

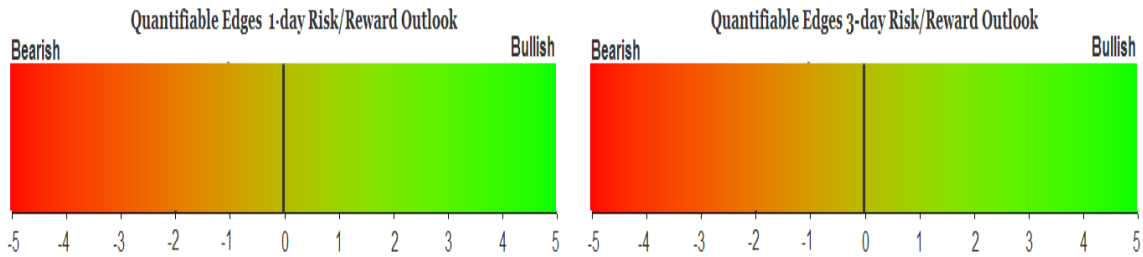
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 26, 2016

Volume 9 Issue 186

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- No new compelling short-term evidence emerged on Friday.
- SOMA flows are unlikely to help the bulls over the next week and a half.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is still pointing higher but the move up has the market short-term overbought. This is leaving 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
<b>Active - Short Term</b>						
September 22, 2016	VIX 10% above to 10% below 10ma	1-6 days	Bullish			
<b>Active - Long Term</b>						
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			

**The Evidence**

Friday saw the market pull back a bit. The SPX lost 0.6%, the NASDAQ also fell 0.6%, and the Russell 2000 dropped 0.7%. Breadth was negative as the NYSE Up Issues % was 32% and the Up Volume % came in at 30%. NYSE volume declined for the 2<sup>nd</sup> day in a row.

There were a few studies that appeared in the Quantifinder but nothing of significance. I did find it interesting that Friday left an unfilled gap down after the previous 2 days had shown unfilled gaps up. I ran a study of that over the next few days and this is how the results looked.

After leaving an unfilled gap up the last 2 days, SPY posts an unfilled gap down today. Close > 200m. 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
5	-7,033.68	13	6	7	46.15	918.06	1,746.00	-1,791.72	-3,052.92	0.51	0.44	-541.05
4	-6,883.63	13	5	8	38.46	1,369.59	2,025.00	-1,716.45	-3,746.95	0.80	0.50	-529.51
3	-4,314.16	13	6	7	46.15	1,265.75	2,763.00	-1,701.23	-3,171.48	0.74	0.64	-331.86
2	-3,910.92	13	7	6	53.85	790.22	2,448.00	-1,573.75	-2,771.34	0.50	0.59	-300.84
1	-658.08	13	6	7	46.15	742.11	1,325.15	-730.11	-1,122.59	1.02	0.87	-50.62

While the results were poor they were not consistent in any way. The profit curves were not appealing and I have not included this among the active studies. In fact, there was nothing worth adding that appeared today.

I have updated the Aggregator chart below.



With nothing new being added 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 remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are bullish 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 stayed flat at the close.

Based on the current list of active studies, expectations are poised to remain positive on Monday. This could easily change if compelling new bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2164.88 on Monday. That is a mere 0.19 points *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will turn oversold on a flat or down close, and will remain overbought on just about any up close.

So the Aggregator is neutral and I am not seeing much in the way of a short-term edge. I have no reason to take on new positions until I see a more favorable reward/risk setup. So I will wait until one emerges.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 9/26 – bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Long</b>	<b>Long</b>	<b>Long</b>

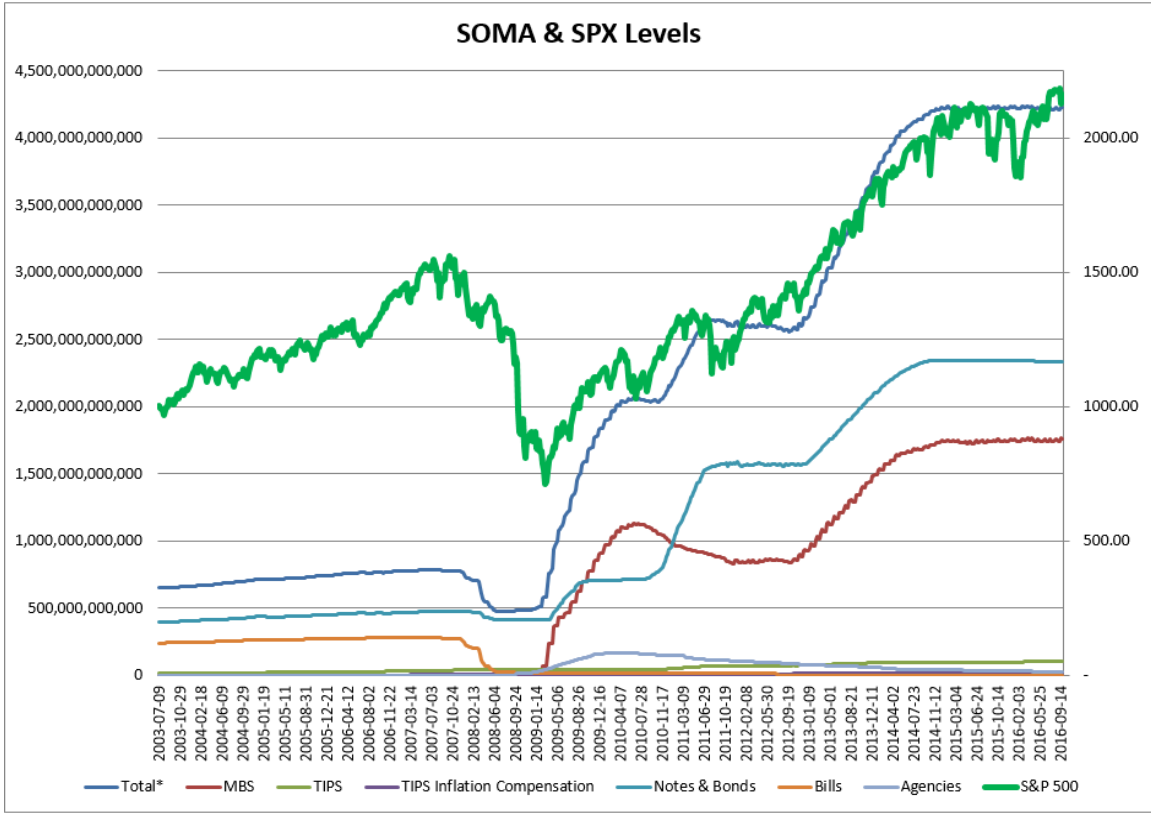
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

Despite Friday’s dip the market put in some gains for the week – largely thanks to the Fed reaction. The SPX finished the week up 1.2%. And on Thursday both the NASDAQ and Russell 2000 made new highs for the year. So the trend still appears to be pointing higher.

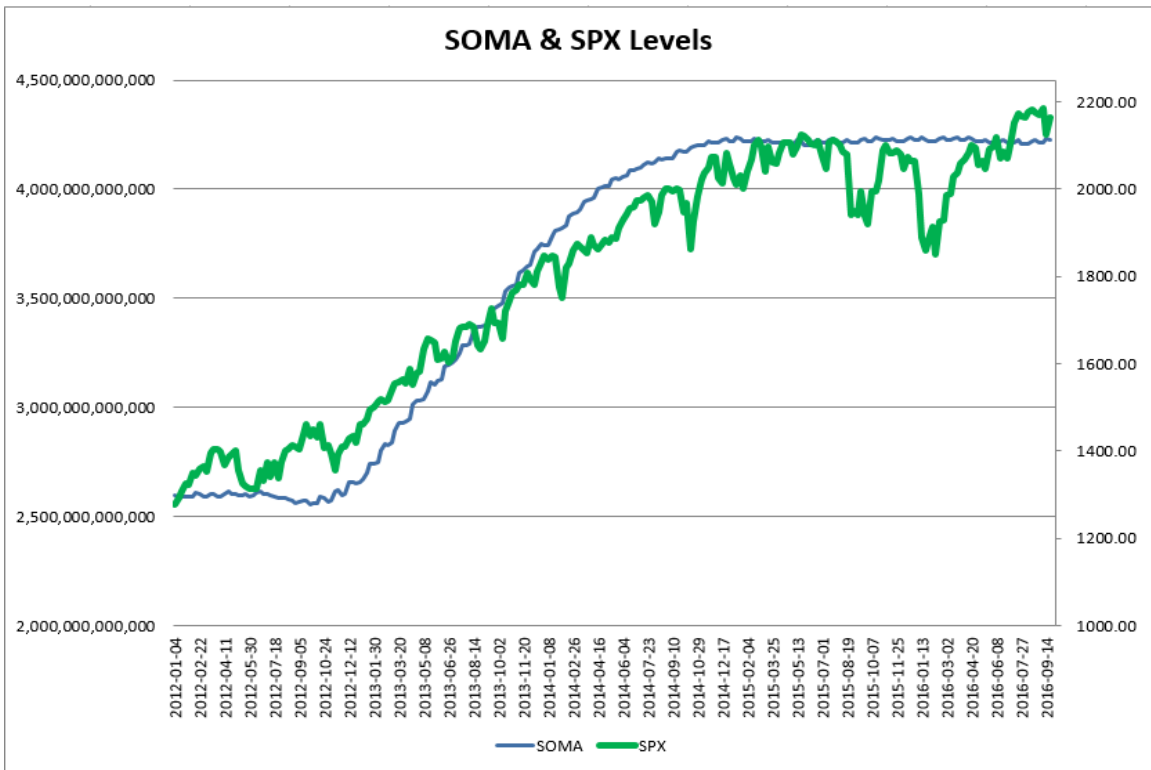
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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 declined 0.19% this past week (Wednesday to Wednesday). This was in line with expectations based on the Fed's SOMA schedule. The 1.76% gain for the SPX over this period is very high for a week the SOMA declines. 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 47% of the time and has *lost* a sum total of 1.49%. 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 another decline in the SOMA. And the week after will probably be about breakeven. So bulls still won't have a liquidity tailwind for at least 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 last week. 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**

**None.**

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2016 Hanna Capital Management, LLC.