

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 27, 2017

Volume 10 Issue 57

Market Overview



Signals Overview

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

Tonight's Research Points

- Consolidations like we have seen the last 3 days after making new 20-day lows have shown a mild upside edge.
- SOMA flows are likely to be negative over at least the next 10 trading days.

Short-term Outlook

The Bottom Line

More bullish evidence emerged. Short-term bearish studies are nowhere to be found. And the market is still oversold. This all suggests an upside edge.

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 27, 2017	20-low. 3 closes 'tween high and low	1-5 days	Bullish			
March 23, 2017	20-low yest. 20-low then up today	1-4 days	Bullish			
March 22, 2017	Down 4 into Wednesday	1-6 days	Bullish			
March 22, 2017	Down 4+ and today largest drop	1-5 days	Bullish			
March 22, 2017	Outside day low close > 200	1-8 days	Bullish			
March 21, 2017	Down 3 into Turnaround Tuesday	1-8 days	Bullish	2.15%	-1.30%	-2.40%
Active - Long Term						
March 23, 2017	20-low yest. 20-low then up today	1-10 days	Bullish			
March 9, 2017	1st 10-day low in 30+ days	1-10 days	Bullish	3.10%	-1.95%	-4.40%
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			
Dropped Tonight						
March 24, 2017	Up Issues > 55%. SPX down	1 day	Bullish			

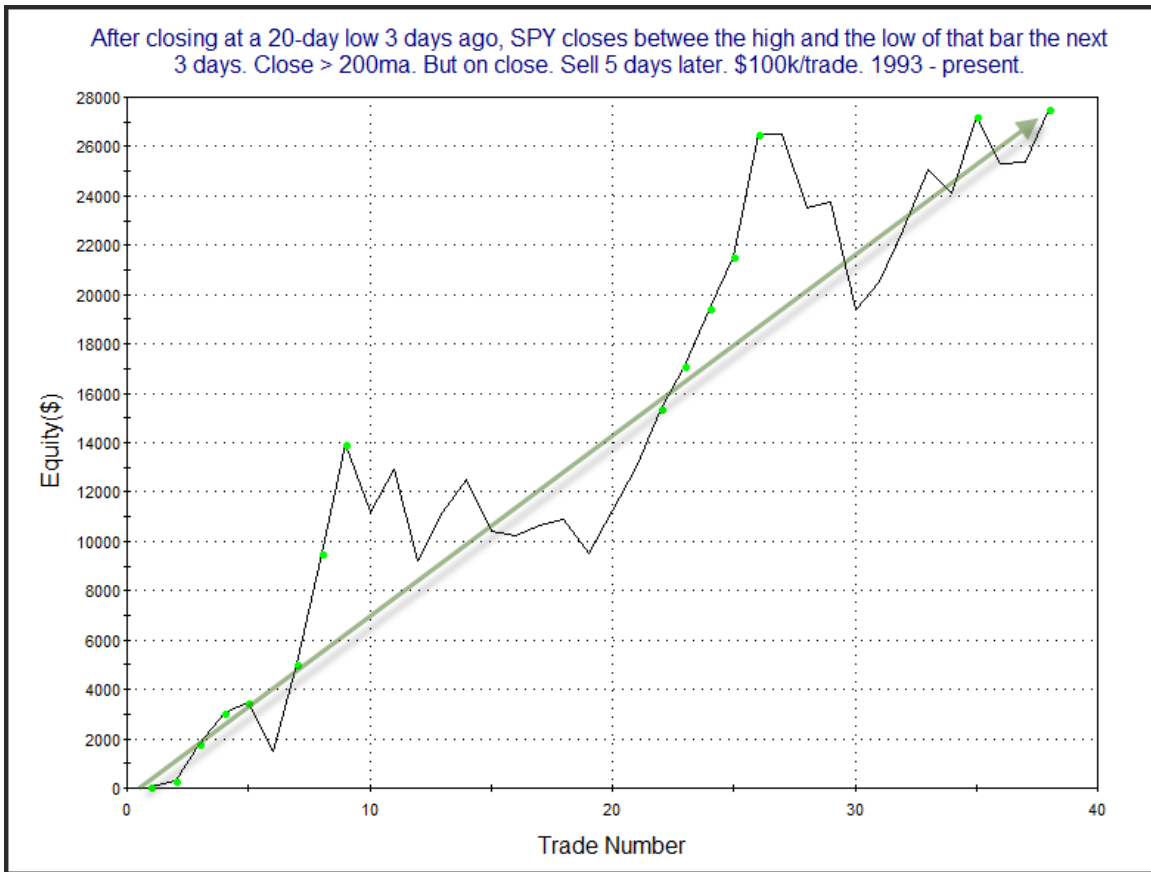
The Evidence

Friday was a back and forth day that finished mixed. The SPX finished down 0.1%, the NASDAQ also rose 0.2%, and the Russell 2000 gained 0.1%. Breadth was also mixed as the NYSE Up Issues % was 52% and the Up Volume % came in at 48%. NYSE volume declined from Thursday's level.

After Tuesday's sharp selloff the market has floundered around. Neither bulls nor bears have been able to gain traction. So we have seen a consolidation. It is often said that consolidations resolve in the direction of the trend. Many would say that means down, since we are around 20-day lows. Others could claim that the trend is up, since SPX is still well above its 200ma. I refer back to the study below, which appeared last in the 5/19/16 letter.

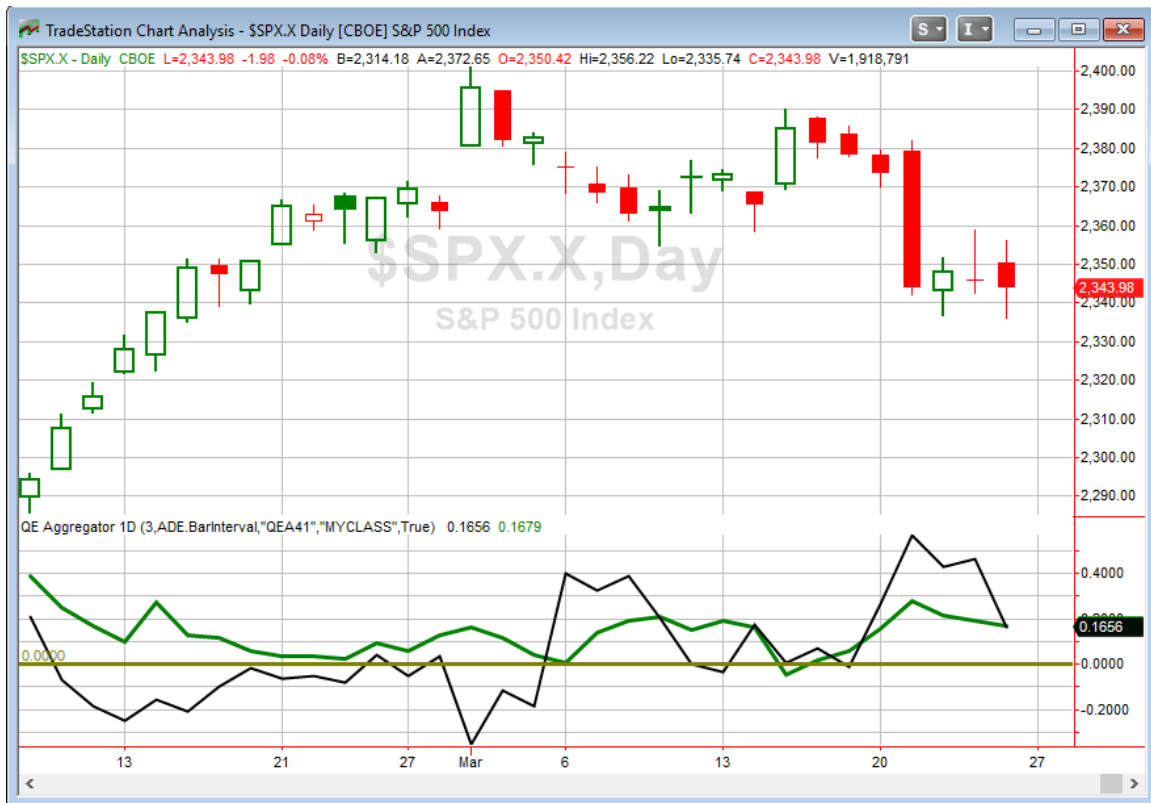
After closing at a 20-day low 3 days ago, SPY closes between the high and the low of that bar the next 3 days. Close > 200ma. But on close. Sel X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: 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	27,502.81	38	27	10	71.05	1,842.57	4,984.19	-2,224.65	-4,326.19	0.83	2.24	723.76
4	16,599.74	39	25	14	64.10	1,697.04	4,855.07	-1,844.74	-4,345.88	0.92	1.64	425.63
3	15,762.62	39	22	17	56.41	1,736.28	4,577.32	-1,319.73	-4,248.64	1.32	1.70	404.17
2	13,193.72	40	25	15	62.50	1,273.60	4,932.84	-1,243.09	-2,818.42	1.02	1.71	329.84
1	6,677.77	42	23	17	54.76	876.50	2,355.32	-793.04	-2,101.88	1.11	1.50	158.99

Closing 3x between the high and low of the bar that put us at a 20-day low means 1) the selloff day was probably pretty large, and 2) the market has been moving sideways since. Results here seem to favor the bull case. And even though the size of the gains is not great, the % Profitable appears pretty good. I also examined the profit curves. The 5-day can be found below.



The curve has certainly been choppy. But has continued to move from lower left to upper right and is again at new highs. I decided to include this study on the Active List tonight.

I have updated the Aggregator chart below.



With tonight's evidence to consider, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also well above 0. The positive Differential Line reading means SPX is squarely 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.

The current list of studies is set to leave expectations positive on Monday. It would take some incredibly bearish new evidence in order to overturn such expectations. The Differential Pivot will be 2363.73 on Monday. That is 0.8% above Friday's close. So SPX would need to close up at least 0.8% on Monday in order to move from oversold to overbought versus expectations.

The evidence continues to point higher and there is still room to the upside. I still believe there is an upside edge. I am long and looking to take advantage of a bounce.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/27 – 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 a tough one for the market. SPX fell 1.4% since the previous Friday. There was one study that emerged with possible intermediate-term implications. It appeared in the 3/23 letter. I have copied it below.

There were a number of studies that triggered in the Quantifinder tonight. Several of them had similar themes around bounces from 20-day lows. I have updated 2 of the most compelling ones. This first one was last seen in the 10/3/14 Letter. It looks at reversals off a 20-day low. All stats are updated.

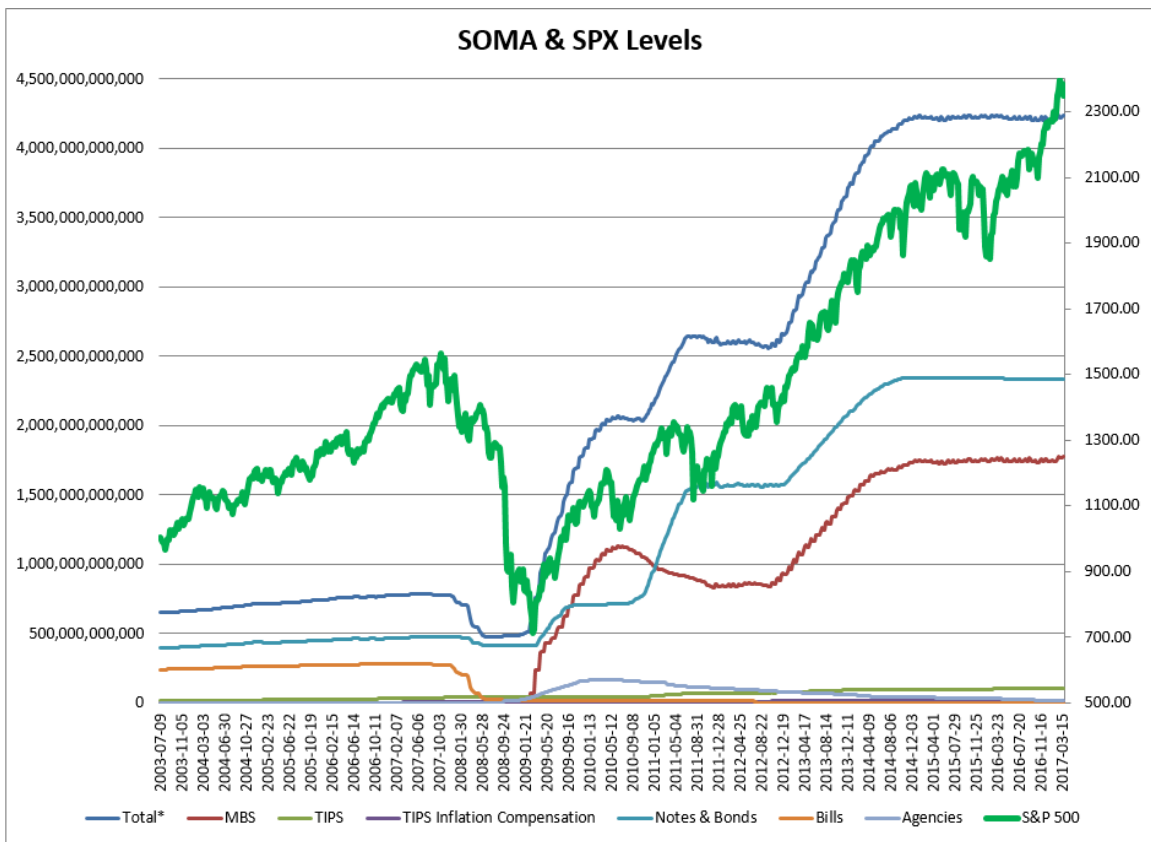
After closing at a 20-day low yesterday SPY makes a new 20-day intraday low today and then closes up on the day and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: 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	58,035.07	43	32	11	74.42	2,356.05	6,600.62	-1,578.04	-3,844.83	1.49	4.34	1,349.65
9	53,006.39	44	30	14	68.18	2,589.66	5,915.43	-1,763.10	-4,258.20	1.47	3.15	1,204.69
8	46,970.52	45	32	13	71.11	2,347.19	5,306.40	-2,164.58	-4,268.86	1.08	2.67	1,043.79
7	49,745.55	46	31	15	67.39	2,339.02	5,585.14	-1,517.61	-3,531.11	1.54	3.19	1,081.42
6	43,192.65	47	33	14	70.21	2,073.57	5,411.67	-1,802.52	-3,952.19	1.15	2.71	918.99
5	40,017.86	47	32	14	68.09	1,854.21	5,029.50	-1,379.78	-3,450.35	1.34	3.07	851.44
4	32,990.12	47	31	16	65.96	1,606.59	3,213.00	-1,050.89	-2,284.36	1.53	2.96	701.92
3	20,659.84	50	30	20	60.00	1,361.07	4,462.50	-1,008.62	-3,560.24	1.35	2.02	413.20
2	21,425.80	52	33	19	63.46	1,295.04	4,105.50	-1,121.60	-2,471.52	1.15	2.01	412.03
1	13,842.68	52	32	20	61.54	939.60	2,562.30	-811.22	-1,792.48	1.16	1.85	266.21

Results here seem to suggest a solid upside edge.

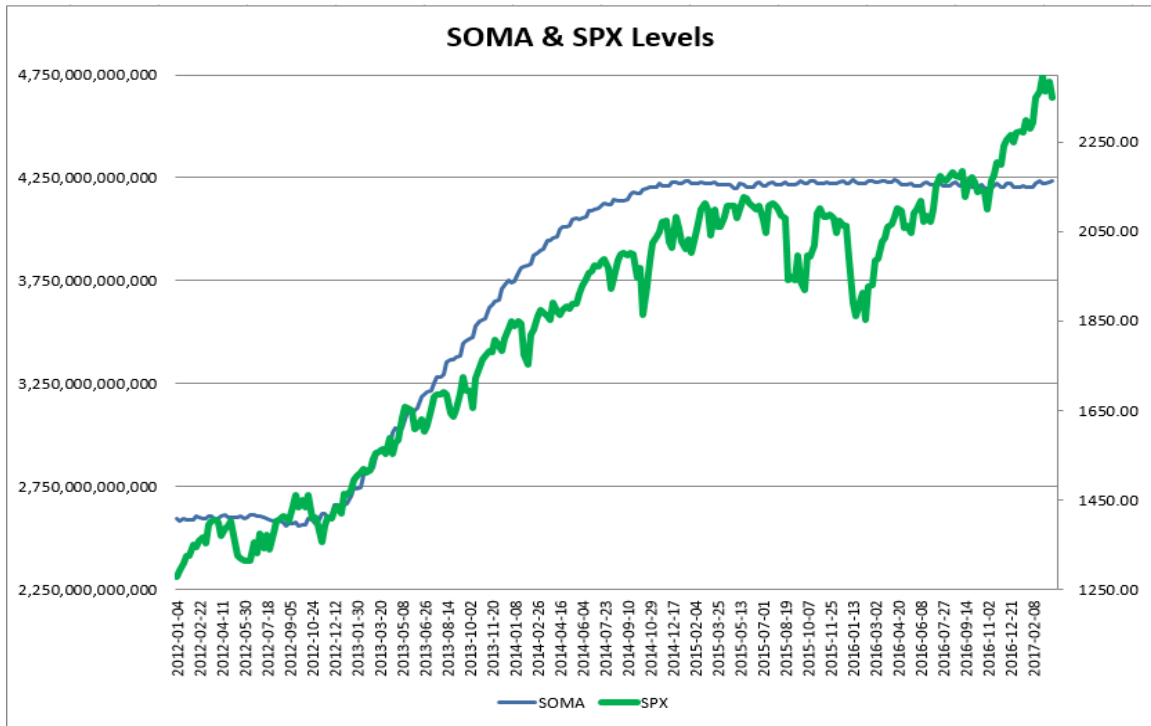
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) saw an increase of 0.15%. This was in line with expectations based on the Fed’s SOMA schedule. The 1.54% decline for the SPX over this period was unusually large. Since the beginning of 2015 SPX has risen 67% of the time for a sum total of 12.70% during the 39 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 shrink some. And the following week looks like one that will be largely unchanged. So bulls are not likely to get a liquidity flow tailwind over at least 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. A new study with intermediate-term potential bullish implications emerged. 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)

BRK.B – 1/3 @ \$172.82 (bought @ limit)

BRK.B – 1/3 @ \$172.07 (bought @ limit)

BRK.B – 1/3 @ \$172.07 (bought @ limit)

New

JNJ – 1/3 @ \$125.48 (buy @ limit)

ALL – 1/3 @ \$80.99 (buy @ limit)

Broad Market Large Cap CBI – 7(TGT-2, BRK.B-3, ALL, JNJ)

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.

JNJ – buy 1/3 Catapult position @ \$125.48 LIMIT. This is from the Catapult section above. It is the 1st of 3 possible lots for JNJ.

ALL – buy 1/3 Catapult position @ \$80.99 LIMIT. This is from the Catapult section above. It is the 1st of 3 possible lots for ALL.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
TGT(1/3)	3/8/2017	\$55.14	\$53.12	-3.66%		Catapult
TGT(1/3)	3/9/2017	\$55.00	\$53.12	-3.42%		Catapult
BRK.B(1/3)	3/20/2017	\$172.30	\$168.66	-2.11%		Catapult
BRK.B(1/3)	3/21/2017	\$172.07	\$168.66	-1.98%		Catapult
SPY(1/4)	3/21/2017	\$236.77	\$233.86	-1.23%		Aggregator
SPY(1/4)	3/22/2017	\$233.75	\$233.86	0.05%		Aggregator
BRK.B(1/3)	3/22/2017	\$169.10	\$168.66	-0.26%		Catapult

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