

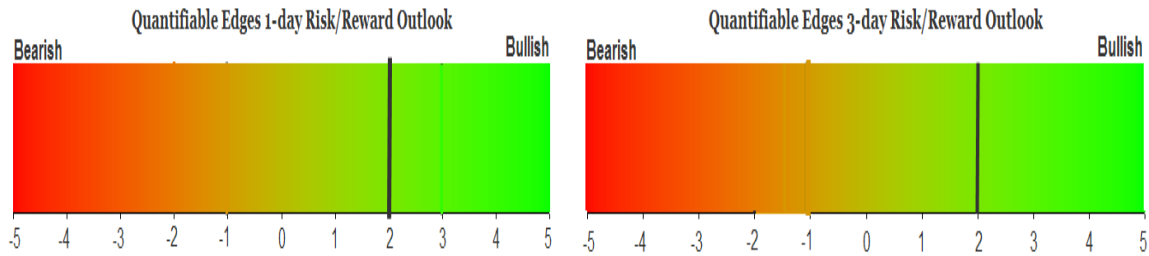
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 23, 2016

Volume 9 Issue 98

Market Overview



Signals Overview

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

Tonight's Research Points

- The bounce looks iffy.
- SOMA levels are not expected to rise in the next week or so.

Short-term Outlook

The Bottom Line

Evidence is slightly bullish with the market a little oversold. This suggests a mild upside 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						
May 19, 2016	20-low and 3-day consolidation	1-5 days	Bullish			
May 19, 2016	SPX up. Breadth < 40%.	1-4 days	Bearish	-2.30%	0.55%	0.95%
May 17, 2016	20-low to 4-high	1-8 days	Bullish	2.40%	-1.50%	-3.10%
May 16, 2016	Down 3 going into opex week	1-5 days	Bullish	1.90%	-1.20%	-2.20%
Active - Long Term						
May 17, 2016	20-low to 4-high	1-20 days	Bullish	3.80%	-2.10%	-4.55%
May 9, 2016	CBI >= 7. SPX < 200.	1-15 days	Bullish			
May 5, 2016	Unfilled gap 2x. 5-low > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.35%
April 26, 2016	Golden Cross	int term	Bullish			
April 25, 2016	1st 5 low in 10 days. Close > 10ma	1-10 days	Bullish	2.20%	-1.30%	-2.70%
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 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

The market put in some strong gains across the board on Friday. The SPX rose 0.6%, the NASDAQ gained 1.2%, and the Russell 2000 rallied 1.6%. Breadth was positive as the NYSE Up Issues % was 79% and the Up Volume % came in at 73%. NYSE volume declined from Thursday's level.

This was the 5th day in a row that the SPX changed direction. So it is not much of a surprise that very little new and compelling evidence is emerging in the Quantifinder. Unfilled gaps higher that close below their 10ma have shown some interesting results in the past. But the current setup (coming off a 20-day low) is not one where the pattern has been favorable. This is something I have discussed a few times, including in the 3/10/15 letter. Below I have re-run the tests showing the difference between a bounce from a 10-day low and a 20-day low.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	20,472.49	27	20	7	74.07	1,330.61	4,106.63	-877.11	-1,949.70	1.52	4.33	758.24
4	20,561.89	27	18	9	66.67	1,558.58	3,904.83	-832.50	-2,096.99	1.87	3.74	761.55
3	13,575.04	28	17	11	60.71	1,315.35	3,914.92	-798.72	-1,874.00	1.65	2.55	484.82
2	9,168.49	28	17	11	60.71	1,205.67	2,828.00	-1,029.80	-2,183.21	1.17	1.81	327.45
1	1,130.45	28	14	13	50.00	866.82	1,773.46	-846.54	-2,895.33	1.02	1.10	40.37

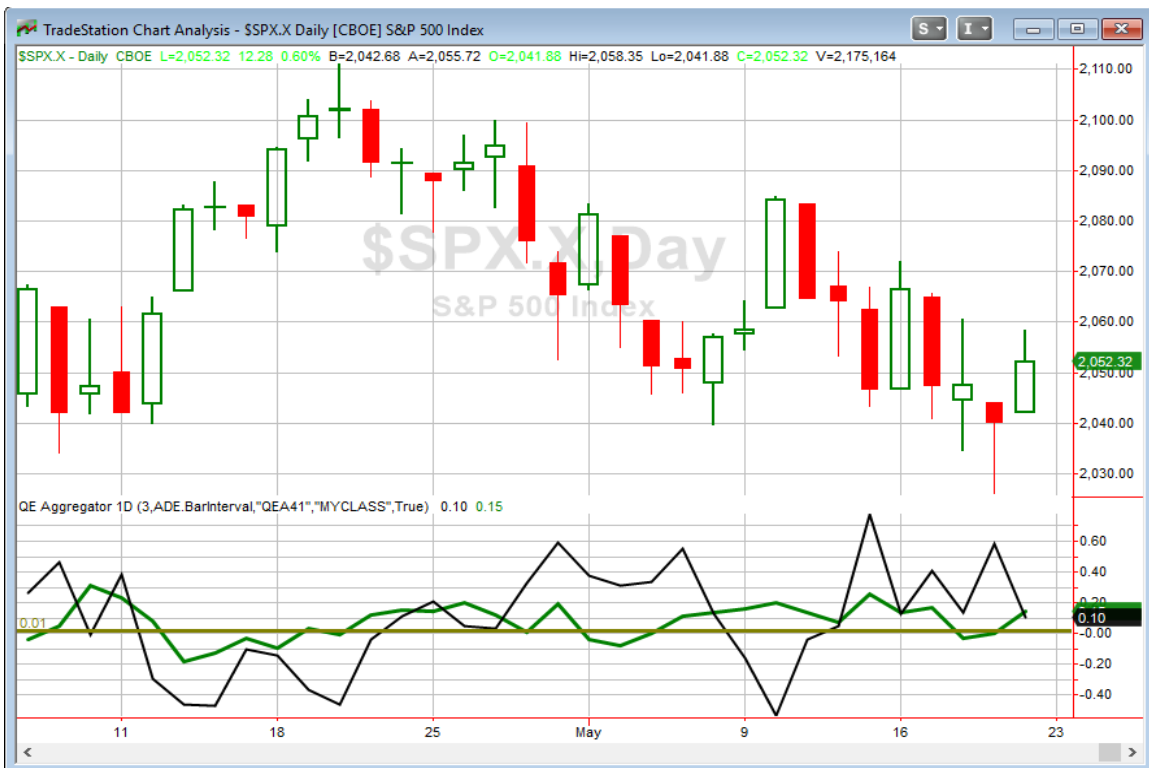
After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: /Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-4,695.74	29	13	16	44.83	1,726.48	3,073.60	-1,696.25	-3,739.32	1.02	0.83	-161.92
4	-889.35	31	17	14	54.84	1,296.82	2,950.20	-1,638.23	-2,744.82	0.79	0.96	-28.69
3	-8,242.29	33	16	17	48.48	844.90	2,811.60	-1,280.04	-3,070.92	0.66	0.62	-249.77
2	-8,070.55	35	17	18	48.57	830.72	2,341.35	-1,232.94	-2,818.42	0.67	0.64	-230.59
1	-2,592.64	35	13	22	37.14	951.55	2,470.05	-680.12	-1,777.90	1.40	0.83	-74.08

The difference is clear. The 10-day low offers a strong bounce opportunity. The 20-day low has actually favored more downside, but not on a consistent basis. Coming off a 20-day low as the market is, there does not appear to be a strong opportunity based on these criteria.

So there are no new short-term studies that managed to make the Active List tonight.

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



Without any new studies being added to the Active List tonight the green Aggregator Line moved a little further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

With the current list of active studies, expectations are poised to remain positive on Monday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2053.16 on Monday. That is less than 1 point above Friday’s close. So just about any up close will move SPX from oversold to overbought versus expectations.

So the Aggregator is again bullish. But evidence really did not improve. And overbought is only a short distance away. I already have a bit of long exposure. I am not inclined to add more yet. I would rather see how things play out over the next day or so.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/23 – slightly bullish

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

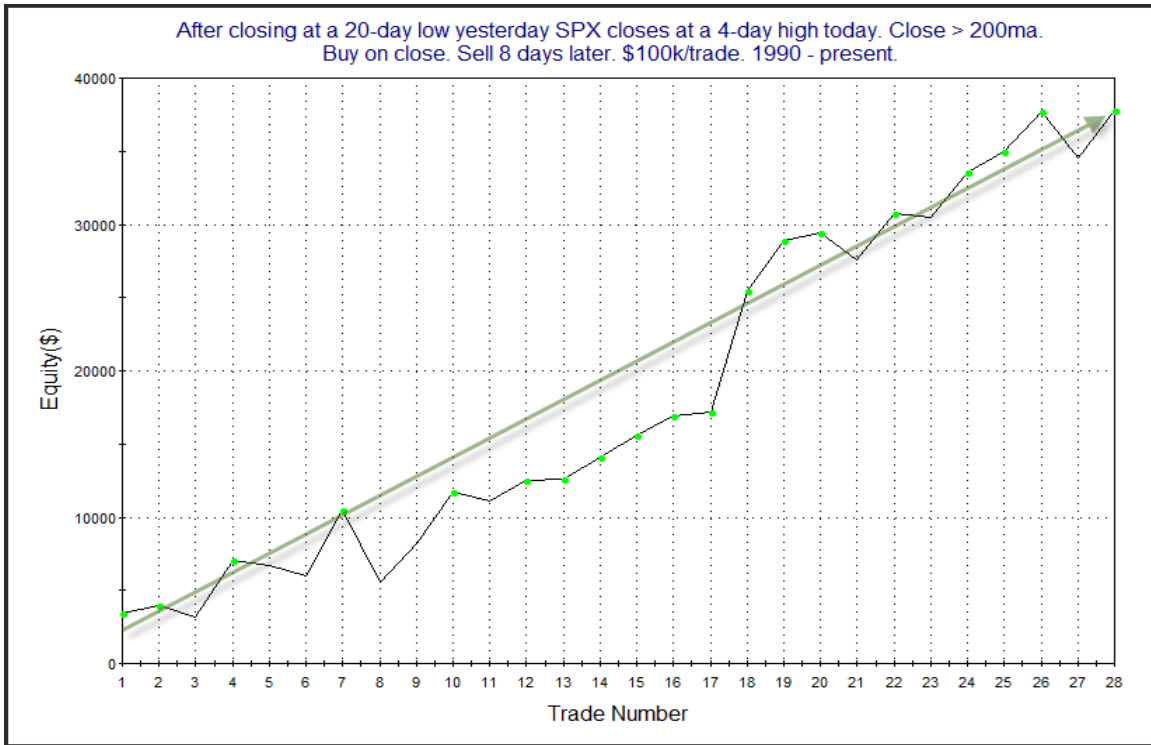
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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.) *Like last week, signal combinations #1 and #2 are “long” and Combo #3 is “flat”.*

Friday’s rally allowed the SPX to post a positive week, though it only closed 0.3% higher than last Friday. From a studies standpoint, there was only one study that emerged this week with intermediate-term implications. It triggered on Monday and appeared in the Monday night letter. (And it also triggered on Friday.) I have copied the notes from Monday night below.

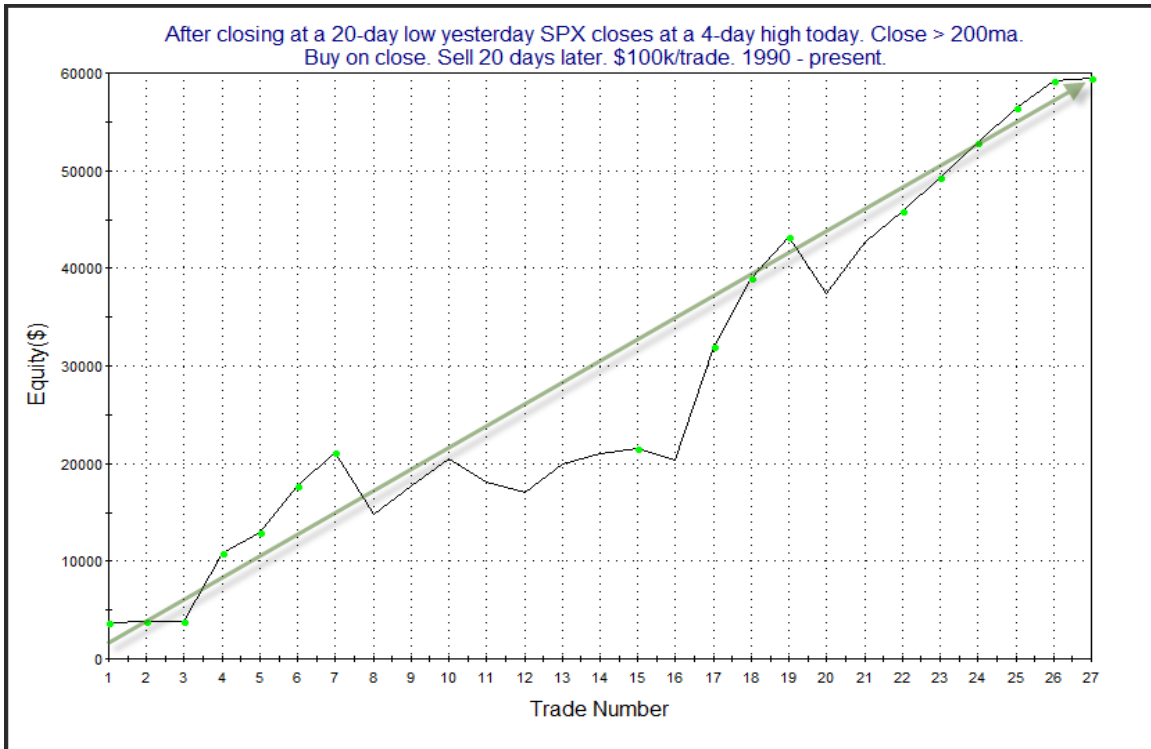
Monday was a strong enough move that we saw SPX go from closing at a 20-day low on Friday to closing at a 4-day high on Monday. In the 12/18/14 letter I looked at other times in which the market put in a strong thrust off a 20-day low. There I required a close of at least a 4-day high. I have updated the results below.

After closing at a 20-day low yesterday SPX closes at a 4-day high today. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1990 - 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	59,492.76	27	22	5	81.48	3,470.77	11,665.50	-3,372.85	-6,379.08	1.03	4.53	2,203.44
19	58,360.66	27	20	7	74.07	3,810.99	12,037.30	-2,551.29	-6,347.80	1.49	4.27	2,161.51
18	52,505.84	28	22	6	78.57	3,056.18	10,563.30	-2,455.00	-4,148.97	1.24	4.56	1,875.21
17	51,682.95	28	22	6	78.57	3,068.11	11,183.70	-2,635.90	-4,247.96	1.16	4.27	1,845.82
16	49,109.80	28	21	7	75.00	3,028.68	11,506.00	-2,070.35	-4,320.78	1.46	4.39	1,753.92
15	47,030.27	28	20	8	71.43	3,070.15	11,173.80	-1,796.58	-4,723.96	1.71	4.27	1,679.65
14	45,590.58	28	22	6	78.57	2,820.09	9,507.30	-2,741.90	-7,897.52	1.03	3.77	1,628.24
13	38,600.44	28	21	7	75.00	2,591.27	9,427.00	-2,259.47	-7,363.04	1.15	3.44	1,378.59
12	37,408.31	28	19	9	67.86	2,709.82	8,151.00	-1,564.24	-5,686.84	1.73	3.66	1,336.01
11	43,615.36	28	22	6	78.57	2,494.31	8,642.70	-1,876.57	-5,722.20	1.33	4.87	1,557.69
10	39,779.48	28	21	7	75.00	2,600.89	8,924.30	-2,119.89	-8,745.48	1.23	3.68	1,420.70
9	38,915.40	28	20	8	71.43	2,503.73	8,603.10	-1,394.91	-6,371.60	1.79	4.49	1,389.84
8	37,808.02	28	20	8	71.43	2,529.90	8,276.40	-1,598.74	-4,917.08	1.58	3.96	1,350.29
7	27,029.18	28	19	9	67.86	2,320.95	5,832.20	-1,896.53	-4,106.50	1.22	2.58	965.33
6	22,757.86	28	17	11	60.71	2,299.38	5,888.30	-1,484.69	-5,306.50	1.55	2.39	812.78
5	19,548.87	28	17	11	60.71	2,024.90	5,508.80	-1,352.22	-5,320.00	1.50	2.31	698.17
4	18,621.87	28	19	9	67.86	1,757.89	4,326.30	-1,642.01	-4,559.50	1.07	2.26	665.07
3	15,286.97	28	19	9	67.86	1,554.49	4,365.90	-1,583.14	-4,707.50	0.98	2.07	545.96
2	12,668.67	29	21	8	72.41	1,149.57	3,479.30	-1,434.04	-3,138.00	0.80	2.10	436.85
1	1,503.31	29	14	15	48.28	806.72	2,536.10	-652.72	-2,034.00	1.24	1.15	51.84

Day 1 is a bit iffy, but after that there appears to be a strong and consistent edge over the next 4 weeks. This suggests a good chance that Wednesday's rally was the beginning of a continued move higher. I produced profit curves for the 8-day and 20-day holding periods highlighted above. First, the 8 day...



The strong, steady upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 20-day curve.



*This one is a little choppier, but it sure has been strong lately, with 9 of the last 10 instances all closing higher. In the 12/18/14 letter I also looked at bounces that did **not** reach 4-day highs the 1st day. I have updated that table below as well.*

After closing at a 20-day low yesterday SPX closes up today but below a 4-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1990 - 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	92,665.23	79	55	24	69.62	3,089.82	12,927.20	-3,219.78	-9,587.72	0.96	2.20	1,172.98
19	83,462.27	79	56	23	70.89	2,782.86	13,564.52	-3,146.86	-12,375.24	0.88	2.15	1,056.48
18	91,010.66	81	55	26	67.90	2,986.56	13,895.61	-2,817.31	-13,625.69	1.06	2.24	1,123.59
17	78,296.73	82	54	28	65.85	2,909.88	13,554.35	-2,815.61	-10,959.00	1.03	1.99	954.84
16	76,801.29	82	54	28	65.85	2,903.98	11,842.40	-2,857.63	-9,466.89	1.02	1.96	936.60
15	77,433.85	85	54	31	63.53	2,866.83	11,759.91	-2,495.97	-7,655.72	1.15	2.00	910.99
14	74,676.23	85	58	27	68.24	2,497.23	10,449.11	-2,598.63	-7,789.32	0.96	2.06	878.54
13	78,882.79	87	57	30	65.52	2,531.18	10,954.22	-2,179.81	-6,510.77	1.16	2.21	906.70
12	47,262.78	89	54	35	60.67	2,420.59	11,243.50	-2,384.26	-8,570.72	1.02	1.57	531.04
11	59,314.13	92	58	34	63.04	2,388.30	10,913.54	-2,329.63	-8,225.72	1.03	1.75	644.72
10	48,284.20	94	58	36	61.70	2,279.22	10,577.93	-2,330.85	-11,602.12	0.98	1.58	513.66
9	64,426.62	96	61	35	63.54	2,193.92	8,067.07	-1,982.94	-6,195.44	1.11	1.93	671.11
8	70,046.59	99	69	30	69.70	1,957.53	8,124.70	-2,167.42	-7,580.04	0.90	2.08	707.54
7	95,579.22	101	72	29	71.29	2,041.38	7,734.85	-1,772.42	-5,195.64	1.15	2.86	946.33
6	82,012.33	105	73	32	69.52	1,914.36	6,520.10	-1,804.25	-5,822.32	1.06	2.42	781.07
5	67,056.02	109	71	38	65.14	1,876.16	6,560.78	-1,740.83	-5,937.53	1.08	2.01	615.19
4	54,469.32	116	77	39	66.38	1,448.83	5,650.00	-1,463.86	-5,345.28	0.99	1.95	469.56
3	42,546.70	122	79	43	64.75	1,148.90	3,939.79	-1,121.31	-6,154.38	1.02	1.88	348.74
2	38,357.20	135	83	52	61.48	1,014.17	3,644.28	-881.14	-2,742.74	1.15	1.84	284.13
1	22,979.33	135	82	53	60.74	760.68	2,937.71	-743.33	-2,525.60	1.02	1.58	170.22

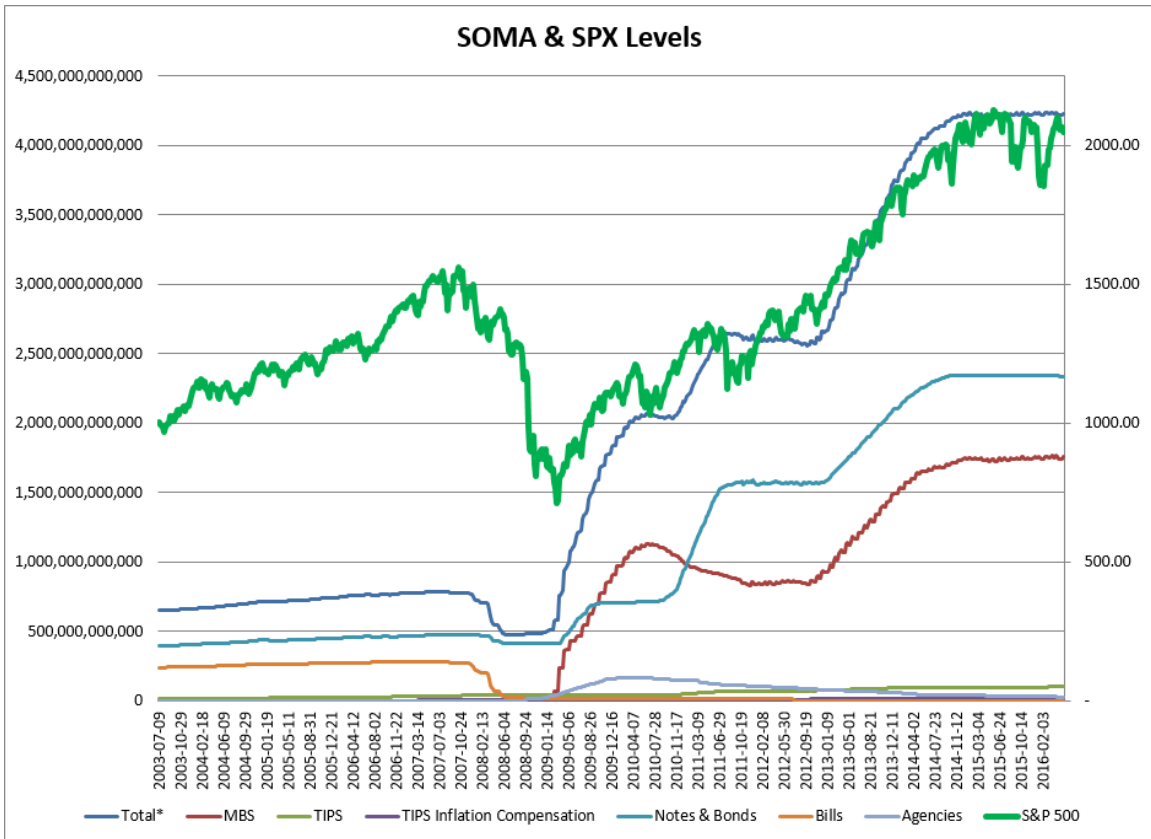
*Results here are pretty good and also seem to favor more upside. But if you compare the “Avg Trade” column on the far right you’ll find that from Day 2 – Day 19 the Avg Trade here was about **one-half** the Avg Trade when the 1st day jumped SPX up to a 4-day high. Overall, the 1st study above appears worthy of both the short and intermediate-term Active Lists.*

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.

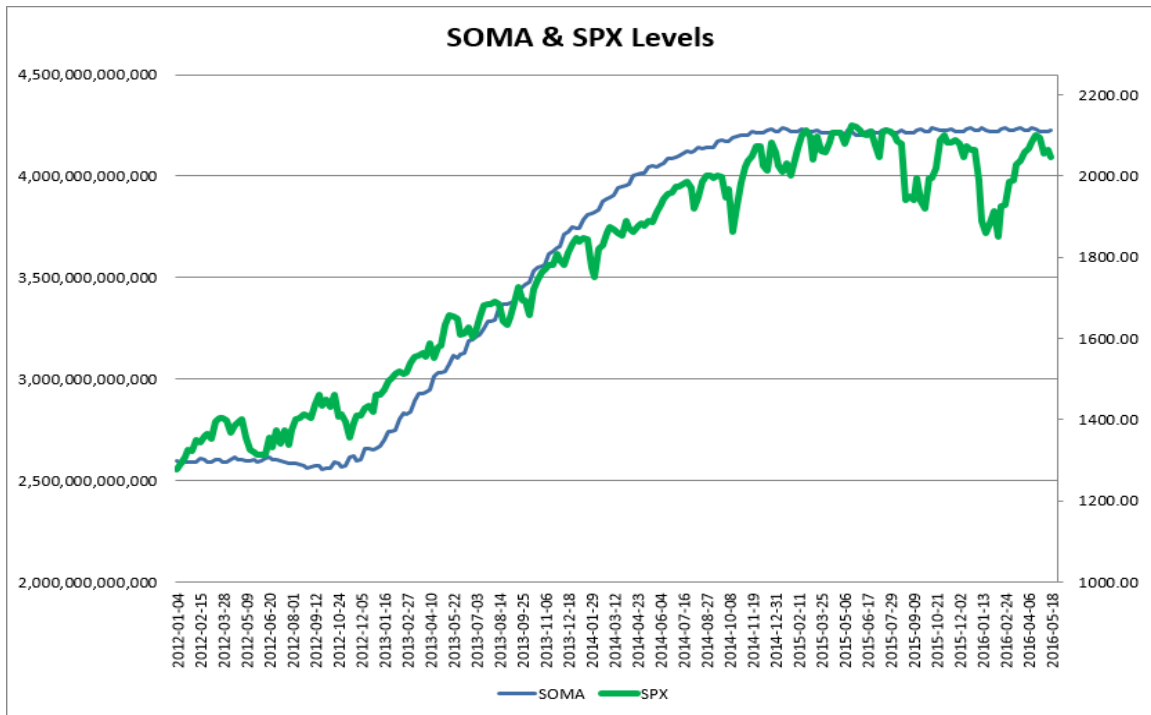
SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities 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 about 0.19%. The rising SOMA is something I indicated was probable last week based on the Fed’s reinvestment schedule. The 0.82% loss for the SPX over this period is somewhat unusual. Most often the SPX will rally during weeks that there is solid SOMA support. In fact, this is the 1st positive SOMA week since January that the SPX suffered a decline. Since the beginning of 2015 SPX has risen 67% of the time for a sum total of 11.20% during SOMA expansion weeks. During all other weeks SPX has only risen 42% of the time and has lost a sum total of 10.52%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, this current week is a bit unclear. It appears a decline may be the most likely, but it is borderline with the dates. The next week is also borderline, but if we do see a decline this week, the following one will likely be flat. So bulls are not likely to get any help from the Fed in the next week and a half.

It continues to 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. To this point the Fed has kept to their schedule of the last year and a half and we have not seen any strong derivations. I expect liquidity analysis to remain a vital tool for us.

Intermediate-term evidence remains mixed. The Presidential Cycle, a few breadth-thrust studies that we see on the Active Studies list, the bullish FTD study, and the Golden Cross formation from previous weeks are all still valid studies. Additionally, this week’s 20-low to 4-high study and the somewhat high CBI study from a few weeks ago are helping the

bull case. On the bearish side we still see overall Fed policy and the lagging NASDAQ pointing lower. The “Worst 6 Months” is upon us from a Seasonal standpoint. The Market Timing Course indicator configuration we are seeing has long struggled to make any gains. So with a bit more seemingly favoring the bulls I will remain “slightly bullish”. I am willing to take trades in either direction, but will be more inclined towards long trades than short ones.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

ABT @ \$40.42 (bought 1/3)

ABT @ \$38.90 (bought @ limit) – 2nd lot

GILD @ \$88.21 (bought @ limit)

ABT @ \$38.85 (bought @ limit) – 3rd lot

Broad Market Large Cap CBI – 4 (ABT-3, GILD)

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
ABT(1/3)	4/29/2016	\$40.37	\$37.60	-6.86%		Catapult
ABT(1/3)	5/2/2016	\$38.85	\$37.60	-3.22%		Catapult
GILD(1/3)	5/2/2016	\$88.21	\$82.64	-6.31%		Catapult
ABT(1/3)	5/3/2016	\$38.80	\$37.60	-3.09%		Catapult
XIV(1/2)	5/5/2016	\$26.20	\$28.63	9.27%		Aggressive VIX
SPY(1/4)	5/18/2016	\$204.44	\$205.49	0.51%		<i>sell if closes >= \$205.60</i>

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