

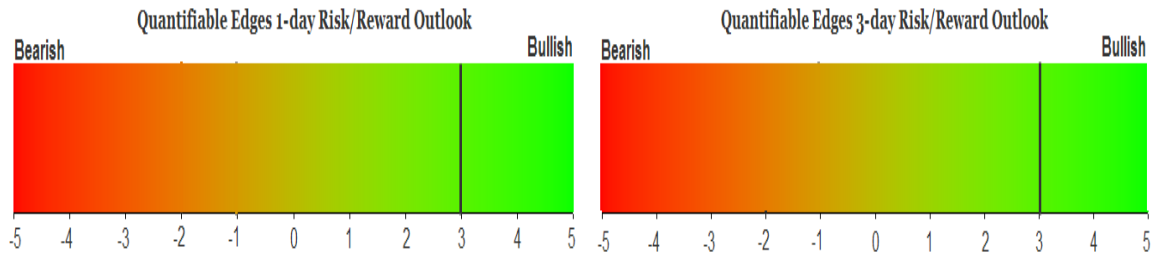
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 28, 2016

Volume 9 Issue 58

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>	<b>QE Buy Pwr Swing</b>
Long	100% Long XIV	Flat

## Tonight's Research Points

- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.
- The 1<sup>st</sup> dip below the 10ma for SPY after spending at least 25 days above it has always been buyable.
- The 3-day pullback is showing indications that a bounce is likely.
- SOMA is expected to decline this week, dampening the bullish potential.

## *Short-term Outlook*

### *The Bottom Line*

Expectations have turned positive and SPX is now oversold. There appears to be a bit of a short-term bullish 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
<b>Active - Short Term</b>						
March 28, 2016	1st close < 10ma in 25 days	1-4 days	Bullish	1.70%	-0.50%	-1.30%
March 28, 2016	Dn 3 days from 20-high.	1-3 days	Bullish	1.70%	-0.80%	-1.80%
March 28, 2016	2 unfilled gaps dn. 5 low. Close > 200ma	1-6 days	Bullish	1.90%	-1.30%	-2.40%
March 24, 2016	1st 5-low in 10 days, but > 10ma	1-4 days	Bullish			
March 22, 2016	NASDAQ up 4 < 200ma	1-6 days	Bearish			
March 21, 2016	Opex week 1%-2% gain	1-5 days	Bearish			
<b>Active - Long Term</b>						
March 28, 2016	1st close < 10ma in 25 days	1-19 days	Bullish	4.10%	-0.90%	-2.25%
March 28, 2016	2 unfilled gaps dn. 5 low. Close > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.40%
March 24, 2016	1st 5-low in 10 days, but > 10ma	1-10 days	Bullish			
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			
<b>Dropped Tonight</b>						
March 24, 2016	Holy Thursday Bullish	1 day	Bullish			

***The Evidence***

The market got off to a tough start but finished mixed on Thursday. The SPX closed down less than 1 point, but the NASDAQ rose 0.1%, and the Russell 2000 gained 0.4%. Breadth was mildly positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 57%. NYSE volume came in very light going into the long weekend.

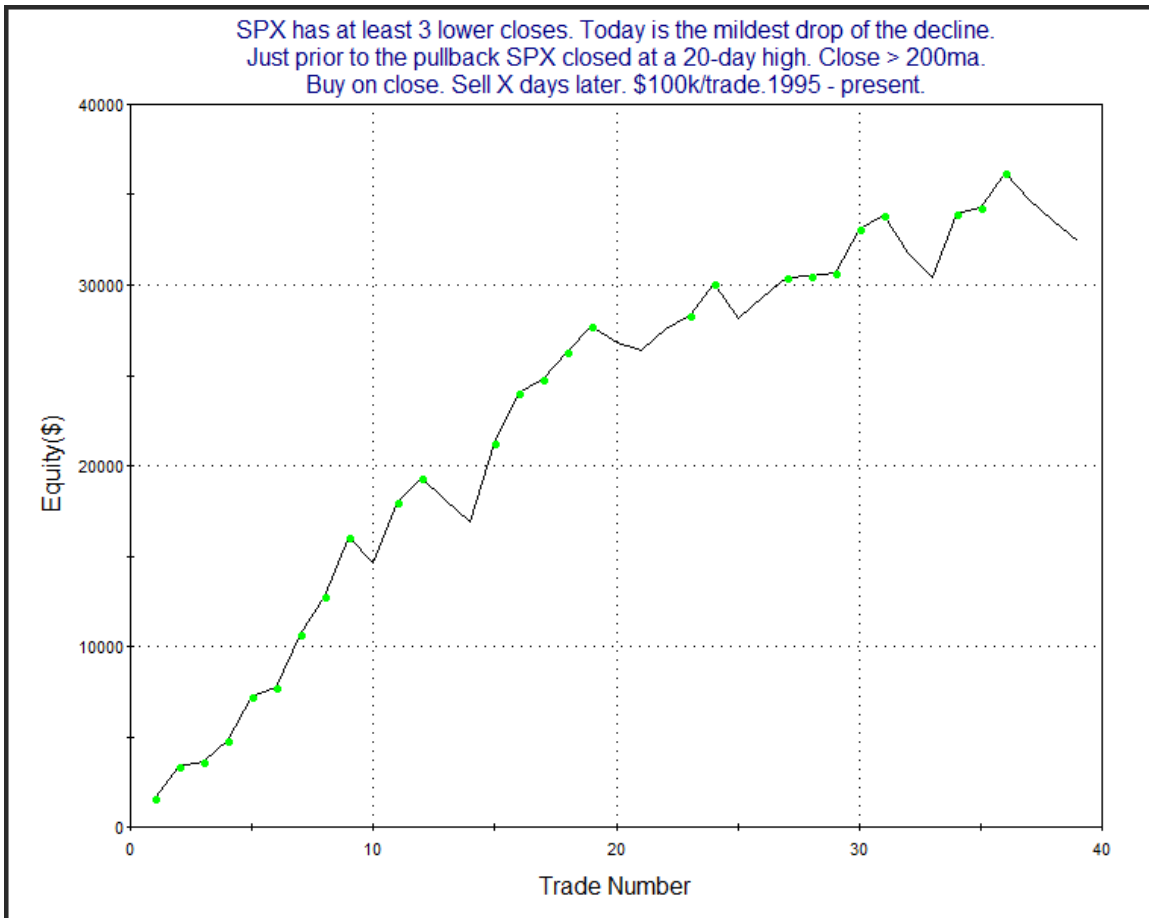
A few studies emerged that seem worth considering as we head into the new week. This first study was last seen in the 11/9/15 subscriber letter. It takes into consideration both that the SPX is coming off a 20-day high and that today's drop was the smallest of the decline. This can suggest the sellers are running out of steam. I have updated the stats below.

SPX has at least 3 lower closes. Today is the mildest drop of the decline.  
 Just prior to the pullback SPX closed at a 20-day high. Close > 200ma.  
 Buy on close. Sell X days later. \$100k/trade. 1995 - 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	47,443.01	37	25	12	67.57	2,520.99	7,183.08	-1,298.49	-7,026.10	1.94	4.04	1,282.24
9	45,683.61	37	26	11	70.27	2,433.83	6,685.72	-1,599.65	-7,816.60	1.52	3.60	1,234.69
8	41,754.16	37	26	11	70.27	2,368.85	6,017.68	-1,803.26	-4,389.40	1.31	3.10	1,128.49
7	32,250.98	38	24	14	63.16	2,378.94	6,121.80	-1,774.54	-3,690.70	1.34	2.30	848.71
6	34,085.42	38	23	15	60.53	2,083.58	5,533.56	-922.47	-2,162.47	2.26	3.46	896.98
5	30,334.09	39	26	13	66.67	1,869.18	5,769.16	-1,404.97	-3,579.52	1.33	2.66	777.80
4	31,007.84	39	23	16	58.97	2,023.05	4,989.40	-970.14	-2,876.40	2.09	3.00	795.07
3	32,410.23	39	28	11	71.79	1,671.72	4,373.80	-1,308.91	-2,085.27	1.28	3.25	831.03
2	23,337.96	40	28	12	70.00	1,369.92	3,583.44	-1,251.66	-2,803.79	1.09	2.55	583.45
1	8,638.84	43	29	13	67.44	770.67	1,767.00	-1,054.66	-2,214.00	0.73	1.63	200.90

35 of 39 instances (90%) closed above the entry price at some point in the next week.

Here we see what appears to be a fairly reliable setup with some powerful results. A 3-day profit curve can be found below.



While the last 3 instances have caused the curve to fade a little, it still appears quite strong. I have added this study to the Active List for tonight.

Also notable about the price action over the last 2 days is that both Wednesday and Thursday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 7/9/14 letter. Results are updated.

**SPY leaves an unfilled gap down for the 2nd day in a row. It closes at a 5-day low but > 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
10	45,294.71	38	29	9	76.32	2,122.86	5,325.39	-1,807.58	-4,353.36	1.17	3.78	1,191.97
9	41,460.25	39	31	8	79.49	1,945.69	4,882.41	-2,357.01	-6,273.96	0.83	3.20	1,063.08
8	35,059.33	39	28	10	71.79	1,922.19	4,574.25	-1,876.21	-4,801.50	1.02	2.87	898.96
7	22,630.93	39	26	12	66.67	1,897.34	4,429.74	-2,224.99	-5,057.58	0.85	1.85	580.28
6	30,805.05	39	29	10	74.36	1,631.28	3,828.72	-1,650.20	-3,734.50	0.99	2.87	789.87
5	26,946.76	39	27	12	69.23	1,464.01	3,940.02	-1,048.45	-2,721.75	1.40	3.14	690.94
4	19,363.65	39	28	11	71.79	1,169.27	4,388.28	-1,216.00	-2,583.00	0.96	2.45	496.50
3	9,586.65	39	23	16	58.97	961.60	3,325.14	-783.13	-1,795.80	1.23	1.77	245.81
2	6,453.85	39	23	16	58.97	863.10	2,948.14	-837.34	-2,436.12	1.03	1.48	165.48
1	5,851.55	40	25	15	62.50	670.30	1,974.15	-727.06	-1,849.26	0.92	1.54	146.29

**Only 1 instance failed to close above the entry price at some point in the next 6 days. It triggered on 9/14/99.**

The numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 6-day holding period.

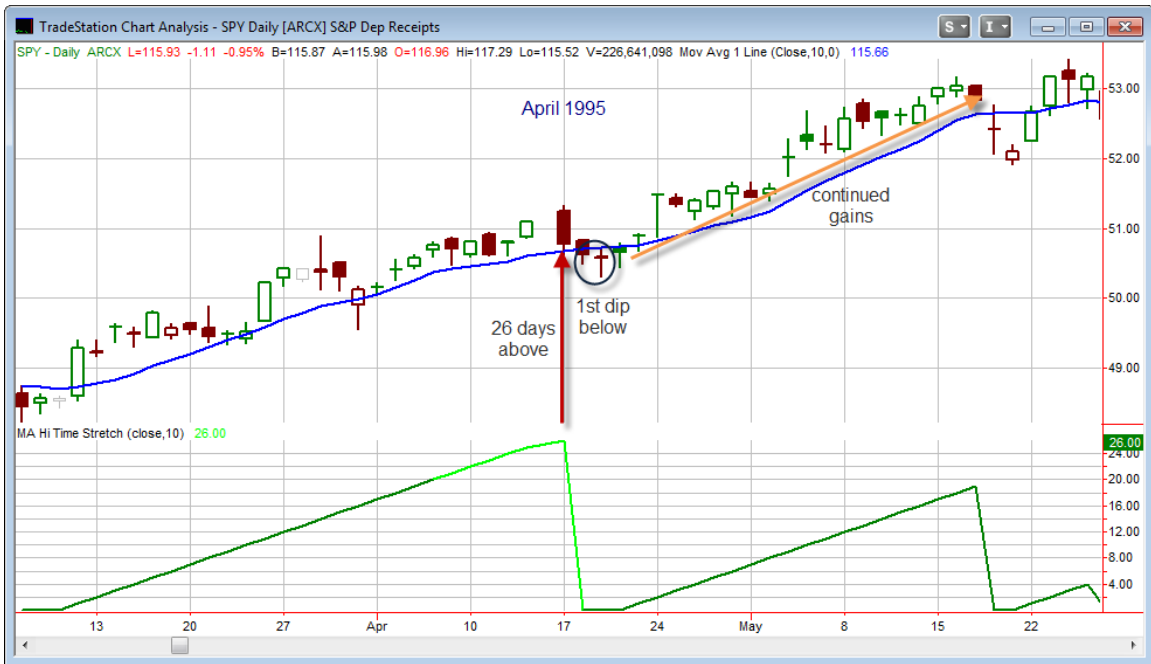
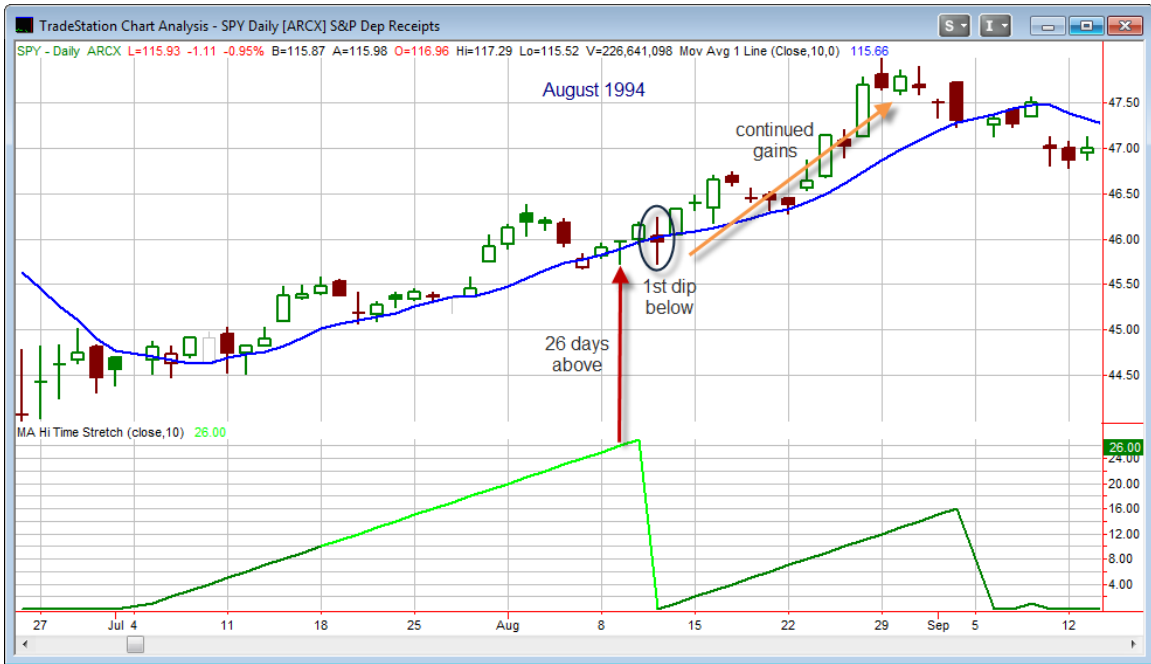


The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.

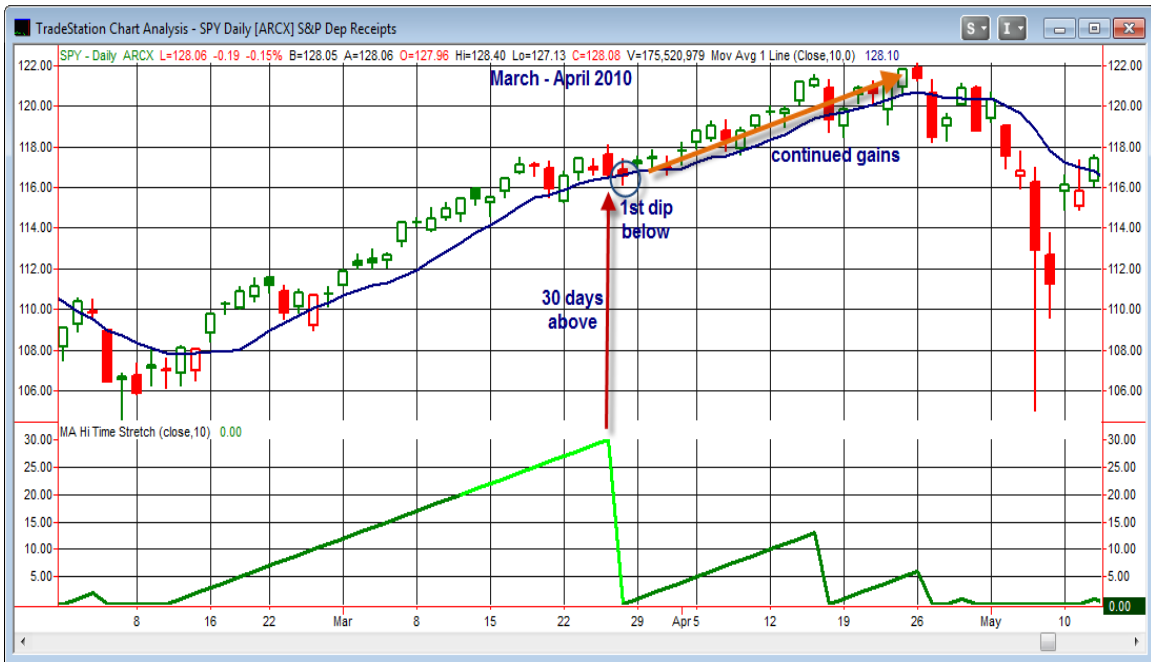


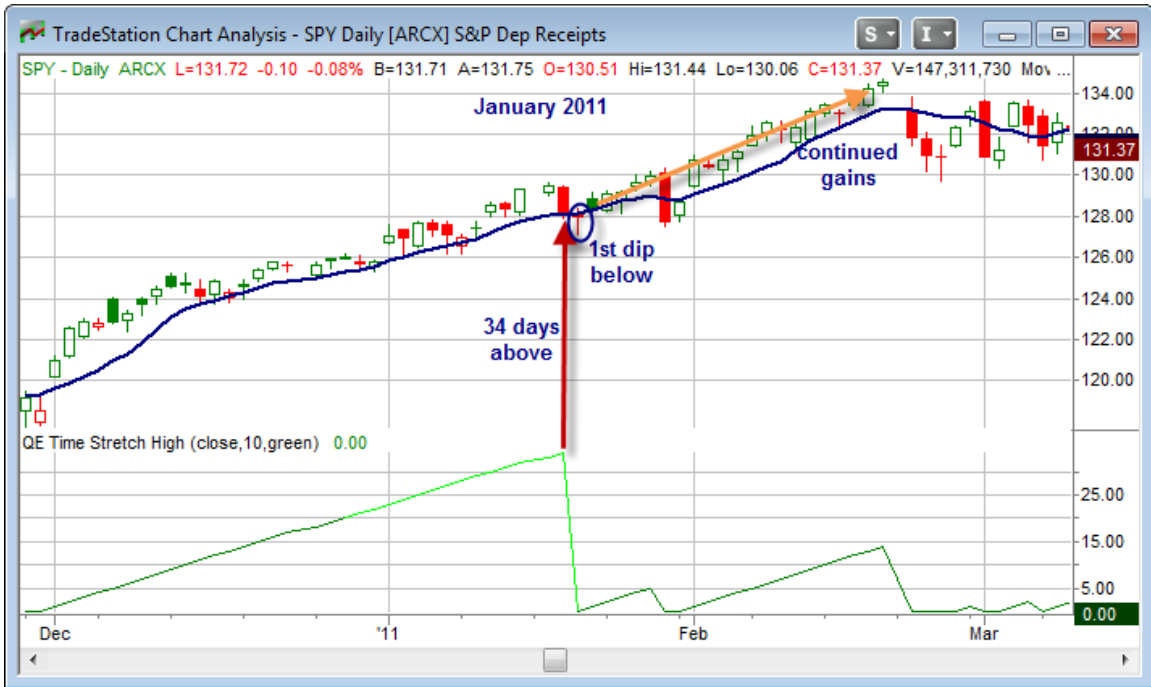
This looks even better – especially in recent times. I have included this study on both the Short and Intermediate-term Active Lists tonight.

Another notable about Thursday’s action is that the SPY closed below its 10ma for the first time since February 12<sup>th</sup>. In the 11/10/15 Subscriber Letter I looked at all the instances where SPY had traded above its 10ma for at least 25 days then closed below it. Since its inception in 1993 there have been only ten other instances where SPY had a run of 25 days or more. I showed the charts of every instance and noted how the market reacted after it finally did close beneath its 10ma. Below I have republished those charts and added another one to show the most recent instance. The indicator in the bottom pane of each chart shows the number of days the SPY has closed above its 10ma.











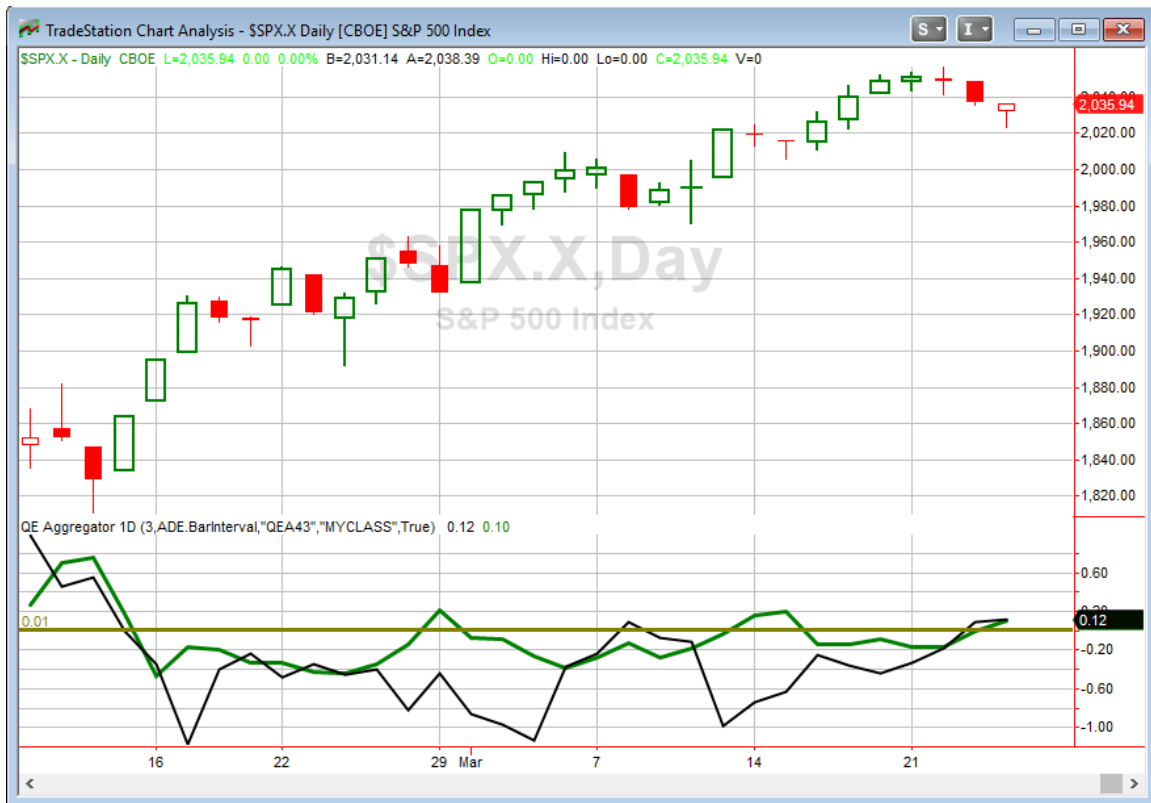
Most of these charts look quite positive. Until the latest instance, the first trip below the 10ma was a short one, and the uptrend managed to reasserted itself. Of course if you've been reading Quantifiable Edges for any period of time, you're probably used to looking at numbers. So below you will find the stats table.

After closing above the 10ma for at least 25 days in a row SPY closes below it today.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

QE Finder Tester: daysin	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	32,942.62	10	9	1	90.00	3,720.56	7,915.86	-542.40	-542.40	6.86	61.73	3,294.26
19	33,809.80	10	10	0	100.00	3,380.98	6,866.19	0.00	0.00	100.00	100.00	3,380.98
18	29,337.20	10	10	0	100.00	2,933.72	5,903.19	0.00	0.00	100.00	100.00	2,933.72
17	26,046.99	10	9	1	90.00	3,025.84	5,537.25	-1,185.60	-1,185.60	2.55	22.97	2,604.70
16	28,665.36	10	10	0	100.00	2,866.54	5,662.44	0.00	0.00	100.00	100.00	2,866.54
15	29,787.43	10	10	0	100.00	2,978.74	6,047.64	0.00	0.00	100.00	100.00	2,978.74
14	28,591.24	10	10	0	100.00	2,859.12	6,115.05	0.00	0.00	100.00	100.00	2,859.12
13	30,970.82	10	10	0	100.00	3,097.08	6,500.25	0.00	0.00	100.00	100.00	3,097.08
12	24,750.87	10	9	1	90.00	2,964.48	5,604.66	-1,929.42	-1,929.42	1.54	13.83	2,475.09
11	21,815.34	10	9	1	90.00	2,847.83	5,845.41	-3,815.10	-3,815.10	0.75	6.72	2,181.53
10	19,463.80	10	9	1	90.00	2,500.14	5,325.39	-3,037.50	-3,037.50	0.82	7.41	1,946.38
9	17,310.63	10	9	1	90.00	2,186.38	4,882.41	-2,366.82	-2,366.82	0.92	8.31	1,731.06
8	16,652.22	10	9	1	90.00	1,935.03	4,574.25	-763.02	-763.02	2.54	22.82	1,665.22
7	12,882.70	10	9	1	90.00	1,571.81	4,304.61	-1,263.60	-1,263.60	1.24	11.20	1,288.27
6	10,017.96	10	7	3	70.00	1,674.16	3,158.64	-567.06	-1,252.80	2.95	6.89	1,001.80
5	11,924.65	10	8	2	80.00	1,695.51	3,466.80	-819.72	-1,180.80	2.07	8.27	1,192.46
4	11,037.56	10	9	1	90.00	1,521.86	3,158.64	-2,659.20	-2,659.20	0.57	5.15	1,103.76
3	7,771.60	10	9	1	90.00	1,036.31	2,744.55	-1,555.20	-1,555.20	0.67	6.00	777.16
2	5,721.17	10	8	2	80.00	764.81	1,656.36	-198.40	-233.60	3.85	15.42	572.17
1	4,396.13	10	7	3	70.00	655.90	1,974.15	-65.07	-98.75	10.08	23.52	439.61

Strong and persistent upside movement like we have seen lately hasn't normally just ended and lead to an immediate correction. The 1st dip has most often been just that – a dip. New highs were typically made in short order. Of course the last instance was a big failure, and there is always a chance we could see that happen again. But the failure there was almost immediate. It did make some brief forays above the entry area, but it never moved to a new high and the steep drop beyond the initial 10ma cross seemed to provide us a decent clue. In the 11/16/15 letter I wrote *“The persistency study from above would seem to help the bull case some – although the current instance has already misbehaved compared to all the rest. So perhaps that is a warning sign in itself.”* Overall I think this study is worth consideration. But if the market fails to act according to norms over the next few days, that will ring a warning bell for me.

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



With tonight's new studies considered the green Aggregator Line moved up above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are a little positive and SPX is mildly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal turned long at the close.

Based on the current list of studies, expectations on Monday are set to remain positive. But this could change if strong bearish evidence emerges. The Differential Pivot will be 2040.92 on Monday. That is 0.24% above Thursday's close. So for SPX to move from oversold to overbought versus recent expectations it will only need to close up 0.24%.

Evidence is now leaning bullish and there appears to be an upside edge. But as you can see with both lines so close to zero, the edge is not very strong. I do like the studies tonight, and I think the edge is strong enough to take on a small amount of long exposure. So I will look to do that if I can get a decent fill on Monday. It may be a very short-term trade though.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 3/28 – slightly bullish**

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.*

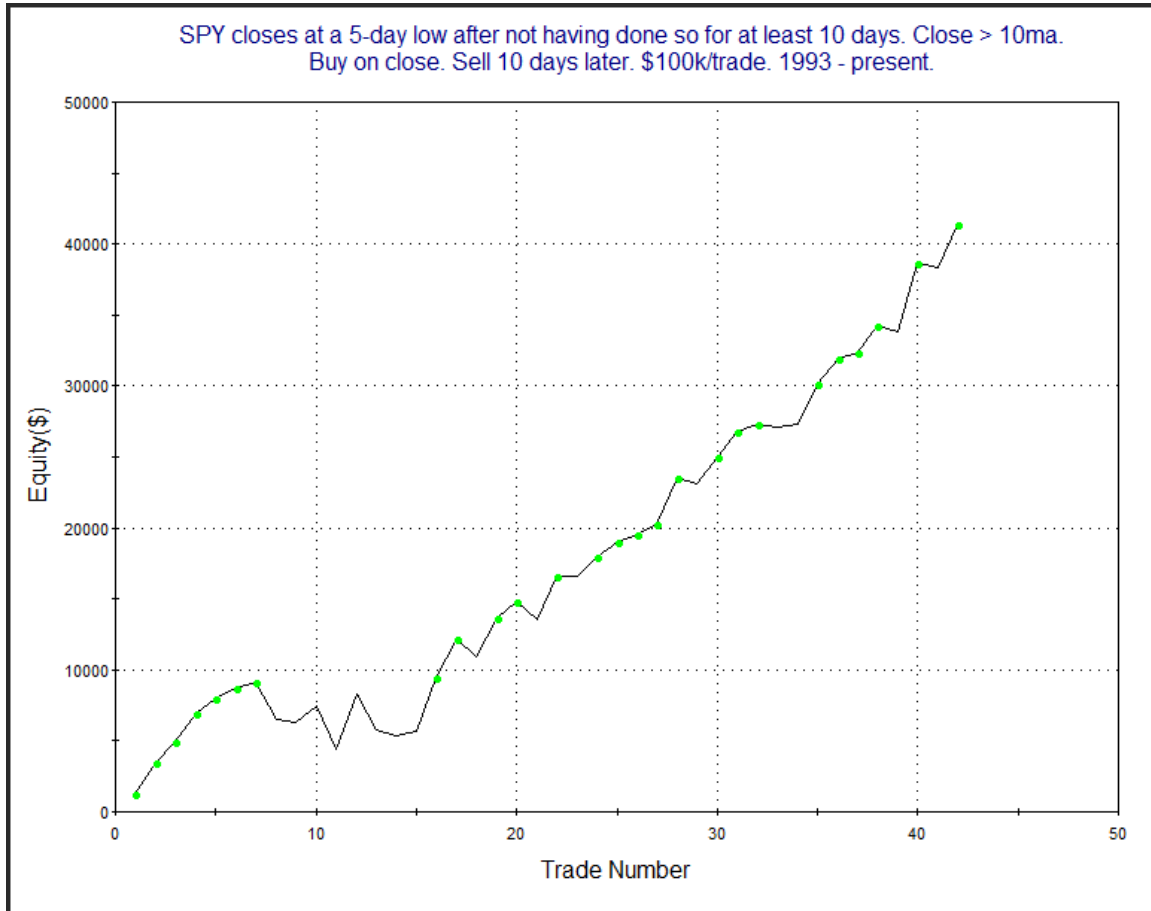
After 5 weeks in a row of gains, the SPX closed down this past week. From an evidence standpoint there were a few studies that emerged, and they all supported the bullish case. Two of those studies can be found in the short-term section above. The third was from the Wednesday night letter, and I have copied it below.

*Wednesday marked the 1<sup>st</sup> time SPY has closed at a 5-day low in a while. In the past I showed a study that examined results when the SPY closed at a 5-day low for the 1<sup>st</sup> time in over 2 weeks. It suggested fairly bullish results. But what struck me tonight is that despite closing at a 5-day low, SPY is still above its 10ma. So I added that as a filter and created the study below.*

SPY closes at a 5-day low after not having done so for at least 10 days. Close > 10ma. 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
10	41,394.53	42	30	12	71.43	1,803.96	4,839.66	-1,060.35	-2,972.16	1.70	4.25	985.58
9	39,363.33	42	32	10	76.19	1,629.88	5,293.08	-1,279.28	-3,319.71	1.27	4.08	937.22
8	37,532.22	42	31	11	73.81	1,608.82	4,734.72	-1,121.92	-2,602.71	1.43	4.04	893.62
7	31,913.46	42	31	11	73.81	1,593.13	4,118.22	-1,588.51	-3,472.29	1.00	2.83	759.84
6	29,182.86	42	30	12	71.43	1,405.68	4,307.28	-1,082.29	-2,992.38	1.30	3.25	694.83
5	27,230.92	42	29	13	69.05	1,360.15	4,496.34	-939.49	-3,570.00	1.45	3.23	648.36
4	24,953.29	42	30	12	71.43	1,220.47	3,149.62	-971.72	-2,475.20	1.26	3.14	594.13
3	20,938.05	42	30	12	71.43	1,174.38	3,452.40	-1,191.11	-3,393.78	0.99	2.46	498.52
2	12,048.63	42	26	16	61.90	1,059.42	3,809.72	-968.52	-3,737.28	1.09	1.78	286.87
1	5,537.33	42	26	16	61.90	726.53	2,225.48	-834.53	-3,909.03	0.87	1.41	131.84

**39 of 42 instances (93%) closed above the entry price at some point in the next 5 days.**

*Results here suggest a solid edge over the next 1-10 days...I also ran a 10-day curve.*

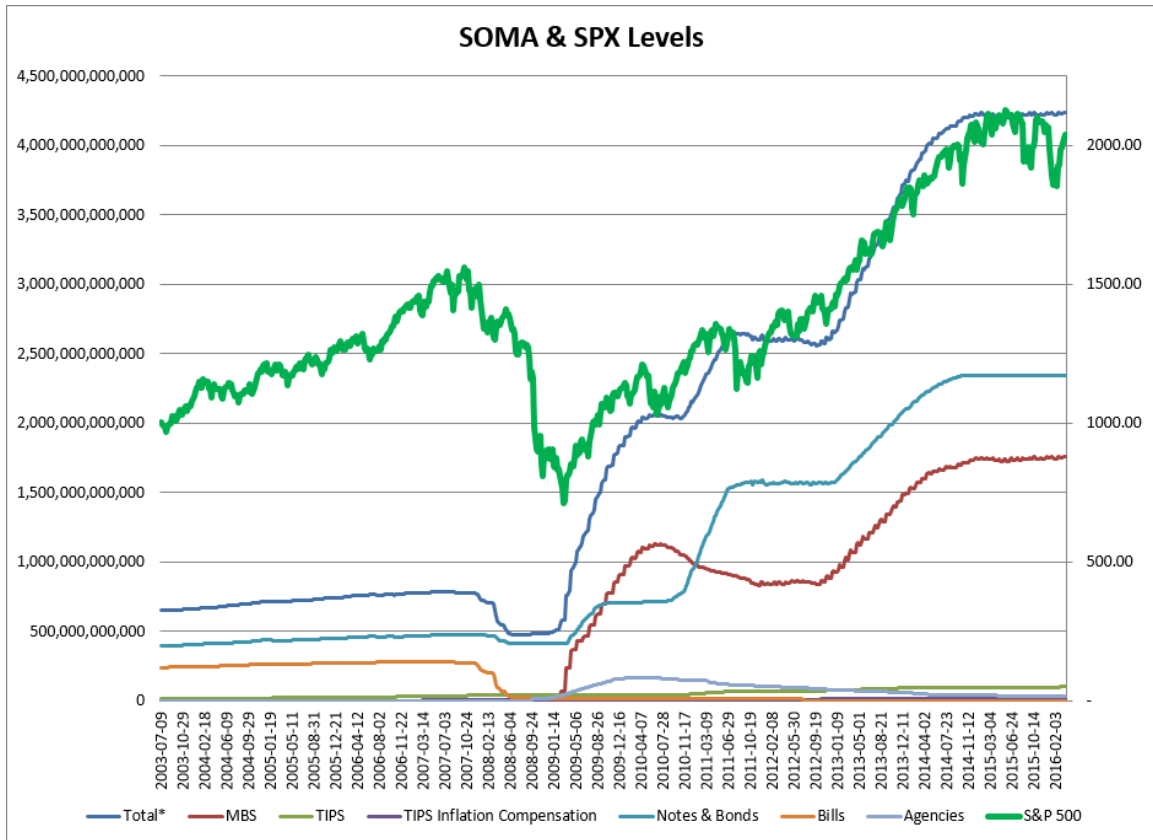


*This curve is also impressive and helps to confirm the upside edge.*

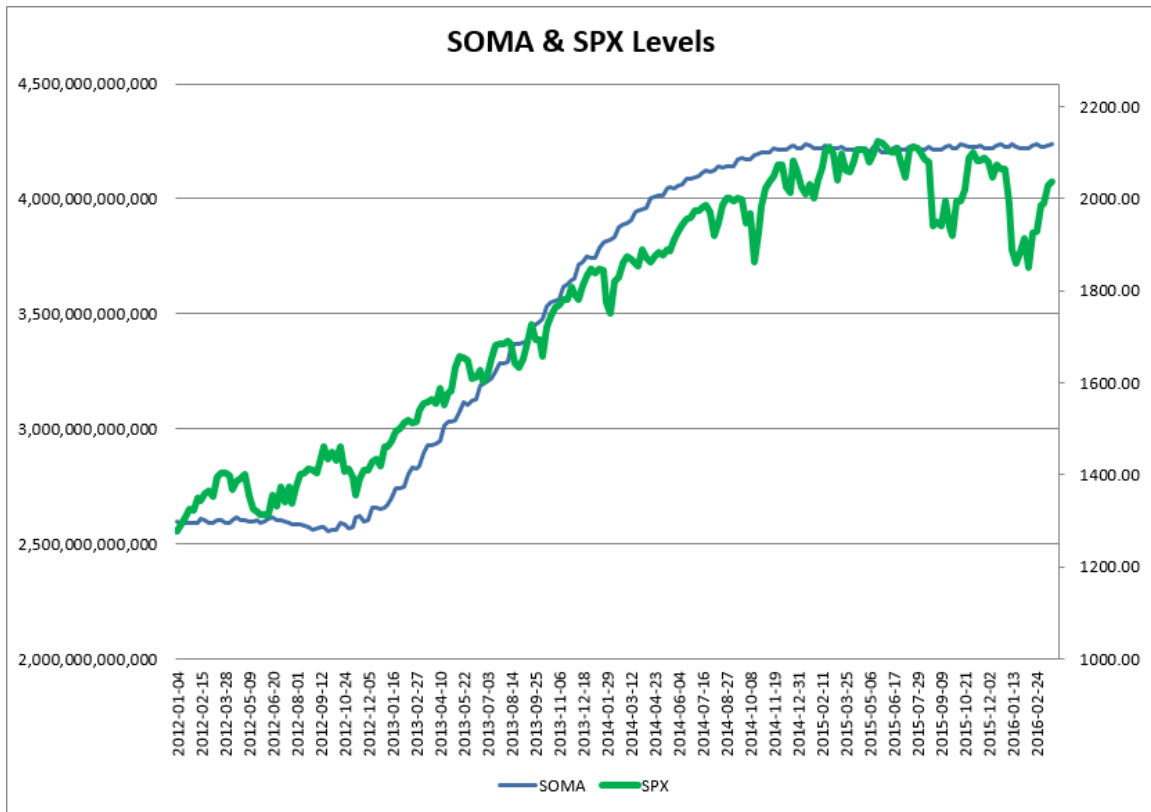
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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 about 0.11%. I discussed last week that a rise was expected based on the SOMA reinvestment schedule, and that such weeks often saw gains. The market rose 0.5% from Wed to Wed, which is typical for weeks with a rising SOMA. Since the beginning of 2015 SPX has risen 11.25% during SOMA expansion weeks. During all other weeks SPX has lost a sum total of 11.14%. This week I expect to see a substantial decline in the SOME that will give back a good portion of the gains from the last 2 weeks. This is based on the current reinvestment schedule. So any bounce will not be helped along through increased Fed liquidity, and it may not be as strong as we might otherwise expect..

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. But we are now seeing a bit more point in favor of the bulls. This includes long-term seasonal forces, a few breadth-thrust studies that we see on the Active Studies list, the recent bullish FTD, and this week's studies, which are all momentum and price-action based. On the bearish side we still see leadership, overall Fed policy, and some long-term trend measures are still pointing lower.

With the new evidence I have moved my stance from “neutral” to “slightly bullish”. I do not think the long-term looks bright just yet, but we could get a few more weeks of a rally here. And then we can re-evaluate beyond that as we go. My slightly bullish outlook means I am open to trading in either direction. But I will be more inclined to take long trades for the time being, and will likely require very compelling evidence before taking a short trade.

### **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 – buy ¼ index position @ \$203.12 LIMIT.** Based on the short-term outlook above I will look to start scaling in to a long position if I can get a fill at or better than Thursday’s closing price.

### **Current Open Trade Ideas**

*None.*

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