

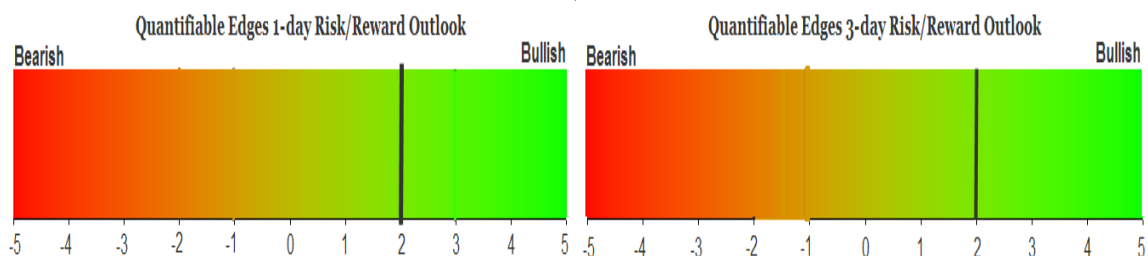
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 11, 2017

Volume 10 Issue 174

Market Overview



Signals Overview

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

Tonight's Research Points

- No new short-term evidence emerged on Friday, but further selling Monday would almost certainly generate some bullish studies.
- SOMA is expected to rise this week, but this may be the last week of SOMA increases for a very long time, depending on Fed action at their upcoming meeting.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but I would like to see just a little more selling before putting on a potential long index position.

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						
September 6, 2017	1 dn after 5+ up days	1-10 days	Bullish			
September 1, 2017	5 days up. Close < 50-high.	1-10 days	Bullish	2.30%	-1.30%	-2.70%
Active - Long Term						
September 1, 2017	5 days up. Close < 50-high.	1-15 days	Bullish	3.05%	-1.60%	-3.20%
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			
Dropped Tonight						
September 8, 2017	Unfilled gap up. Up then dn close.	1 day	Bullish			

The Evidence

Friday was another day of mild and mixed moves. The SPX closed down 0.15%, the NASDAQ lost 0.6%, and the Russell 2000 gained 0.05%. Breadth was negative as the NYSE Up Issues % was 46% and the Up Volume % came in at 38%. NYSE volume rose a little from Thursday's level.

On Friday you could read news reports of record wildfires in California, floods in Texas, an 8.1 earthquake in Mexico, the biggest, strongest Hurricane that has been seen ripping through the Caribbean and heading to Florida, and fear of nuclear war with North Korea. While some people might view that as end-of-the-world type stuff, the stock market has hardly noticed. Sometimes news matters greatly to the market, and sometimes it hardly seems to matter at all. Right now the market appears set on doing what it is going to do, and ignoring what is going on around it. I just hope we don't get attacked by aliens from outer-space to further test the market resolve.

From a seasonality standpoint, September and October do often see increased volatility, so news could spark moves sometime soon. This upcoming week is options expiration. In March I showed a table of opex week performance broken down by month. I have copied that table below.

**OpEx Week SPX Performance by Month. \$100k/trade. 1984 - present.
(Excludes September 2001.)**

X Month	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
12	28,192.40	32	25	7	78.13	1,480.13	5,868.16	-1,258.69	-4,176.33	1.18	4.20	881.01
11	5,116.07	32	20	12	62.50	1,449.76	3,718.25	-1,989.93	-8,351.64	0.73	1.21	159.88
10	25,016.02	32	23	9	71.88	2,275.27	7,282.10	-3,035.03	-9,109.98	0.75	1.92	781.75
9	13,102.55	31	19	12	61.29	1,574.71	5,313.08	-1,401.40	-4,975.04	1.12	1.78	422.66
8	-1,315.36	32	18	14	56.25	1,432.07	4,329.72	-1,935.18	-5,670.55	0.74	0.95	-41.10
7	-473.17	32	16	15	50.00	1,471.32	6,921.25	-1,600.96	-7,953.12	0.92	0.98	-14.79
6	-874.42	32	18	14	56.25	1,234.42	3,786.09	-1,649.57	-3,998.19	0.75	0.96	-27.33
5	2,441.38	32	16	16	50.00	1,918.64	4,850.40	-1,766.05	-4,959.45	1.09	1.09	76.29
4	27,719.43	32	20	12	62.50	2,293.46	5,731.96	-1,512.48	-3,580.15	1.52	2.53	866.23
3	28,879.45	32	22	10	68.75	2,037.55	7,515.60	-1,594.66	-6,711.66	1.28	2.81	902.48
2	10,416.38	33	19	14	57.58	1,469.80	3,096.72	-1,250.70	-6,814.80	1.18	1.59	315.65
1	4,779.30	33	15	18	45.45	2,177.49	5,389.00	-1,549.06	-5,383.93	1.41	1.17	144.83

September is middle-of-the-pack, so it is not terribly notable. But the week AFTER September opex has historically been the “weakest week”. You can read more about that [in this blog post from last year](#). I will update all the research in next weekend’s letter.

So for now, despite all the chaos around us, the market is quiet, and there are no new short-term studies to add to the Active List tonight.

I have updated the Aggregator chart below.



Without any compelling new studies being added tonight, 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 positive on Monday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2471.27 on Monday. That is 0.4% above Friday's close. Therefore, SPX would need to close up at least 0.4% on Monday in order to move from short-term oversold to overbought versus recent expectations.

So there appears to be a bit of an upside edge. SPX has been consolidating the last 3 days within the range of the big down day a few days ago. It is the momentum prior to that that is suggesting the upside edge in both our current short-term studies. But SPX is still a little above its 10ma, which is a position I do not love from a reward/risk standpoint. I would rather be a little more stretched. It won't take much selling on Monday to leave SPX below the 10ma. Additionally, it would mark the 3rd down day in a row, and we would be heading into a potential "Turnaround Tuesday". In other words, a down close on Monday would

almost certainly generate some compelling studies suggesting bullish edges. So while the setup is not quite where I would feel strongly about it yet, I am confident it will be if we close down much on Monday. I am prepping to be a buyer under those circumstances.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/11– 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 lost a little ground this past week. The SPX closed down 0.6%. After posting new highs the previous week, the NASDAQ did a little worse with a 1.2% decline. Overall, the uptrend still appears to be intact. There were no new studies specific to the intermediate-term that emerged this week. But the one below is from the 9/6 letter, and it did look out as far as 10 days, so I decided to share it again here.

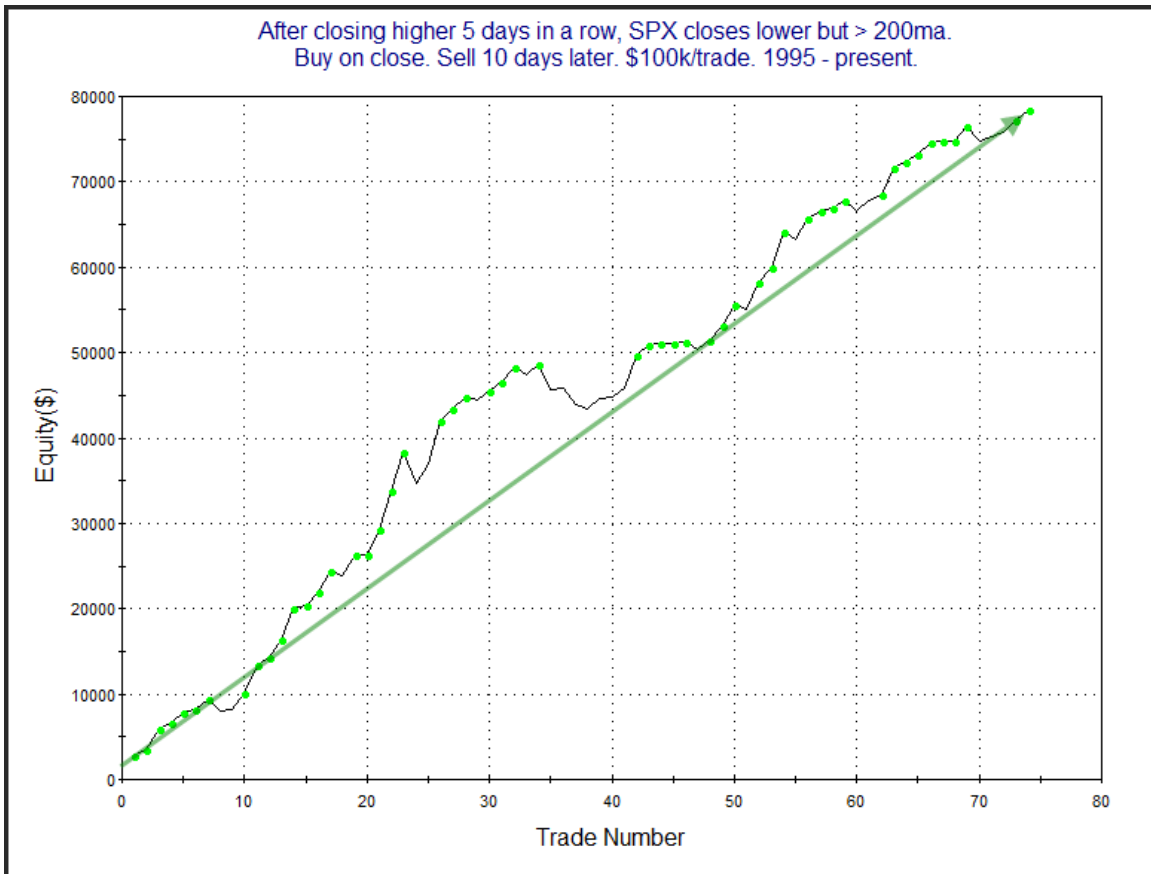
Tuesday’s decline did trigger some bullish studies that looked at pullbacks after at least 5 consecutive up days. The studies below were last seen in the 4/24/14 Subscriber Letter. I have updated the results.

After closing higher 5 days in a row, SPX closes lower but > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	78,389.58	74	61	13	82.43	1,571.01	5,131.35	-1,341.68	-3,672.90	1.17	5.49	1,059.32
9	78,120.66	80	65	15	81.25	1,530.06	5,196.49	-1,422.22	-4,151.40	1.08	4.66	976.51
8	72,300.06	81	60	21	74.07	1,674.13	4,878.08	-1,340.38	-4,874.10	1.25	3.57	892.59
7	54,345.13	82	60	22	73.17	1,430.91	3,874.76	-1,432.24	-3,970.62	1.00	2.72	662.75
6	54,780.76	85	62	23	72.94	1,359.79	4,307.20	-1,283.74	-3,637.71	1.06	2.86	644.48
5	45,378.66	85	58	27	68.24	1,206.86	4,252.50	-911.82	-3,188.16	1.32	2.84	533.87
4	44,302.66	85	57	28	67.06	1,167.39	3,843.00	-794.24	-3,003.39	1.47	2.99	521.21
3	28,156.08	85	56	29	65.88	939.98	2,797.08	-844.23	-2,852.01	1.11	2.15	331.25
2	19,463.13	85	57	28	67.06	765.71	2,480.28	-863.65	-2,614.95	0.89	1.80	228.98
1	9,240.80	85	55	29	64.71	478.96	1,751.19	-589.73	-2,531.86	0.81	1.54	108.72

89% of instances closed above the entry price at some point in the next week.

Initially there appears to be a moderate inclination for a move higher. Once you get out 9-10 days the upside edge appears very substantial. Below is an equity curve using a 10-day exit strategy.



There's some wiggle here but the periods of pullback have been short and mild. This appears to confirm the bullish edge.

In that 4/24/14 letter I also filtered out times where the SPX had closed a 50-day high the day before. I also applied that filter tonight and updated those stats.

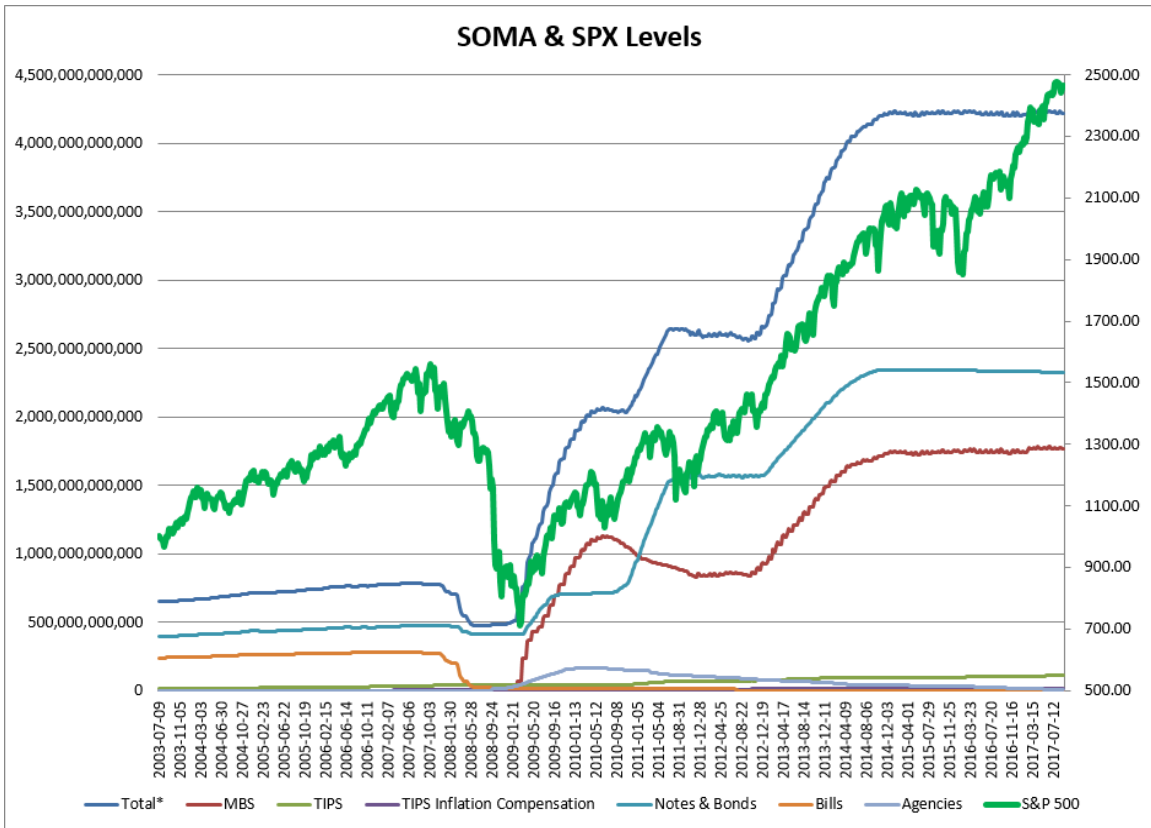
After closing higher 5 days in a row but not at a 50-day high, SPX closes lower but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	26,043.70	19	15	4	78.95	2,090.21	4,644.11	-1,327.35	-2,964.60	1.57	5.91	1,370.72
9	23,888.74	19	15	4	78.95	2,002.82	5,196.49	-1,538.40	-3,251.34	1.30	4.88	1,257.30
8	24,434.59	19	16	3	84.21	1,889.40	4,770.49	-1,931.92	-4,038.66	0.98	5.22	1,286.03
7	17,973.90	19	17	2	89.47	1,417.13	3,335.92	-3,058.68	-3,970.62	0.46	3.94	945.99
6	17,098.97	19	16	3	84.21	1,516.22	2,736.52	-2,386.86	-3,388.23	0.64	3.39	899.95
5	16,185.49	19	16	3	84.21	1,356.95	2,590.50	-1,841.93	-3,188.16	0.74	3.93	851.87
4	13,338.94	19	15	4	78.95	1,171.70	2,600.40	-1,059.13	-2,494.80	1.11	4.15	702.05
3	8,254.74	19	13	6	68.42	1,147.83	2,797.08	-1,111.18	-2,852.01	1.03	2.24	434.46
2	802.43	19	11	8	57.89	862.98	2,480.28	-1,086.29	-2,455.11	0.79	1.09	42.23
1	-1,412.18	19	12	7	63.16	363.77	716.31	-825.34	-2,531.86	0.44	0.76	-74.33

The 1st day or so is iffy, but after that the upside edge appears even stronger than without the filter applied. The number of instances is just a little low, but the market position doesn't appear to raise any red flags. The idea behind this study is that strong moves higher tend to weaken before they roll over. The five days up suggest the move is strong. Since they rarely turn on a dime, this 1st dip is not likely the end of the up move. And in this case the fact that we are not yet at a 50-day high suggests it is not long-term overextended either. I used the broader study to generate estimates for the Aggregator.

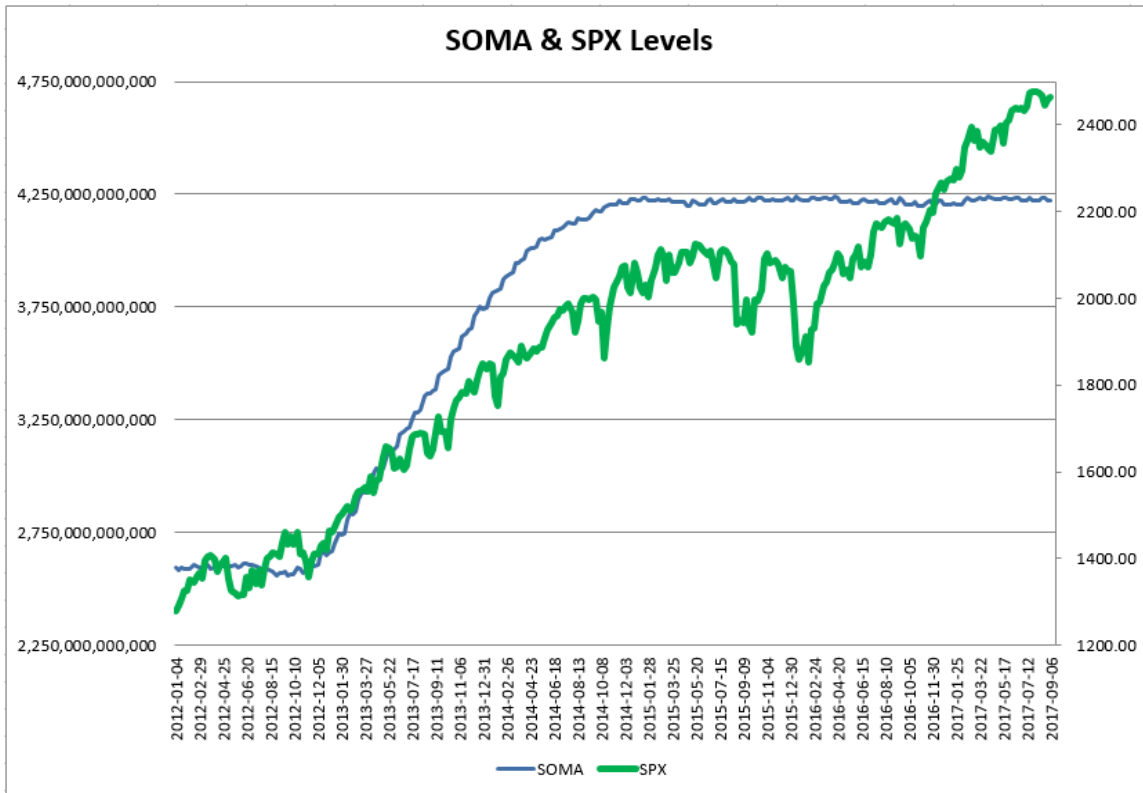
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 near breakeven with a very slight decline of less than 0.01%. This was in line with expectations based on the Fed's SOMA schedule. The 0.32% gain for the SPX over this same period is a strong return for a week where SOMA contracts. 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%. During the 95 other weeks (like this one) SPX has only risen 50.5% of the time and has gained a sum total of just 5.88%. That's 43% of 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 appears likely to see the SOMA expand some. But if SOMA does expand this week, we will likely see a contraction the following week. So the bulls will likely only have Fed liquidity support through Wednesday. And depending on the decisions made at the Sep 19-20 Fed meeting, this could be the last week we see the SOMA rise for a very long time.

To this point the Fed has primarily 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 soon.*** When the Fed discontinues reinvestment of maturing bonds, it could throw some very cold water on the rally.

Intermediate-term evidence still seems to favor the bulls. Two of the three Market Timing Course Combo Systems are “Long”. We also have some studies suggesting the recent short-term momentum could lead to further gains in the coming weeks. 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

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 @ \$246.25 LIMIT ON CLOSE. Based on the short-term outlook above. SPY looks to have a bullish edge, and it could be a compelling edge if it closes in this area or lower. I will look to be a buyer at the close if I can get filled at \$246.25 or better.

Current Open Trade Ideas

None

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