

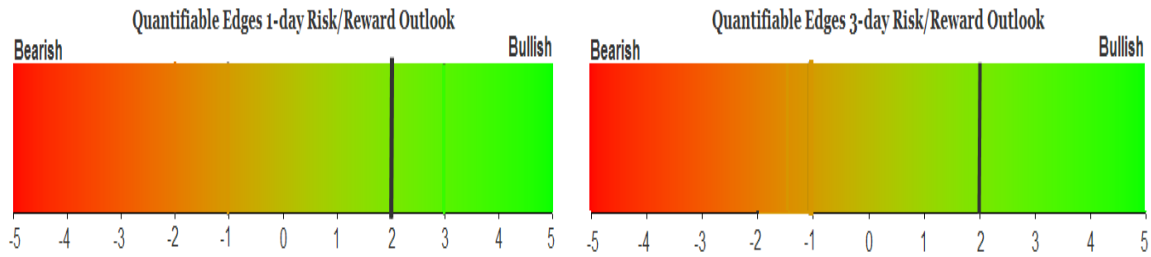
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 10, 2016

Volume 9 Issue 196

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- SPY's big outside day reversal pattern suggests a short-term upside edge.
- The SOMA will likely have a temporary expansion after this upcoming Wednesday.

## *Short-term Outlook*

### *The Bottom Line*

Some bullish evidence emerged, but the market is only slightly oversold. I'm somewhat bullish, and will get interested in long exposure if SPX declines further on Monday.

*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>						
October 10, 2016	NASDAQ leading	1-5 days	Bullish	2.00%	-1.30%	-2.60%
<b>Active - Long Term</b>						
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			

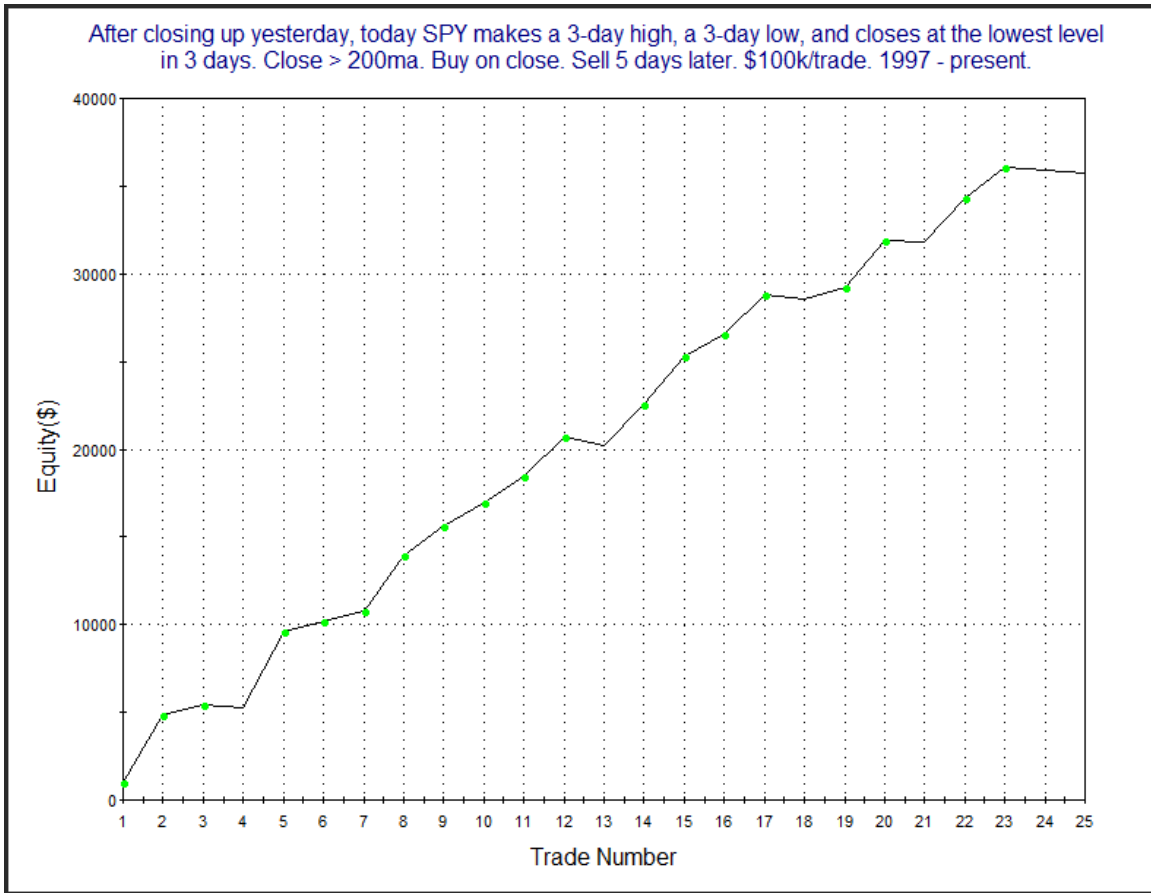
**The Evidence**

The market pulled back some on Friday. The SPX and the NASDAQ each lost 0.3% while the Russell 2000 declined 0.8%. Breadth was negative as the NYSE Up Issues % was 30% and the Up Volume % came in at 33%. NYSE volume rose some from Thursday's level.

SPY traded in a relatively wide range and closed down on Friday. The study below was last shown in the 4/11/14 subscriber letter. It looks for the reversal day to engulf both of the last two days, close at a three day low, and still be above the 200ma. All results are updated.

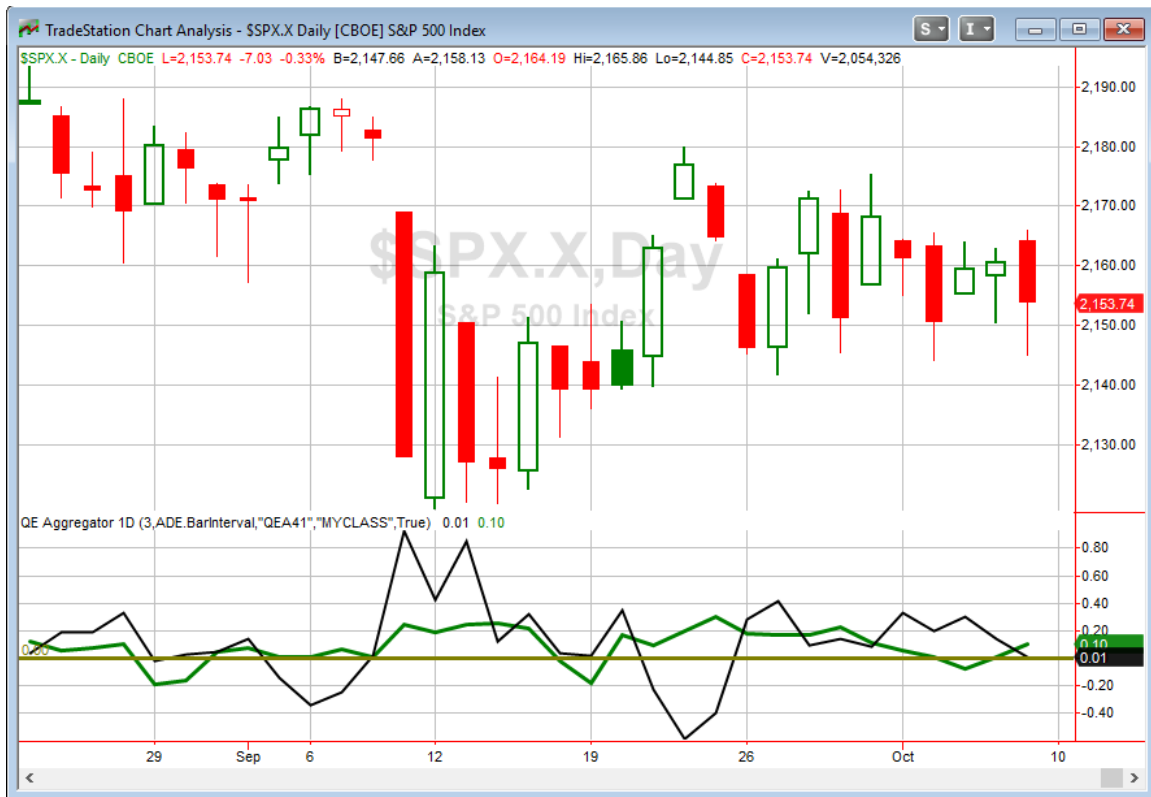
After closing up yesterday, today SPY makes a 3-day high, a 3-day low, and closes at the lowest level in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - present.													
X Days	All: Gross Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	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	36,996.50	25	19	6	76.00	1,947.18	4,273.50	-205.04	-489.14	9.50	30.07	1,430.65	
4	28,192.78	25	17	8	68.00	1,658.40	4,533.98	-785.58	-2,123.52	2.11	4.49	876.33	
3	22,793.95	25	16	9	64.00	1,424.62	3,903.34	-1,674.40	-3,393.78	0.85	1.51	308.97	
2	19,398.97	26	15	11	57.69	1,293.26	3,244.78	-1,201.96	-3,737.28	1.08	1.47	237.59	
1	10,549.94	26	16	10	61.54	659.37	2,359.84	-1,030.22	-3,909.03	0.64	1.02	9.53	

After the first couple of days there appears to be a strong and consistent upside edge. Remarkable that with 25 instances, the biggest loser when looking out 5 days was less than 0.5%. Below is a profit curve that assumes a 5-day holding period.



The last couple of instances have not gotten anywhere, but it is an impressive equity curve nonetheless. It appears to be a nice confirmation of the bullish suggestion by the stats table.

I have updated the Aggregator chart below.



With the new bullish study tonight the green Aggregator Line moved a little further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held just barely above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive 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.

If nothing new emerges on Monday, net expectations will remain positive. Of course this could change if new bearish studies emerge. The Differential Pivot will be 2159.52 on Monday. That is 0.3% above Friday's close. Therefore, SPX would need to close up at least 0.3% on Monday in order to move from oversold to overbought versus recent expectations.

So we have one study that is showing compelling bullish results. And the Aggregator formation is bullish. But the SPX is only just barely oversold. It is also near the middle of its recent range. I would rather see a little more of a pullback before buying into this. If the market does sell off more on Monday I may look to be a buyer at the close.

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

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

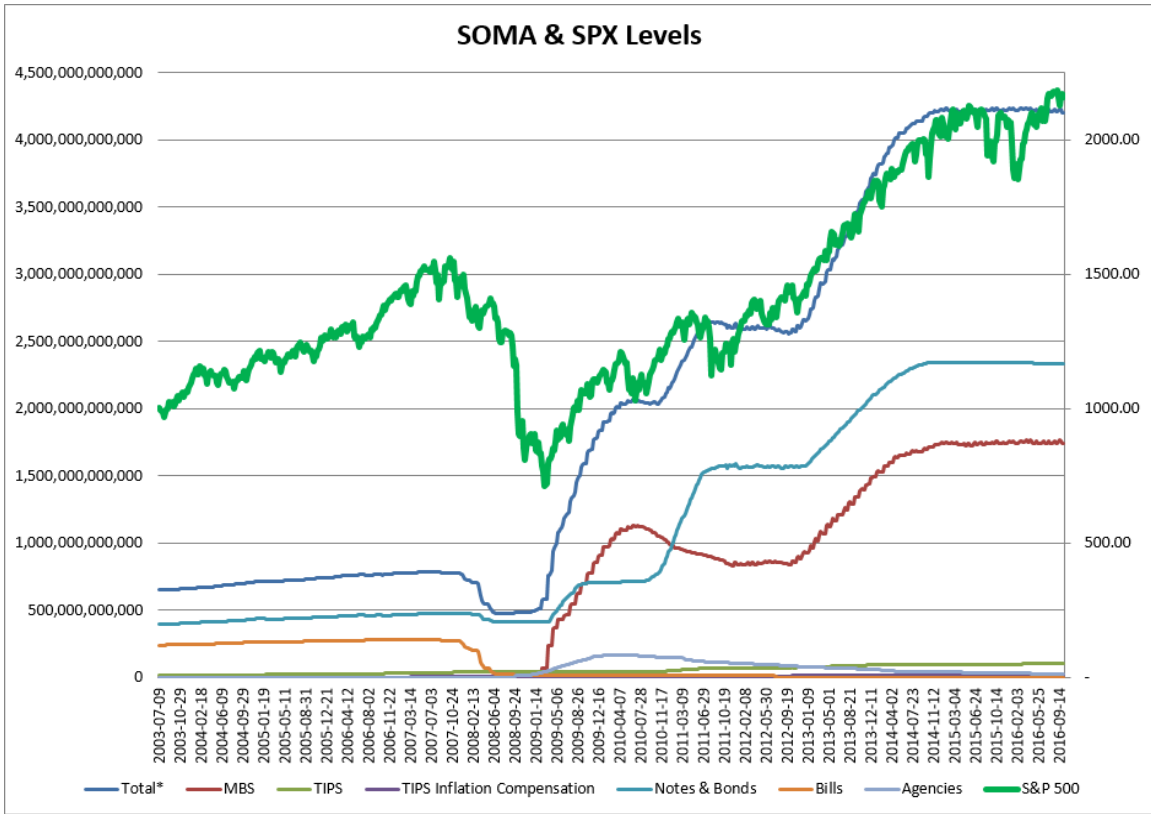
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

With Friday’s decline the SPX posted a down week, losing 0.7%. Still, based on long-term averages and measurements, it does still appear to be in an uptrend. No new intermediate-term evidence emerged this past week.

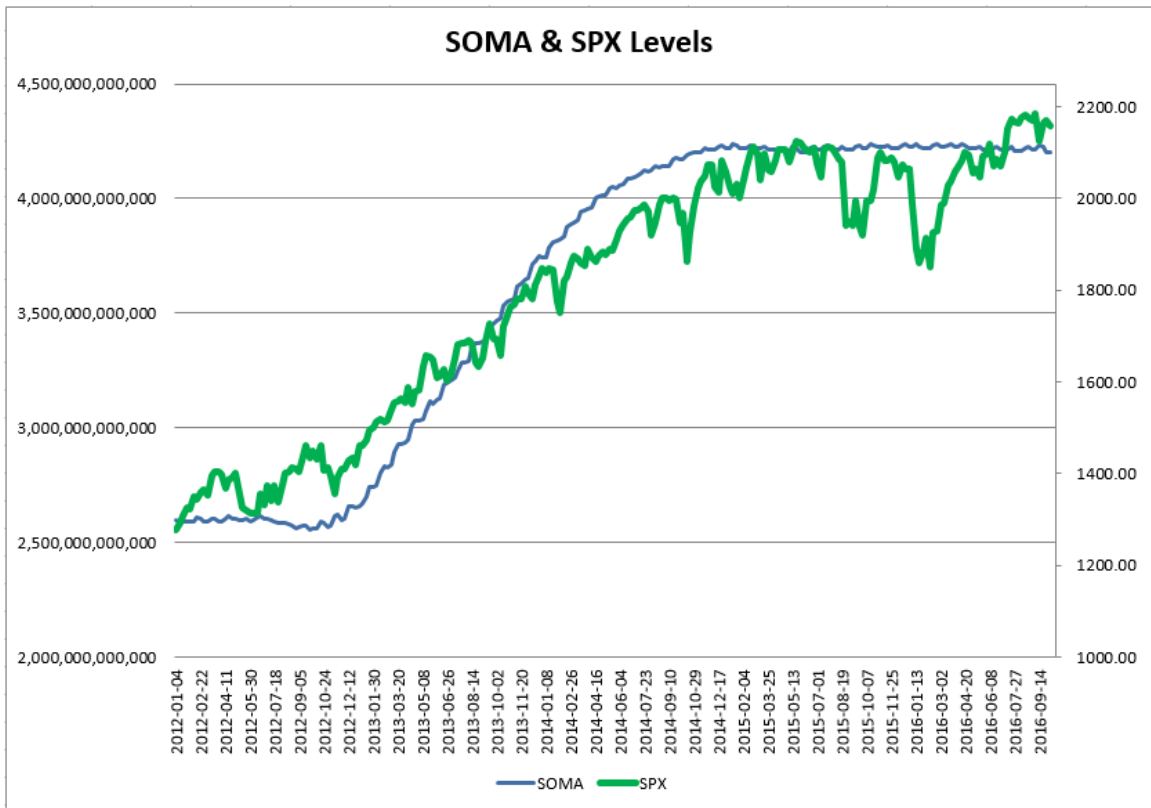
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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 came in basically flat this past this past week (Wednesday to Wednesday), posting a gain of less than 0.01%. This was in line with expectations based on the Fed's SOMA schedule. The 0.54% decline for the SPX over this period is typical for a week the SOMA comes in flat. 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, including flat ones like this one, SPX has only risen 47% of the time and has *lost* a sum total of 1.64%. 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. But the week after that should see the SOMA rise a bit. So bulls may get a little bit of a temporary tailwind after Wednesday.

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 intermediate-term evidence, I am keeping my outlook "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***

CVS @ \$86.22 (bought 1/3 at limit)

CVS @ \$86.20 (buy 1/3 at limit) – not filled, cancel for now

#### ***Broad Market Large Cap CBI – 2(CVS-2)***

### **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.*

**SPY – buy ¼ index position @ \$214.25 LIMIT ON CLOSE.** Based on the short-term section above I will be buying SPY if it pulls back much more.

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
CVS(1/3)	10/5/2016	\$86.22	\$86.40	0.21%		Catapult

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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