

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 31, 2017

Volume 10 Issue 145

Market Overview



Signals Overview

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

Tonight's Research Points

- A poor close to end the month could suggest bullish odds for Friday.
- The Fed's SOMA account is not likely to see much of a move this week.

Short-term Outlook

The Bottom Line

The Aggregator suggests a bullish edge. But the market has been stubborn about pulling back to offer a favorable entry. I like the long side, and will look to take on some exposure if I can get a good fill on Monday afternoon.

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 28, 2017	3-high, 3-low, 3-low close	1-5 days	Bullish	1.90%	-1.20%	-2.50%
July 27, 2017	100-day high on a Fed Day	1-6 days	Bullish			
Active - Long Term						
July 26, 2017	SPX rises. Highest volume in 20 days	1-10 days	Bullish			
July 20, 2017	RSI2 crosses over 99. SPX > 200ma.	1-15 days	Bullish	2.30%	-1.40%	-2.70%
July 17, 2017	NASDAQ Leading	int term	Bullish			
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 mostly lower, but it closed near its highest levels of the day. The SPX closed down 0.1%, the NASDAQ fell 0.1%, and the Russell 2000 lost 0.3%. Breadth was mixed as the NYSE Up Issues % was 53% and the Up Volume % came in at 43%. NYSE volume came in very light.

Friday's quiet follow-up to Thursday's wide-ranging action did not suggest anything suggesting a substantial short-term edge. The pullback over the last two days has SPX near its 10-day moving average, but it managed to close above it on Friday for the 15th day in a row. I generally prefer to see pullbacks close below that line to ensure enough bulls have been shaken out for a bounce to ensue. This is especially true when it has spent an extended time above the line. SPX is not below the 10ma yet, but it is very close. And even a flat close on Monday would see the 10ma cross up through the SPX closing price.

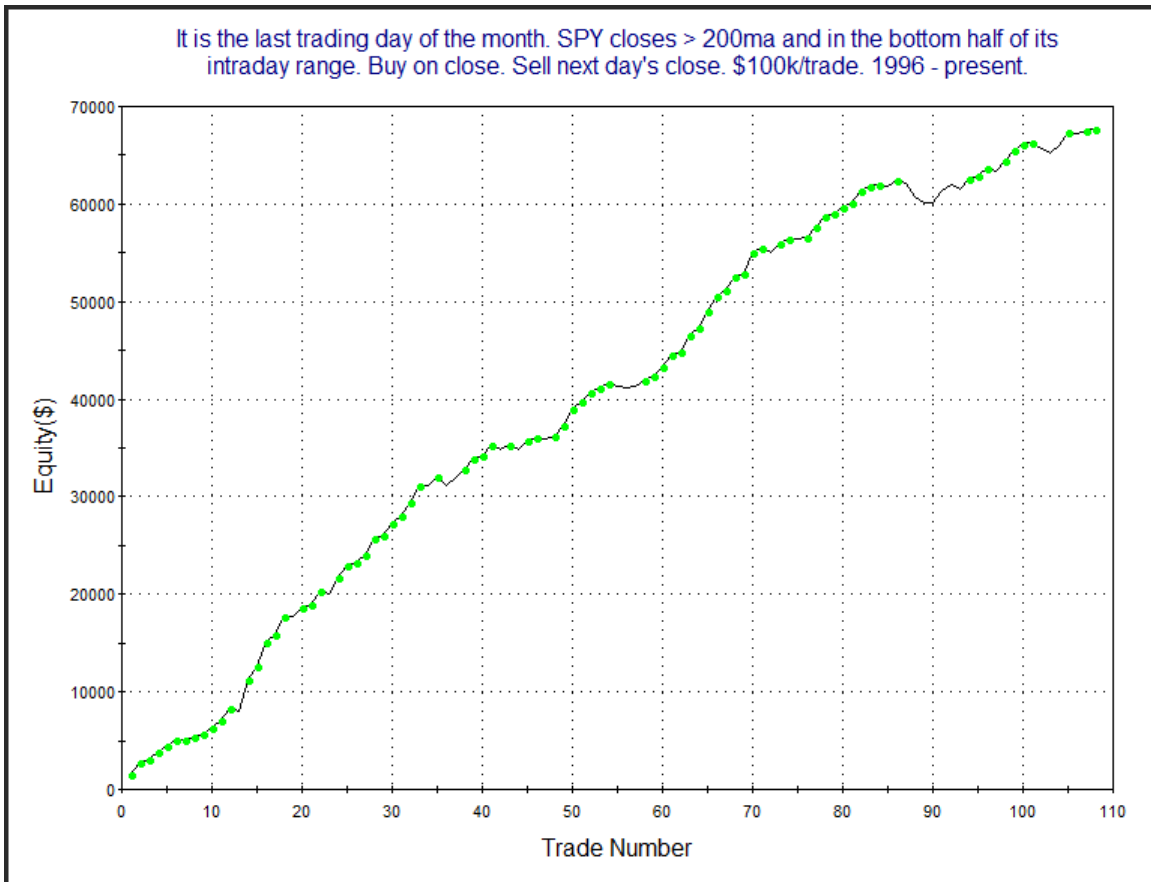
It is also worth noting that Monday is the last trading day of the month. In the 6/30/17 letter I showed some studies about the 1st trading day of the month based on how the last trading day of the previous month performed. I have updated those studies below.

The first study looks at times where the market closed in the bottom half of its range on the last day of the month.

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

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$67,664.90	Profit Factor	9.02
Gross Profit	\$76,104.08	Gross Loss	(\$8,439.18)
Total Number of Trades	108	Percent Profitable	79.63%
Winning Trades	86	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	\$626.53	Ratio Avg. Win:Avg. Loss	2.31
Avg. Winning Trade	\$884.93	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 108 instances. Below is a profit curve.



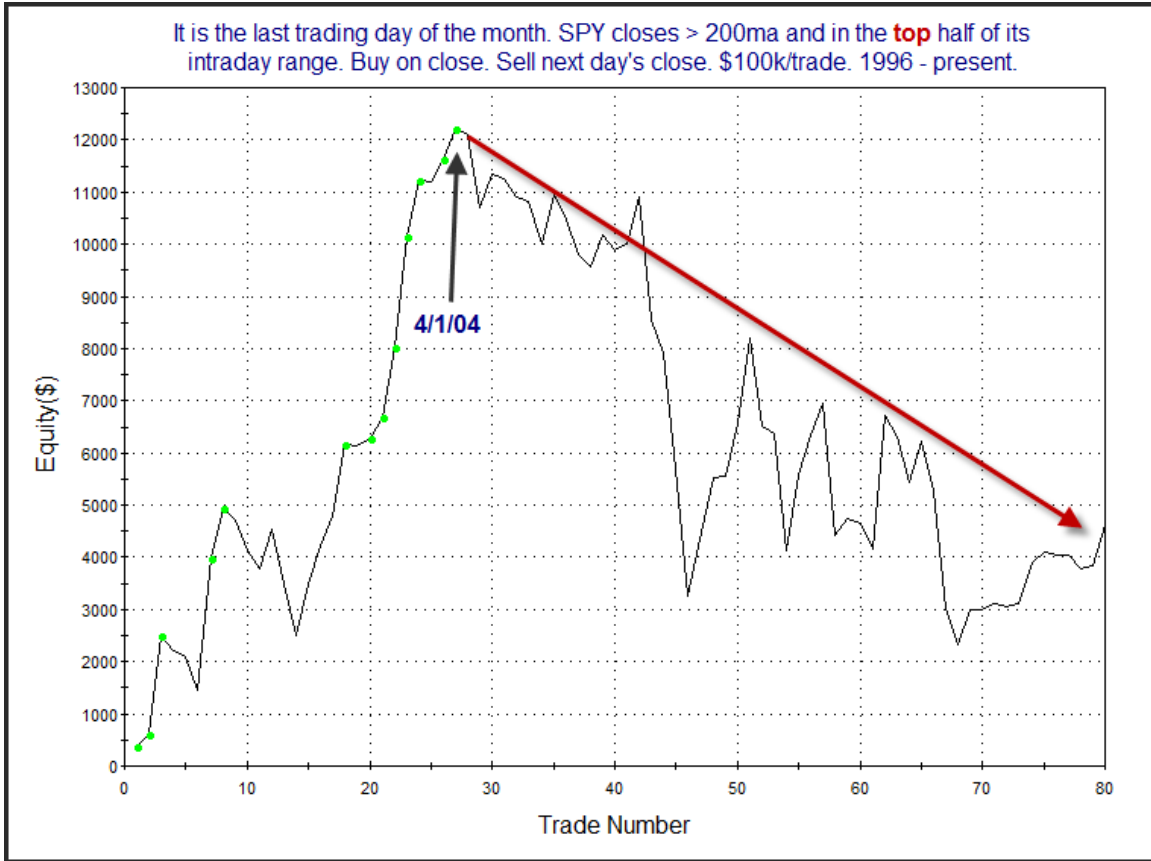
The long and persistent upslope is impressive, and serves to confirm the numbers.

Let's also examine what the results would have looked like if SPY closed in the top half of its intraday range. (Also from the 6/30/17 letter.)

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

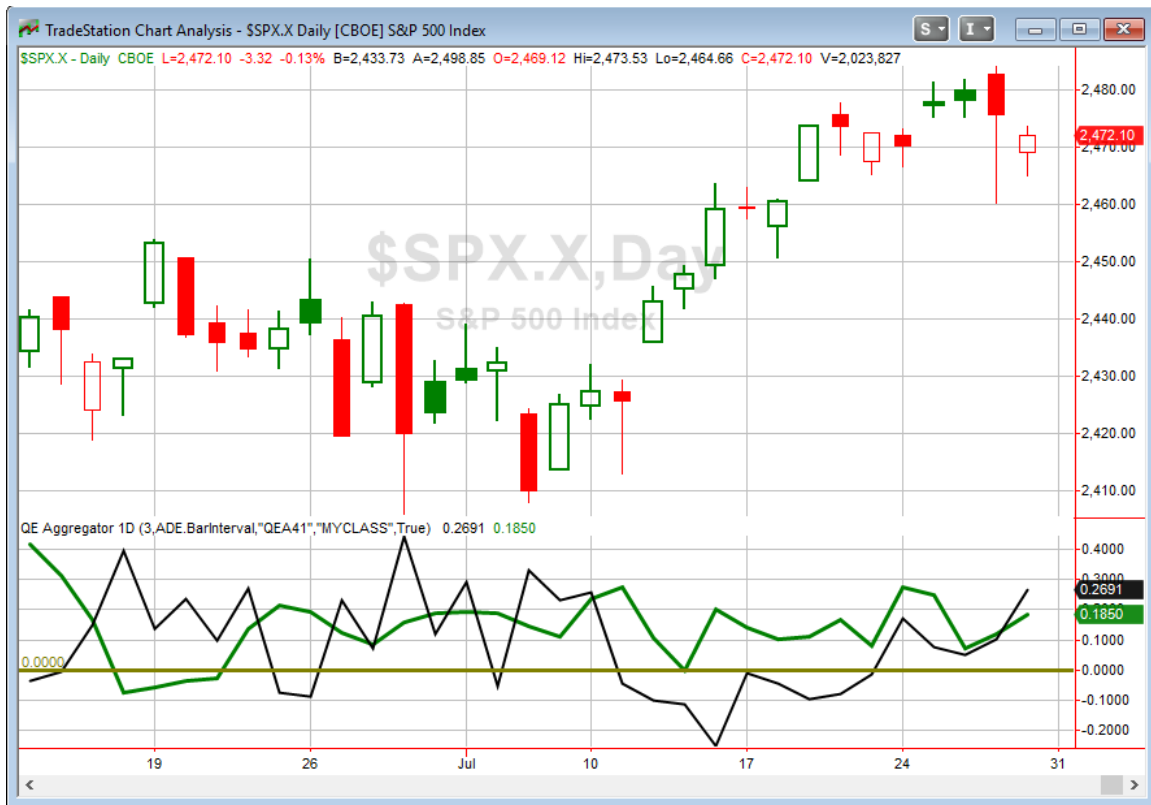
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$4,628.83	Profit Factor	1.16
Gross Profit	\$33,848.14	Gross Loss	(\$29,219.31)
Total Number of Trades	80	Percent Profitable	52.50%
Winning Trades	42	Losing Trades	38
Even Trades	0		
Avg. Trade Net Profit	\$57.86	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$805.91	Avg. Losing Trade	(\$768.93)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



This paints an even bleaker picture.

I have updated the Aggregator chart below.



With tonight's evidence considered, 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 compelling new bearish studies could change this. The Differential Pivot will be 2492.61 on Monday. That is 0.8% above Friday's close. So SPX would need to close up 0.8% on Monday in order to move from oversold to overbought versus expectations.

The setup looks pretty good based on the Aggregator. Expectations are nicely positive, the SPX is oversold versus expectations, and there is a decent amount of room to the upside to profit before SPX would turn from oversold to overbought. But as I mentioned above, new evidence from Friday is lacking, and SPX has now gone 15 days without a close below its 10ma. So Monday I will be looking to take on some long exposure – but only if I can get a favorable entry in the afternoon.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/31 – bullish

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

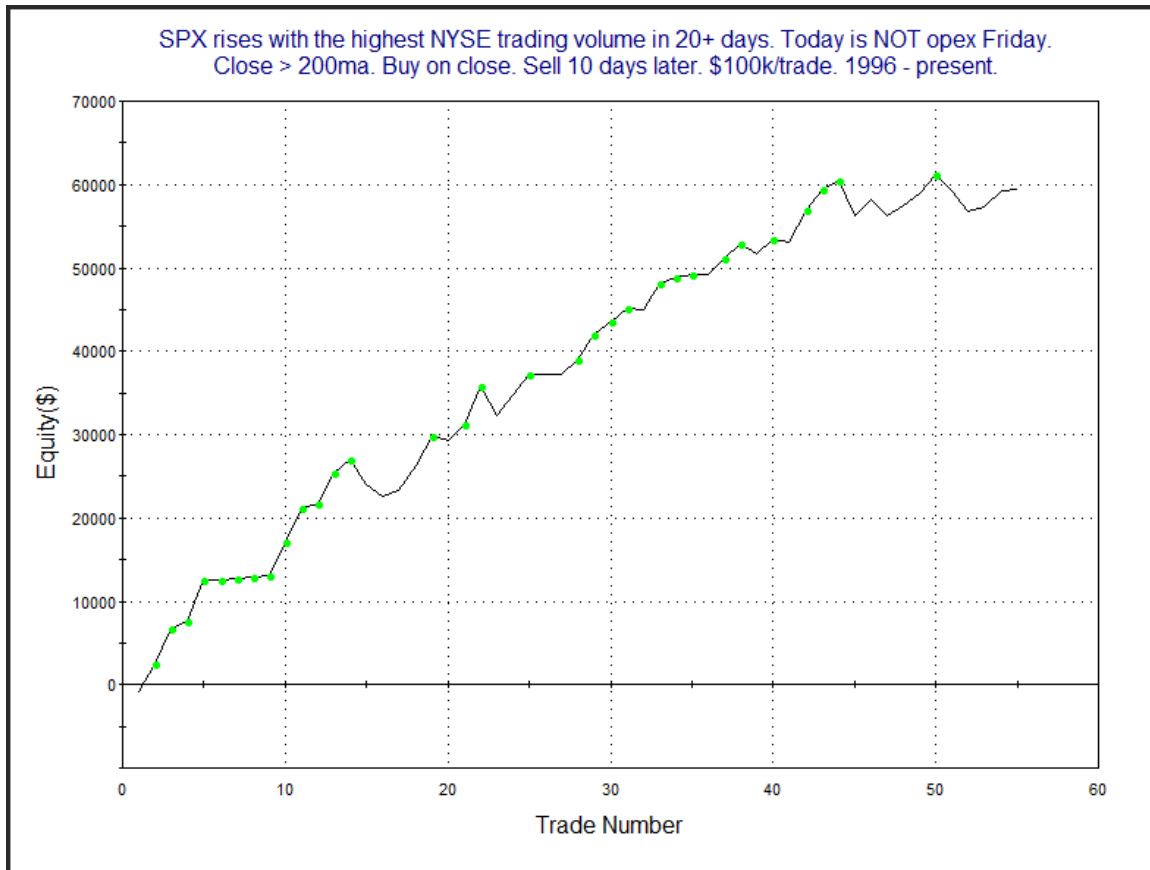
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 was no change in the Combo Systems. Combo Systems #2 & #3 both remained “Long” while #1 is “Flat”.*

The past week was basically breakeven for the SPX as it posted a small decline of less than ½ point. The NASDAQ also saw a small decline, in that case about 0.2%. Prior to pulling back a little over the last 2 days, both indices made all-time highs. There was one study with intermediate-term implications that was shown in the 7/26 letter. I have copied it below.

The high volume provided an interesting bit of evidence. When the market has risen on extremely high volume on a day other than op-ex Friday, that has typically been a good sign. Below is a study last shown in the 3/19/15 subscriber letter that demonstrates this.

SPX rises with the highest NYSE trading volume in 20+ days. Today is NOT opex Friday. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1996 - 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	59,464.95	55	40	15	72.73	2,022.79	4,885.00	-1,429.78	-4,242.42	1.41	3.77	1,081.18
9	52,661.76	55	40	15	72.73	1,895.14	5,451.25	-1,542.93	-5,429.38	1.23	3.28	957.49
8	51,181.03	55	42	13	76.36	1,754.44	4,174.09	-1,731.20	-5,492.28	1.01	3.27	930.56
7	39,101.54	57	41	16	71.93	1,725.18	4,869.18	-1,976.93	-5,526.30	0.87	2.24	685.99
6	37,782.36	60	40	20	66.67	1,765.59	5,552.91	-1,642.07	-4,857.36	1.08	2.15	629.71
5	27,274.72	61	41	20	67.21	1,448.37	4,683.84	-1,605.42	-4,459.24	0.90	1.85	447.13
4	24,407.05	64	39	25	60.94	1,375.64	4,518.75	-1,169.71	-4,368.22	1.18	1.83	381.36
3	16,065.39	66	43	23	65.15	1,052.01	3,216.85	-1,268.31	-3,332.96	0.83	1.55	243.42
2	6,175.16	67	40	27	59.70	804.58	2,830.24	-963.27	-3,844.10	0.84	1.24	92.17
1	8,608.49	80	45	35	56.25	618.80	2,368.66	-549.65	-2,302.95	1.13	1.45	107.61

The statistics appear to suggest a solid bullish edge over the next couple of weeks. Below is an equity curve using a 10-day exit strategy that shows how the edge has played out over time.



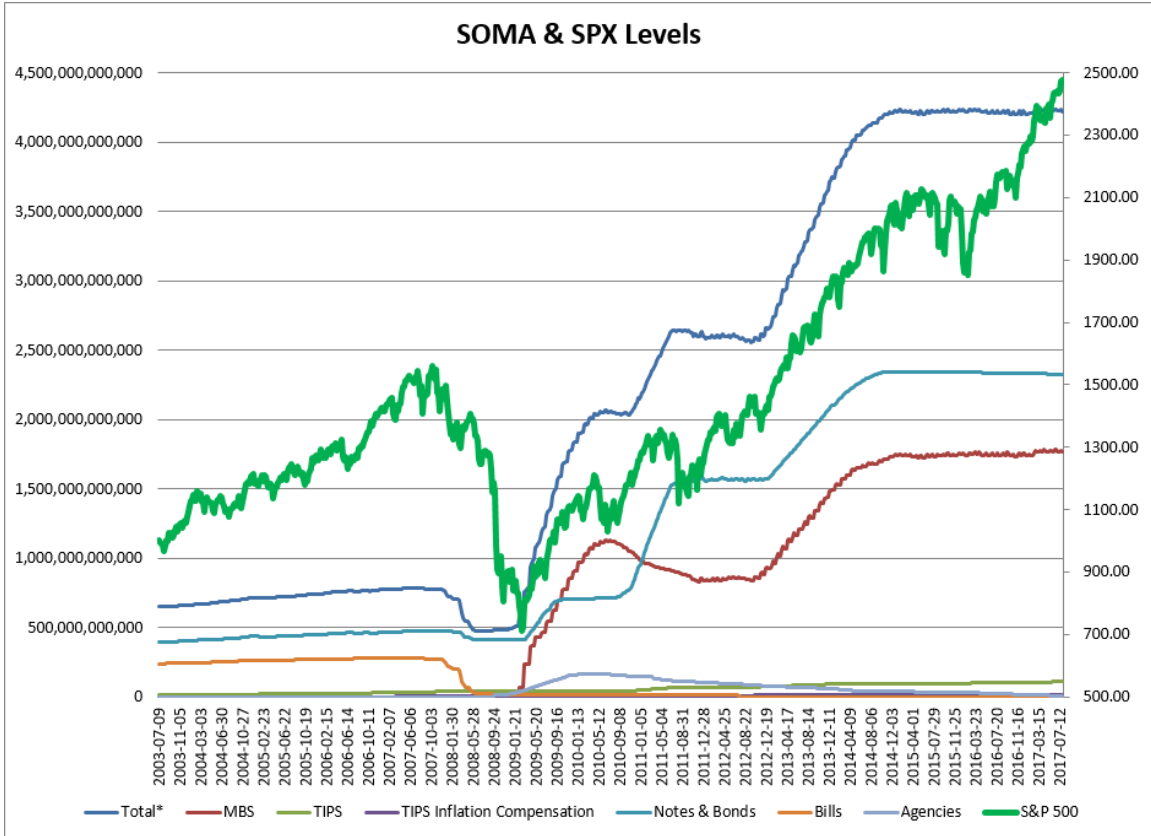
The curve has flattened out a bit lately, but the study still seems worthy of some consideration. Since the 1st few days are not as reliable, I simply added it to the intermediate-term Active List.

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.

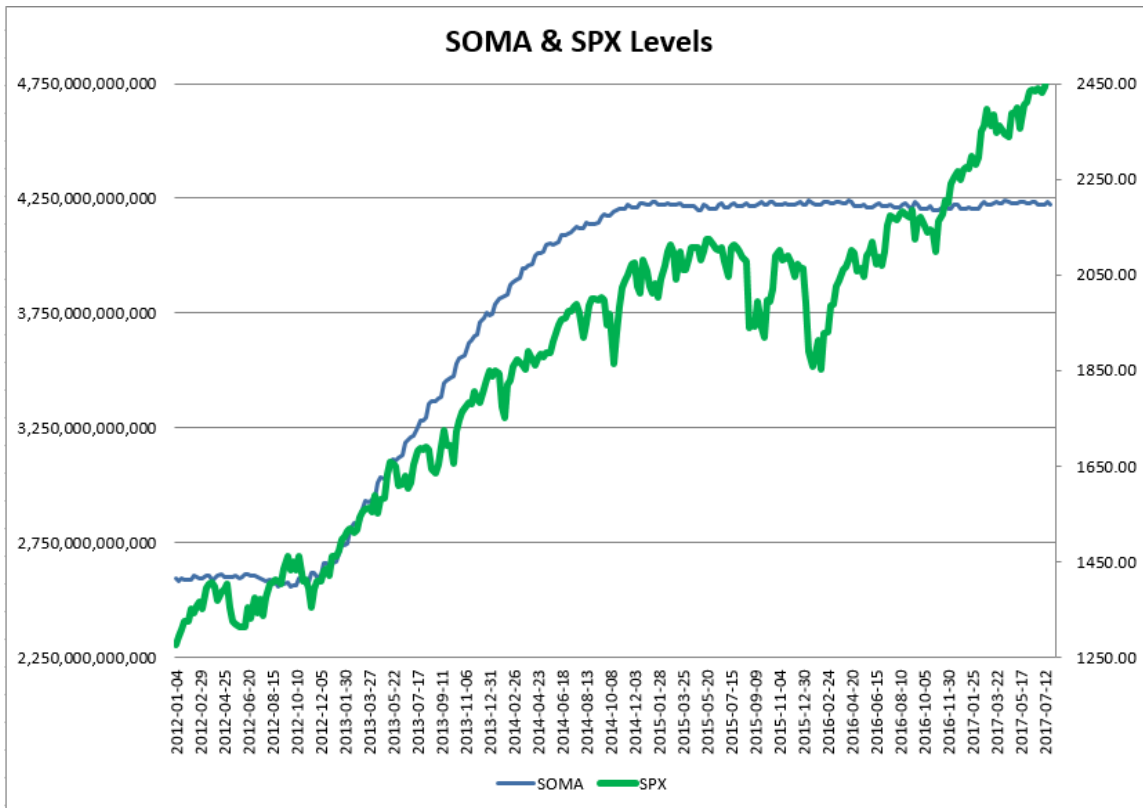
SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities 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 0.25%. This was in line with expectations based on the Fed's SOMA schedule. The 0.16% gain for the SPX over this same period was fairly typical. Since the beginning of 2015 SPX has risen 66% of the time for a sum total of 14.04% during the 44 weeks in which SOMA expanded at least 0.01%. During the 90 other weeks (like this one) SPX has only risen 51% of the time and has gained a sum total of just 6.13%. That's less than half the gains in over twice the time. Based on the reinvestment schedule the Fed has stuck to over the last two+ years, this current week is likely to see the SOMA come in about flat with last week. And the following week is likely to be about flat as well. So bulls will not have Fed liquidity to help them out in the near future.

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.

For now the bulls appear to be in control. More new highs in the major indices show the trend remains up. And the high volume study from this past week suggests the upwards momentum is likely to continue. We also have 50-day Bollinger Band, and the extremely

high RSI(2) studies still active. And 2 of the 3 Market Timing Course Combo Systems are “Long”. Bears can point to overall weak Fed support, weak seasonality, a long-term divergence of new highs, and an active Hindenburg Omen cluster. I still think the bullish evidence is trumping the bearish for the time being, and don’t see that immediately ending. So I will continue to trade longs more aggressively, and will be extra selective with any short trades until the bullish outlook changes.

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 CLOSE if 1\) SPY closes <= \\$246.91 or 2\) SPY closes in the bottom half of its intraday range.](#)** Based on the short-term outlook above, I will be looking to scale into a long index position on any kind of weak close on Monday.*

Current Open Trade Ideas

None.

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