

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 6, 2015

Volume 8 Issue 86

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Flat

## Tonight's Research Points

- 1%+ drops on strongly negative breadth are often followed by a bounce.

## *Short-term Outlook*

### *The Bottom Line*

Evidence remains bullish. SPX remains short-term overbought, but that will likely change on Wednesday. I like the long side if the selloff deepens on Wednesday.

*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
<b>Active - Short Term</b>						
May 6, 2015	1% drop on 2:1 negative breadth > 200	1-9 days	Bullish	3.00%	-2.50%	-5.40%
May 4, 2015	SPX rises 1st day in May	1-4 days	Bearish	-2.30%	1.00%	2.40%
May 1, 2015	SPX < 10ma & > 200ma end of month	1-5 days	Bullish			
May 1, 2015	2 unfilled gaps down > 200. 5-day low	1-6 days	Bullish	1.90%	-1.30%	-2.40%
April 28, 2015	20-high poor close	1-10 days	Bullish	2.10%	-1.35%	-2.70%
<b>Active - Long Term</b>						
May 1, 2015	2 unfilled gaps down > 200. 5-day low	1-10 days	Bullish	2.50%	-1.70%	-3.40%
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			

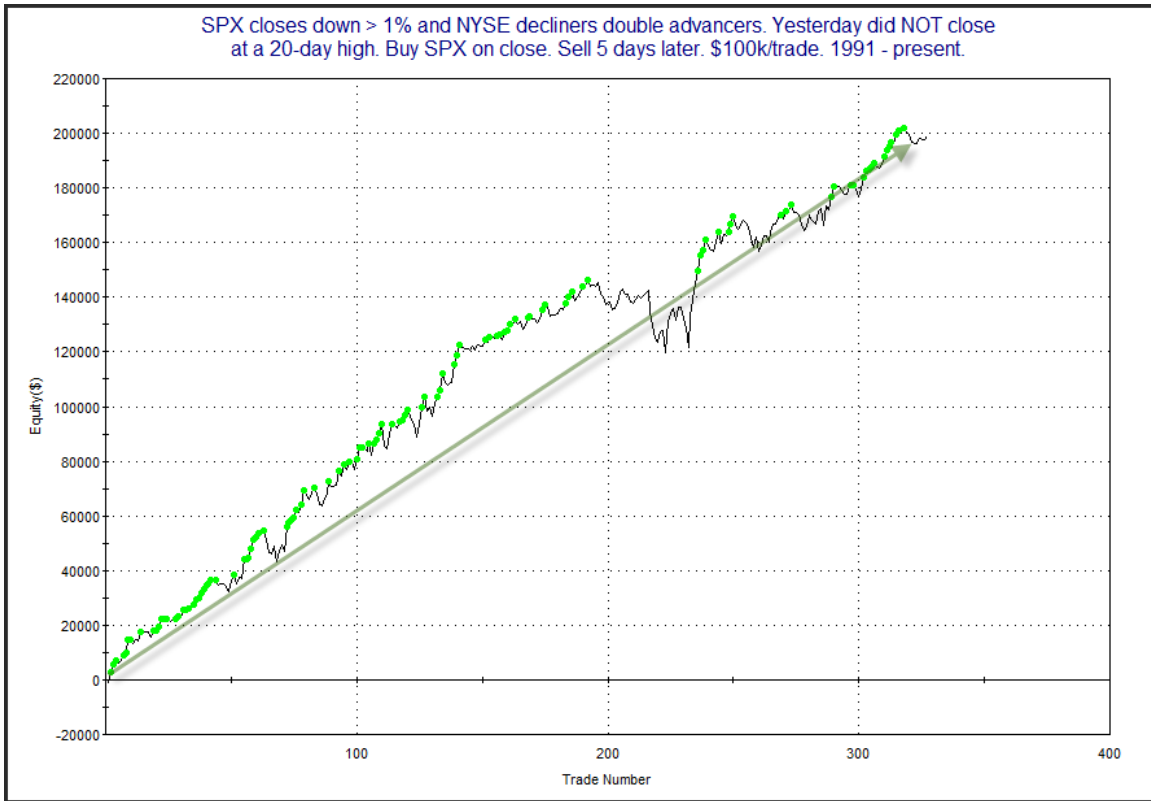
**The Evidence**

The market endured some fairly strong selling on Tuesday. The SPX lost 1.2%, the NASDAQ fell 1.6%, and the Russell 2000 declined 1.4%. Breadth was negative as the NYSE Up Issues % came in at 21% and the Up Volume % was also 21%. Total NYSE volume rose from the level of the last couple of days.

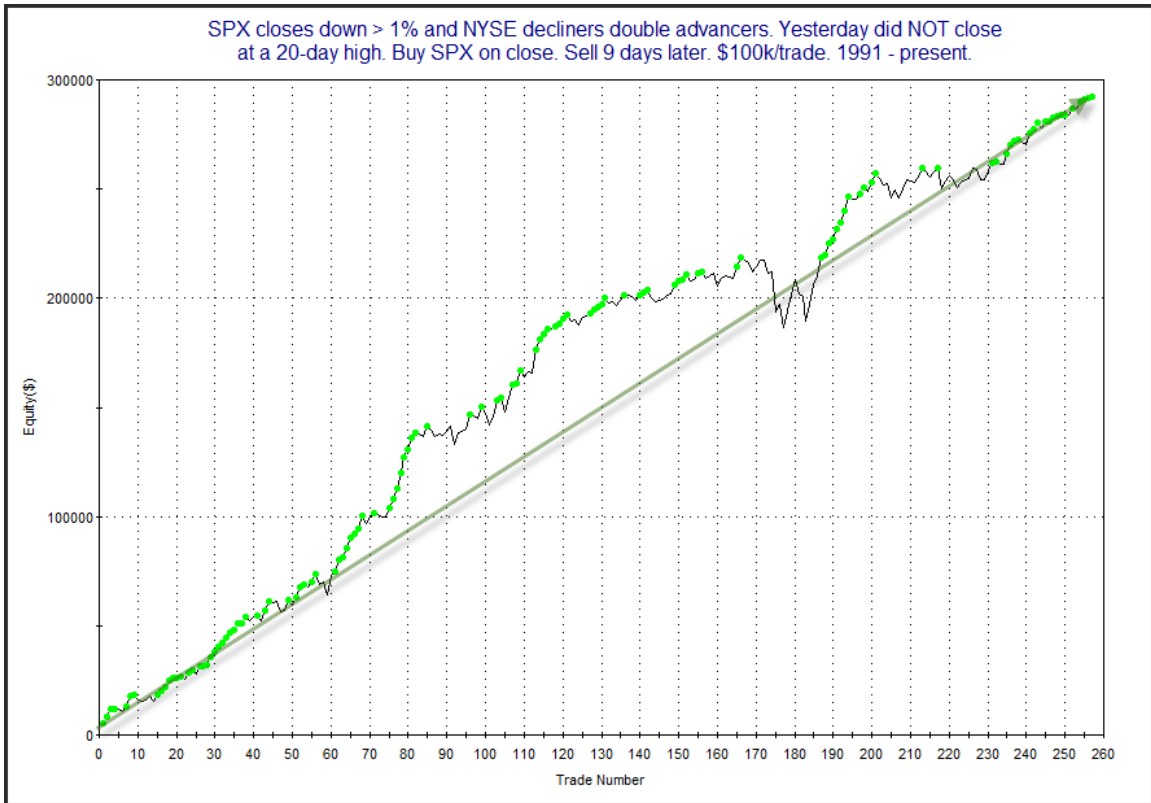
Despite the strong selling, there was not much that triggered in the Quantifinder. The one study worth examining is one I last showed in the 4/20/15 letter. Often big down days on strongly negative breadth like Tuesday will be followed by a bounce over the next several days. The edge is greatly reduced when the market is directly coming off of intermediate-term highs. This study takes both of those things into consideration. Stats are updated.

SPX closes down > 1% and NYSE decliners double advancers. Yesterday did NOT close at a 20-day high. Buy SPX 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	247,611.97	248	163	85	65.73	2,957.80	16,319.16	-2,758.93	-16,768.40	1.07	2.06	998.44
9	292,055.83	257	180	77	70.04	2,812.10	10,875.66	-2,780.82	-18,373.16	1.01	2.36	1,136.40
8	247,210.22	270	176	93	65.19	2,832.11	15,738.88	-2,701.52	-17,685.00	1.05	1.98	915.59
7	230,986.69	290	182	108	62.76	2,586.74	10,415.64	-2,220.37	-12,654.00	1.17	1.96	796.51
6	199,383.03	303	190	113	62.71	2,399.77	14,933.73	-2,270.56	-19,140.34	1.06	1.78	658.03
5	199,194.72	327	196	131	59.94	2,298.45	11,405.78	-1,918.33	-8,351.64	1.20	1.79	609.16
4	152,296.72	351	202	149	57.55	2,156.54	14,020.11	-1,901.51	-14,820.98	1.13	1.54	433.89
3	153,330.97	393	238	155	60.56	1,812.89	8,531.60	-1,794.44	-10,506.45	1.01	1.55	390.16
2	150,464.75	451	251	200	55.65	1,705.72	8,484.76	-1,388.35	-8,657.72	1.23	1.54	333.62
1	126,963.81	504	295	209	58.53	1,161.39	10,716.03	-1,031.80	-7,577.02	1.13	1.59	251.91

The stats table suggests a decent upside edge over the next 1-2 weeks. Below are the profit curves for the 5-day and 9-day holding periods. First the five.

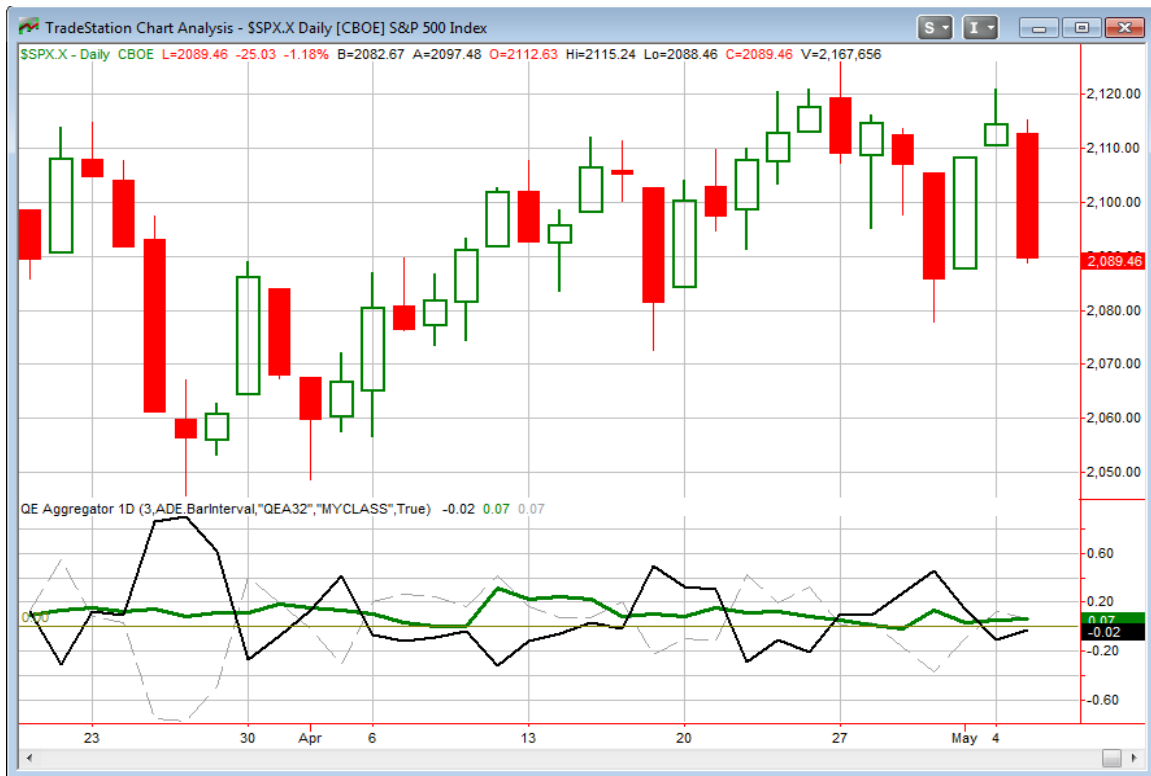


Other than the one rough period, it has been a pretty persistent rise in this curve. Now the 9-day curve.



This looks quite similar and suggests the upside edge which has been in place a long time, remains so. I have included this study on the Active List tonight.

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



With tonight's study factored in the green Aggregator Line held above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remained a little below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. This could change if compelling bearish evidence emerges. The Differential Pivot will be *highly inverted* at 2111.12 on Wednesday. That is over 1.0% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, in order to remain overbought versus expectations, SPX will need to close up at least 1.0%. Anything short of that and it will be considered "oversold" versus expectations.

Evidence for a bounce continues to build. And with the Differential Pivot so highly inverted, it appears there is a good chance the Aggregator turns bullish on Wednesday. Of course it is not quite there yet, and bearish evidence could certainly emerge. But the chances of that are pretty slim if SPX closes down. So I'll look to scale in a little if SPX finishes low, but an up close and I will wait to see what studies emerge on Wednesday before considering taking on new positions on Thursday.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 5/4– neutral**

The intermediate-term outlook was last updated in the 5/4 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 @ \$208.50 LIMIT ON CLOSE.** I will look to take on some small long exposure if SPX closes down much on Wednesday.

**Aggressive traders may also want to examine some of the many setups on the [Numbered Systems Triggers page](#) this evening.**

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$40.34	25.09%	\$37.90	Aggressive VIX

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