

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 3, 2017

Volume 10 Issue 126

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX closing under its 10ma and above its 200ma to finish the month suggests a bounce is likely over the next few days.
- A poor close to end the month suggests bullish odds for Monday.
- The NASDAQ has fallen back into a lagging position.

Short-term Outlook

The Bottom Line

The evidence appears somewhat bullish, and there is ample room to the upside before the market would turn overbought. I am short-term bullish.

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						
July 3, 2017	SPY close in bottom 1/2 range EOM	1 day	Bullish			
July 3, 2017	SPX<10>200 end of month	1-5 days	Bullish			
June 28, 2017	5-day low, weak close, > 200	1-5 days	Bullish			
Active - Long Term						
June 24, 2017	Hindenburg Omen cluster	1-35 days	Bearish	-7.00%		
June 2, 2017	SPX closes above 50-day Bollinger Band	1-50 days	Bullish	4.90%	-4.10%	-7.80%
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

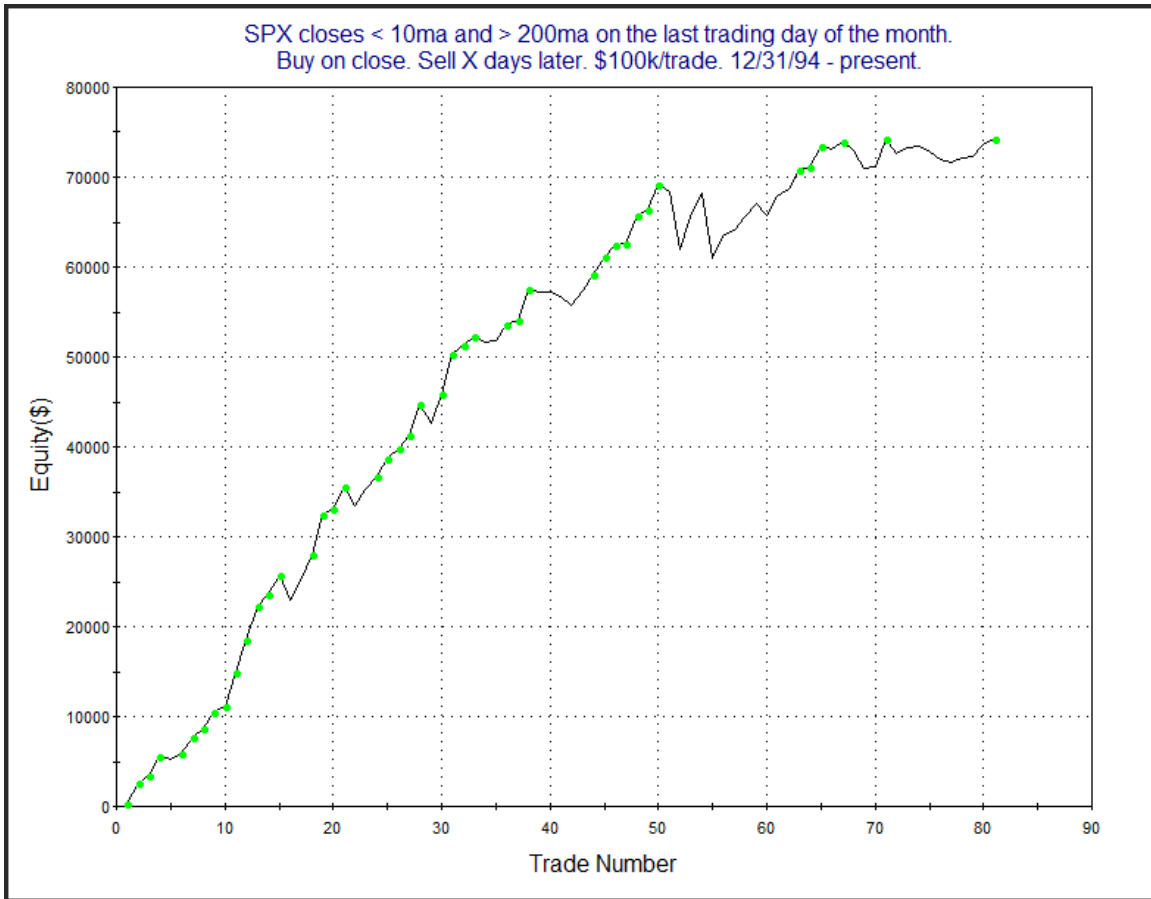
Friday started with a gap up, and though there was some late-day selling, the gap still never filled for SPY. The SPX finished up 0.15%, the NASDAQ declined 0.06%, and the Russell 2000 also dropped 0.06%. Breadth was positive as the NYSE Up Issues % was 60% and the Up Volume % came in at 57%. NYSE volume came in light going into what for many is a long holiday weekend.

There were a few turn-of-the-month studies worth discussing. The first study, last seen in the 9/1/16 letter, uses moving averages to examine times where the market is undergoing a short-term pullback during a long-term uptrend as a new month is entered. All stats are updated.

SPX closes < 10ma and > 200ma on the last trading day of the month. Buy on close. Sell X days later. \$100k/trade. 12/31/94 - 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	74,266.21	81	62	19	76.54	1,714.50	4,435.97	-1,685.94	-7,153.30	1.02	3.32	916.87
4	67,543.86	81	59	22	72.84	1,617.36	3,838.00	-1,267.28	-7,100.17	1.28	3.42	833.87
3	46,930.03	81	54	27	66.67	1,507.48	3,709.44	-1,276.81	-3,492.36	1.18	2.36	579.38
2	41,644.60	81	59	22	72.84	1,157.72	3,442.32	-1,211.86	-4,320.06	0.96	2.56	514.13
1	42,629.57	81	60	21	74.07	931.47	3,119.10	-631.36	-2,559.62	1.48	4.22	526.29

75 of 81 instances (93%) closed above the entry price at some point in the next week.

Day 1 has obviously provided strong numbers, but even beyond that there appears to be some follow through over the next few days. Below is a profit curve for the 5-day holding period.



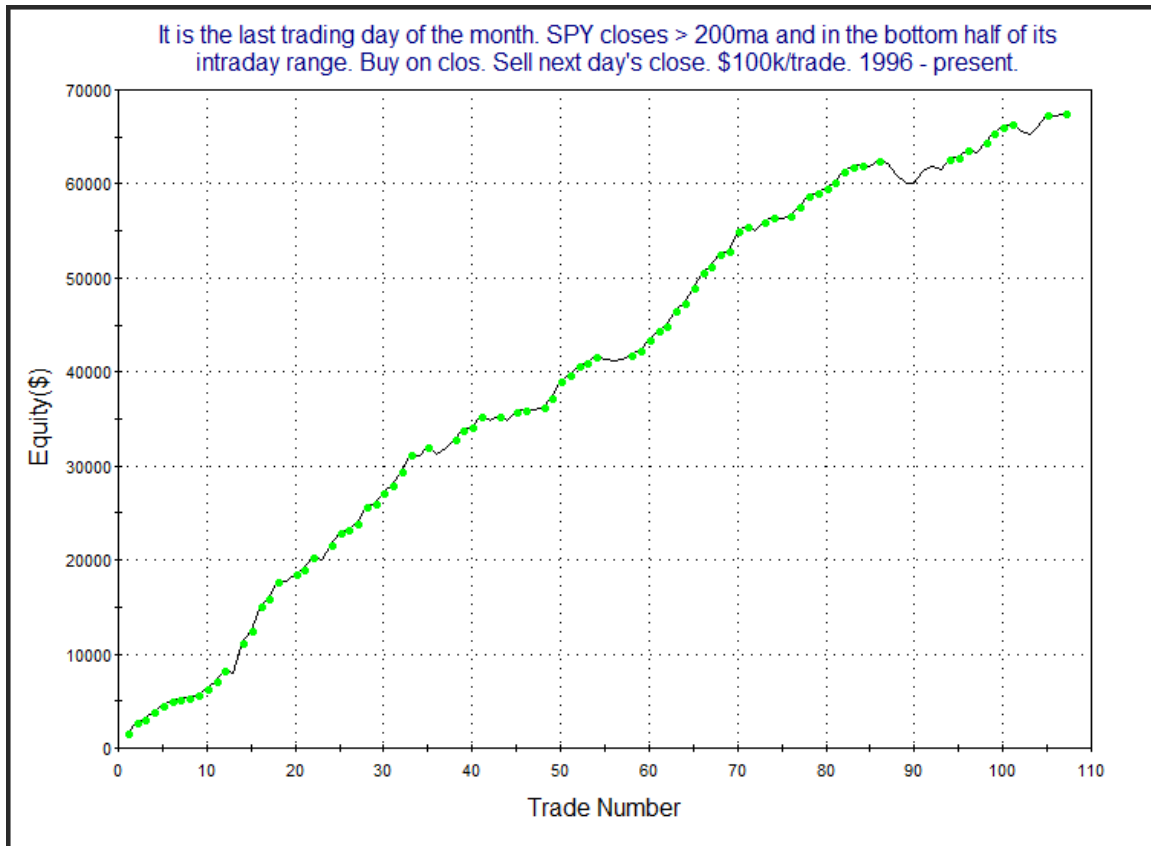
The curve has struggled a bit more recently, but the recent new highs suggest the bullish inclination remains intact.

I also showed another compelling turn of the month study last night. It broke out stats when SPY closed in the top half of its daily range versus the bottom half, and found that weak closes on the last day of the month led to much better returns on the 1st day of the next month. Below is have copied that study from the Thursday night letter.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on clos. Sell next day's close. \$100k/trade. 1996 - present.

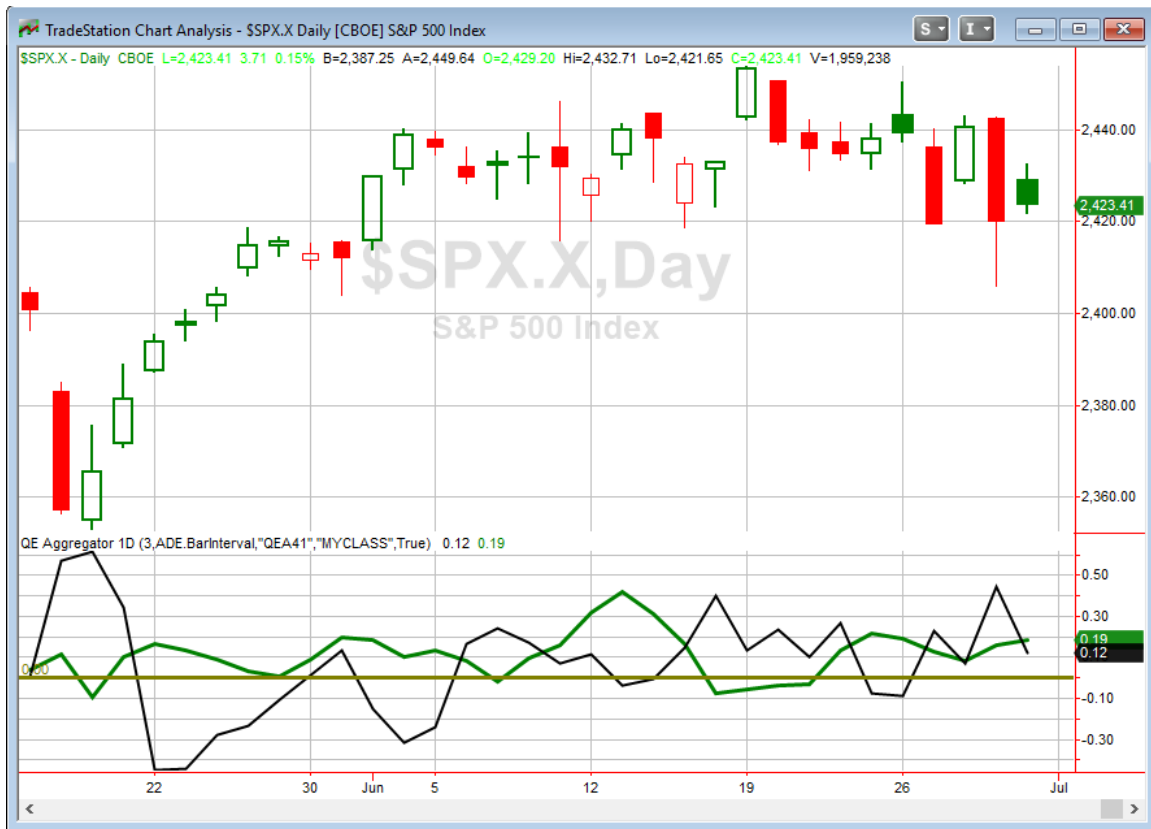
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$67,495.57	Profit Factor	9.00	
Gross Profit	\$75,934.75	Gross Loss	(\$8,439.18)	
Total Number of Trades	107	Percent Profitable	79.44%	
Winning Trades	85	Losing Trades	22	
Even Trades	0			
Avg. Trade Net Profit	\$630.80	Ratio Avg. Win:Avg. Loss	2.33	
Avg. Winning Trade	\$893.35	Avg. Losing Trade	(\$383.60)	
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)	

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 9x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 107 instances. Below is a profit curve.



The long and persistent upslope is impressive, and serves to confirm the numbers.

I have updated the Aggregator chart below.



With tonight's evidence 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 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. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2450.34 on Monday. That is 1.1% above Friday's close. So SPX will need to close up at least 1.1% in order to move from oversold to overbought as of Monday's close. With it being a shortened trading day ahead of a holiday, I would say that is unlikely. Instead, it will probably take a multi-day rally or consolidation to work off the oversold condition.

So evidence seems to be pointing to an upside edge. And the market remains oversold. This has the Aggregator bullish. And with ample room to the upside before the market would become overbought, it also has me interested in some long exposure.

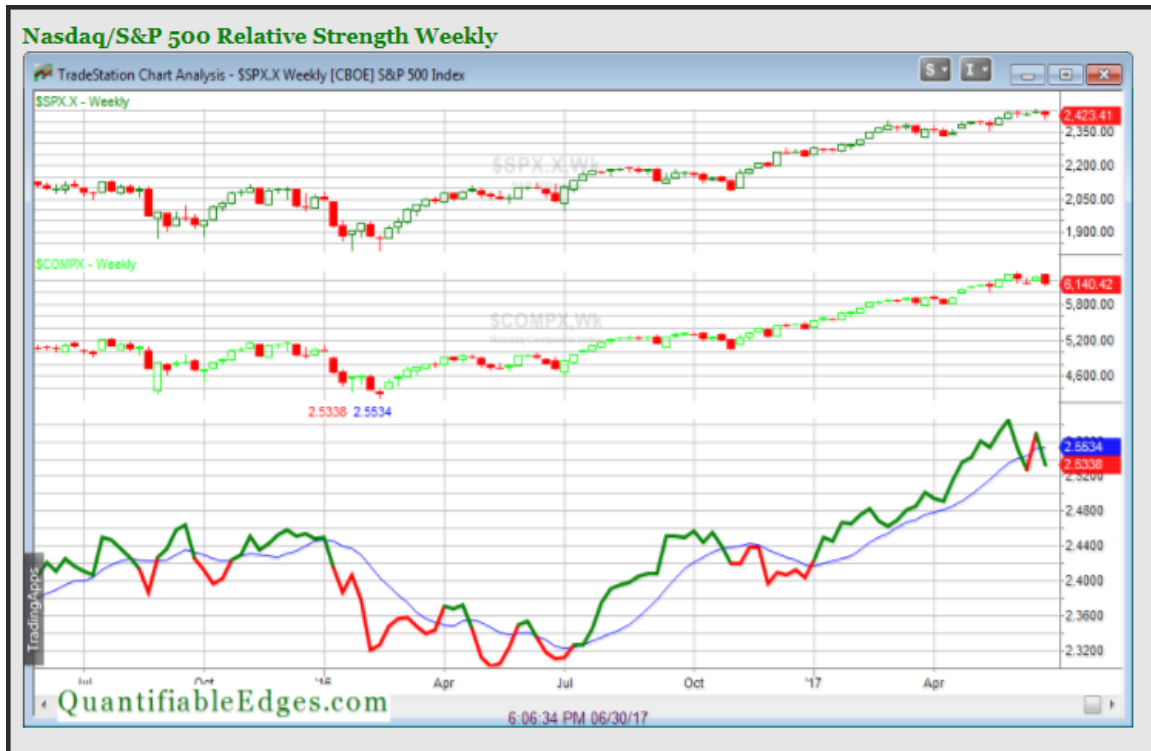
Intermediate-term Outlook (2 weeks – 2 months) – updated 7/3 –neutral

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

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 Combo Systems #2 & #3 both changed from “Long” to “Flat”.*

The SPX dipped a bit this past week and finished with a decline of 0.6%. And the NASDAQ did even worse. The relative underperformance of the NASDAQ caused it to fall back into a lagging position based on our NASDAQ/SPX Relative Strength Indicator. This was after just 1 week of it being in a leading position.

The chart below is the same as the one shown on the charts page and it shows the NASDAQ/SPX Relative Strength indicator at the bottom of the chart. The green line (which is about to turn red) moving down below the blue line is the signal that the NASDAQ is now lagging.



Since 4/9/71, which is the earliest data point after the inception of the Nasdaq in which the calculations could be run, until now, the SPX has gained 1878.88 points when the Nasdaq was in leading position. When the SPX has been leading during that time it has gained only 442.43 points. The NASDAQ differential has been even more exaggerated, with the NASDAQ gaining 5916.85 points while leading and only 115.19 points while lagging. More information on the indicator, including links to download the model in either Excel or Tradestation, can be found on [the Nasdaq Weekly Strength Model page](#).

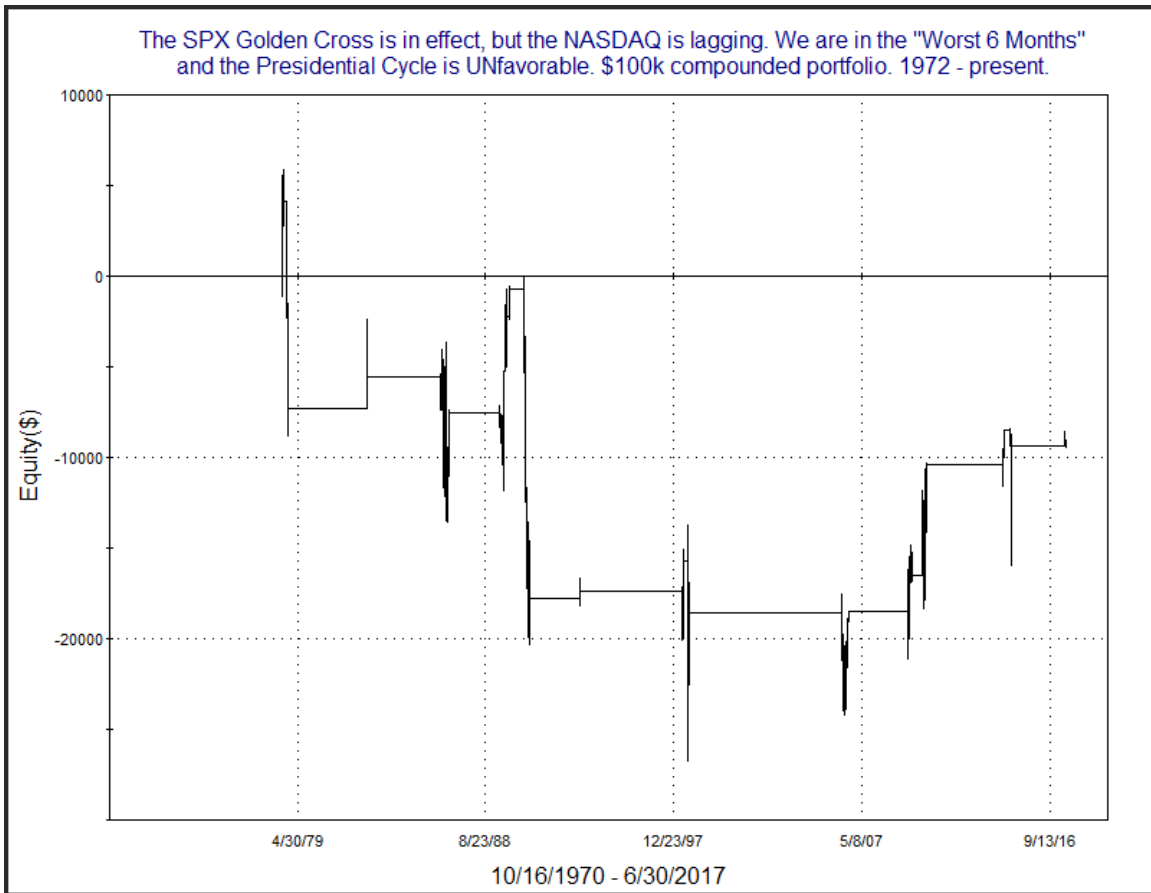
For those subscribers that also have access to the Market Timing Course (included with all annual subscriptions), this model is also discussed in detail there. The Excel model there is updated weekly, and also available for download (after completing the course). This model is one of the price-based indicators used for the course.

So let's now look and see how the SPX has performed when the Market Timing Course indicators have been in their current state.

The SPX Golden Cross is in effect, but the NASDAQ is lagging. We are in the "Worst 6 Months" and the Presidential Cycle is UNfavorable. \$100k/trade. 1972 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$6,786.08)	Profit Factor	0.81
Gross Profit	\$29,214.66	Gross Loss	(\$36,000.74)
Total Number of Trades	24	Percent Profitable	66.67%
Winning Trades	16	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	(\$282.75)	Ratio Avg. Win:Avg. Loss	0.41
Avg. Winning Trade	\$1,825.92	Avg. Losing Trade	(\$4,500.09)
Largest Winning Trade	\$6,311.04	Largest Losing Trade	(\$17,220.32)

The stats here are poor, as the market has historically generated a net loss under these conditions. Below I have produced a profit curve utilizing re-investment of capital and compounding.

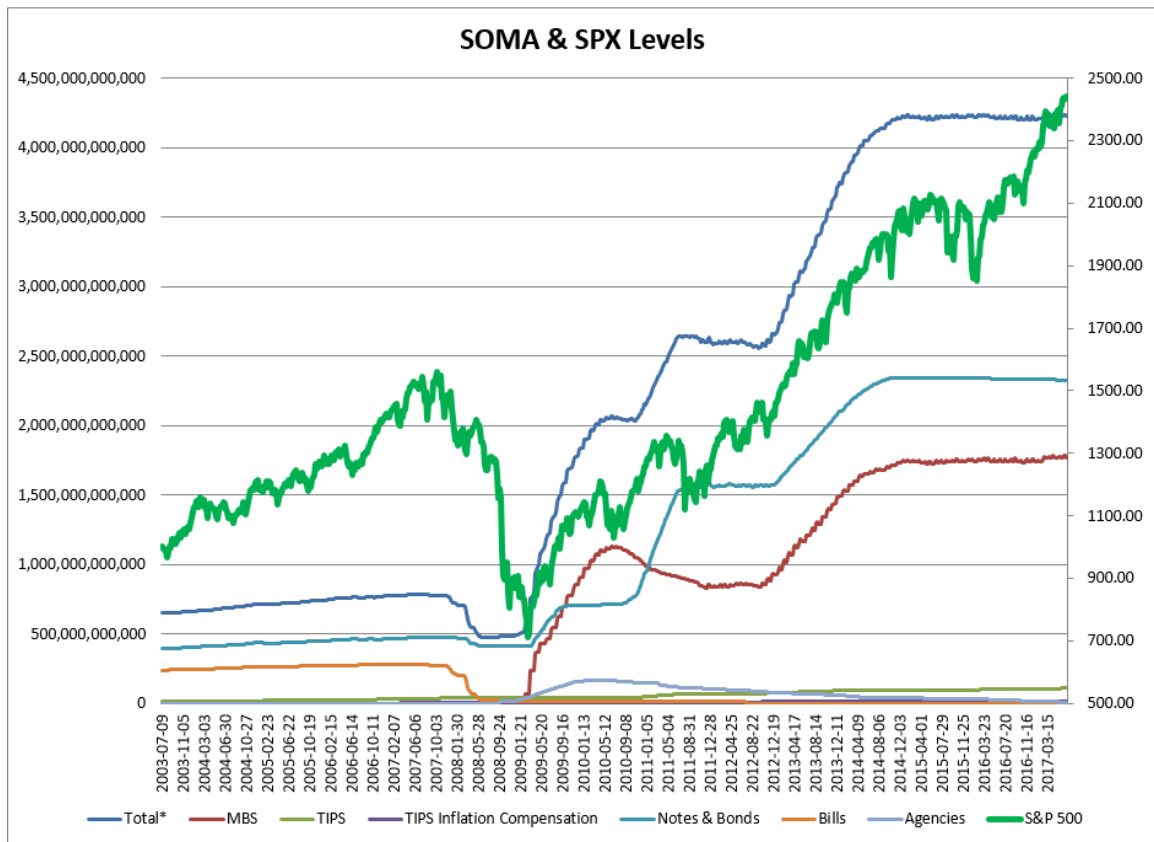


The setup has not done as poorly in recent times, but it is still not a favorable one for the market.

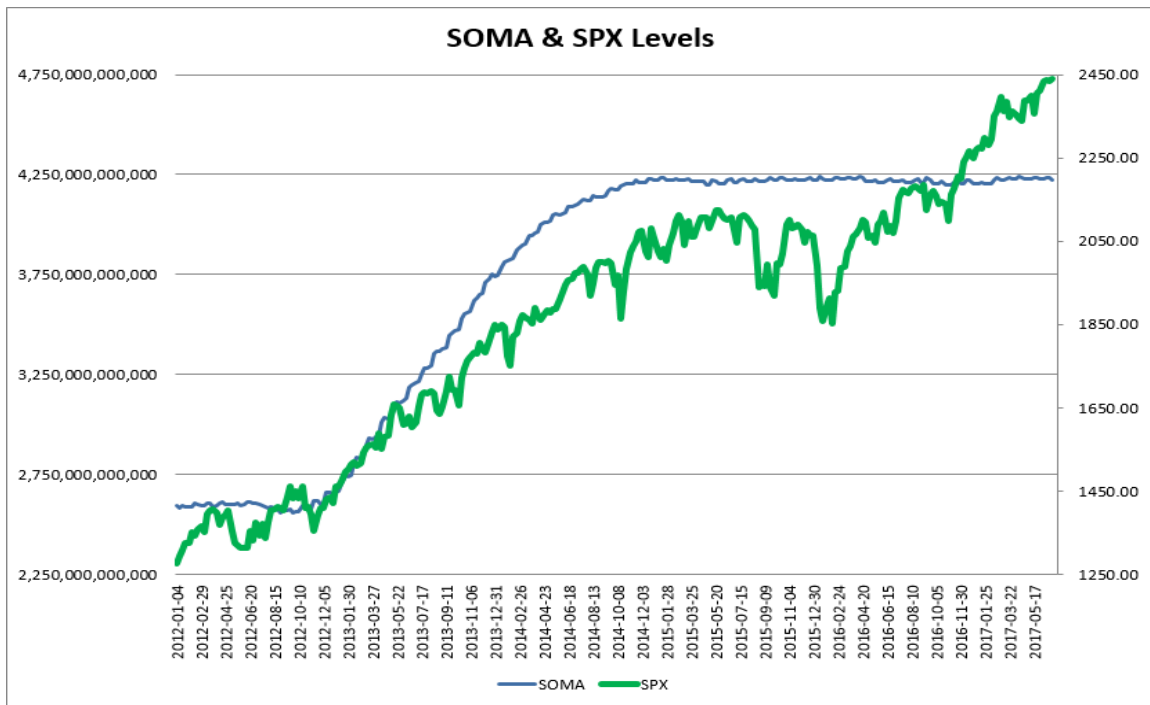
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) put in a decline of 0.26%. This was in line with expectations based on the Fed’s SOMA schedule. The 0.21% gain for the SPX over this same period was fairly typical. Since the beginning of 2015 SPX has risen 65% of the time for a sum total of 12.79% during the 43 weeks in which SOMA expanded at least 0.01%. During the 85 other weeks (like this one) SPX has only risen 51% of the time and has gained a sum total of just 5.87%. 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 not likely to see the SOMA change much. The following week is not completely clear. I could see either a flat close or a bit of a rise. So bulls may get some help from Fed liquidity 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 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.

Overall. Intermediate-term evidence does not look great. The NASDAQ is back to lagging and all the Market Timing Course signals are now flat. Additionally, the split market and Hindenburg Omen signals discussed last week are still active and suggest there could be more of a pullback. Bears also have overall weak Fed support, weak seasonality, and a

long-term divergence of new highs to point to. There are a couple of bullish intermediate-term studies that are still active, and the long-term trend still appears to be up. So I still don't find the case for either direction to be completely compelling. Therefore, I will remain neutral. This means I will be a little less aggressive with both longs and shorts, but am willing to take either for short-term trades.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

COST – 1/3 @ \$159.79 (bought @ limit)

COST – 1/3 @ \$157.13 (buy @ limit) – not filled – cancel for now

Broad Market Large Cap CBI – 2(COST-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.

SPY – buy 1/4 index position @ \$241.80 LIMIT. Based on the short-term outlook above, I will look to begin scaling into an index position if I can get filled at or below Friday's closing level.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
COST(1/3)	6/23/2017	\$159.40	\$159.93	0.33%		Catapult

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