

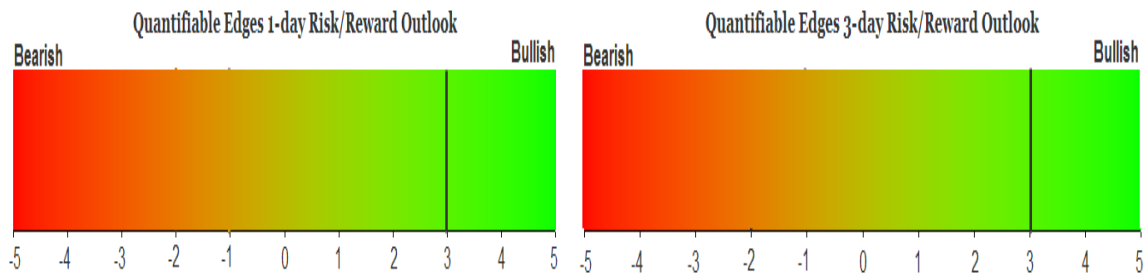
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 27, 2015

Volume 8 Issue 59

Market Overview



Signals Overview

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

Tonight's Research Points

- The failed bounce attempt on Thursday did not help to trigger new compelling studies.

Short-term Outlook

The Bottom Line

Evidence is pointing higher and the market is still strongly oversold. This suggests an upside edge.

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 26, 2015	1% drop on weak breadth	1-9 days	Bullish	3.00%	-2.50%	-5.40%
March 19, 2015	High volume up day > 200ma. No opex	1-10 days	Bullish	2.50%	-1.50%	-3.10%
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			

The Evidence

The market could not manage a bounce on Thursday and finished lower once again. The SPX fell 0.2%, the NASDAQ lost 0.3%, and the Russell 2000 declined 0.2%. Breadth was negative as the NYSE Up Issues % came in at 39% and the Up Volume % was 35%. Total NYSE volume rose from Wednesday's level.

There were no studies that emerged with strongly compelling evidence, but there was one that is worth discussion. It was last seen in the 5/10/12 letter. It looked at other instances where the SPY gapped down from a 5-day low and just partially recovered. This left it closing above the open but still down on the day. Interestingly, the partial recovery has negatively impacted the stats over the next several days. Below is an updated stats table for this study.

Yesterday SPY closed at a 5-day low. Today it gapped down and closed above the open but below yesterday's close. 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
5	3,362.52	36	20	16	55.56	1,643.66	4,974.97	-1,844.42	-7,150.25	0.89	1.11	93.40
4	3,123.83	36	21	15	58.33	1,395.88	4,017.00	-1,745.97	-7,011.11	0.80	1.12	86.77
3	9,199.60	36	25	11	69.44	1,025.04	3,227.25	-1,493.32	-2,700.72	0.69	1.56	255.54
2	7,099.90	36	23	13	63.89	1,141.79	2,944.50	-1,473.94	-4,759.36	0.77	1.37	197.22
1	-324.21	39	23	16	58.97	790.41	2,920.00	-1,156.48	-3,321.28	0.68	0.98	-8.31

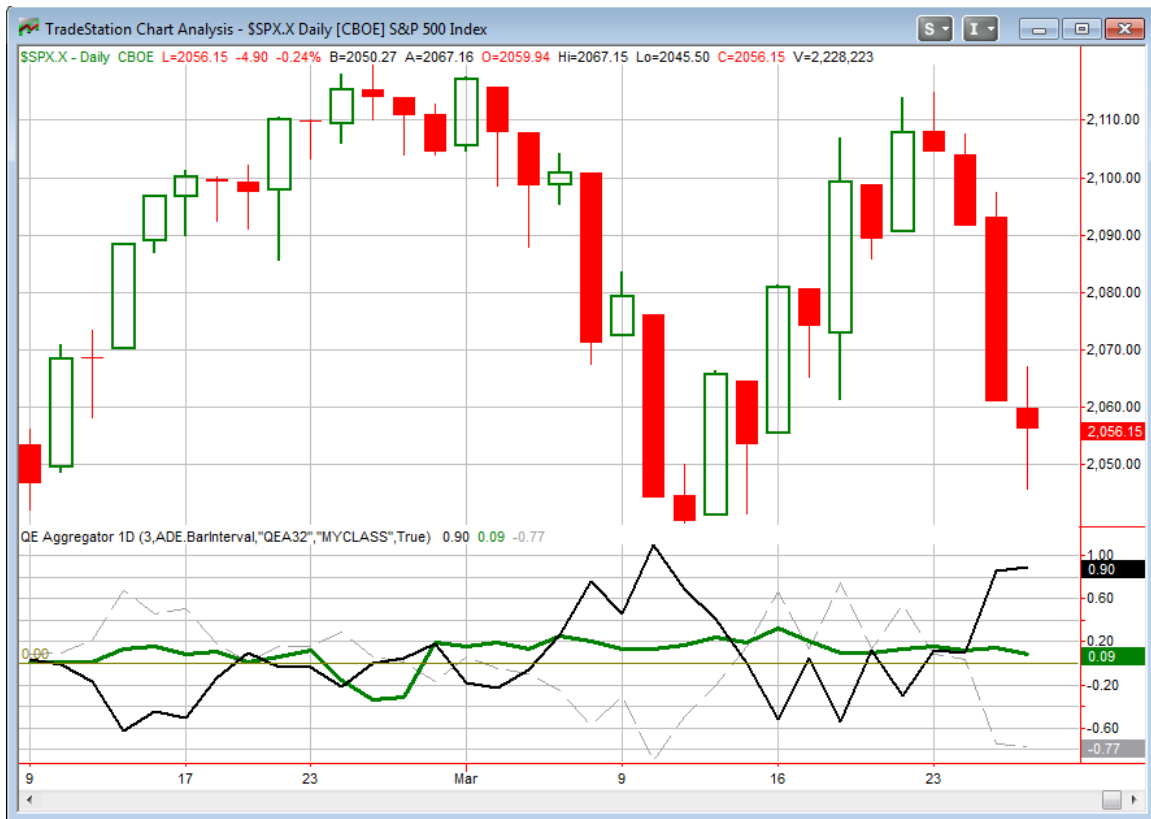
Any edge here is quite small. But now let's look at times that SPY gapped down and closed below the open.

Yesterday SPY closed at a 5-day low. Today it gapped down and closed below the open. 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
5	100,881.88	95	70	24	73.68	1,810.66	8,239.74	-1,077.69	-4,103.46	1.68	4.90	1,061.91
4	85,309.65	98	71	27	72.45	1,688.75	5,581.02	-1,281.17	-3,522.36	1.32	3.47	870.51
3	81,082.15	100	69	30	69.00	1,625.29	4,348.05	-1,035.42	-3,620.70	1.57	3.61	810.82
2	65,277.26	103	73	30	70.87	1,204.09	5,477.88	-754.05	-2,561.20	1.60	3.89	633.76
1	43,087.71	110	76	34	69.09	876.61	5,764.38	-692.20	-3,772.68	1.27	2.83	391.71

Numbers here are much better and would suggest a decent upside edge. Unfortunately, the partial recovery on Wednesday meant the market setup matched the first scenario, and suggested no strong edge.

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



Without any new studies emerging the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line rose further 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 stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Friday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 2099.33 on Friday. That is a whopping 2.1% above Thursday's close. So for SPX to change from oversold to overbought it will need to close up at least 2.1% on Friday. That

is a big number. A more likely scenario to work off the oversold condition is a multi-day rally or consolidation.

Evidence continues to favor the bulls, but it is still not terribly strong. And Thursday's action did not help to trigger any new bullish studies. The market is certainly oversold on the short-term and another down day on Friday would mark the 5th day in a row. It is highly unlikely we will see bearish evidence emerging if we are down that many days in a row. But evidence suggesting a bounce could certainly gain. So I am not going to rush into additional exposure, but instead will look for a further move down on Friday before possibly buying more. Details are in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/23 – somewhat bullish

The intermediate-term outlook was last updated in the 3/23 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

BMV – 1/3 @ \$64.70 (bought)

New

UPS – 1/3 @ \$96.64 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2 (BMV, UPS)

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.

UPS – buy 1/3 Catapult position @ \$96.64 LIMIT. This is a Catapult trade idea. For those unfamiliar with Catapults, more information can be found on the [Catapult System page](#) on the website.

XIV – buy ½ position at \$33.50 LIMIT ON CLOSE. If XIV closes down a bit on Friday I will be a buyer. This would be the 2nd and final lot of XIV.

SPY – buy ¼ index position at \$205.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look the up my long exposure if SPY closes down much on Friday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$34.09	5.71%		Aggressive VIX
SPY(1/4)	3/25/2015	\$205.76	\$205.27	-0.24%		Aggregator
BMY(1/3)	3/26/2015	\$64.56	\$65.00	0.68%		bought on open

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