

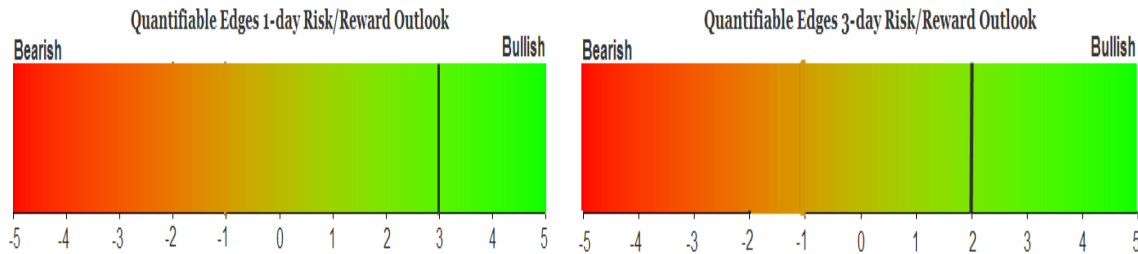
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 19, 2016

Volume 9 Issue 245

Market Overview



Signals Overview

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

Tonight's Research Points

- The strong breadth on a day the SPX declines bodes well for the next day.
- SOMA is likely to decline the next couple of weeks, creating a liquidity headwind for the bulls.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I believe there is an upside edge. I am partially positioned to take advantage of it, and I am inclined to hold onto that position for the time being.

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						
December 19, 2016	SPX drops while Up Issue% > 55%	1 day	Bullish			
December 15, 2016	Large drop from 50-day high	1-4 days	Bullish			
Active - Long Term						
December 16, 2016	Russell strong after Dec opex Thurs	1-10 days	Bullish			
December 12, 2016	Dec opex	1-15 days	Bullish	3.60%	-1.70%	-3.50%
December 12, 2016	RSI(2) crosses over 99. Close > 200ma	1-15 days	Bullish	2.30%	-1.40%	-2.70%
December 1, 2016	20-high then poor close	1-10 days	Bullish			
November 11, 2016	SPX 20-high. NDX biggest drop in 20.	1-50 days	Bullish			
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			

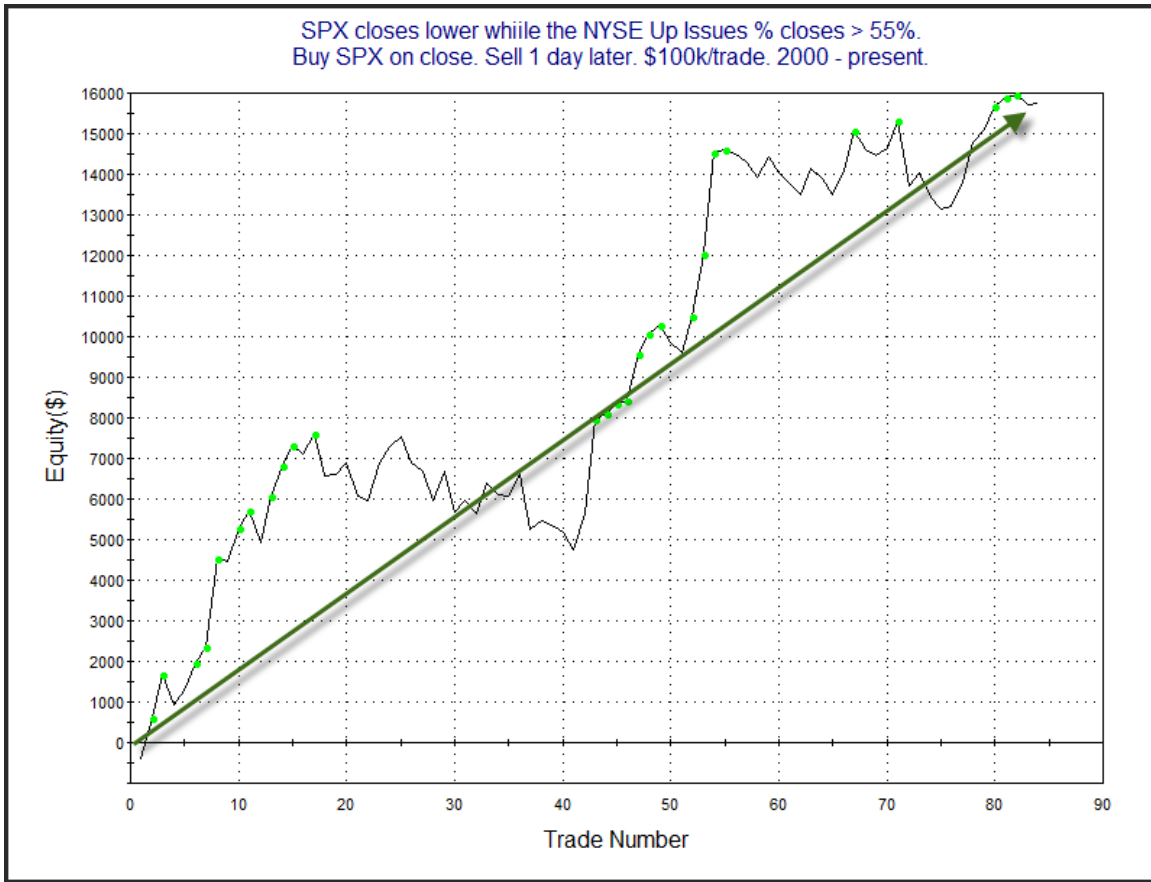
The Evidence

Friday was a down day for the market. The SPX lost 0.2%, the NASDAQ also fell 0.4%, and the Russell 2000 declined 0.2%. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 52%. NYSE volume pulled back a little from Thursday's level.

The mild action and chop over the last few days did not trigger much that was terribly compelling. The study below last appeared in the 9/8/16 letter, and I did find it worth another look. It considered the fact that despite the selloff in the SPX, breadth was fairly strong.

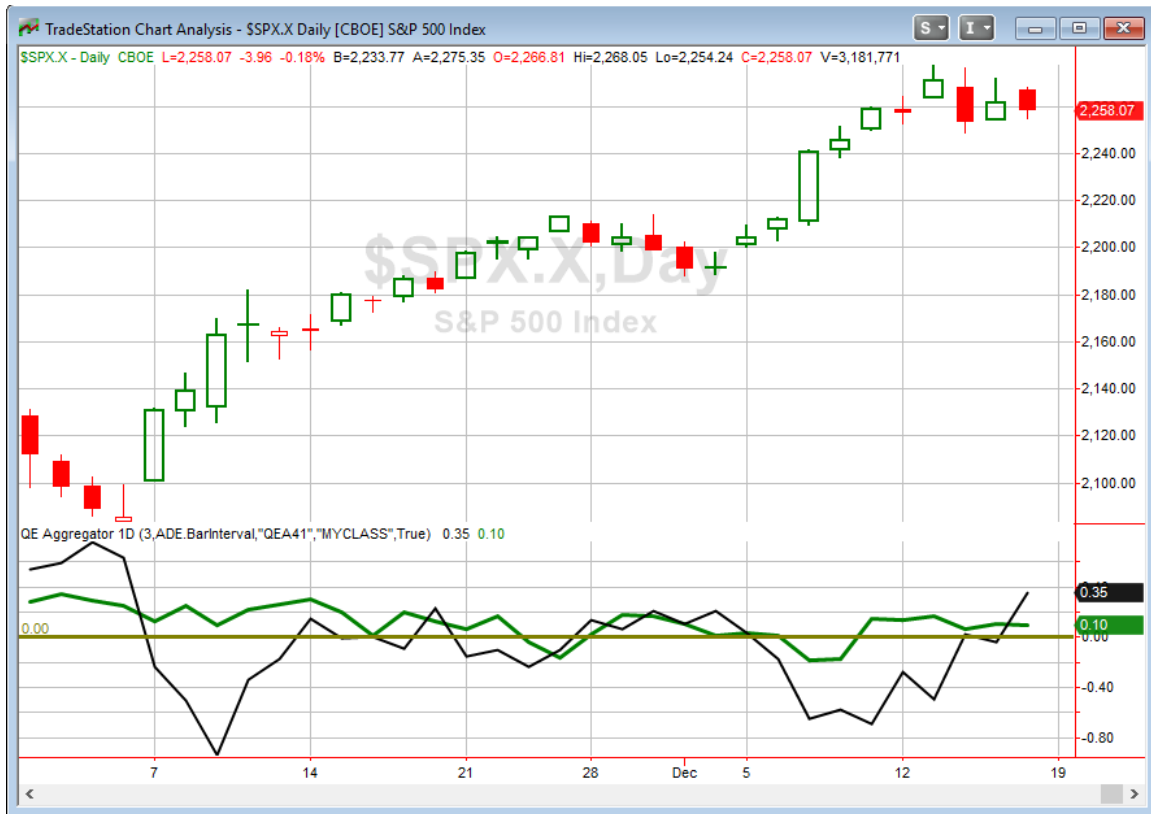
SPX closes lower while the NYSE Up Issues % closes > 55%. Buy SPX on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	10,955.38	75	42	33	56.00	1,293.32	3,616.92	-1,314.07	-4,179.84	0.98	1.25	146.07
4	14,189.15	77	44	33	57.14	1,216.03	3,429.00	-1,191.41	-3,369.12	1.02	1.36	184.27
3	18,962.69	79	48	31	60.76	1,005.62	3,373.50	-945.39	-2,852.01	1.06	1.65	240.03
2	17,659.49	81	52	29	64.20	807.35	3,025.12	-838.71	-3,119.03	0.96	1.73	218.02
1	15,758.17	84	49	35	58.33	640.69	2,484.00	-446.74	-1,616.64	1.43	2.01	187.60

While there appears to be an upside edge for up to 3 days, most of that edge is realized on day one. Below is the 1-day profit curve.



Definitely choppy, and not always consistent. But it has made its way from lower left to upper right and is again near new highs. I felt this study was worth some consideration and have included it on the Active List for tonight.

I have updated the Aggregator chart below.



With tonight's study considered 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 rose back 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 zero. Therefore, the Aggregator signal turned long at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. This could easily change if compelling new bearish evidence emerges. The Differential Pivot will be 2261.70 on Monday. That is 0.2% above Friday's close. So SPX will need to close up 0.2% in order to move from oversold to overbought versus expectations on Monday.

So the bulls appear to have the edge right now. I have some long exposure already. I am not so enthused about the current short-term studies that I am inclined to add to it just yet. But I am looking to hold onto my current position for further gains.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/19 – bullish

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

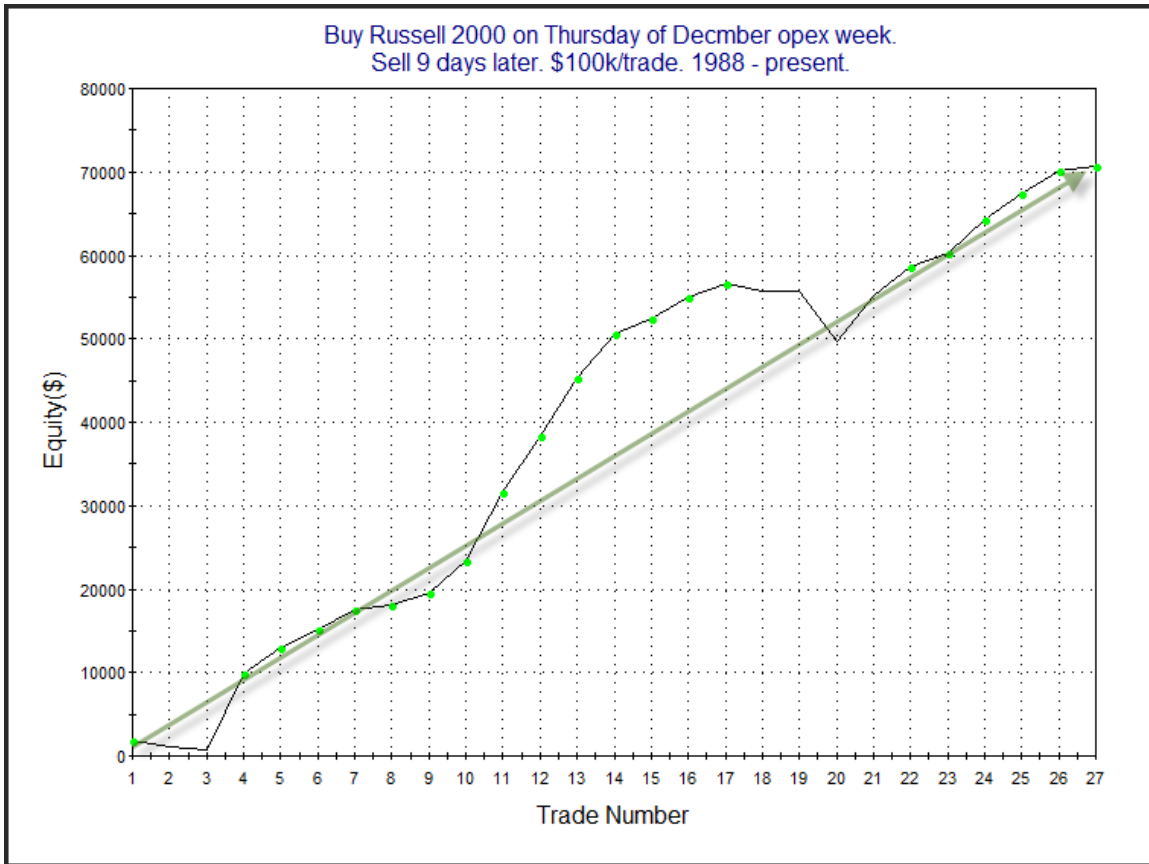
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

Most of the major indices closed down just slightly this week. The SPX was nearly breakeven, losing less than a point and a half. From an intermediate-term standpoint,

Next is a study I last showed in the 12/18/15 subscriber letter that looks at buying the Russell 2000 on opex Thursday in December and holding for up to 2 weeks.

Buy Russell 2000 on Thursday of Decmber opex week. Sell X days later. \$100k/trade. 1988 - 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
10	73,643.76	27	22	5	81.48	3,846.71	10,279.71	-2,196.75	-5,643.30	1.75	7.70	2,727.55
9	70,688.45	27	23	4	85.19	3,418.68	9,009.63	-1,985.28	-5,973.50	1.72	9.90	2,618.09
8	60,403.06	27	23	4	85.19	2,828.34	7,115.85	-1,162.20	-2,948.40	2.43	13.99	2,237.15
7	52,476.49	27	22	5	81.48	2,609.65	7,790.58	-987.18	-1,809.60	2.64	11.63	1,943.57
6	40,291.77	27	20	7	74.07	2,343.23	6,599.88	-938.98	-2,720.64	2.50	7.13	1,492.29
5	29,072.74	27	19	8	70.37	2,075.77	4,892.25	-1,295.86	-3,194.64	1.60	3.80	1,076.77
4	21,904.97	27	18	9	66.67	1,947.37	4,413.75	-1,460.86	-3,892.32	1.33	2.67	811.30
3	18,646.66	27	17	10	62.96	1,850.57	3,814.20	-1,281.31	-2,650.68	1.44	2.46	690.62
2	9,637.18	27	16	11	59.26	1,370.25	3,495.70	-1,116.99	-2,810.39	1.23	1.78	356.93
1	11,488.64	27	16	11	59.26	918.13	2,299.70	-291.04	-816.48	3.15	4.59	425.51

Results here are outstanding. But a look at the max loss column shows you that it has not been without risk. Below is an equity curve that assumes a 9-day exit strategy.

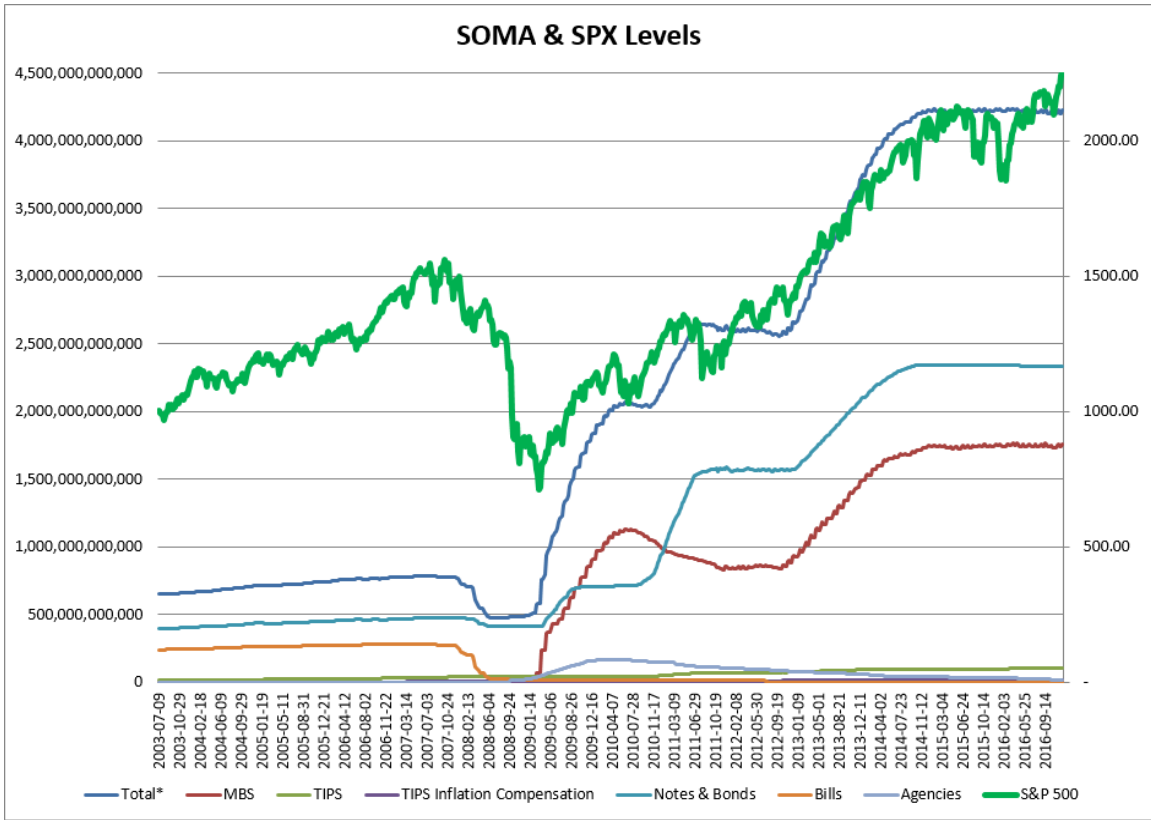


In 2005 and 2007 the Russell saw declines, but the last 8 years have all been higher, keeping the curve right on track.

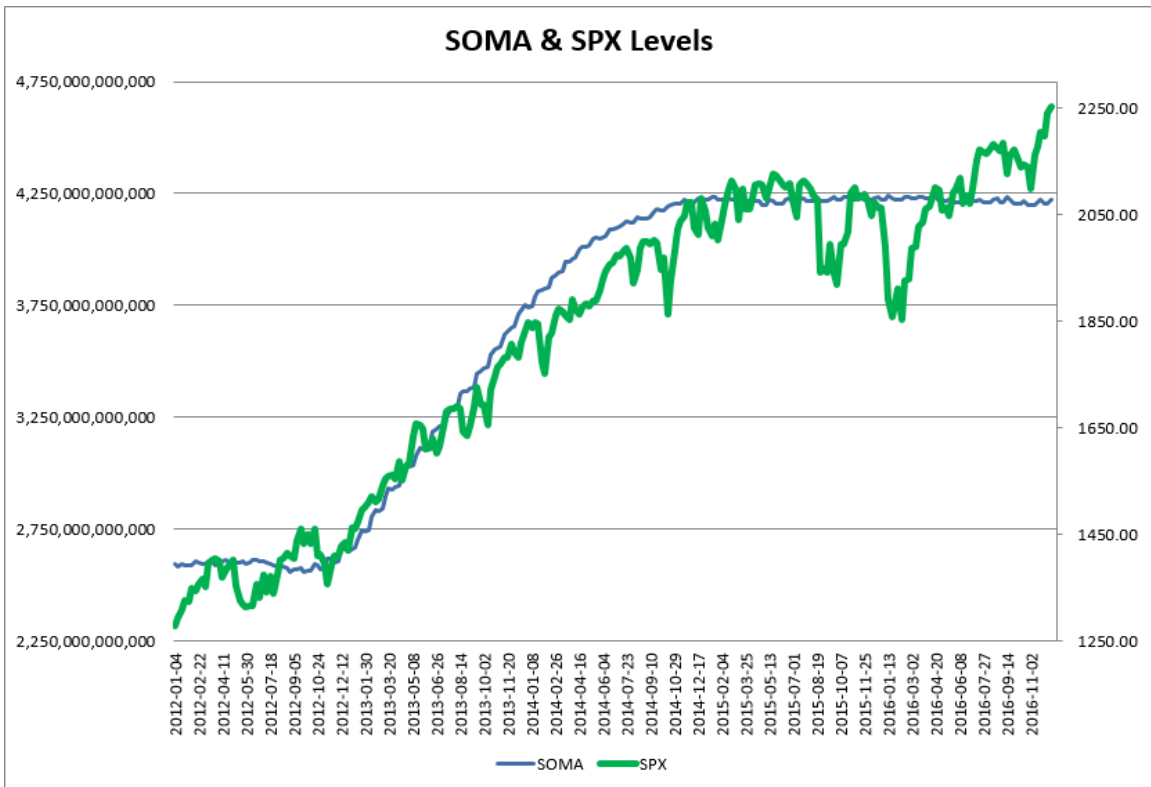
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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), posted a very sizable gain of 0.47%. This was in line with expectations based on the Fed's SOMA schedule. The 0.53% gain for the SPX over this period was solid and not surprising. The market has generally performed well during weeks that the SOMA has expanded. Since the beginning of 2015 SPX has risen 68% of the time for a sum total of 10.50% during SOMA expansion weeks (of at least 0.01%). During all other weeks, SPX has only risen 46% of the time and has gained a sum total of just 0.02%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week is not completely clear, but a decline appears more likely than an increase for the SOMA. And the following week definitely looks like a decline is more likely. So the bulls are likely to be facing a liquidity headwind 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 two years and we have not seen any strong derivations. I expect liquidity analysis to remain a vital tool for us.

The market is in a strong seasonal period, momentum is favorable, past bullish studies remain active, and we still have of the four Market Timing Course indicators in "bull" mode. Bears will note that Fed support is lacking, the NASDAQ is lagging, and new highs have been diverging for years now. I am still inclined to believe upside is more likely between now and year end. This leaves me intermediate-term bullish. I am unlikely to take short positions. I may get more aggressive with looking to take advantage of potential long opportunities.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IWM(1/4)	12/15/2016	\$135.15	\$135.91	0.56%		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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