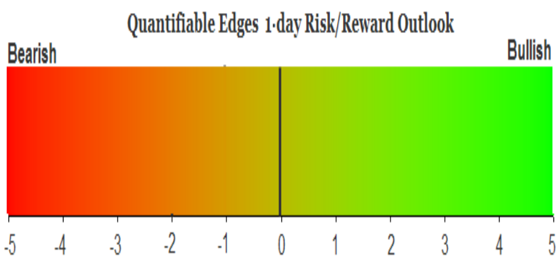
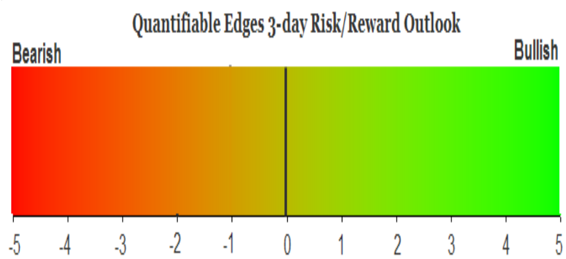
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 24, 2017 Volume 10 Issue 76

Market Overview





Signals Overview

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

Tonight's Research Points

- Recent chop has left us without much in the way of compelling short-term studies.
- Fed liquidity is unlikely to help over the next week and a half.
- The "Worst 6 Months" is approaching, and we examine what that indicates.

Short-term Outlook

The Bottom Line

The market is choppy and evidence is light. I am neutral.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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 20, 2017	HV 3x 20-day lows. No SPX 20-high	1-5 days	Bearish	-2.20%	1.15%	2.05%
Active - Long Term						
April 19, 2017	20-low. 1-day bounce, then inside down	1-10 days	Bullish	4.80%	-2.50%	-6.30%
March 29, 2017	20-low to 4-day high	1-20 days	Bullish	3.40%	-2.70%	-5.40%
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			

The Evidence

Friday was a pullback day. The SPX fell 0.3%, the NASDAQ dipped 0.1%, and the Russell 2000 lost 0.3%. Breadth was negative as the NYSE Up Issues % was 45% and the Up Volume % came in at 33%. NYSE volume came in high as it often does on opex Friday.

The narrow range and continued chop on Friday did not help to generate any compelling new evidence. And new evidence has been light the last few days. Over the last 2 nights, we have seen the number of bullish studies on the Short-Term Active List drop from 5 down to 0. There is still one bearish study outstanding, and that is greatly helping to generate negative expectations.

I have updated the Aggregator chart below.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

Without any new studies making the Active List, 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 negative but SPX is 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 changed from long to flat at the close.

Based on the current list of studies, expectations are set to remain negative on Monday. Of course, this could change if new bullish evidence emerges. The Differential Pivot will be *slightly inverted at* 2347.90 on Monday. That is less than 1 point *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down about 1 point in order to remain oversold versus recent expectations. Anything other than that will see SPX turn overbought as of Monday's close.

So the Aggregator is basically neutral. I am too. Evidence is light and the market is neither strongly overbought nor oversold. I don't see an edge that is compelling. So I will remain sidelined and patient until the next favorable reward/risk setup emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/17 – 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".*

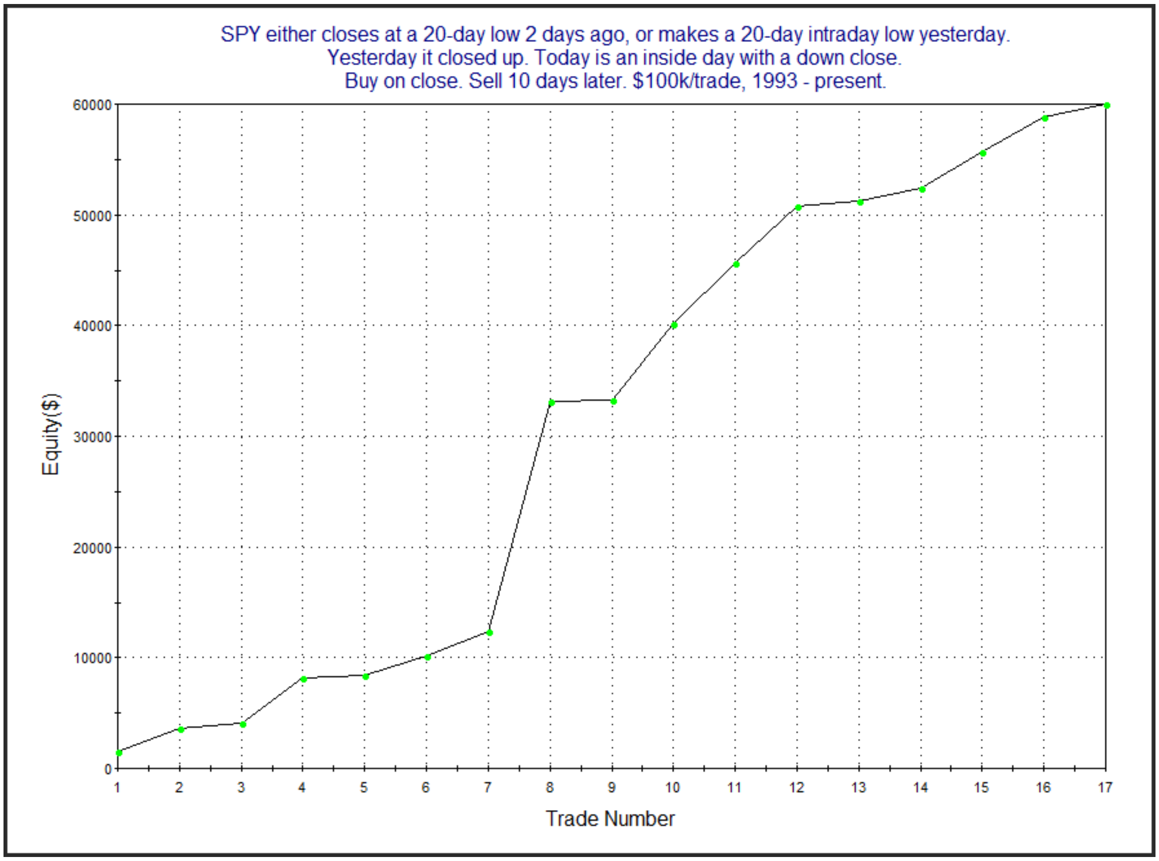
SPX put in a decent week this past week with a gain of 0.8%. And we saw intermediate-term bullish evidence build in the 4/19 letter. Below I have copied the study from that letter.

After closing at a 20-day low on Thursday, the market put in a bounce attempt on Monday. Tuesday's decline left that attempt looking like a possible failure. But it also triggered a study that suggested an upside edge moving forward. Last seen in the 9/14/16 Letter, I have updated the results below.

SPY either closes at a 20-day low 2 days ago, or makes a 20-day intraday low yesterday.
Yesterday it closed up. Today is an inside day with a down close.
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	59,957.02	17	17	0	100.00	3,526.88	20,713.48	0.00	0.00	100.00	100.00	3,526.88
9	43,589.78	17	14	3	82.35	3,383.56	12,624.80	-1,260.02	-2,882.00	2.69	12.53	2,564.10
8	32,781.55	17	14	3	82.35	2,962.32	15,898.44	-2,896.97	-5,475.84	1.02	4.77	1,928.33
7	26,410.34	17	12	5	70.59	3,497.78	17,351.76	-3,112.60	-7,242.24	1.12	2.70	1,553.55
6	20,885.43	17	12	5	70.59	3,057.77	14,782.76	-3,161.55	-6,447.36	0.97	2.32	1,228.55
5	9,166.19	17	11	6	64.71	3,244.22	11,377.00	-4,420.03	-11,713.44	0.73	1.35	539.19
4	22,807.99	17	12	5	70.59	3,490.94	11,714.64	-3,816.66	-9,229.44	0.91	2.20	1,341.65
3	21,163.10	17	13	4	76.47	2,770.02	10,848.52	-3,711.79	-6,458.40	0.75	2.43	1,244.89
2	15,295.84	17	13	4	76.47	1,983.66	6,650.04	-2,622.92	-3,047.04	0.76	2.46	899.76
1	7,740.88	17	10	6	58.82	1,464.82	5,960.08	-1,151.22	-1,883.84	1.27	2.12	455.35

The stats certainly appear bullish and the edge seems to occur both right off the bat and after a couple of weeks...Of course, all 17 instances were positive 10-days out. Here is a look at that profit curve.

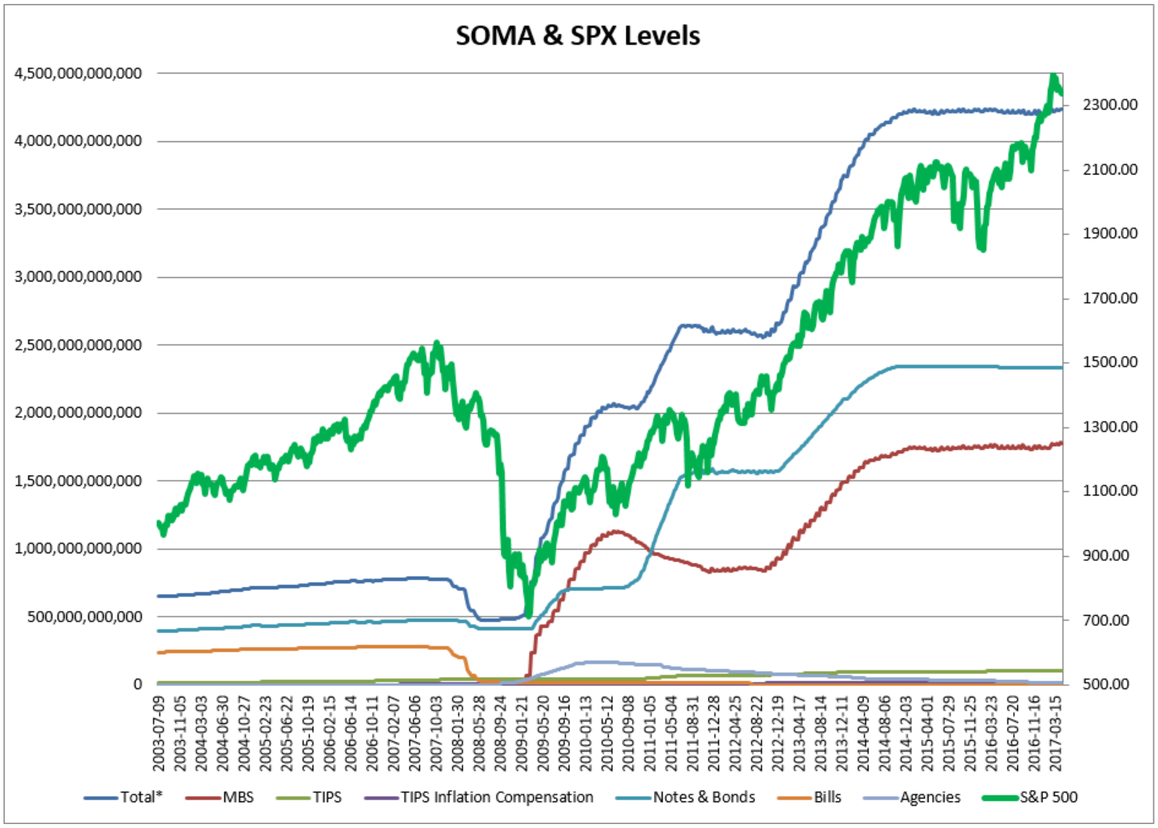


It certainly appears Tuesday's lack of follow through is not something to worry about.

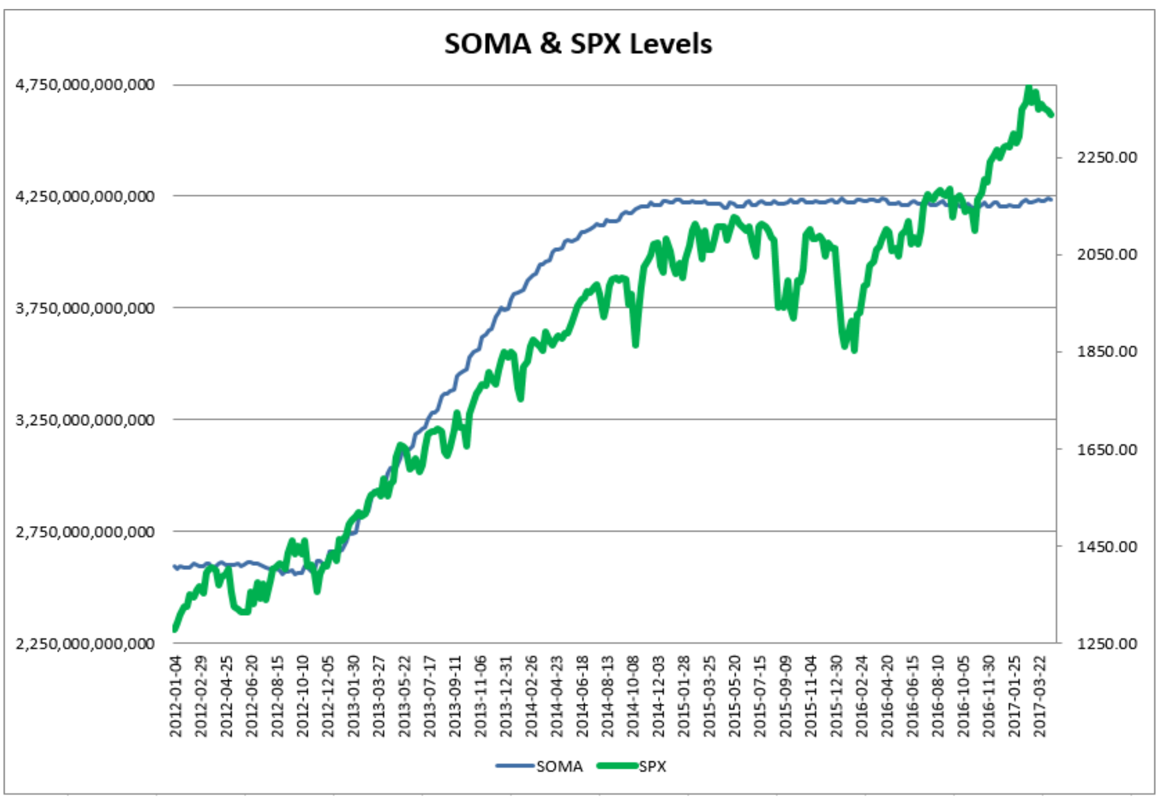
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) saw a decline of about 0.13%. The 0.29% decline for the SPX over this same period was not unusual for a week that the SOMA decreased. Since the beginning of 2015 SPX has risen 65% of the time for a sum total of 12.36% during the 40 weeks in which SOMA expanded at least 0.01%. During the 79 other weeks (like this one) SPX has only risen 47.5% of the time and has gained a sum total of just 1.94%. Based on the reinvestment schedule the Fed has stuck to over the last two+ years, I expect this current week to show a further decline in the SOMA, and then the following week should be largely unchanged. This means the bulls will be lacking Fed liquidity support for 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.

We are now entering the last week of the "Best 6 Months" period. And being that we are in the 1st year with a new president, the Presidential Cycle is currently unfavorable. I covered these two seasonal influences in detail in the Market Timing Course. When both have been negative, as they are about to become, that has been the worst seasonal setup for the market. In fact, since 1961, when the course looks back to, this combo is the only one that has failed to generate gains. Today I will show general stats regarding this seasonal setup. Next week I will show a more detailed view and take the Market Timing Course price action indicators into account.

Presidential Cycle is unfavorable during May-October period.
Buy SPX last day in April. Sell last day in October. $100k/trade. 1961 - present.

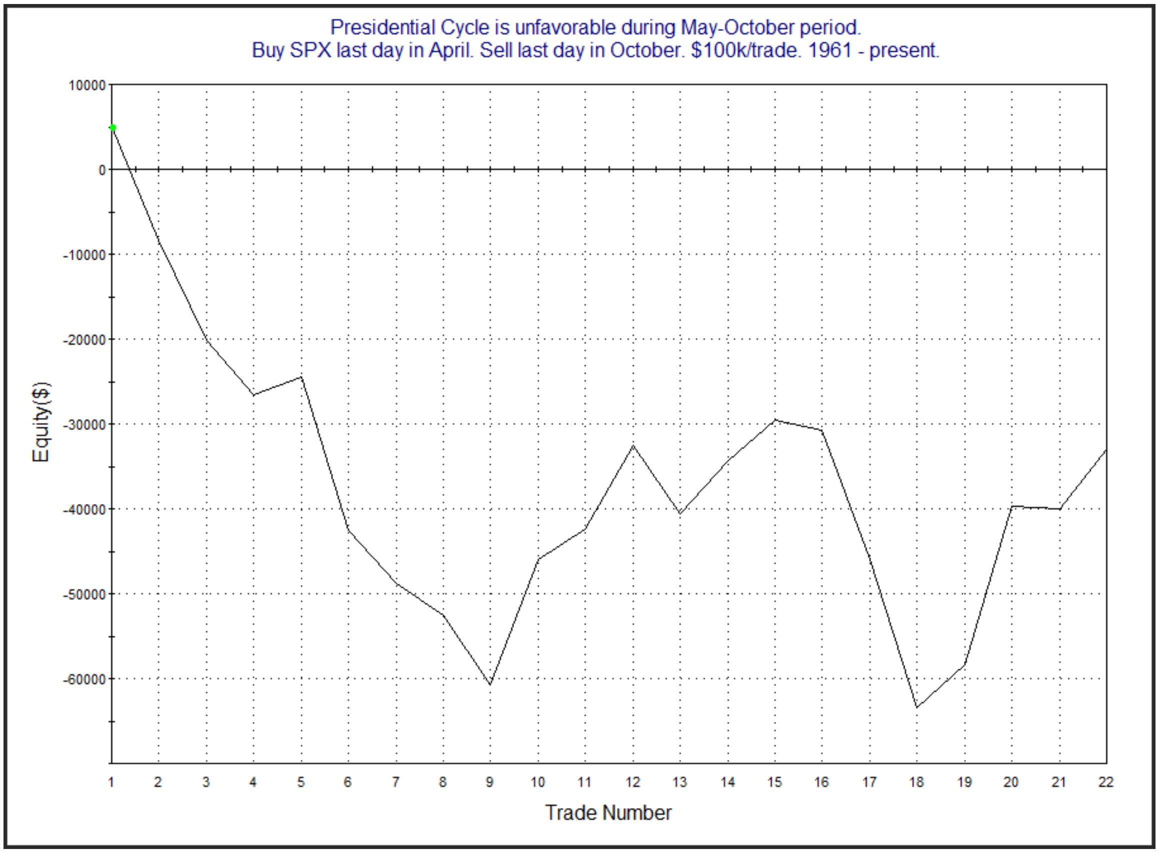
TradeStation Performance Summary Expand

All Trades

Total Net Profit	($32,939.04)	Profit Factor	0.70
Gross Profit	$77,354.15	Gross Loss	($110,293.19)
Total Number of Trades	22	Percent Profitable	45.45%
Winning Trades	10	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	($1,497.23)	Ratio Avg. Win:Avg. Loss	0.84
Avg. Winning Trade	$7,735.41	Avg. Losing Trade	($9,191.10)
Largest Winning Trade	$18,625.32	Largest Losing Trade	($18,165.87)

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

This will be the 23rd "Worst" 6-month period that has occurred with the Presidential Cycle in an unfavorable state. The previous 22 were 10-12 as can be seen above. Below is a profit curve to show how it has played out over time.



As you might expect, results have been choppy. Bottom line is that seasonality is not going to be helping us out between May – October.

Overall, evidence is still leaning a bit bullish. The study from 4/19 suggests that move off the 20-day low should continue to see some more gains. Another, somewhat similar study from 3/29 is still active and suggesting more upside as well. And three of the four Market Timing Course indicators are in "bull" mode. But as I discussed above, this will be the last week in which the "Best 6 Months" seasonality will be on our side. And that will drop the indicators down to just 2 bullish as of this upcoming Friday's close. Bears will also note that Fed support is generally lacking, and new highs have been diverging for years now. For this week I am still inclined to remain bullish. But as of next weekend, the intermediate-term outlook will be reduced to "somewhat bullish" at best, or perhaps "neutral". When that happens, I will be more open to taking on short trades. For this week, I still think the best opportunities will likely be on the long side if we get a further pullback.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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.