

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 7, 2015

Volume 8 Issue 87

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The 1<sup>st</sup> 10-day low in a while is often buyable, but it has been less reliable when the market is drifting sideways.

## *Short-term Outlook*

### *The Bottom Line*

Evidence tonight was weak but overall it remains bullish. And the SPX is now oversold, putting the Aggregator in a bullish formation. The lack of new supporting evidence has me a little wary. But I still lean bullish and have a relatively small index position to try and take advantage of a bounce.

**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 sold off a bit more on Wednesday, but then finished mixed. The SPX lost 0.45%, and the NASDAQ fell 0.4%, but the Russell 2000 rose 0.3%. Breadth was negative as the NYSE Up Issues % came in at 32% and the Up Volume % was 33%. Total NYSE volume rose a bit from Tuesday's level.

The selloff caused SPX to close at a 20-day low. It was not only the 1<sup>st</sup> 20-day low in a while, but SPX had not even closed at a 10-day low since March 11<sup>th</sup>. Just prior to Wednesday, it had gone 38 trading days without closing at a 10-day low. In the 8/15/13 letter I showed some interesting studies that examined 10-day low closes following a long drought. This first study look at instances where SPX posted its first 10-day low in a while.

After going at least 30 days without closing at a 10-day low, SPX closes at one today. It also closes > 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	61,244.45	55	34	21	61.82	2,870.68	12,395.76	-1,731.37	-5,362.24	1.66	2.68	1,113.54
9	64,873.81	55	38	17	69.09	2,506.23	10,529.82	-1,786.05	-4,227.31	1.40	3.14	1,179.52
8	62,234.22	55	39	16	70.91	2,324.98	10,554.48	-1,777.49	-6,117.72	1.31	3.19	1,131.53
7	46,387.03	55	37	18	67.27	2,220.24	7,743.24	-1,986.76	-8,141.12	1.12	2.30	843.40
6	41,443.74	55	37	18	67.27	1,907.01	5,893.74	-1,617.53	-4,111.40	1.18	2.42	753.52
5	34,911.98	55	36	19	65.45	1,718.65	4,608.35	-1,418.91	-3,502.11	1.21	2.29	634.76
4	37,610.98	55	39	16	70.91	1,566.30	4,690.50	-1,467.17	-2,616.60	1.07	2.60	683.84
3	18,683.23	55	35	20	63.64	1,272.84	3,940.55	-1,293.31	-4,464.88	0.98	1.72	339.70
2	9,260.73	55	33	22	60.00	1,021.51	3,744.45	-1,111.32	-7,559.56	0.92	1.38	168.38
1	5,262.99	55	32	23	58.18	719.15	2,287.60	-771.73	-2,200.08	0.93	1.30	95.69

But I also found in that letter that the setup worked much better when SPX had been trending. To measure trend strength I used ADX. I broke down the setup to view times ADX <= 20 vs times ADX > 20. Wednesday ADX closed at just 13.32. The tables below are updated and show the difference between strong and weak ADX.

After going at least 30 days without closing at a 10-day low, SPX closes at one today. It also closes > 200ma. 14-day ADX > 20. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	70,270.41	43	29	14	67.44	3,054.89	12,395.76	-1,308.66	-5,362.24	2.33	4.84	1,634.20
9	68,597.89	43	32	11	74.42	2,635.13	10,529.82	-1,429.67	-3,753.36	1.84	5.36	1,595.30
8	66,301.08	43	33	10	76.74	2,501.91	10,554.48	-1,626.20	-6,117.72	1.54	5.08	1,541.89
7	46,824.84	43	31	12	72.09	2,393.41	7,743.24	-2,280.90	-8,141.12	1.05	2.71	1,088.95
6	46,688.41	43	32	11	74.42	2,028.10	5,893.74	-1,655.54	-4,111.40	1.23	3.56	1,085.78
5	40,019.71	43	29	14	67.44	1,964.92	4,608.35	-1,211.64	-3,502.11	1.62	3.36	930.69
4	40,256.99	43	34	9	79.07	1,613.71	4,690.50	-1,623.23	-2,616.60	0.99	3.76	936.21
3	20,209.53	43	30	13	69.77	1,262.33	3,940.55	-1,358.49	-4,464.88	0.93	2.14	469.99
2	12,101.64	43	28	15	65.12	1,030.05	3,744.45	-1,115.98	-7,559.56	0.92	1.72	281.43
1	7,959.08	43	27	16	62.79	702.00	2,287.60	-687.18	-1,922.40	1.02	1.72	185.09

41 of 43 instances (95%) closed above the entry price at some point in the next 5 days.

After going at least 30 days without closing at a 10-day low, SPX closes at one today. It also closes > 200ma. 14-day ADX <= 20. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	-9,025.96	12	5	7	41.67	1,802.29	2,991.12	-2,576.77	-4,749.93	0.70	0.50	-752.16
9	-3,724.08	12	6	6	50.00	1,818.72	3,201.66	-2,439.40	-4,227.31	0.75	0.75	-310.34
8	-4,066.86	12	6	6	50.00	1,351.84	3,107.28	-2,029.65	-4,508.89	0.67	0.67	-338.90
7	-437.81	12	6	6	50.00	1,325.52	2,849.55	-1,398.49	-2,877.17	0.95	0.95	-36.48
6	-5,244.67	12	5	7	41.67	1,131.98	2,432.10	-1,557.80	-3,792.29	0.73	0.52	-437.06
5	-5,107.73	12	7	5	58.33	698.37	1,836.78	-1,999.26	-3,032.40	0.35	0.49	-425.64
4	-2,646.01	12	5	7	41.67	1,243.93	2,054.58	-1,266.52	-1,949.36	0.98	0.70	-220.50
3	-1,526.31	12	5	7	41.67	1,335.92	1,942.05	-1,172.27	-2,320.47	1.14	0.81	-127.19
2	-2,840.91	12	5	7	41.67	973.68	1,706.10	-1,101.33	-1,753.30	0.88	0.63	-236.74
1	-2,696.09	12	5	7	41.67	811.75	1,491.93	-964.98	-2,200.08	0.84	0.60	-224.67

While it is dangerous to draw any solid conclusions on just 12 instances, they certainly don't appear to have the same bullish inclinations of times when ADX > 20.

With this in mind I elected not to bank on the new low as a bullish indication tonight. No new studies were added to the Active List.

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



Tonight again 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 also popped 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 turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. This could change if compelling bearish evidence emerges. The Differential Pivot will be 2118.53 on Thursday. That is over 1.8% above Wednesday's close. So for SPX to finish overbought on Thursday it will need to close up very strongly. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

I like the long side. But I do not totally love it since the evidence tonight was quite neutral. I took some long index exposure near the close on Wednesday. For the time being I will just keep my small position. If more bullish evidence emerges then I may consider adding to the position in the coming days.

**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.

None tonight.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$39.68	23.04%	\$37.90	Aggressive VIX
SPY (1/4)	5/6/2015	\$208.04	\$208.04	0.00%		bought on close

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