

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 6, 2017

Volume 10 Issue 42

Market Overview



Signals Overview

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

Tonight's Research Points

- The steep drop in VXO may have signaled trouble if the market was in a downtrend, but does not appear concerning during a long-term uptrend.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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						
March 1, 2017	Relatively big drop from 50-day high	1-4 days	Bullish			
Active - Long Term						
February 27, 2017	RUT down 3. SPX 3-day high.	1-10 days	Bullish	3.90%	-1.00%	-2.10%
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			

The Evidence

Friday was a mixed and mild day for the market. The SPX rose 0.05%, the NASDAQ gained 0.16%, and the Russell 2000 declined 0.11%. Breadth was positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 55%. NYSE volume declined for the 3rd day in a row.

The action was accompanied by a very large drop of 16% in the VXO, which is the old calculation for the VIX. Back in the 8/11/15 subscriber letter I noted that big drops in the VXO have had much different connotations depending on whether SPX is in a long-term uptrend or downtrend (as defined by its proximity to the 200ma). I decided to review those studies, which require a 15% 1-day VXO drop, in tonight's letter.

First let's consider what has followed when the large VXO drop has occurred during a long-term downtrend.

VXO closes down over 15%. SPX < 200ma. Buy SPX on close. 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
5	-17,347.66	22	11	11	50.00	2,554.44	6,915.44	-4,131.50	-13,784.48	0.62	0.62	-788.53
4	-25,727.59	24	13	11	54.17	1,704.02	4,104.78	-4,352.71	-10,971.63	0.39	0.46	-1,071.98
3	-36,219.02	25	7	18	28.00	1,278.37	2,993.44	-2,509.31	-7,806.29	0.51	0.20	-1,448.76
2	-41,080.73	25	7	18	28.00	757.24	1,439.48	-2,576.74	-9,455.49	0.29	0.11	-1,643.23
1	-21,140.11	25	4	21	16.00	858.88	1,311.50	-1,170.27	-4,400.45	0.73	0.14	-845.60

We see here some very bearish statistics over the 1-2 day period. There is rarely upside follow-through when fear dissipates that quickly during a downtrend.

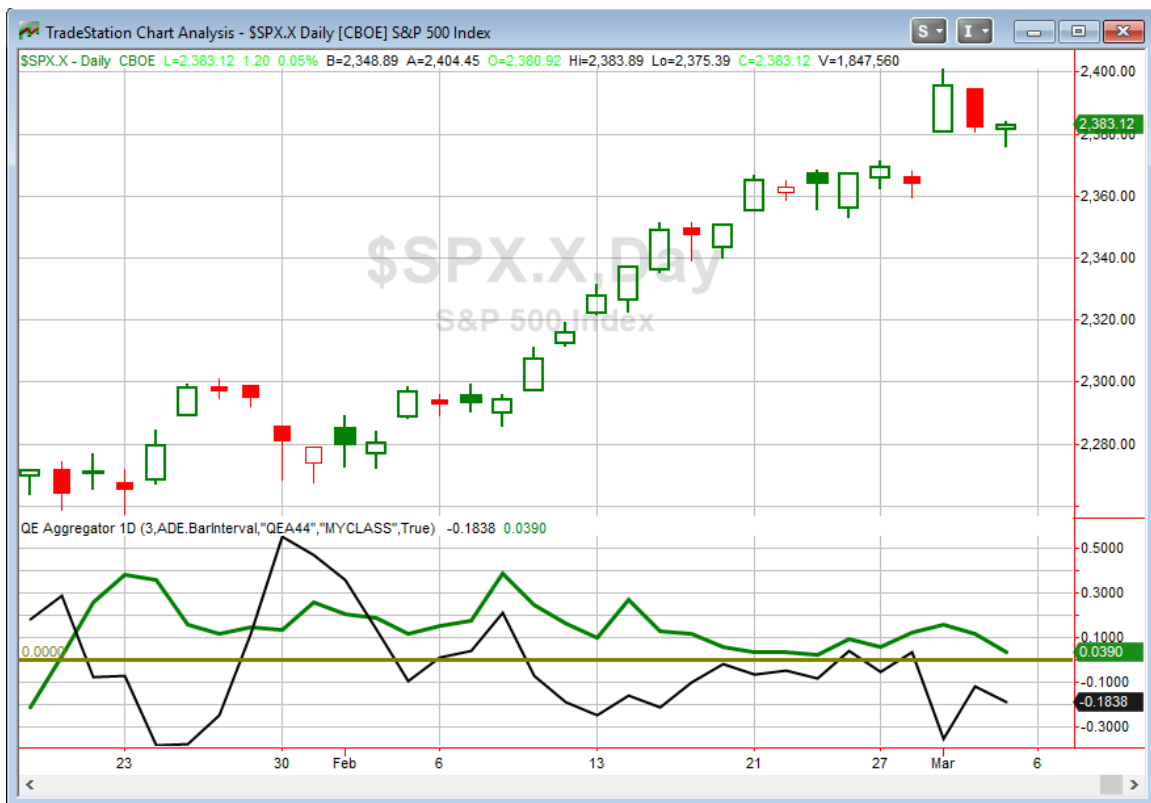
But now let's consider times like the present where SPX is in an uptrend.

VXO closes down over 15%. SPX > 200ma.
Buy SPX on close. 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
5	9,808.81	46	25	21	54.35	1,654.20	5,396.71	-1,502.20	-4,561.65	1.10	1.31	213.23
4	8,781.93	49	28	21	57.14	1,267.59	3,394.72	-1,271.93	-2,927.52	1.00	1.33	179.22
3	8,991.39	51	27	24	52.94	1,296.85	3,276.14	-1,084.32	-3,629.81	1.20	1.35	176.30
2	6,559.73	52	30	22	57.69	1,092.67	3,075.73	-1,191.84	-5,300.66	0.92	1.25	126.15
1	3,652.44	55	28	27	50.91	851.82	2,842.84	-748.10	-3,572.94	1.14	1.18	66.41

Here there is no hint of a short-term bearish inclination. In fact the setup has shown slight gains for each of the time periods measured. I don't think the numbers are strong enough to consider this a bullish setup, but it certainly is not bearish.

I have updated the Aggregator chart below.



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 stayed 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.

The last remaining short-term studies are set to expire on Monday. This would leave expectations slightly positive based on the intermediate-term evidence. Of course, new evidence that emerges will have a substantial impact on expectations. The Differential Pivot will be *inverted* at 2404.11 on Monday. That is 0.9% *above* Friday’s close. An inverted pivot means the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.9% in order to remain overbought. Anything less than that and it will be considered “oversold” versus expectations as of Monday’s close.

Evidence is weak and the Aggregator formation is neutral. I am not seeing compelling reasons to get involved in new positions right now. I’ll wait to see how the market plays out and what new evidence unfolds over the next day or so before looking take on new trades.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/6 – bullish

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

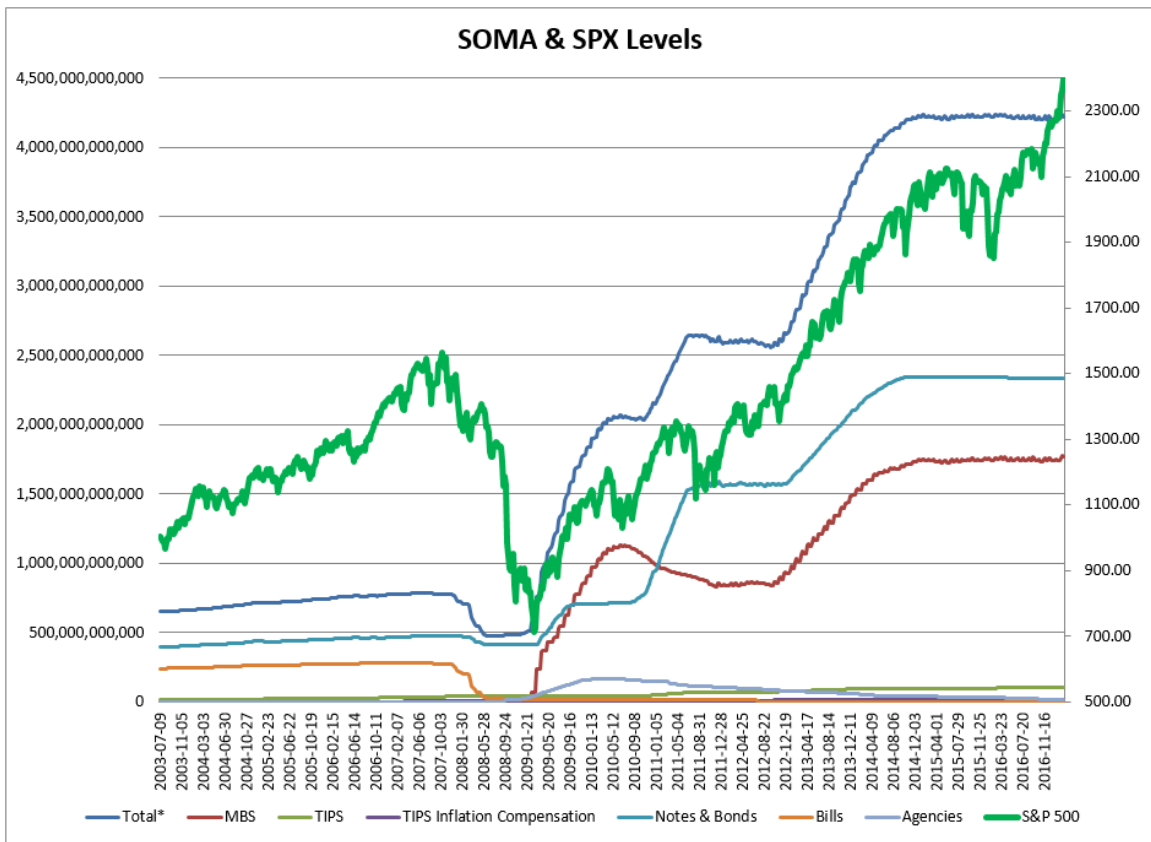
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 another good one for the bulls. The SPX closed up 0.7%. And with major indices making new highs during the week the long-term uptrend remains intact. There were not any new studies that emerged suggesting compelling intermediate-term evidence.

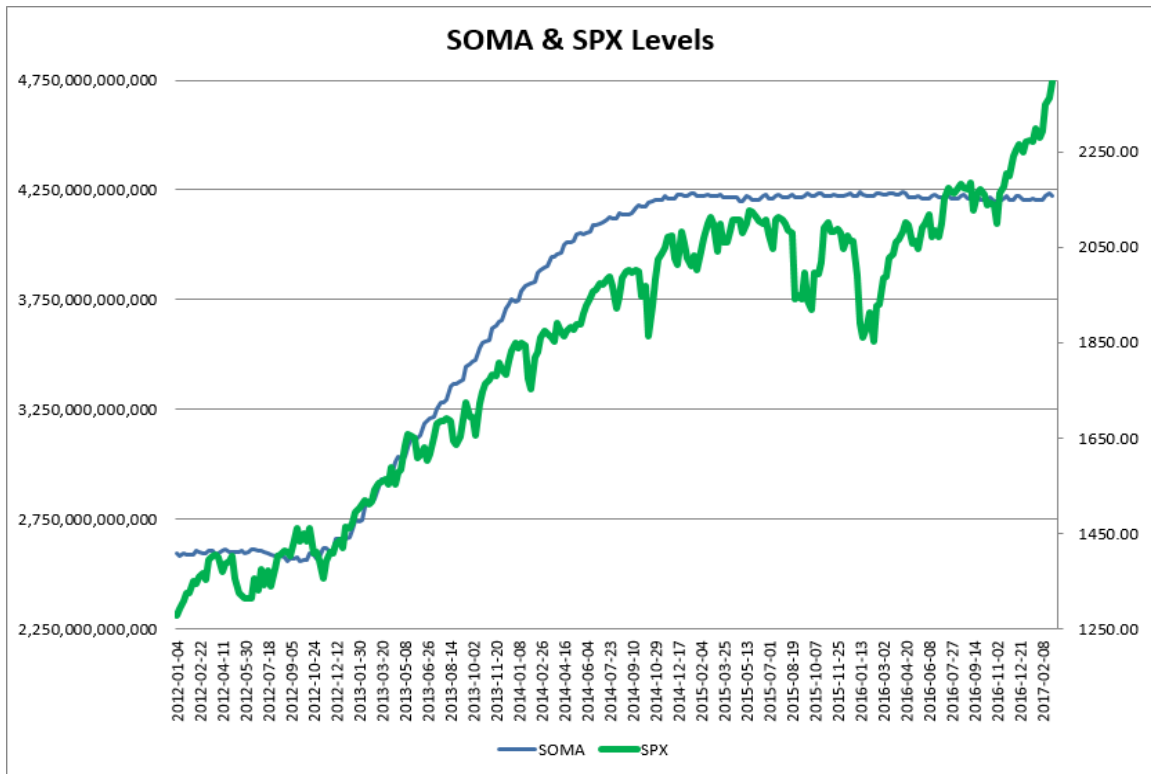
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 decline 0.25%. This was in line with expectations based on the Fed’s SOMA schedule. The 1.4% rise for the SPX over this period was extremely strong for a week the SOMA failed to expand. Since the beginning of 2015 SPX has risen 68% of the time for a sum total of 13.30% during the 37 weeks in which SOMA expanded at least 0.01%. During the 76 other weeks SPX has only risen 49% of the time and has gained a sum total of just 3.41%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week appears likely to see the SOMA remain flat. And the following week it appears the SOMA will likely see an increase. So the bulls could see some help from Fed liquidity flows after 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-plus years and we have not seen any strong derivations. I expect liquidity analysis to remain a vital tool for us.

It is not easy to be much other than bullish with the market continually making new highs. The market is still in an uptrend, and 3 of the 4 Market Timing Course indicators are in “bull” mode. There is also a bullish study in effect from last week. 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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