

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 17, 2017

Volume 10 Issue 10

Market Overview



Signals Overview

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

Tonight's Research Points

- MLK week has been bearish over the years.
- Opex week in January has been weak over the last 16 years.
- SOMA flows are likely to only be supportive through Wednesday.

Short-term Outlook

The Bottom Line

Expectations have turned negative, but SPX is not overbought. This suggests reward/risk is not strongly favorable for either direction. I am short-term neutral.

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						
January 17, 2017	MLK/Jan Opex Weakness	1-4 days	Bearish	0.80%	-2.40%	-4.60%
January 10, 2017	Breakout then inside day	1-5 days	Bullish			
Active - Long Term						
January 9, 2017	NASDAQ Leading	int term	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			
Dropped Tonight						
January 9, 2017	50-day high breakout on lower volume	1-5 days	Bullish			

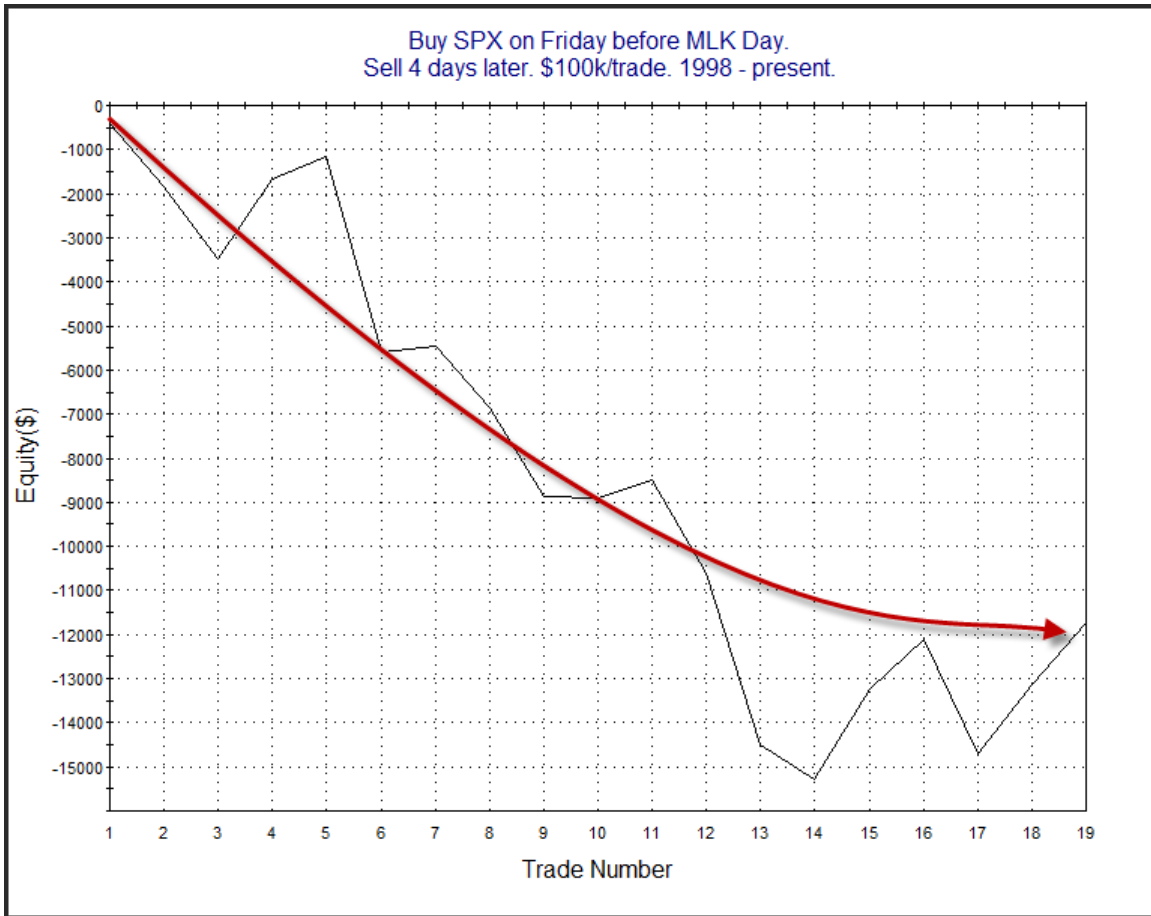
The Evidence

Friday saw mostly mild gains. SPX closed up 0.2%, the NASDAQ rose 0.5%, and the Russell 2000 rallied 0.8%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 54%. NYSE volume rose some from Thursday's level.

Seasonality may come into play this week. Martin Luther King Jr. Day is on Monday. The NYSE has only observed MLK Day as a holiday since 1998. But over that 19-year period the market has not done too well during MLK week. I discussed this last year in the 1/19/16 Letter. I've updated that study below.

Buy SPX on Friday before MLK Day. Sell X days later. \$100k/trade. 1998 - 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	-13,402.13	19	7	12	36.84	1,525.63	2,148.75	-2,006.79	-5,973.00	0.76	0.44	-705.38
4	-11,721.43	19	8	11	42.11	1,127.32	2,024.33	-1,885.45	-4,441.80	0.60	0.43	-616.92
3	-1,510.89	19	8	11	42.11	1,229.79	2,206.50	-1,031.75	-2,646.54	1.19	0.87	-79.52
2	681.55	19	12	7	63.16	648.18	1,459.15	-1,013.80	-2,576.20	0.64	1.10	35.87
1	-3,074.52	19	12	7	63.16	558.26	1,776.32	-1,396.24	-5,253.30	0.40	0.69	-161.82

Numbers here are somewhat weak, though not terribly consistent. Below is an equity curve showing how the full (4-day) week has played out over time.



The curve is a bit choppy. And it has flattened out recently. There still may be a bit of a downside inclination.

The Quantifinder also noted that January opex week tends to be bearish. Last year in the 1/11/16 Letter I examined this. I have updated that study below. (Note the original study used SPY, but I switched it to SPX when I ran it this year.)

Today is Friday before January Opex.
Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.

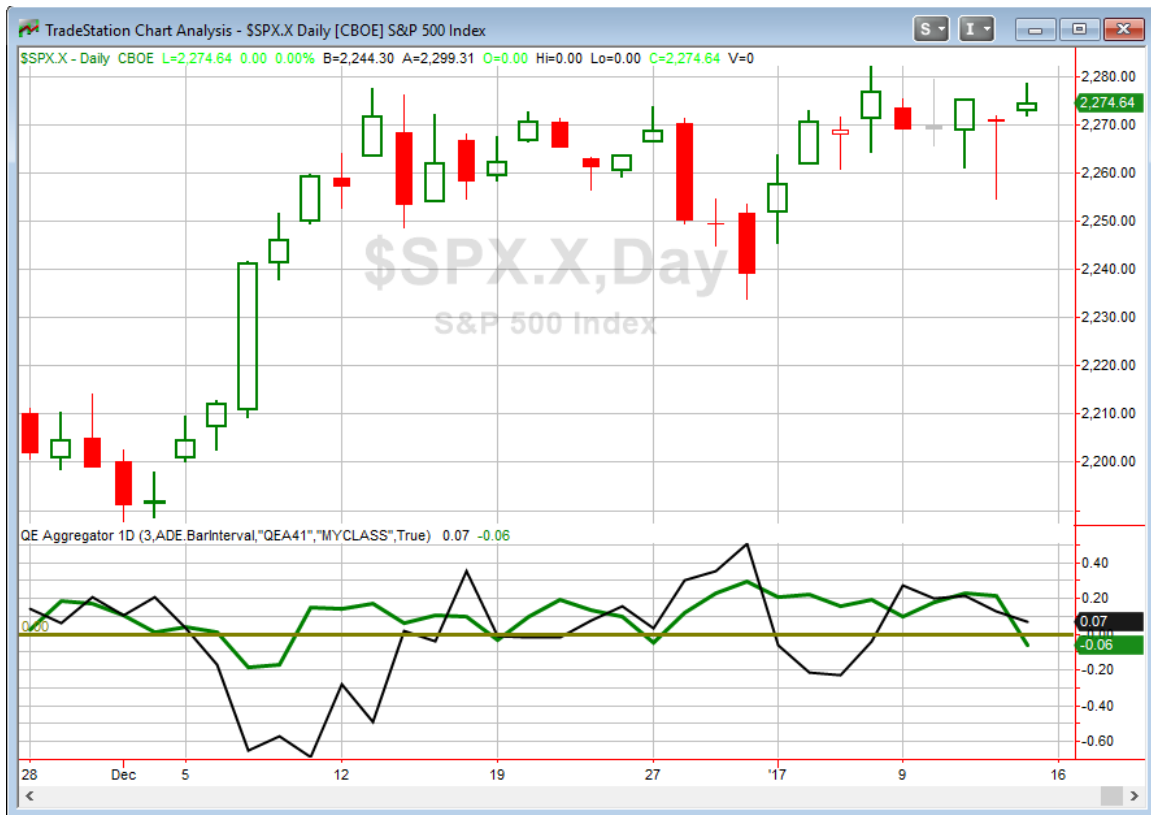
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-23,232.50	18	4	14	22.22	1,607.52	2,072.07	-2,118.76	-5,383.93	0.76	0.22	-1,290.69
4	-19,400.80	18	6	12	33.33	970.08	2,024.33	-2,101.77	-5,220.32	0.46	0.23	-1,077.82
3	-14,562.12	18	6	12	33.33	893.02	2,206.50	-1,660.02	-5,345.76	0.54	0.27	-809.01
2	-6,923.79	18	7	11	38.89	523.20	1,459.15	-962.38	-2,775.24	0.54	0.35	-384.66
1	-3,109.31	18	9	9	50.00	439.92	1,080.62	-785.40	-2,250.08	0.56	0.56	-172.74

2001 and 2012 were the only years the SPX failed to close below Friday's close at some point during the week. Below is the list of 18 January op-ex weeks from the table above with their full week performance results. There have been 7 years in which January op-ex week occurred in conjunction with Martin Luther King Day. These were 4-day weeks and they are denoted with blue boxes around them.

Today is Friday before January Opex. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/8/1999	Buy	\$1,275.09	-2.50%	\$88.14
1/15/1999	Sell	\$1,243.26		(\$5,343.00)
1/14/2000	Buy	\$1,465.15	-1.62%	\$38.08
1/21/2000	Sell	\$1,441.36		(\$1,809.48)
1/12/2001	Buy	\$1,318.55	1.82%	\$2,700.00
1/19/2001	Sell	\$1,342.56		(\$391.50)
1/11/2002	Buy	\$1,145.60	-1.57%	\$279.27
1/18/2002	Sell	\$1,127.58		(\$1,840.05)
1/10/2003	Buy	\$927.57	-2.78%	\$800.36
1/17/2003	Sell	\$901.78		(\$3,054.85)
1/9/2004	Buy	\$1,121.86	1.60%	\$1,598.44
1/16/2004	Sell	\$1,139.82		(\$593.63)
1/14/2005	Buy	\$1,184.51	-1.41%	\$963.48
1/21/2005	Sell	\$1,167.82		(\$1,401.96)
1/13/2006	Buy	\$1,287.61	-2.03%	\$13.86
1/20/2006	Sell	\$1,261.48		(\$2,055.13)
1/12/2007	Buy	\$1,430.73	-0.02%	\$313.26
1/19/2007	Sell	\$1,430.50		(\$449.88)
1/11/2008	Buy	\$1,401.03	-5.41%	\$1,197.06
1/18/2008	Sell	\$1,325.20		(\$6,284.92)
1/9/2009	Buy	\$890.35	-4.52%	\$5.60
1/16/2009	Sell	\$850.12		(\$8,210.72)
1/8/2010	Buy	\$1,144.98	-0.78%	\$472.41
1/15/2010	Sell	\$1,136.03		(\$1,182.33)
1/14/2011	Buy	\$1,293.24	-0.76%	\$217.14
1/21/2011	Sell	\$1,283.35		(\$1,692.46)
1/13/2012	Buy	\$1,289.09	2.04%	\$2,032.80
1/20/2012	Sell	\$1,315.38		\$0.00
1/11/2013	Buy	\$1,472.05	0.95%	\$933.31
1/18/2013	Sell	\$1,485.98		(\$555.43)
1/10/2014	Buy	\$1,842.37	-0.20%	\$457.38
1/17/2014	Sell	\$1,838.70		(\$1,449.90)
1/9/2015	Buy	\$2,044.81	-1.24%	\$581.76
1/16/2015	Sell	\$2,019.42		(\$2,721.12)
1/8/2016	Buy	\$1,922.03	-2.17%	\$1,471.60
1/15/2016	Sell	\$1,880.29		(\$3,338.40)
Avg Runup: \$787 Avg Drawdn: -\$2354				

Overall there has been a decided downside tendency during opex week over the last 18 years. The drawdown / run-up stats at the bottom remain quite compelling for the bears. I have combined the results of the MLK and opex studies for estimation in the Aggregator.

I have updated the Aggregator chart below.



With the bearish seasonality to deal with this week the green Aggregator Line dipped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 turned flat at the close.

Based on the current active studies, expectations are set to remain bearish on Tuesday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2286.78 on Tuesday. That is 0.5% above Friday's close. So SPX will need to close up at least 0.5% in order to flip from oversold to overbought versus expectations on Tuesday.

The overall mix right now is not terribly compelling. The bearish evidence is all seasonal. I like seasonal evidence, especially when it occurs with a corresponding overbought/oversold condition. And while some traditional measures might look at the SPX as short-term overbought, the Differential sees it as oversold. Additionally, the remaining price-action based evidence is still bullish. So there does not appear to be a clear and compelling directional edge. I am not inclined to take on new positions just yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/7 – bullish

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

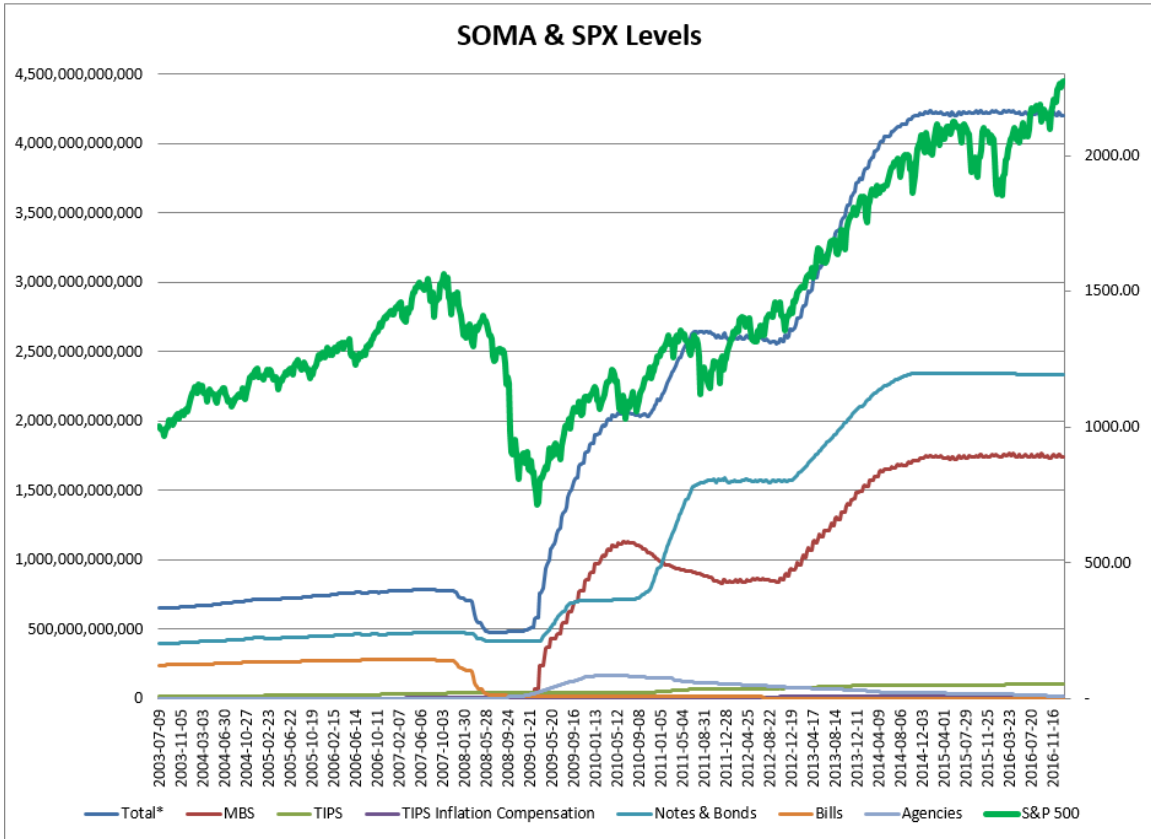
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

This past week was the 7th in a row in which the SPX reversed direction on the weekly chart. SPX finished down a very small 0.1%. We also have not seen two consecutive up or down days since 1/4/17. So it appears choppy in multiple time frames. With the back and forth chop, there were no new studies that emerged with intermediate-term consequence this week.

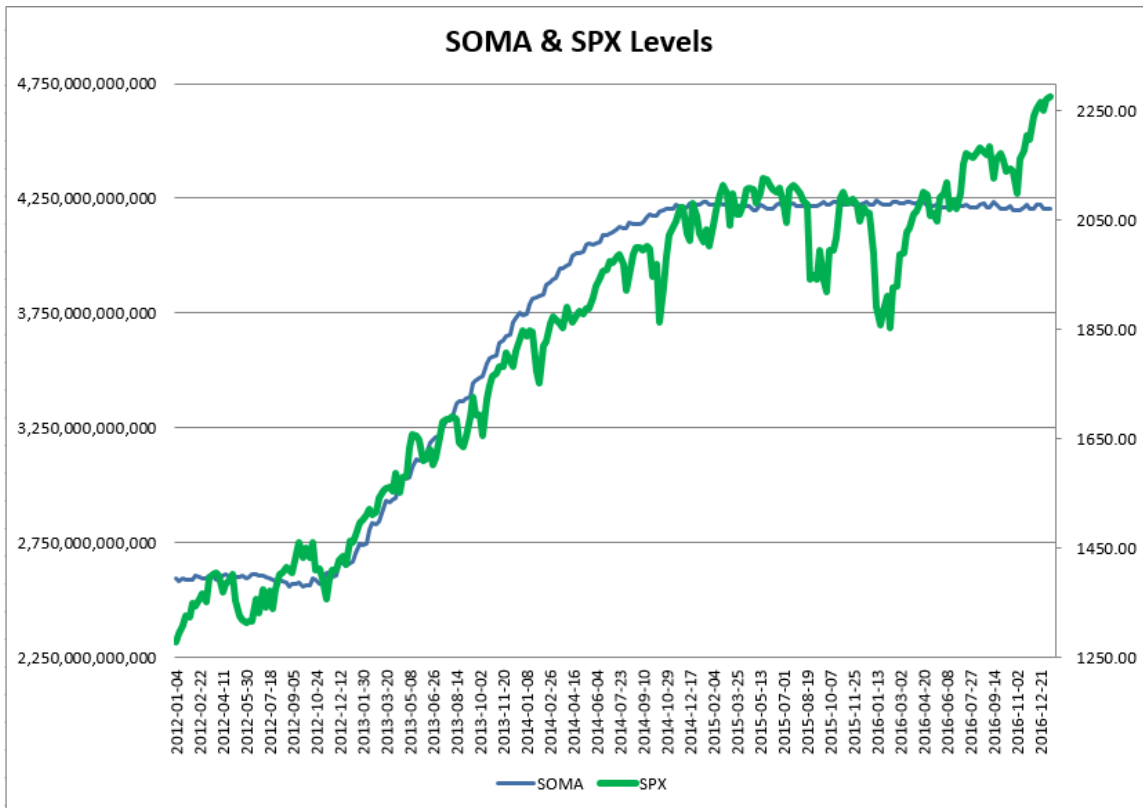
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 this past week (Wednesday to Wednesday) came in basically flat, posting a loss of less than 0.01%. This was in line with expectations based on the Fed’s SOMA schedule. The 0.2% gain for the SPX over this period was stronger than typical. The market has generally performed poorly during weeks that the SOMA has failed to expand at least 0.01%. 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, like this past one, SPX has only risen 47% of the time and has gained a sum total of just 1.00%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week appears likely to show a moderate rise in the SOMA. But the following week we will likely see a decline in the SOMA. So the bulls are only likely to have some liquidity help through 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 two years and we have not seen any strong derivations. I expect liquidity analysis to remain a vital tool for us.

The sum total of intermediate-term evidence still suggests to me that the bulls remain in charge. The market is still in an uptrend, and 3 of the 4 Market Timing Course indicators are in “bull” mode. We also still have 1 bullish intermediate-term study active from

November that looked at SPX/NDX action. Bears will note that Fed support is lacking and new highs have been diverging for years now. I am still inclined to favor the long side and I remain intermediate-term bullish. That means I intend to trade longs more aggressively than shorts, and will be extra-selective with any short plays.

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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