

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 23, 2017

Volume 10 Issue 14

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- No new short-term evidence emerged.
- Fed liquidity is expected to be poor over the next 10 days, which will not help the bulls.

## *Short-term Outlook*

### *The Bottom Line*

Expectations are bullish but the SPX is now overbought. This is leaving me short-term neutral.

*Summary of Recent Active Studies (see Letters from listed dates for details)*

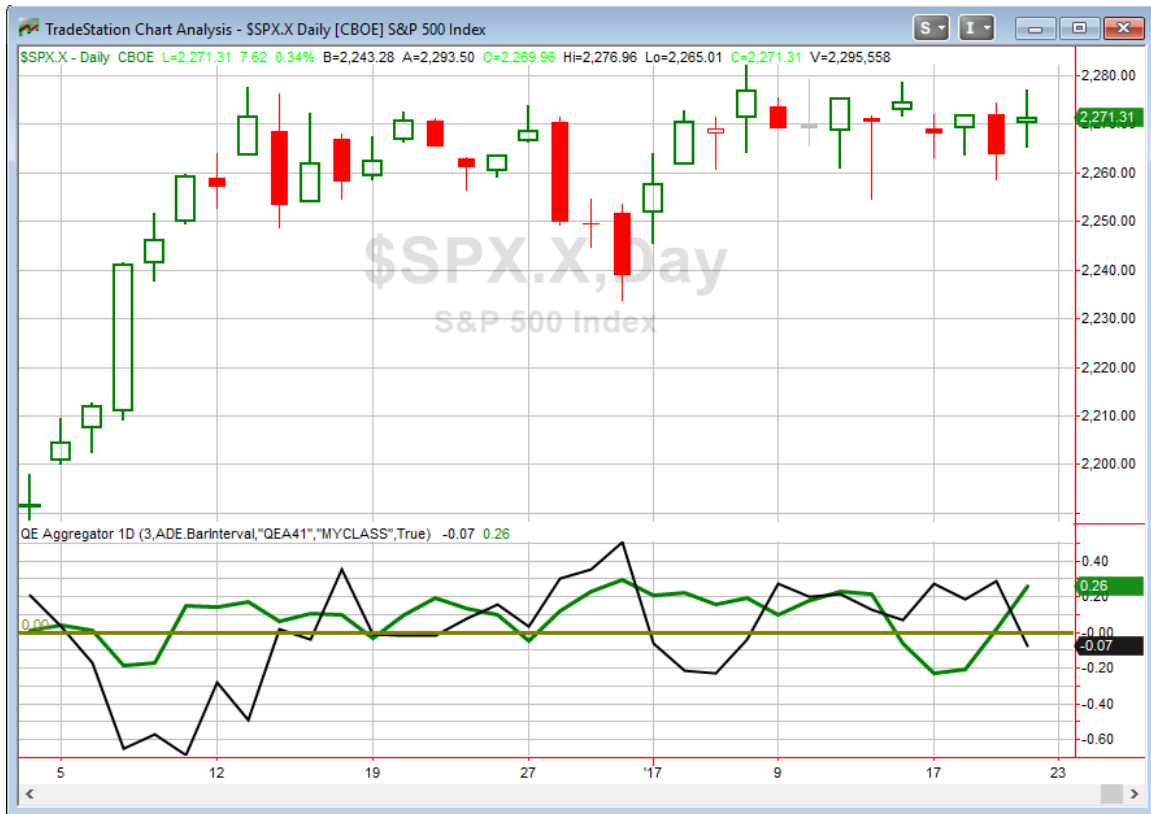
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
January 20, 2017	3-high, 3-low, 3 low close	1-5 days	Bullish			
<b>Active - Long Term</b>						
January 9, 2017	NASDAQ Leading	int term	Bullish			
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
January 17, 2017	MLK/Jan Opex Weakness	1-4 days	Bearish	0.80%	-2.40%	-4.60%

***The Evidence***

Friday was an up day for the market, though the gains all came in the overnight before Friday's open. The closing numbers showed SPX and NASDAQ up 0.3%, while the Russell 2000 rose 0.45%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 67%. NYSE volume rose as it often does on opex Friday.

The mild rise did not trigger anything of significance on Friday. There are a few things worth keeping an eye on though. The NASDAQ 100 is the leader right now. It is the only one of the major indices to close at a new high on Friday. The SPX, NASDAQ Composite, Dow 30, and Russell 2000 all closed squarely within their 2-week ranges. And speaking of ranges, we have been locked in a very tight one since early December. Over the last 30 trading days SPX closing prices have only varied by 1.7% between the high and the low. That is extremely tight, especially since the late 60s. Often tight ranges will lead to sharp breakouts and we could see a strong move emerge from this situation soon. It is important to keep in mind that the 1<sup>st</sup> break attempt may be a false breakout. We'll watch closely for clues when it occurs. But a strong directional move could very well begin here in the coming days or weeks.

I have updated the Aggregator chart below.



Without any new studies to add tonight, and the last short-term bearish one expiring, the green Aggregator Line moved 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 dipped 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 turned flat at the close.

Based on the current active studies, expectations are set to remain bullish on Monday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be 2260.63 on Monday. That is 0.5% below Friday's close. Therefore, SPX will need to close down 0.5% in order to flip from overbought to oversold versus expectations on Monday.

I did not get the common Inauguration Day selloff that I was hoping for. That is leaving the market a bit overbought, and this does not appear to be a strongly favorable entry point. I am basically neutral along with the Aggregator. I considered taking an aggressive approach and looking to get long at the close on Monday if SPX closes below the Differential Pivot. While there is a good chance that would trigger a long Aggregator formation, there is only 1 short-term bullish study that is currently active. So it is possible

a bearish study could emerge that would prevent me from desiring a long position. Therefore, I will wait and see how things play out on Monday, and what new studies emerge, before determining whether I want to add exposure on Tuesday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/23 – 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 saw the SPX decline a very small 0.15%. It was the 2<sup>nd</sup> week in a row that we saw a small decline. Our long-term trend indicators are still pointing up. There were no new studies of intermediate-term significance that emerged this week. I did show on Thursday some research with regards to short and intermediate-term returns following presidential inaugurations. Those studies are copied below.

*I limited the instances to only those inaugurations where a new president was entering office. I don't think re-elections carry a sense of “new hope” the way a new president does. I also eliminated inaugurations of Presidents that weren't elected (Ford in '74, Johnson in '63, Truman in '45, and Coolidge in '23). I just don't believe the same sense of excitement is generated by a replacement as by a newly elected president.*

*That left me with the following 12 instances:*

*March 4, 1921 - Warren G. Harding*

*March 4, 1929 – Herbert Hoover*

*March 4, 1933 – Franklin Roosevelt*

*January 20, 1953 – Dwight Eisenhower*

*January 20, 1961 – John Kennedy*

*January 20, 1969 – Richard Nixon*

*January 20, 1977 – James Carter*

*January 20, 1981 – Ronald Reagan*

*January 20, 1989 – George H.W. Bush*

*January 20, 1993 – William Clinton*

*January 20, 2001 – George W. Bush*

*January 20, 2009 – Barack Obama*

*First I looked to see how the market performed on the day of the inauguration. Surely the wonderful speeches and overall positive vibes would have had a positive effect on the market:*

<b>Inauguration Day Returns of 1st Term Presidents when inauguration occurred on day NYSE was open. DJIA. 1920 - 2016.</b>				
<b>Date/Time</b>	<b>Signal</b>	<b>Price</b>	<b>% Profit</b>	
3/3/1921	Buy	\$75.20	-0.13%	<b>Warren G Harding</b>
3/4/1921	Sell	\$75.10		
3/1/1929	Buy	\$321.20	-2.27%	<b>Herbert Hoover</b>
3/4/1929	Sell	\$313.90		
1/19/1953	Buy	\$287.00	0.35%	<b>Dwight Eisenhower</b>
1/20/1953	Sell	\$288.00		
1/19/1961	Buy	\$632.30	0.32%	<b>John Kennedy</b>
1/20/1961	Sell	\$634.30		
1/17/1969	Buy	\$935.50	-0.45%	<b>Richard Nixon</b>
1/20/1969	Sell	\$931.30		
1/19/1977	Buy	\$968.70	-1.00%	<b>Jimmy Carter</b>
1/20/1977	Sell	\$959.00		
1/19/1981	Buy	\$971.00	-2.09%	<b>Ronald Reagan</b>
1/20/1981	Sell	\$950.70		
1/19/1989	Buy	\$2,239.29	-0.18%	<b>George H.W. Bush</b>
1/20/1989	Sell	\$2,235.36		
1/19/1993	Buy	\$3,255.99	-0.43%	<b>Bill Clinton</b>
1/20/1993	Sell	\$3,241.95		
1/16/2009	Buy	\$8,281.22	-4.01%	<b>Barack Obama</b>
1/20/2009	Sell	\$7,949.09		

*Then again, perhaps not. Eisenhower wins the award for most market-friendly speech by juicing the Dow for 0.35%. Obama was the biggest loser with a 4% drop on his inauguration day. George W. Bush and Franklin Roosevelt are not included on the list since their 1st inaugurations were on weekends.*

*What if we look out a little longer, though? Buying on the close of inauguration day (or 1st day after for W. Bush and Roosevelt) and holding for 10 days offered significantly more positive results:*

<b>DJIA performance from 1st-term Elected Inauguration Day close to 10 trading days later.</b>			
<b>Date/Time</b>	<b>Signal</b>	<b>Price</b>	<b>% Profit</b>
3/4/1921	Buy	\$75.10	1.60%
3/18/1921	Sell	\$76.30	
3/4/1929	Buy	\$313.90	1.18%
3/18/1929	Sell	\$317.60	
3/6/1933	Buy	\$55.50	7.93%
3/20/1933	Sell	\$59.90	
1/20/1953	Buy	\$288.00	0.76%
2/3/1953	Sell	\$290.20	
1/20/1961	Buy	\$634.30	2.93%
2/3/1961	Sell	\$652.90	
1/20/1969	Buy	\$931.30	1.68%
2/3/1969	Sell	\$946.90	
1/20/1977	Buy	\$959.00	-1.24%
2/3/1977	Sell	\$947.10	
1/20/1981	Buy	\$950.70	-0.98%
2/3/1981	Sell	\$941.40	
1/20/1989	Buy	\$2,235.36	4.29%
2/3/1989	Sell	\$2,331.25	
1/20/1993	Buy	\$3,241.95	4.07%
2/3/1993	Sell	\$3,373.79	
1/22/2001	Buy	\$10,578.24	3.66%
2/5/2001	Sell	\$10,965.85	
1/20/2009	Buy	\$7,949.09	1.63%
2/3/2009	Sell	\$8,078.36	

*The 10-day timeframe has shown some very positive results. For an intermediate-term perspective below are the results for the 1st 75 trading days of the new presidency:*

DJIA performance from 1st-term Elected  
Inauguration Day close to 75 trading days later.

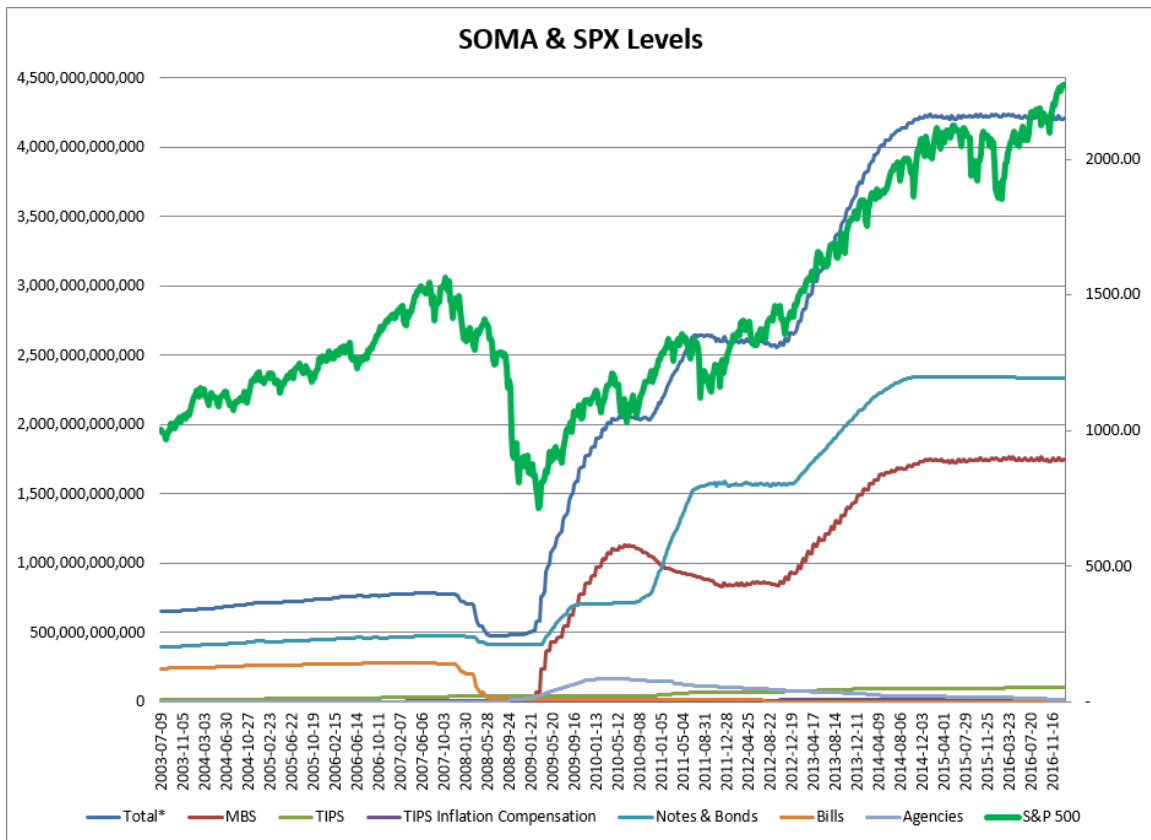
Date/Time	Signal	Price	% Profit
3/4/1921	Buy	\$75.10	-11.72%
6/21/1921	Sell	\$66.30	
3/4/1929	Buy	\$313.90	0.80%
6/19/1929	Sell	\$316.40	
3/6/1933	Buy	\$55.50	72.79%
6/21/1933	Sell	\$95.90	
1/20/1953	Buy	\$288.00	-3.40%
5/8/1953	Sell	\$278.20	
1/20/1961	Buy	\$634.30	8.29%
5/9/1961	Sell	\$686.90	
1/20/1969	Buy	\$931.30	3.25%
5/9/1969	Sell	\$961.60	
1/20/1977	Buy	\$959.00	-2.70%
5/9/1977	Sell	\$933.10	
1/20/1981	Buy	\$950.70	2.91%
5/7/1981	Sell	\$978.40	
1/20/1989	Buy	\$2,235.36	6.08%
5/9/1989	Sell	\$2,371.33	
1/20/1993	Buy	\$3,241.95	6.02%
5/7/1993	Sell	\$3,437.19	
1/22/2001	Buy	\$10,578.24	2.73%
5/9/2001	Sell	\$10,866.98	
1/20/2009	Buy	\$7,949.09	5.80%
5/7/2009	Sell	\$8,409.85	

*Mostly positive here as well. Of course the main issue with this line of tests is that we are dealing with only 12 instances in 98 years. It would be quite dangerous to base any trades on just these results. So I did **not** add these to the Active Lists. I do find them interesting and somewhat notable, though.*

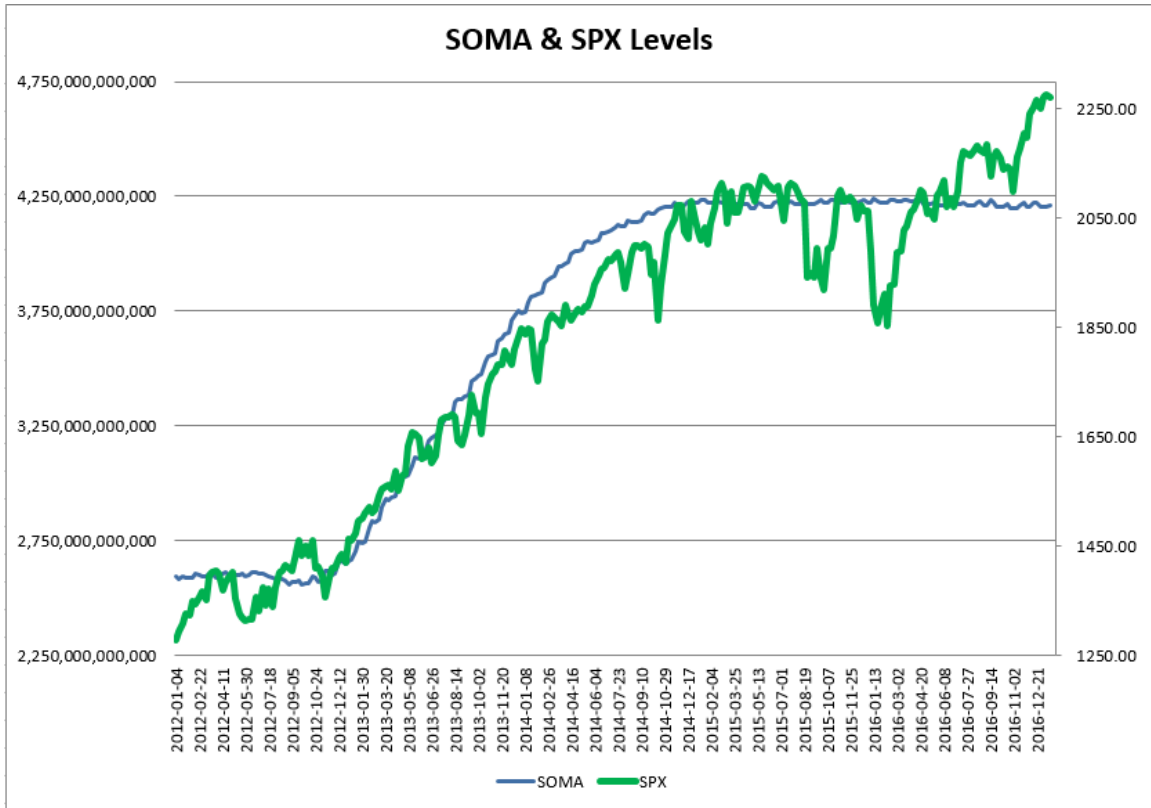
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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) rose a fairly moderate 0.24%. This was in line with expectations based on the Fed’s SOMA schedule. The 0.15% loss for the SPX over this period was a poor showing for a SOMA expansion week. Since the beginning of 2015 SPX has risen 66% of the time for a sum total of 10.35% during SOMA expansion weeks (of at least 0.01%). During all other weeks 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 decline in the SOMA. And the following week we will likely see the SOMA come in flat or lower as well. So the bulls will not have Fed Liquidity on their side for at least the next 10 days.

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. 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. Of course, things can change quickly, and I will be monitoring any breaks from the recent tight range over the last 30 days to see when a new intermediate-term trend is emerging so that I can make adjustments accordingly.

### **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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