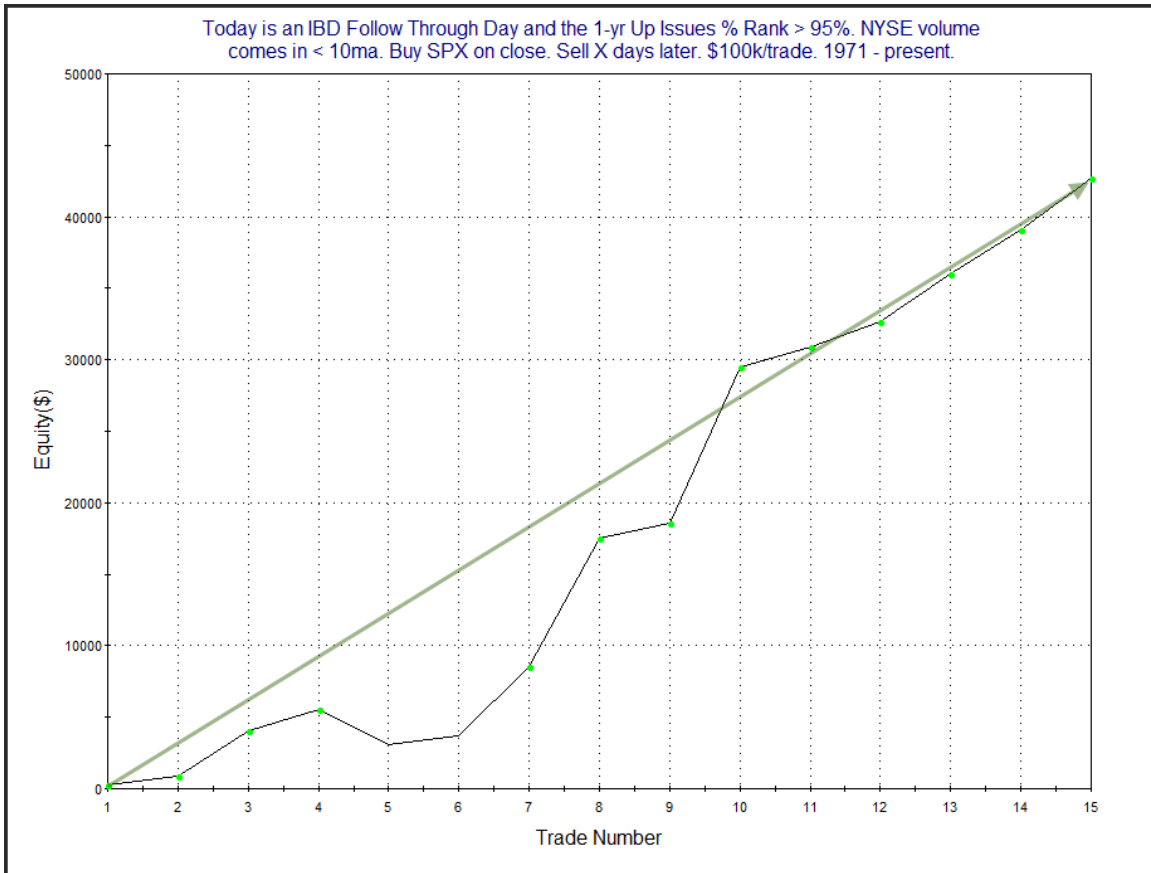
I neglected to mention on Tuesday night that the market actually posted a Follow Through Day (FTD) on Tuesday. FTDs were popularized by William O’Neil of Investors Business Daily. They look for a strong up-day on increasing volume after the market has made a potential intermediate-term bottom. They are supposed to be a sign that a rally is likely to ensue. I have studied them extensively over the years. While they are not all they are cracked up to be. They still can provide some useful information. Two filters I have found to be useful when examining them are 1) breadth – specifically the 1-year % Rank of the NYSE Up Issues %, and 2) volume – whether it comes in above or below its 10-day moving average. In general, FTDs have done better when they have been accompanied by strong breadth and/or strong volume. But in the 10/22/14 letter I found that a combination of strong breadth and somewhat weak volume was actually very good. I have updated that study below.

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank > 95%. NYSE volume comes in < 10ma. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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 | 42,719.78 | 15 | 14 | 1 | 93.33 | 3,229.36 | 10,921.96 | -2,491.20 | -2,491.20 | 1.30 | 18.15 | 2,847.99 |
| 9 | 35,470.59 | 15 | 13 | 2 | 86.67 | 2,950.27 | 10,571.08 | -1,441.44 | -1,707.84 | 2.05 | 13.30 | 2,364.71 |
| 8 | 21,996.21 | 15 | 9 | 6 | 60.00 | 3,528.41 | 8,027.20 | -1,626.58 | -3,207.39 | 2.17 | 3.25 | 1,466.41 |
| 7 | 19,955.56 | 15 | 8 | 7 | 53.33 | 3,759.66 | 9,599.94 | -1,445.96 | -3,470.40 | 2.60 | 2.97 | 1,330.37 |
| 6 | 13,165.75 | 15 | 9 | 6 | 60.00 | 2,799.22 | 6,965.80 | -2,004.54 | -3,473.28 | 1.40 | 2.09 | 877.72 |
| 5 | 14,258.00 | 15 | 9 | 6 | 60.00 | 2,761.73 | 4,428.90 | -1,766.25 | -3,884.79 | 1.56 | 2.35 | 950.53 |
| 4 | 12,101.28 | 15 | 8 | 7 | 53.33 | 2,945.19 | 5,800.13 | -1,637.18 | -3,310.58 | 1.80 | 2.06 | 806.75 |
| 3 | 8,343.30 | 15 | 8 | 7 | 53.33 | 2,546.40 | 5,692.12 | -1,718.27 | -4,359.81 | 1.48 | 1.69 | 556.22 |
| 2 | 6,021.81 | 16 | 9 | 7 | 56.25 | 1,748.58 | 5,323.24 | -1,387.91 | -4,195.25 | 1.26 | 1.62 | 376.36 |
| 1 | 3,287.52 | 16 | 8 | 8 | 50.00 | 1,071.74 | 2,860.08 | -660.80 | -1,673.25 | 1.62 | 1.62 | 205.47 |

9 of 15 FTDs (60%) went on to successful rallies.

There have only been 15 such instances. Over the first few days there does not appear to be a strong consensus. But the further out you look over the next two weeks, the better the numbers become. 10 days out 14 of 15 instances were trading higher and the average instance had gained 2.85%. That is quite impressive. Below is a look at a 10-day profit curve.



The strong steady upslope appears to confirm the upside edge. I am viewing Tuesday's FTD as a positive for the intermediate term.

Friday's rally generated the 2nd 90% Up Volume day within 5 days. In the past this has been a positive sign for the intermediate-term. Below is an updated study from the 11/26/12 Subscriber Letter.

| NYSE Up Volume % > 90% for the 2nd time in 5 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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 |
| 20 | 69,297.79 | 17 | 14 | 3 | 82.35 | 5,349.73 | 14,074.06 | -1,866.14 | -2,367.00 | 2.87 | 13.38 | 4,076.34 |
| 19 | 66,044.48 | 17 | 15 | 2 | 88.24 | 4,725.01 | 9,897.86 | -2,415.33 | -2,643.30 | 1.96 | 14.67 | 3,884.97 |
| 18 | 69,642.83 | 17 | 15 | 2 | 88.24 | 4,892.06 | 9,503.00 | -1,869.02 | -2,746.24 | 2.62 | 19.63 | 4,096.64 |
| 17 | 68,368.04 | 17 | 14 | 3 | 82.35 | 5,106.58 | 11,270.42 | -1,041.37 | -1,797.60 | 4.90 | 22.88 | 4,021.65 |
| 16 | 71,212.18 | 18 | 17 | 1 | 94.44 | 4,224.51 | 12,204.08 | -604.52 | -604.52 | 6.99 | 118.80 | 3,956.23 |
| 15 | 66,427.90 | 18 | 15 | 3 | 83.33 | 4,536.35 | 11,124.12 | -539.12 | -1,089.36 | 8.41 | 42.07 | 3,690.44 |
| 14 | 68,553.82 | 18 | 16 | 2 | 88.89 | 4,372.58 | 8,025.22 | -703.76 | -954.72 | 6.21 | 49.71 | 3,808.55 |
| 13 | 63,998.13 | 18 | 16 | 2 | 88.89 | 4,306.11 | 8,597.16 | -2,449.80 | -3,328.80 | 1.76 | 14.06 | 3,555.45 |
| 12 | 42,892.71 | 19 | 15 | 4 | 78.95 | 3,673.91 | 8,106.28 | -3,053.98 | -7,819.54 | 1.20 | 4.51 | 2,257.51 |
| 11 | 38,146.09 | 19 | 15 | 4 | 78.95 | 3,350.95 | 8,671.60 | -3,029.54 | -7,522.28 | 1.11 | 4.15 | 2,007.69 |
| 10 | 38,839.22 | 19 | 14 | 5 | 73.68 | 3,712.96 | 10,921.96 | -2,628.45 | -6,585.11 | 1.41 | 3.96 | 2,044.17 |
| 9 | 38,466.10 | 19 | 16 | 3 | 84.21 | 2,827.69 | 8,397.62 | -2,258.98 | -3,618.74 | 1.25 | 6.68 | 2,024.53 |
| 8 | 30,202.73 | 19 | 15 | 4 | 78.95 | 2,640.25 | 7,394.80 | -2,350.25 | -4,263.30 | 1.12 | 4.21 | 1,589.62 |
| 7 | 29,618.69 | 20 | 13 | 7 | 65.00 | 3,311.94 | 9,599.94 | -1,919.51 | -4,149.70 | 1.73 | 3.20 | 1,480.93 |
| 6 | 8,813.43 | 20 | 11 | 9 | 55.00 | 2,604.40 | 4,689.44 | -2,203.88 | -4,733.10 | 1.18 | 1.44 | 440.67 |
| 5 | 5,648.05 | 21 | 11 | 10 | 52.38 | 2,414.21 | 4,765.28 | -2,090.83 | -4,755.52 | 1.15 | 1.27 | 268.95 |
| 4 | 21,140.24 | 21 | 12 | 9 | 57.14 | 2,490.06 | 5,800.13 | -971.16 | -2,192.19 | 2.56 | 3.42 | 1,006.68 |
| 3 | 8,788.90 | 23 | 15 | 8 | 65.22 | 1,531.78 | 4,031.04 | -1,773.48 | -4,359.81 | 0.86 | 1.62 | 382.13 |
| 2 | 778.15 | 25 | 14 | 11 | 56.00 | 1,315.62 | 2,913.52 | -1,603.69 | -8,004.64 | 0.82 | 1.04 | 31.13 |
| 1 | 6,590.86 | 27 | 15 | 12 | 55.56 | 969.05 | 2,755.52 | -662.07 | -2,006.18 | 1.46 | 1.83 | 244.11 |

The next few days are a bit of a crapshoot, but sixteen days out we see 17 of 18 instances trading higher. These are some very solid intermediate-term stats. Below is a list of all qualifying instances.

NYSE Up Volume % > 90% for the 2nd time in 5 days.
Buy SPX on close. Sell 16 days later. \$100k/trade. 1970 - present.

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|---|--------|------------|----------|--------------------|
| 11/29/1971 | Buy | \$93.41 | 8.98% | \$8,977.30 |
| 12/21/1971 | Sell | \$101.80 | | (\$963.00) |
| 8/20/1982 | Buy | \$113.02 | 8.92% | \$10,440.04 |
| 9/14/1982 | Sell | \$123.10 | | (\$928.20) |
| 8/2/1984 | Buy | \$157.99 | 6.02% | \$6,831.92 |
| 8/24/1984 | Sell | \$167.50 | | \$0.00 |
| 1/5/1987 | Buy | \$252.19 | 8.55% | \$11,388.96 |
| 1/27/1987 | Sell | \$273.75 | | (\$23.76) |
| 8/31/2007 | Buy | \$1,473.99 | 2.93% | \$4,338.25 |
| 9/25/2007 | Sell | \$1,517.21 | | (\$2,324.90) |
| 11/28/2007 | Buy | \$1,469.01 | -0.61% | \$3,710.08 |
| 12/20/2007 | Sell | \$1,460.12 | | (\$2,268.48) |
| 11/26/2008 | Buy | \$887.68 | 0.02% | \$3,491.04 |
| 12/19/2008 | Sell | \$887.88 | | (\$8,062.88) |
| 3/12/2009 | Buy | \$750.74 | 12.22% | \$12,617.71 |
| 4/3/2009 | Sell | \$842.50 | | (\$1,101.24) |
| 5/27/2010 | Buy | \$1,103.06 | 0.92% | \$2,535.30 |
| 6/21/2010 | Sell | \$1,113.20 | | (\$5,480.10) |
| 7/13/2010 | Buy | \$1,095.34 | 2.91% | \$3,040.31 |
| 8/4/2010 | Sell | \$1,127.24 | | (\$3,499.86) |
| 9/1/2010 | Buy | \$1,080.29 | 6.33% | \$6,312.12 |
| 9/24/2010 | Sell | \$1,148.67 | | \$0.00 |
| 9/24/2010 | Buy | \$1,148.67 | 3.14% | \$3,206.82 |
| 10/18/2010 | Sell | \$1,184.71 | | (\$1,461.60) |
| 12/1/2010 | Buy | \$1,206.07 | 4.20% | \$4,372.24 |
| 12/23/2010 | Sell | \$1,256.77 | | \$0.00 |
| 8/11/2011 | Buy | \$1,172.64 | 0.11% | \$4,935.95 |
| 9/2/2011 | Sell | \$1,173.97 | | (\$4,381.75) |
| 10/10/2011 | Buy | \$1,194.89 | 1.96% | \$8,114.91 |
| 11/1/2011 | Sell | \$1,218.28 | | (\$629.97) |
| 11/30/2011 | Buy | \$1,246.96 | 0.56% | \$1,608.00 |
| 12/22/2011 | Sell | \$1,254.00 | | (\$3,567.20) |
| 11/23/2012 | Buy | \$1,409.15 | 1.51% | \$2,060.80 |
| 12/17/2012 | Sell | \$1,430.36 | | (\$1,660.40) |
| 1/2/2013 | Buy | \$1,462.42 | 2.77% | \$2,777.12 |
| 1/25/2013 | Sell | \$1,502.96 | | (\$733.04) |
| Avg Run-up: 5.6% Avg Drawdown: -2.1% | | | | |

This looks very solid. And the run-up/drawdown stats are skewed heavily in favor of the bulls as well. I also examined possible longer-term implications.

NYSE Up Volume % > 90% for the 2nd time in 5 days.
Buy SPX on close. Sell X months later. \$100k/trade. 1970 - present.

| X Months | 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 |
|----------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 12 | 169,880.05 | 9 | 8 | 1 | 88.89 | 22,880.11 | 44,668.52 | -13,160.81 | -13,160.81 | 1.74 | 13.91 | 18,875.56 |
| 11 | 145,881.30 | 9 | 7 | 2 | 77.78 | 23,946.12 | 49,733.84 | -10,870.78 | -14,316.56 | 2.20 | 7.71 | 16,209.03 |
| 10 | 142,963.37 | 9 | 8 | 1 | 88.89 | 19,649.77 | 49,504.00 | -14,234.82 | -14,234.82 | 1.38 | 11.04 | 15,884.82 |
| 9 | 166,662.02 | 9 | 8 | 1 | 88.89 | 21,639.52 | 43,289.48 | -6,454.11 | -6,454.11 | 3.35 | 26.82 | 18,518.00 |
| 8 | 161,286.39 | 9 | 8 | 1 | 88.89 | 20,664.14 | 42,157.96 | -4,026.70 | -4,026.70 | 5.13 | 41.05 | 17,920.71 |
| 7 | 132,244.50 | 9 | 8 | 1 | 88.89 | 17,407.26 | 33,742.28 | -7,013.56 | -7,013.56 | 2.48 | 19.86 | 14,693.83 |
| 6 | 129,107.73 | 10 | 9 | 1 | 90.00 | 15,441.42 | 30,427.28 | -9,865.08 | -9,865.08 | 1.57 | 14.09 | 12,910.77 |
| 5 | 99,899.74 | 10 | 8 | 2 | 80.00 | 13,353.75 | 28,509.00 | -3,465.15 | -5,264.86 | 3.85 | 15.41 | 9,989.97 |
| 4 | 75,677.77 | 10 | 8 | 2 | 80.00 | 10,941.68 | 20,535.32 | -5,927.83 | -10,058.72 | 1.85 | 7.38 | 7,567.78 |
| 3 | 103,169.31 | 13 | 11 | 2 | 84.62 | 11,738.48 | 25,821.95 | -12,976.96 | -20,928.32 | 0.90 | 4.98 | 7,936.10 |
| 2 | 99,076.50 | 14 | 12 | 2 | 85.71 | 9,294.99 | 23,160.80 | -6,231.72 | -7,698.96 | 1.49 | 8.95 | 7,076.89 |
| 1 | 71,205.72 | 17 | 13 | 4 | 76.47 | 5,940.81 | 14,362.67 | -1,506.21 | -2,564.10 | 3.94 | 12.82 | 4,188.57 |

Over the next 1-9 months the stats are strongly in favor of the bulls. Below is a look at the 9-month (189 trading days) instances.

NYSE Up Volume % > 90% for the 2nd time in 5 days. Buy SPX on close.
Sell 189 trading days later (approx 9 mo). \$100k/trade. 1970 - present.

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|------------|--------|------------|----------|-----------------|
| 11/29/1971 | Buy | \$93.41 | 18.48% | \$21,442.80 |
| 8/25/1972 | Sell | \$110.67 | | (\$963.00) |
| 8/20/1982 | Buy | \$113.02 | 43.33% | \$48,328.28 |
| 5/19/1983 | Sell | \$161.99 | | (\$928.20) |
| 8/2/1984 | Buy | \$157.99 | 13.30% | \$16,400.40 |
| 5/2/1985 | Sell | \$179.00 | | \$0.00 |
| 1/5/1987 | Buy | \$252.19 | 30.09% | \$33,933.24 |
| 10/2/1987 | Sell | \$328.07 | | (\$23.76) |
| 8/31/2007 | Buy | \$1,473.99 | -6.54% | \$6,840.70 |
| 6/3/2008 | Sell | \$1,377.66 | | (\$14,539.67) |
| 11/26/2008 | Buy | \$887.68 | 15.91% | \$16,979.20 |
| 8/28/2009 | Sell | \$1,028.93 | | (\$24,739.68) |
| 5/27/2010 | Buy | \$1,103.06 | 19.66% | \$21,690.90 |
| 2/25/2011 | Sell | \$1,319.88 | | (\$8,293.50) |
| 8/11/2011 | Buy | \$1,172.64 | 15.41% | \$21,227.90 |
| 5/11/2012 | Sell | \$1,353.39 | | (\$8,318.95) |
| 11/23/2012 | Buy | \$1,409.15 | 17.57% | \$21,036.40 |
| 8/26/2013 | Sell | \$1,656.78 | | (\$1,660.40) |

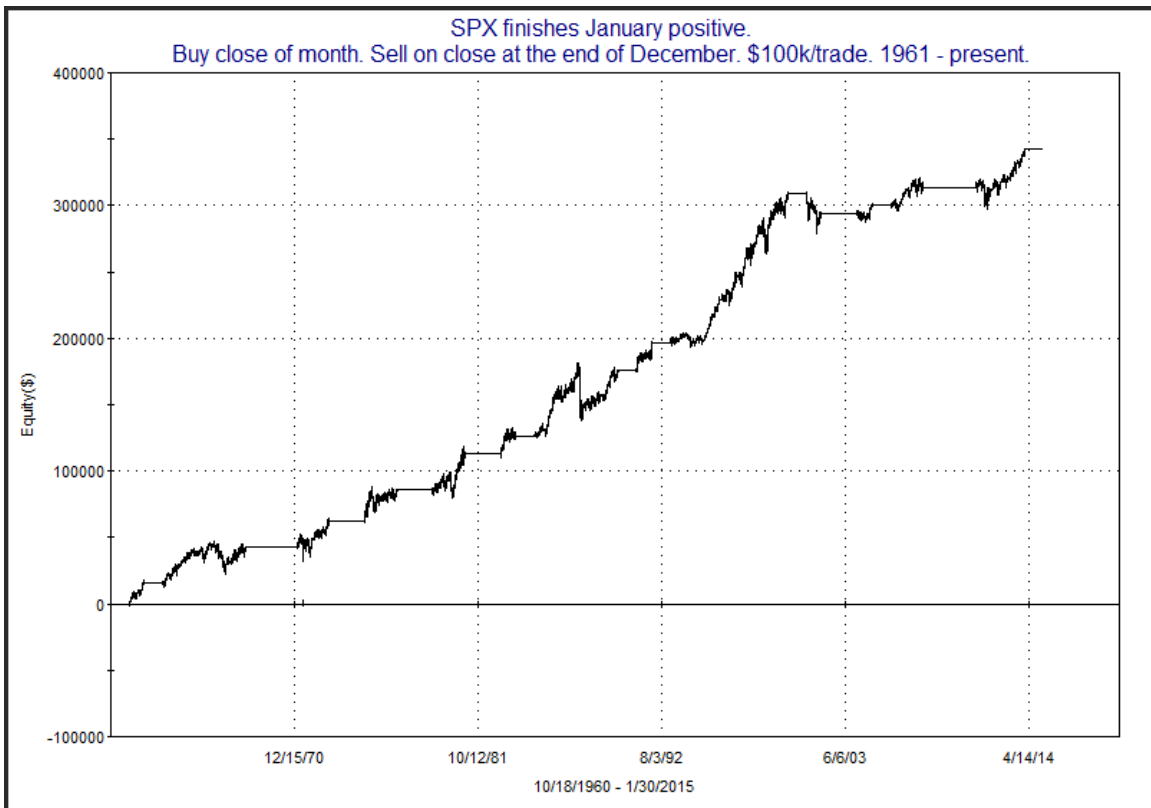
The 2007 instance did not pan out, but every other instance was followed by a powerful 9-month rally. The “smallest” rally over the next 9 months was the 13.3% gain in '84-'85. Those are some very strong moves. I have added this study to the intermediate-term active list as well.

The January Barometer is a fairly famous study from the Stock Traders Almanac. It says that “as goes January, so goes the year”. In other words, a positive January will typically lead to a positive year, while a negative January can be a warning. So, as I did in the 2/2/15 letter, let’s look at how the SPX has done for the remaining 11 months of the year based on how January performed.

SPX finishes January positive.
Buy close of month. Sell on close at the end of December. \$100k/trade. 1961 - present.

| TradeStation Performance Summary | | Collapse ^ | |
|----------------------------------|--------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | \$343,009.51 | Profit Factor | 8.45 |
| Gross Profit | \$389,070.62 | Gross Loss | (\$46,061.11) |
| Total Number of Trades | 33 | Percent Profitable | 84.85% |
| Winning Trades | 28 | Losing Trades | 5 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$10,394.23 | Ratio Avg. Win:Avg. Loss | 1.51 |
| Avg. Winning Trade | \$13,895.38 | Avg. Losing Trade | (\$9,212.22) |
| Largest Winning Trade | \$30,848.12 | Largest Losing Trade | (\$15,908.89) |

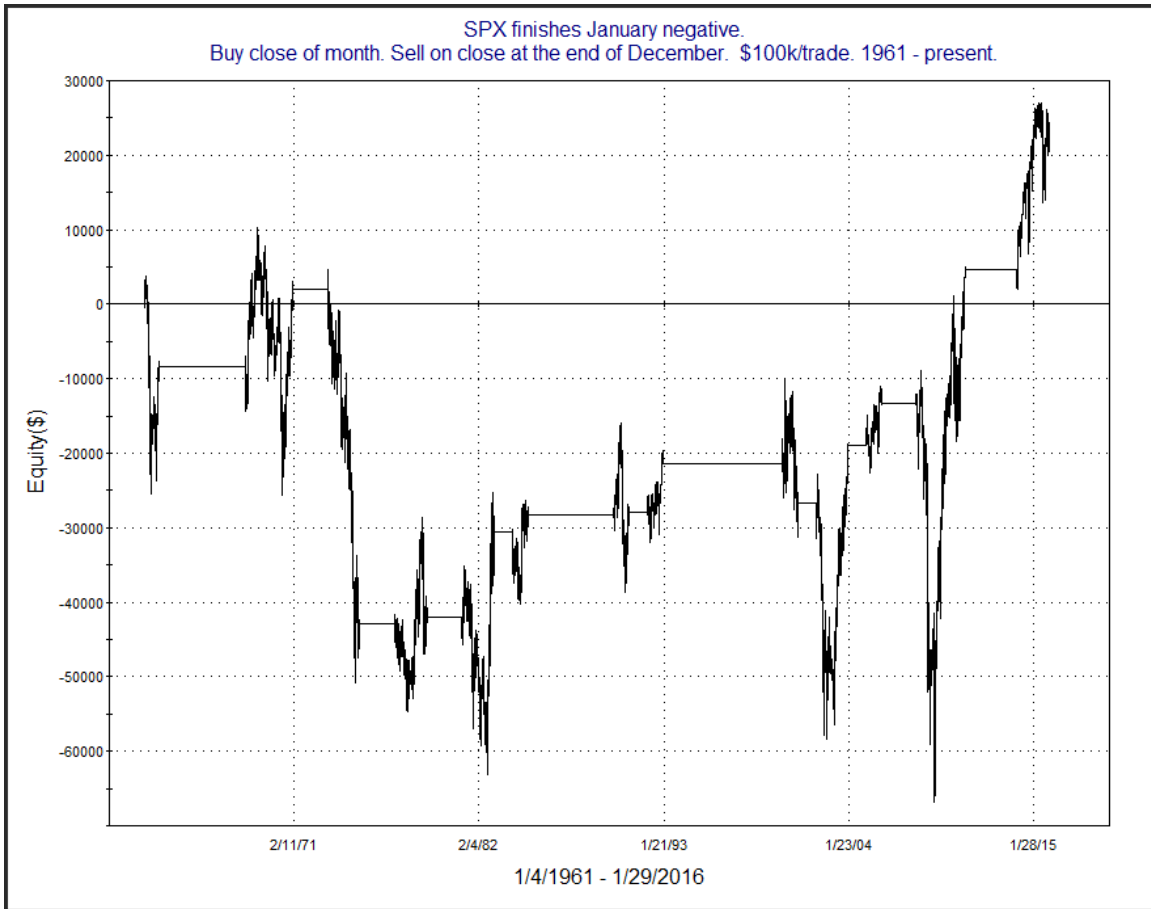
The numbers show that in years that January has done well, the rest of the year has typically fared well also. Below is a profit curve.



That is a nicely steady upslope. Now let's look at how Feb-Dec has done after a down January.

| SPX finishes January negative. Buy close of month. Sell on close at the end of December. \$100k/trade. 1961 - present. | | | |
|---|--------------|--------------------------|----------------|
| TradeStation Performance Summary | | | Expand ▾ |
| All Trades | | | |
| Total Net Profit | \$22,504.55 | Profit Factor | 1.16 |
| Gross Profit | \$160,074.85 | Gross Loss | (\$137,570.30) |
| Total Number of Trades | 22 | Percent Profitable | 59.09% |
| Winning Trades | 13 | Losing Trades | 9 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$1,022.93 | Ratio Avg. Win:Avg. Loss | 0.81 |
| Avg. Winning Trade | \$12,313.45 | Avg. Losing Trade | (\$15,285.59) |
| Largest Winning Trade | \$34,995.62 | Largest Losing Trade | (\$34,208.64) |

Not as many instances, but there does not appear to be the same kind of bullish tendency here. More of a crapshoot. Below is a curve.



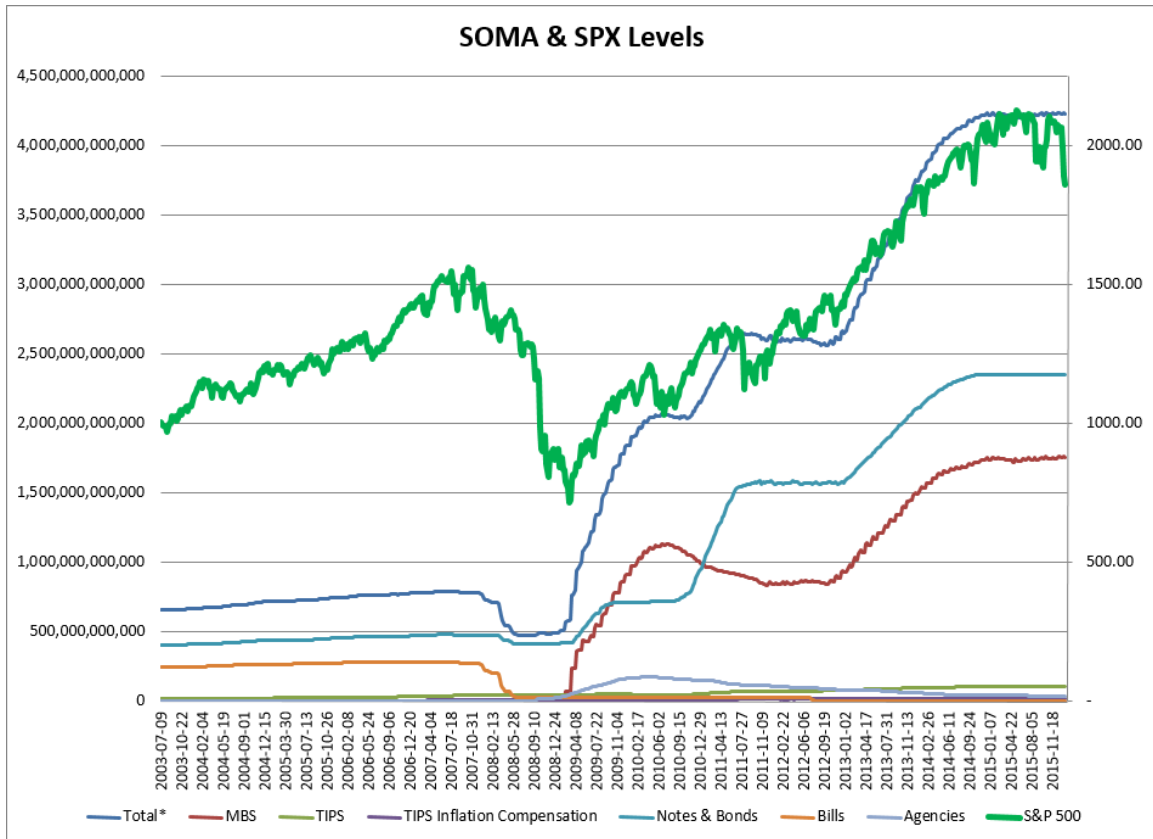
Certainly not a chart to trade off of. So it would have been nice if January finished positive. But it is not a sign of impending doom. Just that we don't have the kind of momentum that would be preferable.

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.

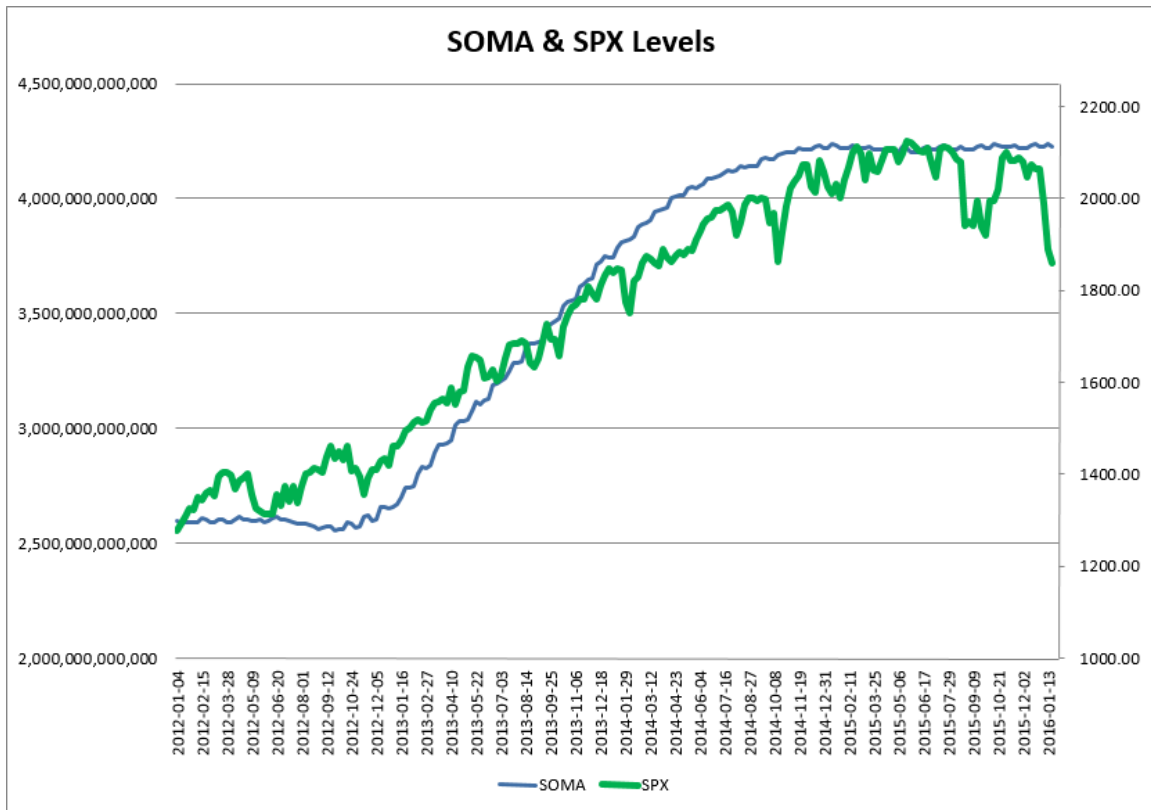
SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities 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 this past week (Wednesday to Wednesday) saw a drop of 0.14%. It is unusual to see declines of this size two weeks in a row. But last May when the Wednesday fell on the 20th and 27th, just like this reporting period, there were two weeks in a row of similar declines. So it is not unprecedented, and it does not mean the Fed has changed its approach in any way. We are now headed into the 1st week of the new month. Normally this 1st Wednesday has been followed by a near-breakeven week. Overall, near-breakeven weeks have not fared very well. Since the beginning of 2015 the SPX has lost a sum total of 8.71% during these weeks. And it appears we will likely see 2 breakeven weeks in a row ending the next 2 Wednesdays. So if the market rally is going to continue, it is going to have to do so without liquidity support from the Fed over the next week and a half.

As I often discuss, flat or declining SOMA readings have typically led to market struggles. But a rising SOMA has consistently led to gains. It will be important to monitor SOMA activity, including the monthly reinvestment schedule, during 2016 so that we may quickly identify any change in policy and take steps to adjust our strategies. I expect liquidity analysis to remain an important tool for us in 2016 and beyond.

Intermediate-term evidence remains mixed. Bulls can point to long-term seasonal forces, the NASDAQ extreme breadth and low study from a couple of weeks ago, and this week's FTD study and "Double 90% Days" study. But trend, leadership, and Fed liquidity are still pointing towards a long-term downtrend. With this mix I am still neutral. This means I am open to trading in either direction if compelling enough short-term evidence suggests an edge.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

AXP - 1/3 @ \$55.06 (buy @ limit) (filled)

AXP - 1/3 @ \$55.02 (buy @ limit) (filled)

AXP - 1/3 @ \$52.88 (buy @ limit) (not filled – cancel for now)

Broad Market Large Cap CBI – 3(AXP-3)

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.

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

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---------------|------------------|----------------|----------------|--------------|------|----------------------------|
| AXP(1/3) | 1/25/2016 | \$54.46 | \$53.50 | -1.76% | | Catapult |
| AXP(1/3) | 1/26/2016 | \$55.02 | \$53.50 | -2.76% | | Catapult |
| C(1/3) | 1/26/2016 | \$39.55 | \$40.80 | 3.16% | | <i>sold on open</i> |
| SPY(1/4)(s) | 1/26/2016 | \$193.72 | \$193.72 | 0.00% | | <i>shorted on close</i> |
| | | | | | | |
| | | | | | | |

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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