

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 22, 2016

Volume 9 Issue 162

Market Overview



Signals Overview

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

Tonight's Research Points

- SOMA flows are expected to remain positive through Wednesday and then turn negative.

Short-term Outlook

The Bottom Line

Evidence is weak and the market is chopping sideways. There does not appear to be a compelling edge.

Summary of Recent Active Studies (see Letters from listed dates for details)

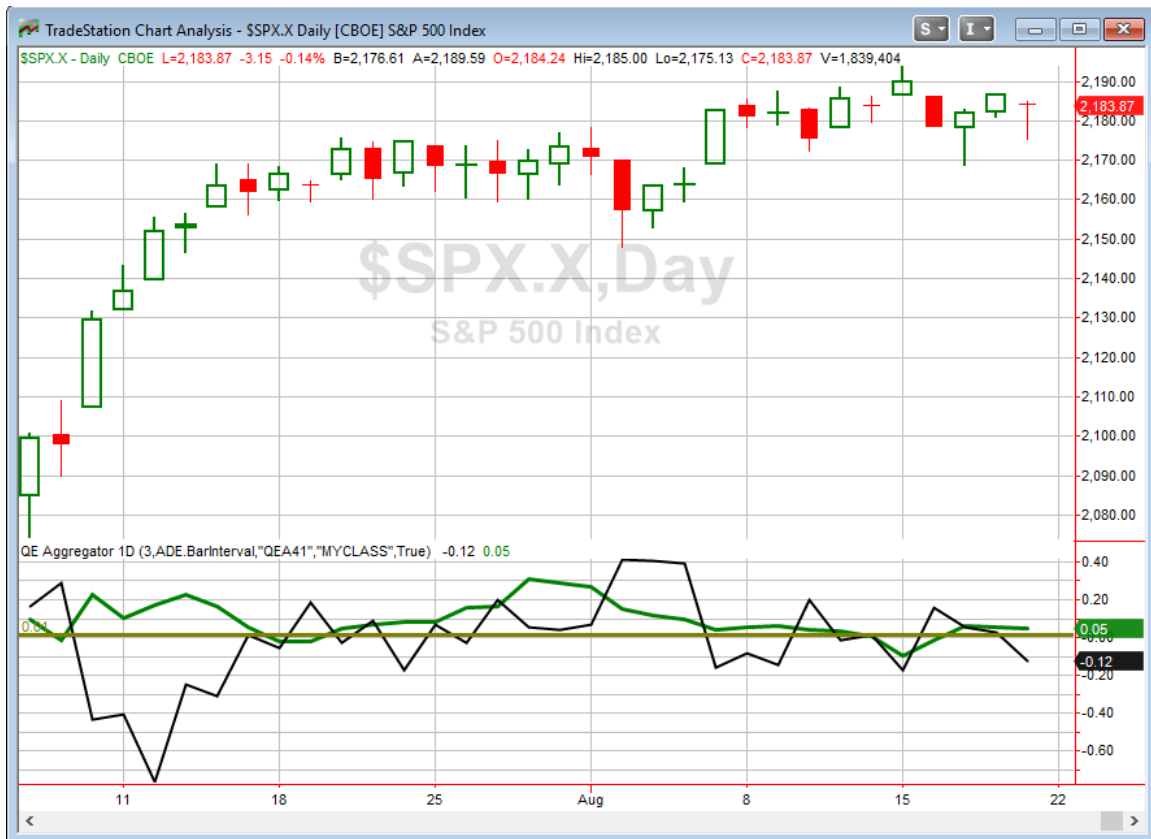
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
August 19, 2016	SPY up 2 < 3 ago	1-2 days	Bullish			
August 17, 2016	Big drop from 50-day high	1-4 days	Bullish			
Active - Long Term						
July 11, 2016	NASDAQ leading	int term	Bullish			
July 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						
August 19, 2016	SPY top 10% range < 0.25% gain	1 day	Bearish			

The Evidence

Friday got off to a difficult start and ended up with very mild losses. The SPX fell 0.1%, the NASDAQ closed down 0.03%, and the Russell 2000 declined 0.01%. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % came in at 42%. NYSE volume rose as it typically does no opex Friday.

The SPX really has not hardly moved over the last couple of weeks. August dog days continue. I am not going to try and read into a market that is not doing much and providing very little in the way of clues. Friday triggered no new compelling short-term evidence. But there are still a couple if bullish studies left on the Active List.

I have updated the Aggregator chart below.



With no new studies to add tonight 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 dropped down below 0. The negative Differential Line reading means SPX is now 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 to remain positive on Monday. But with the last few short-term studies set to expire, expectations in the next few days will be largely dependent on any new evidence that arises. The Differential Pivot will be 2181.26 on Monday. That is 0.1% below Friday's close. So SPX will only need to close down about 0.1% in order to move from overbought to oversold on Monday.

The Aggregator is neutral and the market is barely moving. This is not a setup that excites me. Until something changes, I am not inclined to get involved with new trades.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/22 – bullish

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

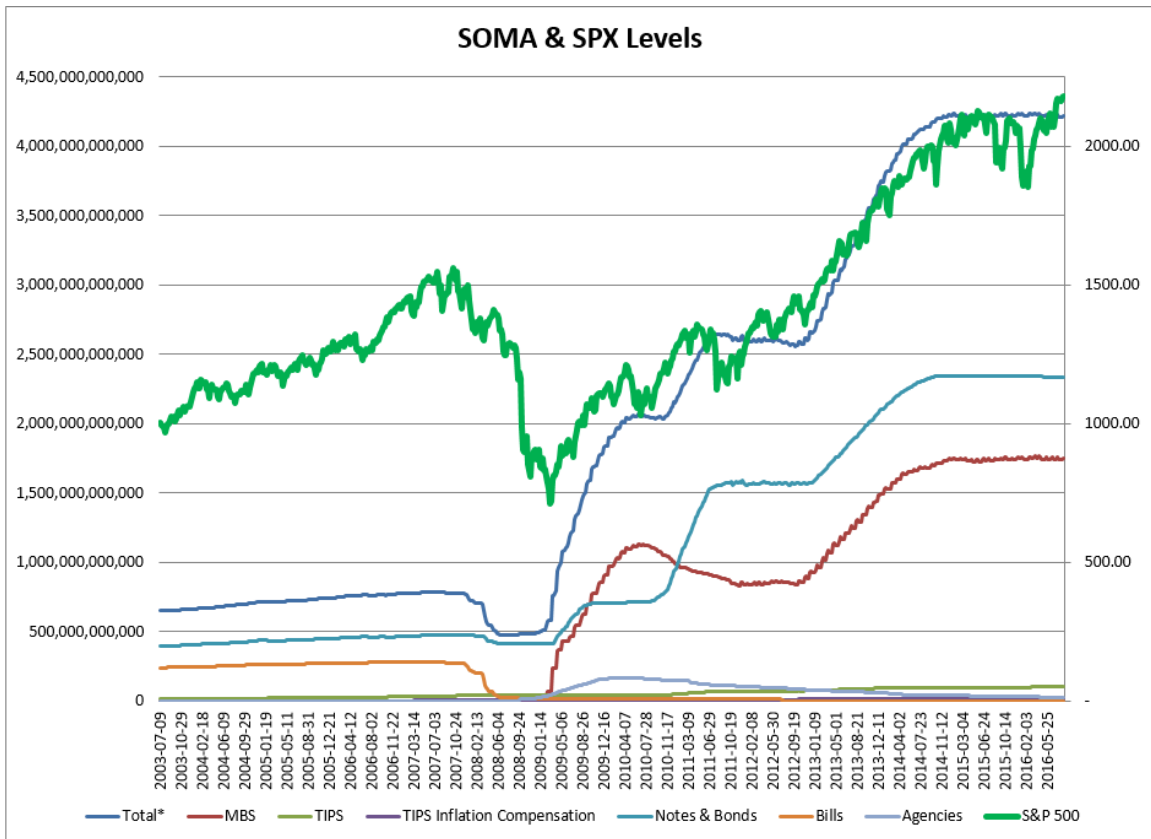
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

This was basically a nothing week for the SPX as it closed down 0.18 points from last Friday. New intraday highs were made during the week and the uptrend still appears to be intact. But the quiet market failed to generate any new compelling intermediate-term evidence.

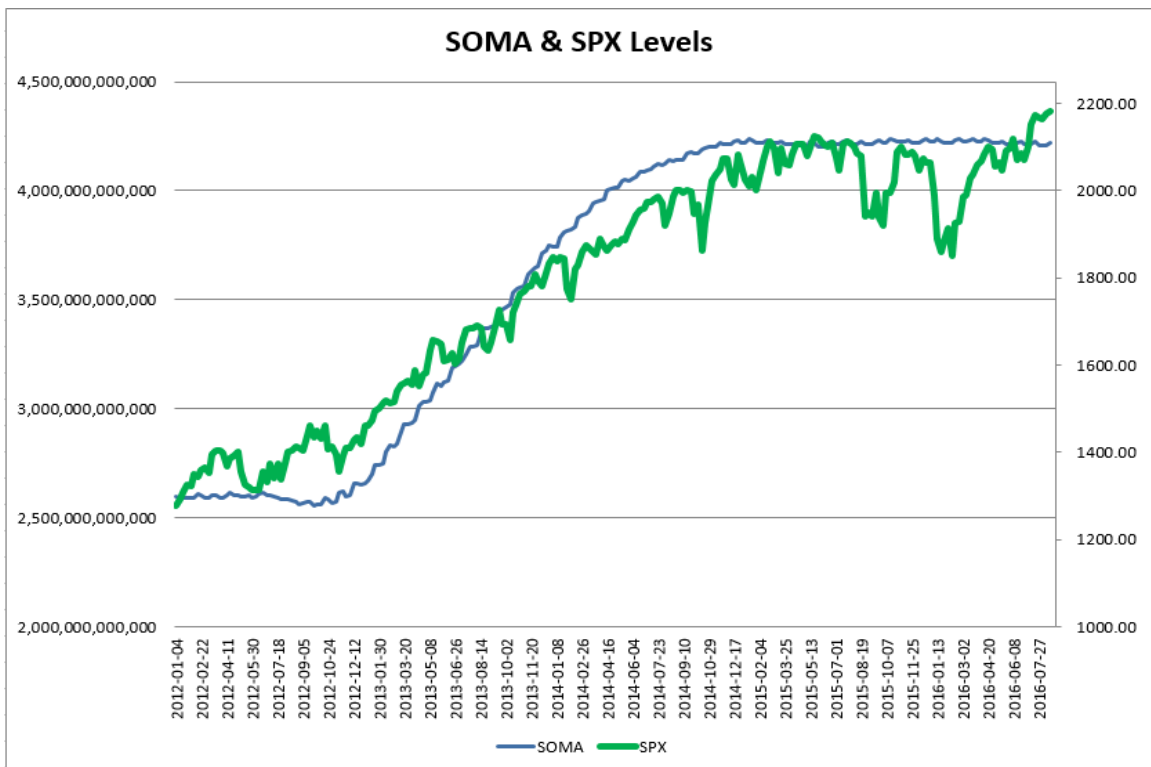
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 rose a decent amount this past week (Wednesday to Wednesday) with a 0.3% gain. I indicated in last week's letter that I expected a rise in the SOMA based on the Fed's past reinvestment schedule. The 0.31% gain for the SPX over this period is typical of a week that the SOMA posts a gain. Since the beginning of 2015 SPX has risen 68% of the time for a sum total of 10.89% 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 3.74%. 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 somewhat likely to show a rise, though it is not a lock. The week after that I expect to see a decline in the SOMA. So bulls may be helped out by some positive liquidity over the next 3 trading days, but after that they will likely have to deal with a negative liquidity headwind.

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 mild action this past week has left the intermediate-term outlook largely the same. Most of the evidence we are seeing from an intermediate-term perspective continues to point north. There are some past breadth related studies that suggest 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 is still some bearish evidence though, including overall weak Fed support and the long-term new-high breadth divergence. With all this to consider and the market again at around 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

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	\$37.55	52.02%		Aggressive VIX

Contango is still strong and expectations are currently positive. So I will look to ride XIV a bit longer.

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