

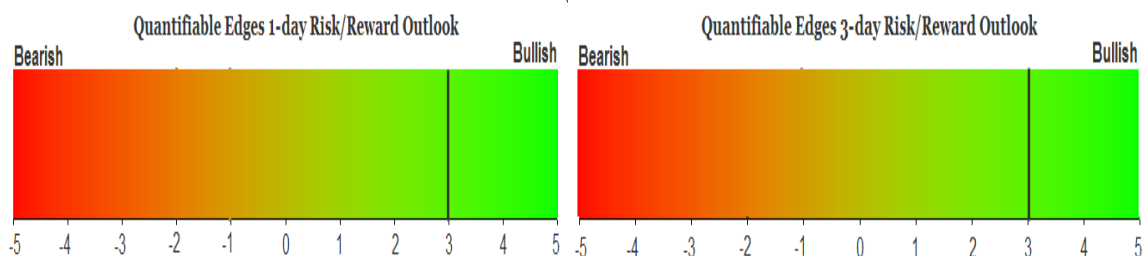
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 21, 2017

Volume 10 Issue 160

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY continued to sell off but it's at a spot that almost always have been followed by a bounce in the past.
- Fed liquidity may help the bulls through Wednesday, but then is likely to turn negative.

Short-term Outlook

The Bottom Line

Evidence is pointing higher, and the SPX is clearly oversold. This suggests an upside edge. I am partially long and looking to take advantage of a bounce.

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 | | | | | | |
| August 21, 2017 | 20-low yest. Gap dn & lower close > 200 | 1-5 days | Bullish | 2.80% | -0.90% | -2.00% |
| August 18, 2017 | SPY 5-low & bottom 10% daily rng | 1-4 days | Bullish | | | |
| August 18, 2017 | Sysem 110524 | 1-7 days | Bullish | | | |
| Active - Long Term | | | | | | |
| August 11, 2017 | VIX 100-day high. SPX no 100-day low. | 1-15 days | Bullish | | | |
| July 17, 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

Despite already being oversold, the market failed to bounce on Friday. The SPX closed down 0.2%, the NASDAQ dropped 0.1%, and the Russell 2000 declined 0.1%. Breadth was mixed as the NYSE Up Issues % was 53% and the Up Volume % came in at 47%. NYSE volume rose for the 3rd day in a row.

The moderate action did not trigger much in the Quantifinder. One study that was interesting was from the 3/27/15 letter. It looked at other times SPY gapped down from a 5-day low and then closed below the open but above the 200ma. Updated results can be seen below.

| Yesterday SPY closed at a 5-day low. Today it gapped down and closed below the open. 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 | 100,717.39 | 105 | 75 | 29 | 71.43 | 1,740.01 | 8,239.74 | -1,027.01 | -4,103.46 | 1.69 | 4.38 | 959.21 |
| 4 | 81,964.58 | 108 | 75 | 33 | 69.44 | 1,649.20 | 5,581.02 | -1,264.41 | -3,522.36 | 1.30 | 2.96 | 758.93 |
| 3 | 82,852.20 | 111 | 75 | 35 | 67.57 | 1,583.79 | 4,348.05 | -1,026.63 | -3,620.70 | 1.54 | 3.31 | 746.42 |
| 2 | 68,068.05 | 114 | 78 | 36 | 68.42 | 1,194.67 | 5,477.88 | -697.67 | -2,561.20 | 1.71 | 3.71 | 597.09 |
| 1 | 48,284.47 | 122 | 85 | 37 | 69.67 | 857.23 | 5,764.38 | -664.33 | -3,772.68 | 1.29 | 2.96 | 395.77 |

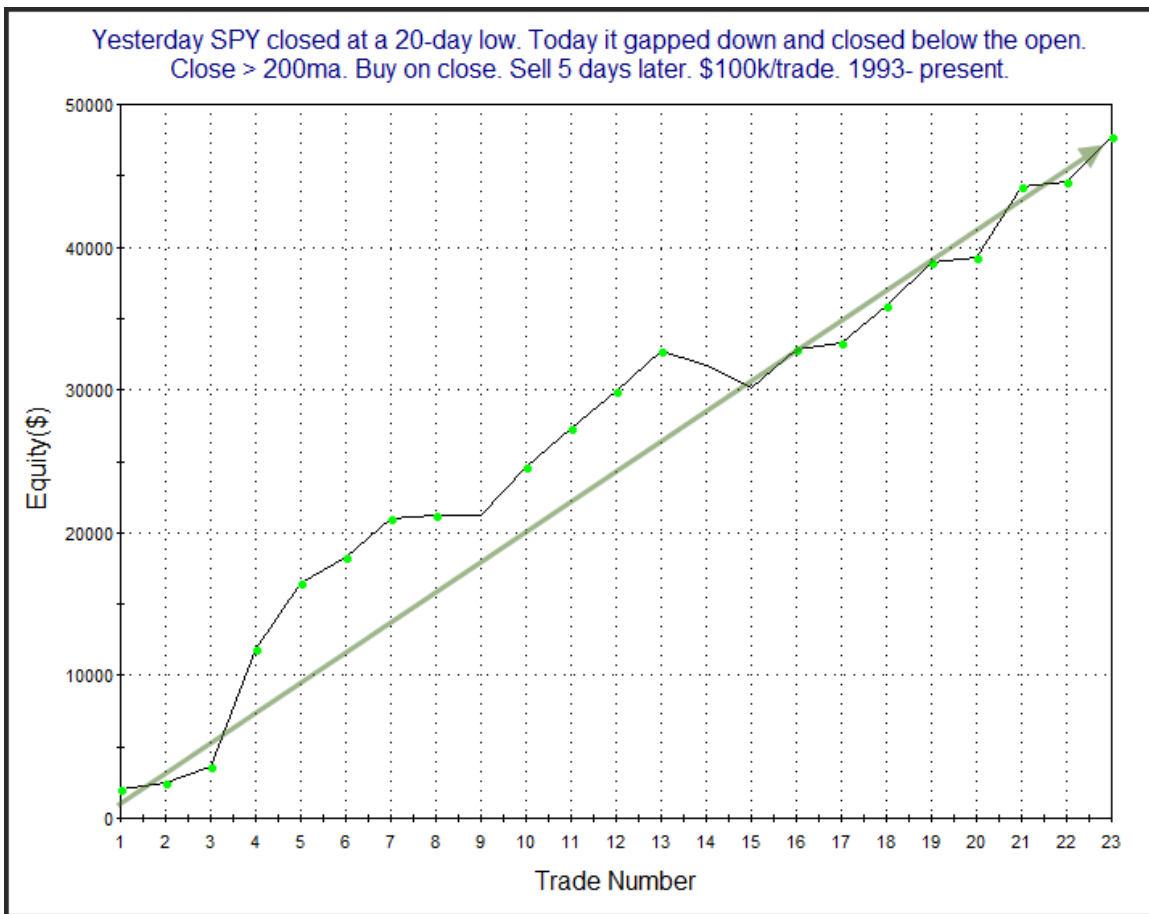
The numbers here look strong. Of course SPY did not just gap down from a 5-day low. It gapped down from a 20-day low as well. I further filtered the study and used the 20-day instead of a 5-day low.

Yesterday SPY closed at a 20-day low. Today it gapped down and closed below the open.
 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 | 47,698.87 | 23 | 20 | 3 | 86.96 | 2,517.86 | 8,239.74 | -886.08 | -1,594.30 | 2.84 | 18.94 | 2,073.86 |
| 4 | 38,082.95 | 23 | 18 | 5 | 78.26 | 2,408.47 | 5,581.02 | -1,053.89 | -3,255.65 | 2.29 | 8.23 | 1,655.78 |
| 3 | 32,232.42 | 23 | 17 | 6 | 73.91 | 2,140.59 | 4,348.05 | -692.94 | -2,421.25 | 3.09 | 8.75 | 1,401.41 |
| 2 | 23,327.14 | 24 | 14 | 10 | 58.33 | 2,022.03 | 5,477.88 | -498.12 | -996.00 | 4.06 | 5.68 | 971.96 |
| 1 | 21,607.57 | 28 | 19 | 9 | 67.86 | 1,363.32 | 5,764.38 | -477.28 | -1,486.80 | 2.86 | 6.03 | 771.70 |

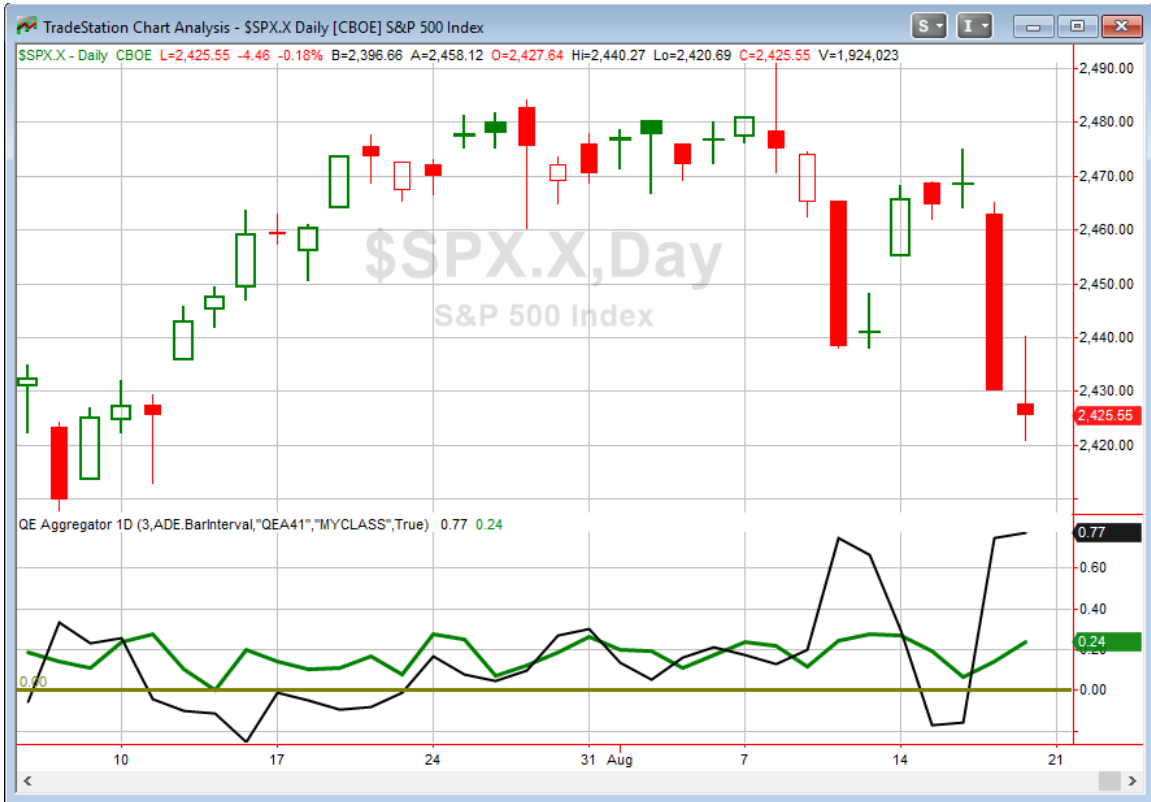
The only instance NOT to close above the entry price at some point in the next week was one that triggered on 5/14/12.

Results here appear more consistent and more powerful. Below is a look at the profit curve assuming a 5-day holding period.



The strong, steady upslope is impressive. It serves as some confirmation of the bullish edge. I have included this study on the Active List tonight.

I have updated the Aggregator chart below.



With tonight's study included, 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 positive on Monday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2480.31 on Monday. That is a whopping 2.3% above Friday's close. So SPX would need to close up at least 2.3% on Monday to move from oversold to overbought

versus expectations. That is unlikely to happen in just one day. A more likely scenario to work off the oversold condition would be a multi-day gain or consolidation.

The bounce did not come on Friday, but evidence is still suggesting it should arrive shortly. Reward/risk appears nicely favorable. I am already partially long. If Monday provides another down day, the market will then be quite stretched heading into a potential “Turnaround Tuesday”. If that occurs, I am sure even more bullish evidence will emerge. So I will look to up my current position if there is a lower close on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/21– bullish

| Combo #1 | Combo #2 | Combo #3 |
|-----------------|-----------------|-----------------|
| Flat | Long | Long |

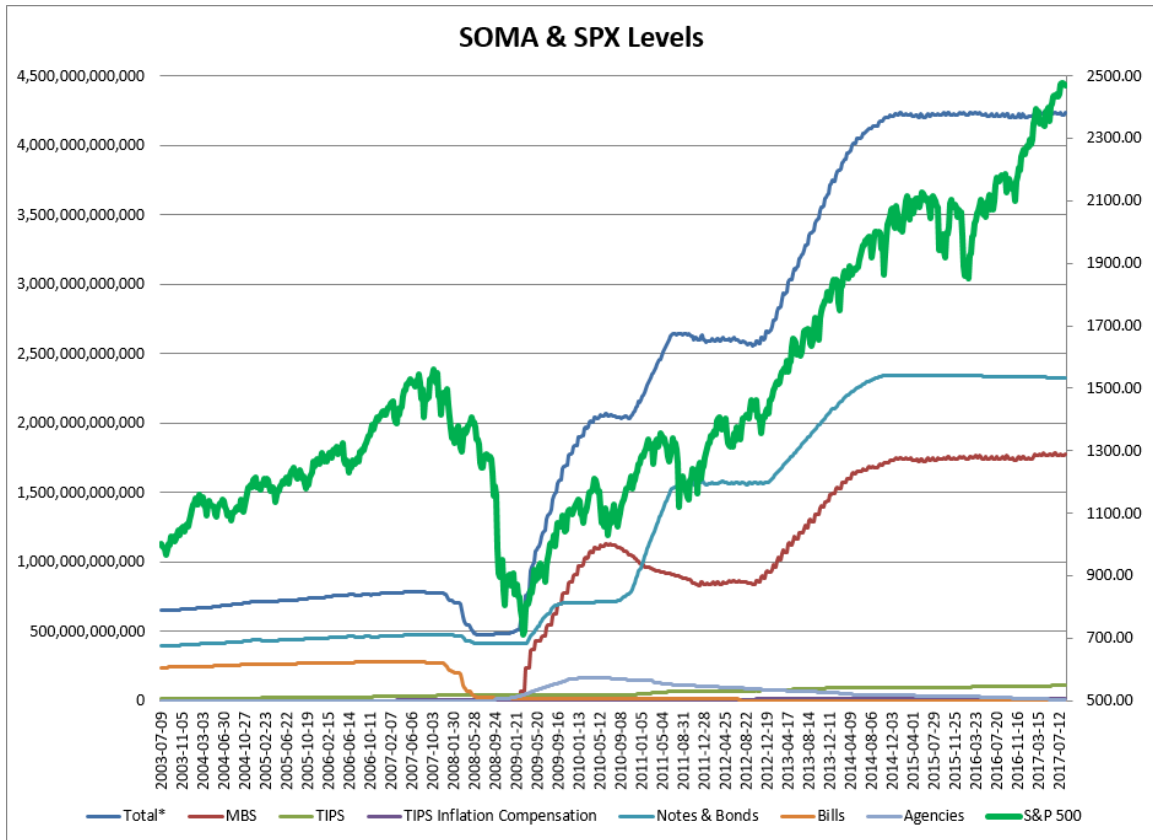
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 market suffered its 2nd down week in a row, with the SPX losing 0.6% for the week. It is now posting intermediate-term lows for the 1st time in a while. Still, the long-term trend measurements have yet to change. There were no new studies that emerged this past week with intermediate-term implications.

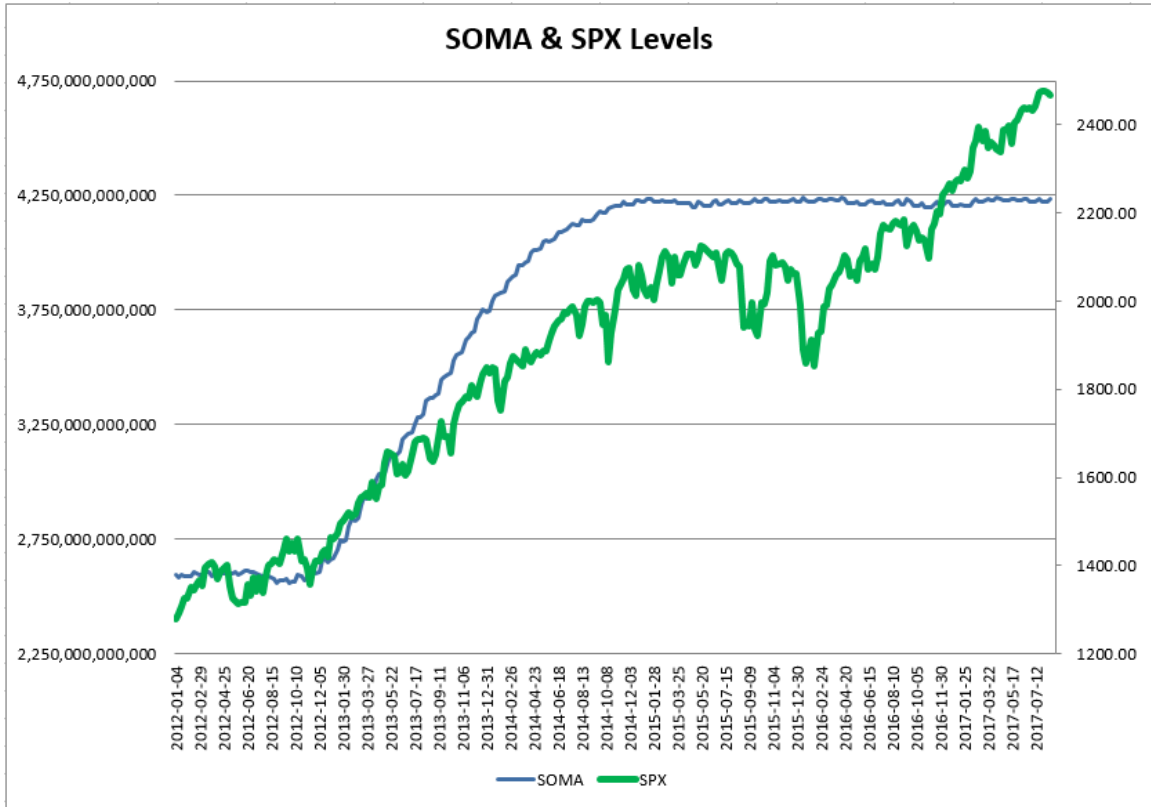
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) posted a gain of 0.21%. This was in line with expectations based on the Fed's SOMA schedule. The 0.24% loss for the SPX over this same period was weak. Since the beginning of 2015 SPX has risen 64% of the time for a sum total of 13.80% during the 45 weeks in which SOMA expanded at least 0.01% (like this one). During the 92 other weeks SPX has only risen 50% of the time and has gained a sum total of just 5.98%. 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 rise some. But the next week we should see should see the SOMA decline a bit. So bulls are not likely to have Fed liquidity aiding them 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 some time this fall. When it begins, it could throw some very cold water on the rally.

While we saw some more selling this past week, evidence still seems to favor the bulls. Two of the three Market Timing Course Combo Systems are “Long”. The 100-day high VIX study from last week is still supporting the bull case. Bears can point to overall weak Fed support, weak seasonality, and a long-term divergence of new highs. I still think the bullish evidence is outweighing the bearish for the time being. So I will continue to favor the long side, 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

AGN– 1/3 @ \$239.74 (bought @ limit)

AGN– 1/3 @ \$242.65 (bought @ limit)

AGN– 1/3 @ \$241.22 (bought @ limit)

AIG– 1/3 @ \$63.00 (bought @ limit)

AIG– 1/3 @ \$62.65(buy @ limit) – not filled

Broad Market Large Cap CBI – 5(AGN-3, AIG-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 ¼ index position @ \$242.70 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to up my index position if SPY suffers another down day.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| AGN(1/3) | 8/7/2017 | \$242.65 | \$223.99 | -7.69% | | Catapult |
| AGN(1/3) | 8/8/2017 | \$241.22 | \$223.99 | -7.14% | | Catapult |
| AGN(1/3) | 8/9/2017 | \$239.74 | \$223.99 | -6.57% | | Catapult |
| AIG(1/3) | 8/11/2017 | \$63.00 | \$61.34 | -2.63% | | Catapult |
| AIG(1/3) | 8/18/2017 | \$61.46 | \$61.34 | -0.20% | | Catapult |
| SPY(1/4) | 8/18/2017 | \$242.90 | \$242.71 | -0.08% | | Aggregator |

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2017 Hanna Capital Management, LLC.