

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 5, 2017

Volume 10 Issue 106

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX has persisted higher to a point that formerly suggested a pullback was imminent – but that has not held true in recent years.
- Fed liquidity is currently negative, but we could see a bump starting after Wednesday.

Short-term Outlook

The Bottom Line

Evidence is still bullish but the SPX remains overbought. This leaves me neutral and awaiting a better opportunity.

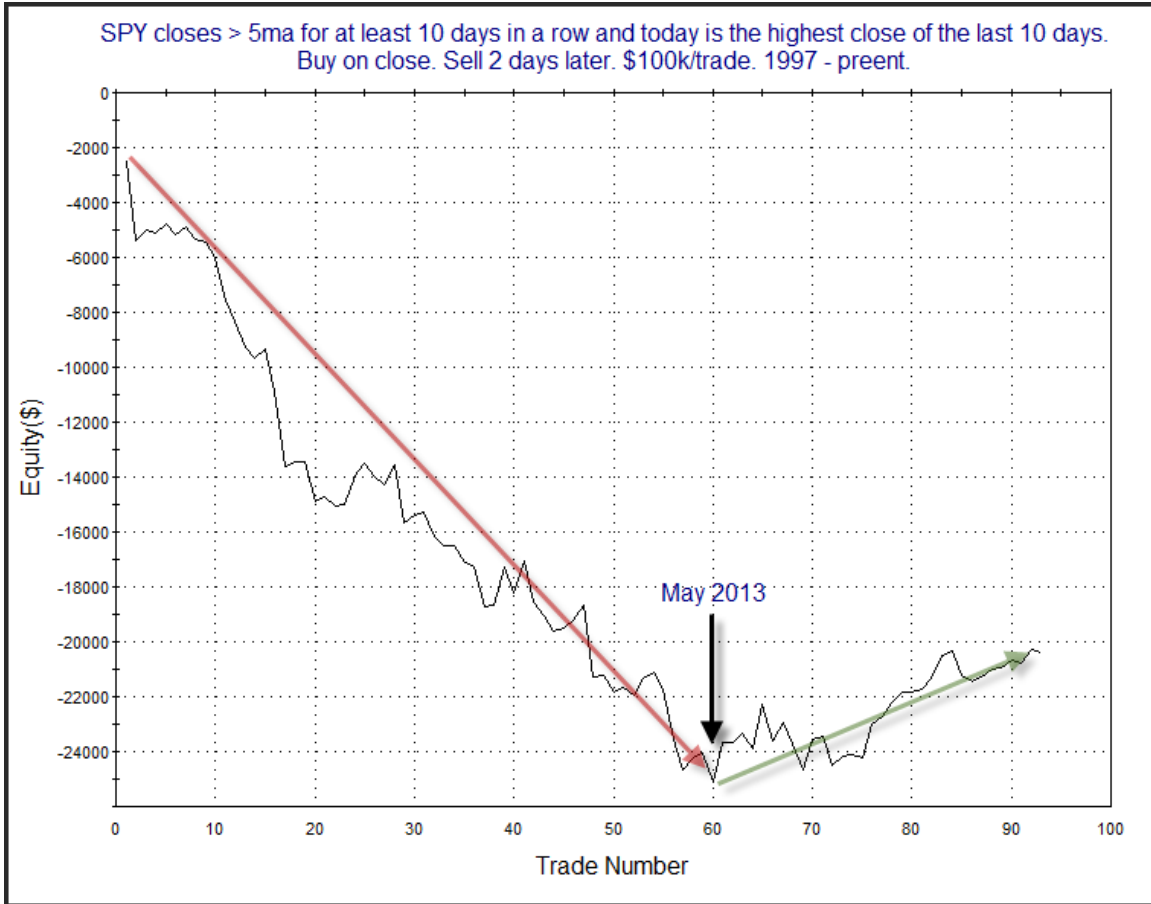
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
June 1, 2017	Dn last 2 days of positive month	1-4 days	Bullish			
Active - Long Term						
June 2, 2017	SPX closes above 50-day Bollinger Band	1-50 days	Bullish	4.90%	-4.10%	-7.80%
May 31, 2017	5+ days up to 50-high. Then 1 down.	1-10 days	Bullish	1.90%	-1.05%	-2.20%
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

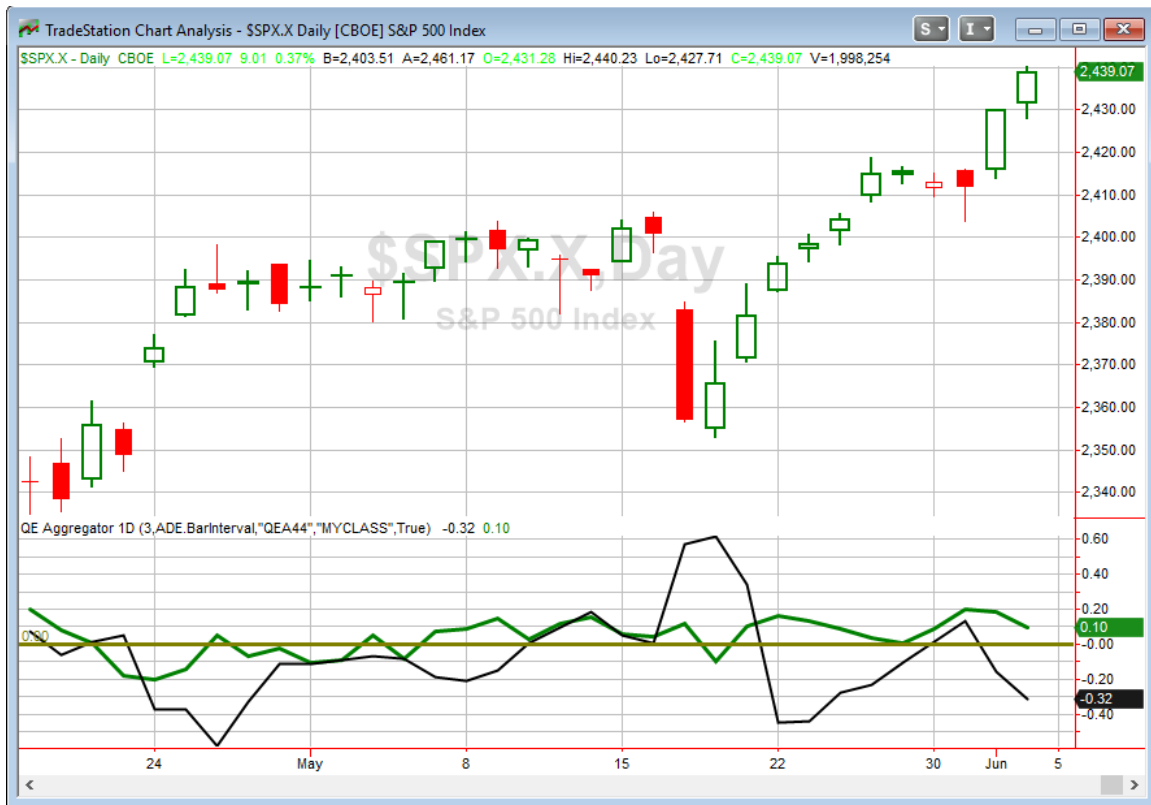
Friday was another solid move upwards to many new highs. The SPX rose 0.4%, the NASDAQ gained 0.9%, and the Russell 2000 rallied 0.7%. Breadth was mixed though as the NYSE Up Issues % was 57% and the Up Volume % came in at 45%. NYSE volume declined for the 2nd day in a row.

The last two weeks have been a fairly persistent move higher. Even the “pullback” we saw for SPX was really hardly anything more than a 3-day sideways consolidation. The steady move up triggered a study from the 11/10/14 letter that I have not discussed in a while. It examined other times SPY closed above its 5-day moving average for at least 10 days in a row, and was hitting new highs. In the 11/10/14 letter I noted that the previous bearish edge had seemed to subside, and that I was suspending the study. Here is an updated version.



As you can see, prior to May 2013, SPY was much more prone to a brief pullback after it had an extended move higher. Since that time it has done a better job of continuing its momentum. This has caused the curve to turn up. So there is little doubt the market is overbought. But that does not necessarily mean a pullback is imminent.

I have updated the Aggregator chart below.



Without any new and compelling evidence to consider the green Aggregator line remained positive. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Monday. But with very few studies active, this could easily change if new bearish evidence emerges. The Differential Pivot will be 2418.75 on Monday. That is 0.8% below Friday's close. So for SPX to move from overbought to oversold versus expectations on Monday it will need to close down at least 0.8%.

The Aggregator is again neutral, and so am I. While more upside seems likely, the market is just too overbought for me to consider taking on new index positions. I remain in "wait and see" mode. A multi-day pullback would likely be buyable, but I'll have to see how it unfolds and what new studies emerge in the next few days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/30 –bullish

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

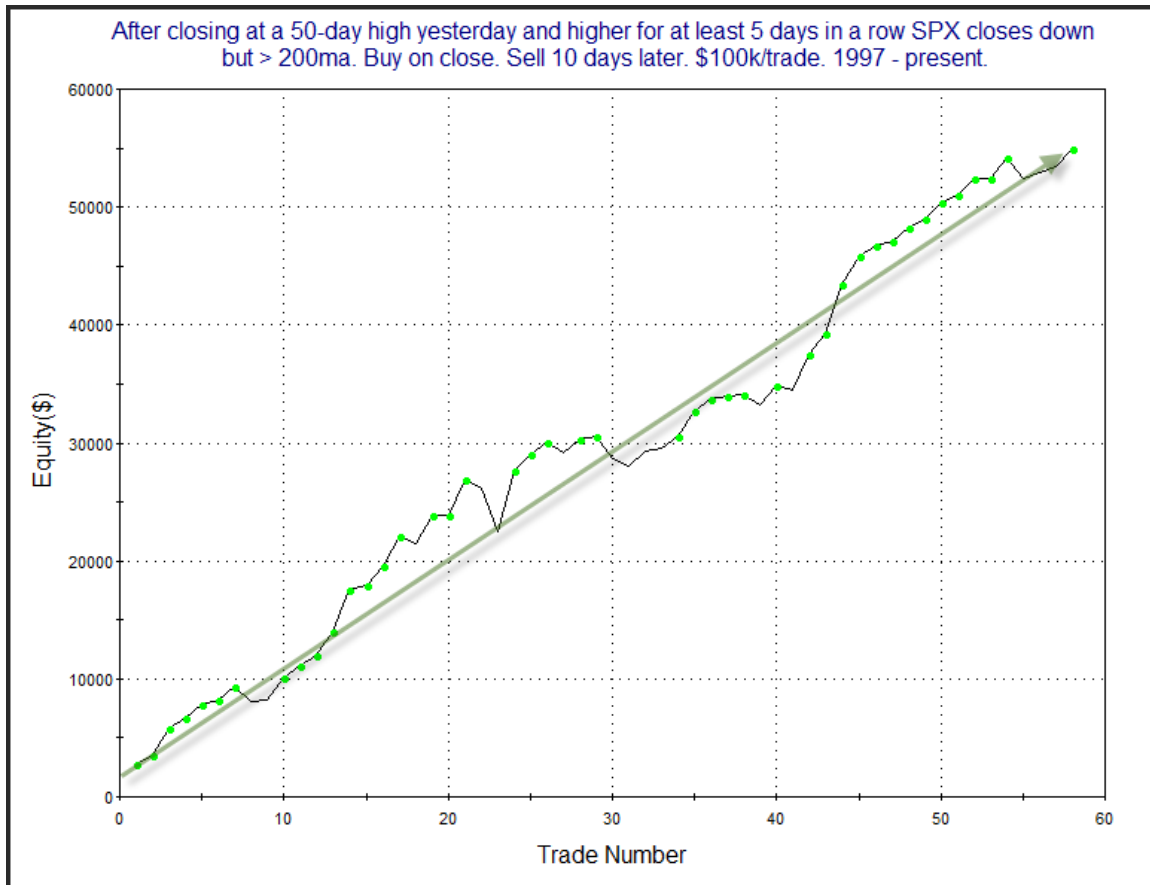
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The market put in another solid week with a 1.0% gain and finished at new highs. Obviously with new highs being made the long-term uptrend also remains intact. And the bulls also saw a couple of new studies with intermediate-term implications emerge. They were from the 5/31 and 6/2 subscriber letters. I have copied them below. First the study from the 5/31 letter...

One compelling study that triggered tonight suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 2/17/17 Letter. I have updated the stats in the table below.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	54,944.86	58	48	10	82.76	1,413.97	5,131.35	-1,292.59	-3,672.90	1.09	5.25	947.33
9	55,243.96	61	50	11	81.97	1,408.47	5,023.20	-1,379.97	-4,151.40	1.02	4.64	905.64
8	48,135.40	62	44	18	70.97	1,601.99	4,878.08	-1,241.79	-4,874.10	1.29	3.15	776.38
7	36,295.04	63	43	20	68.25	1,434.58	3,874.76	-1,269.59	-3,912.48	1.13	2.43	576.11
6	36,852.37	65	45	20	69.23	1,315.95	4,307.20	-1,118.27	-3,637.71	1.18	2.65	566.96
5	28,519.95	65	41	24	63.08	1,161.30	4,252.50	-795.56	-2,466.75	1.46	2.49	438.77
4	30,012.94	65	41	24	63.08	1,171.10	3,843.00	-750.09	-3,003.39	1.56	2.67	461.74
3	18,828.79	65	42	23	64.62	872.49	2,472.85	-774.59	-1,992.34	1.13	2.06	289.67
2	17,957.55	65	45	20	69.23	743.32	2,437.50	-774.59	-2,614.95	0.96	2.16	276.27
1	10,698.49	65	43	21	66.15	511.11	1,751.19	-537.11	-1,744.10	0.95	1.95	164.59

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge...

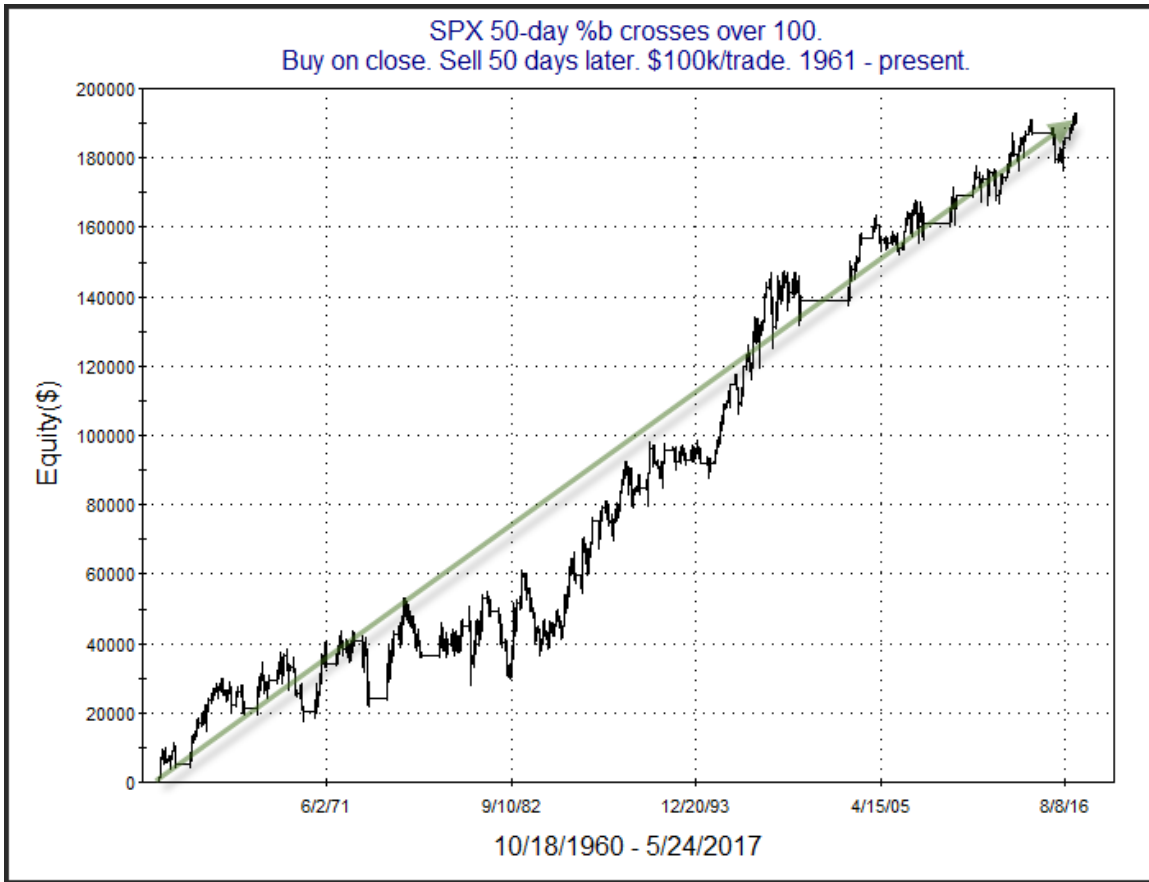
Next is the study from the 6/2 letter...

One study from the 10/25/13 Subscriber Letter that triggered today has some potential intermediate-term implications, and it is fairly interesting, so I figured I would talk a little about it. This study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used

– in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.

SPX 50-day %b crosses over 100. Buy on close. Sell X days later. \$100k/trade. 1961 - 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
50	192,535.97	137	83	54	60.58	4,940.75	18,408.18	-4,028.63	-15,795.00	1.23	1.89	1,405.37
45	149,676.88	144	82	62	56.94	4,910.45	15,816.57	-4,080.32	-25,812.76	1.20	1.59	1,039.42
40	161,419.55	147	88	59	59.86	4,382.66	17,624.67	-3,800.93	-15,540.70	1.15	1.72	1,098.09
35	144,280.77	155	93	62	60.00	3,995.71	15,782.13	-3,666.46	-13,617.00	1.09	1.63	930.84
30	97,295.97	160	95	65	59.38	3,322.80	11,920.74	-3,359.55	-10,485.00	0.99	1.45	608.10
25	74,995.38	167	96	71	57.49	3,067.82	10,859.94	-3,091.76	-8,732.16	0.99	1.34	449.07
20	67,654.70	177	100	77	56.50	2,731.26	9,501.30	-2,668.46	-10,205.38	1.02	1.33	382.23
15	73,529.53	193	111	82	57.51	2,387.91	7,843.46	-2,335.72	-9,763.44	1.02	1.38	380.98
10	70,232.84	216	137	79	63.43	1,725.94	8,239.16	-2,104.06	-9,133.53	0.82	1.42	325.15
5	39,698.91	259	154	104	59.46	1,135.77	5,030.81	-1,300.09	-5,817.77	0.87	1.29	153.28

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.

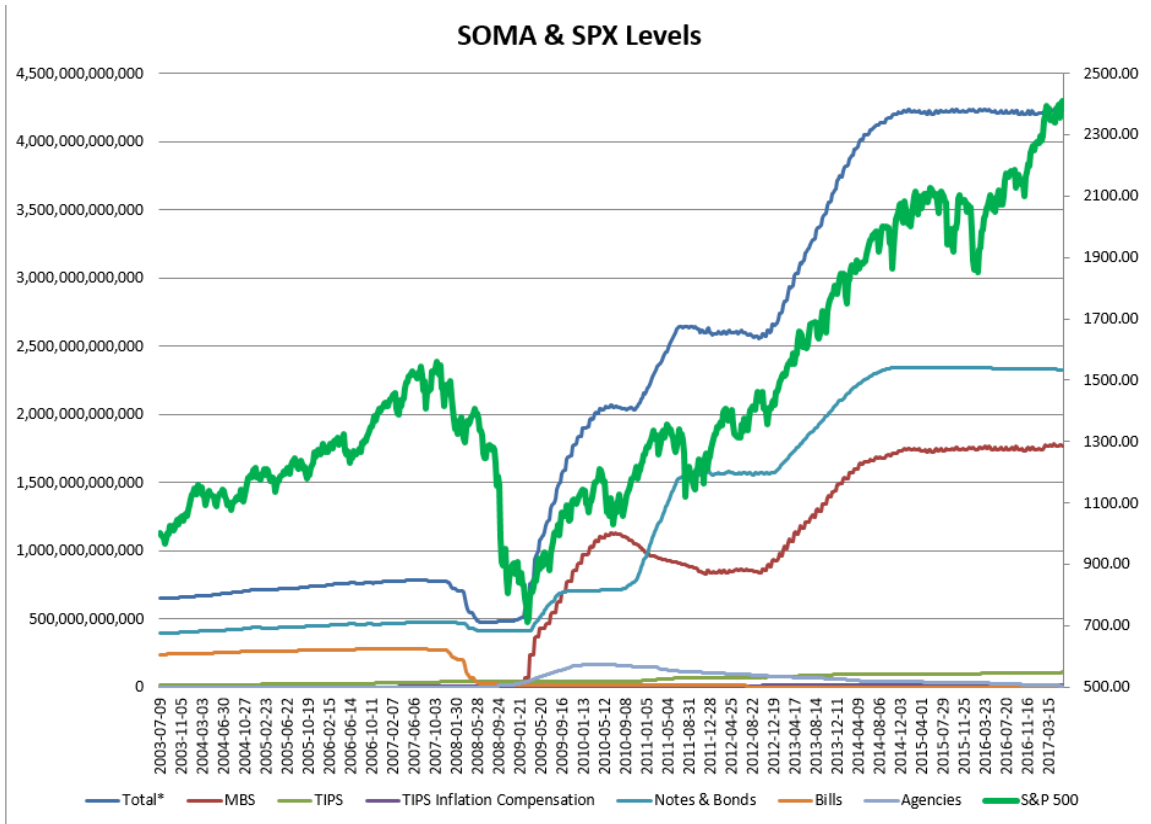


That's a pretty steady upslope for a study without a very high "% Profitable". Overall, I like this study enough to add it to the intermediate-term active list.

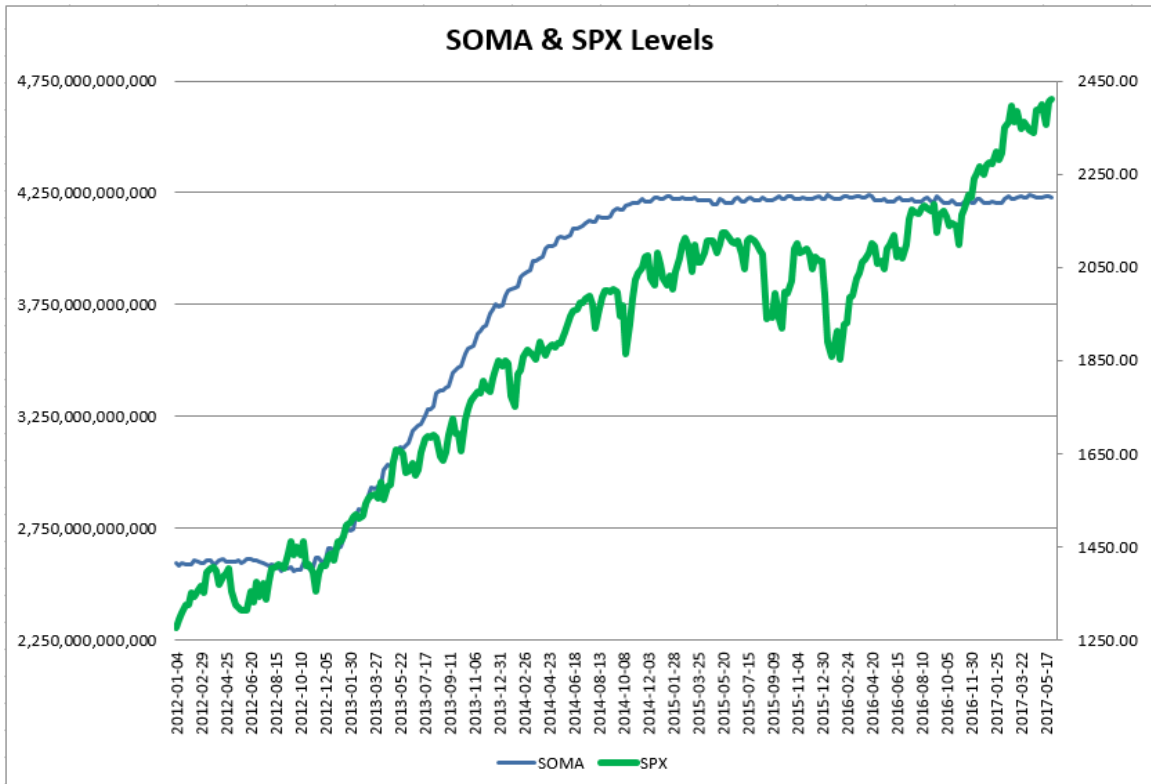
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 0.22%. This was in line with expectations based on the Fed's SOMA schedule. The 0.31% rise for the SPX over this same period was strong. Since the beginning of 2015 SPX has risen 64% of the time for a sum total of 12.60% during the 42 weeks in which SOMA expanded at least 0.01%. During the 83 other weeks (like this one) SPX has only risen 50% of the time and has gained a sum total of just 4.87%. Based on the reinvestment schedule the Fed has stuck to over the last two+ years, this current week is likely to come in flat or perhaps slightly down. But the following week it appears SOMA should rise a bit. So bulls should get the wind at their backs again 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. 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. Intermediate-term evidence is still leaning higher. And we saw 2 new studies emerge this past week that support the bullish case. The market keeps moving up, and with SPX and NASDAQ again at new highs, the long-term uptrend remains in force. We also have both price action indicators from the Market Timing Course still 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 like the last several weeks, 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

KMI – 1/3 @ \$18.42 (*bought at limit*)

Broad Market Large Cap CBI – 1(KMI)

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
KMI(1/3)	5/31/2017	\$18.38	\$18.95	3.10%		Catapult

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