

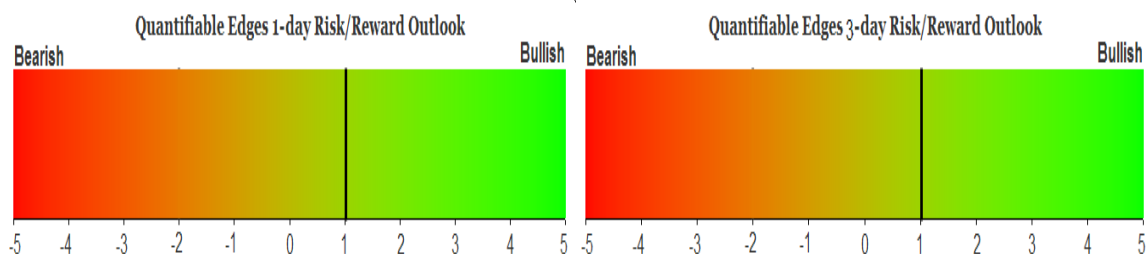
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 18, 2017

Volume 10 Issue 179

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Long	50% Long XIV	Short

Tonight's Research Points

- We are entering the most bearish week of the year.
- SOMA is expected to shrink this week, and depending on the Fed meeting, it could continue to shrink in the coming weeks and months.

Short-term Outlook

The Bottom Line

The Aggregator is still positive, but expectations are set to flip negative on Monday. I do not see a strong reward/risk opportunity, and am sidelined for the time being.

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 18, 2017	Weakest Week of the Year	1-4 days	Bearish			
September 15, 2017	3 higher hi, low, close. Dn close.	1-4 days	Bullish			
September 13, 2017	Intraday high brkt from base.	1-4 days	Bullish			
September 12, 2017	Unfilled gap up to 50-day high brkt	1-5 days	Bullish			
September 6, 2017	1 dn after 5+ up days	1-10 days	Bullish			
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			

The Evidence

Friday saw moderate gains and some new highs for the indices. The SPX rose 0.2%, the Nasdaq gained 0.3%, and the Russell 2000 rallied 0.5%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 59%. NYSE volume spiked higher as it often does on Opex Friday.

There was not a lot that appears very compelling in the Quantifinder. There were some studies that noted SPY closed at a 5-day low for the 1st time in a while. But those were not truly valid, since the only reason SPY closed lower was that it went ex-div. Therefore, I ignored them.

From a seasonality standpoint, there isn't a more reliable time of the year to have a selloff than this upcoming week. Since 1961 the week following the 3rd Friday in September has produced the most bearish results of any week. In the 9/19/16 subscriber letter I showed a table with the best and worst weeks of the year. I have updated that table below.

**SPX Performance During the Week Following the Month and Friday Specified.
\$100k/trade. \$0 commissions. 1961 - present. Top 10 and Bottom 10 Results Shown.**

Friday	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
5	10	21,419.27	24	18	6	75.00	1,663.74	6,304.68	-1,421.35	-3,889.28	1.17	3.51	892.47
4	1	45,498.79	57	36	21	63.16	2,029.94	5,480.00	-1,313.29	-4,863.30	1.55	2.65	798.22
2	4	40,006.30	56	37	19	66.07	1,832.91	5,731.96	-1,463.75	-3,580.15	1.25	2.44	714.40
4	10	39,122.53	57	35	22	61.40	2,220.77	10,485.72	-1,754.74	-3,993.72	1.27	2.01	686.36
2	3	38,193.61	57	37	20	64.91	1,688.73	7,515.60	-1,214.48	-6,711.66	1.39	2.57	670.06
2	9	34,796.56	56	37	19	66.07	1,701.65	7,573.02	-1,482.34	-4,975.04	1.15	2.24	621.37
4	12	33,029.78	56	35	21	62.50	1,603.94	6,726.00	-1,100.39	-4,480.29	1.46	2.43	589.82
2	12	28,471.72	57	35	22	61.40	1,358.01	5,868.16	-866.30	-4,176.33	1.57	2.49	499.50
4	5	28,385.92	57	33	24	57.89	1,813.54	7,145.28	-1,310.88	-3,713.26	1.38	1.90	498.00
3	11	26,318.58	57	37	20	64.91	1,555.40	11,930.04	-1,561.56	-4,672.36	1.00	1.84	461.73
3	7	-8,552.54	57	29	28	50.88	1,457.52	4,121.28	-1,815.02	-4,884.75	0.80	0.83	-150.04
3	5	-8,567.74	57	31	26	54.39	1,216.11	3,924.96	-1,779.51	-6,812.10	0.68	0.81	-150.31
5	11	-2,490.39	16	10	6	62.50	1,070.12	1,717.40	-2,198.59	-7,087.84	0.49	0.81	-155.65
1	9	-14,097.93	57	29	28	50.88	1,429.65	3,778.72	-1,984.21	-11,038.16	0.72	0.75	-247.33
3	10	-15,794.85	57	26	31	45.61	1,655.73	4,339.20	-1,898.19	-12,167.91	0.87	0.73	-277.10
5	8	-7,854.57	24	11	13	45.83	1,326.19	3,283.38	-1,726.36	-4,206.40	0.77	0.65	-327.27
3	6	-23,037.46	57	24	33	42.11	1,132.33	3,643.53	-1,521.62	-5,742.69	0.74	0.54	-404.17
5	4	-7,767.25	16	8	8	50.00	1,025.35	2,599.74	-1,996.26	-6,368.04	0.51	0.51	-485.45
5	7	-18,654.38	24	9	15	37.50	938.76	2,323.00	-1,806.88	-7,153.30	0.52	0.31	-777.27
3	9	-46,770.36	56	18	38	32.14	1,281.00	7,739.42	-1,837.59	-7,410.00	0.70	0.33	-835.18

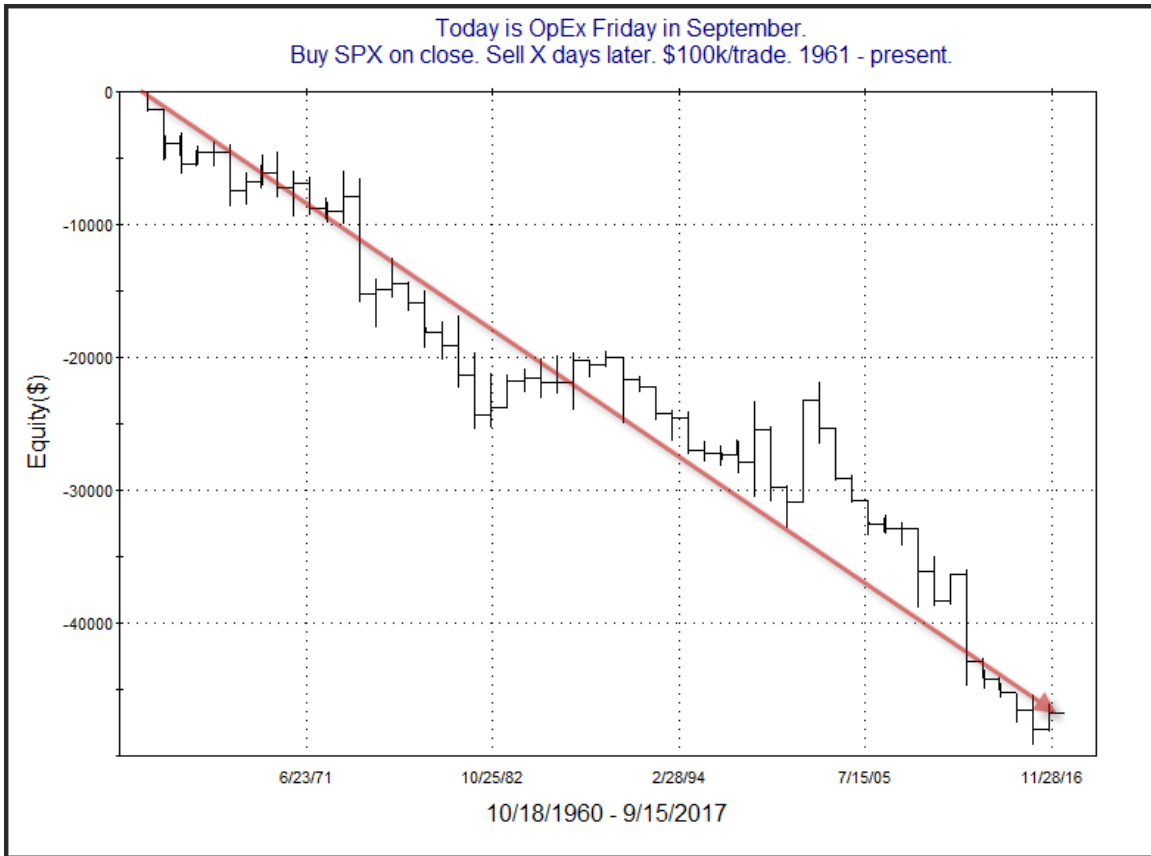
In past years I excluded the weeks following the 5th Friday of the month, because 5th Fridays don't always happen and it made the results look a little neater. This year I decided to include the 5th Friday. If you want to see results without it, you can always peek at last year's letter. I will note that I DID exclude the 5th Friday in February. The 5th Friday in February has only happened twice since 1961, thanks to leap years. Interestingly, the week after was terrible both times. In 1980 SPX lost 5.95% the next week, and in 2008 it lost 2.8% the following week. Of course, February is not the immediate concern. September is. If you look at the bottom line you will see that the worst results occur following the 3rd Friday of the 9th month. That is this upcoming week. In last year's letter I also ran the study back to 1988 to get a more recent picture. That table is also updated below (and I included the 5th Fridays here, too, this year).

SPX Performance During the Week Following the Month and Friday Specified.
\$100k/trade. \$0 commissions. 1988 - present. Top 10 and Bottom 10 Results Shown.

Friday	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
4	1	30,424.90	30	19	11	63.33	2,307.71	4,860.00	-1,220.14	-2,727.84	1.89	3.27	1,014.16
2	10	29,273.62	29	21	8	72.41	2,260.90	7,282.10	-2,275.66	-6,557.14	0.99	2.61	1,009.44
5	10	11,672.23	12	9	3	75.00	1,953.63	3,853.85	-1,970.15	-3,889.28	0.99	2.97	972.69
2	4	27,723.07	29	18	11	62.07	2,442.78	5,731.96	-1,477.00	-3,580.15	1.65	2.71	955.97
2	3	27,224.80	30	22	8	73.33	1,835.13	7,515.60	-1,643.52	-6,711.66	1.12	3.07	907.49
4	10	22,418.66	29	20	9	68.97	2,051.53	10,485.72	-2,067.99	-3,993.72	0.99	2.20	773.06
4	11	22,234.85	29	21	8	72.41	1,448.67	7,362.46	-1,023.41	-2,238.87	1.42	3.72	766.72
4	5	20,980.31	30	19	11	63.33	1,937.10	7,145.28	-1,438.59	-2,983.50	1.35	2.33	699.34
2	12	19,101.18	29	21	8	72.41	1,332.20	3,347.68	-1,109.38	-4,176.33	1.20	3.15	658.66
2	9	19,020.28	29	20	9	68.97	1,566.12	5,313.08	-1,366.90	-4,975.04	1.15	2.55	655.87
5	8	-3,474.11	12	7	5	58.33	1,317.41	3,283.38	-2,539.20	-4,206.40	0.52	0.73	-289.51
3	3	-9,512.09	30	8	22	26.67	2,612.07	6,162.00	-1,382.21	-4,640.48	1.89	0.69	-317.07
1	12	-9,482.91	29	12	17	41.38	1,443.55	4,131.36	-1,576.80	-3,728.04	0.92	0.65	-327.00
3	2	-10,984.90	30	14	16	46.67	879.54	2,106.80	-1,456.15	-4,509.84	0.60	0.53	-366.16
1	10	-11,677.57	29	15	14	51.72	2,151.34	5,944.32	-3,139.12	-18,000.90	0.69	0.73	-402.67
3	1	-12,962.38	30	16	14	53.33	1,035.61	2,505.60	-2,109.44	-5,602.80	0.49	0.56	-432.08
3	6	-17,029.33	30	10	20	33.33	1,146.73	2,928.60	-1,424.83	-3,626.75	0.80	0.40	-567.64
3	9	-26,507.88	29	6	23	20.69	2,333.44	7,739.42	-1,761.24	-6,525.56	1.32	0.35	-914.06
5	4	-8,939.78	9	3	6	33.33	818.59	1,247.86	-1,899.26	-6,368.04	0.43	0.22	-993.31
5	7	-14,714.56	13	4	9	30.77	1,168.92	2,323.00	-2,154.47	-7,153.30	0.54	0.24	-1,131.89

As you can see, looking at the more recent time period the week following the 3rd Friday in September is still the worst (other than 2 low-instance 5th Fridays). Another potential bearish week that is coming up is the week after the 1st Friday in October. And interestingly, the weeks after the 2nd and 4th (and 5th) Fridays in October are listed among the most bullish 10. Further, I'd note that most of the weakest weeks occur after the 1st and 3rd Fridays while most of the strongest weeks occur after the 2nd and 4th Fridays of a month.

I also reproduced a graphic to show how this upcoming week has played out over time.



As you can see the bearish tendency has been pretty consistent over the last 56 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying Sept. op-ex Friday and then selling X days later from 1990 – 2016.

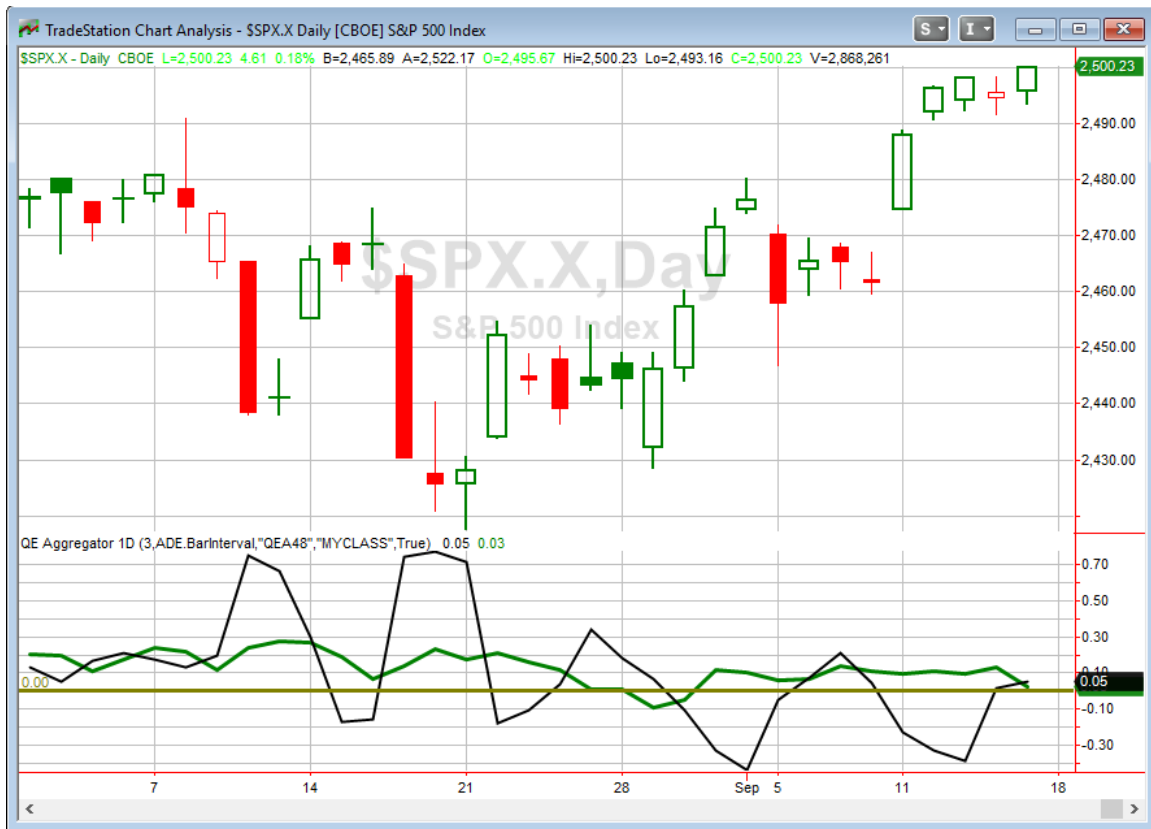
Today is OpEx Friday in September.
Buy SPX on close. Sell X days later. \$100k/trade. 1990 - present.

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	-26,758.27	27	5	22	18.52	2,685.11	7,739.42	-1,826.54	-6,525.56	1.47	0.33	-991.05
4	-27,297.24	27	5	22	18.52	2,179.44	5,439.43	-1,736.11	-7,088.90	1.26	0.29	-1,011.01
3	-19,629.63	27	6	21	22.22	1,934.28	4,508.00	-1,487.40	-5,455.74	1.30	0.37	-727.02
2	-16,651.04	27	8	19	29.63	959.08	4,786.41	-1,280.19	-5,283.52	0.75	0.32	-616.71
1	-9,430.90	27	7	20	25.93	976.33	3,877.95	-813.26	-3,791.21	1.20	0.42	-349.29

The only year that did not close below the entry price at some point during the week was 2001.

The consistency and net results appear quite strong. I note the only instance that didn't post a lower close at some point during the following week was in 2001. And the 9/11 attacks certainly made for unusual circumstances that year.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line held just slightly above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line moved back 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 flip to negative on Monday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2505.84 on Friday. That is 0.2% above Friday's close. Therefore, SPX will need to close up at least 0.2% in order to move from oversold to overbought vs expectations.

The SPX “pin” right at 2500 on opex Friday was interesting. While there still seems to be a mild upside edge, this week’s poor seasonality combined with expiring bullish studies is setting expectations up to flip bearish on Monday afternoon. I would like a more favorable reward/risk opportunity before looking to put new capital to work. I’ll continue to exercise patience until that opportunity emerges. And with the upcoming Fed meeting

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/18– bullish

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

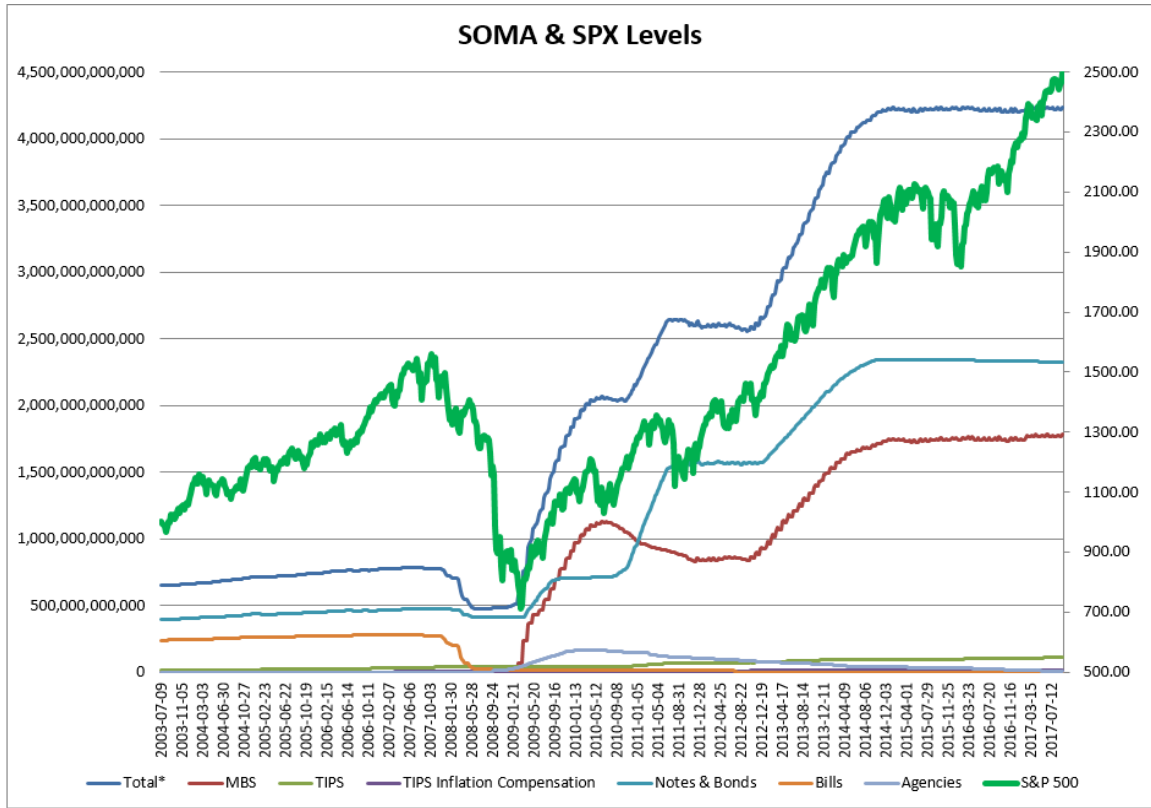
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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”.*

This was a strong week for the market, as the SPX gained 1.6% and finished the week at all-time highs. So the long-term uptrend certainly remains intact for now. There were not any new studies that emerged with intermediate-term implications.

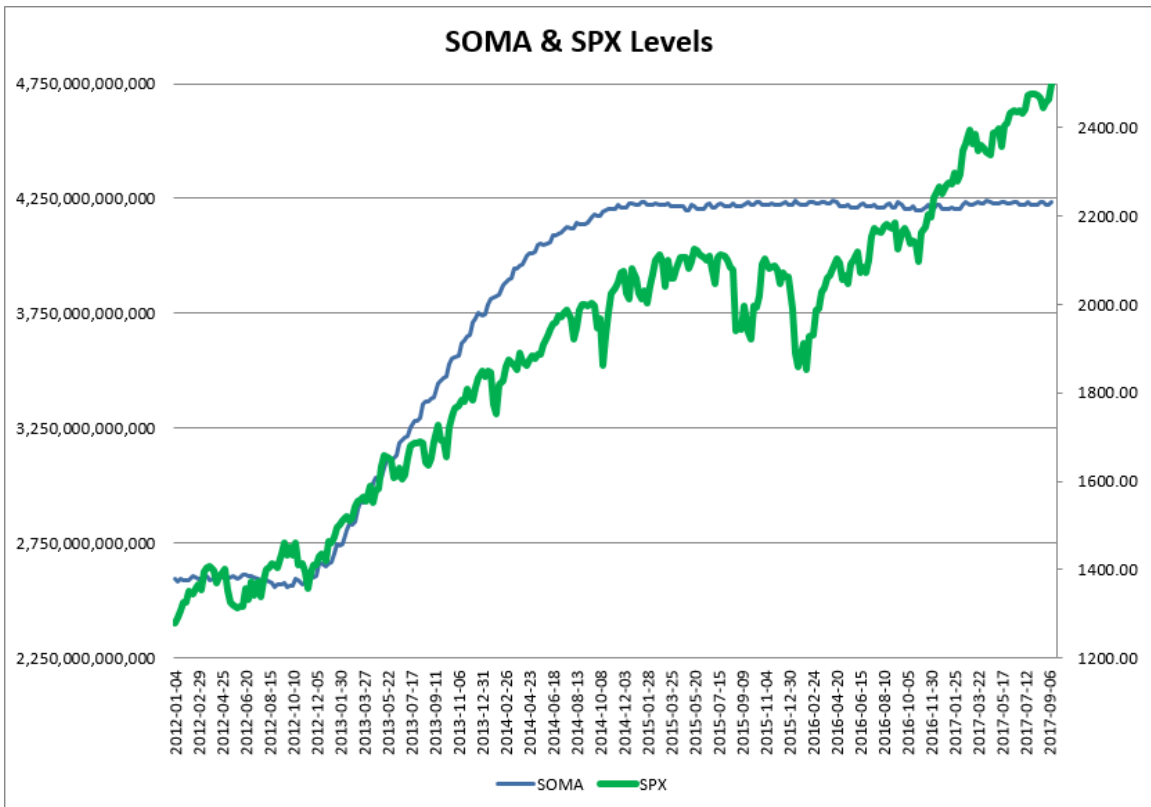
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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) rose 0.36%, which was the biggest 1-week jump since last December. While the magnitude was high, the overall expansion was expected based on the Fed's SOMA schedule. The 1.33% gain for the SPX over this same period is strong, even for a sizable expansion week. Since the beginning of 2015 SPX has risen 65.2% of the time for a sum total of 15.14% during the 46 weeks in which SOMA expanded at least 0.01%. During the 95 other weeks SPX has only risen 50.5% of the time and has gained a sum total of just 5.88%. So expansion weeks have generated over 2.5x the gains in under half the time. Based on the reinvestment schedule the Fed has stuck to over the last two+ years, this current week appears set to see the SOMA decline, and the following week is also likely to decline. So the bulls appear set to be facing a liquidity headwind over the next 10 days. And depending on the decisions made at the Sep 19-20 Fed meeting, this headwind could continue indefinitely.

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 could change this week.*** When the Fed discontinues reinvestment of maturing bonds, it could throw some very cold water on the rally. I will keep a close eye on this, and intend to create some more material on Fed history and possible impacts of upcoming changes in the next week or so,

Intermediate-term evidence still seems to favor the bulls, but it is waning a bit. Two of the three Market Timing Course Combo Systems are "Long". We also have one intermediate-term study left suggesting further gains this upcoming week. Bears can point to overall weak Fed support, weak seasonality, and a long-term divergence of new highs. What is most concerning to me is this week's Fed meeting and the possibility that that maturity reinvestments are about to end. I am pulling back my outlook from "bullish" to "somewhat bullish" for now. If there is no change this week, I may go back to bullish. If the Fed does discontinue reinvestments, then I will likely stay at "somewhat bullish", or even perhaps "neutral". With the current outlook I will be fairly selective with any new short-term trades.

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.

None tonight.

Current Open Trade Ideas

None

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