

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 1, 2015

Volume 8 Issue 83

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.
- Turn of the month is offering some bullish evidence.

## *Short-term Outlook*

### *The Bottom Line*

There is solid evidence suggesting a bullish edge and the market is oversold with plenty of room to the upside. I am bullish.

**Summary of Recent Active Studies (see Letters from listed dates for details) –not updated tonight**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
<b>Active - Short Term</b>						
April 28, 2015	20-high poor close	1-10 days	Bullish	2.10%	-1.35%	-2.70%
April 27, 2015	NDX up 1% & SOX down.	1-6 days	Bearish	-3.20%	1.90%	4.10%
April 27, 2015	Breakout. 3up & Low vol.	1-5 days	Bullish	1.90%	-0.90%	-2.00%
April 20, 2015	1% drop on 2:1 negative breadth	1-9 days	Bullish	3.00%	-2.50%	-5.40%
<b>Active - Long Term</b>						
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**

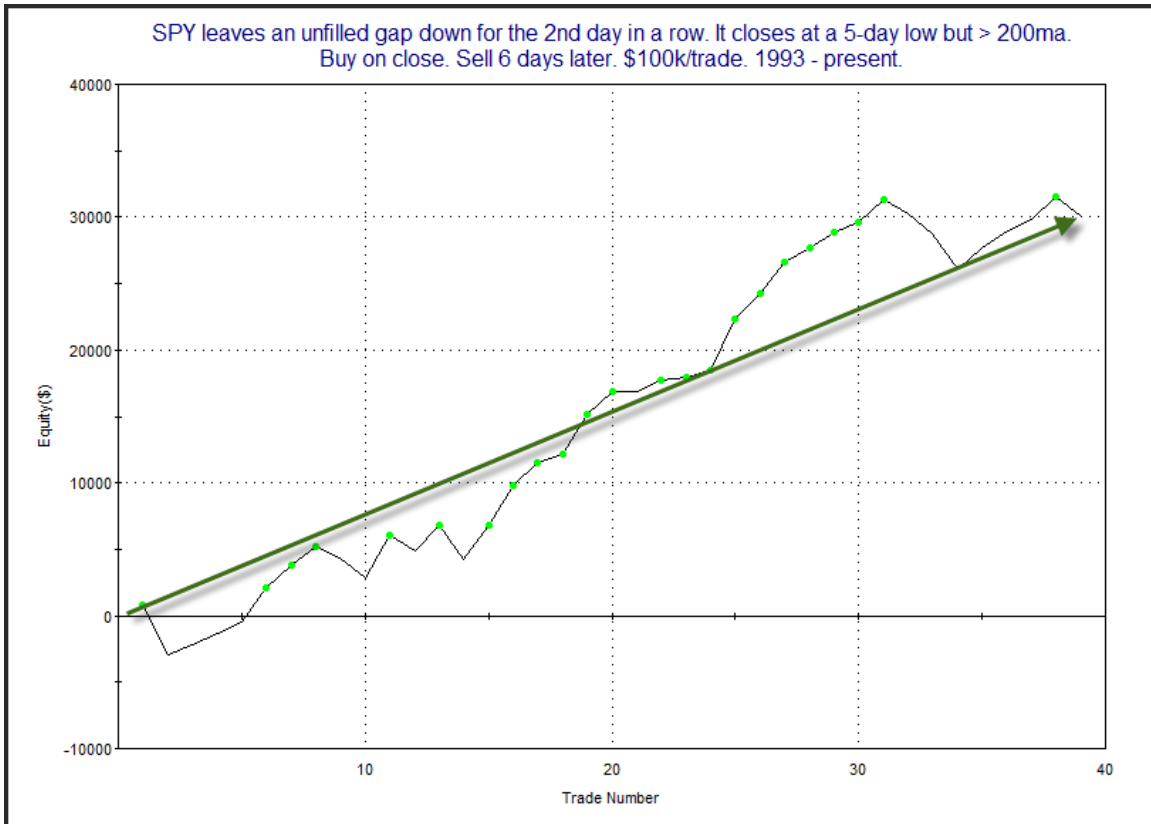
The market finished April with a sizable selloff on the last day. The SPX closed down 1.0%, the NASDAQ fell 1.6%, and the Russell 2000 lost 2.2%. Breadth was negative as the NYSE Up Issues % came in at 24% and the Up Volume % was 27%. Total NYSE volume hit its highest level since March.

Notable about the price action over the last 2 days is that both Wednesday and Thursday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 7/9/14 letter. Results are updated.

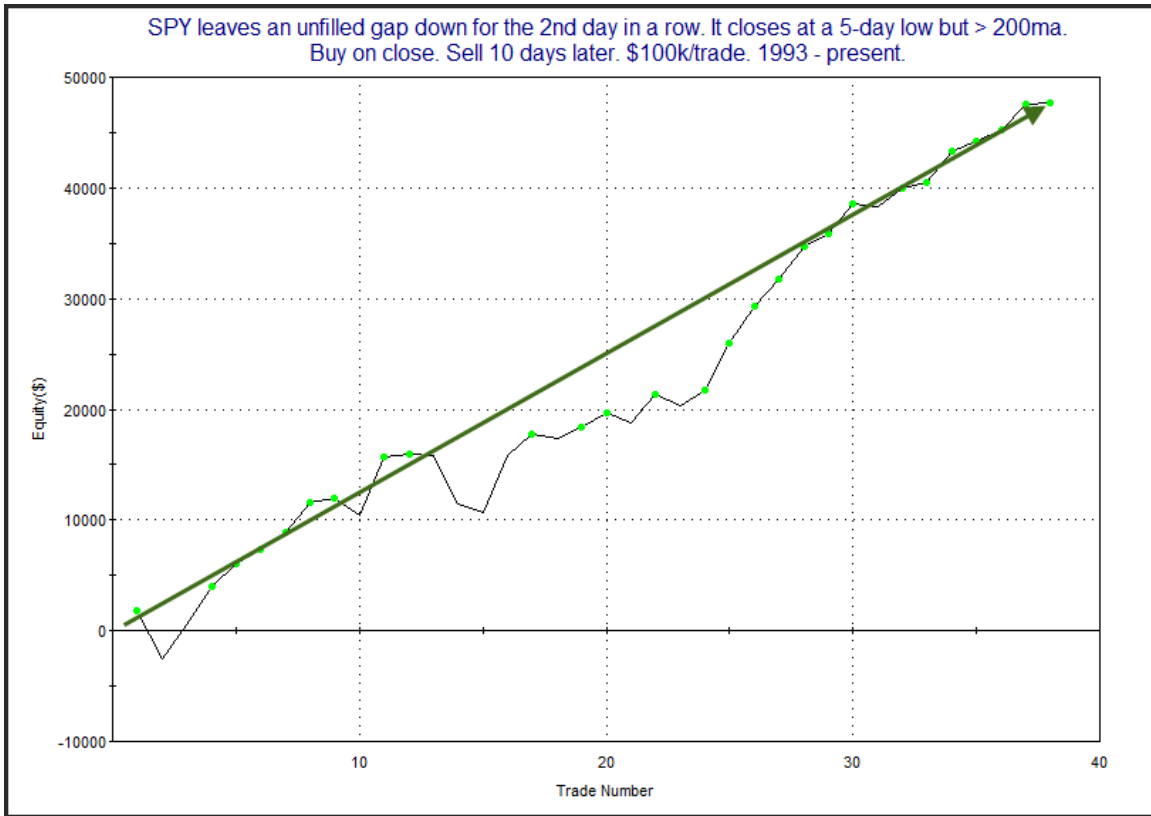
SPY leaves an unfilled gap down for the 2nd day in a row. It closes at a 5-day low but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	47,632.46	38	29	9	76.32	2,121.59	5,325.39	-1,543.73	-4,353.36	1.37	4.43	1,253.49
9	42,537.49	39	31	8	79.49	1,980.44	4,882.41	-2,357.01	-6,273.96	0.84	3.26	1,090.70
8	35,808.21	39	28	10	71.79	1,948.94	4,574.25	-1,876.21	-4,801.50	1.04	2.91	918.16
7	22,670.15	39	26	12	66.67	1,898.85	4,429.74	-2,224.99	-5,057.58	0.85	1.85	581.29
6	30,095.05	39	29	10	74.36	1,606.79	3,828.72	-1,650.20	-3,734.50	0.97	2.82	771.67
5	27,401.97	39	27	12	69.23	1,480.87	3,940.02	-1,048.45	-2,721.75	1.41	3.18	702.61
4	20,172.98	39	29	10	74.36	1,149.92	4,388.28	-1,317.48	-2,583.00	0.87	2.53	517.26
3	10,375.01	39	23	16	58.97	995.87	3,325.14	-783.13	-1,795.80	1.27	1.83	266.03
2	6,039.59	39	23	16	58.97	845.09	2,948.14	-837.34	-2,436.12	1.01	1.45	154.86
1	5,290.29	40	25	15	62.50	647.85	1,974.15	-727.06	-1,849.26	0.89	1.49	132.26

**Only 1 instance failed to close above the entry price at some point in the next 6 days. It triggered on 9/14/99.**

The numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 6-day holding period.



The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.



This is also very strong. I have included this study on both the Short and Intermediate-term Active Lists tonight.

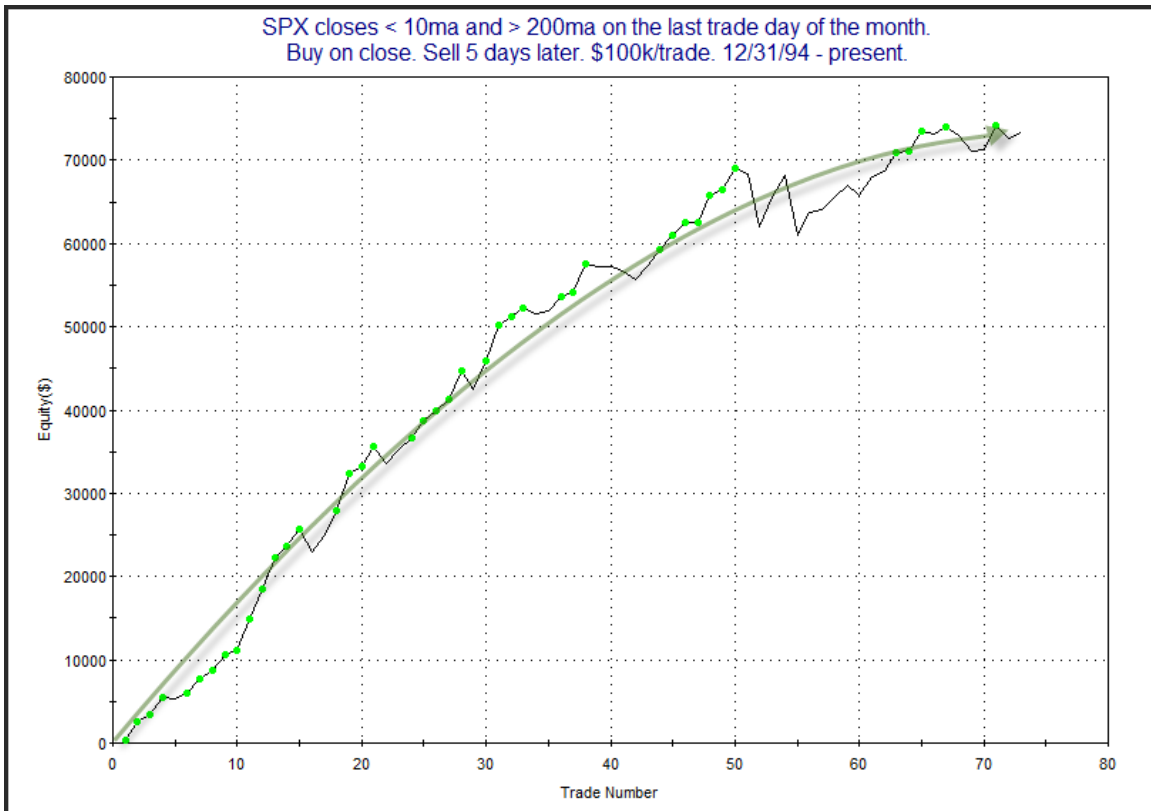
Several studies related to turn of the month triggered in the Quantifinder. Beginnings of new months often arrive with seasonal strength. This has especially been true 1) during long-term uptrends, and 2) when the market is not already short-term overbought. The study below was last seen in the 9/3/13 subscriber letter. It uses moving averages to take these concepts into account. All stats are updated.

SPX closes < 10ma and > 200ma on the last trade day of the month.  
Buy on close. Sell X days later. \$100k/trade. 12/31/94 - 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	73,351.22	73	57	16	78.08	1,816.13	4,435.97	-1,885.51	-7,153.30	0.96	3.43	1,004.81
4	67,127.34	73	55	18	75.34	1,665.15	3,838.00	-1,358.65	-7,100.17	1.23	3.74	919.55
3	45,762.87	73	48	25	65.75	1,620.71	3,709.44	-1,281.25	-3,492.36	1.26	2.43	626.89
2	39,036.50	73	53	20	72.60	1,212.81	3,442.32	-1,262.12	-4,320.06	0.96	2.55	534.75
1	39,711.40	73	54	19	73.97	968.29	3,119.10	-661.91	-2,559.62	1.46	4.16	543.99

67 of 73 instances (92%) closed above the entry price at some point in the next 5 days.

Day 1 has obviously provided strong numbers, but even beyond that there appears to be some follow through over the next few days. Below is a profit curve for the 5-day holding period.



While the upslope has flattened a bit in recent times, the edge appears to be intact.

This next study was seen in the 2/2/15 letter. It looked at times the SPX dropped at least 1% on the last day of the month and closed above its 200ma.

Today is the last trading day of the month. SPX closes down > 1% but above 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 1998 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$10,317.27	Profit Factor	10.86
Gross Profit	\$11,363.97	Gross Loss	(\$1,046.70)
Total Number of Trades	14	Percent Profitable	78.57%
Winning Trades	11	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$736.95	Ratio Avg. Win:Avg. Loss	2.96
Avg. Winning Trade	\$1,033.09	Avg. Losing Trade	(\$348.90)
Largest Winning Trade	\$2,225.00	Largest Losing Trade	(\$731.58)

Though the number of instances is low the results again appear bullish. Below is the full list of instances.

Today is the last trading day of the month. SPX closes down > 1% but above 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
07/31/98	Buy	\$1,120.66	(0.73%)	\$99.68
08/03/98	Sell	\$1,112.44		(\$914.92)
11/30/98	Buy	\$1,163.62	1.00%	\$1,042.10
12/01/98	Sell	\$1,175.28		(\$1,132.20)
03/31/99	Buy	\$1,286.37	0.57%	\$621.39
04/01/99	Sell	\$1,293.72		(\$282.59)
11/30/99	Buy	\$1,389.07	0.62%	\$784.55
12/01/99	Sell	\$1,397.72		(\$119.99)
09/30/03	Buy	\$995.97	2.23%	\$2,225.00
10/01/03	Sell	\$1,018.22		\$0.00
02/28/06	Buy	\$1,280.66	0.83%	\$868.92
03/01/06	Sell	\$1,291.24		\$0.00
07/31/07	Buy	\$1,455.27	0.72%	\$891.48
08/01/07	Sell	\$1,465.81		(\$1,066.24)
10/30/09	Buy	\$1,036.19	0.65%	\$1,535.04
11/02/09	Sell	\$1,042.88		(\$653.76)
12/31/09	Buy	\$1,115.10	1.60%	\$1,670.53
01/04/10	Sell	\$1,132.99		\$0.00
04/30/10	Buy	\$1,186.69	1.31%	\$1,548.96
05/03/10	Sell	\$1,202.26		\$0.00
05/31/13	Buy	\$1,630.74	0.59%	\$590.48
06/03/13	Sell	\$1,640.42		(\$489.22)
07/31/14	Buy	\$1,930.67	(0.29%)	\$340.68
08/01/14	Sell	\$1,925.15		(\$729.30)
12/31/14	Buy	\$2,058.90	(0.03%)	\$646.08
01/02/15	Sell	\$2,058.20		(\$617.28)
01/30/15	Buy	\$1,994.99	1.30%	\$1,333.50
02/02/15	Sell	\$2,020.85		(\$704.50)

Both August and January saw slight declines. Prior to that this setup had been on a real hot streak. And February seems to have gotten it back on track. To me this study seems well worthy of consideration.

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



With the new bullish studies the green Aggregator Line rose back 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 now far above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and 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 changed to long at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. It would take some very strong bearish evidence to change that. The Differential Pivot will be 2117.47 on Friday. That is a whopping 1.5% above Thursday's close. It is unlikely we would see that accomplished in just 1 day. A more likely scenario to work over the oversold condition would be a multi-day rally or consolidation.

Oversold with strong seasonality is often a setup I like. We also have some price-action based evidence supporting the bull case. And with the Differential Pivot so far away this one has strong potential reward. So I will look to start scaling into an index position on Friday.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 4/27– somewhat bullish**

The intermediate-term outlook was last updated in the 4/27/14 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**

None

**Catapult for ETF's Trades**

None

**Broad Market Large Cap CBI – 0**

**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 @ \$208.60 LIMIT.** Based on the short-term section above. I put the limit price a little above Thursday's close in order to give myself a better chance at a fill.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$39.92	23.78%	\$32.69	Aggressive VIX

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