

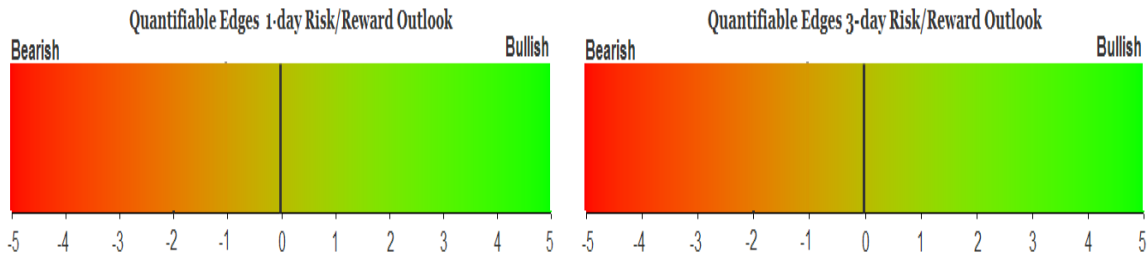
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 5, 2016

Volume 9 Issue 128

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Short

Tonight's Research Points

- 3 days up from a 50-day low is often followed by more rallying.
- Strong 4-day rallies when SPX > 200ma have led to further gains in the past.
- SOMA is expected to remain flat through Wednesday, and the post a little bump up after that.

Short-term Outlook

The Bottom Line

While most evidence is still pointing higher the market is strongly overbought. This leaves me short-term neutral.

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						
July 5, 2016	3+ up from 50-day low. Today is NR7	1-3 days	Bullish	2.00%	-1.10%	-2.95%
July 5, 2016	SPX up > 1% 3 of 4 consecutive up days	1-3 days	Bullish	2.00%	-0.90%	-1.80%
July 1, 2016	Up Issue % > 70% 3x	1-2 days	Bullish	1.80%	-0.80%	-1.40%
July 1, 2016	QE Buying Power Short	1-6 days	Bearish			
June 30, 2016	VIX 10% above 10ma from 10% below	1-8 days	Bullish	1.90%	-1.10%	-2.20%
June 28, 2016	Up Issue % < 33% 2x. Today is Monday	1-6 days	Bullish	5.60%	-2.70%	-5.90%
Active - Long Term						
July 1, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-4.90%	-11.70%
April 26, 2016	Golden Cross	int term	Bullish			
March 2, 2016	FTD & 20-day high	int term	Bullish			
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 continued higher on Friday – making it the 4th day in a row. The SPX rose 0.2%, and the NASDAQ and Russell 2000 each gained 0.4%. Breadth was positive as the NYSE Up Issues % was 63% and the Up Volume % came in at 67%. NYSE volume came in light ahead of the long weekend.

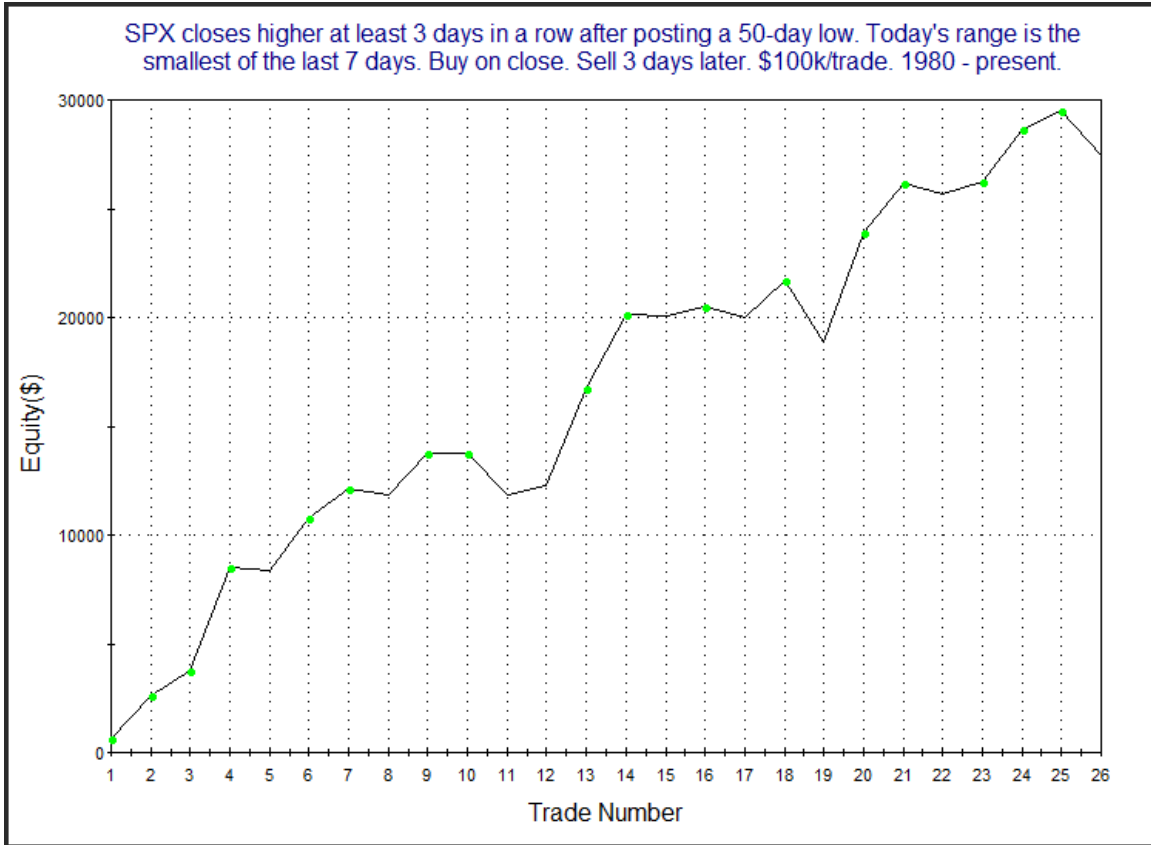
There were a few studies that triggered in the Quantifinder that appeared worth consideration

The 1st one was last seen in the 10/21/14 letter. It examined what happened other times the SPX posted at least 3 up days from its 50-day low and underwent a volatility contraction.

SPX closes higher at least 3 days in a row after posting a 50-day low. Today's range is the smallest of the last 7 days. Buy on close. Sell X days later. \$100k/trade. 1980 - 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
5	22,062.46	26	18	8	69.23	2,206.24	6,877.04	-2,206.24	-3,446.97	1.00	2.25	848.56
4	20,968.76	26	18	8	69.23	1,904.62	5,068.10	-1,664.30	-5,663.22	1.14	2.57	806.49
3	27,479.22	26	18	8	69.23	1,987.43	4,989.60	-1,036.82	-2,830.50	1.92	4.31	1,056.89
2	10,523.00	27	19	8	70.37	1,319.75	2,947.84	-1,819.04	-5,264.73	0.73	1.72	389.74
1	2,485.23	32	20	12	62.50	898.80	4,699.94	-1,290.89	-8,883.33	0.70	1.16	77.66

94% of instances closed above the entry price at some point in the next week.

Results here appear quite compelling. The consistency noted at the bottom of the table is also impressive. Below is a profit curve that assumes a 3-day holding strategy.



The consistency of the curve serves as confirmation of the bullish inclination. While part of the reason we saw a relatively small range on Friday was likely due to pre-holiday trading, I still felt this was worth consideration – especially considering how large the ranges of the previous 6 days had been.

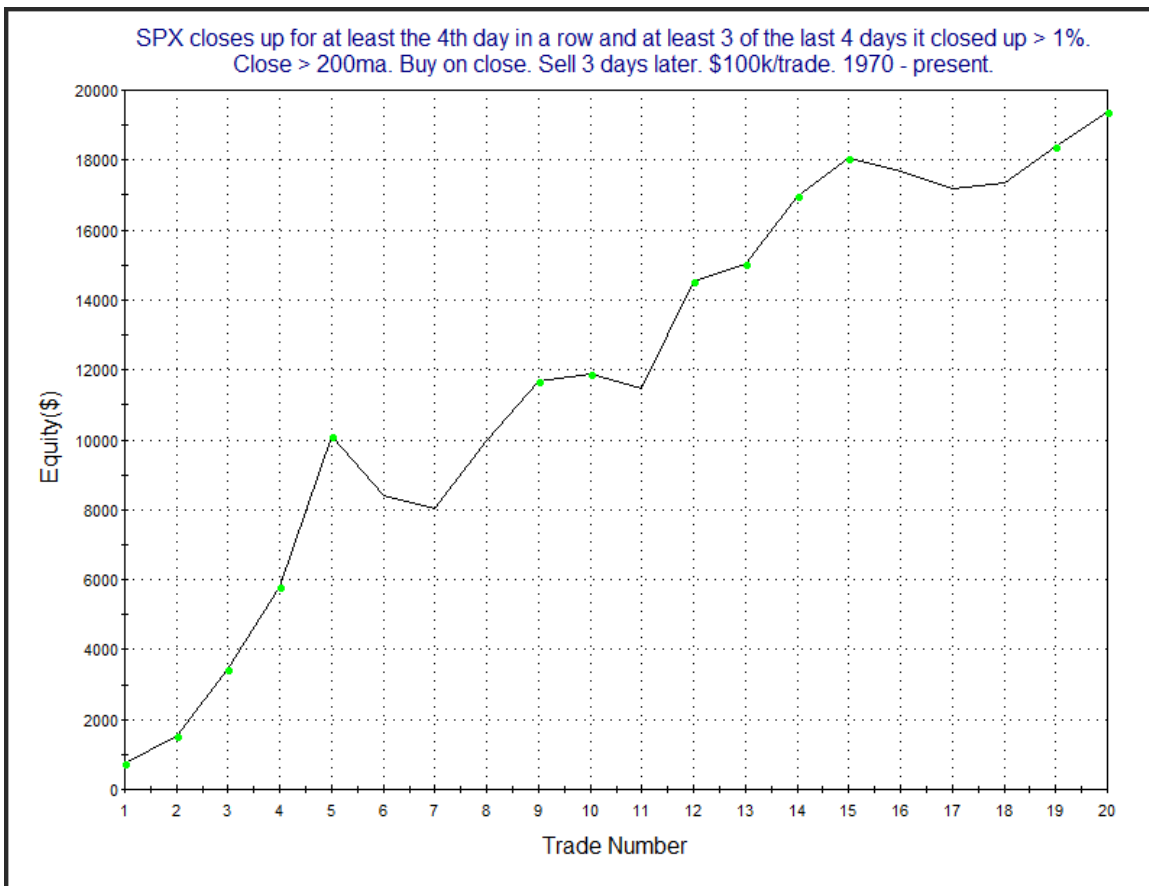
We also saw another study that suggested the strong move over the last few days is a positive. It looked at momentum price thrusts in SPX like we have seen over the last 4 days while SPX has been in a long-term uptrend. Below are the results.

SPX closes up for at least the 4th day in a row and at least 3 of the last 4 days it closed up > 1%.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	20,822.71	20	15	5	75.00	1,755.44	3,581.50	-1,101.79	-1,493.32	1.59	4.78	1,041.14
4	19,174.96	20	17	3	85.00	1,260.69	3,067.74	-752.27	-1,043.86	1.68	9.50	958.75
3	19,387.82	20	15	5	75.00	1,514.72	4,318.58	-666.59	-1,691.58	2.27	6.82	969.39
2	7,976.39	20	12	8	60.00	968.00	2,586.57	-454.95	-1,301.14	2.13	3.19	398.82
1	2,282.59	23	11	12	47.83	702.27	2,609.46	-453.53	-1,362.90	1.55	1.42	99.24

21 of 23 instances (91%) closed above the entry price at some point in the next week. (All did within 9 days.)

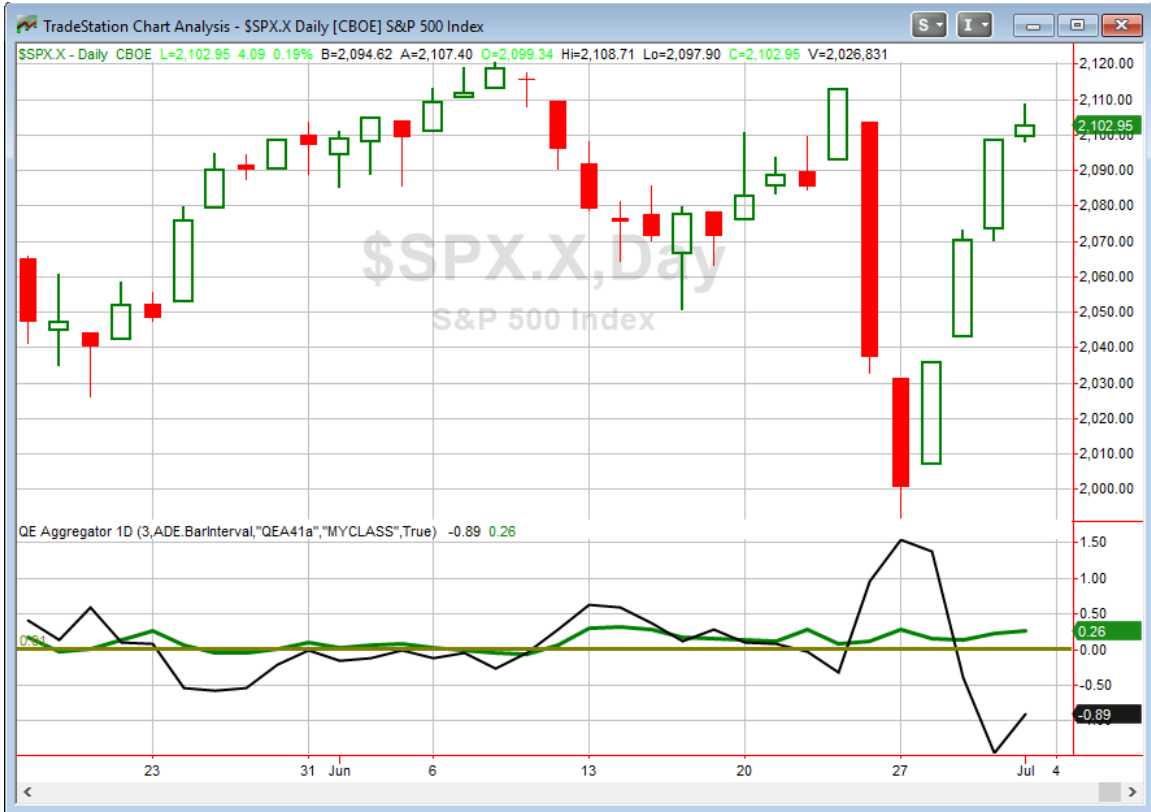
The above stats are impressive. Notable though is that there have only been 4 instances since 2000. These triggered on 6/2/09, 8/21/09, and 7/1/11, and 2/11/14. So although the total number of instances is decent, we don't have much of a sample in recent years. Below is a profit curve assuming a 3-day holding period.



I do like the curve. And though I would rather see more in the way of recent instances, it appears this study is worth taking under some consideration. Price thrusts as we have seen

over the last few days have led to further upside on a fairly consistent basis. I have included this study on the Short-Term Active List.

I have updated the Aggregator chart below.



With tonight's studies included the green Aggregator Line held 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 now very far below 0. The negative Differential Line reading means SPX is strongly overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite side of 0. Therefore, the Aggregator remained flat at the close.

Based on the current active list, expectations are poised to remain positive on Tuesday. This is highly unlikely to change. The Differential Pivot will be 2082.75 on Tuesday. That is 1.0% below Friday's close. So for SPX to move from overbought to oversold versus expectations on Tuesday it will need to close down at least 1.0%.

My short-term outlook is basically the same as it was Thursday night. The bounce has been strong, and evidence suggests it could still have further to go. But the market is just way-too overdone in the short-term for me to consider taking on new long positions. I will wait for a bit of a pullback or for the evidence to turn bearish before I will take on new trades.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/5 – 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”.*

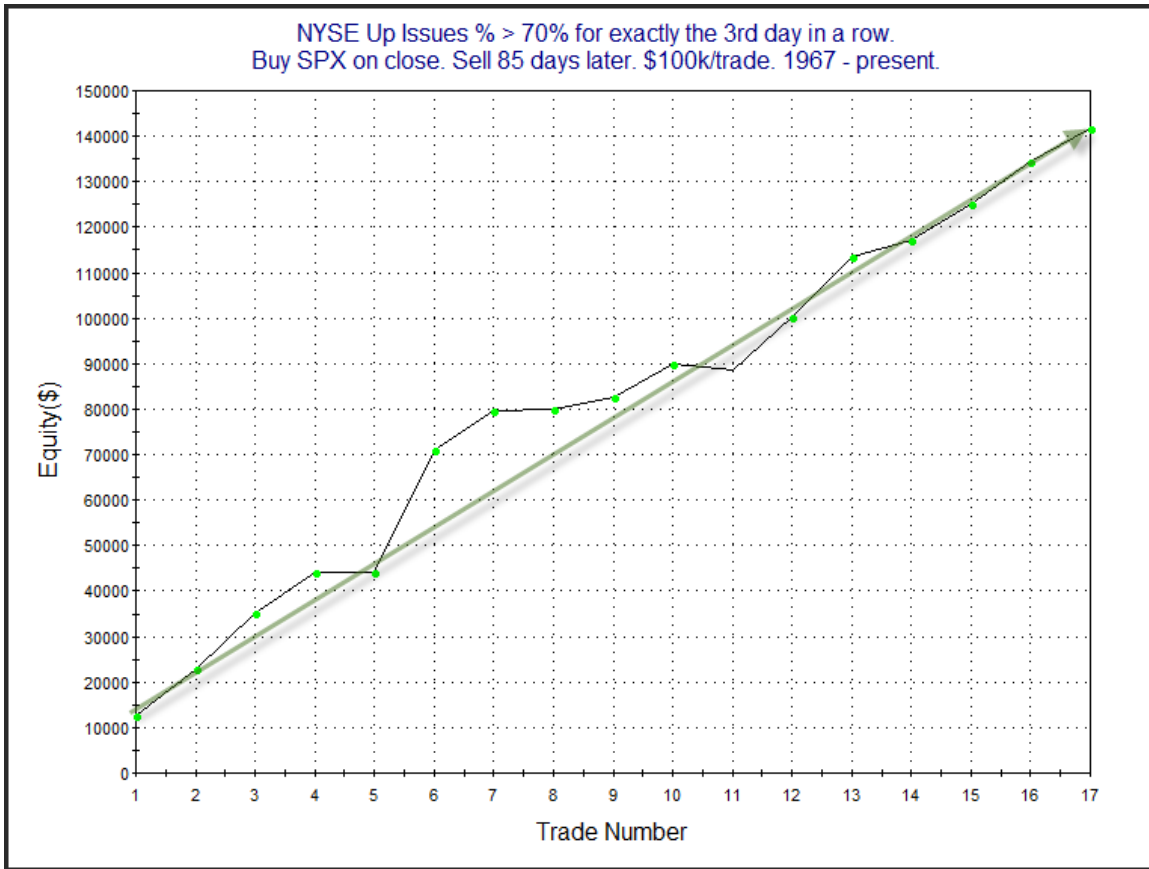
After closing down 3 weeks in a row, SPX managed to post a gain this week that entirely recovered the losses of the last three. The June highs are in site, as are potential new all-time highs. In addition to the strong move up, the accompanying breadth triggered a study in Thursday night’s letter that suggested an intermediate-term bullish edge. I have copied that study below.

On the bullish side, Thursday was the 3rd day in a row that provided strong breadth readings. In the past, 3 days of strong breadth has led to further short-term upside. This is something I discussed in the 2/18/16 Letter. I have updated that study below...Intermediate-term implications of this study are also very compelling. I have included them below as well.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.
Buy SPX on close. Sell X days later. \$100k/trade. 1967 - 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
100	120,732.10	16	13	3	81.25	10,238.93	35,228.25	-4,124.64	-9,681.98	2.48	10.76	7,545.76
95	112,055.80	16	14	2	87.50	8,761.21	27,455.01	-5,300.59	-7,569.87	1.65	11.57	7,003.49
90	137,186.39	17	15	2	88.24	9,554.50	30,991.65	-3,065.58	-5,123.16	3.12	23.38	8,069.79
85	141,671.97	17	16	1	94.12	8,936.55	26,681.37	-1,312.89	-1,312.89	6.81	108.91	8,333.65
80	131,053.65	17	16	1	94.12	8,579.80	28,597.05	-6,223.12	-6,223.12	1.38	22.06	7,709.04
75	125,606.08	18	17	1	94.44	7,944.05	27,786.57	-9,442.75	-9,442.75	0.84	14.30	6,978.12
70	98,247.26	18	16	2	88.89	6,833.34	24,277.56	-5,543.08	-8,532.18	1.23	9.86	5,458.18
65	90,863.01	18	15	3	83.33	6,954.69	27,455.01	-4,485.79	-12,438.75	1.55	7.75	5,047.95
60	101,157.16	19	16	3	84.21	7,473.19	30,604.83	-6,137.98	-14,330.51	1.22	6.49	5,324.06
55	102,727.11	20	16	4	80.00	7,678.80	30,696.93	-5,033.43	-13,424.22	1.53	6.10	5,136.36
50	95,508.18	20	15	5	75.00	8,268.21	23,080.26	-5,702.98	-16,443.76	1.45	4.35	4,775.41
45	89,029.28	20	17	3	85.00	6,967.38	28,118.13	-9,805.37	-22,705.40	0.71	4.03	4,451.46
40	75,927.65	20	17	3	85.00	6,470.31	23,992.05	-11,355.88	-25,195.29	0.57	3.23	3,796.38
35	70,824.33	21	17	4	80.95	5,574.65	18,677.88	-5,986.16	-16,976.62	0.93	3.96	3,372.59
30	73,092.09	21	16	5	76.19	5,947.65	15,257.06	-4,414.06	-15,261.41	1.35	4.31	3,480.58
25	73,295.87	21	17	4	80.95	5,166.68	14,072.88	-3,634.44	-6,624.37	1.42	6.04	3,490.28
20	68,210.85	21	17	4	80.95	4,964.34	14,045.25	-4,045.75	-11,381.59	1.23	5.21	3,248.14
15	51,701.67	21	18	3	85.71	3,643.47	12,387.45	-4,626.90	-10,189.61	0.79	4.72	2,461.98
10	32,987.73	22	17	5	77.27	3,127.90	8,961.33	-4,037.30	-8,739.76	0.77	2.63	1,499.44
5	21,021.69	22	16	6	72.73	2,249.67	8,344.26	-2,495.50	-6,523.10	0.90	2.40	955.53

The results table suggests a strong consistent edge has followed this setup. Below is a performance graph showing performance assuming an 85-day holding period.

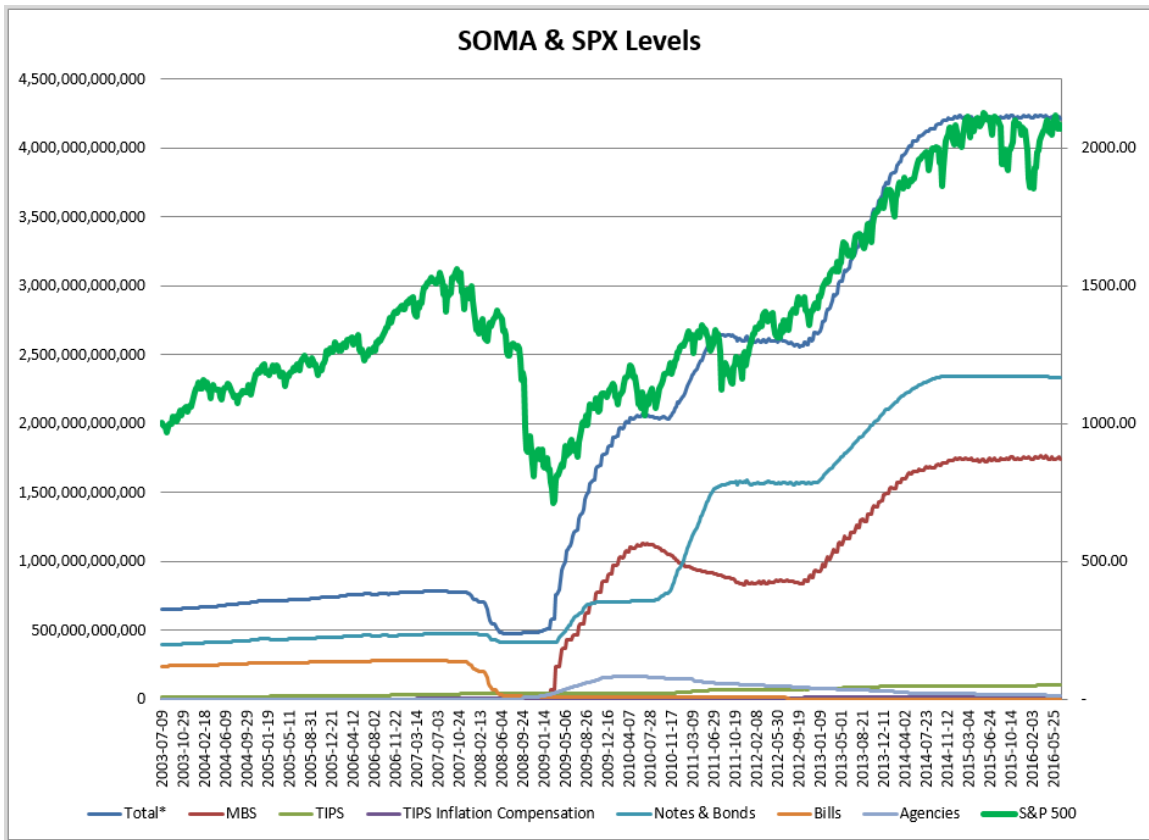


The curve appears to serve as further confirmation of the upside edge. The strong, steady upslope is very impressive. The steadiness is fairly amazing considering it looks out 85 days.

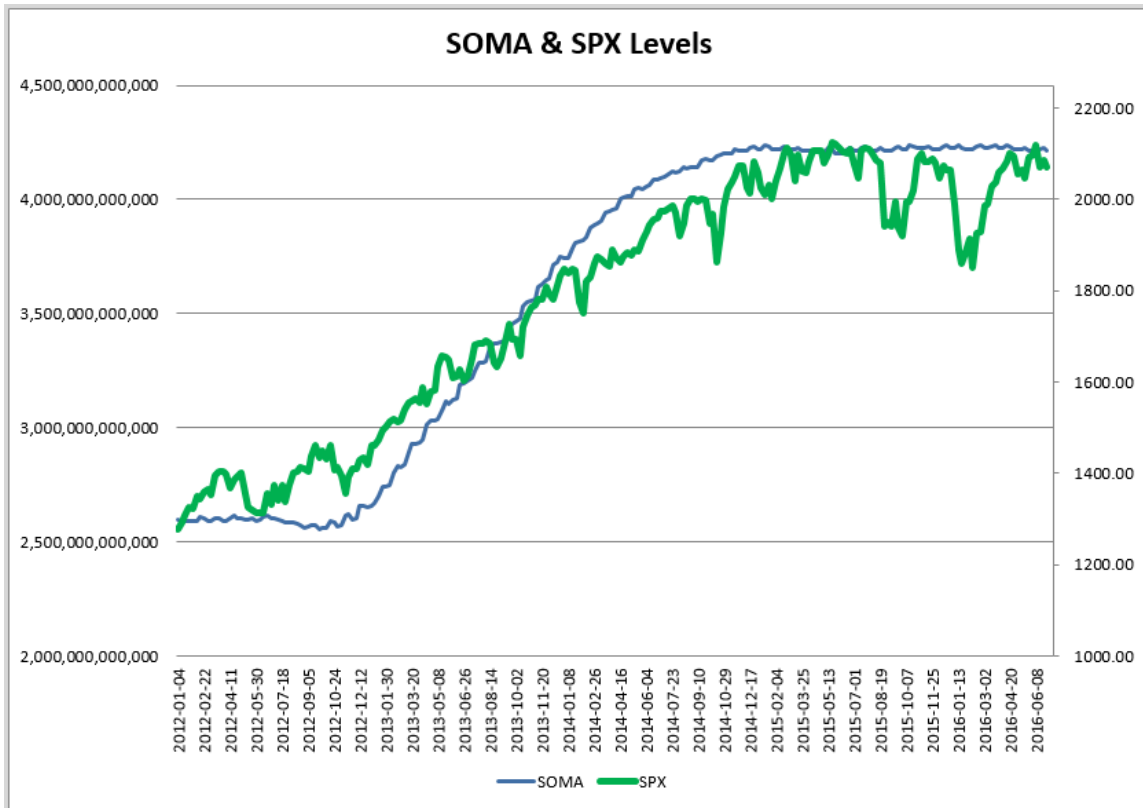
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 a fairly sizable 0.35%. This is something I indicated was probable last week based on the Fed’s reinvestment schedule. The 0.7% loss for the SPX over this period is pretty typical. Most often the SPX will suffer during weeks that the SOMA fails to expand. Since the beginning of 2015 SPX has risen 65% of the time for a sum total of 9.62% during SOMA expansion weeks. During all other weeks SPX has only risen 44% of the time and has *lost* a sum total of 7.76%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, this current week, which ends on Wednesday, is likely to remain essentially flat. The following week the SOMA is expected to post a decent gain. So the bulls could get some help from increased Fed liquidity as early as Thursday.

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 breadth thrust signal that triggered this week was a good sign for the bulls. They also have another active breadth study from February and the bullish FTD study from March pointing higher. The trend as measured by the 200ma and the Golden Cross still is up as well. There is still a fair amount of active bearish evidence as well, The lagging NASDAQ

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. With this week’s new bullish evidence and the fact that the market is again challenging new highs I am moving my outlook to “slightly bullish”. I am still willing to take trades in either direction, but I will be more conservative with short trades than I will with long trades.

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
XIV(1/2)	6/14/2016	\$24.70	\$25.94	5.02%		Aggressive VIX

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