

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 11, 2015

Volume 8 Issue 47

Market Overview



Signals Overview

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

Tonight's Research Points

- Very strong selling that put the SPX at a 20-day low while $> 200ma$ suggests an upside edge.
- The extremely weak closing TICK suggests an up day on Wednesday.
- An unfilled gap down right after an unfilled gap up can suggest short-term problems for the bulls.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a bullish edge. I like reward/risk and am looking to add to my long exposure to take advantage of a possible bounce in the next few days.

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 | | | | | | |
| March 11, 2015 | Unfilled gap up then unfilled gap down | 1-2 days | Bearish | | | |
| March 11, 2015 | TICK 100-day low. SPX 5-day low | 1 day | Bullish | | | |
| March 11, 2015 | System 110524 | 1-7 days | Bullish | | | |
| March 10, 2015 | Bounce frm 10-low < 10ma > 200ma | 1-4 days | Bullish | 1.90% | -1.20% | -2.20% |
| March 9, 2015 | Big Friday drop | 1-6 days | Bullish | 2.60% | -1.70% | -3.70% |
| March 5, 2015 | 50-high to 8-low in 2 days | 1-5 days | Bullish | | | |
| Active - Long Term | | | | | | |
| January 26, 2015 | NASDAQ leading SPX | int term | Bullish | | | |
| 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 | | | | | | |
| March 10, 2015 | Unfilled gap up, inside, c > 0 & 200ma | 1 day | Bearish | | | |

The Evidence

The market got whacked on Tuesday. The SPX and NASDAQ each lost 1.7%, and the Russell 2000 declined 1.2%. Breadth was strongly negative as the NYSE Up Issues % came in at 27% and the Up Volume % was 12%. Total NYSE volume rose from Monday's level.

A good number of studies triggered in tonight's Quantifinder. I will discuss those I found most compelling.

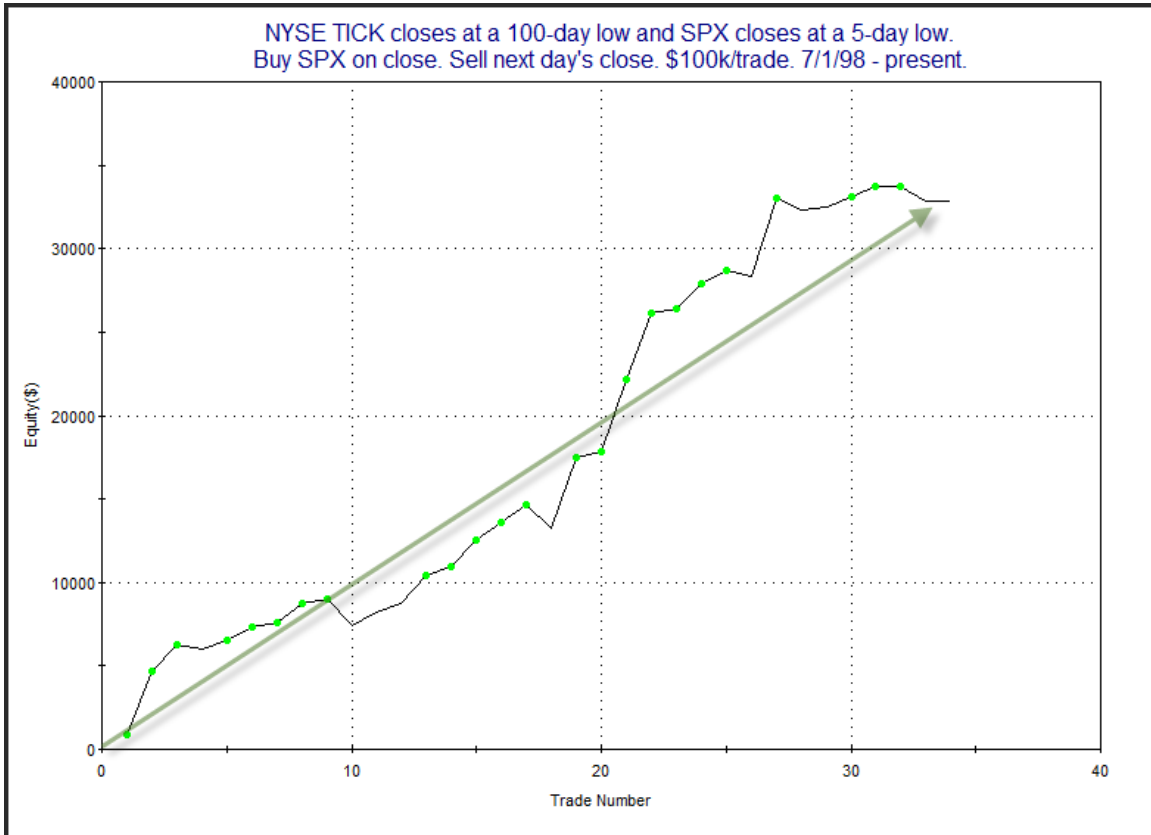
My friend and colleague, Tom McClellan (<http://www.mcoscillator.com/>), taught me a while back that closing TICK values can be used as a valuable indicator. Closing TICK values tend to do a good job of representing end of day order imbalances. When the closing TICK is very weak that means there are a lot of sell orders at the end of the day. A strong closing TICK would indicate lots of buy orders coming in at the end of the day. The final flurry of buying or selling, and market participants' willingness to hold positions overnight, can act as a good sentiment gauge.

On Tuesday the NYSE closing TICK was -757. This is an extremely low reading and it represents the lowest reading since 7/29/14. The study below was last seen in the 7/30/14 Subscriber Letter. It looks at short-term SPX lows in conjunction with long-term closing TICK lows. Results have been updated.

NYSE TICK closes at a 100-day low and SPX closes at a 5-day low.
Buy SPX on close. Sell next day's close. \$100k/trade. 7/1/98 - present.

| TradeStation Performance Summary Collapse ▲ | | | |
|--|-------------|--------------------------|--------------|
| All Trades | | | |
| Total Net Profit | \$32,826.44 | Profit Factor | 7.36 |
| Gross Profit | \$37,984.97 | Gross Loss | (\$5,158.53) |
| Total Number of Trades | 34 | Percent Profitable | 82.35% |
| Winning Trades | 28 | Losing Trades | 6 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$965.48 | Ratio Avg. Win:Avg. Loss | 1.58 |
| Avg. Winning Trade | \$1,356.61 | Avg. Losing Trade | (\$859.75) |
| Largest Winning Trade | \$4,723.23 | Largest Losing Trade | (\$1,506.56) |

Everything above suggests a strong upside edge for the next day. Below is an equity curve to see how the edge has played out over time.



The strong steady upslope acts as confirmation of the setup's bullish tendencies.

In the 7/30/14 letter I also included a filter to see the instances that occurred while the SPX was above the 200ma. Below are those stats (updated).

| NYSE TICK closes at a 100-day low and SPX closes at a 5-day low but > 200ma. Buy SPX on close. Sell next day's close. \$100k/trade. 7/1/98 - present. | | | |
|--|-------------|--------------------------|--------------|
| TradeStation Performance Summary | | | Collapse |
| All Trades | | | |
| Total Net Profit | \$7,856.09 | Profit Factor | 3.08 |
| Gross Profit | \$11,625.82 | Gross Loss | (\$3,769.73) |
| Total Number of Trades | 21 | Percent Profitable | 76.19% |
| Winning Trades | 16 | Losing Trades | 5 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$374.10 | Ratio Avg. Win:Avg. Loss | 0.96 |
| Avg. Winning Trade | \$726.61 | Avg. Losing Trade | (\$753.95) |
| Largest Winning Trade | \$1,569.26 | Largest Losing Trade | (\$1,506.56) |

While the stats here remain strong, they are not quite as impressive as without the filter. The reduced volatility during uptrends vs downtrends seems to have dampened the averages some. The average trade here gains about \$400 instead of \$1,000. Still, I decided this TICK study was worth including in the Active Studies List.

In the 8/1/14 letter I showed a study that examined large losses that closed at intermediate-term lows. I have updated that study below.

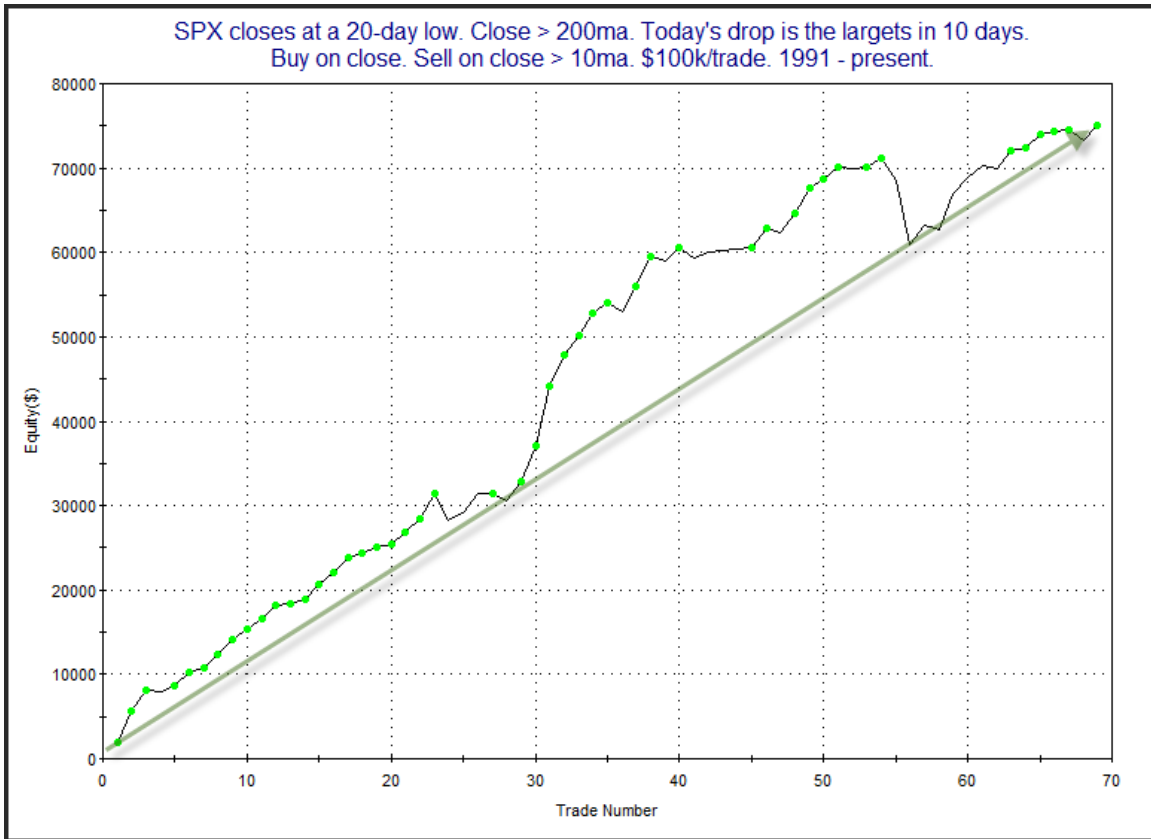
| SPX closes at a 20-day low. Close > 200ma. Today's drop is the targets in 10 days. Buy on close. Sell X days later. \$100k/trade. 1991 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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 | 61,933.24 | 67 | 46 | 21 | 68.66 | 2,445.57 | 5,953.20 | -2,407.76 | -13,993.88 | 1.02 | 2.22 | 924.38 |
| 9 | 75,544.30 | 68 | 50 | 18 | 73.53 | 2,204.92 | 5,761.56 | -1,927.89 | -10,059.36 | 1.14 | 3.18 | 1,110.95 |
| 8 | 67,964.72 | 69 | 48 | 21 | 69.57 | 2,358.48 | 6,960.84 | -2,154.40 | -14,092.68 | 1.09 | 2.50 | 985.00 |
| 7 | 82,815.68 | 70 | 52 | 18 | 74.29 | 2,215.42 | 7,500.06 | -1,799.22 | -8,018.76 | 1.23 | 3.56 | 1,183.08 |
| 6 | 77,353.27 | 72 | 53 | 19 | 73.61 | 2,160.11 | 7,272.06 | -1,954.34 | -7,966.32 | 1.11 | 3.08 | 1,074.35 |
| 5 | 65,957.35 | 72 | 43 | 29 | 59.72 | 2,281.61 | 7,070.28 | -1,108.68 | -3,385.80 | 2.06 | 3.05 | 916.07 |
| 4 | 43,248.45 | 74 | 46 | 28 | 62.16 | 1,795.22 | 4,731.13 | -1,404.70 | -3,863.84 | 1.28 | 2.10 | 584.44 |
| 3 | 35,415.75 | 74 | 48 | 26 | 64.86 | 1,405.49 | 4,277.94 | -1,232.62 | -5,331.20 | 1.14 | 2.11 | 478.59 |
| 2 | 36,936.13 | 75 | 49 | 26 | 65.33 | 1,241.70 | 4,809.66 | -919.50 | -3,863.25 | 1.35 | 2.54 | 492.48 |
| 1 | 15,283.35 | 77 | 49 | 28 | 63.64 | 708.95 | 5,117.46 | -694.83 | -2,162.04 | 1.02 | 1.79 | 198.49 |

Results here are quite bullish. Some subscribers may recognize the setup as system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

SPX closes at a 20-day low. Close > 200ma. Today's drop is the targets in 10 days.
Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

| TradeStation Performance Summary Collapse ↕ | | | |
|--|-------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | \$74,973.92 | Profit Factor | 4.64 |
| Gross Profit | \$95,588.40 | Gross Loss | (\$20,614.48) |
| Total Number of Trades | 69 | Percent Profitable | 81.16% |
| Winning Trades | 56 | Losing Trades | 13 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$1,086.58 | Ratio Avg. Win:Avg. Loss | 1.08 |
| Avg. Winning Trade | \$1,706.94 | Avg. Losing Trade | (\$1,585.73) |
| Largest Winning Trade | \$7,070.28 | Largest Losing Trade | (\$7,630.40) |

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. Below is a profit curve where it can be seen.



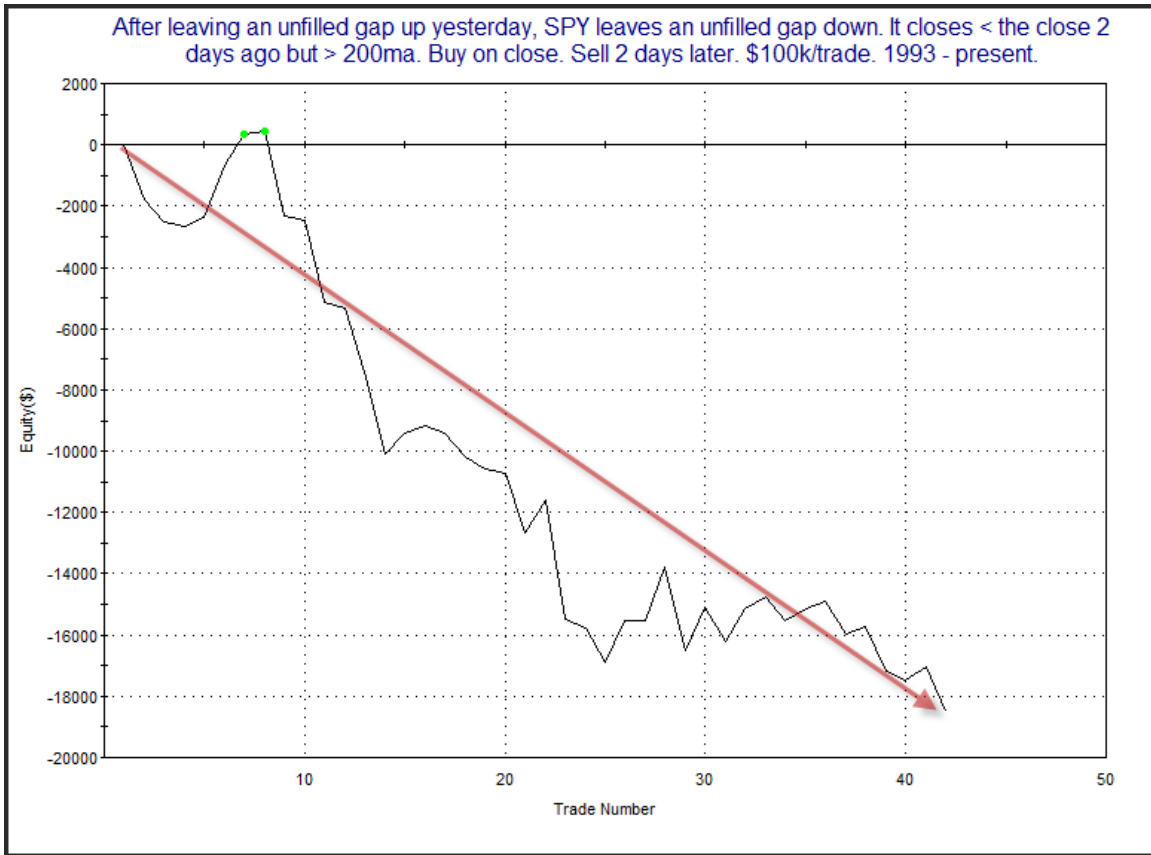
The big drop was made up for fairly quickly and the upward slope appears to be back in place.

But not everything pointed higher. The study below was last seen in the 1/30/14 letter. It examines 2-day moves like SPY has just encountered.

After leaving an unfilled gap up yesterday, SPY leaves an unfilled gap down. It closes < the close 2 days ago but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

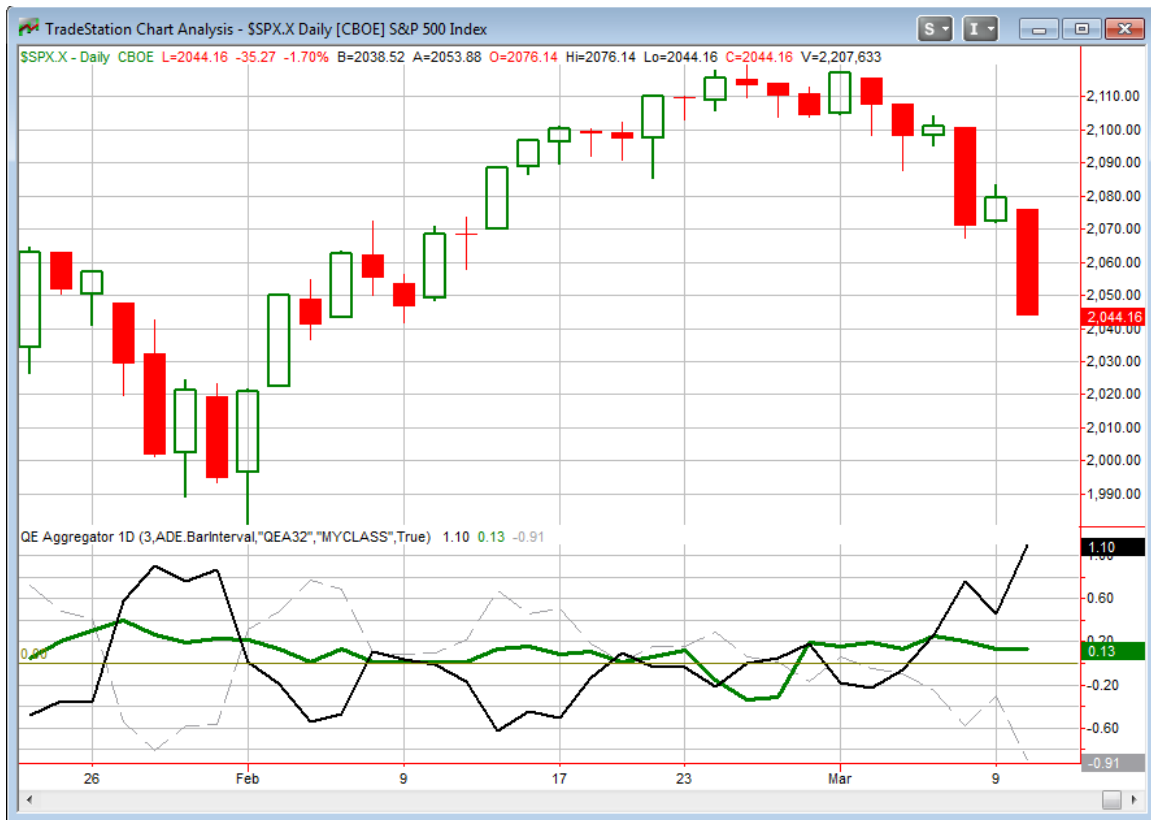
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | -2,359.95 | 39 | 17 | 22 | 43.59 | 1,512.16 | 3,949.59 | -1,275.76 | -3,791.20 | 1.19 | 0.92 | -60.51 |
| 4 | -949.06 | 40 | 17 | 23 | 42.50 | 1,556.29 | 3,637.58 | -1,191.56 | -4,926.08 | 1.31 | 0.97 | -23.73 |
| 3 | -20,905.89 | 42 | 17 | 25 | 40.48 | 884.50 | 2,463.47 | -1,437.70 | -5,321.00 | 0.62 | 0.42 | -497.76 |
| 2 | -18,503.17 | 42 | 17 | 24 | 40.48 | 730.49 | 1,754.40 | -1,288.40 | -3,893.00 | 0.57 | 0.40 | -440.55 |
| 1 | -1,812.78 | 42 | 19 | 22 | 45.24 | 549.84 | 1,325.15 | -557.26 | -1,564.50 | 0.99 | 0.85 | -43.16 |

The suggestion here is that more downside appears likely over the next few days. Of course I also examined the profit curves. Below is the 2-day.



This one has chopped its way south for a while and it is again making new lows. Overall, this setup appears to suggest a bit of a downside edge. I believe it is worth some consideration.

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



With today's studies factored in the green Aggregator Line held firmly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is further above 0 than it has been in a long time. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is extremely oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal remained long at the close.

If nothing new triggers, then expectations are set to remain positive on Wednesday. It would take very strong bearish evidence to change this. The Differential Pivot will be 2082.81 on Wednesday. That is 1.9% above Tuesday's close. So for SPX to change from oversold to overbought versus recent expectations it is going to need to close up at least 1.9% on Wednesday. That is a tall task. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Bullish evidence is mounting and the market is now extremely oversold on a short-term basis. I like the reward/risk under this scenario and believe there is a compelling upside edge over the next few days. I already have some long exposure. I will look to add to that exposure on Wednesday. Details are in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/9 – somewhat bullish

The intermediate-term outlook was last updated in the 3/9 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

MO – 1/3 at \$53.37 (not filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(MO)

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 at \$204.98 LIMIT. This would be the 2nd lot. Based on the short-term outlook, I would like to add more index exposure to try and take advantage of a possible bounce in the next few days.

MO – buy 1/3 Catapult position at \$53.20 LIMIT. This is from the Catapult & CBI section above. Catapults have been very volatile over the years and are traded without stops. Traders should keep this in mind when considering whether the trade ideas are suitable for them, and how much they want to allocate. More info on Catapults can be found on [the Catapult Systems page](#). This trade idea first appeared on Sunday night

But did not receive a fill on Monday and was cancelled. I will now look to get into it if I can get filled at Tuesday close or better on Wednesday.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|----------------|
| SPY(1/4) | 3/6/2015 | \$209.42 | \$204.98 | -2.12% | | Aggregator |
| XIV(1/2) | 3/9/2015 | \$32.25 | \$31.50 | -2.33% | | Aggressive VIX |
| | | | | | | |
| | | | | | | |

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