

QUANTIFIABLE EDGES

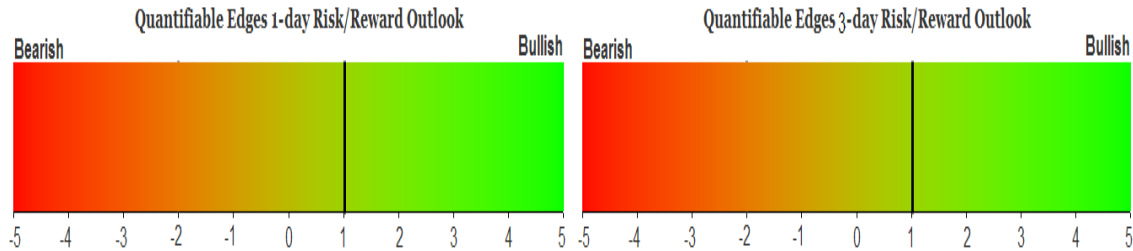
WEEKLY RESEARCH

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 18, 2017

Issue 444

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- Friday's action was strong but left us without great hints for the next few days.
- The Fed's SOMA saw a sizable expansion this past week, and is now far off track with regards to its monthly reduction schedule.

Short-term Outlook

The Bottom Line

The Aggregator is again bullish, but the market is set to turn overbought versus expectations on Monday. This hinders reward/risk and makes potential new entries unappealing to me.

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						
December 14, 2017	3 higher hi, low, close, Dn close.	1-4 days	Bullish			
December 13, 2017	VIX up 6%. SPX up.	1-5 days	Bullish			
November 13, 2017	VIX up 2.5%. SPX 50-high	1-5 days	Bearish			
Active - Long Term						
November 30, 2017	SPX 50-intraday high. NDX big down 50	1-50 days	Bullish			
November 29, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
November 14, 2017	SPX top 25% 20day rng. RUT bottom 25	1-40 days	Bullish	5.60%	-2.80%	-5.50%
November 13, 2017	Hindenburg Omen Cluster	1-35 days	Bearish			
October 24, 2017	SPX 20-high. NDX big drop	1-50 days	Bullish	6.30%	-2.80%	-5.50%
October 2, 2017	SOMA reduction begins	int term	Bearish			
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

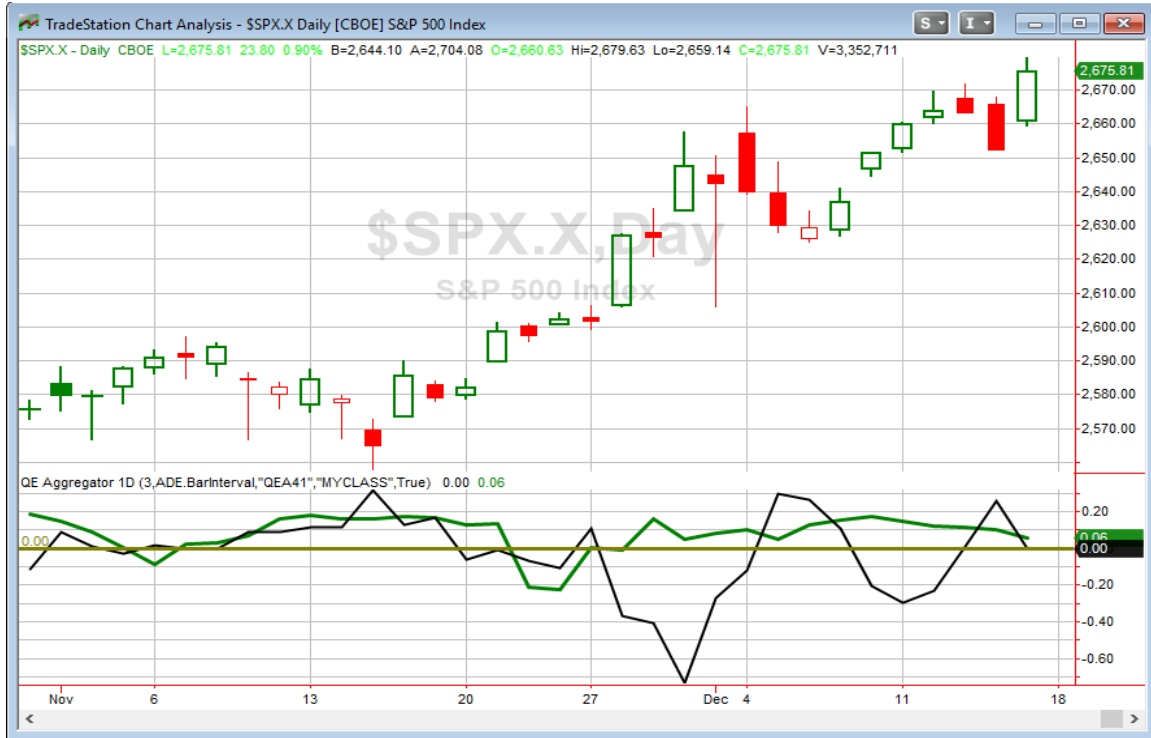
Friday was a strong day for the market. The SPX finished up 0.9%, the NASDAQ gained 1.2%, and the Russell 2000 rallied 1.6%. Breadth was strong the NYSE Up Issues % was 68% and the Up Volume % came in at 78%, with both being the highest readings in at least 20 days. NYSE volume spiked substantially, but that is common for an opex Friday.

From a short-term standpoint there was nothing substantial that triggered in the Quantifinder. It did note that the strong breadth and volume combined with a new high could be a potential positive. But the strong volume was largely thanks to opex. I examined strong breadth when the market was hitting new highs, but since it was not a fresh breakout from a basing formation, there did not appear to be a substantial edge. Below is a sample of a study I ran related to this.

SPX closes at a 50-day high for at least the 2nd time in the last 10 days. NYSE Up Issue % is the most positive of the last 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 2000 - 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	6,352.35	28	20	8	71.43	1,154.03	3,005.73	-2,091.03	-4,518.61	0.55	1.38	226.87
9	2,360.50	28	19	9	67.86	1,103.84	3,596.76	-2,068.05	-4,376.30	0.53	1.13	84.30
8	2,229.98	28	16	12	57.14	1,272.50	3,490.67	-1,510.84	-3,648.52	0.84	1.12	79.64
7	-2,428.66	29	15	14	51.72	1,148.96	2,188.75	-1,404.51	-4,968.22	0.82	0.88	-83.75
6	-3,221.29	30	16	14	53.33	853.62	1,935.00	-1,205.66	-2,859.44	0.71	0.81	-107.38
5	-4,720.28	30	17	13	56.67	700.58	2,489.51	-1,279.24	-4,959.45	0.55	0.72	-157.34
4	1,120.04	30	19	11	63.33	617.16	2,734.65	-964.19	-3,869.12	0.64	1.11	37.33
3	-4,802.07	30	15	15	50.00	576.74	2,332.95	-896.88	-4,848.17	0.64	0.64	-160.07
2	-671.21	30	18	12	60.00	357.49	820.91	-592.18	-2,234.16	0.60	0.91	-22.37
1	-751.85	30	15	15	50.00	294.09	457.98	-344.21	-2,138.93	0.85	0.85	-25.06

As you can see, results have been very inconsistent. This suggests no strong edge for the bulls or the bears based on Friday's price and breadth action.

I have updated the Aggregator chart below.



Once again 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 remained *just barely* 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 list, expectations are slated to remain bullish on Monday. It would take compelling new bearish evidence in order to change this. The Differential Pivot will be *slightly inverted* at 2673.05 on Monday. That is 0.1% *below* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX will need to close down at least 0.1% in order to remain oversold. Anything other than that and SPX will finish overbought on Monday.

I generally view inverted pivots as poor times to take on new positions. This is because reward is limited since any up close would mean an end to the bullish Aggregator formation. Additionally, the move higher in the SPX is quite extended since it has now closed above its 10-day moving average for 19 days in a row. So I am not inclined to take on new SPX positions right here, but am on the lookout in the next few days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/18– somewhat bullish

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

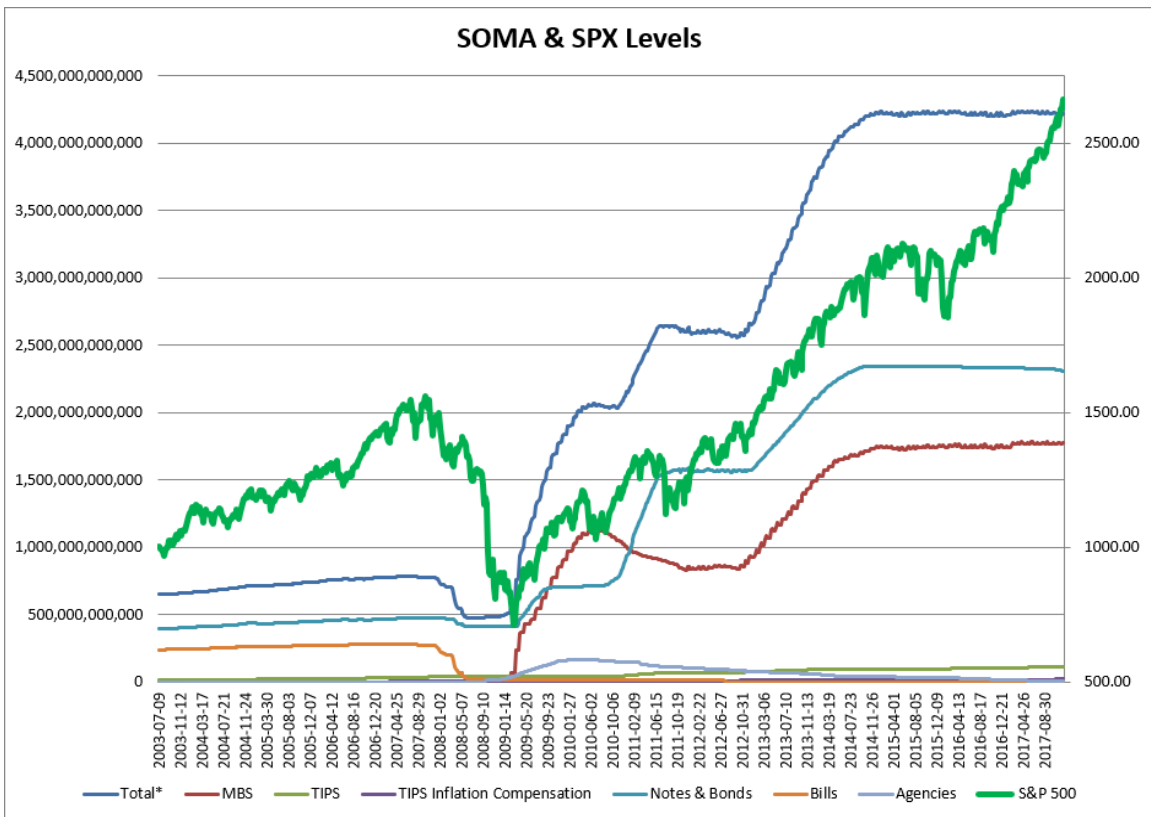
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

With the Dow, NASDAQ, and SPX all closing at new highs on Friday, there is no doubt the long-term uptrend remains intact. Despite the move to new highs, there were no new intermediate-term studies that triggered this past week.

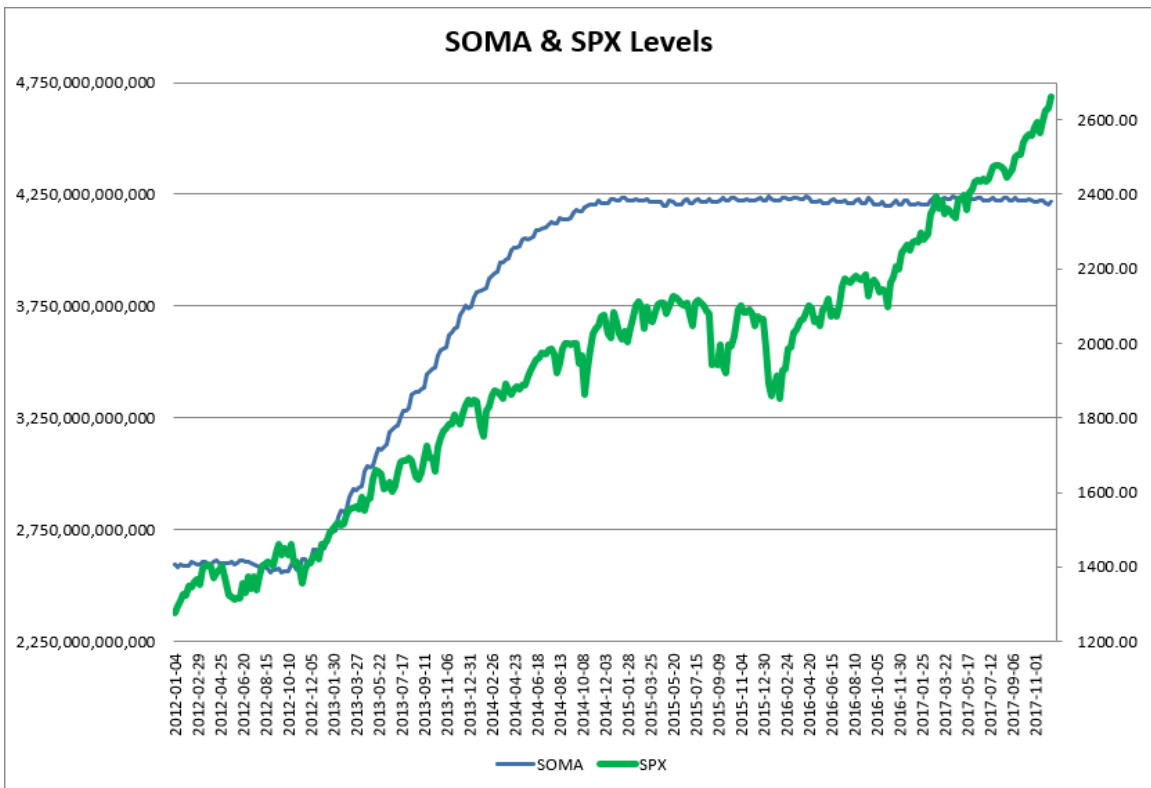
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

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.

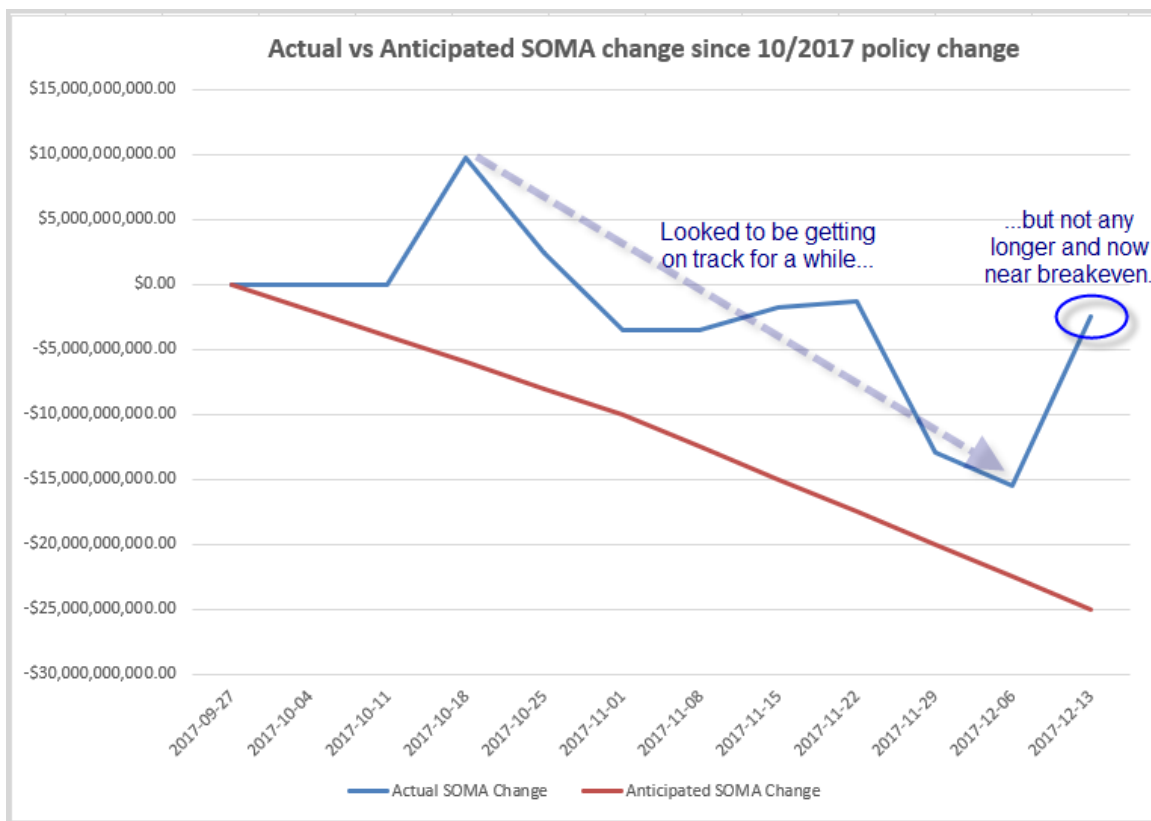
While the Fed is not making new QE purchases any longer, it is continuing to reinvest maturities. Therefore, the total assets in their System Open Market Account (SOMA) has not begun to dive like the old Quantifiable Edges POMO indicators did. Below are long and short-term views of SOMA and SPX. First, 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) actually managed to GAIN 0.31% - nearly \$13 billion. This means it has expanded about \$10.5 billion so far in December. In September the Fed announced they would be reducing the SOMA at a rate of about \$10 billion per month starting in October. But in the 2.5 months since the start of October the SOMA has only declined a TOTAL of \$2.5 billion. As we can see in the charts, the market has typically done well when the Fed has expanded the SOMA and it has struggled when there have been substantial contractions. So the market hitting new highs again in a week when the Fed is expanding the SOMA is not a surprise. Nor is it a surprise that the market has continued to flourish while the SOMA has remained firm the last couple of months. What is as surprise is that the Fed is not shrinking the SOMA in accordance with their stated policy. I created a chart that shows actual SOMA changes versus anticipated since the beginning of October based on the stated Fed policy.



I will continue to watch the SOMA growth/shrinkage to see if it begins to consistently shrink. If that happens, I anticipate a headwind for the bulls. Right now the bulls have strong momentum and seasonality and the anticipated Fed headwind just isn't there. I'll continue to monitor SOMA flows and market action in response to them.

Evidence still appears to be favoring the bulls. There are several intermediate-term bullish studies that remain active. We are in a period of strong seasonality through early January. Additionally, the trend is clearly up, and 2 of 3 Market Timing Course Combo Systems are “long”. On the downside, the Hindenburg Omen signals remain. Of course Fed policy, and its implications, are still my biggest concern. There are no signs of a market correction starting just yet. My outlook is again somewhat bullish. I will therefore be a bit more aggressive with long trades and a bit more conservative when considering short trades.

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