

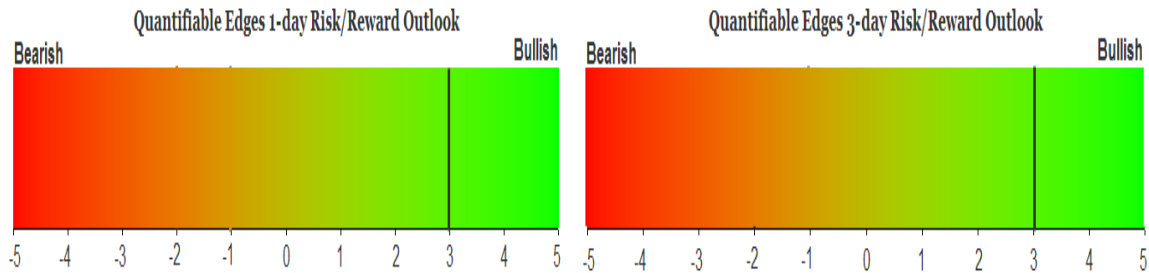
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 15, 2015

Volume 8 Issue 10

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- 4+ day pullbacks that experience the worst day of the pullback are normally primed for a bounce.

Short-term Outlook

The Bottom Line

More bullish evidence emerged on Thursday. There still appears to be a strong chance of a bounce in the next few days, and reward/risk appears favorable for the bulls as well. I am partially long and looking to benefit from the upcoming 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						
January 16, 2015	4+ dn big drop today	1-3 days	Bullish			
January 15, 2015	Unfilled gap. 3 lower. 10 low > 200	1-2 days	Bullish			
January 14, 2015	Gap up. 0.5% rise. Dn close > 10-low	1-4 days	Bullish			
Active - Long Term						
December 18, 2014	20-low to 4-high	1-19 days	Bullish			
December 17, 2014	CBI >= 11.	1-20 days	Bullish			
December 9, 2014	Hindenburg Omens	1-35 days	Bearish			
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
Dropped Tonight						
January 15, 2015	Dn 3 but close in top 25% of range	1 day	Bullish			

The Evidence

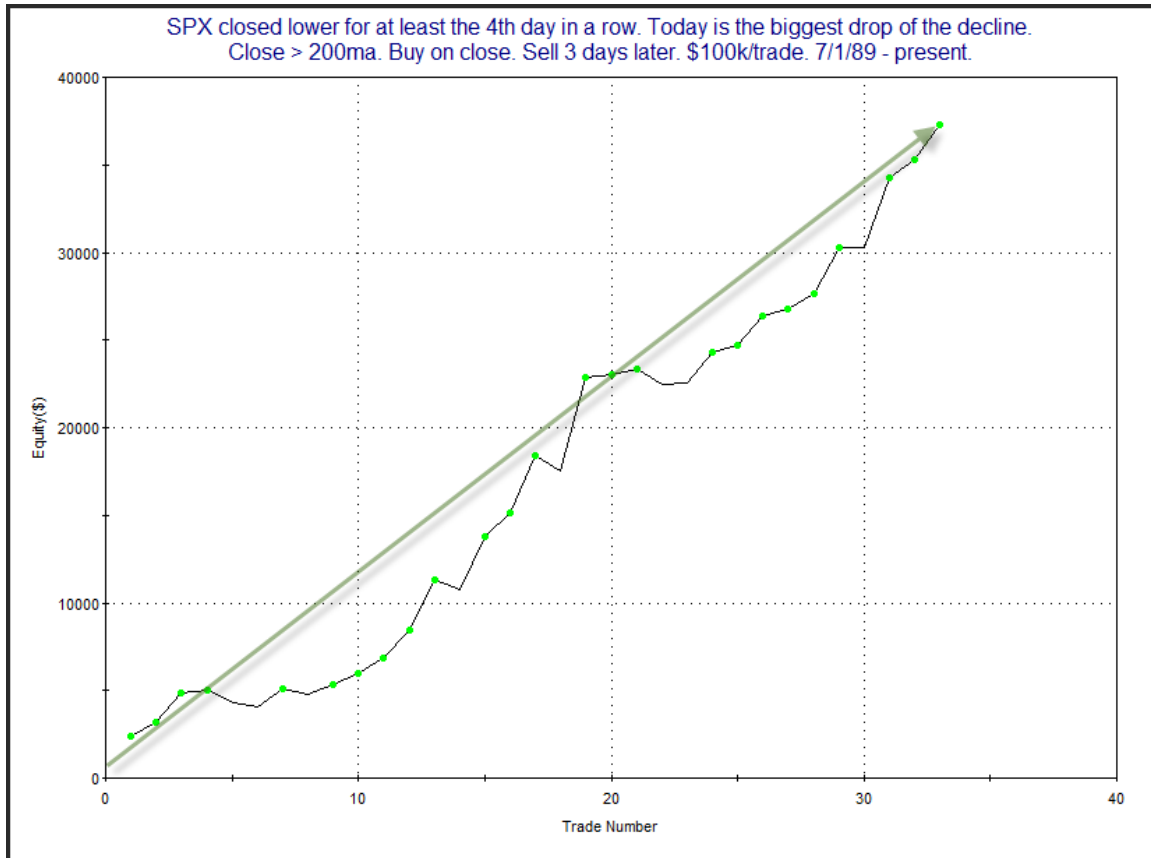
The market continued to crumble on Thursday. SPX and NDX are nearing their December lows. Final results saw the SPX finish down 0.9%, the NASDAQ lose 1.5%, and the Russell 2000 drop 1.9%. Breadth was negative as the NYSE Up Issues % came in at 36% and the Up Volume % was 29%. Total NYSE volume declined from Wednesday's level.

There were a few studies that appeared in the Quantifinder. Most were moderately bullish. The one below was clearly the most compelling and I have decided to revisit it tonight. It examines other multi-day selloffs that accelerated after already being down for a number of days. It was seen just last week in the 1/6/15 Subscriber Letter. I have updated the results.

SPX closed lower for at least the 4th day in a row. Today is the biggest drop of the decline. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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	41,111.62	33	27	6	81.82	1,603.37	7,070.28	-363.24	-909.36	4.41	19.86	1,245.81
4	35,162.07	33	25	8	75.76	1,650.87	5,187.49	-763.72	-1,776.42	2.16	6.76	1,065.52
3	37,306.95	33	26	7	78.79	1,574.84	5,339.18	-519.83	-849.87	3.03	11.25	1,130.51
2	31,596.50	34	26	8	76.47	1,417.97	4,809.66	-658.85	-1,343.84	2.15	6.99	929.31
1	18,793.85	37	25	12	67.57	1,053.93	5,117.46	-629.53	-1,699.92	1.67	3.49	507.94
100% of instances closed above the entry price at some point in the next 6 days.												

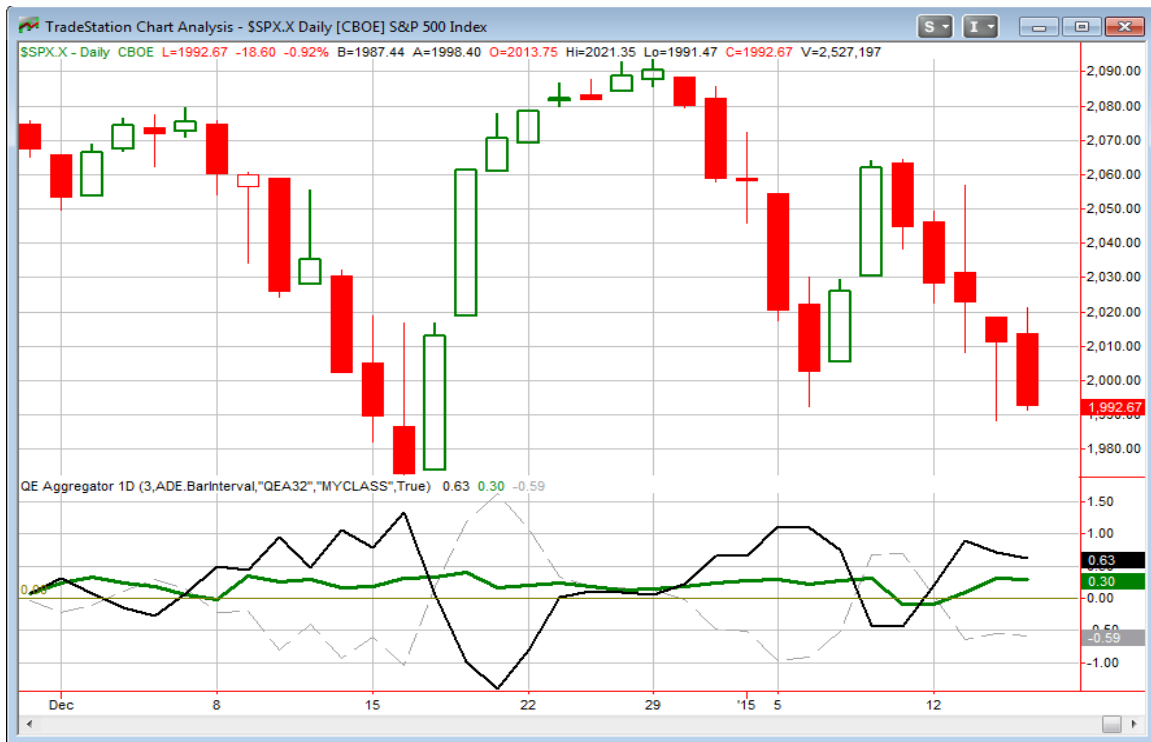
These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of

that over the last 8 years. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact just before the period shown there were 2 trades that were losers. Still, the evidence appears plenty strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



The consistently strong upslope makes this an appealing looking equity curve. I have added this study to the Short-Term Active List.

I have updated the [Aggregator](#) chart below.



With tonight's study being taken into account the Aggregator Line held far above 0. 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 the SPX is considered oversold versus recent expectations. So expectations are positive the 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 bullish on Friday. That could change if new bearish evidence emerges. The Differential Pivot will be 2020.48 on Friday. That is 1.4% above Thursday's close. So SPX would need to close up quite a bit on Friday to move from oversold to overbought versus expectations.

Price action is at a point where we typically see a bounce. And the SPX is quite oversold on a short-term basis. This has the Aggregator bullish and it has me long 2 index lots. At this point I like where I am at. To get longer I would like to see more evidence than just price action studies suggesting an upside edge. So short-term studies related to breadth, volume, sentiment, or more I would want to see confirming what price action is suggesting. Along these lines, the Quantifiable Edges CBI is still just at 2, and there does not appear to be many securities poised to cause a big spike in that number. FCX did trigger a 2nd Catapult entry on Thursday, so I will look to add that, but I won't add to my long index position just yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/12 – somewhat bullish

The intermediate-term outlook was last updated in the 1/12 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

FCX – 1/3 @ \$18.74 (buy @ limit)

New

FCX – 1/3 @ \$18.33 (buy @ limit) – 2nd lot

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2(FCX-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.

FCX – buy 1/3 Catapult position @ \$18.33 LIMIT. This is from the Catapult section above. It is the 2nd of 3 possible lots for FCX.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/11/2014	\$34.03	\$26.74	-21.42%		Aggressive VIX
SPY(1/4)	1/14/2015	\$200.86	\$199.02	-0.92%		Aggregator
SPY(1/4)	1/15/2015	\$199.02	\$199.02	0.00%		bought on close
FCX(1/3)	1/15/2015	\$18.74	\$18.33	-2.19%		Catapult

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