

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 8, 2017

Volume 10 Issue 86

Market Overview



Signals Overview

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

Tonight's Research Points

- Friday's breakout with low volume looks bullish.
- SOMA flat but is expected to see a moderate rise after Wednesday.

Short-term Outlook

The Bottom Line

Expectations favor the long side, but the market is already somewhat overbought. This leaves me short-term neutral.

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						
May 8, 2017	50-day breakout on lower volume	1-5 days	Bullish			
May 5, 2017	High volume up days	1-10 days	Bullish			
May 5, 2017	Up day poor breadth.	1-3 days	Bearish			
April 27, 2017	20-low. 1-day bounce, then inside down	1-8 days	Bullish	2.00%	-1.20%	-2.50%
Active - Long Term						
April 28, 2017	20-high. High volume.	1-16 days	Bullish	2.80%	-1.80%	-3.20%
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

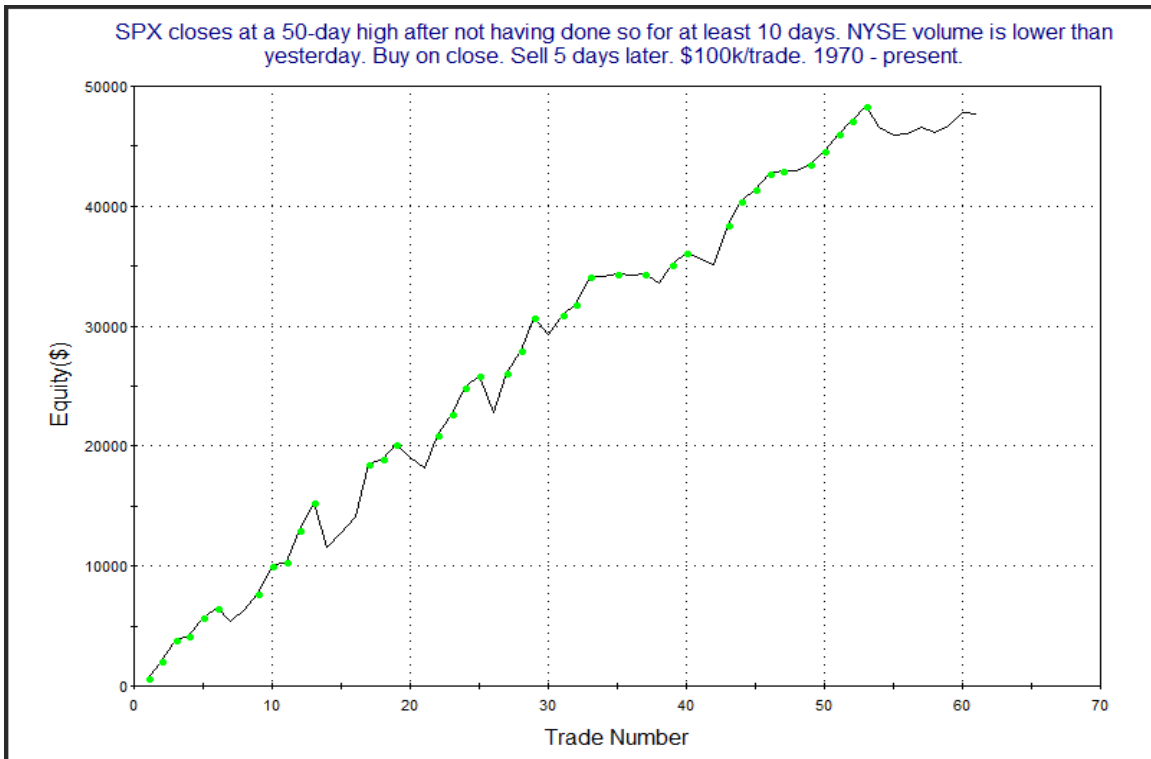
Friday was a strong day for the market. The SPX rose 0.4% and closed at a new all-time high (though it did not make an new intraday high). NASDAQ also posted a new high with a 0.4% gain, and the Russell 2000 rallied 0.6%. Breadth was positive as the NYSE Up Issues % was 72% and the Up Volume % came in at 79%. NYSE volume dropped substantially from Thursday's high level.

Friday we saw SPX breakout to new closing highs. One measurement that can provide clues when SPX breaks out to a new high after a basing period is volume. I've discussed volume on breakouts a number of times in the past, including in the 1/9/17 letter. For a breakout to have a good chance of success you generally want volume to come in either 1) lower than the day before (like Friday), or 2) extremely high. Moderate but increasing volume is the worst scenario. To see why I say this, take a look at the 3 studies below. The first one examines new breakouts like the current one that occur on declining volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	33,321.02	57	33	24	57.89	2,564.50	11,088.84	-2,137.81	-8,157.10	1.20	1.65	584.58
19	32,421.35	58	34	24	58.62	2,433.87	9,628.99	-2,097.09	-9,056.82	1.16	1.64	558.99
18	34,272.92	58	36	22	62.07	2,397.07	11,076.80	-2,364.61	-9,094.80	1.01	1.66	590.91
17	32,974.10	58	36	22	62.07	2,436.87	10,017.28	-2,488.78	-8,682.96	0.98	1.60	568.52
16	35,999.76	58	37	21	63.79	2,382.38	10,944.36	-2,483.24	-9,243.81	0.96	1.69	620.69
15	29,962.52	58	38	20	65.52	2,160.38	8,166.13	-2,606.59	-9,354.92	0.83	1.57	516.60
14	35,091.37	60	41	19	68.33	1,960.73	7,314.30	-2,384.13	-6,525.68	0.82	1.77	584.86
13	35,302.46	61	39	22	63.93	1,963.12	7,780.85	-1,875.42	-5,160.09	1.05	1.86	578.73
12	21,550.53	61	34	27	55.74	1,953.40	5,996.75	-1,661.67	-4,539.14	1.18	1.48	353.29
11	15,603.86	61	32	29	52.46	1,890.93	5,809.60	-1,548.48	-6,029.07	1.22	1.35	255.80
10	16,583.16	61	31	30	50.82	1,900.05	5,960.00	-1,410.61	-4,324.52	1.35	1.39	271.86
9	23,350.20	61	38	23	62.30	1,570.91	5,147.20	-1,580.18	-5,812.26	0.99	1.64	382.79
8	29,526.61	61	42	19	68.85	1,402.70	5,096.00	-1,546.68	-4,186.55	0.91	2.00	484.04
7	30,870.12	61	39	22	63.93	1,368.09	4,655.00	-1,022.07	-3,211.35	1.34	2.37	506.07
6	45,514.68	61	42	19	68.85	1,426.36	5,002.50	-757.51	-3,563.65	1.88	4.16	746.14
5	47,732.27	61	45	16	73.77	1,418.22	4,482.50	-1,005.47	-3,693.73	1.41	3.97	782.50
4	31,823.45	61	43	18	70.49	1,169.88	4,440.00	-1,026.74	-2,913.85	1.14	2.72	521.70
3	30,252.44	61	40	21	65.57	1,134.73	3,950.00	-720.80	-1,802.37	1.57	3.00	495.94
2	18,533.17	61	40	21	65.57	804.44	2,212.98	-649.74	-1,912.60	1.24	2.36	303.82
1	8,015.38	61	39	22	63.93	452.37	1,384.02	-437.59	-1,921.32	1.03	1.83	131.40

Numbers here appear pretty solid, with add-on buying typically coming in during the next week. Below is a look at a profit curve.



The move from lower left to upper right is encouraging. Next let's look at times where there was extremely strong volume (20-day high volume).

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in at least 20 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	18,538.22	40	22	18	55.00	3,632.58	8,953.20	-3,409.92	-8,308.32	1.07	1.30	463.46
19	13,685.17	40	23	17	57.50	3,409.41	8,942.40	-3,807.72	-7,980.00	0.90	1.21	342.13
18	24,595.39	40	23	17	57.50	3,674.90	9,613.50	-3,525.13	-7,323.36	1.04	1.41	614.88
17	20,613.97	40	24	16	60.00	3,274.62	9,069.84	-3,623.55	-8,144.90	0.90	1.36	515.35
16	25,570.48	40	23	17	57.50	3,530.65	8,048.82	-3,272.62	-8,109.35	1.08	1.46	639.26
15	20,775.66	40	23	17	57.50	3,424.99	7,668.00	-3,411.72	-8,358.20	1.00	1.36	519.39
14	21,212.29	40	23	17	57.50	3,302.74	8,128.38	-3,220.63	-8,338.45	1.03	1.39	530.31
13	25,626.24	40	24	16	60.00	3,054.35	7,478.64	-2,979.88	-8,251.55	1.02	1.54	640.66
12	21,979.40	40	23	17	57.50	2,796.65	7,352.31	-2,490.79	-8,757.15	1.12	1.52	549.49
11	28,371.52	40	26	14	65.00	2,514.89	6,782.40	-2,643.98	-6,975.70	0.95	1.77	709.29
10	31,145.17	40	24	16	60.00	2,487.82	6,199.20	-1,785.15	-3,730.08	1.39	2.09	778.63
9	27,897.57	40	24	15	60.00	2,272.85	6,418.16	-1,776.73	-3,113.22	1.28	2.05	697.44
8	29,663.58	40	24	16	60.00	2,245.80	6,220.34	-1,514.73	-2,943.34	1.48	2.22	741.59
7	30,443.70	40	25	15	62.50	2,017.12	5,264.21	-1,332.29	-2,946.00	1.51	2.52	761.09
6	33,597.45	40	28	12	70.00	1,753.17	4,695.76	-1,290.94	-3,093.30	1.36	3.17	839.94
5	29,863.77	40	26	14	65.00	1,655.48	4,771.60	-941.33	-2,562.72	1.76	3.27	746.59
4	21,201.24	40	26	14	65.00	1,266.35	3,165.12	-837.42	-1,948.21	1.51	2.81	530.03
3	17,575.07	40	26	14	65.00	1,086.30	2,989.36	-762.04	-2,188.15	1.43	2.65	439.38
2	27,508.43	40	27	12	67.50	1,181.81	3,813.53	-366.70	-1,259.60	3.22	7.25	687.71
1	15,102.12	40	29	11	72.50	648.11	2,755.52	-335.73	-1,292.50	1.93	5.09	377.55

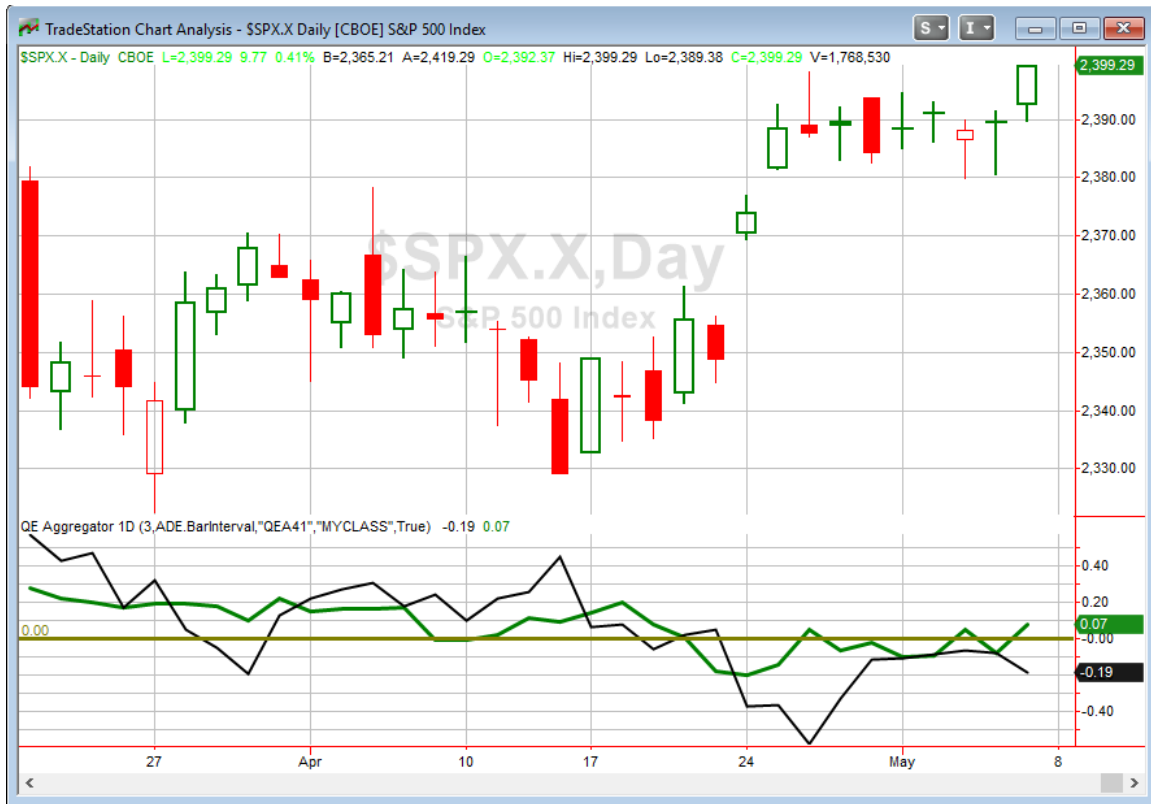
Numbers here are quite similar, with the first week getting solid follow-through buying once again. Lastly, let's look at rising but moderate volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	2,800.27	98	47	51	47.96	3,356.14	13,401.70	-3,038.00	-11,541.15	1.10	1.02	28.57
19	12,251.14	98	50	48	51.02	3,138.66	9,135.36	-3,014.20	-11,854.89	1.04	1.08	125.01
18	17,725.00	99	53	46	53.54	2,939.17	9,503.00	-3,001.11	-10,293.66	0.98	1.13	179.04
17	10,096.55	99	53	46	53.54	2,821.65	9,962.68	-3,031.54	-9,419.67	0.93	1.07	101.99
16	5,429.72	101	54	47	53.47	2,656.29	8,910.72	-2,936.38	-9,482.88	0.90	1.04	53.76
15	13,009.59	101	53	48	52.48	2,592.73	8,150.48	-2,591.77	-9,608.60	1.00	1.10	128.81
14	-658.23	101	56	45	55.45	2,329.48	7,702.40	-2,913.54	-10,120.46	0.80	0.99	-6.52
13	-2,261.58	101	53	48	52.48	2,330.28	7,911.80	-2,620.13	-9,725.34	0.89	0.98	-22.39
12	-6,738.23	102	55	47	53.92	2,180.91	10,197.98	-2,695.50	-9,869.02	0.81	0.95	-66.06
11	-1,167.40	102	52	50	50.98	2,311.53	10,380.37	-2,427.34	-9,482.88	0.95	0.99	-11.45
10	-8,367.69	102	50	52	49.02	2,185.36	10,515.18	-2,262.23	-8,683.66	0.97	0.93	-82.04
9	-4,038.11	102	48	54	47.06	2,150.26	8,413.73	-1,986.12	-6,878.68	1.08	0.96	-39.59
8	-7,574.94	102	54	48	52.94	1,708.88	8,532.68	-2,080.30	-7,076.24	0.82	0.92	-74.26
7	9,180.13	102	53	49	51.96	1,746.87	6,337.26	-1,702.12	-7,255.84	1.03	1.11	90.00
6	6,796.43	102	56	46	54.90	1,485.47	6,819.80	-1,660.64	-7,103.18	0.89	1.09	66.63
5	2,853.61	102	49	53	48.04	1,548.06	8,516.82	-1,377.38	-6,088.44	1.12	1.04	27.98
4	-3,102.24	102	55	47	53.92	1,240.65	6,716.71	-1,517.83	-5,585.56	0.82	0.96	-30.41
3	9,028.56	102	59	43	57.84	1,125.39	6,740.50	-1,334.17	-5,361.06	0.84	1.16	88.52
2	2,502.95	102	60	42	58.82	771.44	4,028.44	-1,042.47	-4,276.16	0.74	1.06	24.54
1	8,842.77	102	57	45	55.88	521.72	2,731.56	-464.34	-2,722.61	1.12	1.42	86.69

This does not appear to suggest any edge over the next 1-4 weeks. Perhaps it was fortunate that Friday's breakout occurred on declining volume.

I have updated the Aggregator chart below.



With the new breakout study to consider the green Aggregator Line moved back above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. 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.

Based on the current active studies, expectations are set to remain bullish on Monday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2384.53 on Monday. That is 0.6% below Friday's close. So SPX would need to close down at least 0.6% in order to move from overbought to oversold as of Monday's close.

At this point the potential breakout looks encouraging. There appears to be a good chance of follow through this upcoming week. But with the market overbought I am not inclined

to try for an index swing trade. I will continue to wait for a more favorable reward/risk setup. I do have some long exposure via the open Catapult trades. The CBI remained at 4 on Friday afternoon, so there is no change there.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/8 –bullish

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

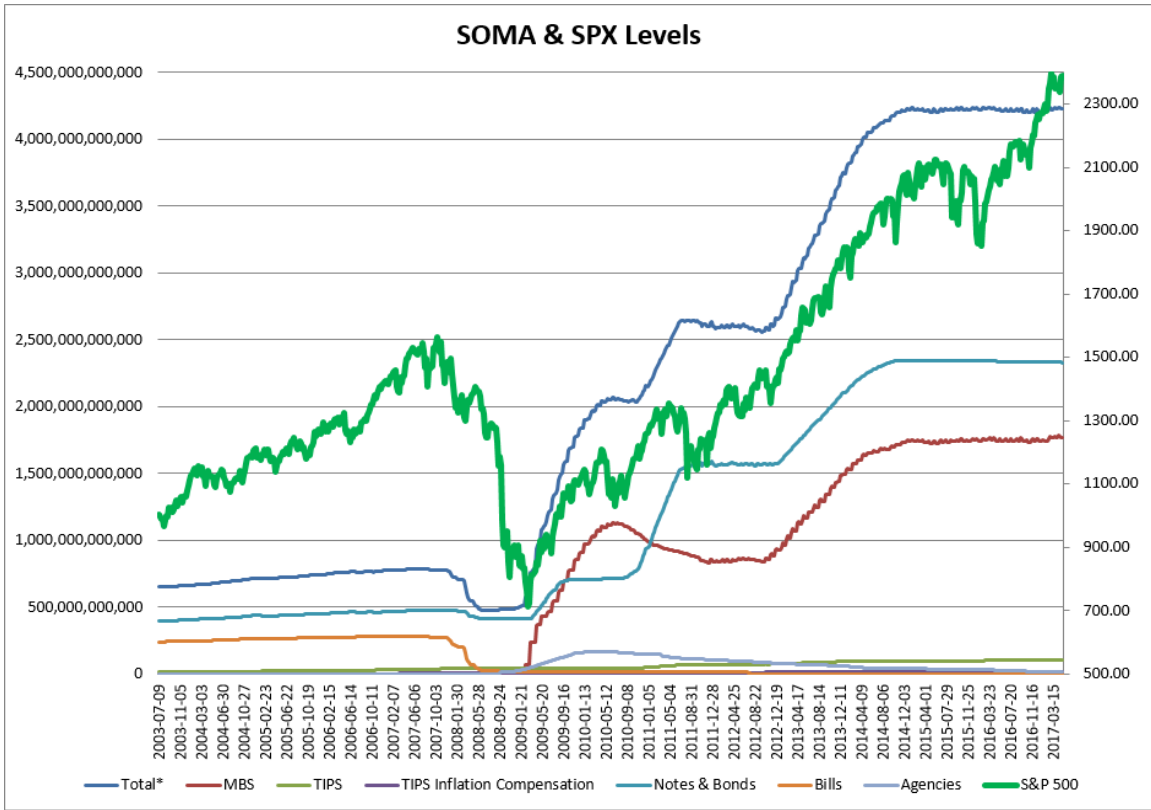
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 there were no changes to the Combo systems.*

SPX put in a strong week this past week with a gain of 0.6%. And with SPX and the NASDAQ both closing at new all-time highs, there is little doubt that the uptrend remains intact. After a load of intermediate-term studies to discuss last week, there was nothing new this week that emerged.

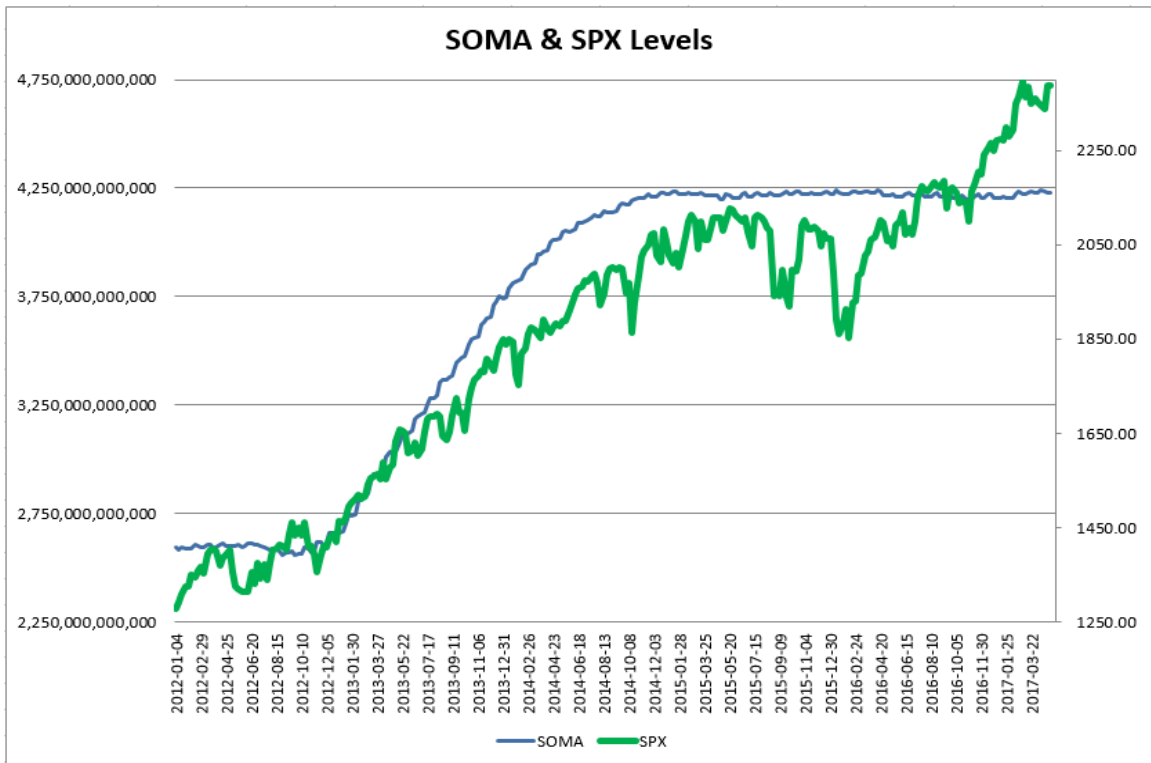
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 near breakeven with an increase of less than 0.01%. This was in line with expectations based on the Fed's SOMA schedule. The 0.03% move higher for the SPX over this same period was typical for a week that the SOMA did not move much. 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 82 other weeks (like this one) SPX has only risen 49% of the time and has gained a sum total of just 4.08%. Based on the reinvestment schedule the Fed has stuck to over the last two+ years, I expect this current week to again come in largely unchanged. But the following week is likely to see the SOMA rise a bit. So after Wednesday, the bulls will have a bit of a liquidity wind at their backs.

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. That is expected to change at some point this year, and I will be keeping a close eye out to see when it does. I expect liquidity analysis to remain a vital tool for us.

With the market making new highs, and no new compelling bearish evidence to speak of, I have once again elected to remain "bullish". Both price action indicators from the Market Timing Course remain bullish, which is keeping 2 of the 3 "Combo" systems bullish as well. There is also the April 28th bullish intermediate-term study that remains active. Of course bears do have weak Fed support, weak seasonality, and a long-term divergence of new highs to point to. But for now the bulls still appear to be in control. So I intend to continue to trade longs more aggressively, and be extra cautious with any short trades.

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

Open Catapult Triggers

T – 1/3 @ \$38.40 (buy @ limit)

DIS – 1/3 @ \$111.62 (buy @ limit)

T – 1/3 @ \$38.01 (*not filled – cancel for now*)

DIS – 1/3 @ \$111.17 (bought @ limit)

Broad Market Large Cap CBI – 4(T-2, DIS-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
T(1/3)	5/4/2017	\$38.40	\$38.56	0.42%		Catapult
DIS(1/3)	5/4/2017	\$110.58	\$111.99	1.28%		Catapult
DIS(1/3)	5/5/2017	\$111.17	\$111.99	0.74%		Catapult

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