

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 3, 2016

Volume 9 Issue 191

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- The strong close on the last day of the month reduces the chances of a strong start for the next month.
- SOMA flows are flat right now and generally expected to stay that way for the next 8 trading days.

Short-term Outlook

The Bottom Line

Evidence is leaning higher and the SPX is still relatively oversold. So there appears to be an upside edge. But I do not think it is a strong one and will not be looking to take advantage of it at this point.

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 27, 2016	2 unfilled dan gaps > 200ma	1-6 days	Bullish			
Active - Long Term						
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

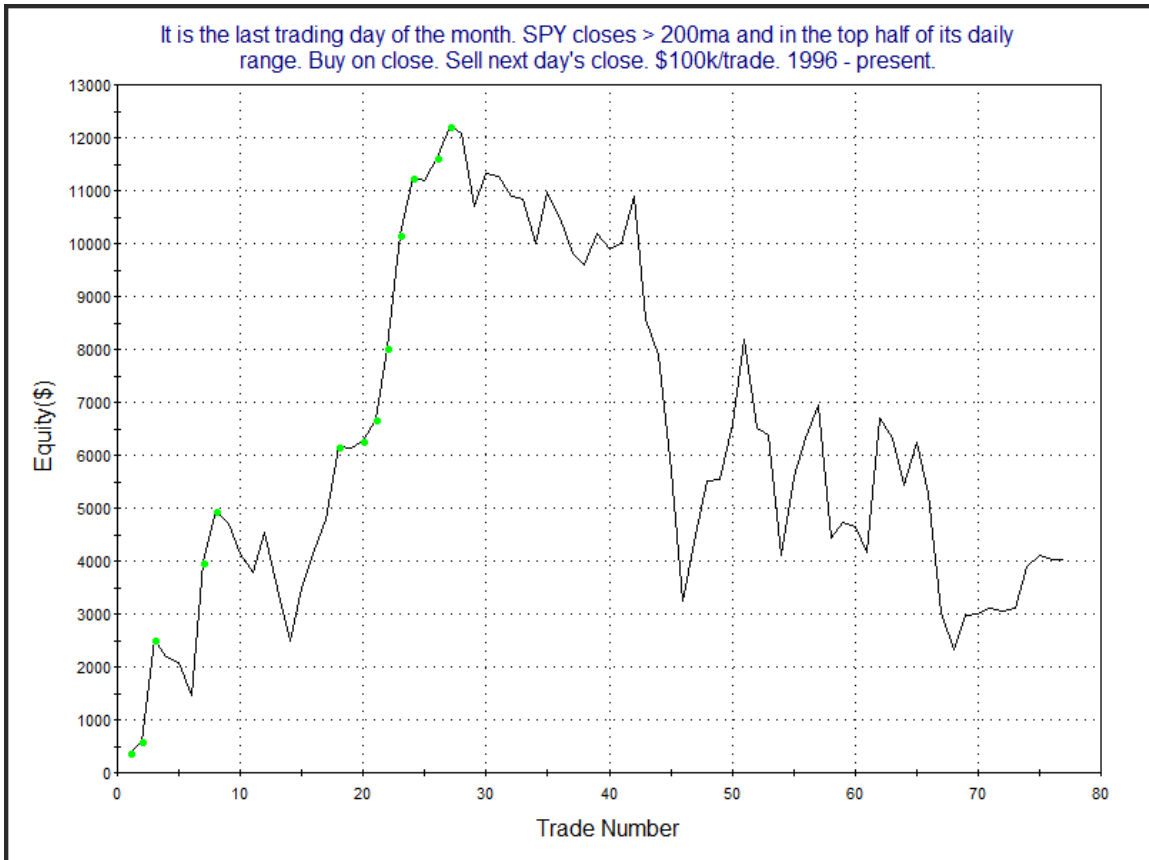
The market posted solid gains on the last day of September. The SPX and NASDAQ each rose 0.8%, and the Russell 2000 rallied 1.1%. Breadth was positive as the NYSE Up Issues % was 70% and the Up Volume % came in at 75%. NYSE volume declined some from Thursday's level.

Turn of the month always brings about some interesting studies. The set of studies below is from the 8/31/16 letter. It looked at all 1st days of the month that occurred during long-term uptrends (above the 200ma). They were broken down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the top half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the top half of its daily range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$4,034.68	Profit Factor	1.14	
Gross Profit	\$33,013.75	Gross Loss	(\$28,979.07)	
Total Number of Trades	77	Percent Profitable	51.95%	
Winning Trades	40	Losing Trades	37	
Even Trades	0			
Avg. Trade Net Profit	\$52.40	Ratio Avg. Win:Avg. Loss	1.05	
Avg. Winning Trade	\$825.34	Avg. Losing Trade	(\$783.22)	
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)	

The numbers here do not suggest much of an edge. Here is a look at the profit curve.

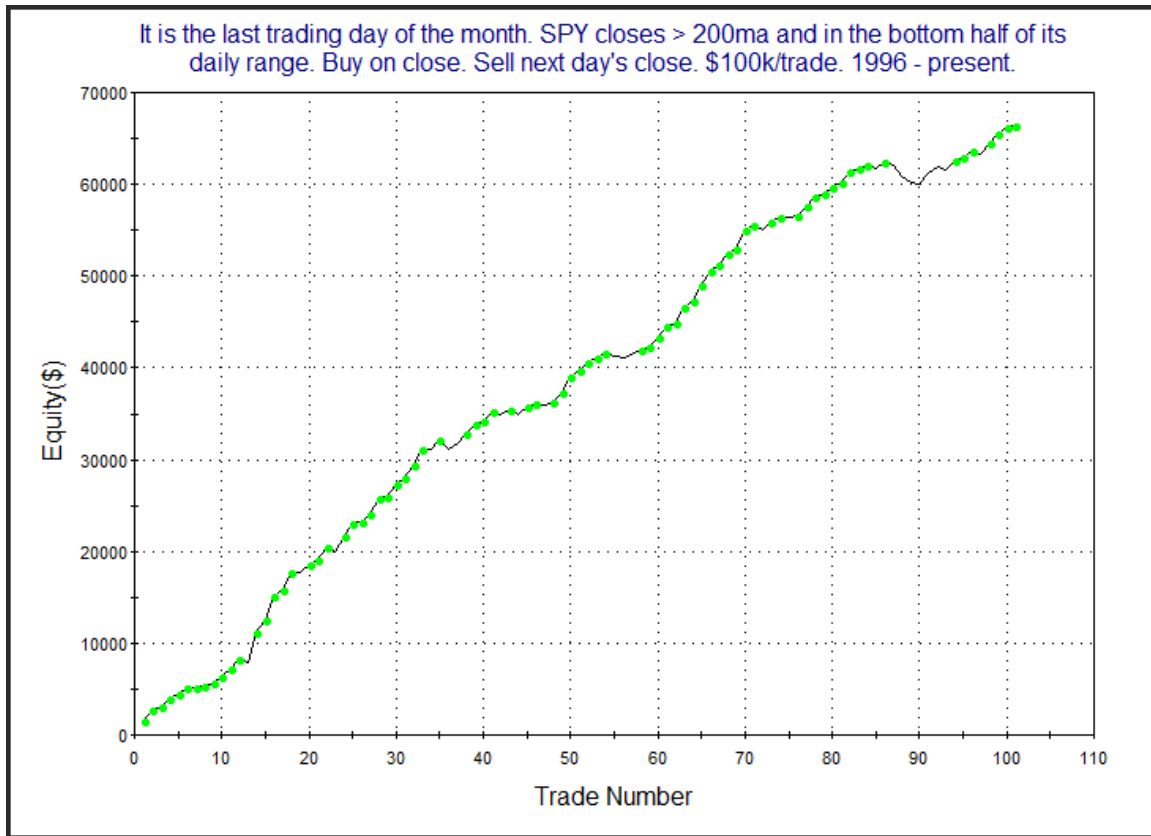


The curve is even worse than the stats. It topped out in 2004, and since then there has been a bit of a downside inclination when the market posted a strong close like this. Now let's look at times that SPY has closed in the bottom half of the daily range.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its daily range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	\$66,346.95	Profit Factor	10.25
Gross Profit	\$73,521.56	Gross Loss	(\$7,174.61)
Total Number of Trades	101	Percent Profitable	81.19%
Winning Trades	82	Losing Trades	19
Even Trades	0		
Avg. Trade Net Profit	\$656.90	Ratio Avg. Win:Avg. Loss	2.37
Avg. Winning Trade	\$896.60	Avg. Losing Trade	(\$377.61)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

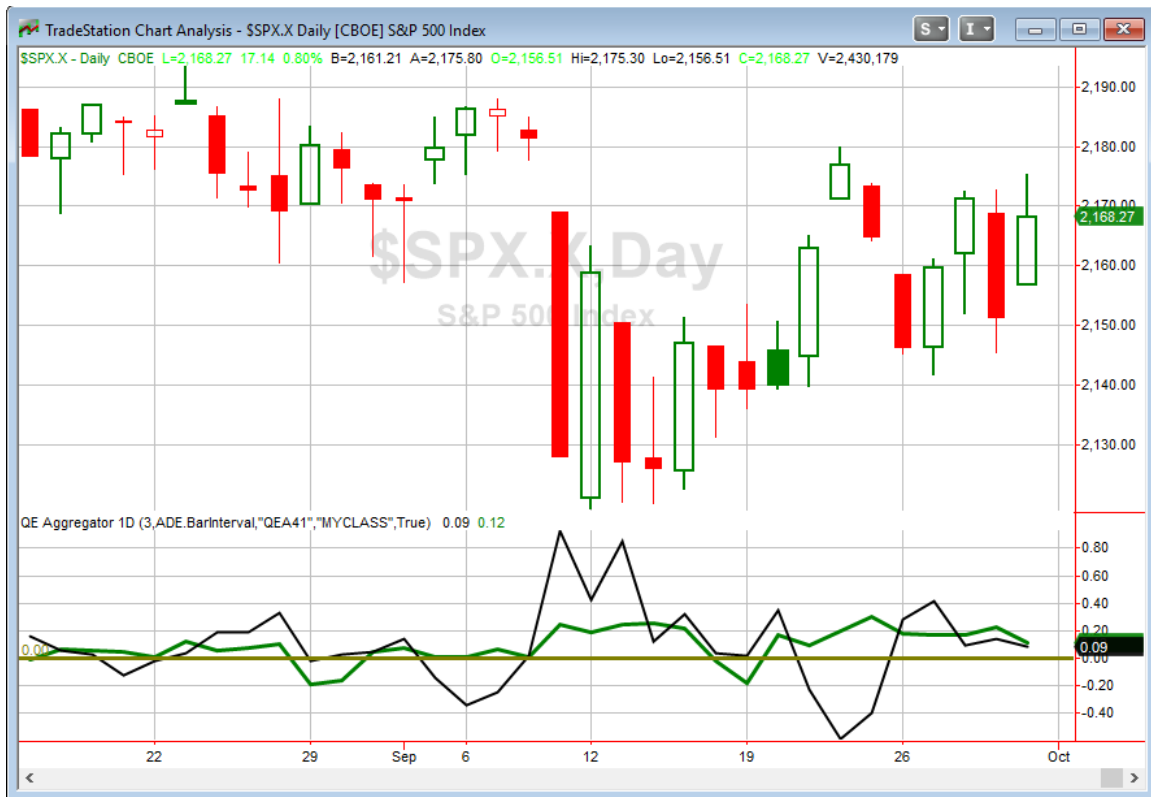
The stats here are phenomenal. Gains absolutely blow away losses. Gross gains are over 10x the size of gross losses. That's an incredible stat when you are looking at a sample size of over 100 instances. And here is a profit curve.



You won't see a curve much better than this one. Unfortunately, with Friday's rally, SPY closed in the top half of the range and did not qualify for the bullish study.

No new studies were added to the Active List tonight.

I have updated the Aggregator chart below.



Without any new edges emerging on Friday the green Aggregator Line again 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 also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are bullish and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are poised to remain positive on Monday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2182.59 on Monday. That is 0.7% above Friday's close. So for SPX to move from oversold to overbought versus recent expectations on Monday, it will need to close up at least 0.7%.

There certainly appears to be an upside edge. But I am not overly enthused about jumping in right here. Bullish evidence is a little weak and SPX is in the upper end of its recent range. This suggests a little less potential reward and a little more risk. I'd rather wait for a more favorable reward/risk scenario. So I will remain patient and sidelined for the time being.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/3 – bullish

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

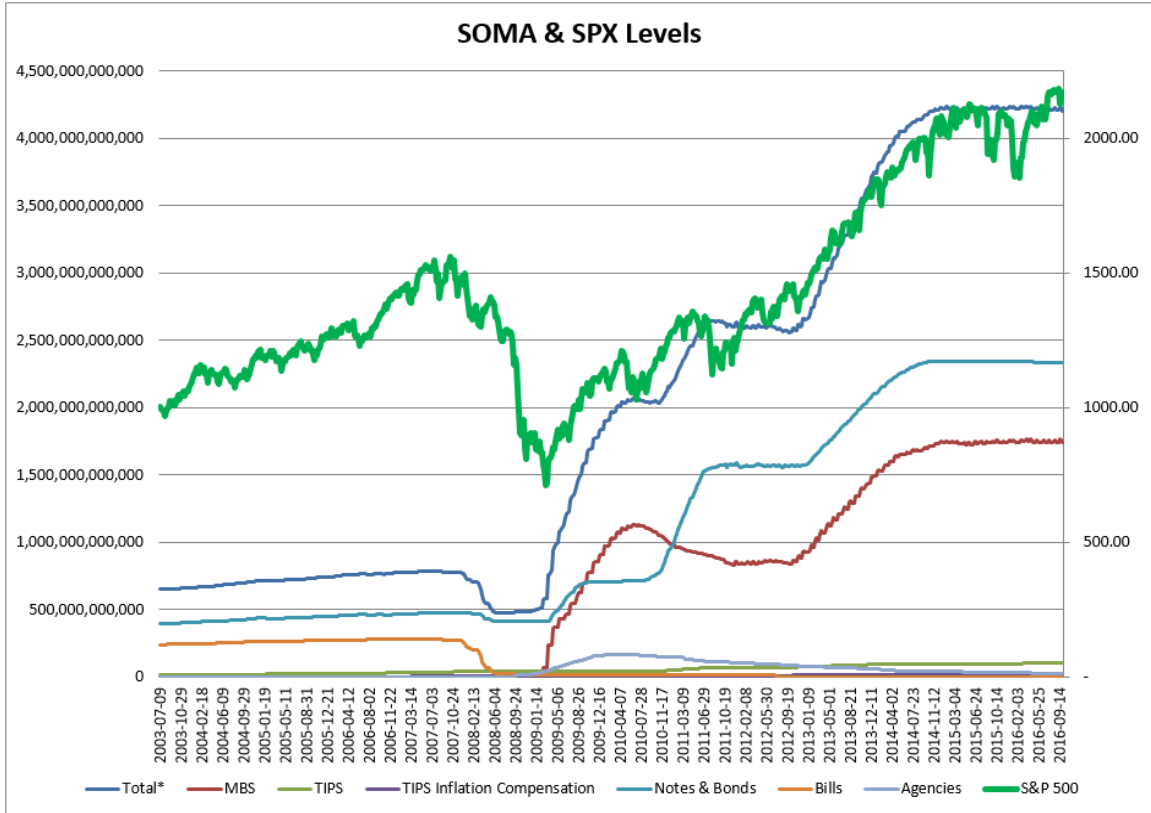
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

Friday’s rally allowed SPX to finish up on the week – thought it was a mild 0.2% rise. The trend still appears to be up. The choppy action during the week did not trigger any new studies. And a few fell off the intermediate-term active list over the past week.

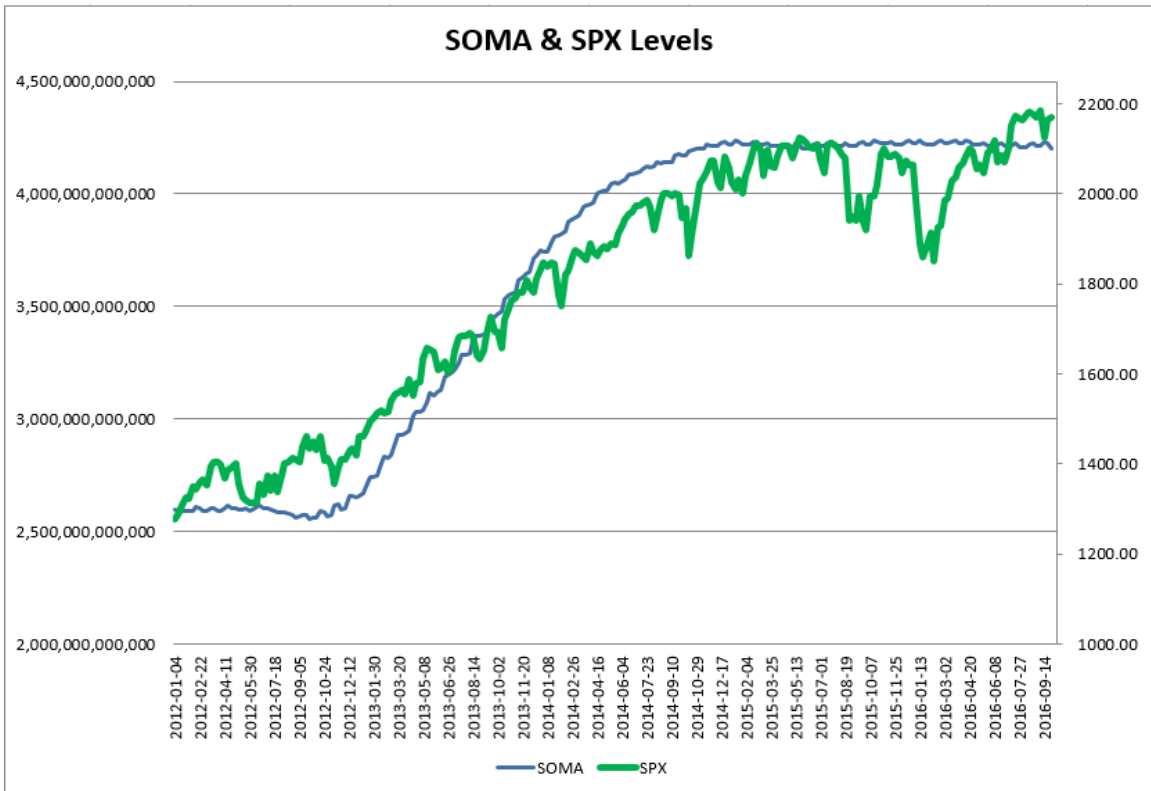
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 0.48% this past week (Wednesday to Wednesday). This was in line with expectations based on the Fed's SOMA schedule. The 0.38% 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 48% of the time and has *lost* a sum total of 1.11%. 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 fairly flat SOMA. And the week after will probably be about breakeven as well. 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. Three of our four Market Timing Course indicators are bullish, which has historically been quite promising. There are also some past breadth related studies that suggest that the market is likely to continue higher. There is still some bearish evidence though, including overall weak Fed support and the long-term new-high breadth divergence. Without any new bullish evidence, and some past studies expiring this week I have dialed back my outlook slightly to "somewhat bullish". I will be looking more towards the long side for trading opportunities, and will still be fairly 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.

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).

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