

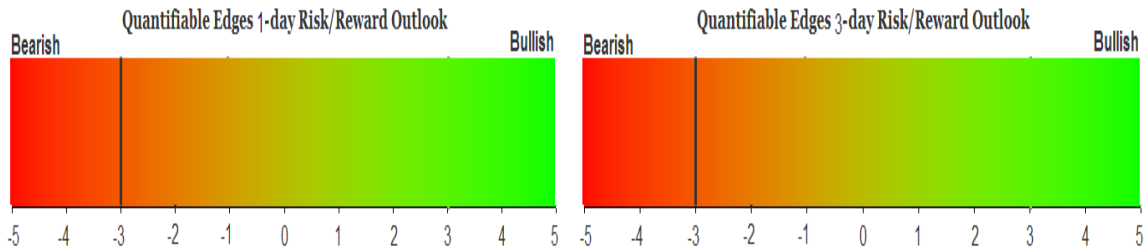
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 29, 2016

Volume 9 Issue 39

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY action on Friday didn't trigger any strong new edges.
- 3 up days for the NASDAQ while under the 200ma with often be followed by a pullback, but not necessarily under circumstances like we are currently seeing.
- SOMA increased this past week, but I expect to see a decline this upcoming week.

Short-term Outlook

The Bottom Line

Evidence continues to tilt bearish, but it is a little weak right now. SPX is strongly overbought though. I believe there is a downside edge over the next few days.

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 26, 2016 | SPY closes top 10% 1-day & 10-day rng | 1-3 days | Bearish | | | |
| Active - Long Term | | | | | | |
| February 18, 2016 | Up Issue % > 70% 3x | 1-85 days | Bullish | 10.70% | -5.10% | -12.10% |
| February 1, 2016 | 290% up days in 1 week | 1-9 months | Bullish | 23.10% | -6.60% | -15.10% |
| 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 | | | | | | |
| February 26, 2016 | RSI > 70 then light volume close dn | 1 day | Bearish | | | |
| February 25, 2016 | Gap Dn Reverse up | 1-2 days | Bearish | | | |
| February 24, 2016 | Unfilled up. Unfilled down. Close < 200 | 1-3 days | Bearish | | | |

The Evidence

Friday started strong but finished mixed. The SPX closed down 0.2%, the NASDAQ gained 0.2%, and the Russell 2000 rose 0.5%. Breadth was positive as the NYSE Up Issues % was 60% and the Up Volume % came in at 62%. Total NYSE volume rose some from Thursday's level.

I looked at Friday's action a number of ways to see what clues it might be providing for the next few days. Unfortunately, nothing terribly compelling appeared. In examining SPY action I noted the gap up, the new intermediate-term high, and then the reversal down. I ran a study to identify similar instances over the years. Results are below.

| SPY gaps up, makes a 20-day intraday high and then closes down on the day and below 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 | -922.76 | 16 | 9 | 7 | 56.25 | 1,681.03 | 5,279.22 | -2,293.15 | -4,696.80 | 0.73 | 0.94 | -57.67 |
| 4 | 1,611.91 | 16 | 8 | 8 | 50.00 | 2,171.92 | 4,557.92 | -1,970.43 | -3,344.00 | 1.10 | 1.10 | 100.74 |
| 3 | 2,263.66 | 16 | 8 | 8 | 50.00 | 1,350.28 | 2,802.00 | -1,067.32 | -2,568.80 | 1.27 | 1.27 | 141.48 |
| 2 | 6,743.49 | 18 | 9 | 9 | 50.00 | 1,638.59 | 4,152.48 | -889.31 | -1,406.00 | 1.84 | 1.84 | 374.64 |
| 1 | 2,155.41 | 18 | 9 | 9 | 50.00 | 1,164.11 | 2,332.00 | -924.62 | -2,823.18 | 1.26 | 1.26 | 119.75 |

Fifty percent up vs. down over the next 4 days. This coin toss does not suggest any directional edge.

While SPX closed down, the NASDAQ closed higher for the 3rd day in a row. This triggered an old study from the 10/31/2008 letter that looked at 3 higher closes in the NASDAQ while below the 200ma. Below are updated results of that study.

NASDAQ closes up exactly 3 days in a row but < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2001 - 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 | -68,198.27 | 66 | 31 | 35 | 46.97 | 3,126.62 | 11,263.00 | -4,717.82 | -17,300.80 | 0.66 | 0.59 | -1,033.31 |
| 9 | -71,180.27 | 67 | 33 | 34 | 49.25 | 2,776.79 | 8,958.60 | -4,788.65 | -16,048.56 | 0.58 | 0.56 | -1,062.39 |
| 8 | -68,426.00 | 68 | 33 | 35 | 48.53 | 2,710.41 | 8,089.68 | -4,510.56 | -12,877.20 | 0.60 | 0.57 | -1,006.26 |
| 7 | -38,037.12 | 70 | 31 | 39 | 44.29 | 3,106.05 | 9,076.90 | -3,444.22 | -14,651.56 | 0.90 | 0.72 | -543.39 |
| 6 | -14,801.62 | 75 | 39 | 36 | 52.00 | 2,650.81 | 13,555.36 | -3,282.87 | -12,459.48 | 0.81 | 0.87 | -197.35 |
| 5 | -7,179.95 | 79 | 44 | 35 | 55.70 | 2,573.50 | 14,540.76 | -3,440.40 | -11,082.28 | 0.75 | 0.94 | -90.89 |
| 4 | -15,841.51 | 86 | 46 | 40 | 53.49 | 2,270.27 | 9,205.56 | -3,006.85 | -10,225.32 | 0.76 | 0.87 | -184.20 |
| 3 | -34,525.07 | 86 | 44 | 42 | 51.16 | 2,007.58 | 5,386.95 | -2,925.21 | -13,213.64 | 0.69 | 0.72 | -401.45 |
| 2 | -24,204.47 | 86 | 41 | 45 | 47.67 | 1,458.85 | 5,024.25 | -1,867.05 | -7,529.72 | 0.78 | 0.71 | -281.45 |
| 1 | -6,603.28 | 86 | 40 | 46 | 46.51 | 1,416.10 | 5,014.71 | -1,374.94 | -4,039.88 | 1.03 | 0.90 | -76.78 |

As you can see, this appears to suggest a mild downside edge. But tonight I also broke it out based on whether the NASDAQ was closing at a 10-day high or not. Let's first look at times like Friday where the NASDAQ also closed at a 10-day high.

NASDAQ closes up exactly 3 days in a row **and at a 10-day high** but < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2001 - 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 | 19,947.98 | 33 | 21 | 12 | 63.64 | 3,311.84 | 11,263.00 | -4,133.39 | -7,381.82 | 0.80 | 1.40 | 604.48 |
| 9 | 4,186.21 | 33 | 19 | 14 | 57.58 | 3,185.99 | 8,958.60 | -4,024.83 | -7,919.03 | 0.79 | 1.07 | 126.85 |
| 8 | -5,443.48 | 33 | 20 | 13 | 60.61 | 2,801.15 | 8,089.68 | -4,728.19 | -8,696.77 | 0.59 | 0.91 | -164.95 |
| 7 | 10,562.05 | 34 | 17 | 17 | 50.00 | 3,371.00 | 9,076.90 | -2,749.70 | -7,072.38 | 1.23 | 1.23 | 310.65 |
| 6 | 23,836.13 | 37 | 21 | 16 | 56.76 | 2,946.48 | 13,555.36 | -2,377.49 | -7,383.81 | 1.24 | 1.63 | 644.22 |
| 5 | 26,658.82 | 40 | 25 | 15 | 62.50 | 2,635.61 | 14,540.76 | -2,615.43 | -7,069.02 | 1.01 | 1.68 | 666.47 |
| 4 | 23,321.85 | 43 | 25 | 18 | 58.14 | 2,463.73 | 9,205.56 | -2,126.20 | -5,687.94 | 1.16 | 1.61 | 542.37 |
| 3 | 6,253.81 | 43 | 24 | 19 | 55.81 | 1,899.98 | 5,386.95 | -2,070.83 | -7,444.35 | 0.92 | 1.16 | 145.44 |
| 2 | 2,129.13 | 43 | 22 | 21 | 51.16 | 1,499.76 | 5,024.25 | -1,469.79 | -5,522.40 | 1.02 | 1.07 | 49.51 |
| 1 | 9,159.27 | 43 | 24 | 19 | 55.81 | 1,289.38 | 5,014.71 | -1,146.63 | -3,826.74 | 1.12 | 1.42 | 213.01 |

Results no longer appear bearish. Most of it is green. Though results here do not appear consistent nor strong enough for me to consider this a bullish edge. Still, it certainly does not appear bearish any longer.

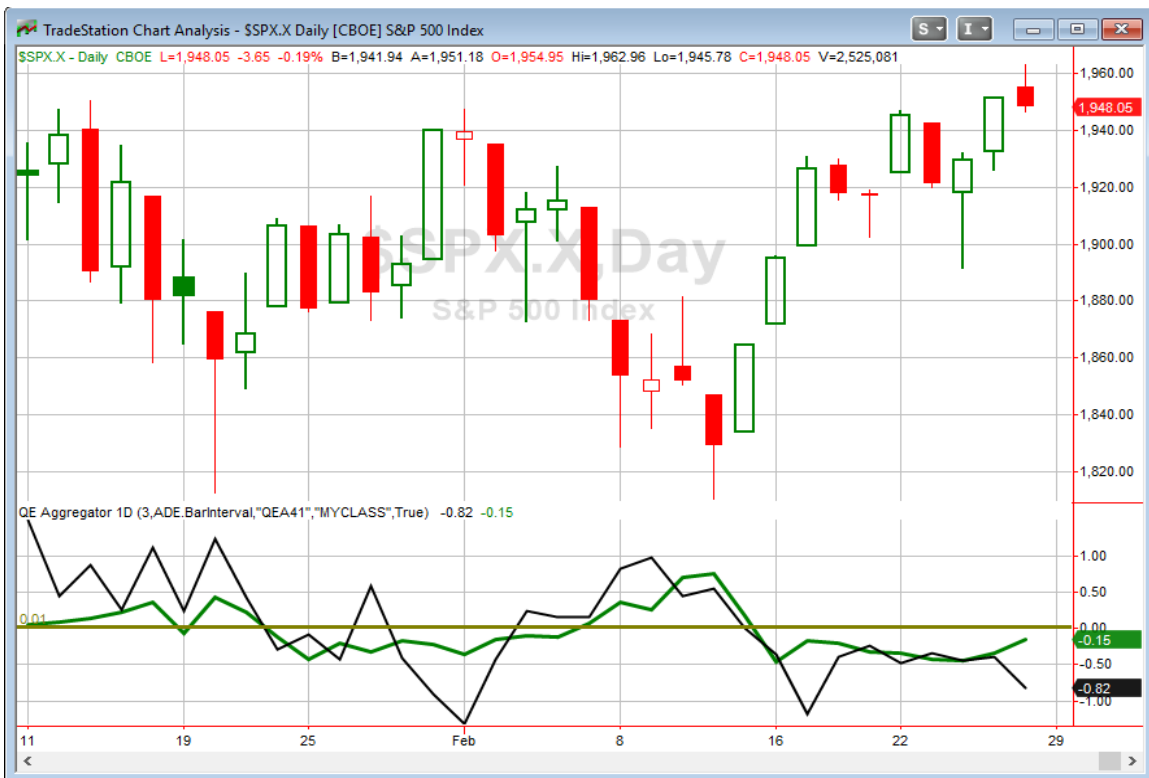
Now let's examine the instances where the 3 up days did **not** make a 10-day high.

NASDAQ closes up exactly 3 days in a row **but < 10-day high** and < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2001 - 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 |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 9 | -85,546.80 | 39 | 16 | 23 | 41.03 | 2,307.30 | 6,413.40 | -5,324.51 | -16,048.56 | 0.43 | 0.30 | -2,193.51 |
| 8 | -75,141.76 | 39 | 14 | 25 | 35.90 | 2,596.58 | 6,114.60 | -4,459.76 | -12,877.20 | 0.58 | 0.33 | -1,926.71 |
| 7 | -58,400.24 | 43 | 16 | 27 | 37.21 | 2,756.93 | 6,681.00 | -3,796.71 | -14,651.56 | 0.73 | 0.43 | -1,358.15 |
| 6 | -48,695.40 | 43 | 19 | 24 | 44.19 | 2,263.46 | 6,280.17 | -3,820.88 | -12,459.48 | 0.59 | 0.47 | -1,132.45 |
| 5 | -40,470.52 | 43 | 20 | 23 | 46.51 | 2,380.08 | 4,470.80 | -3,829.22 | -11,082.28 | 0.62 | 0.54 | -941.17 |
| 4 | -39,163.32 | 43 | 21 | 22 | 48.84 | 2,039.96 | 4,336.80 | -3,727.38 | -10,225.32 | 0.55 | 0.52 | -910.77 |
| 3 | -40,778.91 | 43 | 20 | 23 | 46.51 | 2,136.71 | 4,933.04 | -3,631.01 | -13,213.64 | 0.59 | 0.51 | -948.35 |
| 2 | -26,333.63 | 43 | 19 | 24 | 44.19 | 1,411.48 | 2,889.12 | -2,214.66 | -7,529.72 | 0.64 | 0.50 | -612.41 |
| 1 | -15,762.55 | 43 | 16 | 27 | 37.21 | 1,606.18 | 3,579.72 | -1,535.61 | -4,039.88 | 1.05 | 0.62 | -366.57 |

These numbers appear very bearish. The 10-day high appears to be a filter worth keeping in mind. Times like now where a 10-day high has been reached appear to suggest a possible breakout that would allow for further rallying – though not consistently. When the 3-day rally falls short, that suggests price is likely to roll over. So we learned some things, but have nothing new to add to the Short-Term Active List today.

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



With no new studies being added tonight the green Aggregator Line held 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 also below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is 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 bearish. But this could easily change if new bullish evidence emerges. The Differential Pivot will be 1906.50 on Monday. That is a hefty 2.1% below Friday's close. That means that SPX would need to close down 2.1% on Monday in order to move from overbought to oversold versus recent expectations. A much more likely scenario for working off the overbought condition would be a multi-day pullback for consolidation.

Tonight's studies look neutral, but evidence that is still active from past days suggests more downside. I am partially short and intend to hold onto my short exposure for another day. I'll see what new evidence emerges on Monday and re-evaluate my position tomorrow night.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/29 – neutral

| Combo #1 | Combo #2 | Combo #3 |
|-----------------|-----------------|-----------------|
| Flat | Flat | Flat |

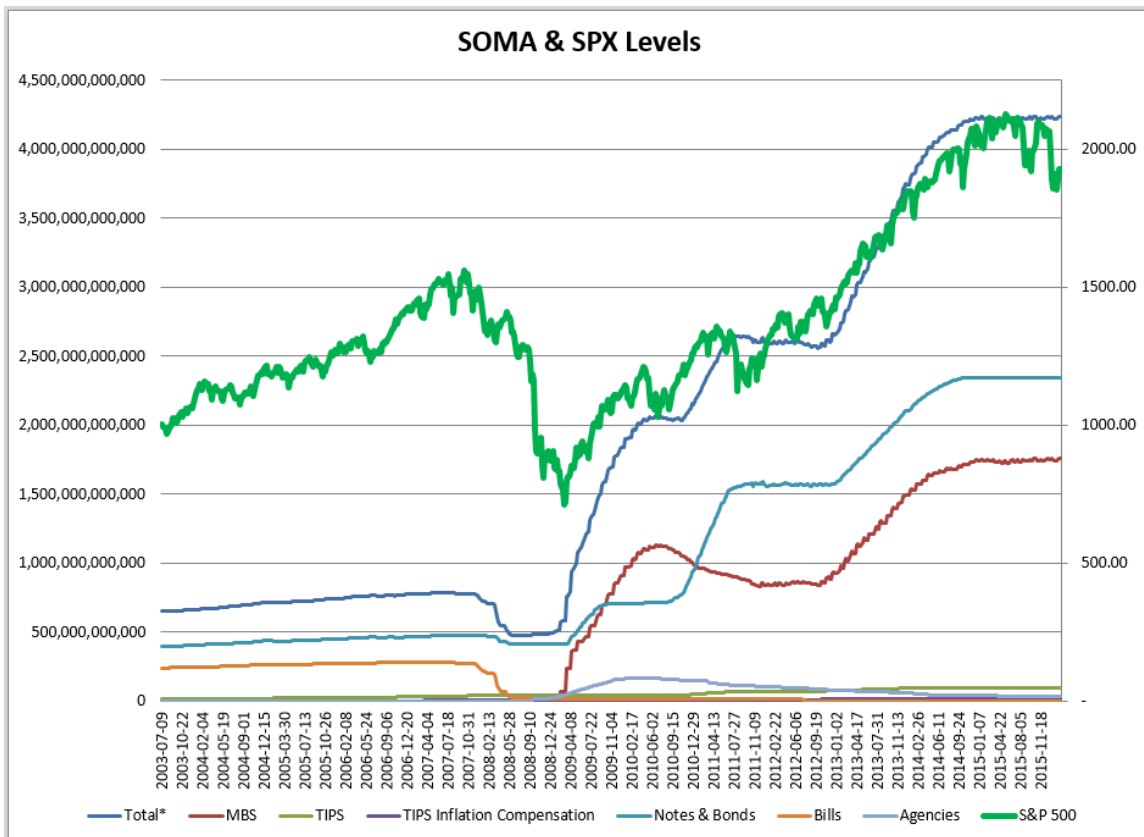
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

Even with Friday's mild decline the SPX closed up 1.6% this past week. And Friday's close of 1948.05 is the highest close for a week so far in 2016. So a rally is being attempted. But indications remain mixed on the chances of success for this rally. Action this past week did not inspire any new intermediate-term studies.

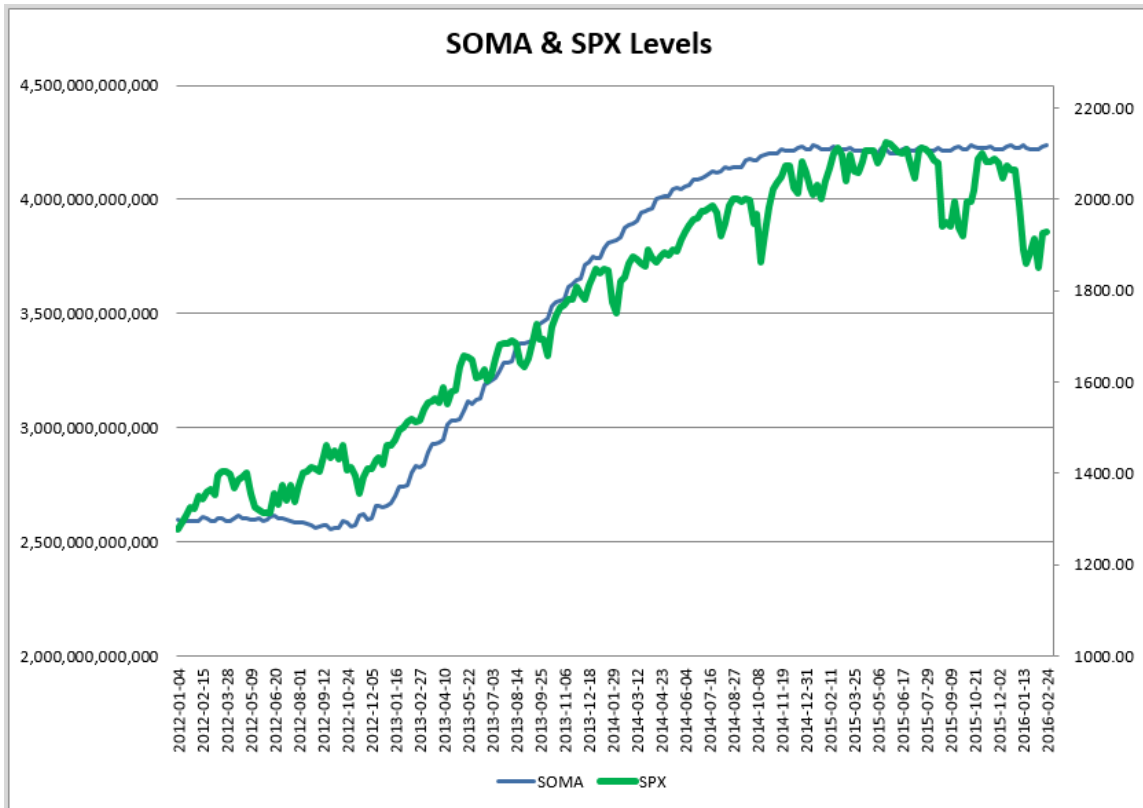
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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).



SOMA this past week (Wednesday to Wednesday) rose by 0.1%. I discussed last week that this was expected based on the SOMA reinvestment schedule. The SPX rose slightly over that period and took advantage of the liquidity infusion as it often does. Since the beginning of 2015 SPX has risen 8.87% during strong SOMA expansion weeks. During all other weeks SPX has lost a sum total of 14.22%. This week I am expecting to see SOMA take a bit of a dive. If the market is going to rally over the next few days it is going to have to do so without any help from Fed liquidity.

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 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.

One thing this rally is still missing is a Follow Through Day (FTD). I will continue keeping an eye out for that. I have done a lot of research on FTDs over the years. I have found that they are not nearly what they are often hyped to be, but that they can often provide nice clues about whether a rally is likely to succeed or fail. A lot of research on FTDs can be found [on the Quantifiable Edges blog](#).

Intermediate-term evidence remains mixed. Bulls can point to long-term seasonal forces, and a few breadth-thrust studies that we see on the Active Studies list. But trend, leadership, and Fed policy 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

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

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|-------------|------------|-------------|---------------|-------------|------|------------|
| SPY(1/4)(s) | 2/17/2016 | \$191.16 | \$195.09 | -2.06% | | Aggregator |
| SPY(1/4)(s) | 2/26/2016 | \$196.57 | \$195.09 | 0.75% | | Aggregator |
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