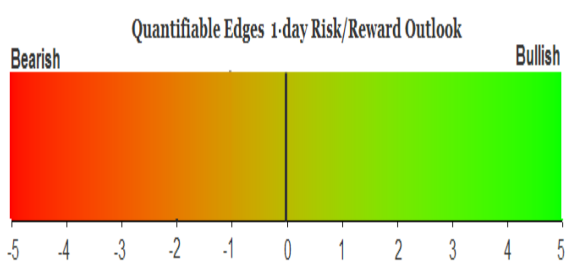
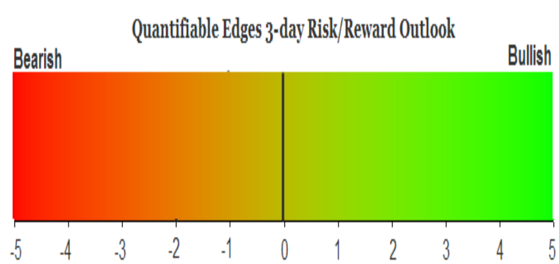
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 25, 2016 Volume 9 Issue 142

Market Overview





Signals Overview

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

Tonight's Research Points

- SPX posting a 20-day high while NYSE volume posts a 20-day low has often been followed by selling the next day.
- SOMA is expected to contract this upcoming week.

Short-term Outlook
The Bottom Line

Evidence is mixed (leaning bullish) and the market is a little overbought. This does not suggest a strong reward/risk setup.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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 25, 2016	20 high close on 20-low volume	1 day	Bearish			
July 22, 2016	Big drop from 50-high	1-4 days	Bullish			-2.20%
July 18, 2016	5 up to 50-high then 1 down day	1-10 days	Bullish	2.00%	-1.10%	-2.20%
Active - Long Term						
July 18, 2016	5 up to 50-high then 1 down day	1-10 days	Bullish	2.00%	-1.10%	-2.20%
July 11, 2016	NASDAQ leading	int term	Bullish			
July 11, 2016	SPX 50-low to 50-high in 2 weeks	1-17 days	Bullish			
July 11, 2016	SPX 50-high breakout 90% up volume	1-35 days	Bullish			
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			
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						
July 18, 2016	Opex week rises 1%-2%	1-5 days	Bearish	-1.35%	0.80%	1.60%

The Evidence

Friday saw the market make some solid gains and again reach new highs. The SPX rose 0.4%, the NASDAQ gained 0.5% and the Russell 2000 climbed 0.75%. Breadth was positive as the NYSE Up Issues % was 66.2% and the Up Volume % came in at 66.4%. NYSE volume came in at the lowest level in a long time.

Most of the studies that appeared in the Quantifinder were pretty tame – not suggesting strong edges. The one I found the most compelling was the one below, which was seen just recently in the 7/19/16 letter. It considered the high close in conjunction with the low volume.

SPX posts highest close in 20 days on the lightest NYSE volume in 20 days.
Buy on close. Sell next day's close. $100k/trade. 1976 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	($17,875.90)	Profit Factor	0.42
Gross Profit	$12,807.60	Gross Loss	($30,683.50)
Total Number of Trades	86	Percent Profitable	40.70%
Winning Trades	35	Losing Trades	50
Even Trades	1		
Avg. Trade Net Profit	($207.86)	Ratio Avg. Win:Avg. Loss	0.60
Avg. Winning Trade	$365.93	Avg. Losing Trade	($613.67)
Largest Winning Trade	$1,111.50	Largest Losing Trade	($2,378.78)

The numbers here appear solidly bearish. The 1-day profit curve was still appealing, and can be seen below.

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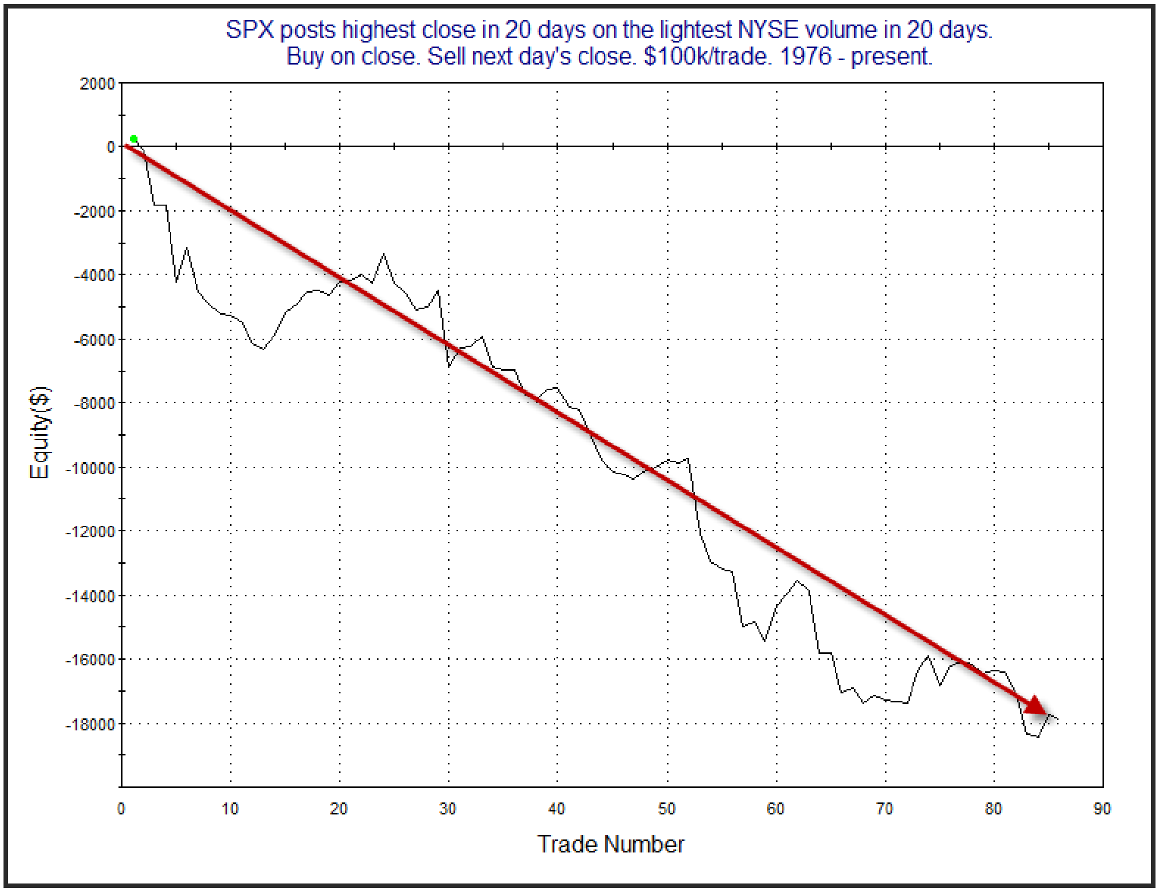
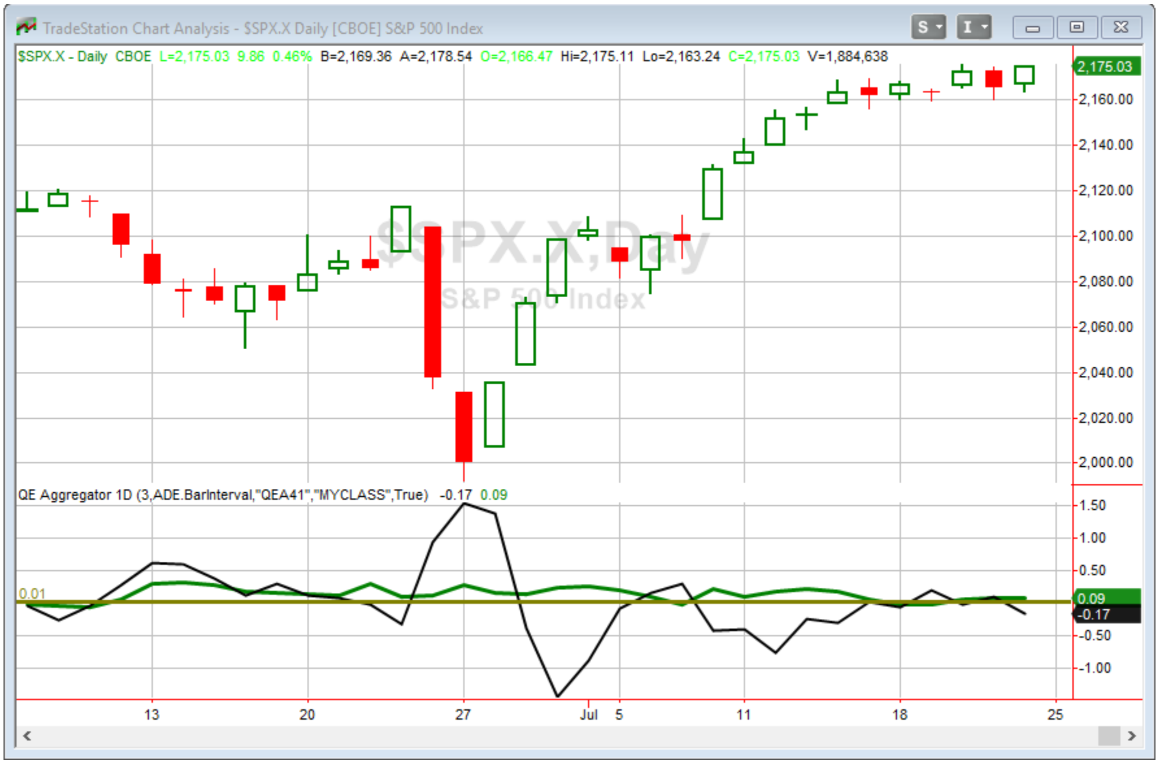


The downslope has persisted for a long time. I have added this study to the Active List tonight.

I have updated the Aggregator chart below.



With tonight's study 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 fell below 0. The negative Differential Line reading means SPX is 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 sides of 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current active list, expectations are poised remain positive on Monday. This could change if strong new bearish evidence emerges. The Differential Pivot will be 2173.13 on Monday. That is just 0.1% below Friday's close. So for SPX to flip from overbought to oversold versus expectations on Monday it will only need to close down 0.1% or more.

Friday's mild bullish edge was realized but it also quickly exhausted, as the Aggregator is back in a neutral state. Evidence is pointing higher, but it is fairly weak. And with the SPX already overbought reward/risk is somewhat lower than I would prefer for a long trade. This is leaving the Aggregator neutral, and me as well. I will wait until a more favorable reward/risk opportunity emerges before committing new capital.

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Intermediate-term Outlook (2 weeks – 2 months) – updated 7/25 – bullish

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

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 again see all 3 combo signals are "Long".*

The SPX rose 0.6% for the week and Friday saw the market again close at new highs. The intermediate-term trend remains up. The fairly quiet move higher over the week did not do anything to trigger new studies of intermediate-term influence.

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).

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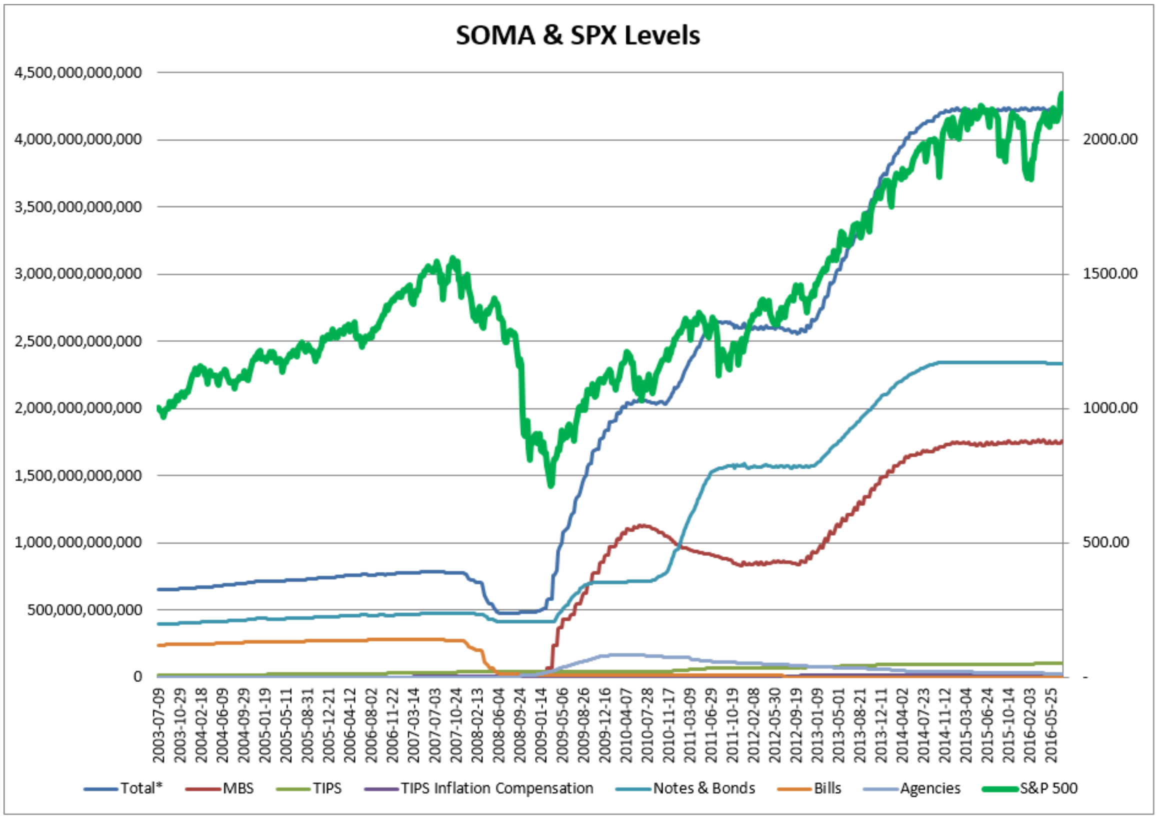
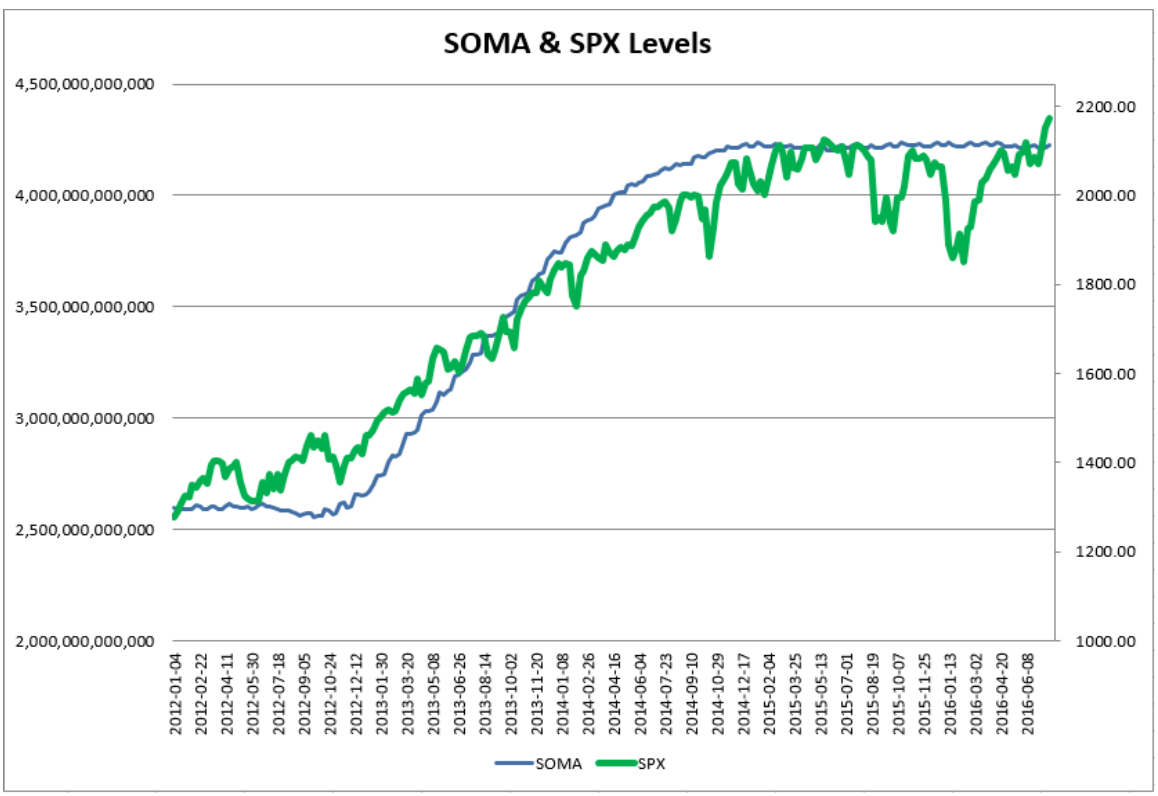


And now the zoomed-in view (2012 – present).



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SOMA rose this past week (Wednesday to Wednesday) a fairly large 0.28%. This is higher than I was expecting based on the Fed's past reinvestment schedule. The 0.96% gain for the SPX over this period is in accordance with a week that the SOMA posts gains. Since the beginning of 2015 SPX has risen 67% of the time for a sum total of 10.58% during SOMA expansion weeks (of at least 0.01%). During all other weeks SPX has only risen 46% of the time and has ***lost*** a sum total of 3.86%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, this current week, which ends on Wednesday, appears likely to post a loss. The following week the SOMA is expected to come in pretty flat. So it appears the bulls will be facing a bit of an illiquidity headwind 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.

Most of evidence we are seeing from an intermediate-term perspective continues to point north. We have seen some studies the last couple of weeks suggesting the breakout is strong and that the market is likely to continue higher. Additionally, 3 of our 4 Market Timing Course indicators are bullish, which has historically been quite promising. There are also some past breadth thrust signals that are still active. There is still some bearish evidence as well, including overall weak Fed support and the long-term new-high breadth divergence. With all this to consider and the market again posting new highs I am keeping my intermediate-term outlook bullish. I will be looking to trade the long side more aggressively and will be extra-selective with possible short trades.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

none

Broad Market Large Cap CBI – 0

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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	$30.74	24.45%		Aggressive VIX

The expectations are bullish and contango is strong. Those things continue to favor XIV.

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