

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 7, 2016

Volume 9 Issue 44

Market Overview



Signals Overview

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

Tonight's Research Points

- When the Nasdaq has closed higher 4 days in a row and under its 200ma it has consistently been followed by a pullback – both in the Nasdaq and in the SPX.
- The 3/10 Offset HV is very low. A big move is now likely. Indications are that it will probably be lower.
- A flat week is expected for SOMA, which is typically difficult for the market.

Short-term Outlook

The Bottom Line

Bearish evidence continues to build. With SPX squarely overbought I am anticipating a dip.

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 | | | | | | |
| March 7, 2016 | 3/10 Offset HV < 0.25. RSI>90. C<200 | 1-2 days | Bearish | | | |
| March 7, 2016 | NASDAQ up 4 days < 200ma | 1-6 days | Bearish | | | |
| March 4, 2016 | SPY 10 high volume 20 low. Close<200 | 1-2 days | Bearish | | | |
| March 3, 2016 | SPY 10 high volume 20 low. Close<200 | 1-2 days | Bearish | | | |
| Active - Long Term | | | | | | |
| March 2, 2016 | FTD & 20-day high | int term | Bullish | | | |
| February 18, 2016 | Up Issue % > 70% 3x | 1-85 days | Bullish | 10.70% | -5.10% | -12.10% |
| February 1, 2016 | 2 90% 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 | | | | | | |
| March 2, 2016 | FTD & 20-day high | 1-3 days | Bullish | | | |
| March 2, 2016 | SPY closes top 10% 1-day & 10-day rng | 1-3 days | Bearish | | | |

The Evidence

Friday was yet another up day. The SPX rallied 0.3%, the NASDAQ gained 0.2%, and the Russell 2000 rose 0.6%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 75%. Total NYSE volume rose some from Thursday's level.

One study provided some compelling results is the one below. It is from the 10/13/15 subscriber letter. It looks at other instances in which the Nasdaq rose exactly 4 days in a row and closed under the 200ma. All results have been updated.

| NASDAQ closes higher for exactly 4th day in a row. It did NOT close at a 50-day low 4 days ago. Buy on close. Sell X days later. \$100k/trade. 2002 - 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: Profit Factor | All: Avg Trade |
| 10 | -44,859.88 | 19 | 5 | 14 | 26.32 | 2,374.51 | 4,498.82 | -4,052.32 | -9,279.70 | 0.59 | 0.21 | -2,361.05 |
| 9 | -39,250.88 | 19 | 6 | 13 | 31.58 | 1,668.88 | 3,123.20 | -3,789.55 | -7,688.92 | 0.44 | 0.20 | -2,065.84 |
| 8 | -31,886.22 | 20 | 8 | 12 | 40.00 | 1,645.41 | 3,823.79 | -3,754.13 | -7,746.48 | 0.44 | 0.29 | -1,594.31 |
| 7 | -34,579.77 | 20 | 6 | 14 | 30.00 | 1,524.99 | 3,529.97 | -3,123.55 | -5,934.18 | 0.49 | 0.21 | -1,728.99 |
| 6 | -38,458.27 | 20 | 5 | 15 | 25.00 | 1,156.40 | 4,086.93 | -2,949.35 | -6,362.65 | 0.39 | 0.13 | -1,922.91 |
| 5 | -25,658.65 | 21 | 6 | 15 | 28.57 | 1,366.96 | 2,029.98 | -2,257.36 | -5,753.20 | 0.61 | 0.24 | -1,221.84 |
| 4 | -15,993.16 | 21 | 9 | 12 | 42.86 | 952.58 | 1,870.87 | -2,047.20 | -4,907.27 | 0.47 | 0.35 | -761.58 |
| 3 | -15,454.91 | 21 | 9 | 12 | 42.86 | 1,252.04 | 2,032.68 | -2,226.94 | -4,090.24 | 0.56 | 0.42 | -735.95 |
| 2 | -18,563.70 | 21 | 9 | 12 | 42.86 | 798.02 | 2,042.04 | -2,145.49 | -5,242.88 | 0.37 | 0.28 | -883.99 |
| 1 | -14,607.56 | 21 | 7 | 14 | 33.33 | 681.54 | 1,809.18 | -1,384.17 | -3,232.00 | 0.49 | 0.25 | -695.60 |

All 21 instances closed below the entry price at some point in the next week.

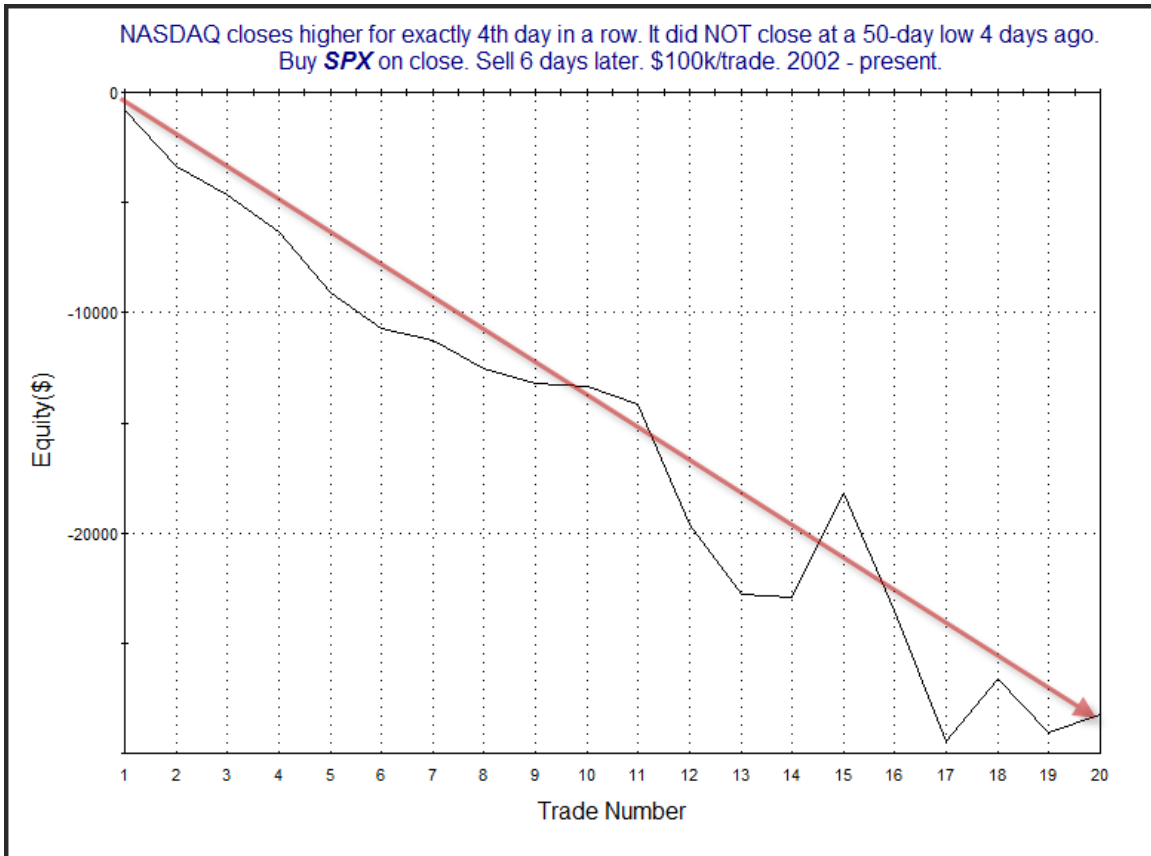
Results here appears to be strongly bearish. And the edge persists for up to 2 weeks. I also examined how the SPX might have performed when the Nasdaq had set up this way. The updated results below show this.

NASDAQ closes higher for exactly 4th day in a row. It did NOT close at a 50-day low 4 days ago.
Buy **SPX** on close. Sell X days later. \$100k/trade. 2002 - 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 | -30,641.85 | 19 | 4 | 15 | 21.05 | 4,195.22 | 7,245.00 | -3,161.51 | -7,631.40 | 1.33 | 0.35 | -1,612.73 |
| 9 | -27,696.31 | 19 | 7 | 12 | 36.84 | 2,106.97 | 4,733.40 | -3,537.09 | -5,350.02 | 0.60 | 0.35 | -1,457.70 |
| 8 | -22,869.07 | 20 | 6 | 14 | 30.00 | 2,255.08 | 6,129.50 | -2,599.97 | -7,676.64 | 0.87 | 0.37 | -1,143.45 |
| 7 | -24,803.27 | 20 | 6 | 14 | 30.00 | 1,770.79 | 4,320.55 | -2,530.57 | -6,238.08 | 0.70 | 0.30 | -1,240.16 |
| 6 | -28,248.48 | 20 | 3 | 17 | 15.00 | 2,806.37 | 4,716.15 | -2,156.92 | -5,959.76 | 1.30 | 0.23 | -1,412.42 |
| 5 | -20,474.53 | 21 | 7 | 14 | 33.33 | 1,075.91 | 1,915.14 | -2,000.42 | -6,523.10 | 0.54 | 0.27 | -974.98 |
| 4 | -13,295.62 | 21 | 9 | 12 | 42.86 | 727.83 | 1,659.08 | -1,653.84 | -4,056.12 | 0.44 | 0.33 | -633.12 |
| 3 | -13,470.50 | 21 | 12 | 9 | 57.14 | 704.33 | 1,802.76 | -2,435.83 | -5,547.24 | 0.29 | 0.39 | -641.45 |
| 2 | -17,997.70 | 21 | 8 | 13 | 38.10 | 498.05 | 1,695.10 | -1,690.93 | -5,495.94 | 0.29 | 0.18 | -857.03 |
| 1 | -10,486.50 | 21 | 7 | 14 | 33.33 | 663.03 | 1,736.36 | -1,080.55 | -3,300.30 | 0.61 | 0.31 | -499.36 |

All 21 instances closed below the entry price at some point in the next week.

Though not quite as powerful, these results appear just as consistently bearish as the NASDAQ results. Below is an equity curve that assumes a 6-day holding period.



The last instance went against the grain but the results appear to be nicely consistent. This serves as confirmation of the downside edge.

Another indicator that is providing a notable reading is the 3/10 Offset HV for the SPX. I first introduced this indicator in [the 7/13/2009 blog](#). It looks for periods where short-term historical volatility is contracting sharply. When that happens it is often soon followed by a volatility expansion. This volatility expansion can occur in either direction. The indicator does not predict direction. But when combined with other indicators it can provide some powerful signals. The study below looks at the combination of low a 3/10 Offset HV, a short-term overbought market, and a long-term downtrend. It was last seen in the 12/7/11 subscriber letter. I have updated all results.

SPX 3/10 Offset HV < 0.25. SPX 2-day RSI > 90. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1999 - 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 | -37,296.91 | 18 | 5 | 13 | 27.78 | 595.83 | 1,138.84 | -3,098.16 | -7,519.22 | 0.19 | 0.07 | -2,072.05 |
| 4 | -30,119.28 | 18 | 3 | 15 | 16.67 | 1,004.61 | 1,209.90 | -2,208.87 | -5,663.22 | 0.45 | 0.09 | -1,673.29 |
| 3 | -19,587.45 | 18 | 5 | 13 | 27.78 | 971.26 | 1,631.16 | -1,880.29 | -6,445.61 | 0.52 | 0.20 | -1,088.19 |
| 2 | -24,134.25 | 18 | 1 | 17 | 5.56 | 1,510.64 | 1,510.64 | -1,508.52 | -5,264.73 | 1.00 | 0.06 | -1,340.79 |
| 1 | -16,426.39 | 19 | 5 | 14 | 26.32 | 961.26 | 2,286.84 | -1,516.62 | -8,883.33 | 0.63 | 0.23 | -864.55 |

As you can see, the results are overwhelmingly bearish over the next couple of days. Below I have listed all 18 instances.

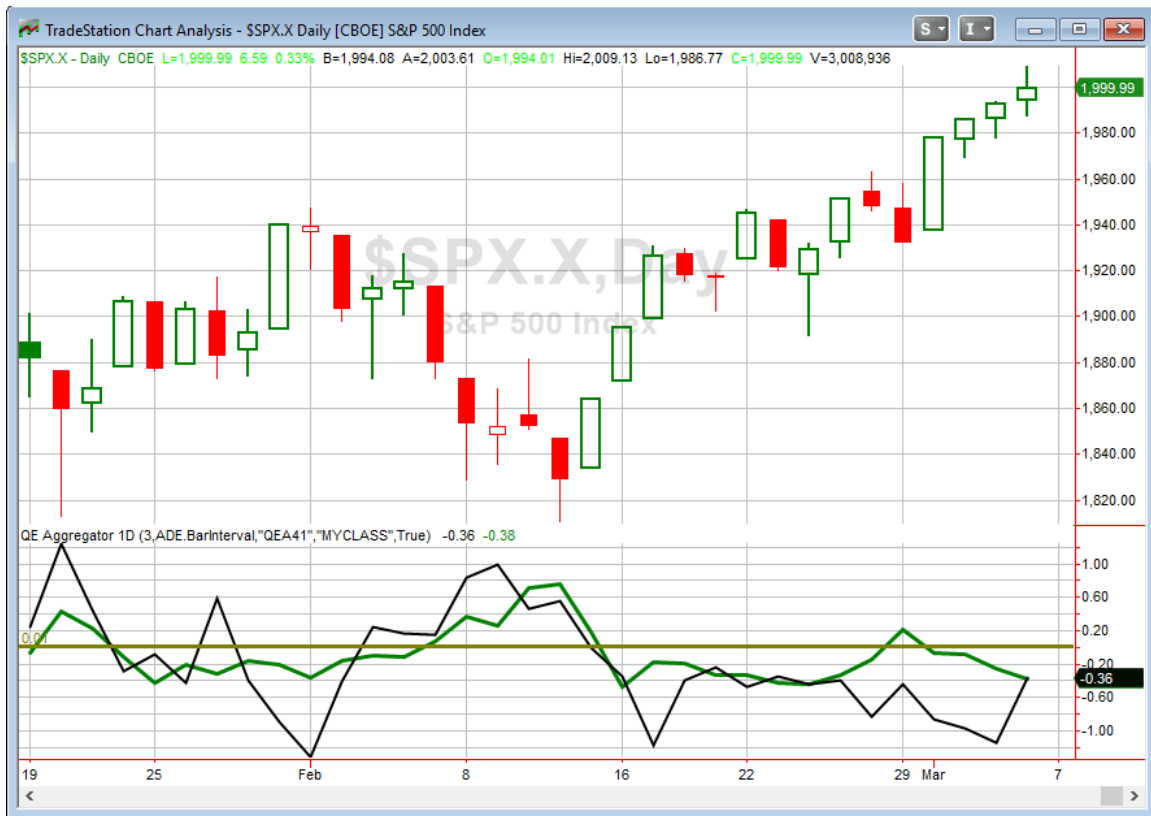
SPX 3/10 Offset HV < 0.25. SPX 2-day RSI > 90. Close < 200ma.
Buy on close. Sell 2 days later. \$100k/trade. 1999 - present.

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|------------|--------|------------|----------|--------------------|
| 12/28/2000 | Buy | \$1,334.19 | -3.82% | \$437.34 |
| 1/2/2001 | Sell | \$1,283.27 | | (\$4,302.36) |
| 1/18/2001 | Buy | \$1,347.97 | -0.38% | \$486.92 |
| 1/22/2001 | Sell | \$1,342.90 | | (\$1,045.62) |
| 3/7/2001 | Buy | \$1,261.89 | -2.26% | \$364.19 |
| 3/9/2001 | Sell | \$1,233.42 | | (\$2,644.13) |
| 8/2/2001 | Buy | \$1,220.75 | -1.66% | \$0.00 |
| 8/6/2001 | Sell | \$1,200.48 | | (\$1,895.40) |
| 12/19/2001 | Buy | \$1,149.56 | -0.41% | \$159.96 |
| 12/21/2001 | Sell | \$1,144.89 | | (\$828.18) |
| 12/28/2001 | Buy | \$1,161.02 | -0.55% | \$12.04 |
| 1/2/2002 | Sell | \$1,154.67 | | (\$2,131.94) |
| 10/21/2002 | Buy | \$899.72 | -0.40% | \$0.00 |
| 10/23/2002 | Sell | \$896.14 | | (\$2,867.13) |
| 11/6/2002 | Buy | \$923.76 | -3.14% | \$3.24 |
| 11/8/2002 | Sell | \$894.74 | | (\$3,466.80) |
| 3/20/2003 | Buy | \$875.84 | -1.33% | \$2,286.84 |
| 3/24/2003 | Sell | \$864.23 | | (\$1,575.48) |
| 8/2/2004 | Buy | \$1,106.62 | -0.72% | \$0.00 |
| 8/4/2004 | Sell | \$1,098.63 | | (\$1,279.80) |
| 2/13/2008 | Buy | \$1,367.20 | -1.26% | \$70.08 |
| 2/15/2008 | Sell | \$1,349.98 | | (\$2,122.11) |
| 4/7/2008 | Buy | \$1,372.53 | -1.31% | \$0.00 |
| 4/9/2008 | Sell | \$1,354.49 | | (\$1,624.32) |
| 4/25/2008 | Buy | \$1,397.85 | -0.49% | \$358.55 |
| 4/29/2008 | Sell | \$1,390.95 | | (\$791.65) |
| 11/28/2008 | Buy | \$896.24 | -5.29% | \$0.00 |
| 12/2/2008 | Sell | \$848.81 | | (\$8,941.05) |
| 7/12/2010 | Buy | \$1,078.75 | 1.52% | \$1,905.32 |
| 7/14/2010 | Sell | \$1,095.17 | | \$0.00 |
| 9/15/2011 | Buy | \$1,209.11 | -0.42% | \$897.90 |
| 9/19/2011 | Sell | \$1,204.09 | | (\$1,701.50) |
| 12/6/2011 | Buy | \$1,258.47 | -1.92% | \$678.61 |
| 12/8/2011 | Sell | \$1,234.35 | | (\$2,133.00) |
| 2/17/2016 | Buy | \$1,926.82 | -0.47% | \$162.18 |
| 2/19/2016 | Sell | \$1,917.78 | | (\$1,257.15) |

**The 7/12/10 instance sold off hard on Day 4 to close below the entry price.
The Avg Drawdown has been the same size as the LARGEST run-up (2.3%).
The Average Drawdown has been over 5x the size of the Average Run-up.**

Results are strongly negative and consistent.

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



With tonight's studies being considered the green Aggregator Line moved further below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remained 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 slated to remain bearish. But this could change if strong new bullish evidence emerges. The Differential Pivot will be 1987.62 on Monday. That is 0.6% below Friday's close. So for SPX to move from overbought to oversold versus recent expectations it would need to close down at least 0.6% on Monday.

I have been hesitant to scale in further into an index position over the last few days, since evidence has been somewhat moderate. But these two studies tonight have very compelling results over the next couple of days, the market is squarely overbought, and if I am going to add any more short exposure, this would seem to be the place to do it. I believe there is a downside edge and would like to take advantage of it to some degree. So I will look to up my short exposure on Monday if I can get a decent fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/7 – 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.*

This was a big up week for the market with the SPX rising 2.7% and posting gains every day except Monday. Tuesday’s action generated a Follow Through Day (FTD) and led to a bullish intermediate-term study. I have copied that study from Tuesday night’s letter below.

Tuesday did mark the 1st IBD Follow Through Day (FTD) since the rally began. Unusual about this FTD is that it occurred in conjunction with SPX making a new 20-day high. This triggered the study below, from the 10/19/11 letter.

| Today is Follow Through Day (FTD). SPX closes at a 20-day high. Buy 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 |
| 20 | 36,389.20 | 12 | 10 | 2 | 83.33 | 4,242.40 | 8,449.98 | -3,017.38 | -4,916.46 | 1.41 | 7.03 | 3,032.43 |
| 19 | 36,496.68 | 12 | 9 | 3 | 75.00 | 4,560.48 | 8,638.19 | -1,515.87 | -2,535.28 | 3.01 | 9.03 | 3,041.39 |
| 18 | 38,144.32 | 12 | 9 | 3 | 75.00 | 4,746.12 | 8,021.64 | -1,523.59 | -2,534.61 | 3.12 | 9.35 | 3,178.69 |
| 17 | 36,477.08 | 12 | 10 | 2 | 83.33 | 3,958.01 | 8,709.58 | -1,551.48 | -1,983.40 | 2.55 | 12.76 | 3,039.76 |
| 16 | 34,236.65 | 12 | 10 | 2 | 83.33 | 3,513.70 | 8,456.47 | -450.18 | -464.20 | 7.81 | 39.03 | 2,853.05 |
| 15 | 35,531.59 | 12 | 10 | 2 | 83.33 | 3,615.87 | 8,417.53 | -313.55 | -584.91 | 11.53 | 57.66 | 2,960.97 |
| 14 | 37,604.64 | 12 | 10 | 2 | 83.33 | 3,924.50 | 8,923.75 | -820.19 | -1,619.28 | 4.78 | 23.92 | 3,133.72 |
| 13 | 31,320.51 | 12 | 10 | 2 | 83.33 | 3,309.68 | 7,484.65 | -888.15 | -1,660.80 | 3.73 | 18.63 | 2,610.04 |
| 12 | 23,595.18 | 12 | 7 | 5 | 58.33 | 4,001.97 | 6,522.45 | -883.72 | -2,107.14 | 4.53 | 6.34 | 1,966.26 |
| 11 | 20,331.32 | 12 | 8 | 4 | 66.67 | 3,251.34 | 6,288.81 | -1,419.85 | -2,937.54 | 2.29 | 4.58 | 1,694.28 |
| 10 | 12,499.25 | 12 | 6 | 6 | 50.00 | 3,250.75 | 5,659.28 | -1,167.55 | -2,571.84 | 2.78 | 2.78 | 1,041.60 |
| 9 | 17,019.83 | 12 | 7 | 5 | 58.33 | 3,244.10 | 6,704.17 | -1,137.77 | -3,011.76 | 2.85 | 3.99 | 1,418.32 |
| 8 | 19,310.94 | 12 | 7 | 5 | 58.33 | 3,608.23 | 7,359.66 | -1,189.33 | -2,687.04 | 3.03 | 4.25 | 1,609.24 |
| 7 | 23,997.92 | 12 | 9 | 3 | 75.00 | 2,896.79 | 7,353.17 | -691.07 | -1,142.35 | 4.19 | 12.58 | 1,999.83 |
| 6 | 20,017.98 | 12 | 11 | 1 | 91.67 | 1,922.32 | 7,431.05 | -1,127.52 | -1,127.52 | 1.70 | 18.75 | 1,668.16 |
| 5 | 15,230.44 | 12 | 11 | 1 | 91.67 | 1,414.76 | 4,977.83 | -331.92 | -331.92 | 4.26 | 46.89 | 1,269.20 |
| 4 | 15,307.83 | 12 | 10 | 2 | 83.33 | 1,635.51 | 5,600.87 | -523.64 | -552.82 | 3.12 | 15.62 | 1,275.65 |
| 3 | 14,666.97 | 12 | 9 | 3 | 75.00 | 1,835.80 | 5,529.48 | -618.41 | -998.20 | 2.97 | 8.91 | 1,222.25 |
| 2 | 10,563.95 | 12 | 7 | 5 | 58.33 | 1,860.92 | 5,367.23 | -492.50 | -809.19 | 3.78 | 5.29 | 880.33 |
| 1 | 5,610.13 | 12 | 7 | 5 | 58.33 | 1,099.88 | 2,537.59 | -417.80 | -1,255.50 | 2.63 | 3.69 | 467.51 |

Results here are impressive over both the short and intermediate-term. To get a better feel for the short-term returns I have listed the instances below.

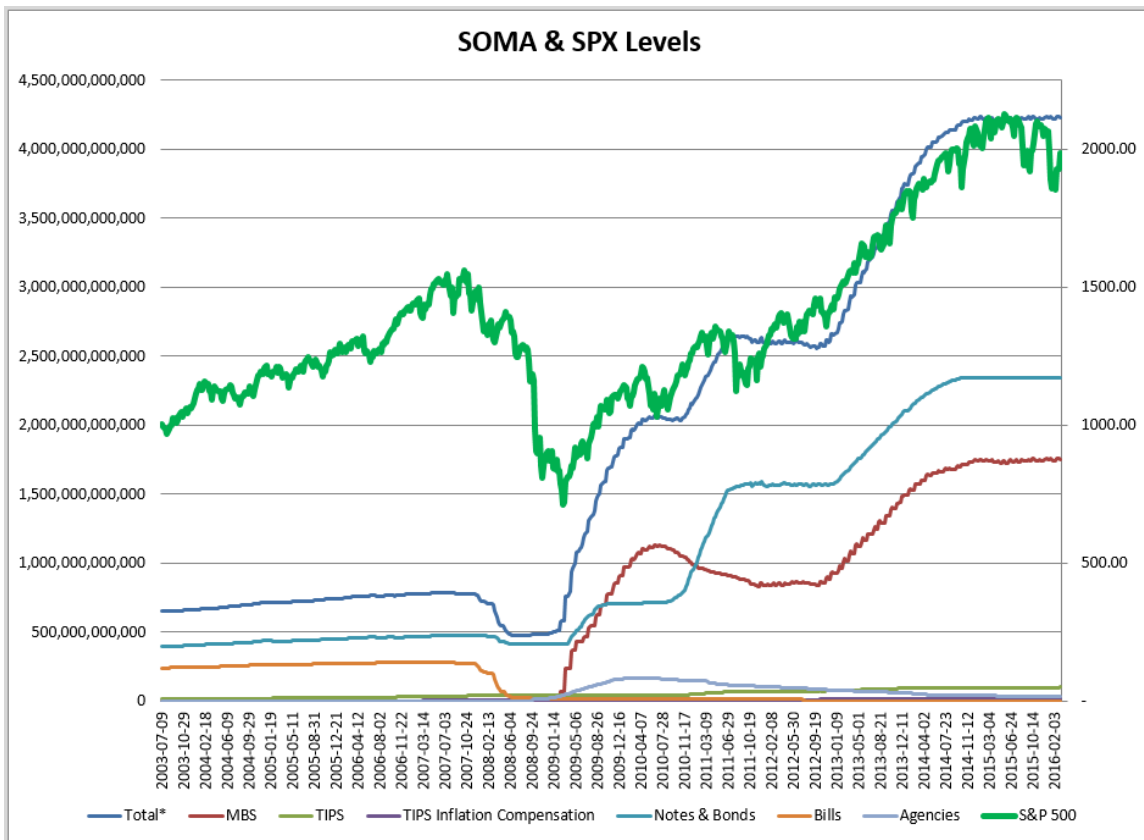
| Today is Follow Through Day (FTD). SPX closes at a 20-day high. Buy on close. Sell 6 days later. \$100k/trade. 1971 - present. | | | | |
|---|--------|------------|----------|--------------------|
| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
| 12/1/1971 | Buy | \$95.54 | 1.49% | \$2,750.98 |
| 12/9/1971 | Sell | \$96.96 | | (\$847.26) |
| 11/10/1977 | Buy | \$94.71 | 0.65% | \$1,877.90 |
| 11/18/1977 | Sell | \$95.33 | | (\$126.60) |
| 12/1/1978 | Buy | \$96.27 | 0.87% | \$2,397.78 |
| 12/11/1978 | Sell | \$97.11 | | (\$944.58) |
| 8/1/1984 | Buy | \$154.08 | 7.43% | \$7,658.20 |
| 8/9/1984 | Sell | \$165.53 | | \$0.00 |
| 10/16/1985 | Buy | \$187.97 | 0.28% | \$780.57 |
| 10/24/1985 | Sell | \$188.50 | | (\$631.89) |
| 8/11/1986 | Buy | \$240.67 | 2.42% | \$2,971.40 |
| 8/19/1986 | Sell | \$246.50 | | (\$132.80) |
| 10/8/1986 | Buy | \$236.67 | 1.20% | \$1,477.00 |
| 10/16/1986 | Sell | \$239.52 | | (\$974.82) |
| 12/5/2007 | Buy | \$1,485.00 | 0.23% | \$2,584.19 |
| 12/13/2007 | Sell | \$1,488.42 | | (\$1,123.59) |
| 4/1/2008 | Buy | \$1,370.15 | -1.14% | \$1,194.48 |
| 4/9/2008 | Sell | \$1,354.49 | | (\$1,452.96) |
| 7/15/2009 | Buy | \$932.68 | 4.68% | \$5,001.18 |
| 7/23/2009 | Sell | \$976.29 | | (\$559.61) |
| 10/18/2011 | Buy | \$1,225.38 | 1.36% | \$2,524.77 |
| 10/26/2011 | Sell | \$1,242.00 | | (\$2,271.24) |
| 12/11/2012 | Buy | \$1,427.84 | 0.56% | \$1,411.20 |
| 12/19/2012 | Sell | \$1,435.81 | | (\$1,117.20) |
| Avg Run-up: 2.7% Avg Drawdown: -0.85% | | | | |

The run-up to drawdown ratio here is quite impressive. I'll also note that 9 of the 12 instances went on to have "successful" rallies. ("Success" means it either hit a new 200-day high or at least rose 2x as much as it had already risen off the bottom.) The 3 instances whose rallies did not succeed (circled in red) all saw run-ups of at least 2% before they eventually rolled over and made new lows.

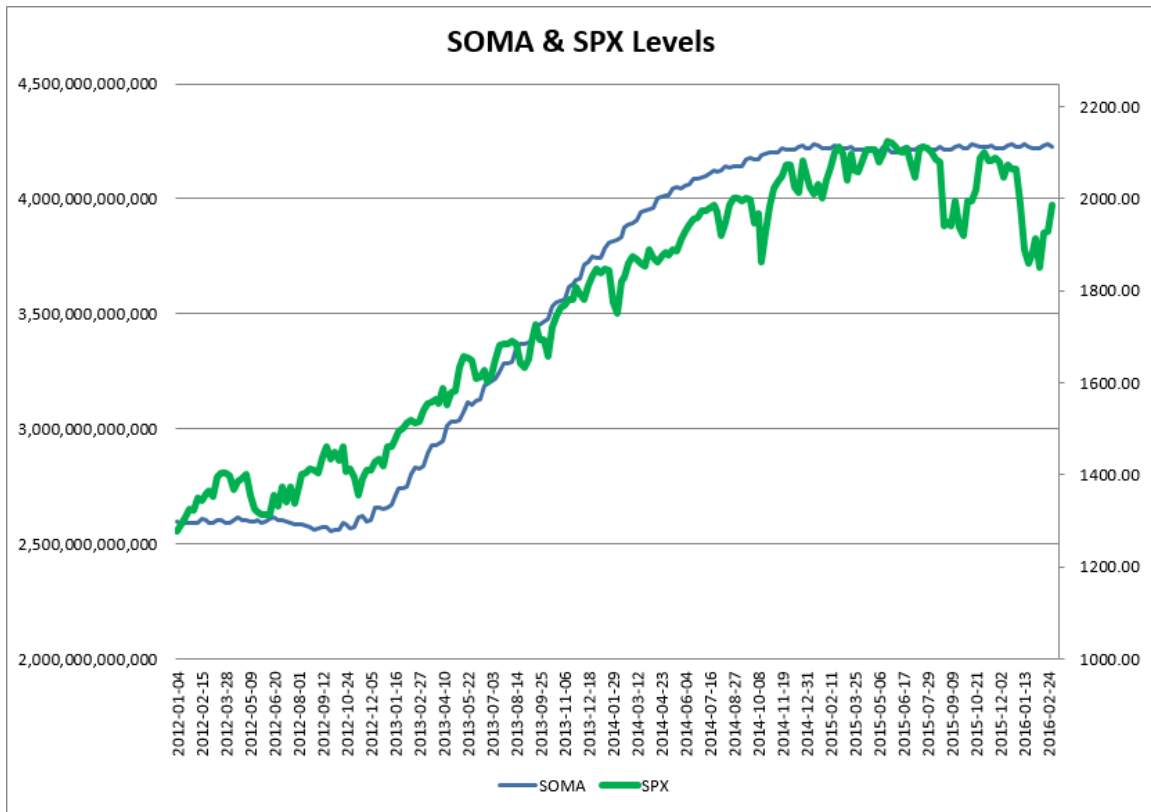
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) declined by 0.21%. I discussed last week that this was expected based on the SOMA reinvestment schedule. The market rose 2.94% over this period, which is highly unusual for a week when SOMA has declined. 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 11.28%. This week I am expecting to see SOMA close about flat. 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.

Intermediate-term evidence remains mixed. Bulls can point to long-term seasonal forces, a few breadth-thrust studies that we see on the Active Studies list, and this past week's bullish FTD. But long-term trend measures, leadership, and Fed policy are still pointing towards a 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.

SPY – Sell short ¼ index position @ 200.43 LIMIT. Base on the short-term outlook above, I will look to scale in a little further with my short position. This is the 3rd of 4 possible lots.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|-------------|------------|-------------|---------------|-------------|------|------------|
| SPY(1/4)(s) | 2/17/2016 | \$191.16 | \$200.43 | -4.85% | | Aggregator |
| SPY(1/4)(s) | 2/26/2016 | \$196.57 | \$200.43 | -1.96% | | Aggregator |
| | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2016 Hanna Capital Management, LLC.