

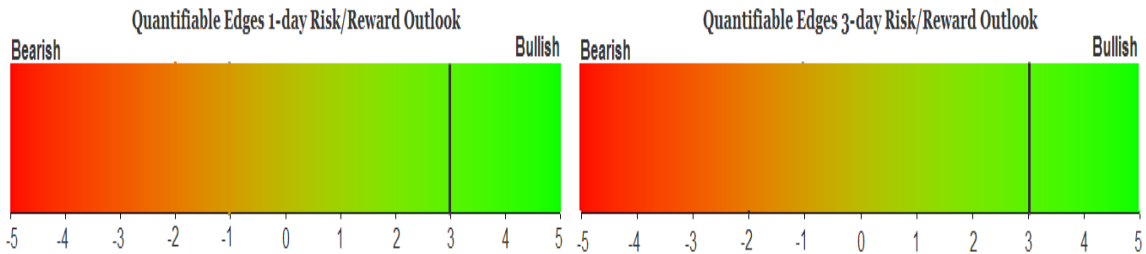
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 15, 2017

Volume 10 Issue 91

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The first drop below the 10ma in quite a while will often be followed by another leg up.
- After closing at a short-term low on Thursday, Friday's gap down and even lower close for SPY bodes well for the coming days.
- SOMA increases should help the market this week and next.

### *Short-term Outlook*

#### *The Bottom Line*

Evidence is pointing higher and the SPX is now short-term oversold. This suggests favorable reward/risk for the bulls. I will look to take advantage of this by scaling into a 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
<b>Active - Short Term</b>						
May 15, 2017	Close < 10ma after 15+ days above	1-5 days	Bullish	1.50%	-1.00%	-2.00%
May 15, 2017	Gap dn from 5-low and close < open	1-6 days	Bullish	2.20%	-1.30%	-2.60%
May 12, 2017	Relatively big drop from 50-high	1-4 days	Bullish			
May 5, 2017	High volume up days	1-10 days	Bullish			
<b>Active - Long Term</b>						
May 15, 2017	Gap dn from 5-low and close < open	1-10 days	Bullish	2.90%	-1.60%	-3.40%
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			
<b>Dropped Tonight</b>						
May 11, 2017	Gap & revers 2x. 10--high today.	1-2 days	Bearish			
May 8, 2017	50-day breakout on lower volume	1-5 days	Bullish			

**The Evidence**

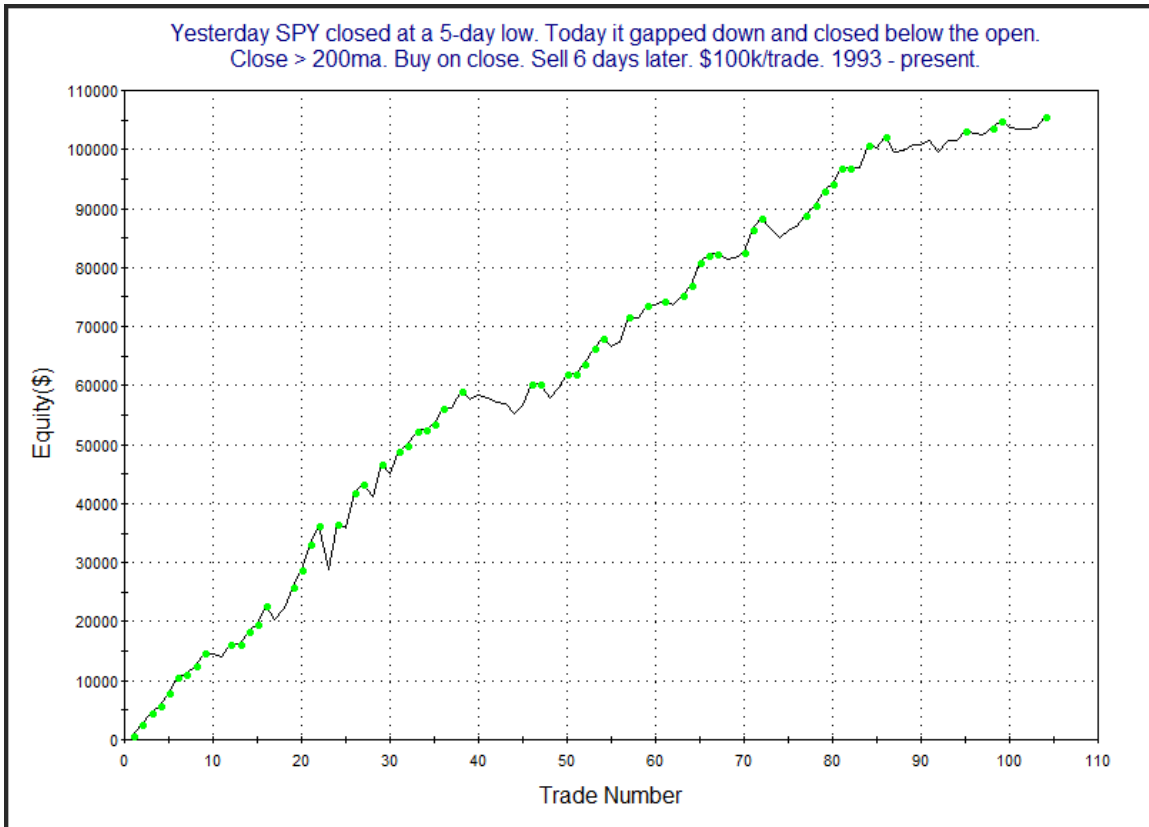
Friday was mixed and mild. The SPX lost 0.15%, the NASDAQ rose 0.1%, and the Russell 2000 dropped 0.5%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 39%. NYSE volume declined some from Thursday's level.

There were a few studies that looked at the low open and lower close in SPY. The one below was last seen in the 10/31/16 Letter. It examined what happens during an uptrend when SPY gaps down from a 5-day low, and then finishes the day below the open.

Yesterday SPY closed at a 5-day low. Today it gapped down and closed below the open. Close > 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	111,014.83	93	64	29	68.82	2,569.17	7,105.76	-1,841.81	-5,292.54	1.39	3.08	1,193.71
9	109,238.73	96	68	28	70.83	2,349.03	6,068.37	-1,803.40	-5,431.32	1.30	3.16	1,137.90
8	111,356.65	97	71	26	73.20	2,215.84	6,033.66	-1,768.00	-6,291.25	1.25	3.42	1,148.01
7	106,819.34	103	74	29	71.84	1,993.85	5,924.70	-1,404.34	-4,479.57	1.42	3.62	1,037.08
6	105,707.82	104	73	31	70.19	1,961.48	7,873.02	-1,209.05	-7,614.21	1.62	3.82	1,016.42
5	100,997.45	104	75	28	72.12	1,740.01	8,239.74	-1,053.69	-4,103.46	1.65	4.42	971.13
4	82,888.36	107	75	32	70.09	1,649.20	5,581.02	-1,275.06	-3,522.36	1.29	3.03	774.66
3	84,173.07	110	75	34	68.18	1,583.79	4,348.05	-1,017.97	-3,620.70	1.56	3.43	765.21
2	67,608.25	113	77	36	68.14	1,204.21	5,477.88	-697.67	-2,561.20	1.73	3.69	598.30
1	47,732.71	121	84	37	69.42	860.87	5,764.38	-664.33	-3,772.68	1.30	2.94	394.49

The numbers suggest a good chance of a bounce in the next few days and a favorable reward/risk. The edge mostly plays out in the 1<sup>st</sup> 5-6 days, but still seems to persist to a lesser degree for up to 2 weeks.

Below is a profit curve that assumes a 6-day holding period.



The strong upslope and move from lower left to upper right serves as some confirmation of the upside edge.

In case you were wondering how important the low close was, below is the same test but with the close occurring above the open.

Yesterday SPY closed at a 5-day low. Today it gapped down and closed **above** the open.  
Close > 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	31,809.35	41	26	15	63.41	2,564.40	9,643.30	-2,324.33	-8,665.33	1.10	1.91	775.84
9	26,853.88	42	29	13	69.05	2,162.86	8,986.30	-2,759.15	-9,276.00	0.78	1.75	639.38
8	24,894.09	42	28	14	66.67	2,142.52	6,796.30	-2,506.88	-13,171.92	0.85	1.71	592.72
7	16,624.00	43	26	17	60.47	1,936.66	7,343.80	-1,984.06	-9,160.05	0.98	1.49	386.60
6	3,115.45	43	23	20	53.49	1,777.38	6,905.80	-1,888.22	-13,195.11	0.94	1.08	72.45
5	6,884.81	43	25	18	58.14	1,473.77	4,974.97	-1,664.42	-7,150.25	0.89	1.23	160.11
4	5,473.72	43	25	18	58.14	1,319.74	4,017.00	-1,528.88	-7,011.11	0.86	1.20	127.30
3	11,266.93	43	30	13	69.77	965.96	3,227.25	-1,362.44	-2,700.72	0.71	1.64	262.02
2	10,802.09	43	30	13	69.77	998.78	2,944.50	-1,473.94	-4,759.36	0.68	1.56	251.21
1	-195.15	46	27	19	58.70	690.94	2,920.00	-992.13	-3,321.28	0.70	0.99	-4.24

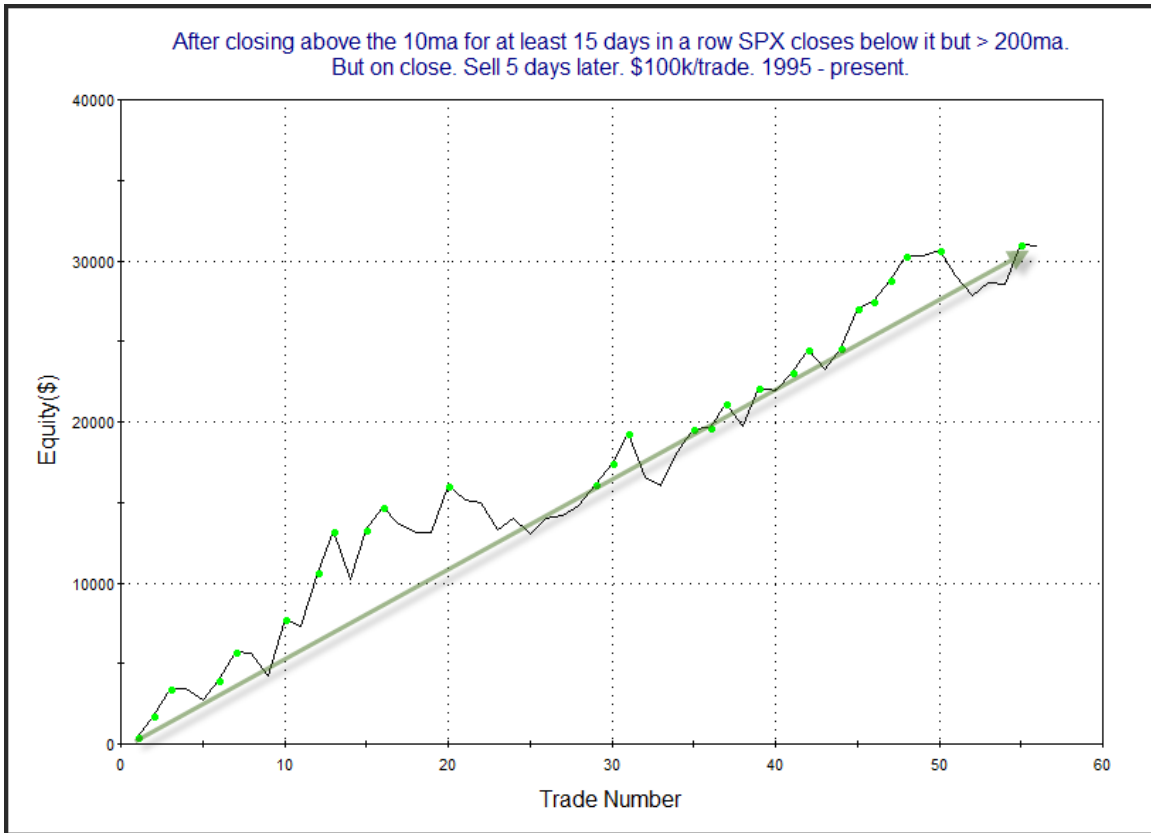
This would not have shown a substantial edge over the first few days. Fortunately, for bulls, it is the 1<sup>st</sup> scenario that set up.

The persistent uptrend of late has kept SPX above its short-term moving averages for an extended period. Friday, after 16 consecutive closes above the 10ma, SPX sliced down and closed below it. In the 3/8/17 letter I looked at performance following other instances where SPX closed below its 10ma for the first time in a while. Results are updated below.

After closing above the 10ma for at least 15 days in a row SPX closes below it but > 200ma. But on close. Sell X days later. \$100k/trade. 1995 - 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	30,895.48	56	33	23	58.93	1,537.93	3,505.74	-863.31	-2,959.70	1.78	2.56	551.71
4	29,307.79	56	36	20	64.29	1,393.80	3,206.40	-1,043.45	-3,078.40	1.34	2.40	523.35
3	23,326.90	56	38	18	67.86	1,058.70	2,805.12	-939.09	-2,062.10	1.13	2.38	416.55
2	15,097.72	56	34	22	60.71	1,008.21	2,682.72	-871.89	-2,185.60	1.16	1.79	269.60
1	15,226.62	56	35	21	62.50	705.01	2,097.92	-449.93	-1,542.24	1.57	2.61	271.90

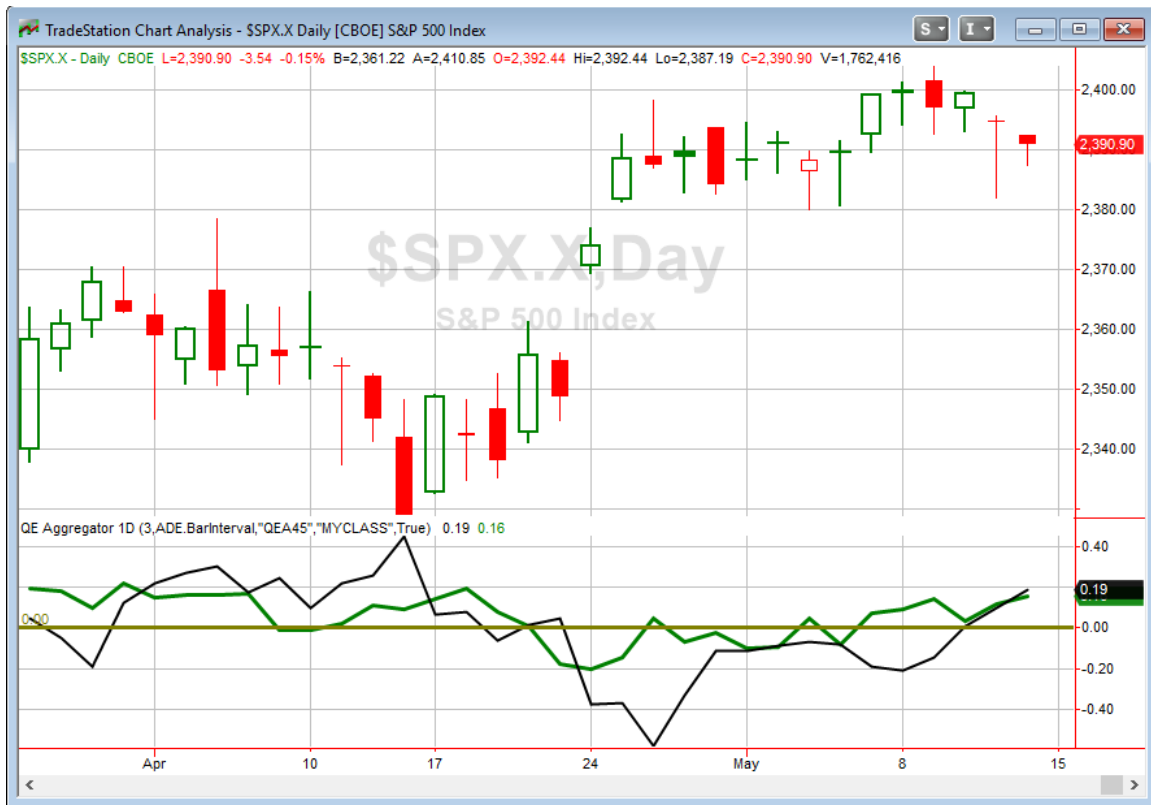
**50 of 56 instances (89%) closed above the entry price at some point in the next week.**

The numbers here all look solidly bullish over the next week. You can see the 5-day profit curve below.



Here too, the strong uplope serves as some confirmation of the bullish edge.

I have updated the Aggregator chart below.



With tonight's studies to consider the green Aggregator Line held 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 remained 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 0. Therefore, the Aggregator signal stayed long 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 2405.96 on Monday. That is 0.6% above Friday's close. So for SPX to move from oversold to overbought on Monday it will need to close up at least 0.6%.

The short-term outlook appears fairly appealing to me. The bullish Aggregator formation, which includes solidly bullish evidence and a decent amount of potential reward before the SPX would turn back to overbought, is compelling. I will look to take advantage of the apparent edge by attempting to scale into an index position.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 5/15 –bullish**

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

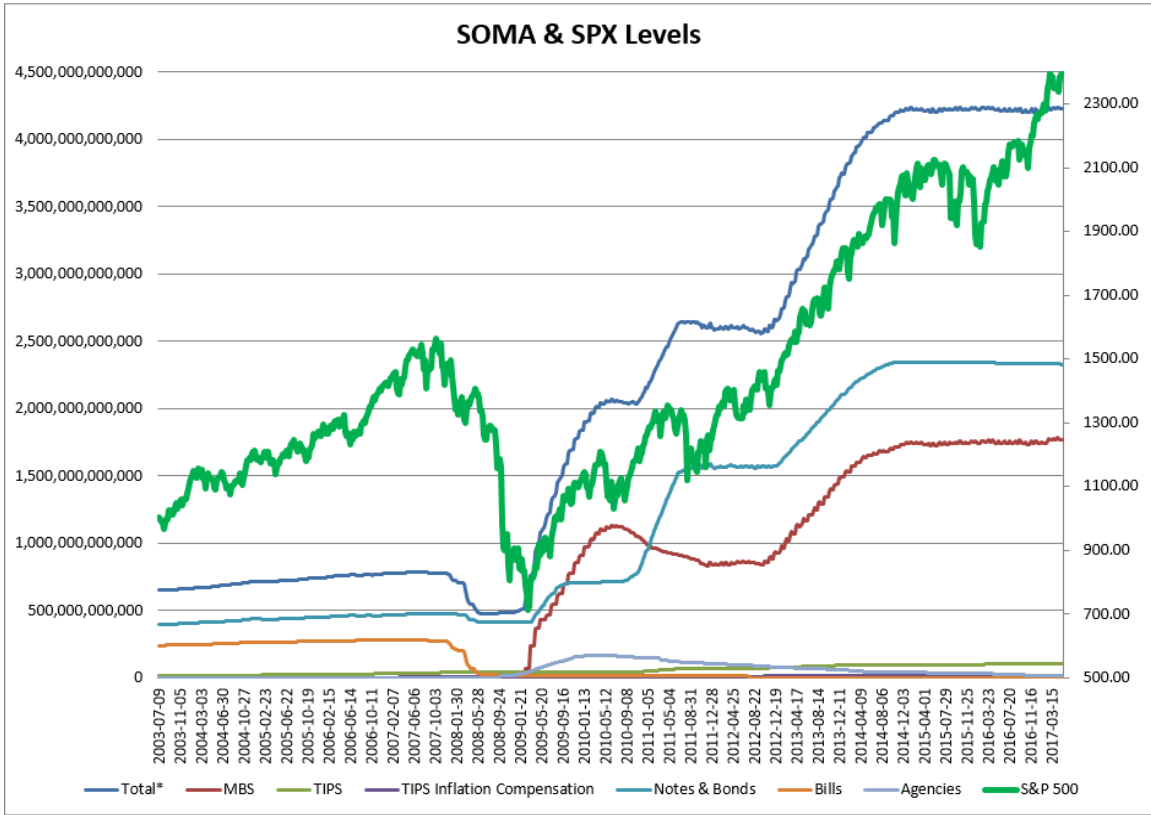
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 pulled back just a little this past week with a drop of 0.35%. But it did manage to post new all-time highs before posting declines last 2 days. The NASDAQ also set new all-time highs, and it managed to post a positive close on the week. So the long-term uptrend still appears to be intact. The only new study with potential intermediate-term implications is the 1<sup>st</sup> one that was discussed in the short-term section above.

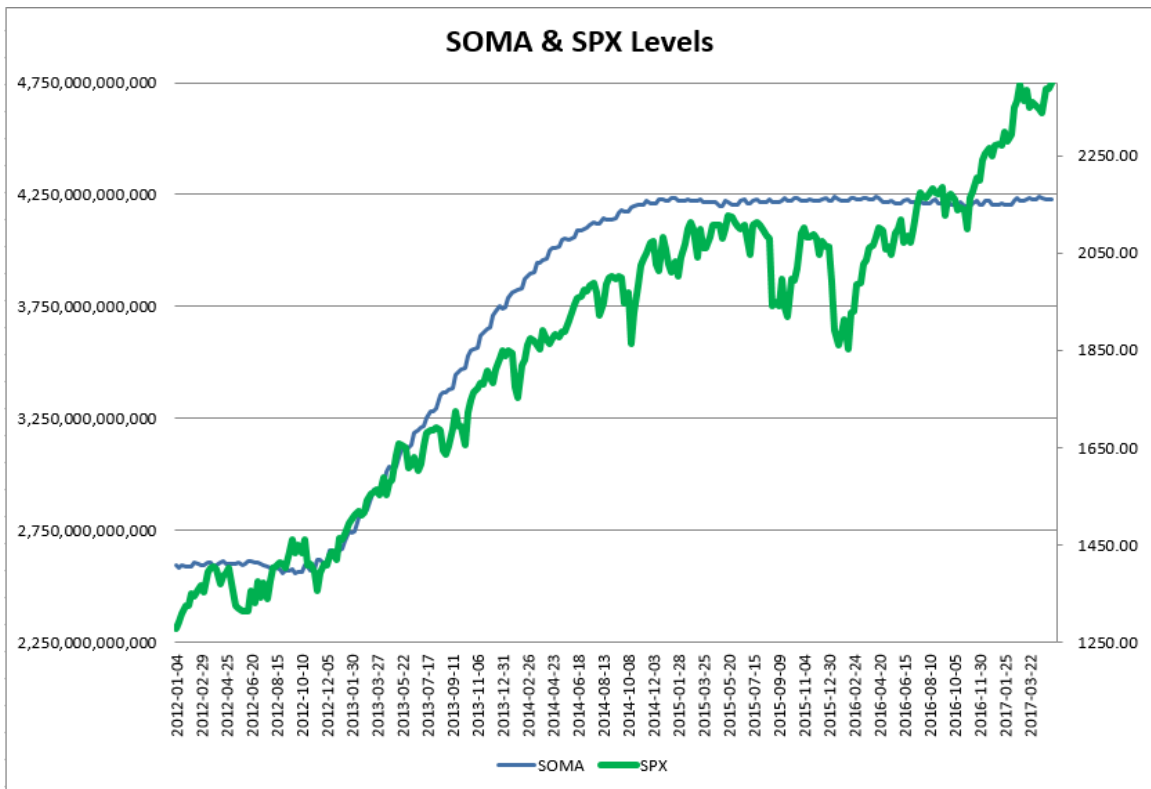
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

*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 0.48% move higher for the SPX over this same period was strong 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 83 other weeks (like this one) SPX has only risen 49% of the time and has gained a sum total of just 4.56%. Based on the reinvestment schedule the Fed has stuck to over the last two+ years, this current week is likely to see an increase in the SOMA, providing a favorable liquidity wind for the bulls. And that bullish wind will likely continue for another week as well.

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.

I am not seeing anything yet that would cause me to change my bullish bias. Tonight's new study joins a few others that remain active with bullish implications. Additionally, both price action indicators from the Market Timing Course remain bullish, which is keeping 2 of the 3 "Combo" systems bullish as well. Of course bears do have overall 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***

DIS – 1/3 @ \$111.62 (buy @ limit)

DIS – 1/3 @ \$111.17 (bought @ limit)

IBM – 1/3 @ \$151.25 (bought @ limit)

IBM – 1/3 @ \$150.65 (buy @ limit)

*New*

IBM – 1/3 @ \$150.37 (buy @ limit)

***Broad Market Large Cap CBI – 5(DIS-2, IBM-3)***

### 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.

**IBM – buy 1/3 Catapult position @ \$150.37 LIMIT.** This is from the Catapult section above. It is the 3<sup>rd</sup> of 3 possible lots for IBM.

**SPY – buy ¼ index position @ \$238.98 LIMIT.** Based on the short-term outlook above, I will look to start scaling into an index position.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
T(1/3)	5/4/2017	\$38.40	\$38.49	0.23%		sell on open
DIS(1/3)	5/4/2017	\$110.58	\$109.69	-0.80%		Catapult
DIS(1/3)	5/5/2017	\$111.17	\$109.69	-1.33%		Catapult
IBM(1/3)	5/11/2017	\$151.05	\$150.37	-0.45%		Catapult
IBM(1/3)	5/11/2017	\$150.30	\$150.37	0.05%		Catapult

*T reached its intraday target price and is no longer an active Catapult. The trade idea will exit at Monday's open.*

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