

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 13, 2017

Volume 10 Issue 47

Market Overview



Signals Overview

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

Tonight's Research Points

- March Op-Ex week has historically been very strong, especially Mon-Thurs.
- SOMA flows could provide a liquidity wind for the bulls over the next week or so.

Short-term Outlook

The Bottom Line

The outlook remains bullish, but SPX is nearing short-term overbought. I'll be looking to take profits on follow through on Monday.

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 13, 2017	March Opex Week Bullish	1-4 days	Bullish	1.70%	-1.10%	-2.40%
March 10, 2017	McClellan Osc 50-low 4 days in row	1-3 days	Bullish			
March 9, 2017	SPY system 11111	1-4 days	Bullish			
March 9, 2017	1st 10-low in 30+ days	1-6 days	Bullish	2.35%	-1.40%	-3.10%
March 8, 2017	1st close < 10ma in > 15 days	1-5 days	Bullish	1.50%	-1.00%	-2.00%
Active - Long Term						
March 9, 2017	1st 10-day low in 30+ days	1-10 days	Bullish	3.10%	-1.95%	-4.40%
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 an up day for the market. The SPX gained 0.3%, the NASDAQ rose 0.4%, and the Russell 2000 climbed 0.4%. Breadth was negative as the NYSE Up Issues % was 67.0% and the Up Volume % came in at 66.8%. NYSE volume fell a little from Thursday's level.

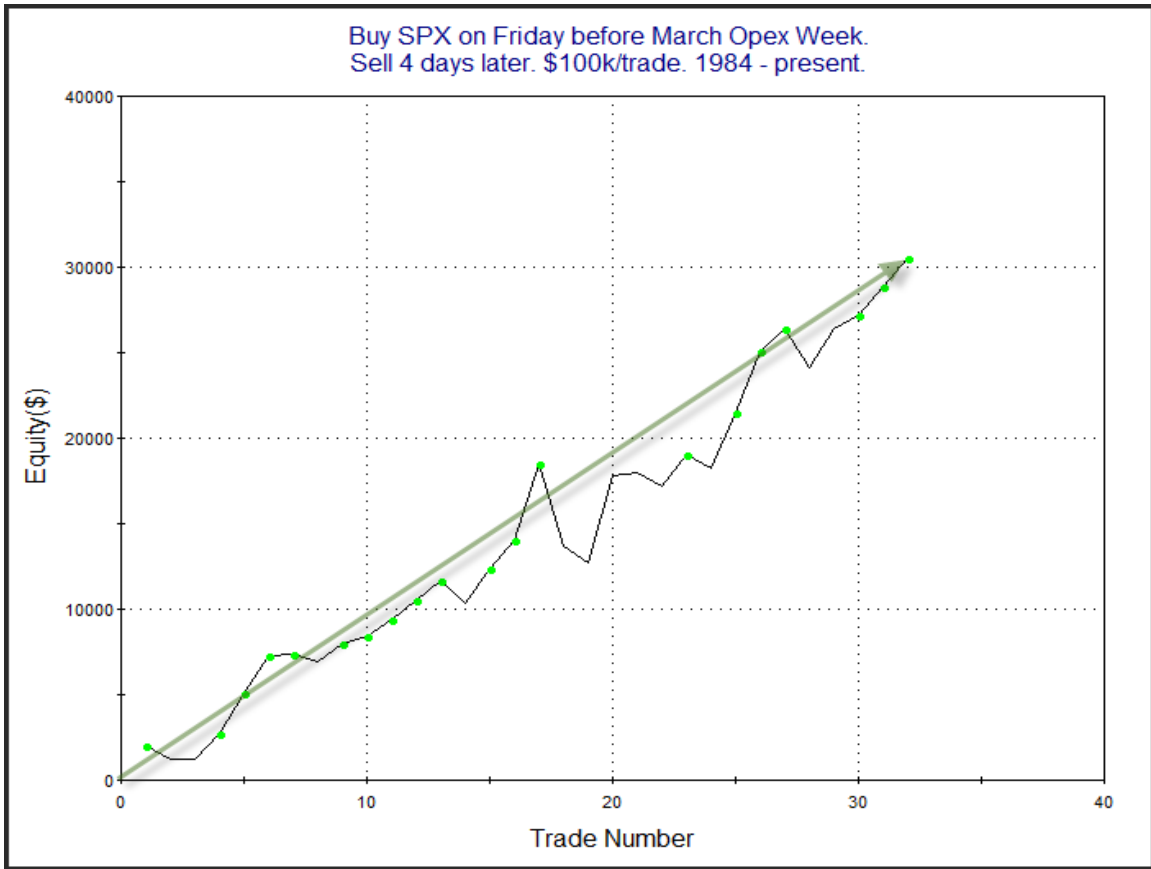
Price action did not do anything to trigger compelling new studies. But there is a seasonal influence that could have a bullish impact on the market this week. Op-ex week in general is pretty bullish. March, April, October, and December it has been especially so. S&P 500 options began trading in mid-1983. The table below is one I showed in the 3/14/16 Subscriber Letter. It goes back to 1984 and shows op-ex week performance broken down by month. All statistics are updated.

OpEx Week SPX Performance by Month. \$100k/trade. 1984 - present. (Excludes September 2001)												
Month	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
12	28,134.30	33	25	8	75.76	1,480.37	5,868.16	-1,109.38	-4,176.33	1.33	4.17	852.55
11	5,918.77	33	21	12	63.64	1,418.95	3,718.25	-1,989.93	-8,351.64	0.71	1.25	179.36
10	25,386.21	33	24	9	72.73	2,195.89	7,282.10	-3,035.03	-9,109.98	0.72	1.93	769.28
9	13,624.65	32	20	12	62.50	1,522.08	5,313.08	-1,401.40	-4,975.04	1.09	1.81	425.77
8	-1,323.46	33	18	15	54.55	1,432.07	4,329.72	-1,806.71	-5,670.55	0.79	0.95	-40.10
7	991.47	33	17	15	51.52	1,470.93	6,921.25	-1,600.96	-7,953.12	0.92	1.04	30.04
6	-2,042.37	33	18	15	54.55	1,234.42	3,786.09	-1,617.47	-3,998.19	0.76	0.92	-61.89
5	2,721.76	33	17	16	51.52	1,821.90	4,850.40	-1,765.66	-4,959.45	1.03	1.10	82.48
4	29,303.31	33	21	12	63.64	2,259.67	5,731.96	-1,512.48	-3,580.15	1.49	2.61	887.98
3	30,220.58	33	23	10	69.70	2,007.27	7,515.60	-1,594.66	-6,711.66	1.26	2.90	915.78
2	11,923.96	34	20	14	58.82	1,471.69	3,096.72	-1,250.70	-6,814.80	1.18	1.68	350.70
1	4,636.11	34	15	19	44.12	2,177.49	5,389.00	-1,475.07	-5,383.93	1.48	1.17	136.36

While December has been more reliable, March op-ex week has seen the most in total gains. As I did in that 3/14/16 Subscriber Letter, I also broke down March performance in more detail below.

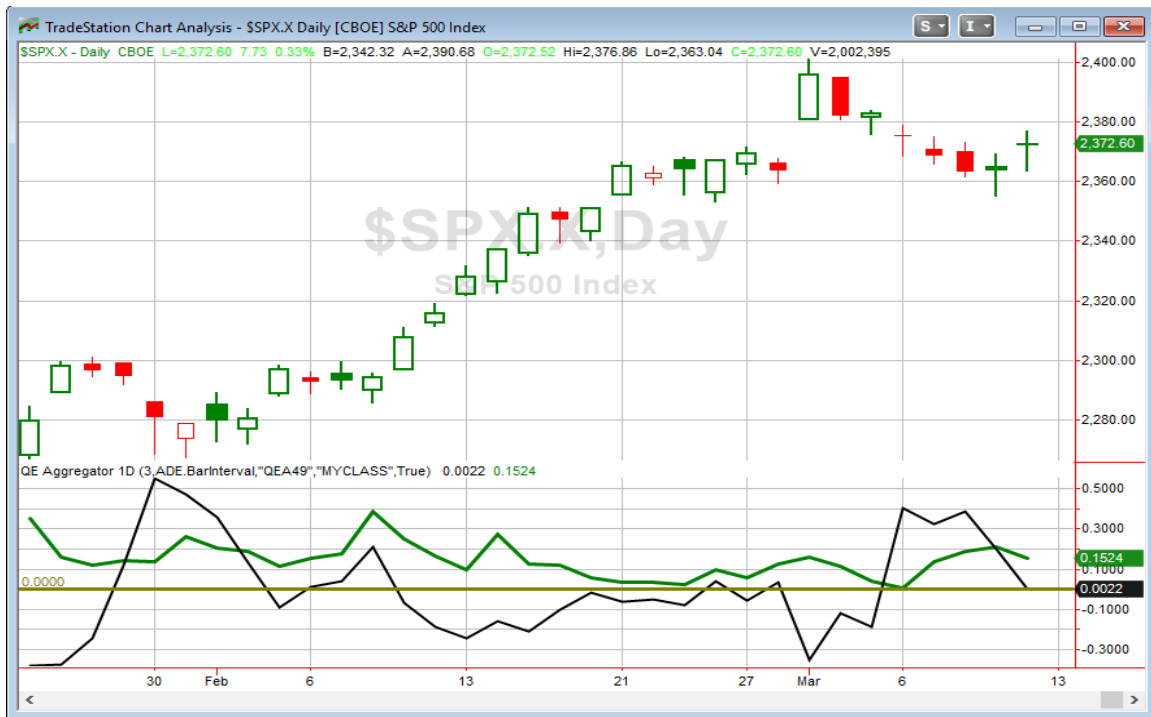
Buy SPX on Friday before March Opex Week. Sell X days later. \$100k/trade. 1984 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	30,447.94	32	22	10	68.75	2,108.84	7,515.60	-1,594.66	-6,711.66	1.32	2.91	951.50
4	30,563.52	32	23	9	71.88	1,856.04	5,108.40	-1,347.26	-4,848.66	1.38	3.52	955.11
3	14,222.15	32	20	12	62.50	1,448.93	4,989.60	-1,229.70	-5,403.51	1.18	1.96	444.44
2	12,817.96	32	22	10	68.75	1,156.94	3,981.60	-1,263.48	-2,894.94	0.92	2.01	400.56
1	4,079.15	32	22	10	68.75	661.39	3,542.40	-1,047.14	-4,302.72	0.63	1.39	127.47
<p>There have only been 4 years where SPX did not close above the entry price at some point during Opex Week. They were 1986, 1991, 2001, and 2011.</p>												

The upside edge seems to pretty much play out by Thursday. (Note that the 5 day stats differ slightly from the weekly above because of an occasional Easter influence.) Below is a visual representation of the Monday-Thursday returns.



The curve is impressive. Bottom line here is that seasonality this week could provide a bit of a wind at the markets' back.

I have updated the Aggregator chart below.



With tonight's research to consider, 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 also remained (just barely) 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 stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Monday. Of course, that could change if strong new bearish evidence emerges. The Differential Pivot will be *slightly inverted at 2370.96* on Monday. That is 0.1% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down about 0.1% in order to remain "oversold". Otherwise SPX will be considered "overbought" versus recent expectations as of Monday's close.

So more upside appears likely, but we are fast approaching a point where the SPX is going to be considered overbought versus expectations, which would increase risk and reduce potential reward. I generally consider inverted pivots as good times to take profits on existing positions. While we could get more profits here, Monday would be the last day. So I'll take an exit a little early if I can get a good fill on Monday. Of course I do not see a point in selling into a gap down and move lower, since that would likely keep the bullish Aggregator formation in place. But I will exit if I can get out at a good price.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/13 – 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”.*

After 6 up weeks in a row, SPX closed down a small amount this past week, with a 0.4% loss. The long term trend does still appear up. And we had some bullish intermediate-term evidence emerge in the 3/9 Letter. I have copied that study below.

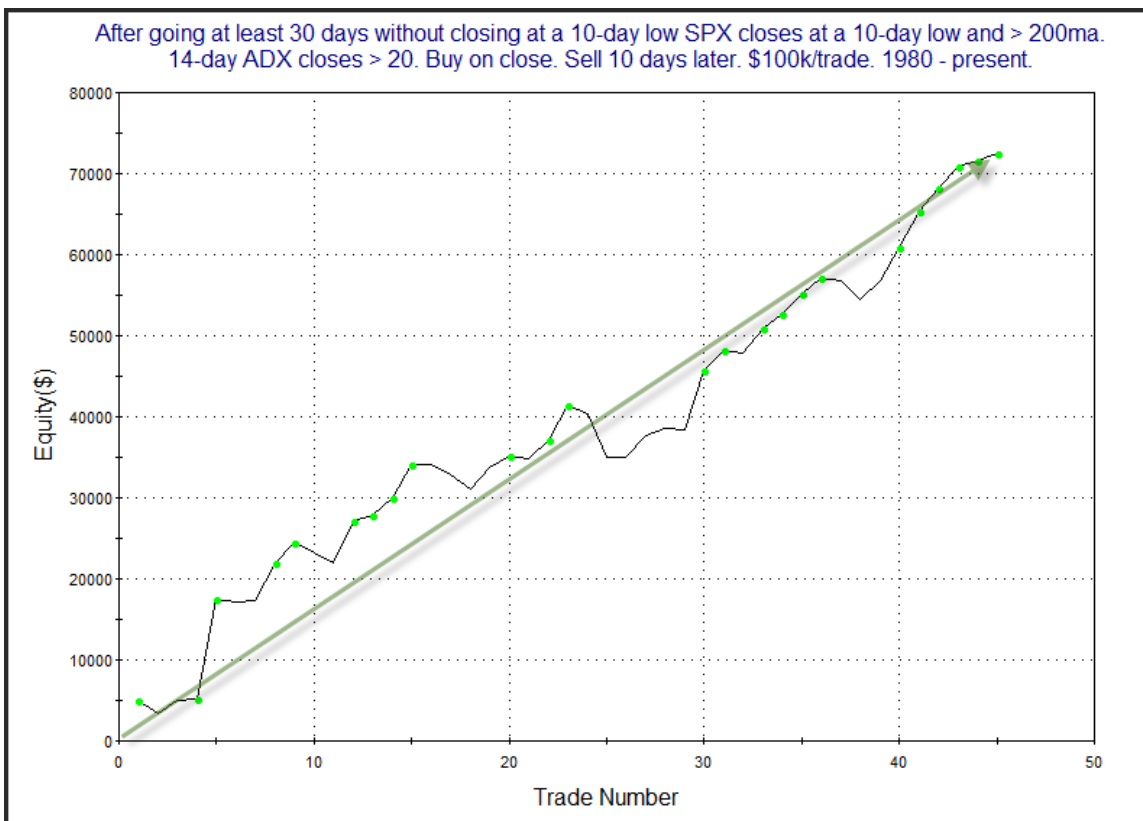
Notable about the low close on Wednesday is that it was the 1st 10-day low close since 1/19/17. Before today SPX had gone 32 trading days without posting a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after such a long time without one has provided a solid upside edge. In the 12/11/14 letter I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. In that letter I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. Updated results are below with that filter included.

After going at least 30 days without closing at a 10-day low SPX closes at a 10-day low and > 200ma.
 14-day ADX closes > 20. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	72,496.88	45	31	14	68.89	2,902.08	12,395.76	-1,247.69	-5,362.24	2.33	5.15	1,611.04
9	70,771.09	45	34	11	75.56	2,533.20	10,529.82	-1,396.16	-3,753.36	1.81	5.61	1,572.69
8	66,572.42	45	35	10	77.78	2,398.43	10,554.48	-1,737.27	-6,117.72	1.38	4.83	1,479.39
7	47,496.21	45	32	13	71.11	2,344.59	7,743.24	-2,117.75	-8,141.12	1.11	2.73	1,055.47
6	48,186.85	45	34	11	75.56	1,952.88	5,893.74	-1,655.54	-4,111.40	1.18	3.65	1,070.82
5	41,278.62	45	31	14	68.89	1,878.48	4,608.35	-1,211.02	-3,502.11	1.55	3.43	917.30
4	40,011.13	45	35	10	77.78	1,594.26	4,690.50	-1,578.80	-2,616.60	1.01	3.53	889.14
3	18,841.31	45	31	14	68.89	1,210.98	3,940.55	-1,335.64	-4,464.88	0.91	2.01	418.70
2	9,118.87	45	28	17	62.22	1,030.02	3,744.45	-1,160.10	-7,559.56	0.89	1.46	202.64
1	6,527.91	45	27	18	60.00	702.00	2,287.60	-690.34	-1,922.40	1.02	1.53	145.06

43 of 45 instances (96%) closed above the entry price at some point in the next week.

The numbers here are quite good, suggesting a short-term upside edge... Below is a 10-day profit curve.

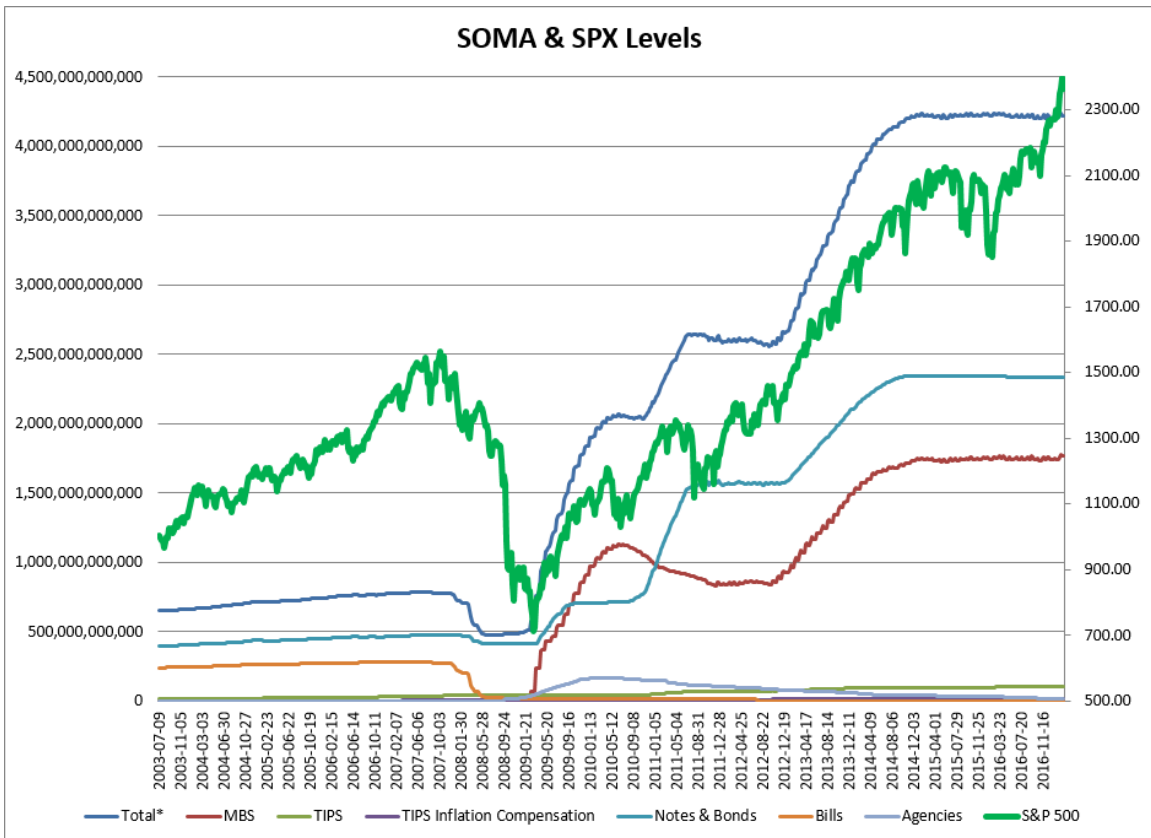


... I have added this study to both the short and intermediate-term active lists.

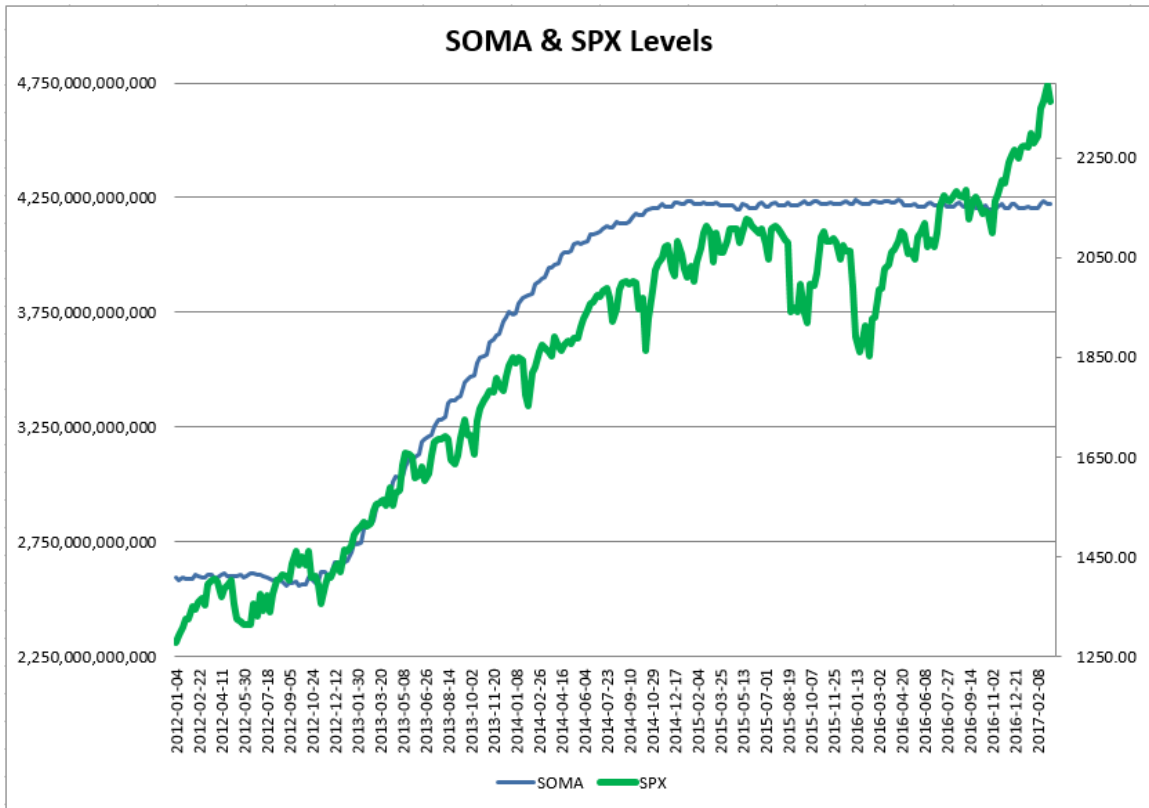
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 with a slight increase of less than 0.01%. This was in line with expectations based on the Fed’s SOMA schedule. The 1.38% decline for the SPX over this period was strong, but not unusual. 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 77 other weeks SPX has only risen 48% of the time and has gained a sum total of just 2.04%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week appears likely to see the SOMA increase a bit. And the following week it could also see an increase. So the bulls could see some help from Fed liquidity flows for the next 10 days 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-plus years and we have not seen any strong derivations. I expect liquidity analysis to remain a vital tool for us.

The weight of the evidence still seems to be supporting the bull case. The market is still in an uptrend, and 3 of the 4 Market Timing Course indicators are in “bull” mode. We also had a new bullish intermediate-term study trigger this week. Bears will note that Fed support is generally 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

TGT – 1/3 @ \$55.14 (bought @ limit)

TGT – 1/3 @ \$55.02 (bought @ limit)

Broad Market Large Cap CBI – 2(TGT-2)

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
SPY(1/4)	3/8/2017	\$237.00	\$237.69	0.29%		<i>sell @ \$237.69 limit</i>
TGT(1/3)	3/8/2017	\$55.14	\$55.36	0.40%		Catapult
TGT(1/3)	3/9/2017	\$55.00	\$55.36	0.65%		Catapult

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