

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 10, 2017

Volume 10 Issue 130

Market Overview



Signals Overview

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

Tonight's Research Points

- The steep drop in VXO may have signaled trouble if the market was in a downtrend, but does not appear concerning during a long-term uptrend.

Short-term Outlook

The Bottom Line

The evidence is bullish, the market is still oversold, and it appear the bounce should have a bit further to go.

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 7, 2017	System 100524	1-7 days	Bullish			
July 3, 2017	SPX<10>200 end of month	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 saw the market open higher and never look back. The SPX closed up 0.6%, the NASDAQ gained 1.0%, and the Russell 2000 rose 1.1%. Breadth was positive as the NYSE Up Issues % was 69% and the Up Volume % came in at 59%. NYSE declined some from Thursday's level.

The rally was accompanied by a very large drop in the VIX (and VXO, which is the old calculation for the VIX). Back in the 8/11/15 subscriber letter I noted that big drops in the VXO have had much different connotations depending on whether SPX is in a long-term uptrend or downtrend (as defined by its proximity to the 200ma). I decided to review those studies, which require a 15% 1-day VXO drop, in tonight's letter.

First let's consider what has followed when the large VXO drop has occurred during a long-term downtrend.

VXO closes down over 15%. SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-17,127.04	27	15	12	55.56	2,031.92	6,915.44	-3,967.15	-13,784.48	0.51	0.64	-634.33
4	-29,181.03	29	14	15	48.28	1,665.91	4,104.78	-3,500.25	-10,971.63	0.48	0.44	-1,006.24
3	-33,812.52	30	10	20	33.33	1,269.38	2,993.44	-2,325.32	-7,806.29	0.55	0.27	-1,127.08
2	-41,144.44	30	9	21	30.00	946.61	2,466.36	-2,364.95	-9,455.49	0.40	0.17	-1,371.48
1	-18,999.82	30	8	22	26.67	890.80	2,404.65	-1,187.56	-4,400.45	0.75	0.27	-633.33

We see here some bearish statistics over the 1-2 day period. There is rarely upside follow-through when fear dissipates that quickly during a downtrend.

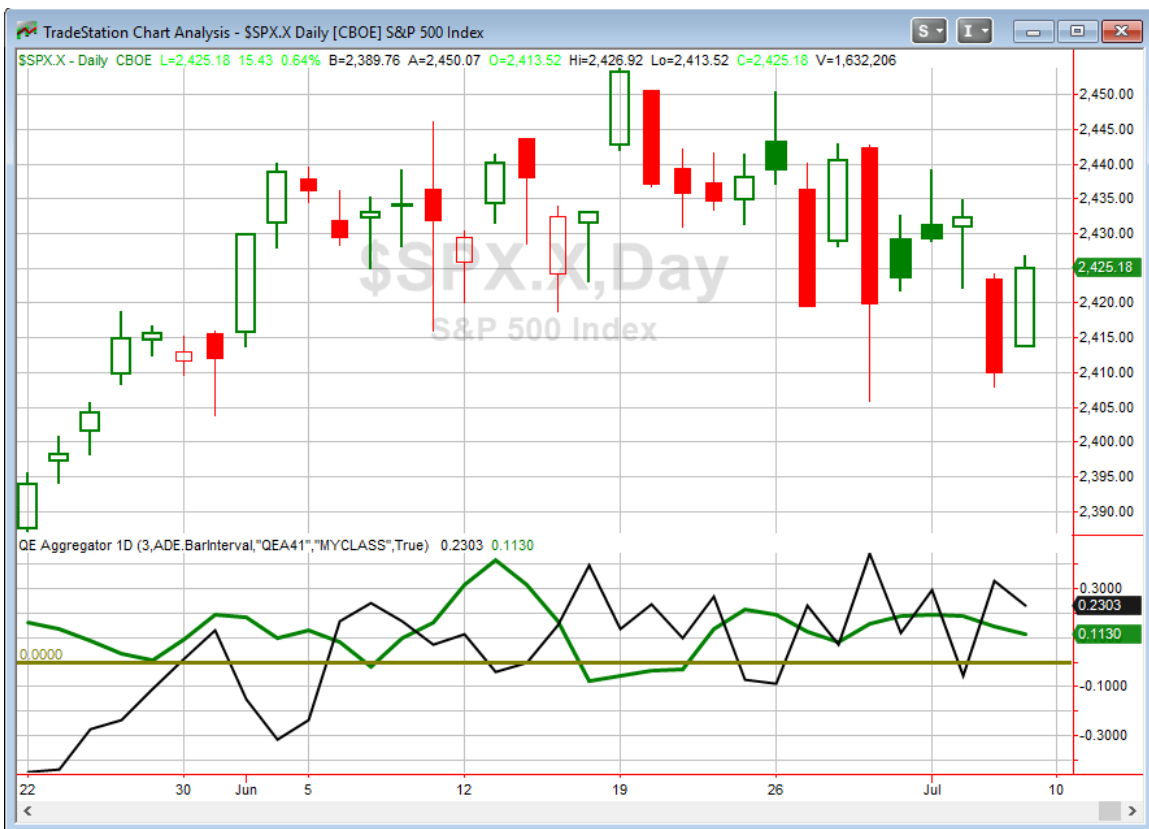
But now let's consider times like the present where SPX is in an uptrend.

VXO closes down over 15%. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	9,973.04	48	26	22	54.17	1,613.48	5,396.71	-1,453.52	-4,561.65	1.11	1.31	207.77
4	8,455.78	51	29	22	56.86	1,238.43	3,394.72	-1,248.13	-2,927.52	0.99	1.31	165.80
3	8,779.69	53	28	25	52.83	1,272.47	3,276.14	-1,073.97	-3,629.81	1.18	1.33	165.65
2	6,514.40	54	31	23	57.41	1,075.44	3,075.73	-1,166.27	-5,300.66	0.92	1.24	120.64
1	3,939.54	57	29	28	50.88	843.39	2,842.84	-732.82	-3,572.94	1.15	1.19	69.11

Here there is no hint of a short-term bearish inclination. In fact the setup has shown slight gains for each of the time periods measured. I don't think the numbers are strong enough to consider this a bullish setup, but it certainly is not bearish.

I have updated the Aggregator chart below.



Without any new short-term 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. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2446.16 on Monday. That is 0.9% point above Friday's close. So SPX would need to close up at least 0.9% on Monday in order to move from oversold to overbought.

So it appears this bounce should have a bit further to go. Unfortunately for me, the unfilled gap up on Friday left me without an index position, though I do have some smaller stock positions active. If I had a position, I would continue to hold it, but I am not inclined to chase it here. I will instead wait to see how Monday plays out and re-evaluate on Monday night.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/10 –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 all 3 Combo Systems remained “Flat”.*

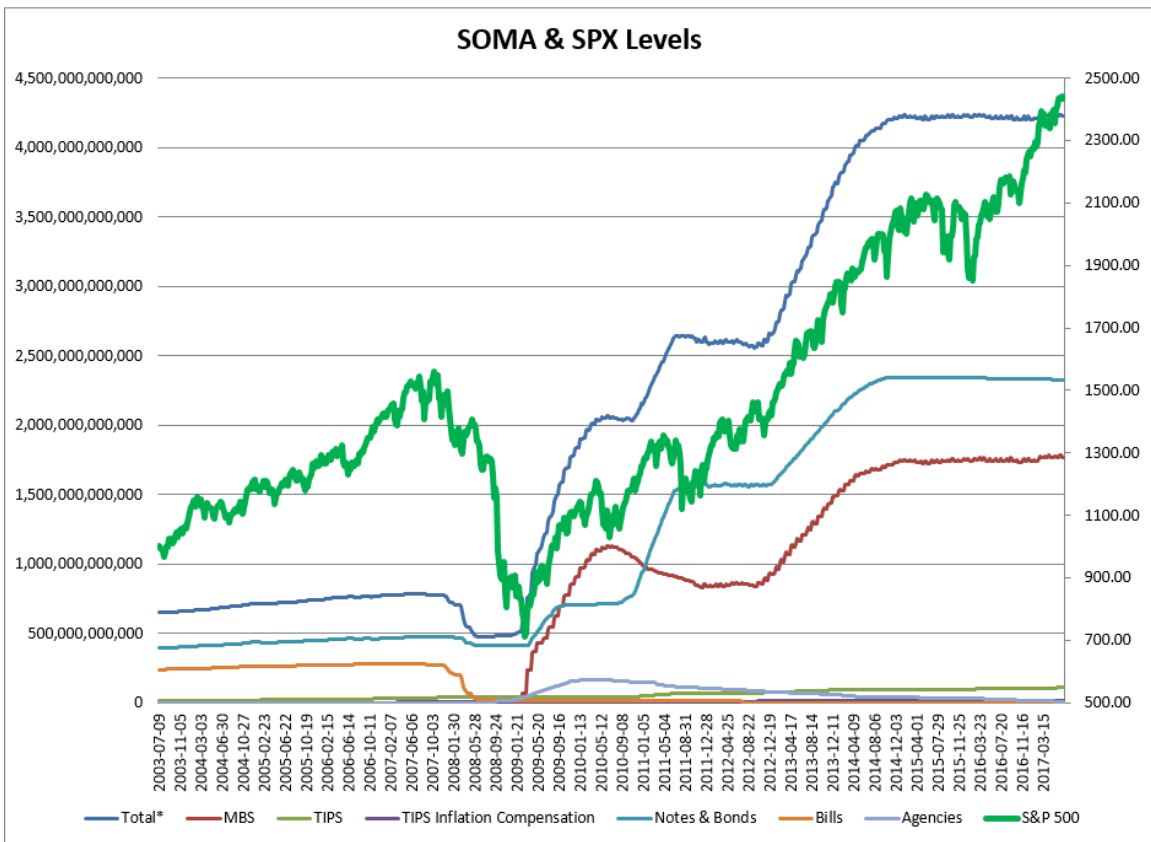
The SPX came in basically flat this past week with a rise of less than 2 points over last Friday. The NASDAQ also posted a very small gain. There were no new studies with intermediate-term implications that emerged.

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.

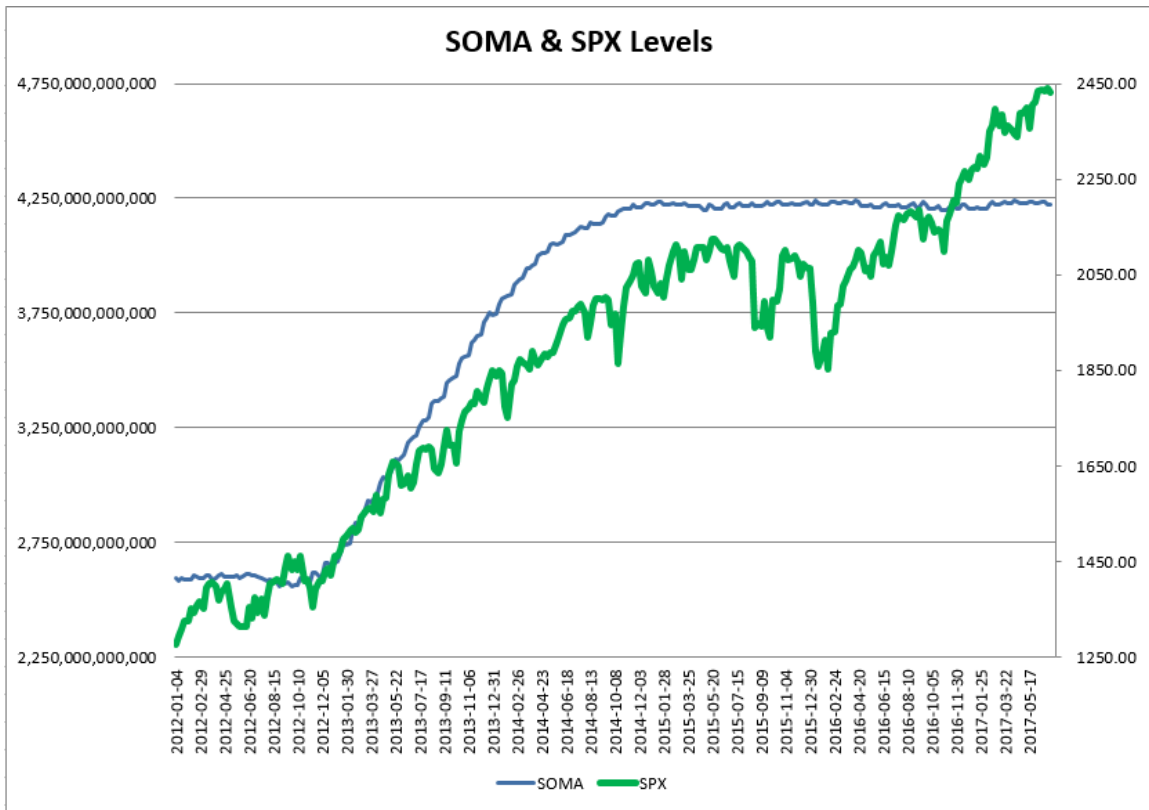
SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when

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) put in a very slight rise of less than 0.01%. This was in line with expectations based on the Fed’s SOMA schedule. The 0.33% loss for the SPX over this same period was not surprising. 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 86 other weeks (like this one) SPX has only risen 50% of the time and has gained a sum total of just 5.53%. That’s less than 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 completely clear. I could see either a flat close or a bit of a rise. If we do not see a rise this week, then we should the following one. So bulls should get some help from Fed liquidity at some point in the next 10 days.

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.

The intermediate-term outlook is much the same as it was last week. The NASDAQ is lagging and all the Market Timing Course signals are now flat. Additionally, the split market and Hindenburg Omen signals discussed a few weeks ago 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

KHC – 1/3 @ \$83.79 (bought @ limit)

KHC – 1/3 @ \$82.82 (bought @ limit)

SO – 1/3 @ \$47.40 (bought @ limit)

New

SO – 1/3 @ \$47.36 (buy @ limit)

Broad Market Large Cap CBI – 4(KHC-2, SO-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.

SO – buy 1/3 Catapult position @ \$47.36 LIMIT. This is from the Catapult section above. It is the 2nd of 3 possible lots for SO.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>COST(1/3)</i>	<i>6/23/2017</i>	<i>\$159.40</i>	<i>\$157.36</i>	<i>-1.28%</i>		<i>sold on open</i>
KHC(1/3)	7/6/2017	\$83.30	\$83.04	-0.31%		Catapult
KHC(1/3)	7/7/2017	\$82.58	\$83.04	0.56%		Catapult
SO(1/3)	7/7/2017	\$47.40	\$47.36	-0.08%		Catapult

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