

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 12, 2015

Volume 8 Issue 48

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 days of poor closes at 5-day lows during a long-term uptrend has always been followed by a bounce with SPY.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a bullish edge. Reward/risk still looks good and evidence keeps mounting. I like the long side.

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 12, 2015	5 low & bottom of daily range 2x	1-5 days	Bullish	2.10%	-0.70%	-1.70%
March 11, 2015	Unfiled gap up then unfilled gap down	1-2 days	Bearish			
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%
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 11, 2015	TICK 100-day low. SPX 5-day low	1 day	Bullish			
March 5, 2015	50-high to 8-low in 2 days	1-5 days	Bullish			

The Evidence

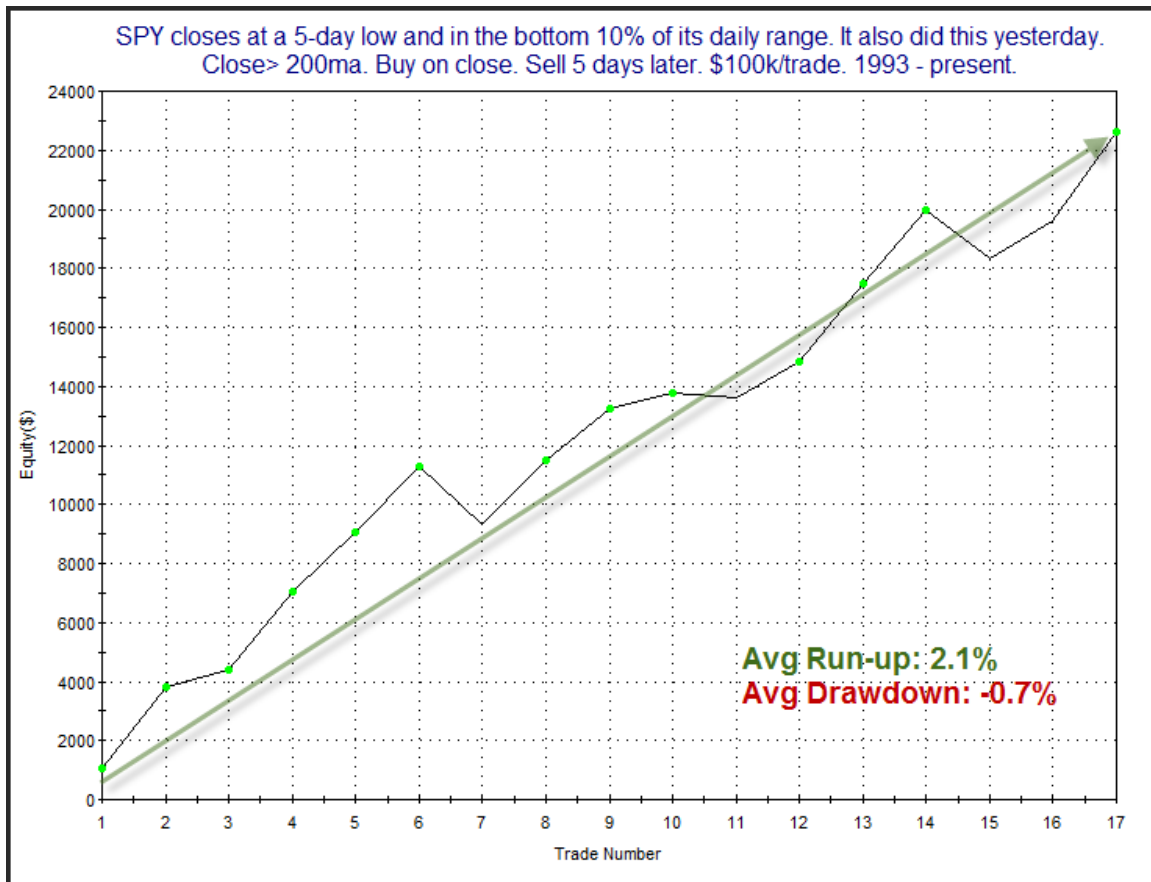
The market was pretty quiet on Wednesday, with the indices closing mixed. The SPX and NASDAQ each lost 0.2%, while the Russell 2000 gained 0.6%. Breadth was positive as the NYSE Up Issues % came in at 54% and the Up Volume % was 58%. Total NYSE volume sank from Tuesday's level.

There was a study in the Quantifinder that looked at times when SPX closed at a short-term low and in the bottom part of its daily range. It was actually the 2nd day in a row that SPX and SPY would have qualified. So I decided to look at other instances where SPY did this 2 days in a row, going back to its inception in 1993. Results of this test are below.

SPY closes at a 5-day low and in the bottom 10% of its daily range. It also did this yesterday. Close > 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
10	28,824.91	17	14	3	82.35	2,380.63	4,659.75	-1,501.31	-2,333.25	1.59	7.40	1,695.58
9	24,640.32	17	14	3	82.35	2,048.69	4,065.27	-1,347.11	-2,534.55	1.52	7.10	1,449.43
8	26,929.88	17	13	4	76.47	2,349.38	4,801.50	-903.01	-1,492.34	2.60	8.46	1,584.11
7	23,418.85	17	13	4	76.47	2,055.81	3,830.53	-826.66	-1,484.58	2.49	8.08	1,377.58
6	20,176.43	17	13	4	76.47	1,763.88	3,509.00	-688.49	-1,968.09	2.56	8.33	1,186.85
5	22,630.29	17	14	3	82.35	1,886.69	3,041.50	-1,261.11	-1,927.23	1.50	6.98	1,331.19
4	20,644.44	17	14	3	82.35	1,746.34	2,684.00	-1,268.12	-3,187.08	1.38	6.43	1,214.38
3	13,392.99	17	12	4	70.59	1,310.50	3,130.00	-583.26	-946.59	2.25	6.74	787.82
2	13,607.76	17	15	2	88.24	947.73	2,191.00	-304.08	-544.80	3.12	23.38	800.46
1	12,728.16	19	15	4	78.95	980.21	1,717.10	-493.74	-855.68	1.99	7.44	669.90

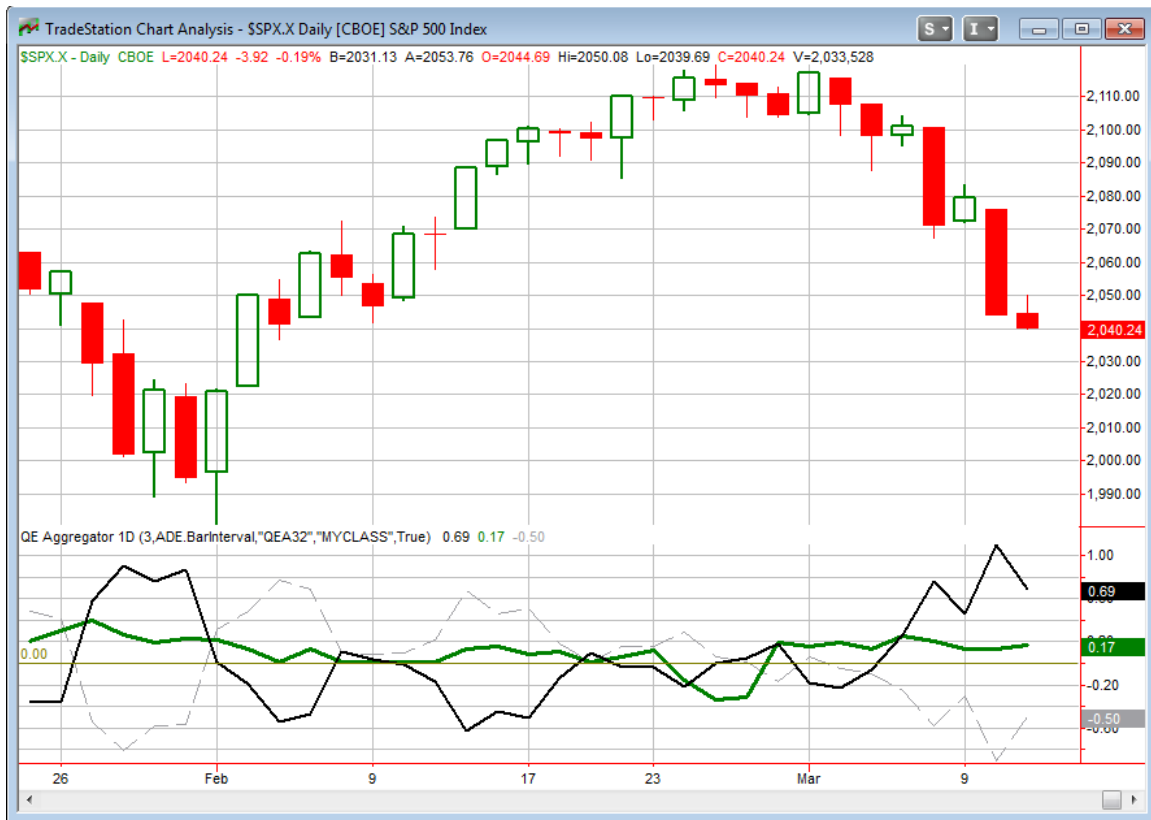
All 19 instances closed above the entry price on either the 1st or 2nd day following the trigger.

The consistency with which SPY has risen over the next few days is very impressive, and some of the numbers highlighted above appear very strong. Below is a profit curve that assumes a 5-day holding period.



The strong, steady upslope is impressive and acts as confirmation of the bullish edge. Also notable is that the Avg Run-up has been 3x the size of the Avg Drawdown. This study certainly seems worthy of consideration, and I have added it to the Active List.

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



With tonight's study 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 still far above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is strongly 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.

Based on the current active studies expectations are set to remain positive on Thursday. It is very unlikely that we'd see enough bearish evidence emerge to change this. The Differential Pivot will be 2090.79 on Thursday. That is 2.5% above Wednesday's close. So for SPX to change from oversold to overbought versus recent expectations it is going to need to close up at least 2.5% on Thursday. That is highly unlikely. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Bullish evidence continues to mount. The market is strongly oversold. It is due for a bounce and has plenty of room to the upside before it would no longer be oversold. I continue to like the bullish case here. I have some long exposure already and will consider adding to it if SPY closes down much on Thursday. 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 \$203.00 LIMIT ON CLOSE. This would be the 3rd of possibly 4 lots. Based on the short-term outlook, I would like to add more index exposure if SPY suffers a decent amount of selling again on Thursday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/6/2015	\$209.42	\$204.50	-2.35%		Aggregator
XIV(1/2)	3/9/2015	\$32.25	\$30.73	-4.71%		Aggressive VIX
SPY(1/4)	3/11/2015	\$204.98	\$204.50	-0.23%		Aggregator
MO(1/3)	3/11/2015	\$53.20	\$52.22	-1.84%		Catapult

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