

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 19, 2016

Volume 9 Issue 181

Market Overview



Signals Overview

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

Tonight's Research Points

- We are entering the most bearish week of the year.

Short-term Outlook

The Bottom Line

Evidence is now leaning a little bearish. Meanwhile the market is a little oversold. 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						
September 29, 2016	Weakest week	1-4 days	Bearish			
September 14, 2016	Failed reversal from 20-day low(3x)	1-5 days	Bullish			
September 13, 2016	1.75% drop then Sweet Spot bounce	1-5 days	Bullish	3.00%	-0.95%	-1.90%
September 12, 2016	System 110524	1-7 days	Bullish			
September 12, 2016	Drop 1.5x 20-day ATR on a Friday	1-6 days	Bullish			
September 12, 2016	2 unfilled dn gaps, 5-low > 200ma.	1-6 days	Bullish			
Active - Long Term						
September 14, 2016	"Failed" reversal from 20-day low	1-10 days	Bullish			
September 13, 2016	Reversal from 20-day low	1-10 days	Bullish	2.90%	-1.80%	-3.30%
September 12, 2016	2 unfilled dn gaps, 5-low > 200ma.	1-10 days	Bullish			
July 11, 2016	NASDAQ leading	int term	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						
September 13, 2016	Reversal from 20-day low	1-4 days	Bullish	1.80%	-1.30%	-2.30%

The Evidence

The market dipped a little on Friday. The SPX declined 0.4%, the NASDAQ lost 0.1%, and the Russell 2000 fell 0.2%. Breadth was negative as the NYSE Up Issues % was 35% and the Up Volume % came in at 30%. NYSE volume spiked higher as it often does on opex Friday.

From a seasonality standpoint, there isn't a more reliable time of the year to have a selloff than this upcoming week. Since 1961 the week following the 3rd Friday in September has produced the most bearish results of any week. In the 9/21/15 subscriber letter I showed a table with the best and worst weeks of the year. I have updated that table below.

SPX performance during the week following the month and Friday specified.
 \$100k/trade. \$0 commissions. 1961 - present. Top 10 and bottom 10 results shown.

Friday	Month	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
4	1	45,361.96	56	35	21	62.50	2,083.81	5,480.00	-1,312.92	-4,863.30	1.59	2.65	810.04
2	4	40,003.88	56	37	19	66.07	1,832.85	5,731.96	-1,463.76	-3,580.15	1.25	2.44	714.36
4	10	38,253.73	55	34	21	61.82	2,203.57	10,485.72	-1,746.07	-3,993.72	1.26	2.04	695.52
2	3	37,948.48	56	36	20	64.29	1,729.02	7,515.60	-1,214.81	-6,711.66	1.42	2.56	677.65
2	9	33,253.49	55	36	19	65.45	1,706.28	7,573.02	-1,482.77	-4,975.04	1.15	2.18	604.61
4	12	32,975.45	54	34	20	62.96	1,616.68	6,726.00	-1,099.58	-4,480.29	1.47	2.50	610.66
2	12	27,561.02	55	34	21	61.82	1,369.22	5,868.16	-904.40	-4,176.33	1.51	2.45	501.11
4	5	27,405.98	56	32	24	57.14	1,840.38	7,145.28	-1,311.92	-3,713.26	1.40	1.87	489.39
3	11	24,333.82	55	35	20	63.64	1,587.57	11,930.04	-1,561.56	-4,672.36	1.02	1.78	442.43
1	3	22,005.83	56	32	24	57.14	1,572.41	10,682.82	-1,179.64	-3,118.36	1.33	1.78	392.96
3	3	-6,716.09	56	22	34	39.29	1,805.45	6,162.00	-1,365.76	-4,640.48	1.32	0.86	-119.93
2	5	-7,436.05	56	27	29	48.21	1,565.21	4,850.40	-1,713.68	-4,959.45	0.91	0.85	-132.79
2	6	-7,773.17	56	29	26	51.79	1,453.10	4,289.01	-1,919.73	-4,377.60	0.76	0.84	-138.81
3	7	-7,850.89	56	29	27	51.79	1,480.84	4,121.28	-1,881.31	-4,884.75	0.79	0.85	-140.19
3	2	-8,357.04	56	26	30	46.43	1,117.36	3,705.10	-1,246.95	-4,509.84	0.90	0.78	-149.23
3	5	-9,932.13	56	30	26	53.57	1,210.29	3,924.96	-1,778.49	-6,812.10	0.68	0.79	-177.36
1	9	-13,508.32	56	29	27	51.79	1,428.85	3,778.72	-2,035.00	-11,038.16	0.70	0.75	-241.22
3	10	-15,294.41	55	25	30	45.45	1,715.21	4,339.20	-1,939.15	-12,167.91	0.88	0.74	-278.08
3	6	-23,242.27	56	23	33	41.07	1,172.21	3,650.24	-1,521.30	-5,742.69	0.77	0.54	-415.04
3	9	-47,930.11	55	17	38	30.91	1,287.63	7,739.42	-1,837.36	-7,410.00	0.70	0.31	-871.46

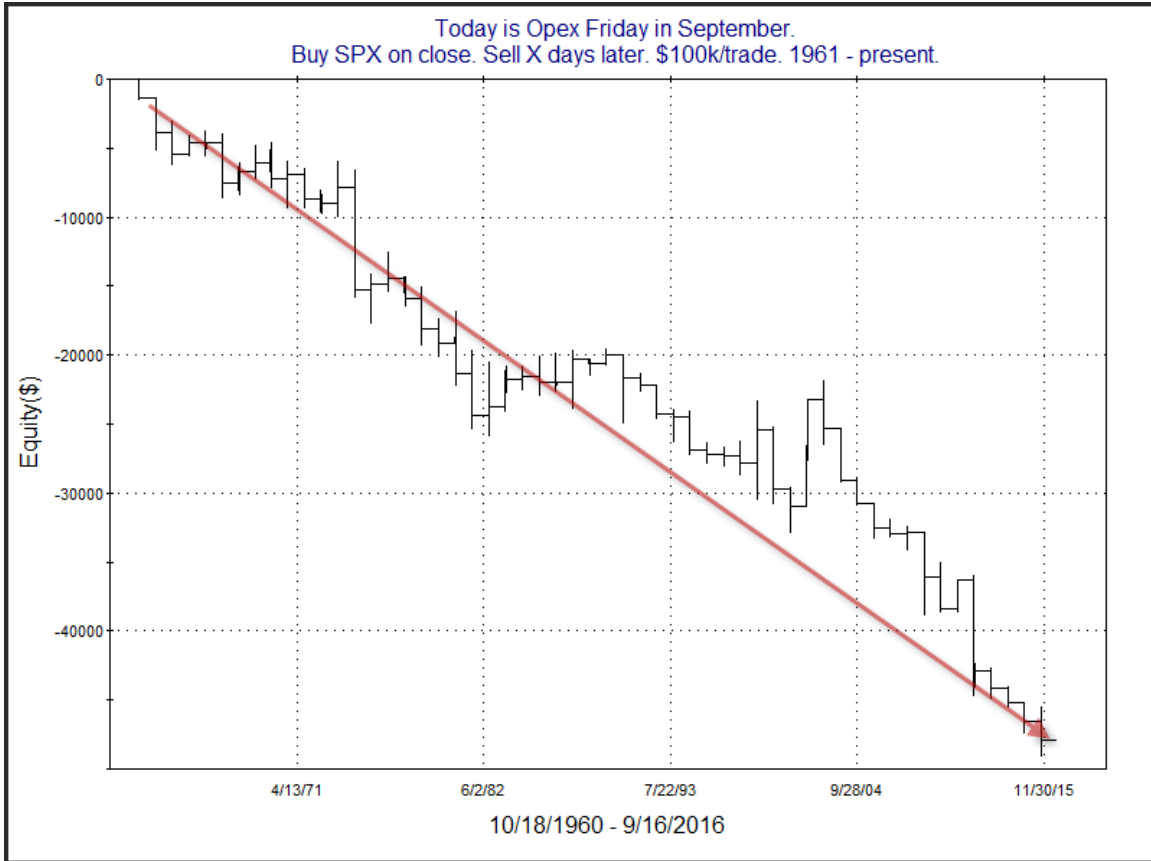
To make it a little neater and to keep the number of instances consistent I did not include weeks after the 5th Friday in these results. Just Fridays 1-4. If you look at the bottom line you will see that the worst results occur following the 3rd Friday of the 9th month. That is this upcoming week. In last year's letter I also ran the study back to 1988 to get a more recent picture. That table is also updated below.

SPX performance during the week following the month and Friday specified.
 \$100k/trade. \$0 commissions. 1988 - present. Top 10 and bottom 10 results shown.

Friday	Month	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
4	1	30,307.51	29	18	11	62.07	2,429.39	4,860.00	-1,220.14	-2,727.84	1.99	3.26	1,045.09
2	10	28,897.34	28	20	8	71.43	2,355.13	7,282.10	-2,275.66	-6,557.14	1.03	2.59	1,032.05
2	4	27,723.07	29	18	11	62.07	2,442.78	5,731.96	-1,477.00	-3,580.15	1.65	2.71	955.97
2	3	26,987.50	29	21	8	72.41	1,911.22	7,515.60	-1,643.52	-6,711.66	1.16	3.05	930.60
4	10	24,356.47	28	20	8	71.43	2,051.53	10,485.72	-2,084.26	-3,993.72	0.98	2.46	869.87
4	11	23,197.85	28	21	7	75.00	1,448.67	7,362.46	-1,032.04	-2,238.87	1.40	4.21	828.49
4	5	20,027.06	29	18	11	62.07	1,991.75	7,145.28	-1,438.59	-2,983.50	1.38	2.27	690.59
2	12	19,165.42	28	21	7	75.00	1,332.20	3,347.68	-1,258.69	-4,176.33	1.06	3.18	684.48
2	9	17,468.28	28	19	9	67.86	1,566.86	5,313.08	-1,366.90	-4,975.04	1.15	2.42	623.87
3	11	15,926.13	28	17	11	60.71	1,770.30	11,930.04	-1,288.09	-4,672.36	1.37	2.12	568.79
1	4	-6,107.66	27	14	13	51.85	1,622.22	4,847.92	-2,216.82	-10,421.45	0.73	0.79	-226.21
4	8	-6,263.39	29	16	13	55.17	1,210.09	3,712.56	-1,971.15	-5,174.95	0.61	0.76	-215.98
1	11	-6,634.31	28	18	10	64.29	1,163.33	3,842.52	-2,757.42	-6,173.90	0.42	0.76	-236.94
3	3	-8,072.75	29	8	21	27.59	2,612.07	6,162.00	-1,379.49	-4,640.48	1.89	0.72	-278.37
1	10	-10,722.61	28	15	13	53.57	2,151.34	5,944.32	-3,307.13	-18,000.90	0.65	0.75	-382.95
3	2	-11,664.46	29	13	16	44.83	894.92	2,106.80	-1,456.15	-4,509.84	0.61	0.50	-402.22
1	12	-12,524.01	28	11	17	39.29	1,298.32	4,131.36	-1,576.80	-3,728.04	0.82	0.53	-447.29
3	1	-13,991.10	29	15	14	51.72	1,036.07	2,505.60	-2,109.44	-5,602.80	0.49	0.53	-482.45
3	6	-17,240.48	29	9	20	31.03	1,250.68	2,928.60	-1,424.83	-3,626.75	0.88	0.39	-594.50
3	9	-27,682.26	28	5	23	17.86	2,565.25	7,739.42	-1,761.24	-6,525.56	1.46	0.32	-988.65

As you can see, looking at the more recent time period the week following the 3rd Friday in September is still the worst. Another potential bearish week that is coming up is the week after the 1st Friday in October. And interestingly, the weeks after the 2nd and 4th Fridays in October are listed among the most bullish 10. Further, I'd note that most of the weakest weeks occur after the 1st and 3rd Fridays while most of the strongest weeks occur after the 2nd and 4th Fridays of a month.

I also reproduced a graphic to show how this upcoming week has played out over time.



As you can see the bearish tendency has been pretty consistent over the last 55 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying Sept. op-ex Friday and then selling X days later from 1990 – 2015.

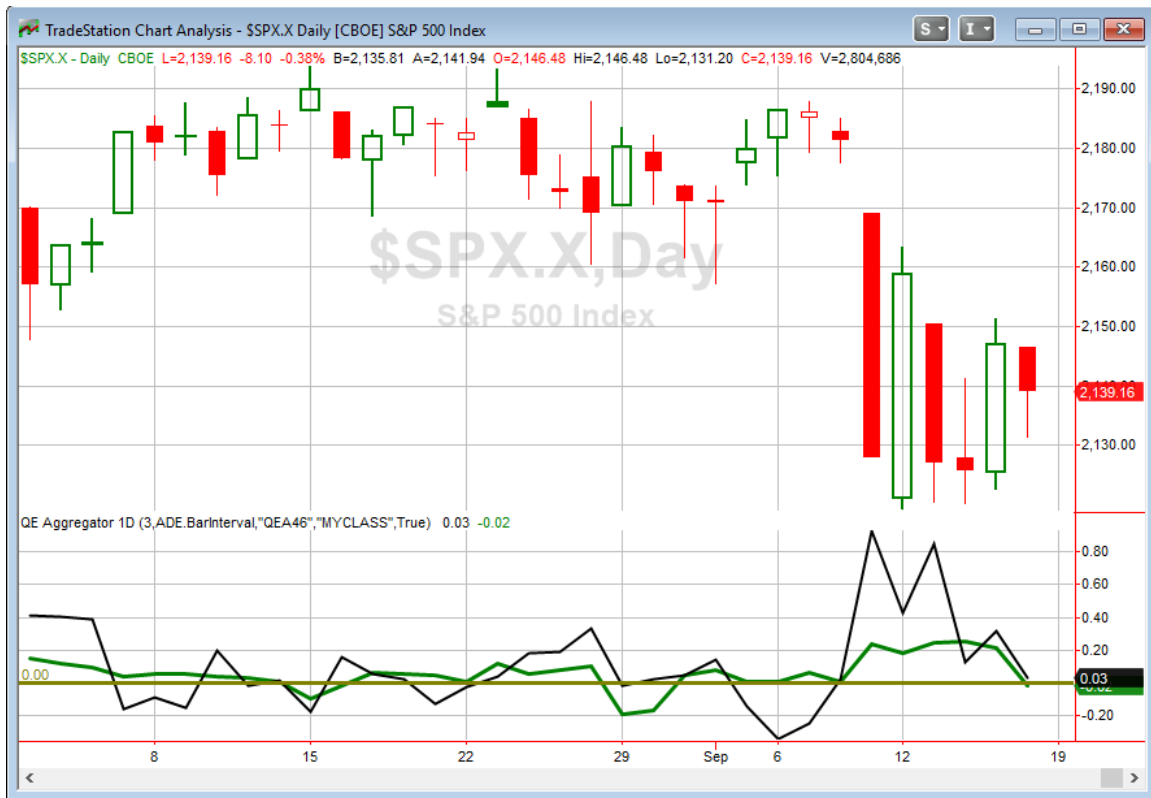
Today is Opex Friday in September.
Buy SPX on close. Sell X days later. \$100k/trade. 1990 - present.

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
5	-27,932.65	26	4	22	15.38	3,062.79	7,739.42	-1,826.54	-6,525.56	1.68	0.30	-1,074.33
4	-29,046.16	26	4	22	15.38	2,287.06	5,439.43	-1,736.11	-7,088.90	1.32	0.24	-1,117.16
3	-20,731.79	26	5	21	19.23	2,100.70	4,508.00	-1,487.40	-5,455.74	1.41	0.34	-797.38
2	-16,678.64	26	7	19	26.92	1,092.14	4,786.41	-1,280.19	-5,283.52	0.85	0.31	-641.49
1	-9,429.06	26	7	19	26.92	976.33	3,877.95	-855.97	-3,791.21	1.14	0.42	-362.66

The only year that did not close below the entry price at some point during the week was 2001.

The consistency and net results appear quite strong. I note the only instance that didn't post a lower close at some point during the following week was in 2001. And the 9/11 attacks certainly made for unusual circumstances that year.

I have updated the Aggregator chart below.



With the weak seasonality study we are seeing tonight the green Aggregator Line dipped slightly below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are bearish but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines on opposite sides of 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current list of active studies, expectations are poised to remain negative on Friday. This could change if new bullish evidence emerges. The Differential Pivot will be 2140.33 on Monday. That is 0.1% above Friday's close. So for SPX to move from oversold to overbought versus recent expectations it will only need to close up 0.1%.

The upside edge appears to be gone. We are entering a dangerous seasonal period, and I intend to flatten out the Trade Ideas for the first time in a long time. I will wait for the next favorable trading opportunity to emerge before taking on my next trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/19 – 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”.*

It was a choppy week for the market. But despite Friday’s decline the SPX managed to post a gain of 0.5% for the week. It is still below the late-July through August trading range, but it is also still above long-term moving averages. So the trend is no longer clearly upwards, but most of the long-term trend indicators we use are still up.

There were a couple of studies that emerged this past week with intermediate-term implications. The first one I copied below is from the 9/13 letter.

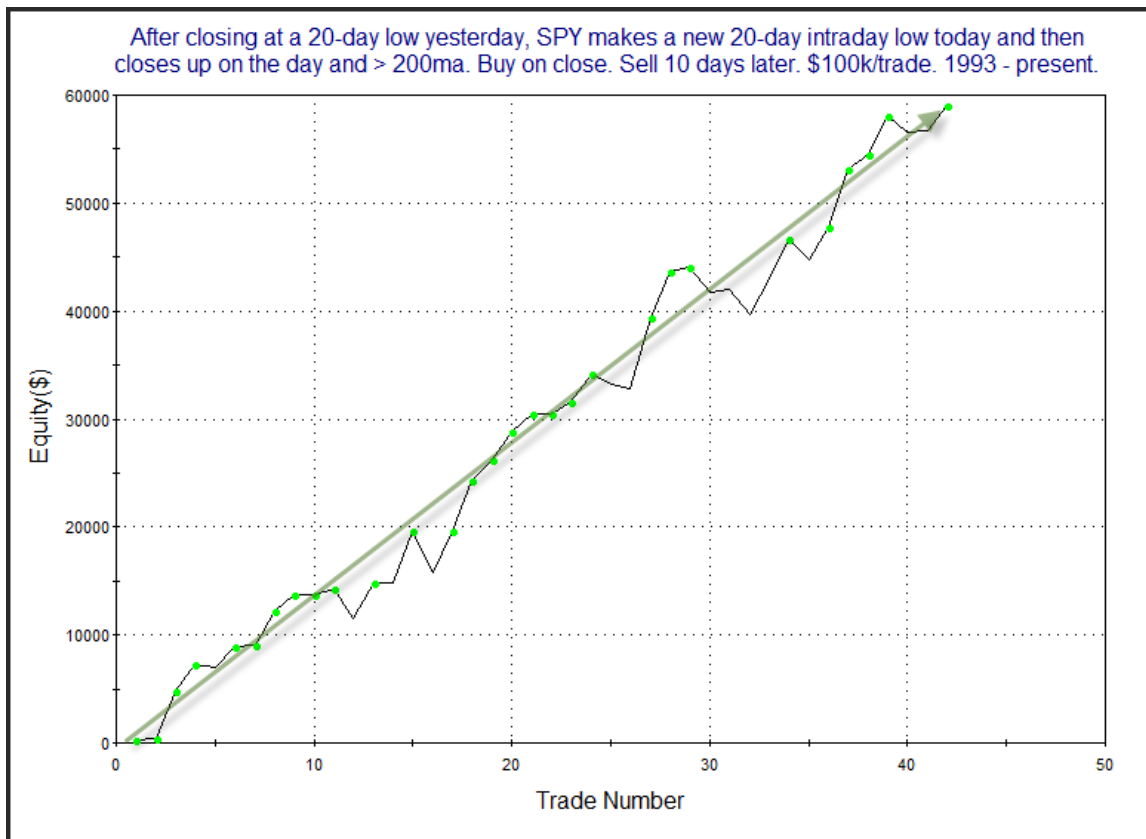
Another aspect of the bounce that appears to be favorable is the fact that it originated from a 20-day low. The study below was last seen in the 7/1/15 Letter. I have updated the results.

After closing at a 20-day low yesterday, SPY makes a new 20-day intraday low today and then closes up on the day and > 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	59,005.27	42	32	10	76.19	2,356.05	6,600.62	-1,638.83	-3,844.83	1.44	4.60	1,404.89
9	53,168.09	43	30	13	69.77	2,589.66	5,915.43	-1,886.28	-4,258.20	1.37	3.17	1,236.47
8	46,582.44	44	31	13	70.45	2,410.39	5,306.40	-2,164.58	-4,268.86	1.11	2.66	1,058.69
7	49,985.79	45	31	14	68.89	2,339.02	5,585.14	-1,608.85	-3,531.11	1.45	3.22	1,110.80
6	44,541.69	46	33	13	71.74	2,073.57	5,411.67	-1,837.40	-3,952.19	1.13	2.86	968.30
5	41,371.52	46	32	13	69.57	1,854.21	5,029.50	-1,381.79	-3,450.35	1.34	3.30	899.38
4	34,362.26	46	31	15	67.39	1,606.59	3,213.00	-1,029.47	-2,284.36	1.56	3.23	747.01
3	21,149.56	49	30	19	61.22	1,361.07	4,462.50	-1,035.93	-3,560.24	1.31	2.07	431.62
2	22,899.58	51	33	18	64.71	1,295.04	4,105.50	-1,102.04	-2,471.52	1.18	2.15	449.01
1	15,279.50	51	32	19	62.75	939.60	2,562.30	-778.30	-1,792.48	1.21	2.03	299.60

89% of instances closed above the entry price at some point in the next week.

Results here seem to suggest a solid upside edge. The 4 and 10-day results were both compelling... Next is a look at the 10-day curve.

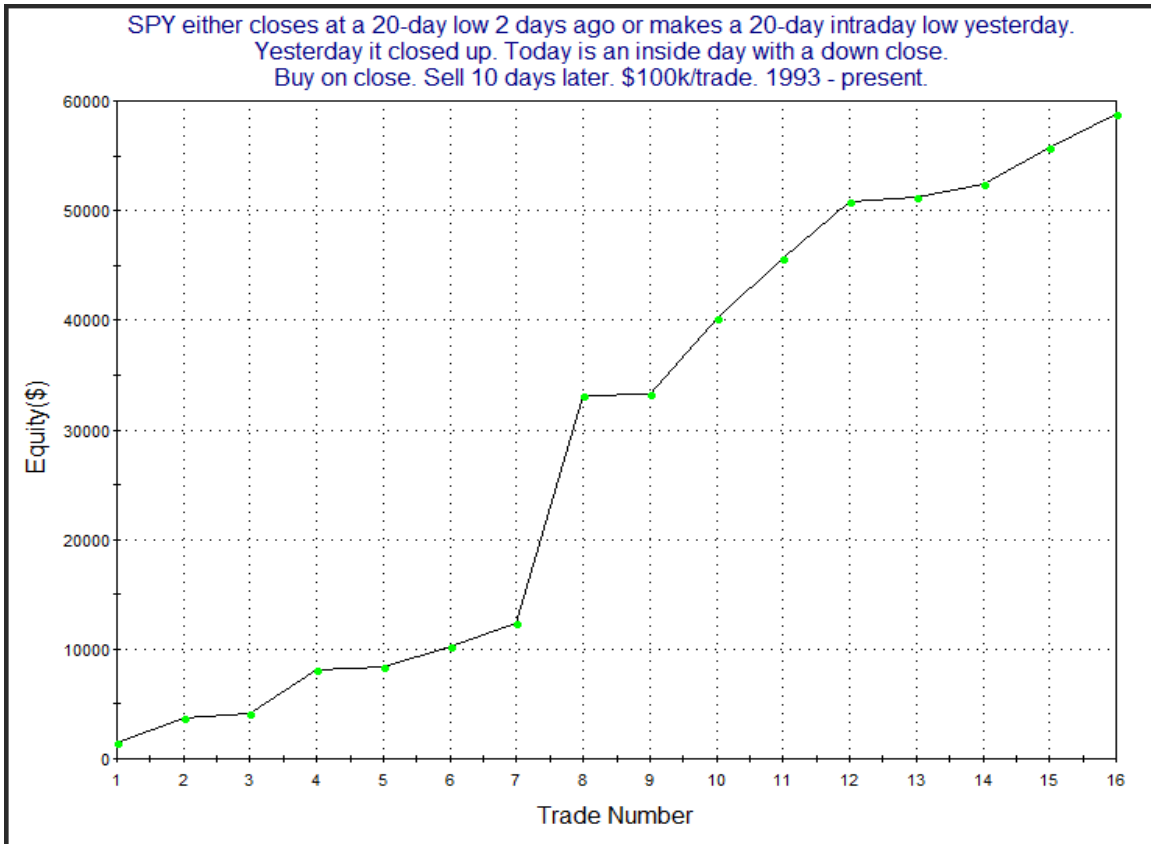


I have added this study to both the short and intermediate-term active lists.

The next study with intermediate-term implications came from the 9/14 letter. I have copied the stats sheet and 10-day profit curve below.

SPY either closes at a 20-day low 2 days ago or makes a 20-day intraday low yesterday.
 Yesterday it closed up. Today is an inside day with a down close.
 Buy on close. Sell X days later. \$100k/trade. 1993 - present.

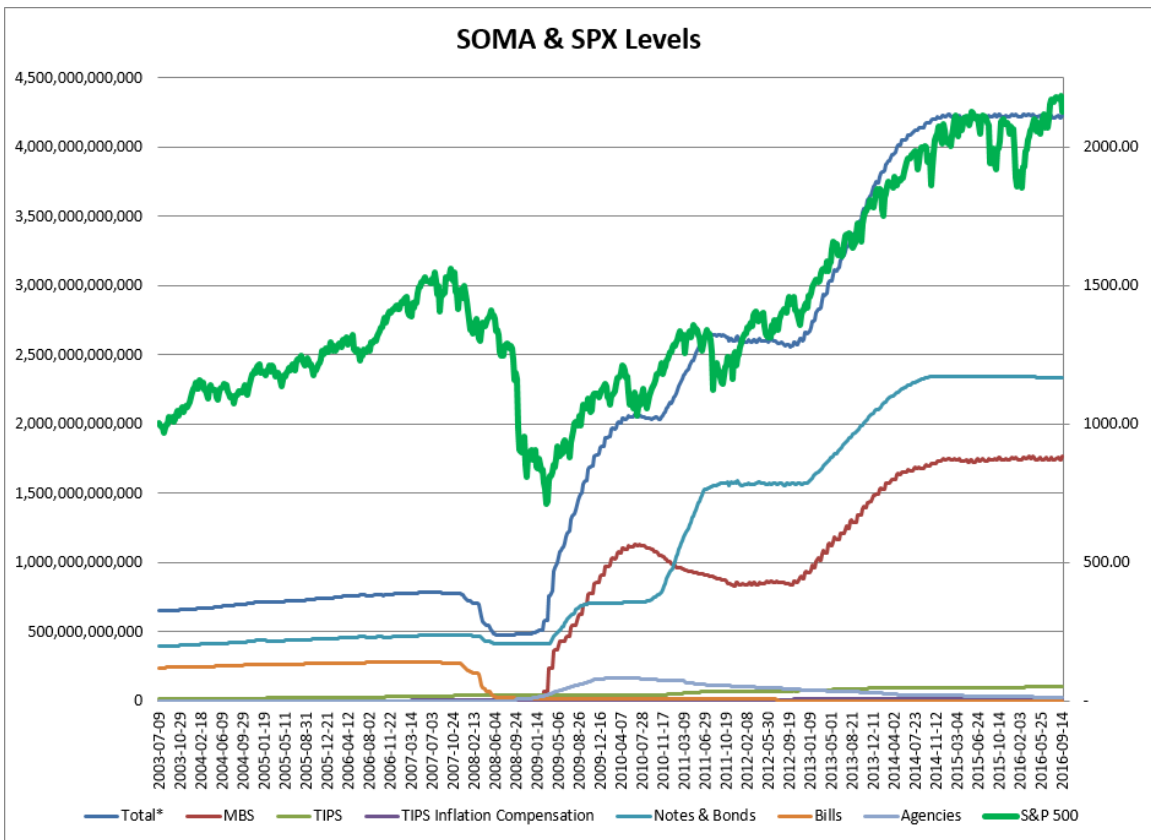
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: /Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	58,861.90	16	16	0	100.00	3,678.87	20,713.48	0.00	0.00	100.00	100.00	3,678.87
9	43,117.10	16	13	3	81.25	3,607.47	12,624.80	-1,260.02	-2,882.00	2.86	12.41	2,694.82
8	31,489.87	16	13	3	81.25	3,090.83	15,898.44	-2,896.97	-5,475.84	1.07	4.62	1,968.12
7	24,561.74	16	11	5	68.75	3,647.70	17,351.76	-3,112.60	-7,242.24	1.17	2.58	1,535.11
6	19,673.31	16	11	5	68.75	3,225.55	14,782.76	-3,161.55	-6,447.36	1.02	2.24	1,229.58
5	9,077.27	16	10	6	62.50	3,559.75	11,377.00	-4,420.03	-11,713.44	0.81	1.34	567.33
4	22,723.75	16	11	5	68.75	3,800.64	11,714.64	-3,816.66	-9,229.44	1.00	2.19	1,420.23
3	21,097.58	16	12	4	75.00	2,995.39	10,848.52	-3,711.79	-6,458.40	0.81	2.42	1,318.60
2	14,336.44	16	12	4	75.00	2,069.01	6,650.04	-2,622.92	-3,047.04	0.79	2.37	896.03
1	7,778.32	16	10	5	62.50	1,464.82	5,960.08	-1,373.98	-1,883.84	1.07	2.13	486.14



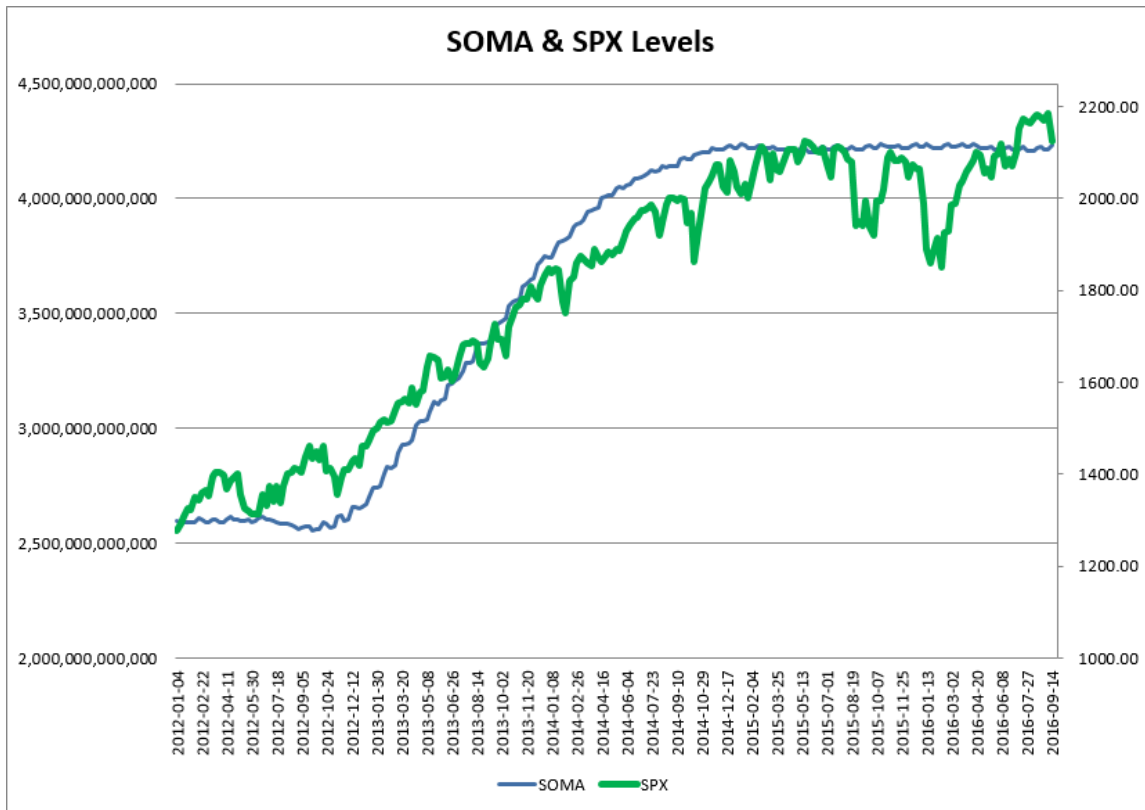
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 actually rose a fairly sizable 0.46% this past week (Wednesday to Wednesday). This was in line with expectations based on the Fed’s SOMA schedule. The 2.76% loss for the SPX over this period is extremely heavy for a week the SPX rises. Since the beginning of 2015 SPX has risen 63% of the time for a sum total of 7.82% 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 3.25%. 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 see a mild decline in the SOMA. And the week after could see an even larger decline. So bulls will be fighting a negative liquidity 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.

The intermediate-term outlook is still fairly positive. Most of the evidence we are seeing from an intermediate-term perspective continues to point north, including the two studies from this past week that I highlighted above. There are also 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 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
ABT(1/3)	8/25/2016	\$43.17	\$41.87	-3.01%		<i>sell on open</i>
ABT(1/3)	8/26/2016	\$42.84	\$41.87	-2.26%		<i>sell on open</i>
ABT(1/3)	9/12/2016	\$40.85	\$41.87	2.50%		<i>sell on open</i>
SPY(1/4)	9/12/2016	\$212.39	\$214.45	0.97%		<i>**sell on open</i>
SPY(1/4)	9/15/2016	\$212.96	\$214.56	0.75%		<i>**div adj sale price</i>

ABT reached its exit target on Friday and will be sold at the open.

SPY prices are dividend adjusted.

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