

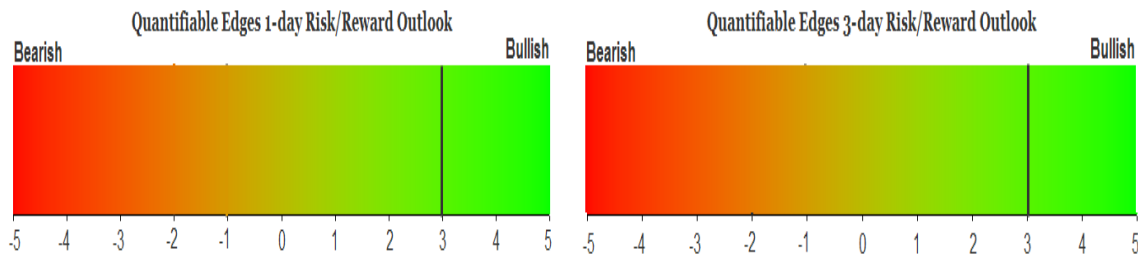
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 13, 2016

Volume 9 Issue 112

Market Overview



Signals Overview

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

Tonight's Research Points

- When the market has moved from a 50-day high to an 8-day low in just 2 days it has commonly been followed by a bounce.
- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.
- The NASDAQ is now lagging the SPX.
- Fed liquidity should be strong for the next week and a half.

Short-term Outlook

The Bottom Line

Evidence has flipped to moderately bullish and the market is now oversold. This suggests a short-term bullish edge. I believe there is a solid chance of a bounce in 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						
June 13, 2016	2 unfilled gaps down. 5-day low	1-6 days	Bullish	1.90%	-1.20%	-2.30%
June 13, 2016	50-high to 8-low	1-5 days	Bullish	1.80%	-1.20%	-2.20%
June 8, 2016	VIX up 2.5%. SPX 50-high.	1-4 days	Bearish			
Active - Long Term						
June 13, 2016	Bounce from 20-low then inside day dn.	1-10 days	Bullish	5.00%	-2.85%	-6.75%
May 17, 2016	20-low to 4-high	1-20 days	Bullish	3.80%	-2.10%	-4.55%
April 26, 2016	Golden Cross	int term	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 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
May 31, 2016	NASDAQ Leading	int term	Bullish			
May 24, 2016	Bounce from 20-low then inside day dn.	1-10 days	Bullish	5.00%	-2.85%	-6.75%
June 10, 2016	Unfilled gap down after unfilled up 20 hi	1 day	Bearish			
June 8, 2016	Unfilled gap up 2x. 50-high	1-3 days	Bullish			

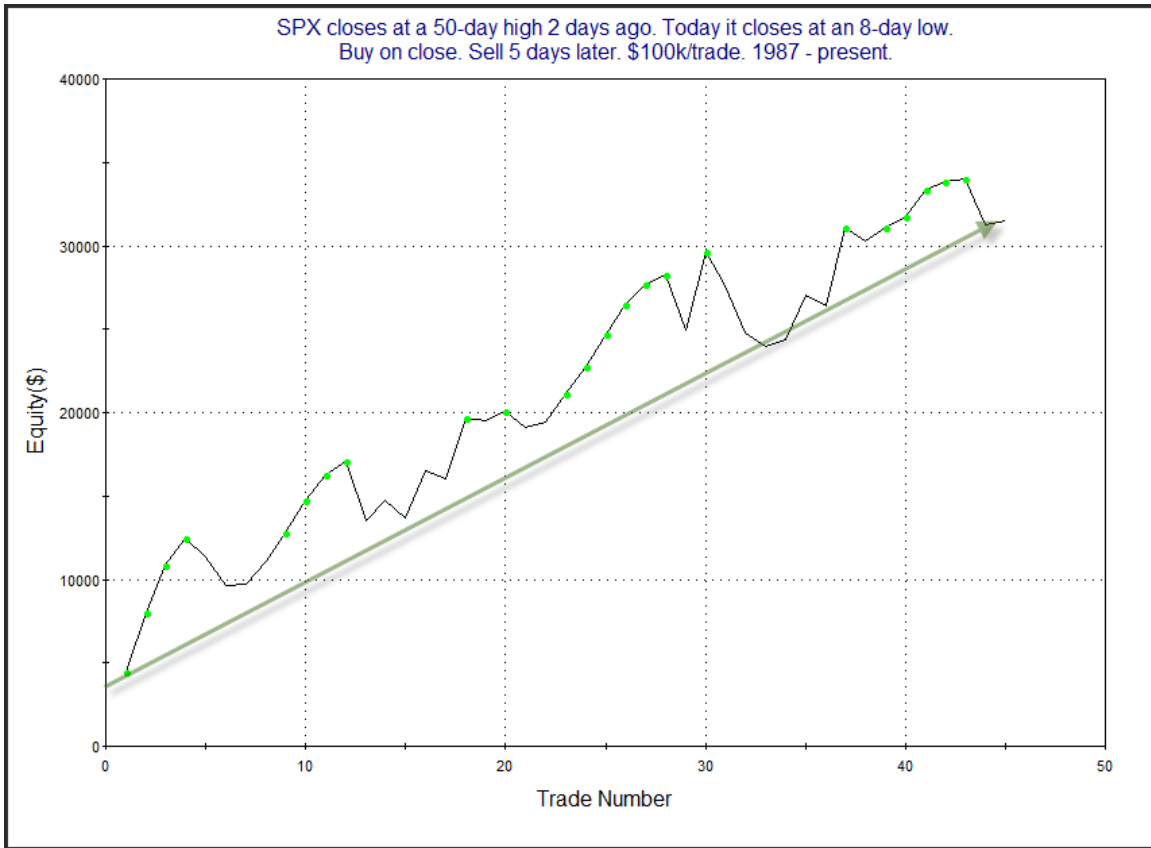
The Evidence

Friday was a tough day for the market. The SPX dropped 0.9%, the NASDAQ fell 1.3%, and the Russell 2000 declined 1.5%. Breadth was negative as the NYSE Up Issues % was 21% and the Up Volume % came in at 15%. NYSE volume rose some from Thursday's level.

An interesting study from the Quantifinder looked at relatively sharp selloffs from intermediate-term highs. It showed that there has been a strong tendency for situations like the current one to bounce. The study was last seen in the 9/10/14 Letter. I have updated the results below.

SPX closes at a 50-day high 2 days ago. Today it closes at an 8-day low. Buy on close. Sell X days later. \$100k/trade. 1987 - 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	31,522.29	45	31	14	68.89	1,732.38	4,726.48	-1,584.40	-3,502.11	1.09	2.42	700.50
4	30,210.30	45	31	14	68.89	1,445.34	4,732.80	-1,042.52	-2,555.39	1.39	3.07	671.34
3	10,852.37	45	27	18	60.00	1,087.67	2,985.55	-1,028.59	-2,866.27	1.06	1.59	241.16
2	5,912.24	45	25	20	55.56	979.39	3,515.34	-928.62	-2,051.10	1.05	1.32	131.38
1	9,662.49	47	28	19	59.57	725.93	2,002.36	-561.24	-2,200.08	1.29	1.91	205.58
89% of instances closed above the entry price at some point in the next week.												

The stats all suggest an upside edge over the next 1-5 days. Below I have produced a profit curve using a 5-day exit strategy.



The strong, steady upslope is quite impressive and makes the study all the more compelling.

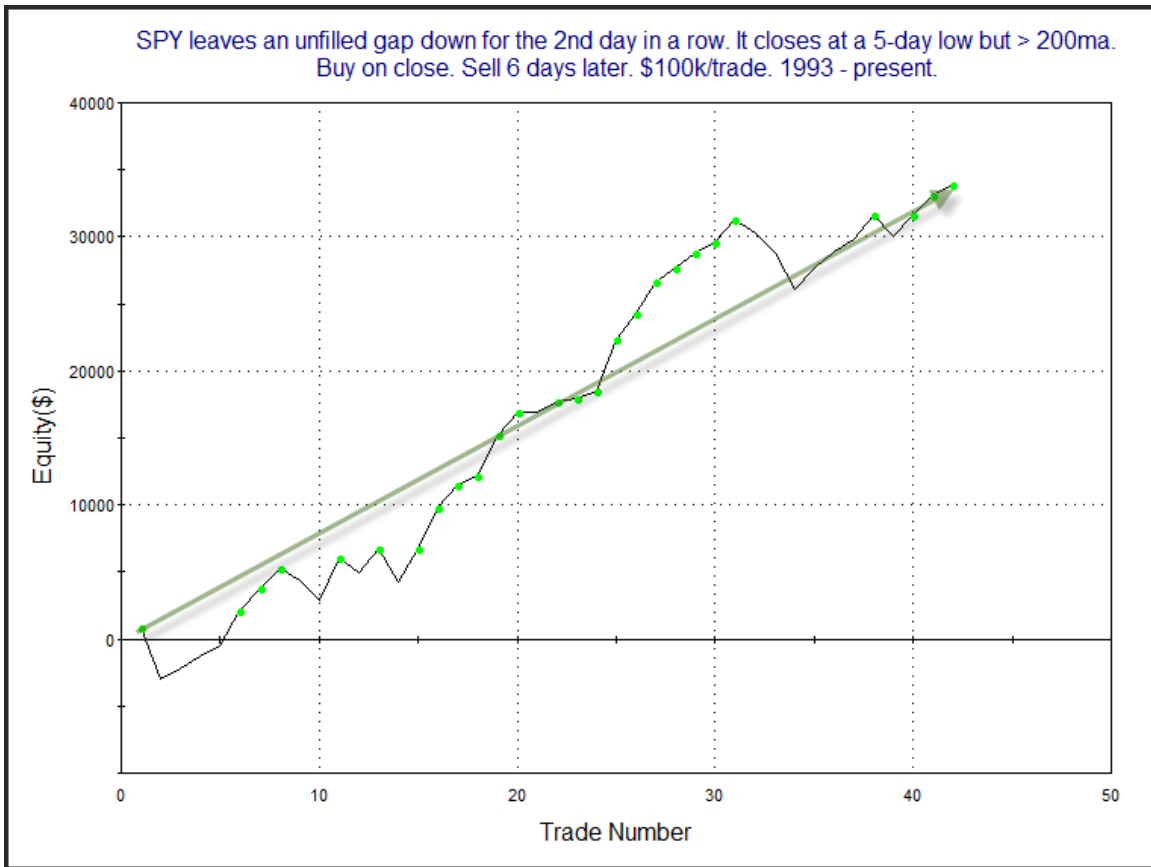
Notable about the price action over the last 2 days is that both Thursday and Friday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 5/5/16 letter. Results are updated.

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.

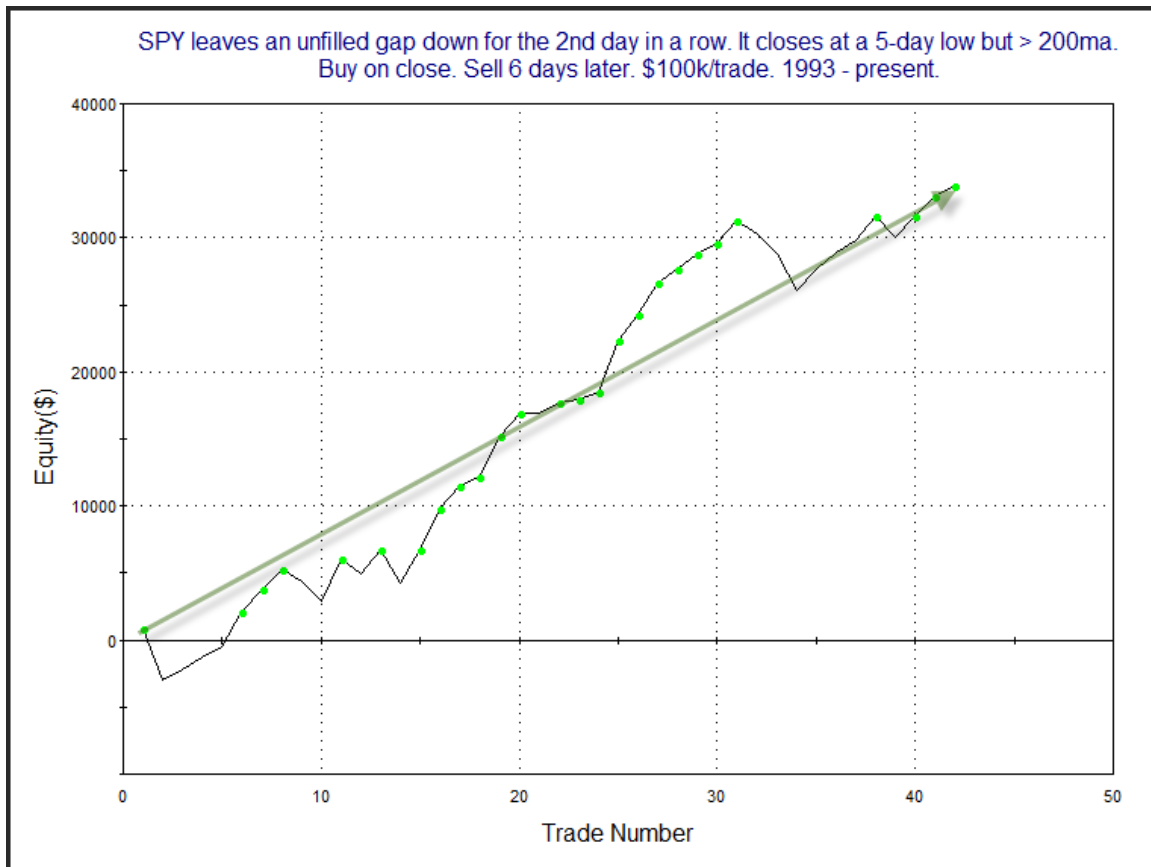
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	47,684.29	41	31	10	75.61	2,064.56	5,325.39	-1,631.69	-4,353.36	1.27	3.92	1,163.03
9	43,615.17	42	33	9	78.57	1,895.43	4,882.41	-2,103.78	-6,273.96	0.90	3.30	1,038.46
8	39,021.88	42	31	10	73.81	1,864.00	4,574.25	-1,876.21	-4,801.50	0.99	3.08	929.09
7	24,099.90	42	28	13	66.67	1,818.63	4,429.74	-2,063.21	-5,057.58	0.88	1.90	573.81
6	33,903.51	42	32	10	76.19	1,575.17	3,828.72	-1,650.20	-3,734.50	0.95	3.05	807.23
5	30,193.59	42	30	12	71.43	1,425.83	3,940.02	-1,048.45	-2,721.75	1.36	3.40	718.89
4	22,827.88	42	31	11	73.81	1,167.87	4,388.28	-1,216.00	-2,583.00	0.96	2.71	543.52
3	12,441.13	42	26	16	61.90	960.43	3,325.14	-783.13	-1,795.80	1.23	1.99	296.22
2	8,739.30	42	26	16	61.90	851.41	2,948.14	-837.34	-2,436.12	1.02	1.65	208.08
1	6,412.39	43	27	16	62.79	642.14	1,974.15	-682.84	-1,849.26	0.94	1.59	149.13

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.



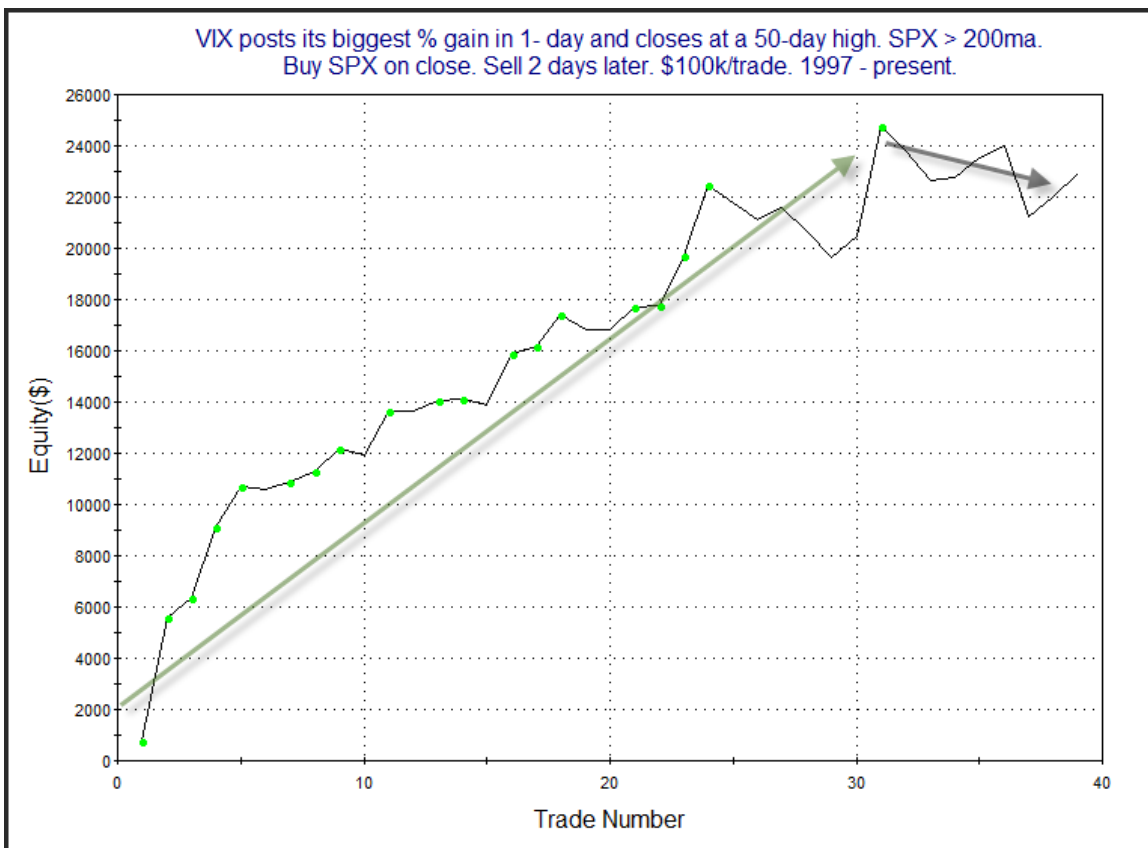
This looks even better – especially in recent times.

It is also notable that the VIX spiked up 16% on Friday and closed at the highest level since March. In the past when it has closed at a high level on a strong move there has been a tendency for the SPX to bounce over the next 1-2 days. This can be seen in the study below from the 10/8/13 letter.

VIX posts its biggest % gain in 1- day and closes at a 50-day high. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1997 - 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	27,028.21	36	20	16	55.56	2,356.93	7,070.28	-1,256.90	-3,385.80	1.88	2.34	750.78
4	25,490.87	36	25	11	69.44	1,877.74	4,546.84	-1,950.24	-3,863.84	0.96	2.19	708.08
3	20,201.86	39	25	14	64.10	1,545.33	4,042.74	-1,316.54	-2,576.01	1.17	2.10	518.00
2	22,954.43	39	26	13	66.67	1,246.28	4,809.66	-726.83	-2,726.97	1.71	3.43	588.58
1	6,393.20	41	26	15	63.41	799.46	5,117.46	-959.51	-1,949.22	0.83	1.44	155.93

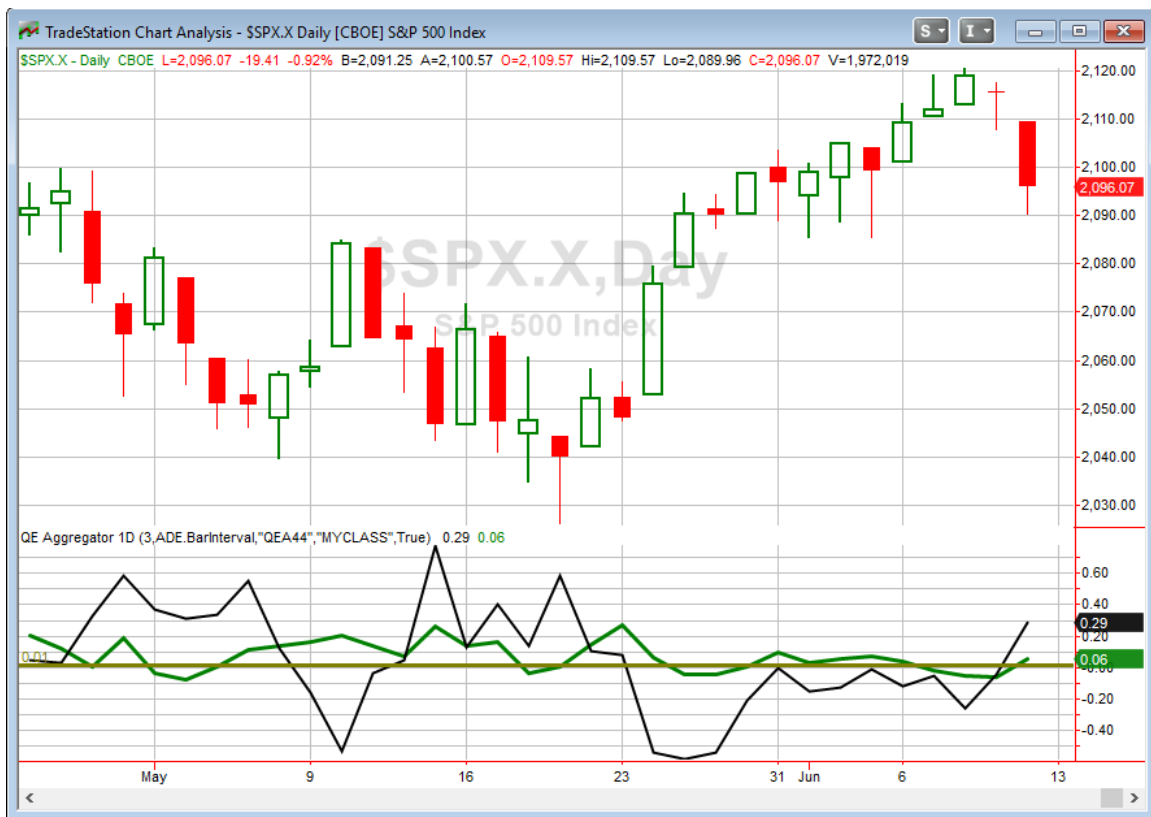
The numbers appear compelling. Below is a profit curve using a 2-day hold.



I do find the recent struggles to be a little bit concerning. I decided not to include this study on the Active List tonight, but I am keeping it in the rotation to review when it comes up again. I am inclined to believe the recent action will most likely be a blip, but I'll closely monitor the next few trades to make sure the curve does not completely roll over.

So we have 2 new bullish studies that were added to the Active List tonight.

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



With tonight's studies included the green Aggregator Line inched above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also moved 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 flipped from short to 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 2118.22 on Monday. That is 1.1% above Friday's close. So for SPX to move from oversold to overbought on Monday it will need to close up at least 1.1%.

It appears that the market is already setting up for a bit of a bounce here in the next few days. Evidence is starting to point higher and the selling the last couple of days has quickly turned the market short-term oversold. Certainly oversold can get more oversold, and a 75% chance of a move higher means a 25% chance of a move lower. On the whole, my short-term outlook is modestly bullish. I think from a reward/risk standpoint the outlook

is bullish enough that I will look to start scaling into a long index position. But I won't be getting heavily invested immediately. If I can get a favorable fill on Monday, then that will be the 1st portion, and I may continue to scale in if SPX continues to pull back during the course of the week.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/13 – slightly bullish

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

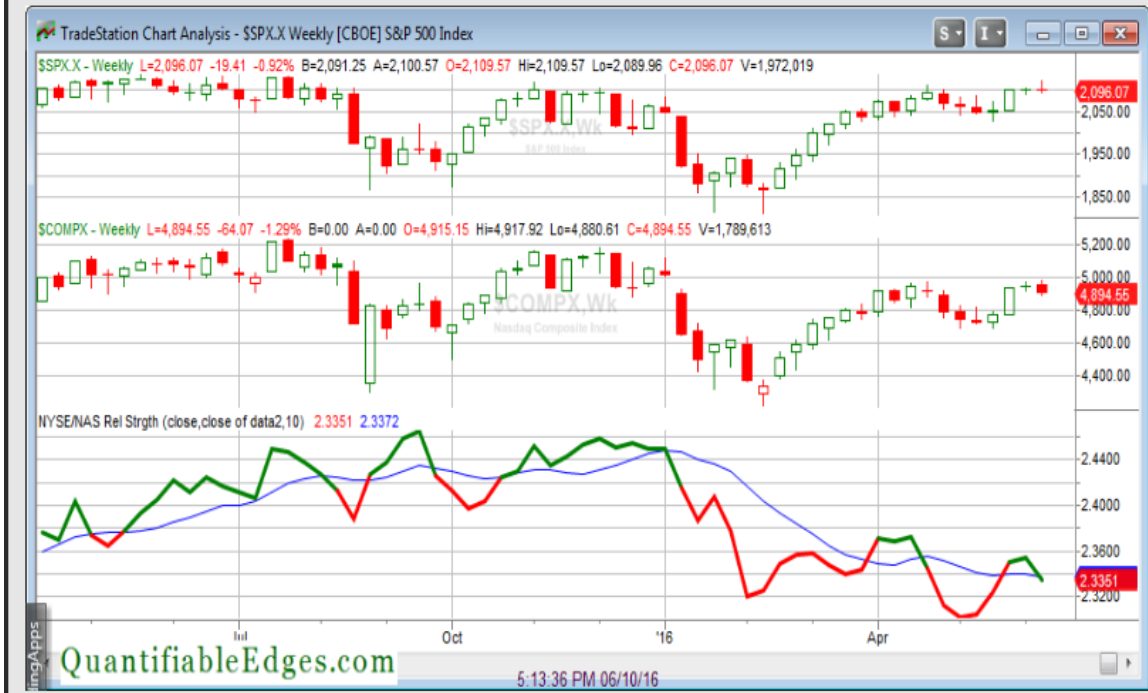
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

With Friday's selling the net for the week was mildly lower. SPX declined 0.15% from last Friday to this one. There were a few intermediate-term implications that came with this week's action.

Of course the “2 Unfilled Gaps Down from a 50-day High” study above is one of them.

Another possibly significant intermediate-term development is that the NASDAQ fell into a lagging position versus the SPX. The chart below is the same as the one shown on the charts page and it shows the NASDAQ/SPX Relative Strength indicator at the bottom of the chart. The green line (which is about to turn red) moving down below the blue line is the signal that the NASDAQ is now lagging.

NASDAQ/S&P 500 Relative Strength Weekly



Since 4/9/71, which is the earliest data point after the inception of the Nasdaq in which the calculations could be run, until now, the SPX has gained 1782.32 points when the Nasdaq was in leading position. When the SPX has been leading during that time it has gained only 211.65 points. The NASDAQ differential has been even more exaggerated. More information on the indicator, including links to download the model in either Excel or Tradestation, can be found on [the Nasdaq Weekly Strength Model page](#).

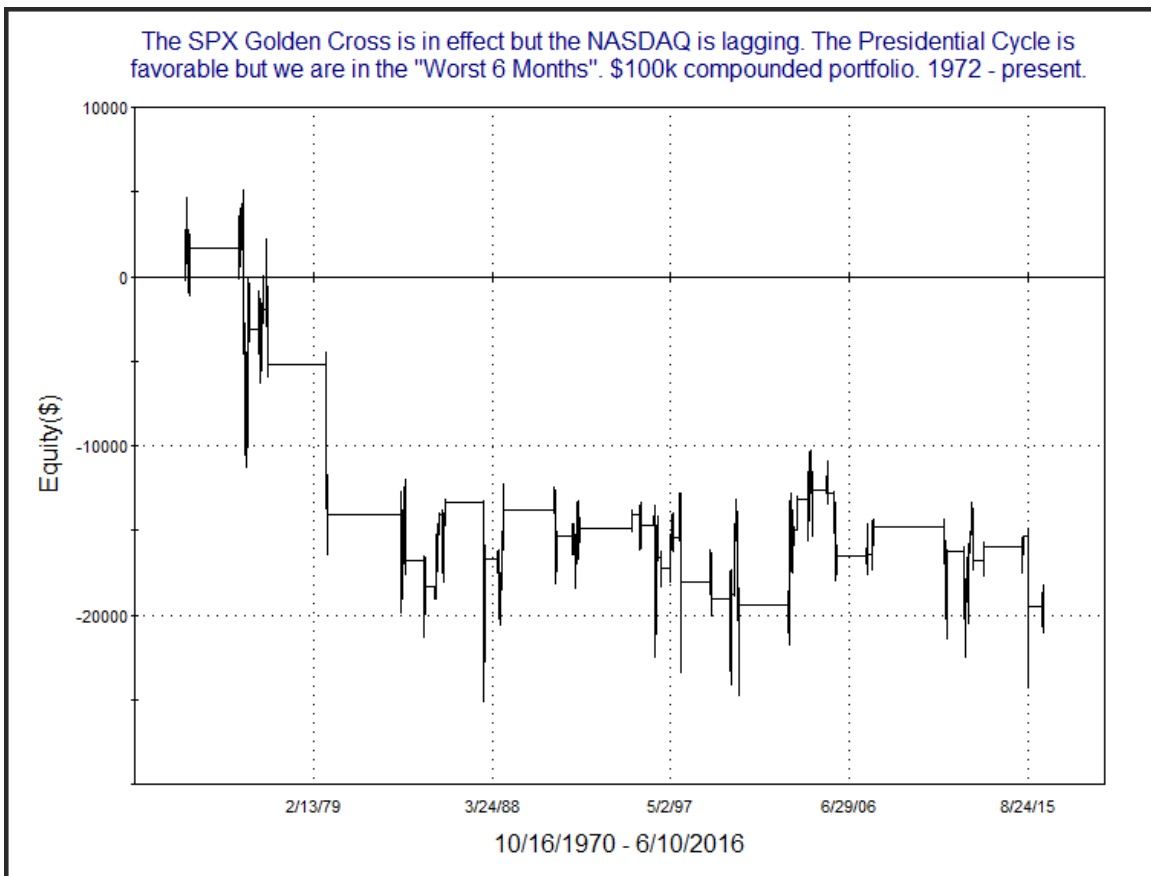
For those subscribers that also have access to the Market Timing Course (included with all annual subscriptions), this model is also discussed in detail there. The Excel model there is updated weekly, and also available for download (after completing the course). This model is one of the price-based indicators used for the course.

While 2 of the 3 “Combo” systems are suggesting a possible upside edge, a deeper look at the current configuration of the Market Timing Course indicators suggests things are less promising. Below is a study showing how the current configuration would have fared since 1972.

The SPX Golden Cross is in effect but the NASDAQ is lagging. The Presidential Cycle is favorable but we are in the "Worst 6 Months". \$100k/trade. 1972 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$17,261.49)	Profit Factor	0.76
Gross Profit	\$54,902.14	Gross Loss	(\$72,163.63)
Total Number of Trades	57	Percent Profitable	45.61%
Winning Trades	26	Losing Trades	31
Even Trades	0		
Avg. Trade Net Profit	(\$302.83)	Ratio Avg. Win:Avg. Loss	0.91
Avg. Winning Trade	\$2,111.62	Avg. Losing Trade	(\$2,327.86)
Largest Winning Trade	\$7,426.65	Largest Losing Trade	(\$8,486.10)
Max. Consecutive Winning Trades	4	Max. Consecutive Losing Trades	6
Avg. Bars in Winning Trades	20.88	Avg. Bars in Losing Trades	23.32
Avg. Bars in Total Trades	22.21		

Here you can see that the average stats look quite poor. Losses have outpaced gains by 31%. Below I have produced a profit curve utilizing re-investment of capital and compounding.

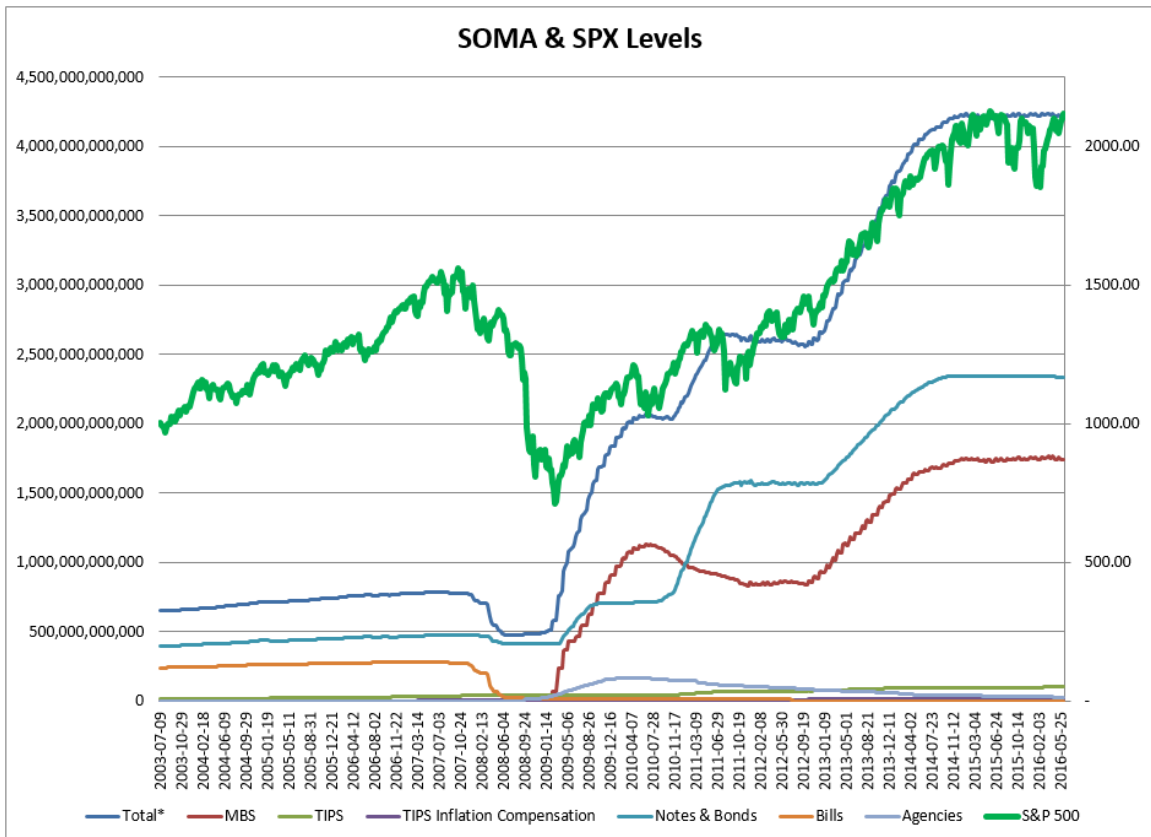


Most of the losses came early on, but this has never been a configuration that has led to consistent market gains.

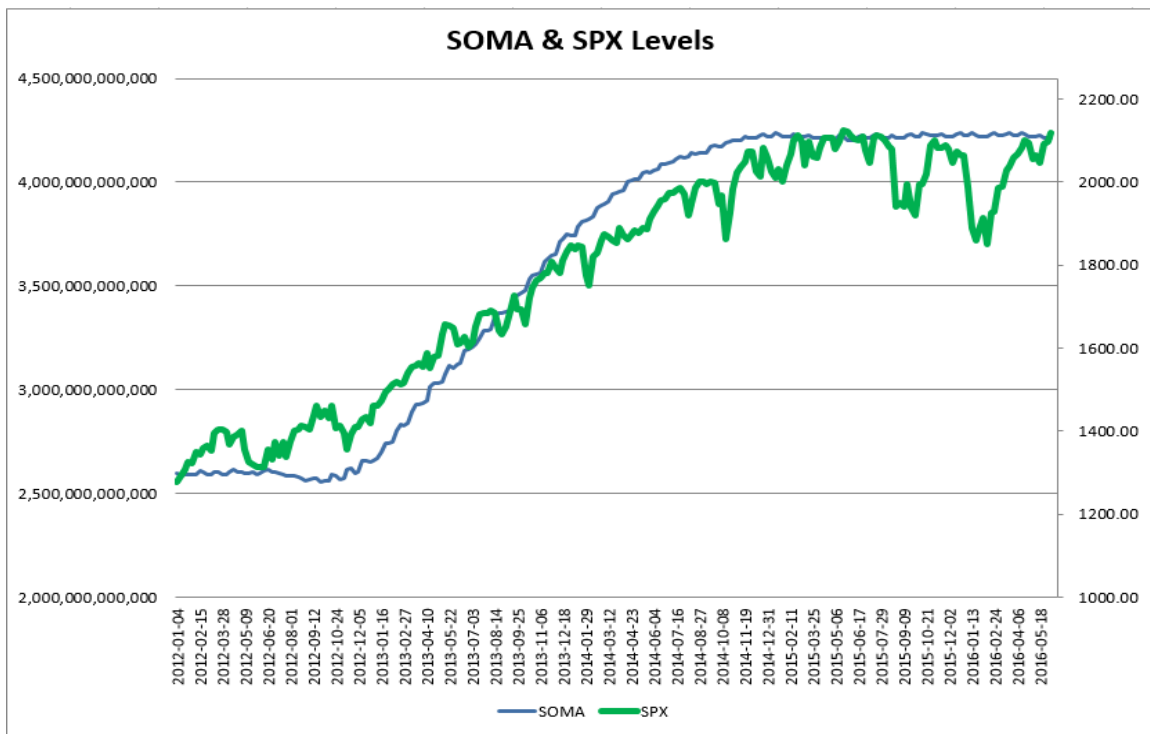
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) was again basically flat, with a slight rise of less than 0.01%. The flat SOMA is something I indicated was probable last week based on the Fed’s reinvestment schedule. The 0.94% gain for the SPX over this period is strong. Most often the SPX will sell off during weeks that the SOMA does not expand. 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 45% of the time and has lost a sum total of 7.06%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, this current week is likely to see an increase in the SOMA. And the following week we will also likely see an increase in the SOMA. So the bulls should have positive liquidity on their side for the next week and a half or so.

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.

The outlook does not look quite as strong as last week, but I still think there is a mild bullish edge for the intermediate-term. The NASDAQ now lagging in conjunction with the “Worst 6 Months” has not been good for the market historically. The overall weak Fed support,

and the long-term new-high breadth divergence also favor the bears. We did see some new bullish evidence emerge in the form of the “2 unfilled gaps down from a 50-day high”. Additionally, multiple breadth-thrust studies from February and the bullish FTD study from March are all pointing higher. So I will view the market with an intermediate-term “slightly bullish” bias. I will be willing to take trades in either direction, but will be a bit more aggressive on the long side than the short side.

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 @ \$210.07 LIMIT. Based on the short-term section above I will look to begin scaling into a SPY index position.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	5/5/2016	\$26.20	\$29.59	12.94%		Aggressive VIX

XIV got whacked on Friday as the VIX spiked. It still looks like a good bet with the Aggregator now bullish and contango still favorable (though not as favorable as it was).

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