

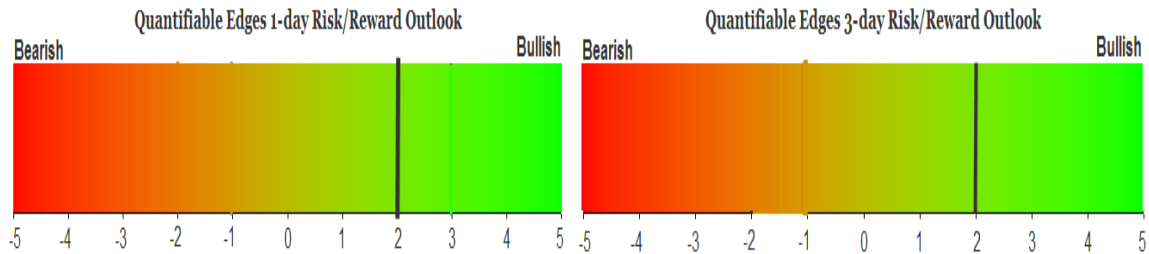
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 16, 2017

Volume 10 Issue 199

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- October op-ex week has historically shown bullish seasonal tendencies.
- The SOMA remained about even last week. The Fed's reduction policy will need to play catch-up some in the coming weeks.

Short-term Outlook

The Bottom Line

Like last night, the Aggregator is still bullish, but I am in search of a lower-risk entry point.

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						
October 16, 2017	October Opex Week Bullish	1-4 days	Bullish	1.80%	-1.30%	-2.80%
Active - Long Term						
October 9, 2017	5 up & 50-high, then 1 down	1-10 days	Bullish	1.90%	-1.00%	-2.20%
October 4, 2017	RSI(2) crosses over 99	1-15 days	Bullish	2.30%	-1.40%	-2.70%
October 2, 2017	NASDAQ leading	int term	Bullish			
October 2, 2017	SOMA reduction begins	int term	Bearish			
September 19, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

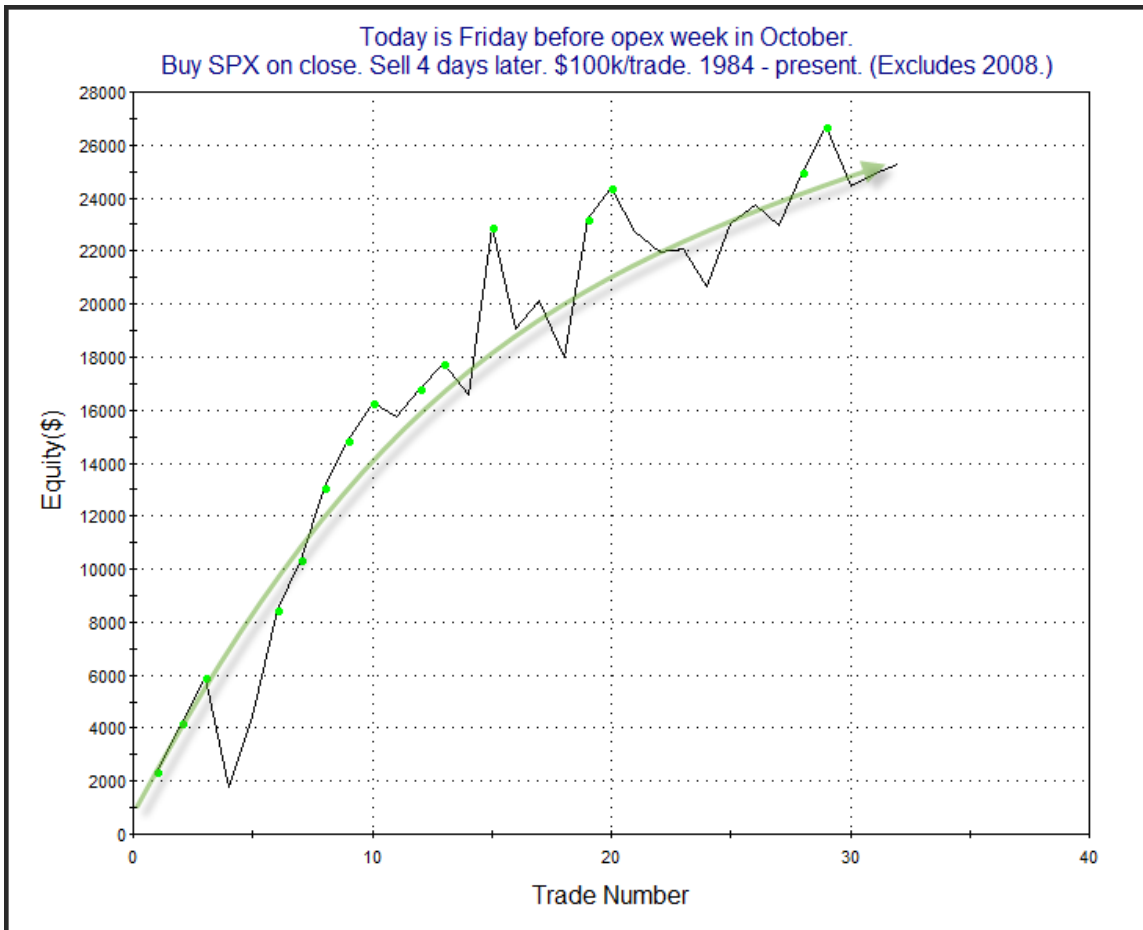
The Evidence

Friday's market action was like watching paint dry. Tight ranges ended with mild changes. The SPX finished up 0.1%, the NASDAQ rose 0.2%, and the Russell 2000 fell 0.2%. Breadth was positive as the NYSE Up Issues % was 57% and the Up Volume % came in at 54%. NYSE volume rose a little bit for the 4th day in a row.

The sideways movement did nothing to trigger compelling price-action based studies. But from a seasonal standpoint, option expiration week is often a pretty good week for the market. October is one of those months where it has been especially good over the years. I last showed the table below in the 10/17/16 Subscriber Letter. It examines performance during October op-ex week.

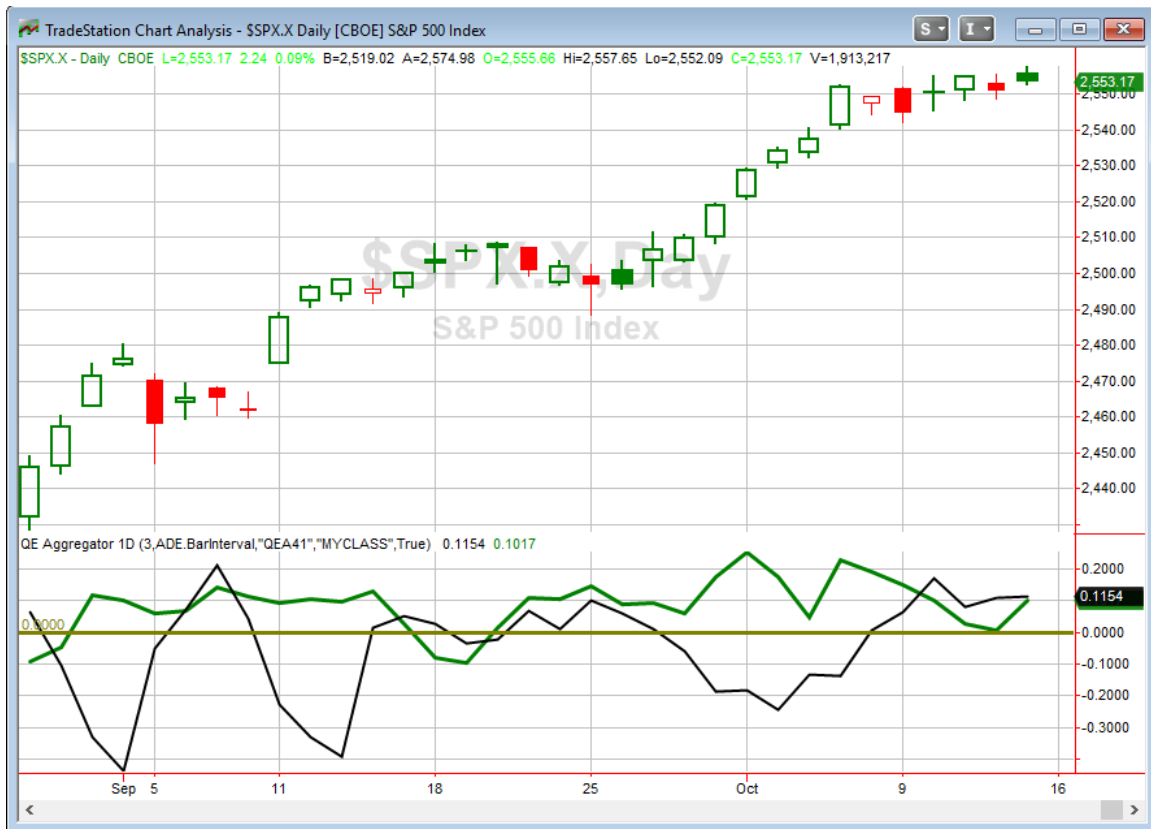
Today is Friday before opex week in October. Buy SPX on close. Sell X days later. \$100k/trade. 1984 - present. (Excludes 2008.)												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	20,798.58	32	23	9	71.88	2,091.91	7,282.10	-3,035.03	-9,109.98	0.69	1.76	649.96
4	25,282.99	32	22	10	68.75	1,996.93	6,383.20	-1,864.95	-4,169.79	1.07	2.36	790.09
3	9,779.88	32	20	12	62.50	1,307.00	2,976.32	-1,363.35	-3,734.78	0.96	1.60	305.62
2	13,539.37	32	20	12	62.50	1,118.27	5,468.05	-735.51	-1,737.36	1.52	2.53	423.11
1	9,126.69	32	23	9	71.88	650.36	2,753.79	-647.95	-1,921.32	1.00	2.57	285.21

I decided to exclude 2008 because action that week was such an incredible outlier that it greatly skewed all the stats. (The week started with an 11.5% gain on Monday of 2008.) Results 1-4 days are look pretty solid. I found the profit curve for the 4-day hold the most compelling. It can be found below.



This appears strong enough to include on the Short-Term Active List. So I have.

I have updated the Aggregator chart below.



With our October opex seasonal study under consideration, the green Aggregator Line remained 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 held above 0. The positive Differential Line reading means SPX is “oversold” versus recent expectations. So expectations are positive but 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 list of active studies, expectations are set to remain positive on Monday. Of course, this could easily change if compelling new bearish evidence emerges. The Differential Pivot will be 2562.39 on Monday. That is 0.4% above Friday’s close. Therefore, SPX would need to close up at least 0.4% in order to move from oversold to overbought versus expectations on Monday.

While the market has been making its way higher over the last several days, it has been doing so at a slower pace than the studies suggested. This is what it leaving it “oversold” despite continually making new highs. But I still do not love the current setup for a low-risk entry. SPY has now closed in the top 15% of its 10-day range for 12 days in a row. That is fairly remarkable. And it is something that has only happened 10 other times since

SPY's inception in 1993. Returns following other instances were choppy and inconsistent. So while seasonality looks good this week, and the intermediate-term environment is favorable for the bulls, I would still prefer to see a bit of a pullback before committing capital to new long trades. I will continue to wait and remain ready for a more favorable reward/risk setup to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/16– somewhat bullish

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

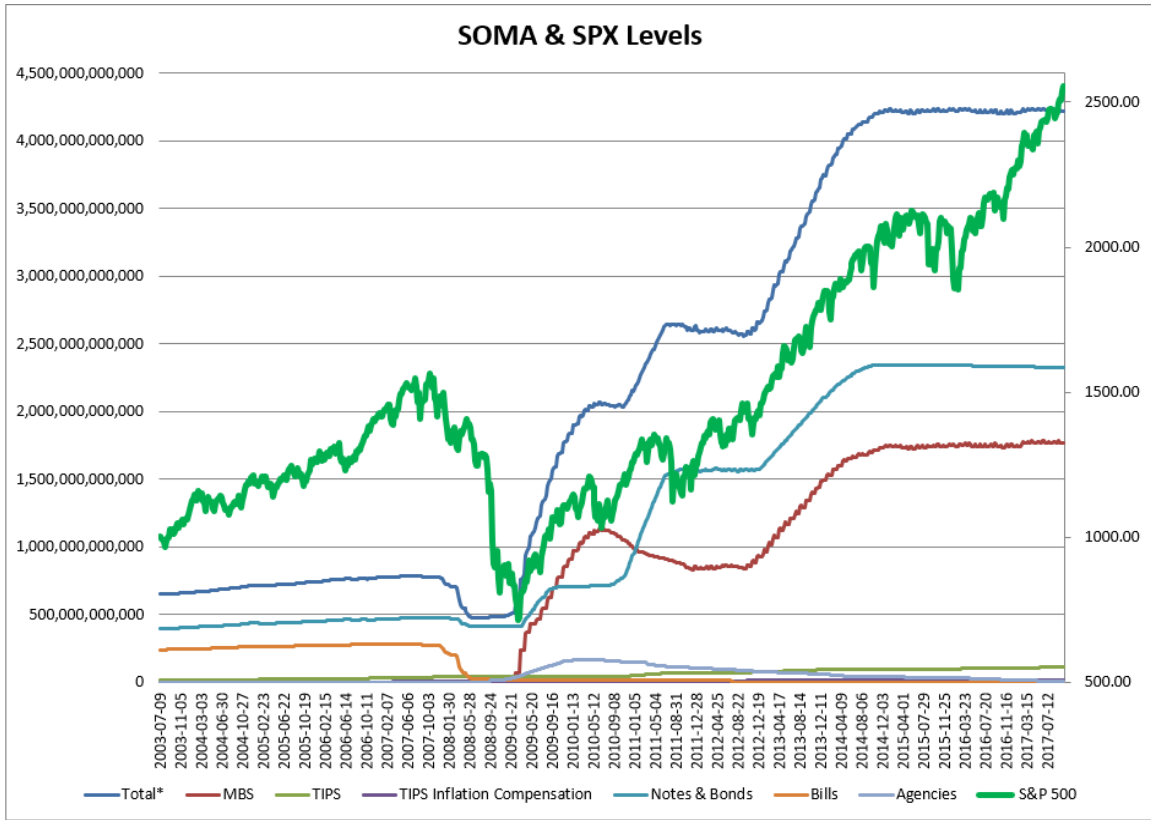
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 Combo Systems #2 and #3 remained “Long”.*

This past week saw the major indices hit new all-time highs, but the changes were very mild. SPX closed up just 0.015% on the week. With new highs again being made for the major indices, there is no doubt the uptrend remains intact. But the mild action did not trigger any new studies of intermediate-term influence.

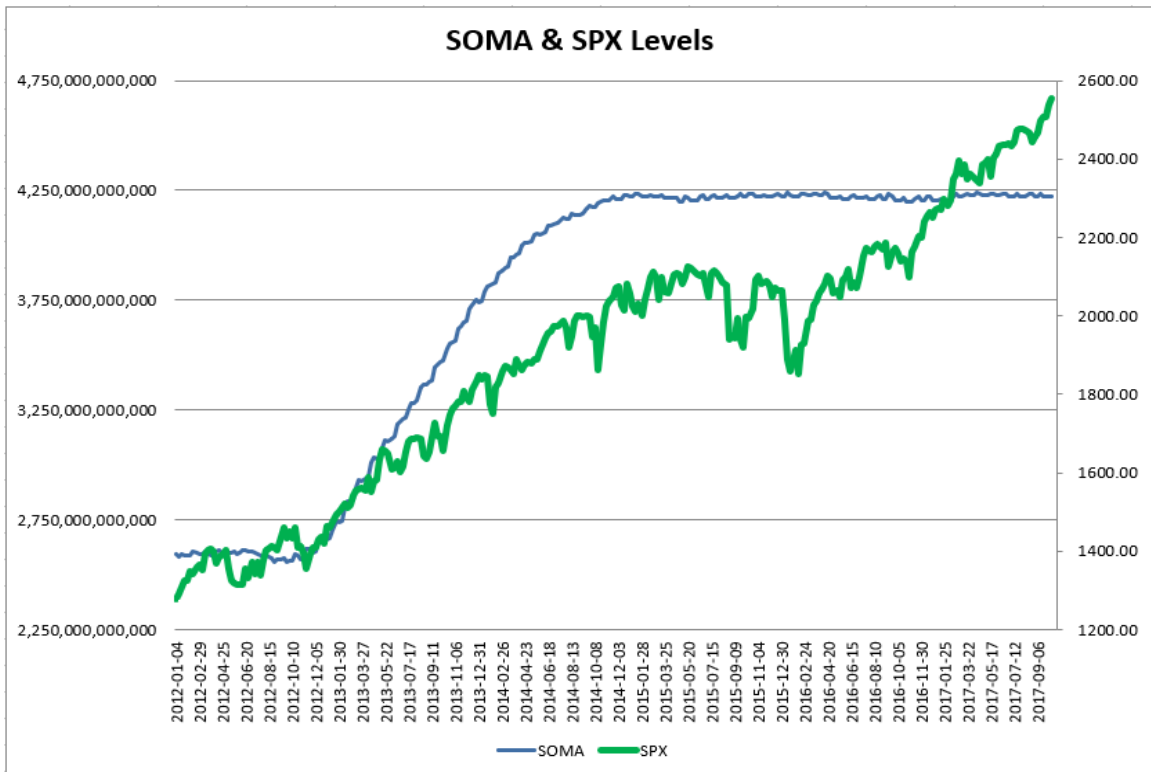
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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 basically breakeven with a very slight decline of \$41.95. The Fed switched to the new policy of a \$10 billion per month reduction at the start of October. So far the pace is very far below that. If they were going to do about \$2.25 billion / week, then they came up about \$2.25 billion short this past week. Historically, and through many policy periods, the market has performed better when the SOMA was expanding, and struggled when it has contracted. The contraction has not kicked in just yet. It appears the Fed is going to need to play catch-up a little bit in the coming weeks in order to reach \$10 billion in October. That could act as a headwind against the bulls. I remain keenly interested in examining how the policy is implemented and how the market reacts over the coming weeks and months.

Nothing happened this past week to change my intermediate-term bias. We still have a few intermediate-term studies active that are leaning bullish. The new index highs, the bullish NASDAQ, and the "Long" signals from the Market Timing Course combo systems are also favoring the bullish case. Fed policy, and its implications, remain my biggest concern. I suspect it will allow for a correction to ensue at some point. But there are no strong signs of that correction starting just yet. So I'm still leaning bullish. I remain alert and ready to quickly change my stance if need be.

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

Open Catapult Triggers

New

C - @ \$72.11 (buy @ limit)

Broad Market Large Cap CBI – 1(C)

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.

***C – buy 1/3 Catapult position @ \$72.11.** This is from the Catapult & CBI section above. It is the 1st of up to 3 possible lots..*

Current Open Trade Ideas

None.

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