

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 10, 2017

Volume 10 Issue 67

Market Overview



Signals Overview

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

Tonight's Research Points

- Intermediate-term lows in HV without highs in price are often followed by a price decline.
- The SOMA has been flat, but we could see some temporary Fed liquidity arrive after Wednesday

Short-term Outlook

The Bottom Line

Evidence has turned a bit bearish. That leaves me overall neutral and looking to exit my current long position.

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						
April 10, 2017	20-low HV 3x. No SPX 20-high	1-5 days	Bearish	-2.20%	1.20%	2.10%
April 6, 2017	Weak close. 5-day low.	1-5 days	Bullish	1.70%	-1.25%	-2.45%
Active - Long Term						
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			
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 23, 2017	20-low yest. 20-low then up today	1-10 days	Bullish			
March 29, 2017	20-low to 4-day high	1-8 days	Bullish	2.25%	-1.60%	-3.30%

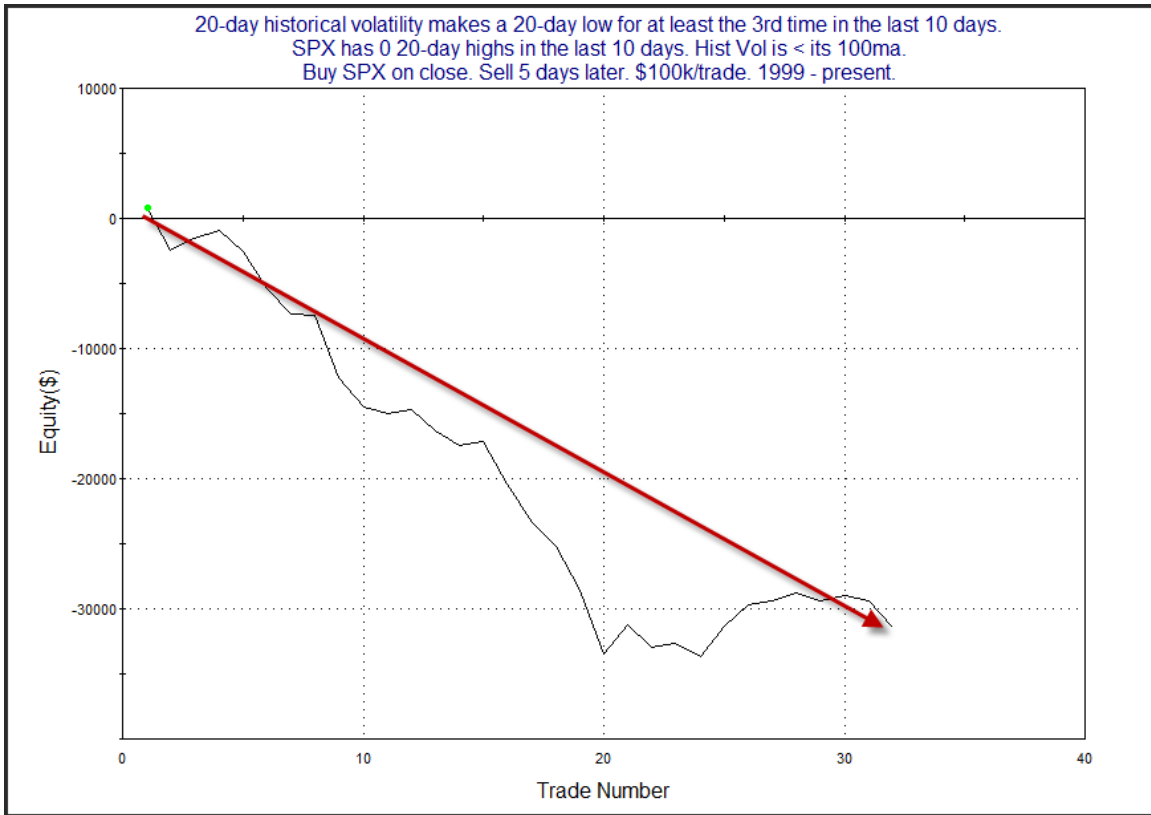
The Evidence

Friday saw the market largely unchanged. The SPX finished down 0.08%, the NASDAQ fell 0.02%, and the Russell 2000 rose 0.01%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 37%. NYSE volume declined some from Thursday's level.

Despite choppy action lately, SPX posted a 20-day low in historical volatility (HV) on Friday. HV often makes lows when the market is making new highs and participants are getting complacent. It is unusual to have historical volatility so low without SPX highs. The study below was last seen in the 8/10/15 letter and it looks at repeated instances of 20-day lows in HV without price highs. It triggered on Friday and I have updated the results.

20-day historical volatility makes a 20-day low for at least the 3rd time in the last 10 days. SPX has 0 20-day highs in the last 10 days. Hist Vol is < its 100ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-32,784.60	27	13	14	48.15	1,609.58	4,090.31	-3,836.37	-9,248.46	0.42	0.39	-1,214.24
9	-29,608.21	27	12	15	44.44	1,509.57	3,967.48	-3,181.54	-5,844.30	0.47	0.38	-1,096.60
8	-42,661.06	29	11	18	37.93	1,257.62	4,100.25	-3,138.61	-7,573.44	0.40	0.24	-1,471.07
7	-29,384.69	30	13	17	43.33	1,153.92	4,425.43	-2,610.92	-5,959.52	0.44	0.34	-979.49
6	-22,172.39	31	14	17	45.16	1,127.70	4,015.05	-2,232.95	-5,678.64	0.51	0.42	-715.24
5	-31,453.49	32	12	20	37.50	927.23	2,351.52	-2,129.02	-4,943.40	0.44	0.26	-982.92
4	-19,118.66	35	14	21	40.00	1,473.39	3,291.12	-1,892.67	-5,769.55	0.78	0.52	-546.25
3	-20,466.46	37	15	22	40.54	1,380.76	2,634.92	-1,871.72	-4,463.68	0.74	0.50	-553.15
2	-15,562.24	46	21	25	45.65	925.69	2,957.13	-1,400.07	-3,551.76	0.66	0.56	-338.31
1	-5,954.10	65	28	37	43.08	953.72	2,861.10	-882.66	-3,006.10	1.08	0.82	-91.60

The stats all suggest a downside edge. Below is a profit curve using a 5-day exit strategy.



Recent instances have seen the curve flatten out a bit. I'll be keeping a close eye to see if the downside edge continues to flail or whether it reasserts itself. For tonight I have included it on the Short-Term Active List.

I have updated the Aggregator chart below.



With tonight's new study included the green Aggregator Line dipped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are now negative but SPX is still oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal turned flat at the close.

The current list of studies is set to leave expectations negative on Monday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2364.19 on Monday. That is 0.4% above Friday's close. Therefore, SPX will need to close at least 0.4% higher in order to move from oversold to overbought versus expectations on Monday.

When evidence changes like it has, that forces me to change my stance. I am no longer bullish, and that means that the bullish edge I was counting on for my long position no longer exists. And without a bullish edge, I should not be long. Therefore, I will look to exit my open SPY position on Monday and wait for the next favorable opportunity to reveal itself.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/10 – bullish

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

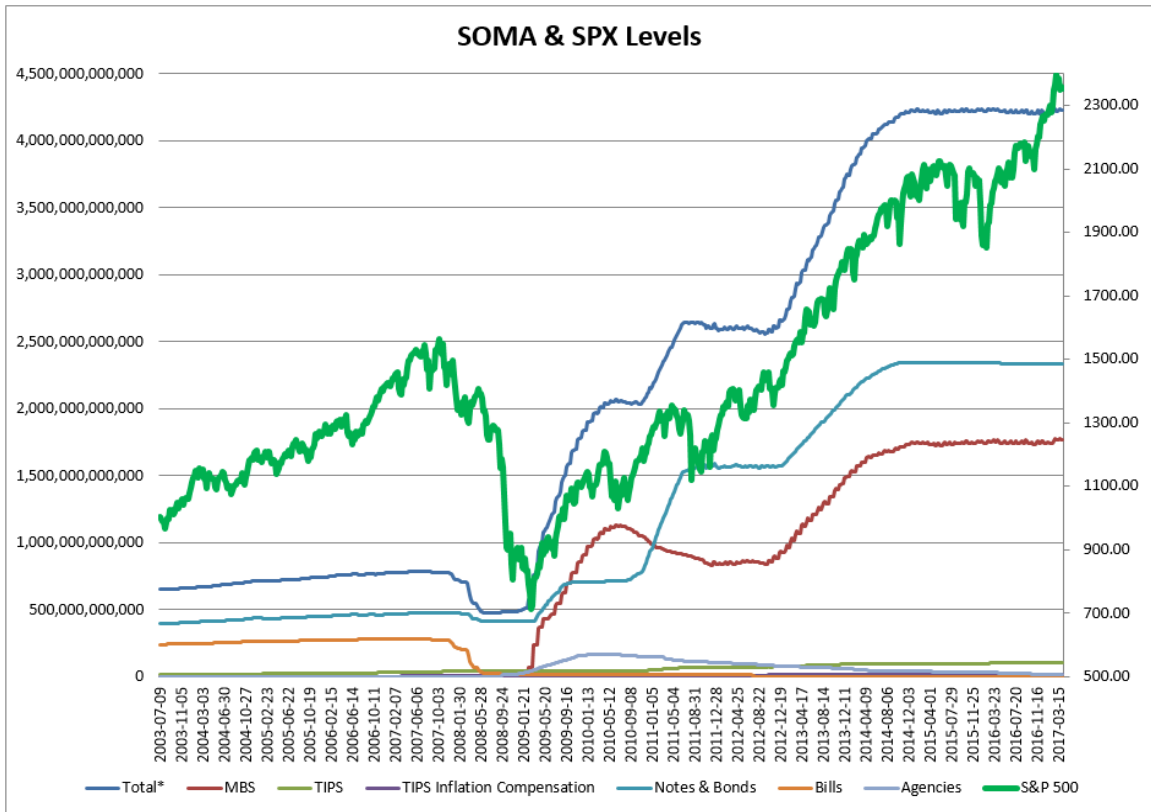
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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”.*

SPX reversed direction for the 5th week in a row this past week and finished with a mild 0.3% decline since the previous Friday. The choppy action did nothing to inspire new intermediate-term studies.

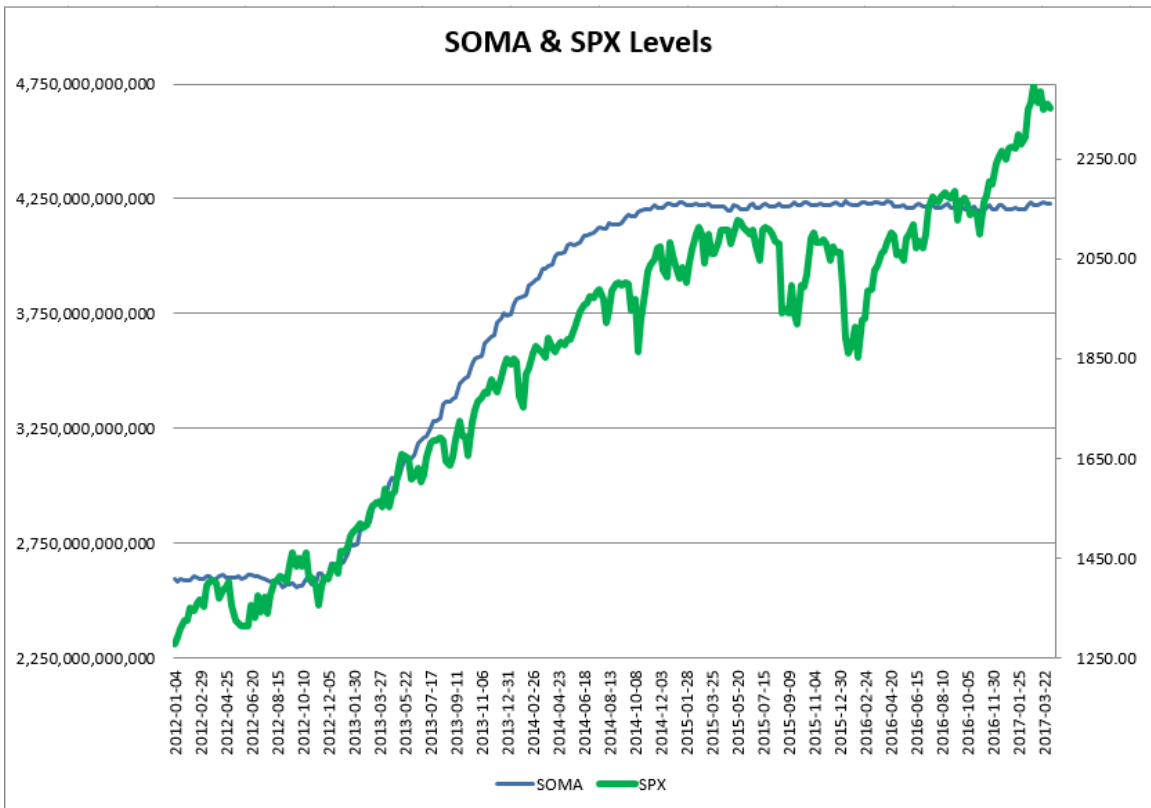
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) came in nearly unchanged with an increase of less than 0.01%. This was in line with expectations based on the Fed's SOMA schedule. The 0.35% decline for the SPX over this period was not unusual. 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 (like this one) SPX has only risen 48% of the time and has gained a sum total of just 2.23%. Based on the reinvestment schedule the Fed has stuck to over the last two years, this current week again appears likely to see the SOMA remain largely unchanged. But after Wednesday, the next week is likely to see an increase in the SOMA. So bulls may get some temporary liquidity help 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.

Not much has changed from an intermediate-term perspective. 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. There are a couple of intermediate-term studies from last week that are still active. 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

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	4/3/2017	\$235.33	\$235.20	-0.06%		sell on open

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