

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 17, 2016

Volume 9 Issue 201

Market Overview



Signals Overview

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

Tonight's Research Points

- Positive days that close poorly will often be followed by buying in the next few days.
- October op-ex week has historically shown bullish seasonal tendencies.

Short-term Outlook

The Bottom Line

Upside evidence is mounting. SPX still appears oversold. This suggests a decent upside 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						
October 17, 2016	SPY closes up but in bottom of range	1-3 days	Bullish	1.30%	-0.40%	-0.80%
October 17, 2016	October op-ex seasonally bullish	1-4 days	Bullish	1.80%	-1.30%	-2.80%
October 14, 2016	Gap < 50-low. Partial reversal.	1-2 days	Bullish	3.40%	-1.60%	-3.20%
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	290% 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						
October 10, 2016	3 high. 3 low. 3 low close > 200ma.	1-5 days	Bullish	2.00%	-1.30%	-2.60%

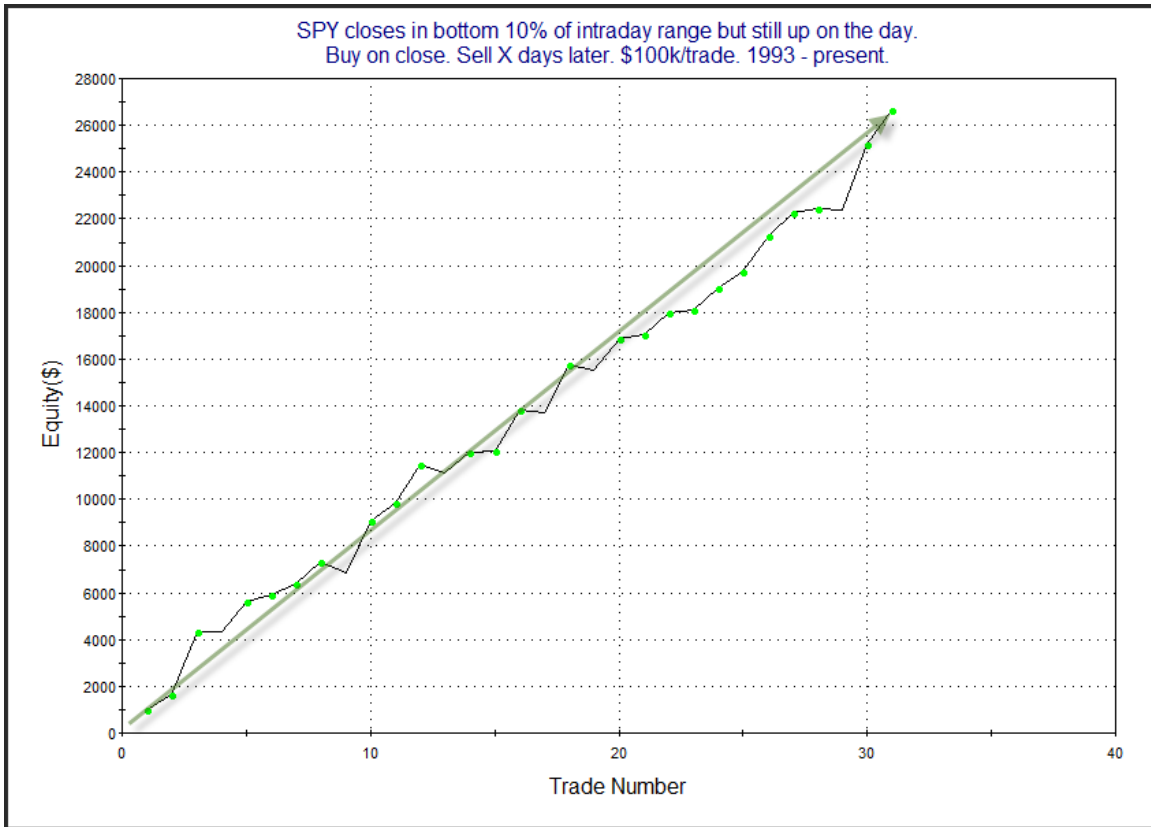
The Evidence

Friday started strong but afternoon selling left it mixed. The SPX finished the day up 0.02%, the NASDAQ gained 0.22%, and the Russell 2000 declined 0.27%. Breadth was also mixed as the NYSE Up Issues % was 50.3% and the Up Volume % came in at 46%. NYSE volume declined from Thursday's level.

The late-day selling and weak close may have felt like a negative, but it triggered a study that has been very bullish over the years. SPY closing in the bottom 10% of its daily range, but still up on the day is something that doesn't occur very often. It is something I explored in the 6/21/16 letter. Results below are all updated.

SPY closes in the bottom 10% of intraday range but still up on the day. 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: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	18,609.60	31	22	9	70.97	3,611.20	-3,968.25	1,442.18	-1,457.60	0.99	2.42	600.31
4	19,630.44	32	25	7	78.13	2,786.48	-3,623.88	1,140.74	-1,269.72	0.90	3.21	613.45
3	27,826.91	32	26	5	81.25	2,820.64	-472.68	1,119.51	-256.09	4.37	22.73	869.59
2	19,305.71	32	23	9	71.88	3,028.76	-531.70	968.94	-331.09	2.93	7.48	603.30
1	11,053.35	33	23	10	69.70	3,476.36	-903.90	655.54	-402.41	1.63	3.75	334.95
All 33 instances closed above the entry price at some point in the next 4 days.												

The numbers here are impressively bullish. I also ran a profit curve assuming a 3-day holding period.



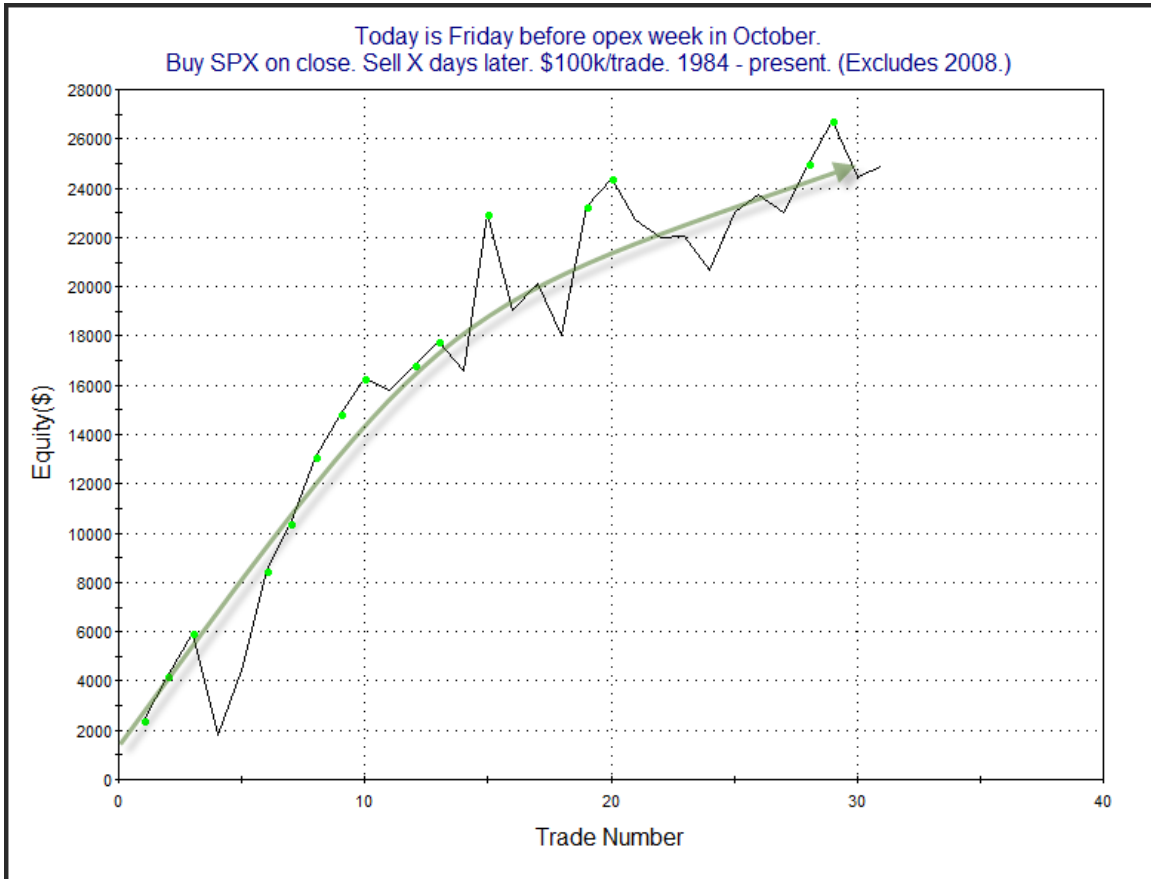
This curve is almost as straight as the arrow, and acts as confirmation of the upside edge.

From a seasonal standpoint option expiration week is often a pretty good week for the market. October is one of those months where it has been especially good over the years. I last showed the table below in the 10/12/15 Subscriber Letter. It examines performance during October op-ex week.

Today is Friday before opex week in October.
Buy SPX on close. Sell X days later. \$100k/trade. 1984 - present. (Excludes 2008.)

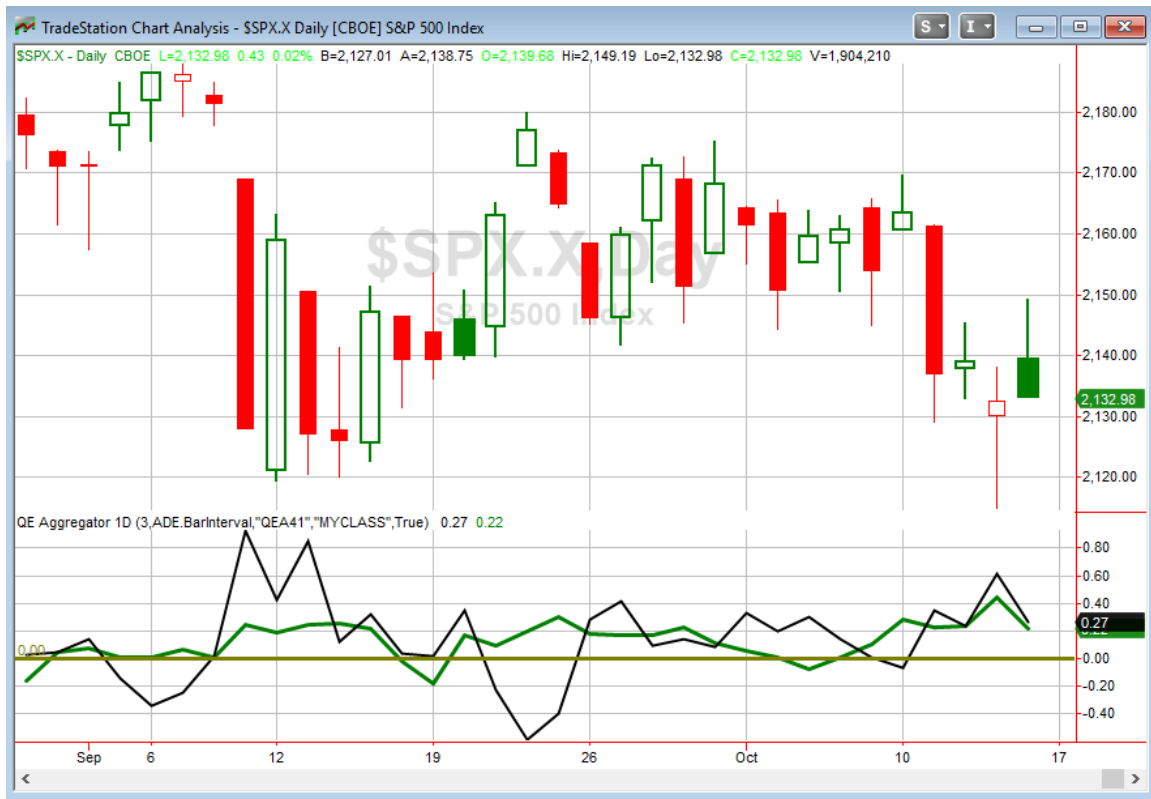
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	20,428.39	31	22	9	70.97	7,282.10	-9,109.98	2,170.17	-3,035.03	0.72	1.75	658.98
4	24,904.52	31	21	10	67.74	6,383.20	-4,169.79	2,074.00	-1,864.95	1.11	2.34	803.37
3	9,259.62	31	19	12	61.29	2,976.32	-3,734.78	1,348.41	-1,363.35	0.99	1.57	298.70
2	13,234.85	31	19	12	61.29	5,468.05	-1,737.36	1,161.10	-735.51	1.58	2.50	426.93
1	9,430.86	31	23	8	74.19	2,753.79	-1,921.32	650.62	-691.68	0.94	2.70	304.22

I decided to exclude 2008 because action that week was such an incredible outlier that it greatly skewed all the stats. (The week started with an 11.5% gain on Monday of 2008.) Results 1-4 days are look pretty solid. I found the profit curve for the 4-day hold the most compelling. It can be found below.



This appears strong enough to include on the Short-Term Active List. So I have.

I have updated the Aggregator chart below.



With tonight's bullish evidence to consider 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 also remained 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. Therefore, the Aggregator signal stayed long at the close.

If nothing new emerges on Monday, net expectations will remain positive. It would take some strong bearish evidence on Monday to change this. The Differential Pivot will be 2155.20 on Monday. That is 1.0% above Friday's close. Therefore, SPX would need to close up at least 1.0% on Monday in order to move from oversold to overbought versus recent expectations.

So while Friday's action did not feel terribly encouraging during the afternoon give-back, evidence of a sizable bounce is mounting. And with the market oversold there appears to be a decent long opportunity. I already have some long index exposure. I don't intend to add to it just yet, but I will hold onto to it for at least another day.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/17 – somewhat bullish

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

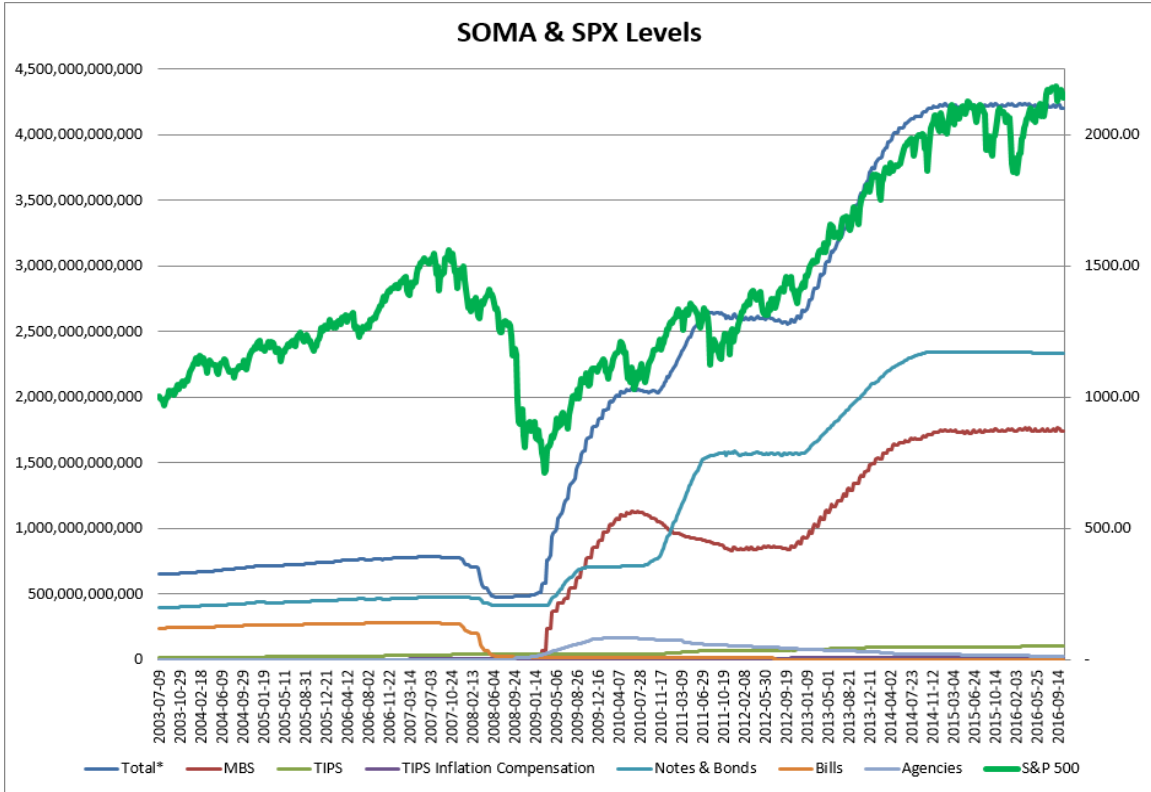
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The SPX posted a down week for the 2nd week in a row, this time losing 1.0%. The trend appears pretty questionable, but most long-term measures we look at are still looking up. No new intermediate-term evidence emerged this past week.

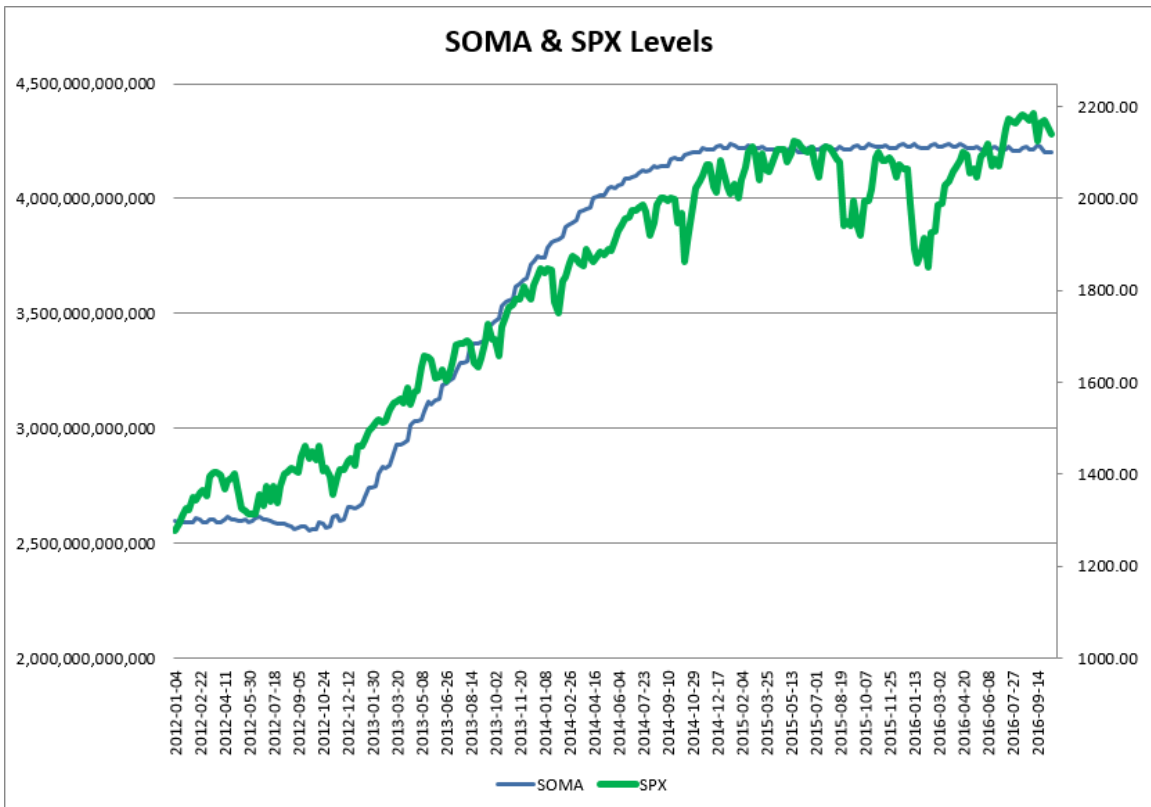
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 miniscule gain of less than 0.01%. This was in line with expectations based on the Fed's SOMA schedule. The 0.95% decline for the SPX over this period is not unusual 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 46% of the time and has *lost* a sum total of 2.60%. Based on the reinvestment schedule the Fed has stuck to over the last year and a half, this current week, which ends on Wednesday, should see the SOMA rise a bit. But the week after that is likely to see a decline. So bulls will only have a tailwind through Wednesday. Then they are again likely to be without Fed liquidity support.

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

GE @ \$28.86 (bought 1/3 at limit)

New

PFE @ \$32.66 (buy 1/3 at limit)

Broad Market Large Cap CBI – 2(GE, PFE)

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.

PFE – buy 1/3 Catapult position @ \$32.66 LIMIT. This is from the Catapult section above. It is the 1st of 3 possible lots for PFE.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GE(1/3)	10/11/2016	\$28.75	\$28.89	0.49%		Catapult
SPY(1/4)	10/14/2016	\$212.16	\$213.12	0.45%		Aggregator

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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