

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 3, 2017

Volume 10 Issue 62

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Early April has been seasonally strong.
- Friday's poor close to end the month suggests bullish odds for Monday.
- The Fed's SOMA is expected to remain about flat for the next 10 days.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I am not overly excited about the evidence nor the market position, but believe there is a bit of an upside edge over the next few days.

*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>						
April 3, 2017	Weak close on last day of month	1 day	Bullish			
April 3, 2017	Early April bullish	1-4 days	Bullish	1.80%	-1.15%	-2.75%
March 29, 2017	20-low to 4-day high	1-8 days	Bullish	2.25%	-1.60%	-3.30%
<b>Active - Long Term</b>						
March 29, 2017	20-low to 4-day high	1-20 days	Bullish	3.40%	-2.70%	-5.40%
March 28, 2017	Turn Tues 3 dn & 20-low	1-10 days	Bullish			
March 23, 2017	20-low yest. 20-low then up today	1-10 days	Bullish			
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 day for the market. The SPX lost 0.2%, the NASDAQ fell 0.04%, and the Russell 2000 climbed 0.3%. Breadth was also mixed as the NYSE Up Issues % was 57% and the Up Volume % came in at 44%. NYSE volume rose for the 2<sup>nd</sup> day in a row.

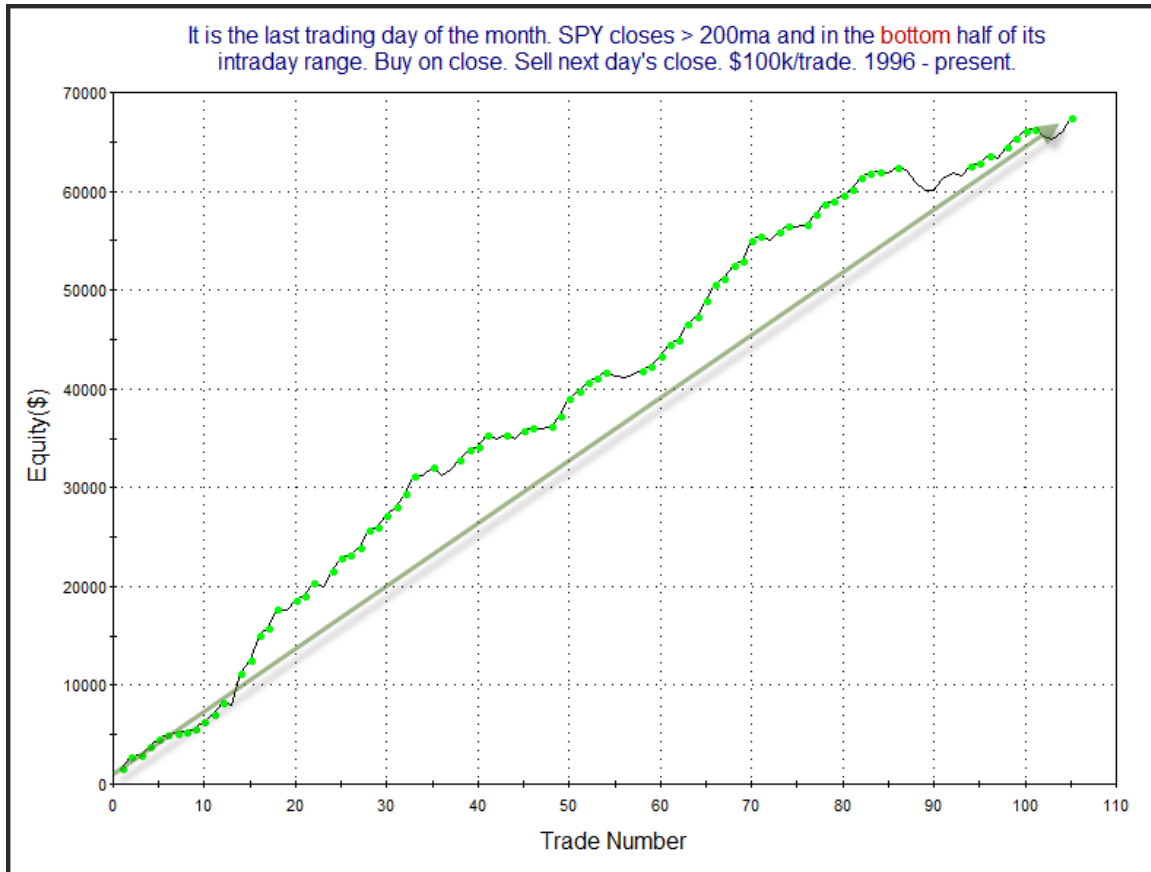
The most compelling studies that triggered on Friday all involved seasonality. In Thursday night's letter I showed some studies related to the 1<sup>st</sup> trading day of the month. The one that resembles the current setup is copied below.

*The first trading day of the month is renowned for its bullish performance. But the success of the 1<sup>st</sup> trade day of the month has been closely tied to the performance on the last day of the month leading up to it. This can be seen in the studies below, which I covered in detail in the 7/1/15 letter. The first study looks at times where the market closed in the bottom half of its range on the last day of the month.*

It is the last trading day of the month. SPY closes > 200ma and in the **bottom** half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary				Expand ▾
<b>All Trades</b>				
Total Net Profit	\$67,417.41	Profit Factor		9.16
Gross Profit	\$75,682.75	Gross Loss		(\$8,265.34)
Total Number of Trades	105	Percent Profitable		80.00%
Winning Trades	84	Losing Trades		21
Even Trades	0			
Avg. Trade Net Profit	\$642.07	Ratio Avg. Win:Avg. Loss		2.29
Avg. Winning Trade	\$900.99	Avg. Losing Trade		(\$393.59)
Largest Winning Trade	\$3,295.88	Largest Losing Trade		(\$1,353.69)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are over 9x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 105 instances. Below is a profit curve.



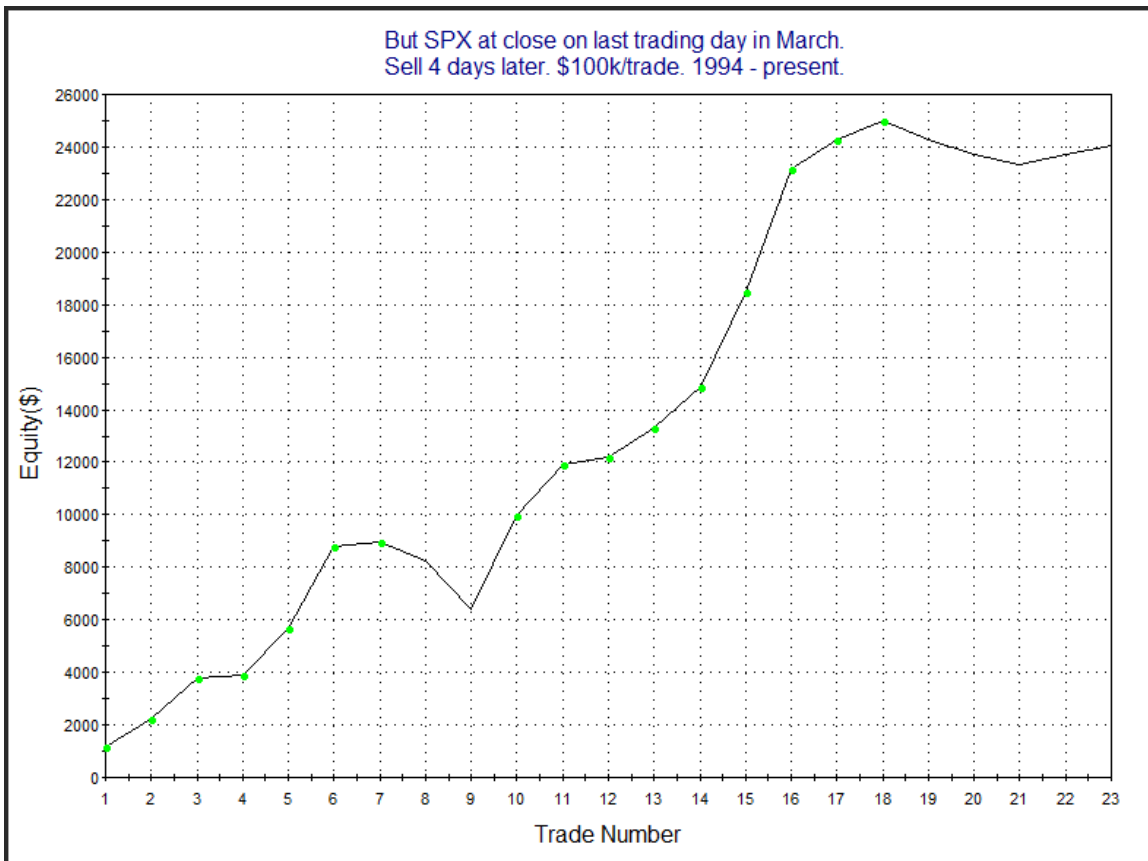
There was a little pullback a few instances back, but the curve appears to be back on track. The long and persistent upslope is impressive.

In the 4/1/16 letter I showed how early April has exhibited strong seasonality since the mid 90s. Below I have updated that study.

But SPX at close on last trading day in March.  
Sell X days later. \$100k/trade. 1994 - 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	14,387.85	23	16	7	69.57	1,538.53	4,435.97	-1,461.22	-2,745.12	1.05	2.41	625.56
4	24,052.78	23	18	5	78.26	1,574.42	4,701.25	-857.36	-1,831.35	1.84	6.61	1,045.77
3	18,520.75	23	17	6	73.91	1,681.34	5,578.75	-1,677.01	-4,909.74	1.00	2.84	805.25
2	19,051.41	23	17	6	73.91	1,541.98	4,563.75	-1,193.69	-4,638.84	1.29	3.66	828.32
1	9,833.22	23	17	6	73.91	833.17	3,559.50	-721.78	-1,532.16	1.15	3.27	427.53

Numbers here appear impressive. Let's take a look at the profit curve based on a 4-day holding period.



Sixteen of the 1st eighteen years were higher on day 4, but the 2012-2014 instances saw mild declines. I still believe we will see some favorable seasonality in early April. (The 2-day time period has been positive 10 of the last 11 years, with 2015 being the only loser and closing down less than 1 SPX point.) So early April seasonality is something to keep in mind.

I have updated the Aggregator chart below.



With tonight's new studies to consider the green Aggregator Line again 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 also moved 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 turned long at the close.

The current list of studies is set to leave expectations positive on Monday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2374.36 on Monday. That is 0.5% above Friday's close. So SPX will need to close at least 0.5% higher in order to move from oversold to overbought versus expectations on Monday.

I am not overly enthused with the evidence that is facing me here, and am somewhat conflicted on whether it warrants taking on new index exposure. The studies are bullish, and the SPX is oversold based on the Differential Line. But looking at the recent range, it

actually closed in the top 1/3 of the 10-day trading range. So it is not a great discount that I would be buying at here. I am not a big fan of buying mid-range and often prefer the market to at least be in the lower ½. That said, bullish evidence is persisting and there is some room to the upside before SPX would be considered “overbought”. So I will look to take on a small amount of exposure on Monday if I can get a favorable fill with a sizable gap down open or a close lower. Otherwise, I will stand pat and re-evaluate Monday night.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 4/3 – 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 market post a solid bounce-back. SPX finished up 0.9% since the previous Friday. We also some new evidence with potentially bullish intermediate-term implications emerge. Two studies that stood out appeared in the Monday and Tuesday night subscriber letters. I have copied them below.

From the 3/28 letter...

*I've shown many times in the past that Tuesdays have a well-earned reputation for being a day when the market will often halt a decline. The study below takes the Turnaround Tuesday tendency into consideration. This first one was from the 6/9/15 Letter. It combined 3 down days with a 20-day low and the Turnaround Tuesday. Results are updated.*

Today is Monday. SPX closes down for exactly 3rd day in a row and at a 20-day low. Close > 200ma. Buy 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
10	23,926.40	12	12	0	100.00	1,993.87	5,016.83	0.00	0.00	100.00	100.00	1,993.87
9	23,612.68	12	11	1	91.67	2,149.13	5,024.40	-27.75	-27.75	77.45	851.91	1,967.72
8	16,847.09	12	10	2	83.33	1,954.41	5,300.00	-1,348.52	-2,241.75	1.45	7.25	1,403.92
7	11,842.57	12	9	3	75.00	1,779.29	5,345.05	-1,390.36	-1,959.00	1.28	3.84	986.88
6	8,939.20	12	9	3	75.00	1,645.74	4,399.00	-1,957.50	-3,496.50	0.84	2.52	744.93
5	12,996.20	13	9	4	69.23	2,078.31	4,608.35	-1,427.14	-2,268.75	1.46	3.28	999.71
4	13,871.77	13	11	2	84.62	1,483.71	4,690.50	-1,224.54	-2,082.00	1.21	6.66	1,067.06
3	11,801.58	13	11	2	84.62	1,345.03	3,940.55	-1,496.87	-1,918.24	0.90	4.94	907.81
2	8,398.60	13	9	4	69.23	1,225.92	3,744.45	-658.68	-1,704.00	1.86	4.19	646.05
1	3,114.40	13	8	5	61.54	747.62	1,532.88	-573.31	-1,692.52	1.30	2.09	239.57

*There were just a small number of instances here. Still, 2 weeks out they've been a perfect 12 for 12.*

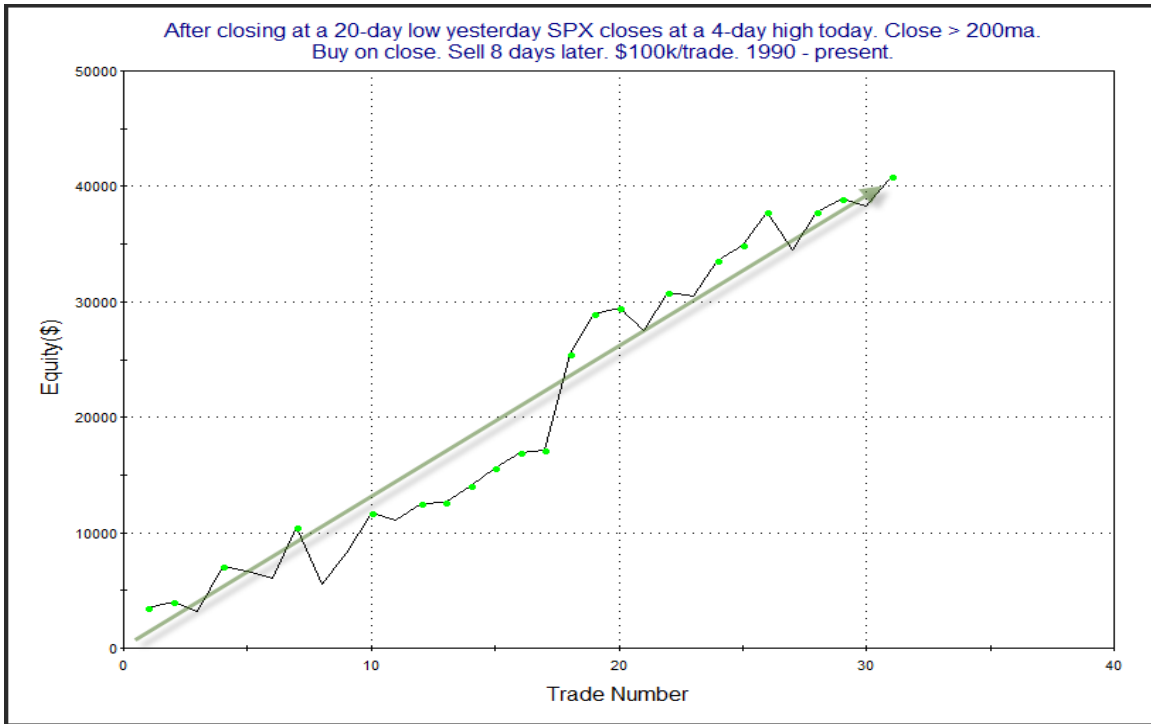
From the 3/29 letter...

*Tuesday was a strong enough move that we saw SPX go from closing at a 20-day low on Monday to closing at a 6-day high on Tuesday. In the 10/19/16 letter I looked at other times in which the market put in a strong thrust off a 20-day low. There I required a close of at least a 4-day high. I have updated the results below.*

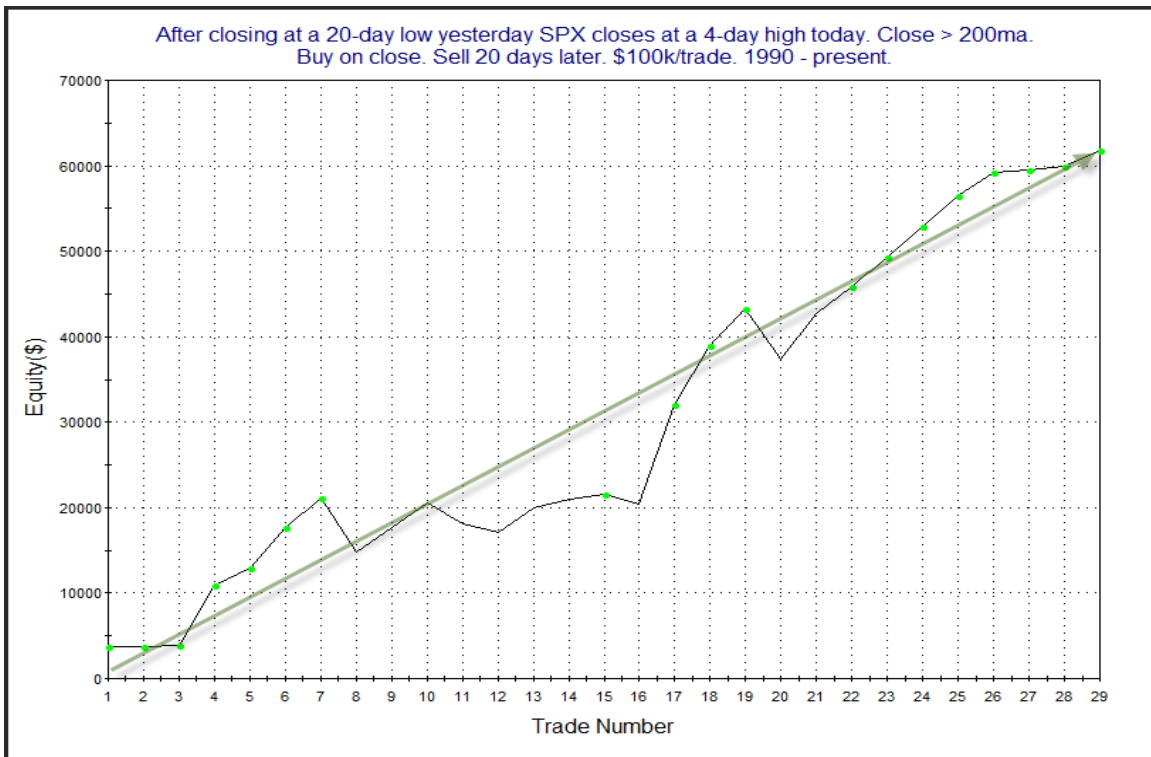
After closing at a 20-day low yesterday SPX closes at a 4-day high today. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

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
20	61,784.78	29	24	5	82.76	3,277.04	11,665.50	-3,372.85	-6,379.08	0.97	4.66	2,130.51
19	60,087.46	29	22	7	75.86	3,543.02	12,037.30	-2,551.29	-6,347.80	1.39	4.36	2,071.98
18	55,060.62	30	24	6	80.00	2,907.94	10,563.30	-2,455.00	-4,148.97	1.18	4.74	1,835.35
17	55,308.79	30	24	6	80.00	2,963.51	11,183.70	-2,635.90	-4,247.96	1.12	4.50	1,843.63
16	52,716.24	30	23	7	76.67	2,922.12	11,506.00	-2,070.35	-4,320.78	1.41	4.64	1,757.21
15	49,209.61	30	21	9	70.00	3,027.88	11,173.80	-1,597.32	-4,723.96	1.90	4.42	1,640.32
14	50,500.11	31	24	7	77.42	2,805.13	9,507.30	-2,403.30	-7,897.52	1.17	4.00	1,629.04
13	41,419.86	31	23	8	74.19	2,597.37	9,427.00	-2,289.95	-7,363.04	1.13	3.26	1,336.12
12	40,285.07	31	21	10	67.74	2,700.31	8,151.00	-1,642.14	-5,686.84	1.64	3.45	1,299.52
11	46,552.48	31	24	7	77.42	2,488.68	8,642.70	-1,882.25	-5,722.20	1.32	4.53	1,501.69
10	43,017.28	31	23	8	74.19	2,571.26	8,924.30	-2,015.22	-8,745.48	1.28	3.67	1,387.65
9	42,169.38	31	22	9	70.97	2,452.15	8,603.10	-1,308.67	-6,371.60	1.87	4.58	1,360.30
8	40,884.00	31	22	9	70.97	2,467.30	8,276.40	-1,488.52	-4,917.08	1.66	4.05	1,318.84
7	29,962.98	31	21	10	67.74	2,253.98	5,832.20	-1,737.06	-4,106.50	1.30	2.72	966.55
6	25,449.26	31	19	12	61.29	2,199.40	5,888.30	-1,361.62	-5,306.50	1.62	2.56	820.94
5	20,322.16	31	19	12	61.29	1,899.49	5,508.80	-1,314.02	-5,320.00	1.45	2.29	655.55
4	21,801.35	32	22	10	68.75	1,693.99	4,326.30	-1,546.65	-4,559.50	1.10	2.41	681.29
3	17,569.69	32	22	10	68.75	1,504.35	4,365.90	-1,552.60	-4,707.50	0.97	2.13	549.05
2	14,434.83	33	24	9	72.73	1,117.52	3,479.30	-1,376.19	-3,138.00	0.81	2.17	437.42
1	948.47	33	16	17	48.48	742.39	2,536.10	-642.93	-2,034.00	1.15	1.09	28.74

Day 1 is a bit iffy, but after that there appears to be a strong and consistent edge over the next 4 weeks. This suggests a decent chance that Monday's rally was the beginning of a continued move higher. I produced profit curves for the 8-day and 20-day holding periods highlighted above. First, the 8 day...



*The strong, steady upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 20-day curve.*

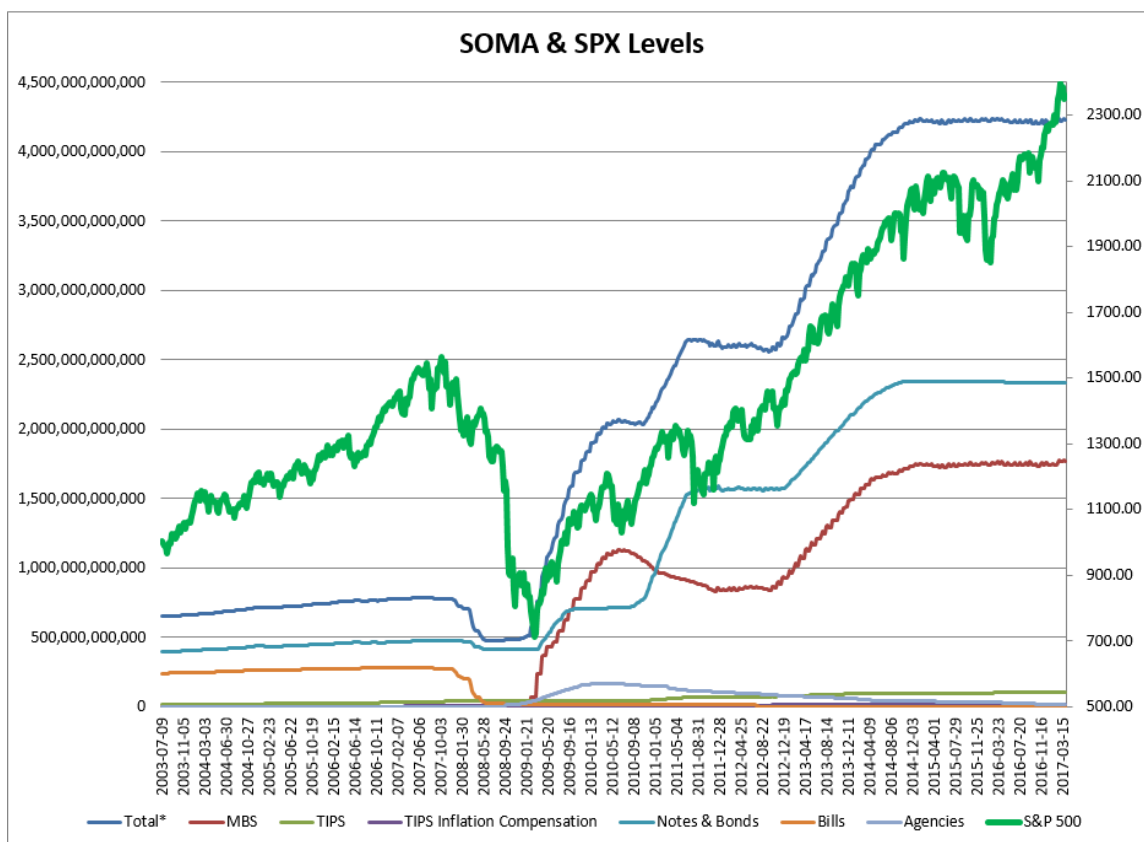


*This one is a little choppier, but it sure has been strong lately, with 11 of the last 12 instances all closing higher.*

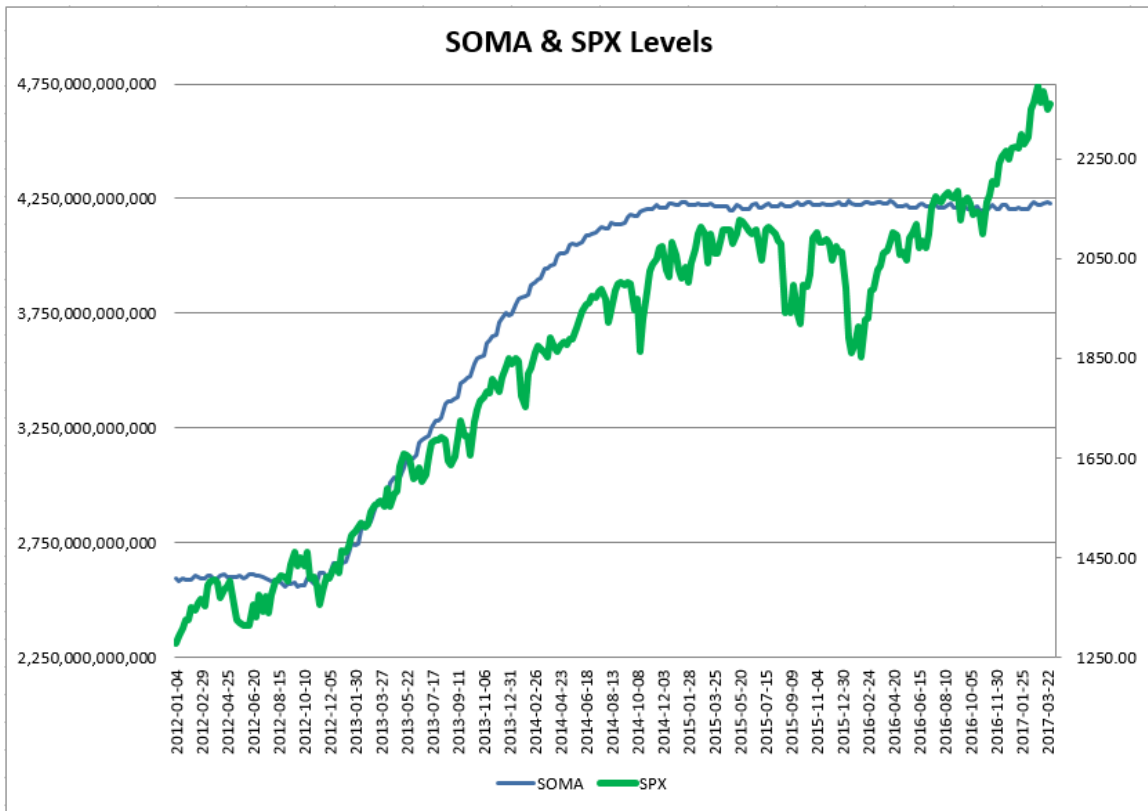
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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).



The Fed's SOMA this past week (Wednesday to Wednesday) declined 0.20%. This was in line with expectations based on the Fed's SOMA schedule. The 0.54% rise 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 78 other weeks SPX has only risen 49% of the time and has gained a sum total of just 2.58%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week and the next one appears likely to see the SOMA remain largely unchanged. So bulls are still 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. The Turnaround Tuesday and the strong move off of 20-day lows studies suggest we should see further upside in the next couple of weeks. Bears will note that Fed support is generally lacking, especially over the next 10 days, 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***

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

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

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

JNJ – 1/3 @ \$125.48 (buy @ limit)

#### ***Broad Market Large Cap CBI – 4(BRK.B-3, 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.*

**SPY – buy ¼ index position at \$235.25 LIMIT ON OPEN. If not filled, cancel the order and look to buy @ \$235.50 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to take on a small amount of index exposure if I can get a discount entry.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BRK.B(1/3)	3/20/2017	\$172.30	\$166.68	-3.26%		Catapult
BRK.B(1/3)	3/21/2017	\$172.07	\$166.68	-3.13%		Catapult
BRK.B(1/3)	3/23/2017	\$169.10	\$166.68	-1.43%		Catapult
JNJ(1/3)	3/27/2017	\$125.16	\$124.55	-0.49%		Catapult

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2017 Hanna Capital Management, LLC.