

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 12, 2017

Volume 10 Issue 111

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The tight consolidation near a 50-day high suggests an upside edge.
- SPY's big outside day reversal pattern suggests a short-term upside edge.
- SOMA liquidity is expected to be positive through Wednesday and then turn negative.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is in a bullish formation, but the market has not pulled back much in an extended period of time. I am moderately bullish. I will be interested in the long side if Monday sees selling.

*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>						
June 12, 2017	50-high then 5-days sideways	1-3 days	Bullish	1.10%	-0.70%	-1.40%
June 12, 2017	3-high, 3-low, 3-low close > 200	1-5 days	Bullish			
June 9, 2017	SPY up 2 < 3 ago.	1-2 days	Bullish			
<b>Active - Long Term</b>						
June 12, 2017	50-high then 5-days sideways	1-10 days	Bullish	2.20%	-1.20%	-2.40%
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**

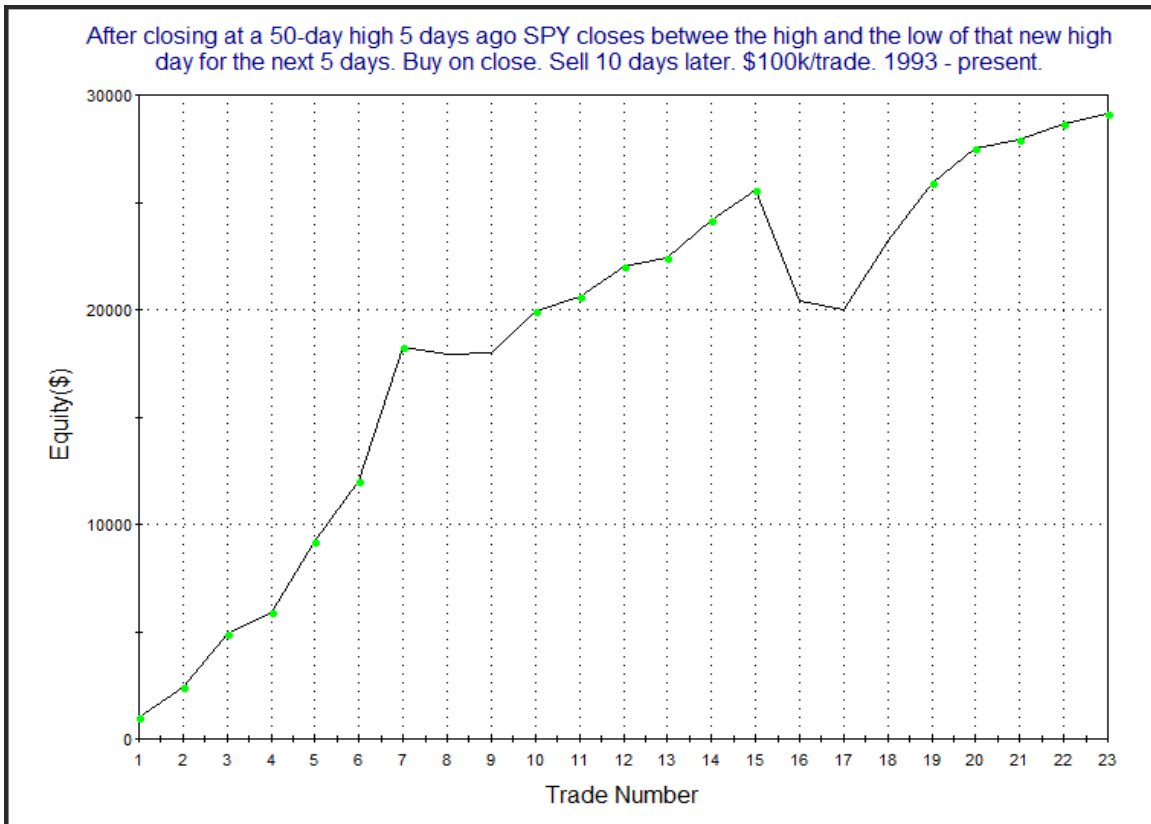
The market saw some volatility intraday and a mixed finish on Friday. The SPX lost 0.1%, the NASDAQ declined 1.8%, and the Russell 2000 rose 0.4%. Breadth was positive as the NYSE Up Issues % was 60% and the Up Volume % came in at 66%. NYSE volume rose for the 4<sup>th</sup> day in a row.

The range over the last week has been extremely tight. Every SPY close in the 5 days since 6/2 has been within the daily range of that 6/2/17 bar. It is said that consolidations are often resolved in the direction of the trend. This guideline suggests that we're more likely to see another leg up from here than a breakdown. The study below tests this concept. It was last seen in the 7/28/16 letter and has been updated.

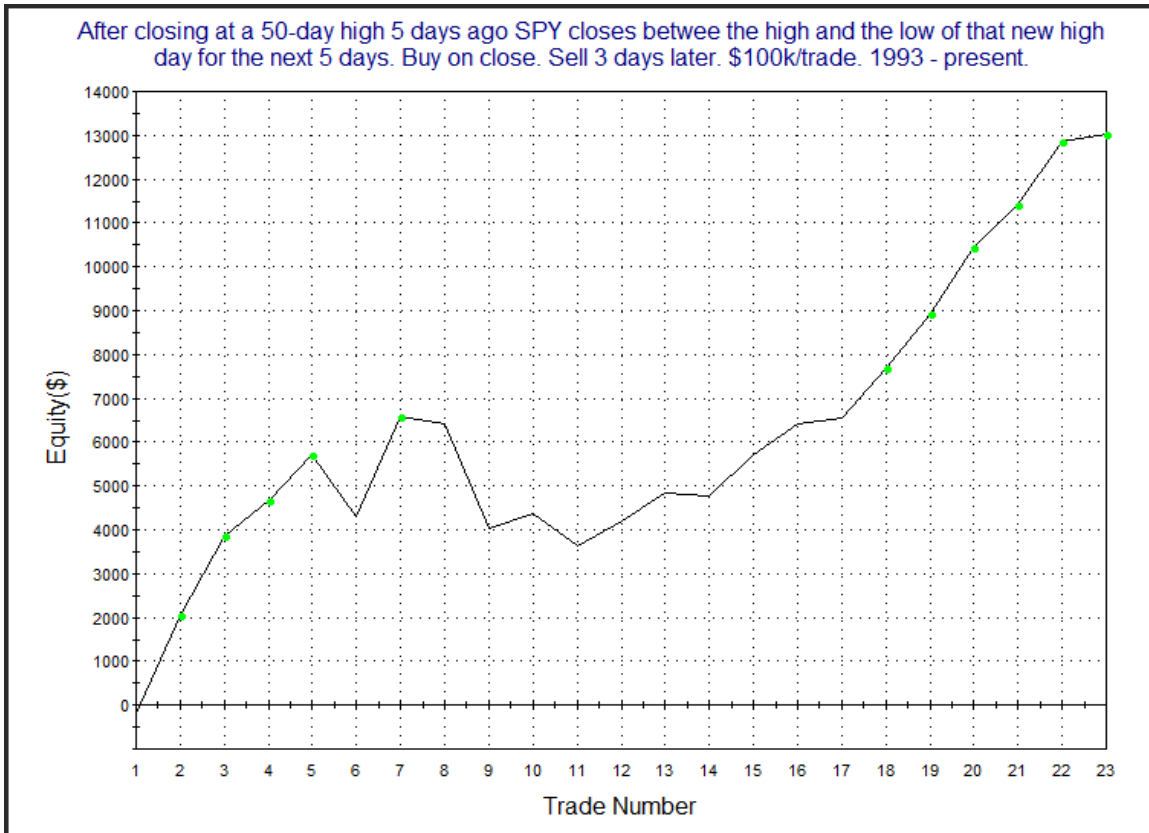
After closing at a 50-day high 5 days ago SPY closes between the high and the low of that new high day for the next 5 days. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: 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	29,142.32	23	20	3	86.96	1,751.82	6,287.04	-1,964.71	-5,182.56	0.89	5.94	1,267.06
9	26,757.06	23	21	2	91.30	1,411.38	6,322.56	-1,440.95	-2,251.44	0.98	10.28	1,163.35
8	25,905.78	23	20	3	86.96	1,517.32	6,287.04	-1,480.21	-2,060.28	1.03	6.83	1,126.34
7	17,685.66	23	18	5	78.26	1,396.70	5,339.84	-1,491.00	-3,472.29	0.94	3.37	768.94
6	9,526.72	23	15	8	65.22	1,255.98	3,362.56	-1,164.12	-2,992.38	1.08	2.02	414.21
5	11,397.97	23	13	10	56.52	1,455.13	3,031.04	-751.88	-2,425.20	1.94	2.52	495.56
4	13,339.09	23	15	8	65.22	1,224.38	2,806.08	-628.33	-1,541.60	1.95	3.65	579.96
3	13,036.75	23	17	6	73.91	1,061.82	2,296.96	-835.71	-2,368.80	1.27	3.60	566.82
2	6,197.90	24	16	7	66.67	769.68	1,817.10	-873.84	-1,627.93	0.88	2.01	258.25
1	40.94	24	13	11	54.17	465.12	1,433.49	-545.97	-1,100.97	0.85	1.01	1.71

**- 21 of 24 instances (88%) closed above the entry price within 3 days.**  
**- All instances closed above the entry price at some point in the next 2 weeks.**  
**- 21 of 24 instances (88%) also made a new 50-day high within the next 2 weeks.**

It certainly appears to confirm the old technical adage. Results favor the long side over the immediate 3-day period and they are even more impressive when looking out 8 to 10 days. Below are some equity curves to see how the edge has played out over time. First, the 10-day.



The persistent move from lower left to upper right serves as some confirmation of the upside edge. Next is the 3-day curve.



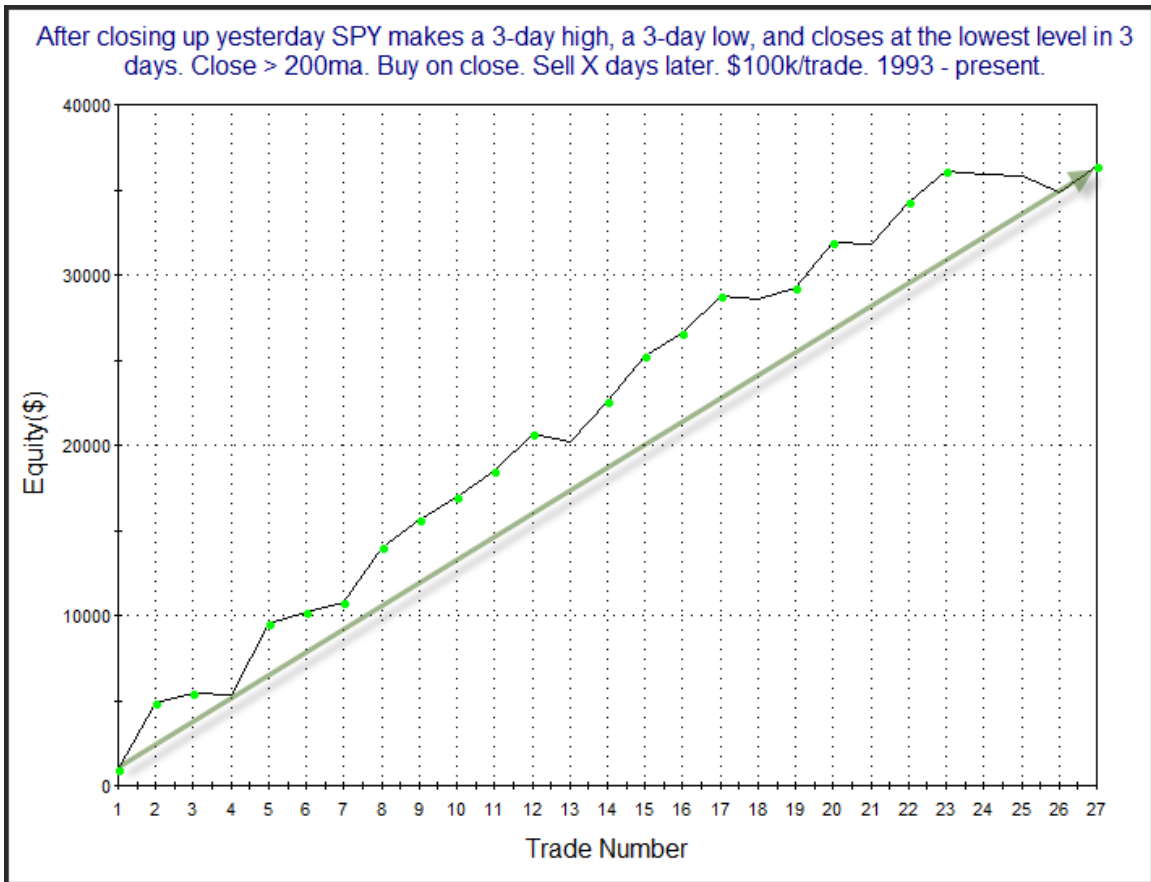
While mostly up the curve is a bit choppy. Of the 5 losses, two of them were fairly large. This suggests perhaps a little more risk in this setup than in some others we examine. Over the 3-day period the average run-up was 1.1% and the average drawdown was 0.7%. That is a comparatively large drawdown. It isn't very surprising though. Risks tend to be higher when you are trading near the upper end of a range. And a tight consolidation near a 50-day high seems to qualify. I will also note that the last 9 instances have all been winners. All considered, I find this study appealing and believe it is worth considering over both very short and intermediate-term timeframes.

SPY traded in a relatively wide range and closed down on Friday. The study below was last shown in the 1/20/17 subscriber letter. It looks for the reversal day to engulf both of the last two days, close at a three-day low, and still be above the 200ma. All results are updated.

After closing up yesterday SPY makes a 3-day high, a 3-day low, and closes at the lowest level in 3 days. 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
5	36,385.08	27	20	7	74.07	1,925.41	4,273.50	-303.29	-892.80	6.35	18.14	1,347.60
4	22,581.95	27	18	9	66.67	1,656.14	4,533.98	-803.17	-2,123.52	2.06	4.12	836.37
3	7,852.89	27	17	10	62.96	1,384.76	3,903.34	-1,568.80	-3,393.78	0.88	1.50	290.85
2	5,534.83	28	16	12	57.14	1,219.07	3,244.78	-1,164.19	-3,737.28	1.05	1.40	197.67
1	1,135.36	28	18	10	64.29	635.42	2,359.84	-1,030.22	-3,909.03	0.62	1.11	40.55

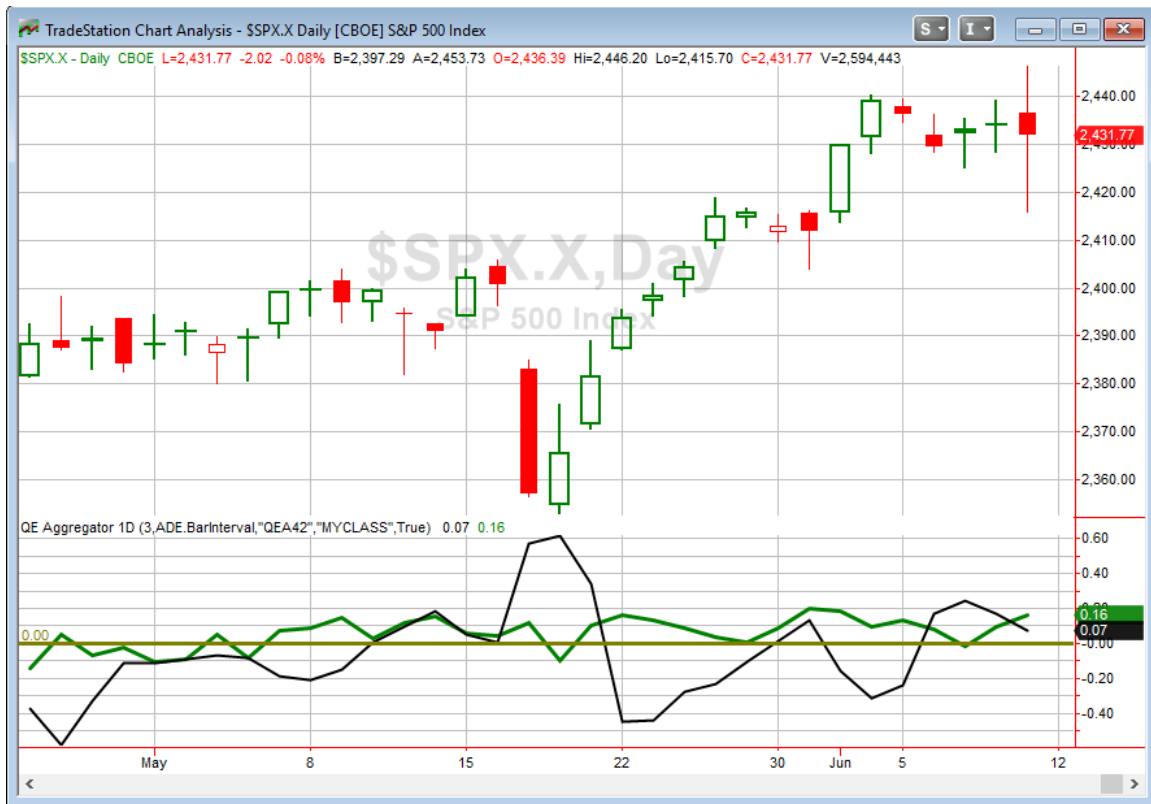
After the first couple of days there appears to be a strong and consistent upside edge. It is notable that with 27 instances, the biggest loser when looking out 5 days was less than 0.9%. Below is a profit curve that assumes a 5-day holding period.



After a couple instances that went nowhere, the last instance put in another new high. The strong curve appears to be a nice confirmation of the bullish suggestion by the stats table.

I'll also note that this upcoming week we have a Fed Day on Wednesday. Fed Days have shown a strong bullish tendency historically. And that bullish tendency has been even more pronounced if there is weakness (and perhaps worry) leading into the Fed Day. So that is something to keep in mind on Monday and Tuesday. I'll talk about the current Fed Day setup more in the next couple of days. Of course you can find a lot of Fed Day research on the blog, and in the book I wrote several years ago, "The Quantifiable Edges Guide to Fed Days". And right now I have a special offer going on where you can get the pdf version of "The Quantifiable Edges Guide to Fed Days", along with my Fed Day function code, for any size donation to the MS Society. [See details here.](#)

I have updated the Aggregator chart below.



With tonight's studies to consider the green Aggregator line remained 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 held 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. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2437.87 on Monday. That is just 0.25% above Friday's close. So for SPX to move from oversold to overbought versus expectations on Monday it will need to close up 0.25%

I don't love this setup, but it may be worth scaling into if the SPX sees further selling. My primary hangup is that the market has not pulled back sufficiently. It remains above its 10-day moving average and has now closed above there for 14 days in a row. So I won't jump in at the open on Monday, but I may be a buyer in the afternoon if the market closes down much. In any case, the evidence appears bullish. And if I could get a favorable entry in the next day or so, I'd like to take some long exposure.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 6/12 –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.*

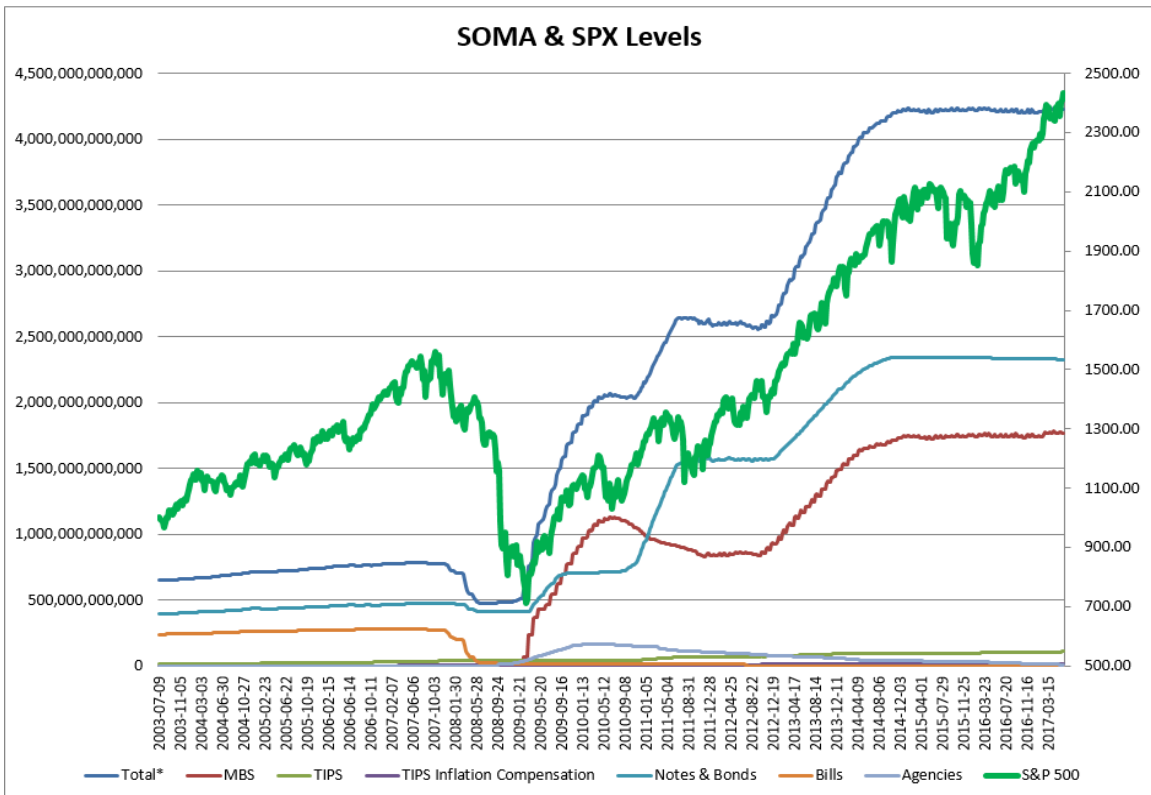
This was a consolidation week for the market. The SPX ended up with a mild 0.3% decline on the week, though it did make new intraday highs on Friday before pulling back. The only new study of intermediate-term significance that triggered was the one shown above in the short-term section.

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.

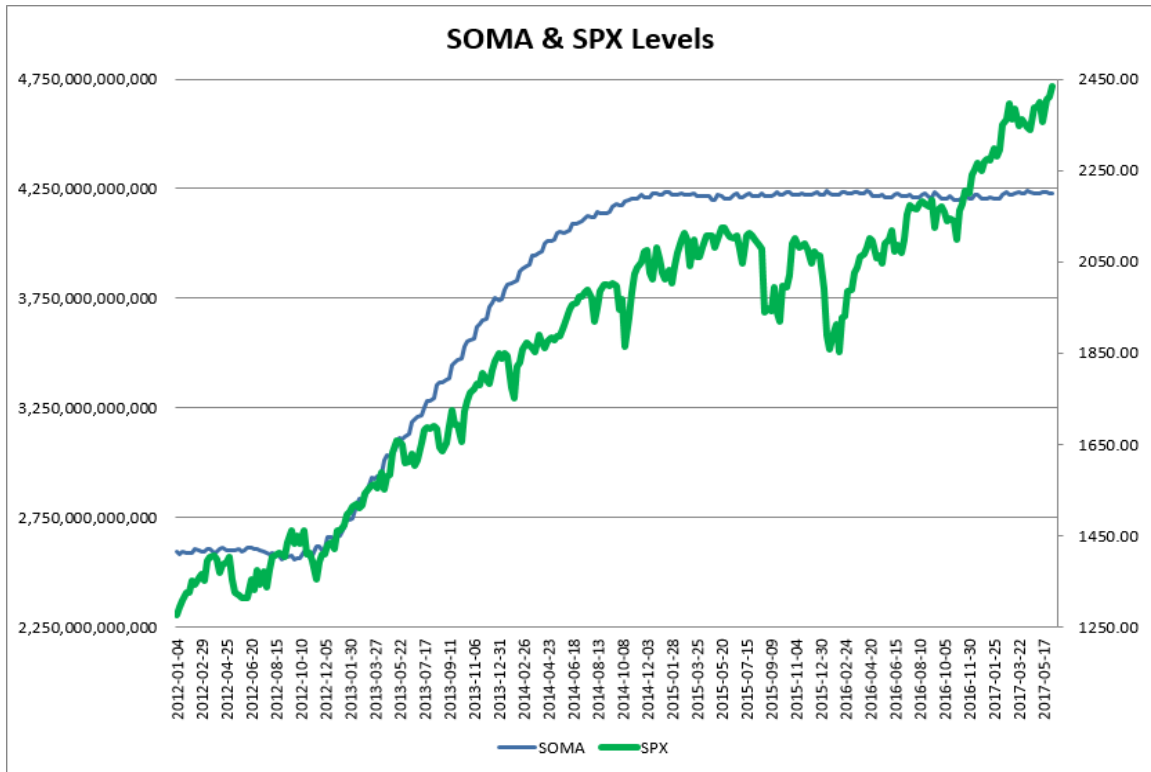
*SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities 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 basically breakeven with a rise of less than 0.01%. This was in line with expectations based on the Fed's SOMA schedule. The 0.88% 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 84 other weeks (like this one) SPX has only risen 51% of the time and has gained a sum total of just 5.75%. That's about half the gains in twice the time. Based on the reinvestment schedule the Fed has stuck to over the last two+ years, this current week is likely to rise a bit. But the following week it appears SOMA should likely decline some. So bulls will only have a wind at their back through 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 and a half 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 another new this past week that support the bullish case. The market keeps moving up, and with SPX posting a new intraday high on Friday, 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***

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.*

**SPY – buy ¼ index position at \$243.16 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to start scaling into an index trade on Monday if SPY closes below its 10ma.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KMI(1/3)	5/31/2017	\$18.38	\$19.08	3.81%		sell on open

*KMI reached its exit target and will be sold at the open on Monday.*

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