

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 14, 2016

Volume 9 Issue 221

Market Overview



Signals Overview

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

Tonight's Research Points

- The Russell 2000 rising > 1% while SPX closes lower also suggests a short-term upside edge.
- SOMA should see increases over the next week and a half, helping the bulls.

Short-term Outlook

The Bottom Line

Evidence is still pointing higher but the market is still overbought. I am sidelined awaiting a better risk/reward setup.

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						
November 14, 2016	SPX down. RUT up > 1%.	1 day	Bullish			
November 10, 2016	20-high breakout on 20-high volume	1-5 days	Bullish			
November 8, 2016	20 low yesterday. 4 high today.	1-8 days	Bullish			
Active - Long Term						
November 11, 2016	SPX 20-high. NDX biggest drop in 20.	1-50 days	Bullish			
November 8, 2016	20 low yesterday. 4 high today.	1-20 days	Bullish	3.80%	-2.10%	-4.50%
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
November 11, 2016	Back to back outside days for QQQ	1 day	Bullish			
November 7, 2016	SPX bottom 10% range. 5-low & > 200	1-5 days	Bullish			

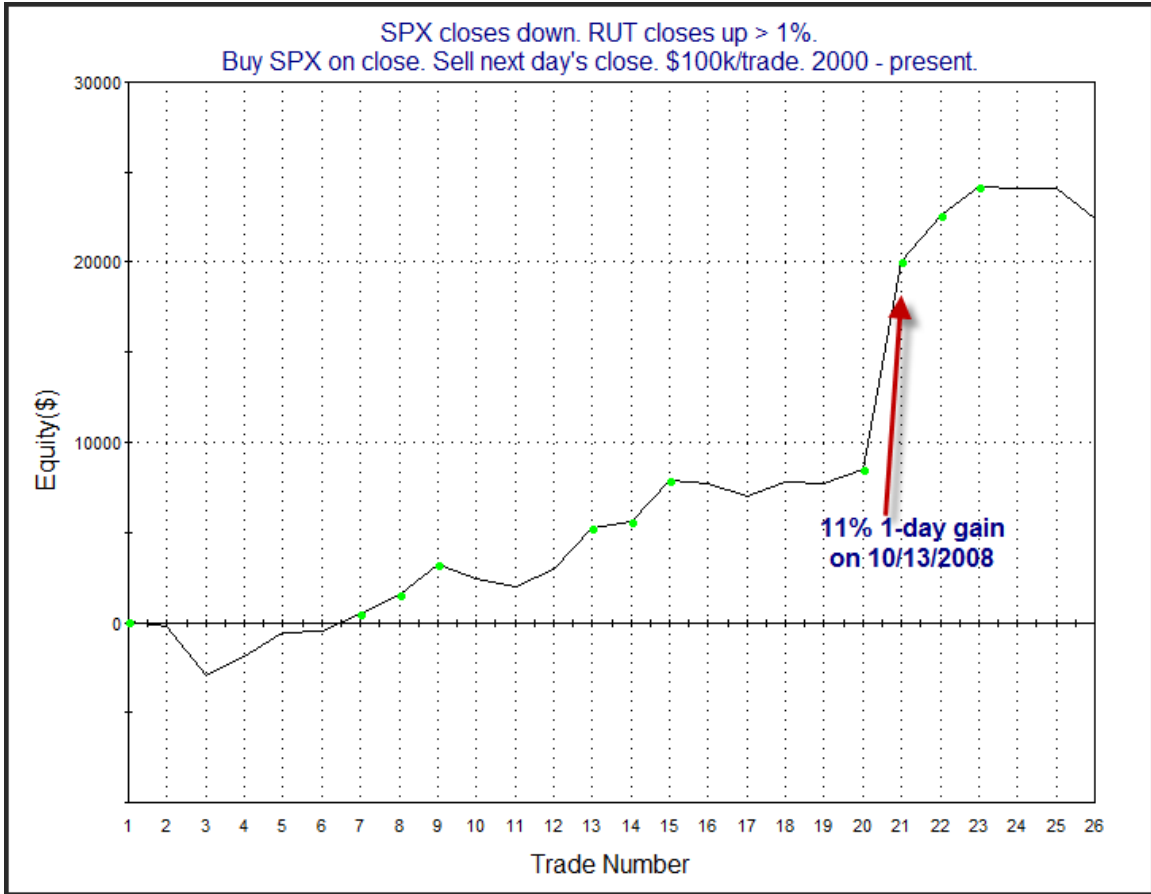
The Evidence

Friday was another mixed day. The SPX finished down 0.1%, the NASDAQ gained 0.5%, and the Russell 2000 rallied 2.5%. Breadth was positive as the NYSE Up Issues % was 54% and the Up Volume % came in at 53%. NYSE volume pulled back some from Thursday's level.

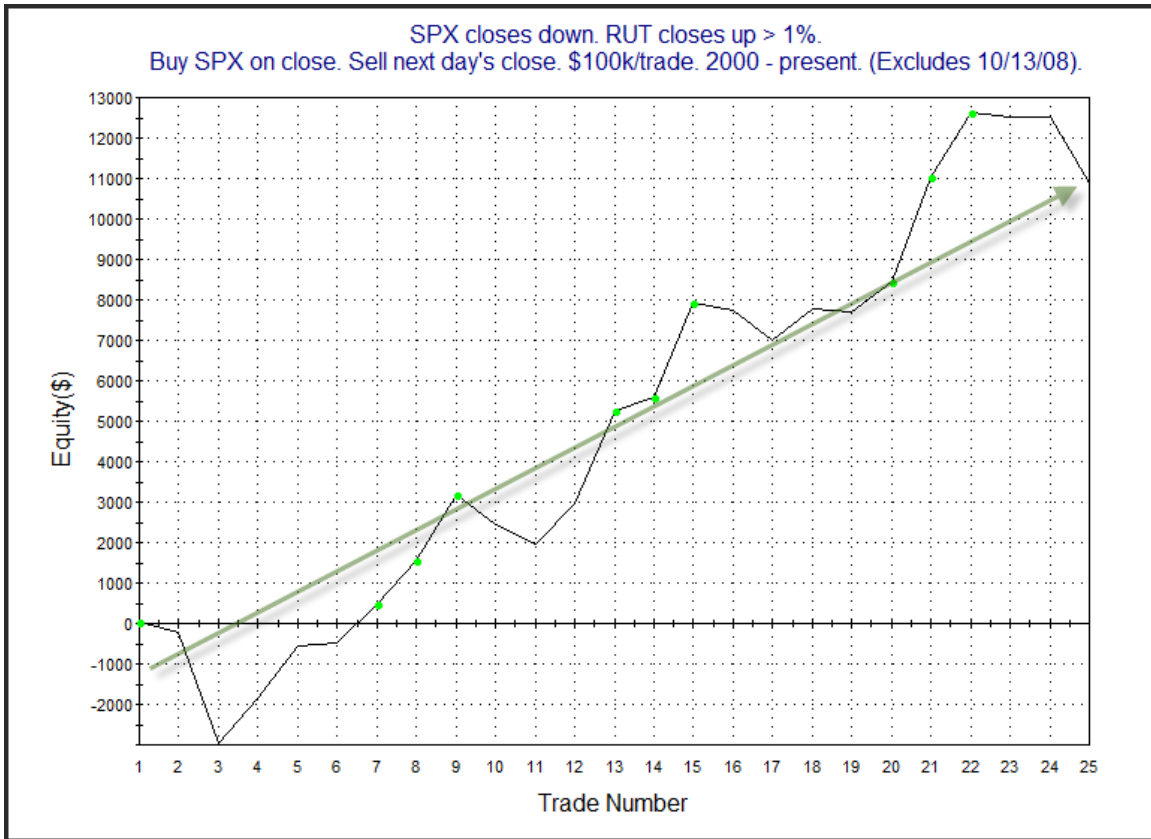
The split market triggered an interesting study from the 9/5/12 subscriber letter. It examined other times the SPX closed down on the same day the Russell 2000 rose at least 1%. I have updated the results below.

SPX closes down. RUT closes up > 1%. Buy SPX on close. Sell next day's close. \$100k/trade. 2000 - present.						
TradeStation Performance Summary						Expand
All Trades						
Total Net Profit	\$22,460.82	Profit Factor				4.24
Gross Profit	\$29,398.60	Gross Loss				(\$6,937.78)
Total Number of Trades	26	Percent Profitable				65.38%
Winning Trades	17	Losing Trades				9
Even Trades	0					
Avg. Trade Net Profit	\$863.88	Ratio Avg. Win:Avg. Loss				2.24
Avg. Winning Trade	\$1,729.33	Avg. Losing Trade				(\$770.86)
Largest Winning Trade	\$11,558.43	Largest Losing Trade				(\$2,722.05)

Stats here are very strong, but there was one big gain that skewed the curve. This can be seen below.



The one instance certainly inflates all the stats and skews the curve. So let's look at the curve if we exclude that instance.



This still seems worth paying some attention to. And the average instance has led to a \$436 gain (0.4%) the next day. I have included this on the Active List.

I have updated the Aggregator chart below.



With tonight's new evidence to consider 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 remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive 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 zero. Therefore, the Aggregator signal remained flat at the close.

Based on the current active studies, expectations are primed to remain positive on Monday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted* at 2173.88 on Monday. That is 0.4% above Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX will need to close up at least 0.4% in order to remain overbought versus expectations. Anything shy of that and it will be considered "oversold" as of Monday's close.

So the Aggregator is again neutral. I am too. While bullish evidence is continuing to dominate the short-term, I would much prefer to see a pullback before looking to get long again. I am not looking to take on any new exposure here. I will wait to see how action plays out early this week and evaluate what new studies emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/13 – somewhat bullish

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

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.) *This week we saw the combo systems remain with one “Flat” while the other two stayed “Long”.*

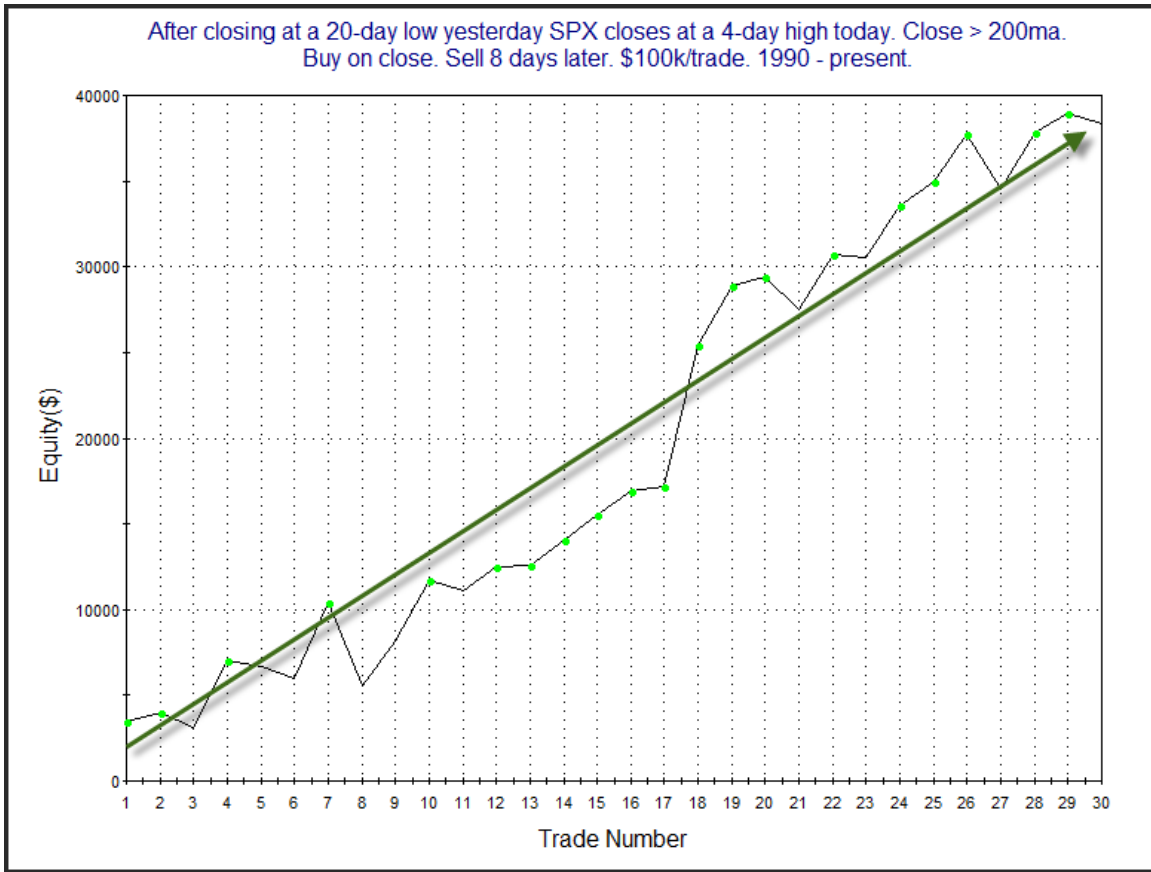
The SPX had a very strong week, rising 3.8% from where it was last Friday. And the Dow actually made new all-time highs this week. There was also some bullish intermediate-term evidence that emerged. This first study was seen in the 11/8/16 letter. I have copied it below.

Monday was a strong enough move that we saw SPX go from closing at a 20-day low on Friday to closing at a 4-day high on Monday. In the 10/19/16 letter I looked at other times in which the market put in a strong thrust off a 20-day low. There I required a close of at least a 4-day high. I have updated the results below.

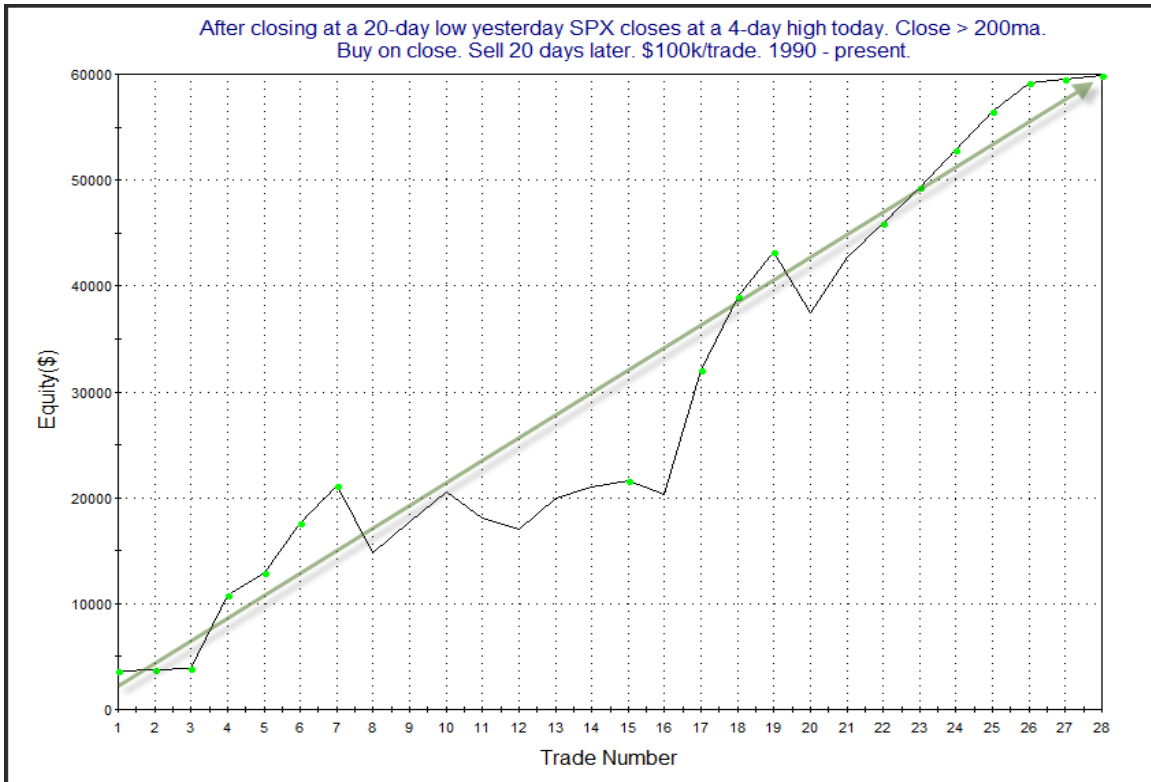
After closing at a 20-day low yesterday SPX closes at a 4-day high today. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

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
20	59,908.44	28	23	5	82.14	3,337.94	11,665.50	-3,372.85	-6,379.08	0.99	4.55	2,139.59
19	58,955.86	28	21	7	75.00	3,657.85	12,037.30	-2,551.29	-6,347.80	1.43	4.30	2,105.57
18	53,917.52	29	23	6	79.31	2,984.68	10,563.30	-2,455.00	-4,148.97	1.22	4.66	1,859.22
17	54,026.31	29	23	6	79.31	3,036.60	11,183.70	-2,635.90	-4,247.96	1.15	4.42	1,862.98
16	51,627.88	29	22	7	75.86	3,005.47	11,506.00	-2,070.35	-4,320.78	1.45	4.56	1,780.27
15	49,212.83	29	21	8	72.41	3,027.88	11,173.80	-1,796.58	-4,723.96	1.69	4.42	1,696.99
14	47,270.90	30	23	7	76.67	2,786.69	9,507.30	-2,403.30	-7,897.52	1.16	3.81	1,575.70
13	37,655.68	30	22	8	73.33	2,544.33	9,427.00	-2,289.95	-7,363.04	1.11	3.06	1,255.19
12	36,917.88	30	20	10	66.67	2,666.97	8,151.00	-1,642.14	-5,686.84	1.62	3.25	1,230.60
11	43,267.16	30	23	7	76.67	2,454.04	8,642.70	-1,882.25	-5,722.20	1.30	4.28	1,442.24
10	39,950.92	30	22	8	73.33	2,548.76	8,924.30	-2,015.22	-8,745.48	1.26	3.48	1,331.70
9	39,851.90	30	21	9	70.00	2,458.57	8,603.10	-1,308.67	-6,371.60	1.88	4.38	1,328.40
8	38,326.40	30	21	9	70.00	2,463.00	8,276.40	-1,488.52	-4,917.08	1.65	3.86	1,277.55
7	27,873.66	30	20	10	66.67	2,262.21	5,832.20	-1,737.06	-4,106.50	1.30	2.60	929.12
6	23,201.24	30	18	12	60.00	2,196.70	5,888.30	-1,361.62	-5,306.50	1.61	2.42	773.37
5	18,818.88	30	18	12	60.00	1,921.51	5,508.80	-1,314.02	-5,320.00	1.46	2.19	627.30
4	20,286.57	31	21	10	67.74	1,702.52	4,326.30	-1,546.65	-4,559.50	1.10	2.31	654.41
3	15,915.53	31	21	10	67.74	1,497.22	4,365.90	-1,552.60	-4,707.50	0.96	2.03	513.40
2	12,974.79	32	23	9	71.88	1,102.63	3,479.30	-1,376.19	-3,138.00	0.80	2.05	405.46
1	580.01	32	15	17	46.88	767.32	2,536.10	-642.93	-2,034.00	1.19	1.05	18.13

Day 1 is a bit iffy, but after that there appears to be a strong and consistent edge over the next 4 weeks. This suggests a decent chance that Monday's rally was the beginning of a continued move higher. I produced profit curves for the 8-day and 20-day holding periods highlighted above. First, the 8 day...



The strong, steady upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 20-day curve.



*This one is a little choppier, but it sure has been strong lately, with 11 of the last 12 instances all closing higher. In the 10/19/16 letter I also looked at bounces that did **not** reach 4-day highs the 1st day. I have copied that table below.*

After closing at a 20-day low yesterday SPX up but < 4-day high today. Close > 200ma.
Buy 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
20	98,679.41	81	57	24	70.37	3,086.91	12,927.20	-3,219.78	-9,587.72	0.96	2.28	1,218.26
19	90,223.25	81	57	24	70.37	2,856.93	13,564.52	-3,025.90	-12,375.24	0.94	2.24	1,113.87
18	97,662.29	83	57	26	68.67	2,998.46	13,895.61	-2,817.31	-13,625.69	1.06	2.33	1,176.65
17	87,679.80	84	57	27	67.86	2,916.34	13,554.35	-2,909.31	-10,959.00	1.00	2.12	1,043.81
16	84,288.88	84	54	30	64.29	3,055.21	11,842.40	-2,689.75	-9,466.89	1.14	2.04	1,003.44
15	84,025.77	87	57	30	65.52	2,830.87	11,759.91	-2,577.80	-7,655.72	1.10	2.09	965.81
14	82,029.17	87	59	28	67.82	2,580.23	10,449.11	-2,507.29	-7,789.32	1.03	2.17	942.86
13	88,034.30	88	59	29	67.05	2,580.22	10,954.22	-2,213.74	-6,510.77	1.17	2.37	1,000.39
12	55,309.90	91	56	35	61.54	2,473.99	11,243.50	-2,378.10	-8,570.72	1.04	1.66	607.80
11	64,376.68	94	59	35	62.77	2,451.06	10,913.54	-2,292.46	-8,225.72	1.07	1.80	684.86
10	53,837.91	96	59	37	61.46	2,344.81	10,577.93	-2,283.95	-11,602.12	1.03	1.64	560.81
9	69,963.51	98	63	35	64.29	2,212.16	8,067.07	-1,982.94	-6,195.44	1.12	2.01	713.91
8	77,974.15	101	71	30	70.30	2,014.04	8,124.70	-2,167.42	-7,580.04	0.93	2.20	772.02
7	100,751.69	103	74	29	71.84	2,056.10	7,734.85	-1,772.42	-5,195.64	1.16	2.96	978.17
6	84,654.10	107	75	32	70.09	1,908.65	6,520.10	-1,827.95	-5,822.32	1.04	2.45	791.16
5	69,451.38	111	72	39	64.86	1,896.10	6,560.78	-1,719.69	-5,937.53	1.10	2.04	625.69
4	56,432.27	118	78	40	66.10	1,467.14	5,650.00	-1,450.12	-5,345.28	1.01	1.97	478.24
3	44,596.07	125	80	45	64.00	1,171.24	3,939.79	-1,091.18	-6,154.38	1.07	1.91	356.77
2	41,254.89	139	86	53	61.87	1,029.09	3,644.28	-891.46	-2,742.74	1.15	1.87	296.80
1	22,535.05	139	83	56	59.71	771.99	2,937.71	-741.79	-2,525.60	1.04	1.54	162.12

Results here are pretty good and also seem to favor more upside. But if you compare the “Avg Trade” column on the far right you’ll find that from Day 2 – Day 19 the Avg Trade here was about **one-half to two-thirds** the Avg Trade when the 1st day jumped SPX up to a 4-day high. Overall, the 1st study above appears worthy of both the short and intermediate-term Active Lists.

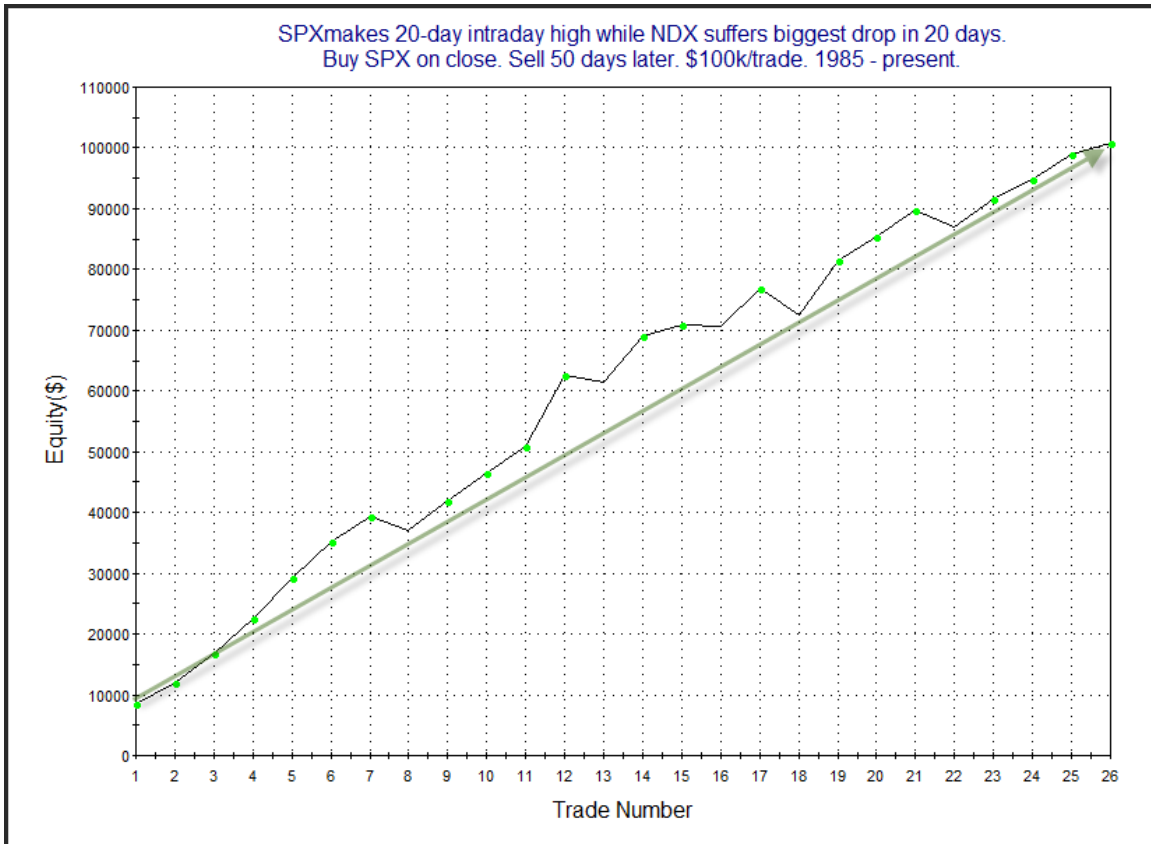
We also saw some intermediate-term evidence emerge on Thursday night. I have copied that study below.

The most notable action was in the NASDAQ, which bucked the rest of the market as sold off fairly hard. One interesting aspect of Wednesday’s action is that the NDX suffered its worst decline in at least 20 days while SPX made a 20-day intraday high. This is something I last looked at in the 9/4/14 Letter. When I examined other instances of this back then I found little in terms of short-term implications, but the intermediate-term implications appeared strong. Below I have updated results for a 50-day holding period.

SPX makes 20-day intraday high while NDX suffers biggest drop in 20 days.
Buy SPX on close. Sell 50 days later. \$100k/trade. 1985 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$100,778.94	Profit Factor	10.36	
Gross Profit	\$111,543.81	Gross Loss	(\$10,764.87)	
Total Number of Trades	26	Percent Profitable	80.77%	
Winning Trades	21	Losing Trades	5	
Even Trades	0			
Avg. Trade Net Profit	\$3,876.11	Ratio Avg. Win:Avg. Loss	2.47	
Avg. Winning Trade	\$5,311.61	Avg. Losing Trade	(\$2,152.97)	
Largest Winning Trade	\$11,736.48	Largest Losing Trade	(\$4,474.24)	

As you can see, the numbers all look solidly bullish. The big NDX drop during an intermediate-term move higher for SPX has rarely derailed the rally. Most of the time it has been followed by additional gains. Below is the profit curve.

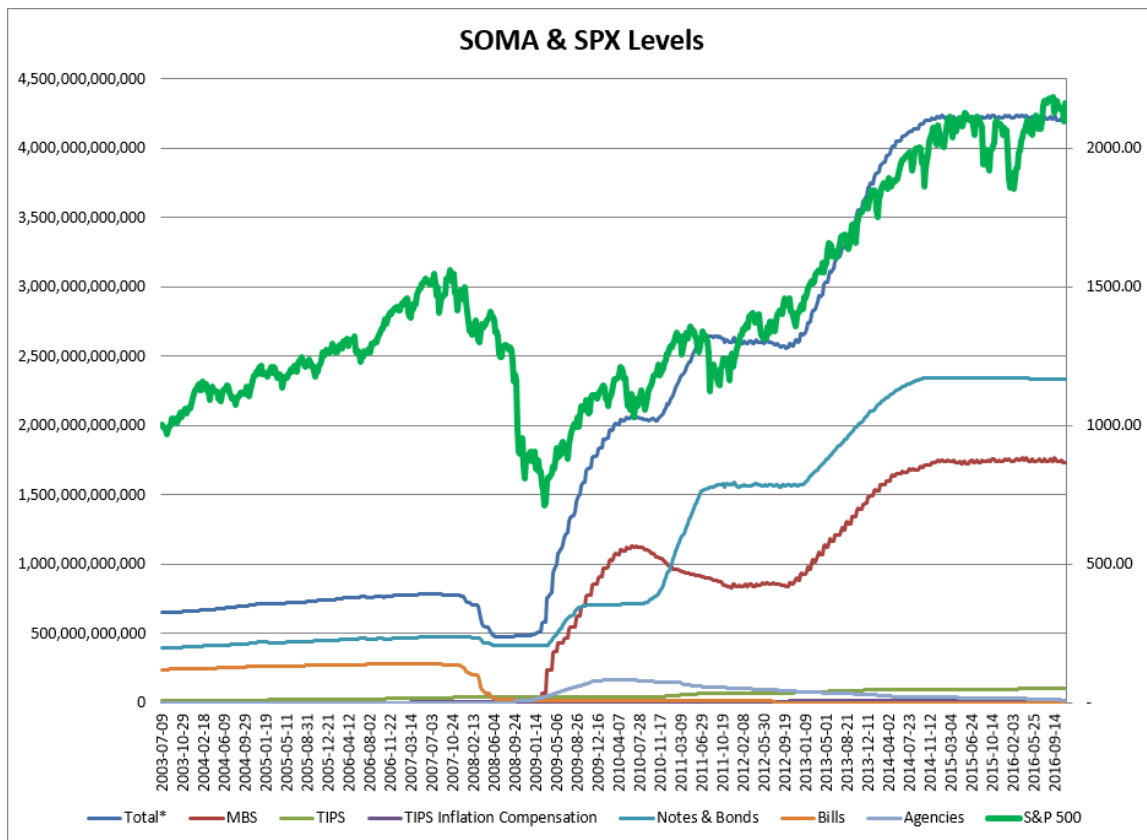


The strong, steady upslope is quite impressive, and serves as confirmation of the apparent upside edge. I have added this study to the intermediate-term Active List.

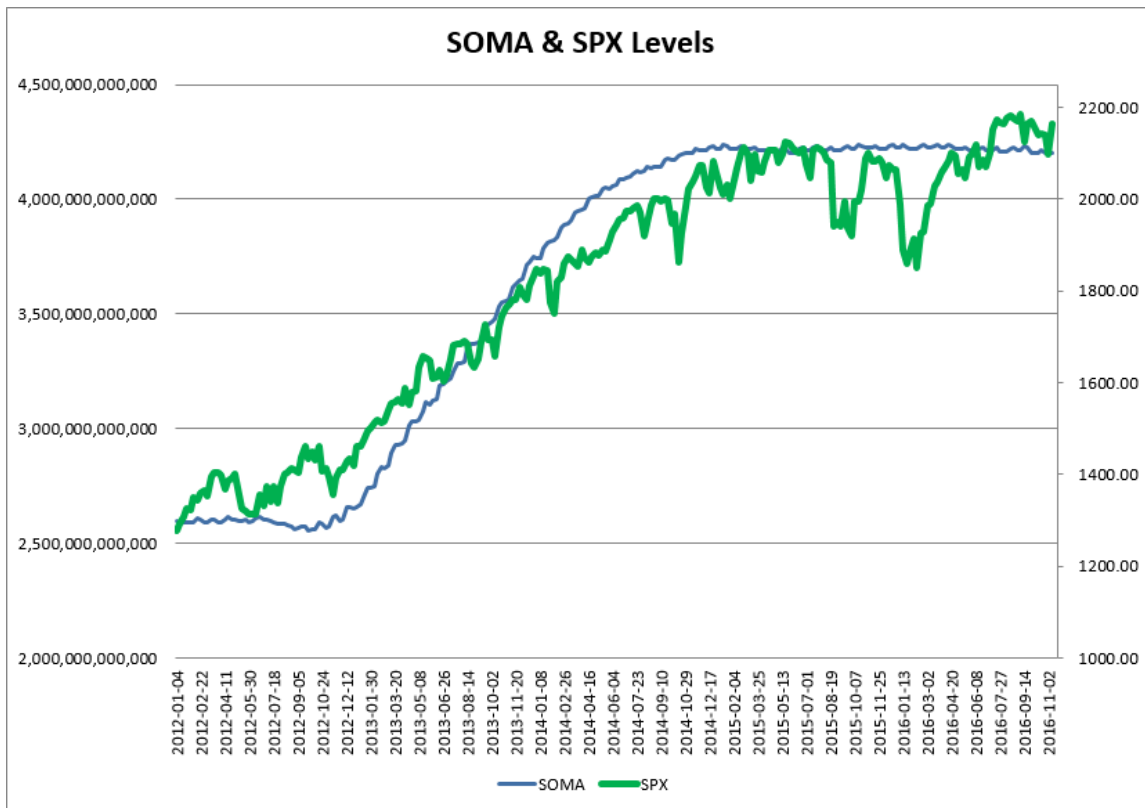
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 this past week (Wednesday to Wednesday), was basically breakeven, posting a very small gain of less and 0.01%. This was in line with expectations based on the Fed’s SOMA schedule. The 3.11% rally for the SPX over this period was exceptionally strong. The market has generally struggled during weeks where the SOMA fails to expand. Since the beginning of 2015 SPX has risen 65% of the time for a sum total of 8.06% during SOMA expansion weeks (of at least 0.01%). During all other weeks, like this past week, SPX has only risen 45% of the time and has *lost* a sum total of 1.65%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week, which ends on Wednesday, should see the SOMA post a gain. And the week after this is also likely to see a moderate increase. So we should have some temporary liquidity support from the Fed. This could be helpful to the bulls.

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 two years and we have not seen any strong derivations. I expect liquidity analysis to remain a vital tool for us.

A couple of new studies this week have helped the bullish case. They considered the strong bounce from the low, and the ability of the SPX to post a 20-day high without help from the NASDAQ. We still have two of the four Market Timing Course indicators in “bull” mode. And the Fed might provide some liquidity over the next week and a half. Bears will note that Fed support is temporary, the NASDAQ is lagging, and new highs have been diverging for years now. I am “somewhat bullish” overall. I am open to trading either side on a short-term basis. I will be more selective with shorts than longs.

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](#).

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.