

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 14, 2015

Volume 8 Issue 92

Market Overview



Signals Overview

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

Tonight's Research Points

- 3-day pullbacks often suggest an upside edge, but this one is not as appealing as most.

Short-term Outlook

The Bottom Line

The market is now oversold versus expectations. Upside evidence is positive but weak, and I am not terribly bullish.

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						
May 6, 2015	1% drop on 2:1 negative breadth > 200	1-9 days	Bullish	3.00%	-2.50%	-5.40%
Active - Long Term						
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

Wednesday was a mixed day for the market. The SPX and Russell 2000 each lost less than 0.1% while the NASDAQ rose 0.1%. Breadth was slightly positive as the NYSE Up Issues % came in at 52% and the Up Volume % was also 52%. Total NYSE volume rose a little from Tuesday's level.

Most notable is that the SPX closed down for the 3rd day in a row. Not all 3-day pullbacks are created equal. There were some plusses and some minuses with this one. On the plus side, the Quantifiable Edges 3/10 Offset HV is now extremely low. Relatively quiet trading like this has often been a positive for pullbacks. The study below is from the 11/21/13 Letter and it looks at other such instances.

SPX closes down for exactly 3rd day in a row and HV Offset 3/10 indicator is < 0.25. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	23,332.23	35	21	14	60.00	2,426.95	8,234.80	-1,973.83	-7,032.56	1.23	1.84	666.64
4	19,199.95	35	21	14	60.00	2,144.83	8,810.76	-1,845.82	-7,145.44	1.16	1.74	548.57
3	24,629.90	35	19	16	54.29	2,166.61	8,432.34	-1,033.49	-3,021.92	2.10	2.49	703.71
2	21,413.17	35	22	13	62.86	1,634.59	5,018.23	-1,119.06	-5,271.36	1.46	2.47	611.80
1	8,826.93	35	22	13	62.86	943.46	2,971.43	-917.63	-4,660.72	1.03	1.74	252.20
31 of 35 instances (89%) closed above the entry price at some point in the next week.												

As you can see, there appears to be a decent upside edge over at least the first 2-3 days.

But other studies in the Quantifinder indicated that 3-day pullbacks do not do nearly as well when they are not coming off a 20-day high. So I took the study above and broke it down to see instances that were coming off a 20-day high versus instances that were not.

(The current pullback is NOT coming off a 20-day high.) So let's first look at times like now where there was NOT a prior 20-day high.

SPX closes down for exactly 3rd day in a row and HV Offset 3/10 indicator is < 0.25. The pullback did NOT originate from a 20-day high. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	6,468.06	20	11	9	55.00	2,544.74	8,234.80	-2,391.56	-7,032.56	1.06	1.30	323.40
4	1,863.55	20	12	8	60.00	1,988.72	8,810.76	-2,750.14	-7,145.44	0.72	1.08	93.18
3	9,599.79	20	9	11	45.00	2,587.95	8,432.34	-1,244.71	-3,021.92	2.08	1.70	479.99
2	4,910.83	20	9	11	45.00	1,985.08	5,018.23	-1,177.72	-5,271.36	1.69	1.38	245.54
1	-242.18	20	10	10	50.00	1,048.16	2,971.43	-1,072.38	-4,660.72	0.98	0.98	-12.11

When looking out 2-3 days here, the returns are much smaller. Additionally, there were more losers than there were winners. And the net gains for the 2-day period were entirely thanks to the biggest winner. For the 3-day period most of the gains come from one instance as well. So unfortunately, the current setup is not terribly appealing and does not suggest a strong edge. If the pullback HAD originated from a 20-day high:

SPX closes down for exactly 3rd day in a row and HV Offset 3/10 indicator is < 0.25. The pullback originated from a 20-day high. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	16,864.17	15	10	5	66.67	2,297.38	4,674.00	-1,221.92	-2,371.02	1.88	3.76	1,124.28
4	17,336.40	15	9	6	60.00	2,352.98	3,783.20	-640.07	-2,248.32	3.68	5.51	1,155.76
3	15,030.11	15	10	5	66.67	1,787.41	3,576.02	-568.80	-1,438.78	3.14	6.28	1,002.01
2	16,502.34	15	13	2	86.67	1,391.94	3,212.80	-796.46	-820.44	1.75	11.36	1,100.16
1	9,069.11	15	12	3	80.00	856.21	2,861.60	-401.82	-743.04	2.13	8.52	604.61

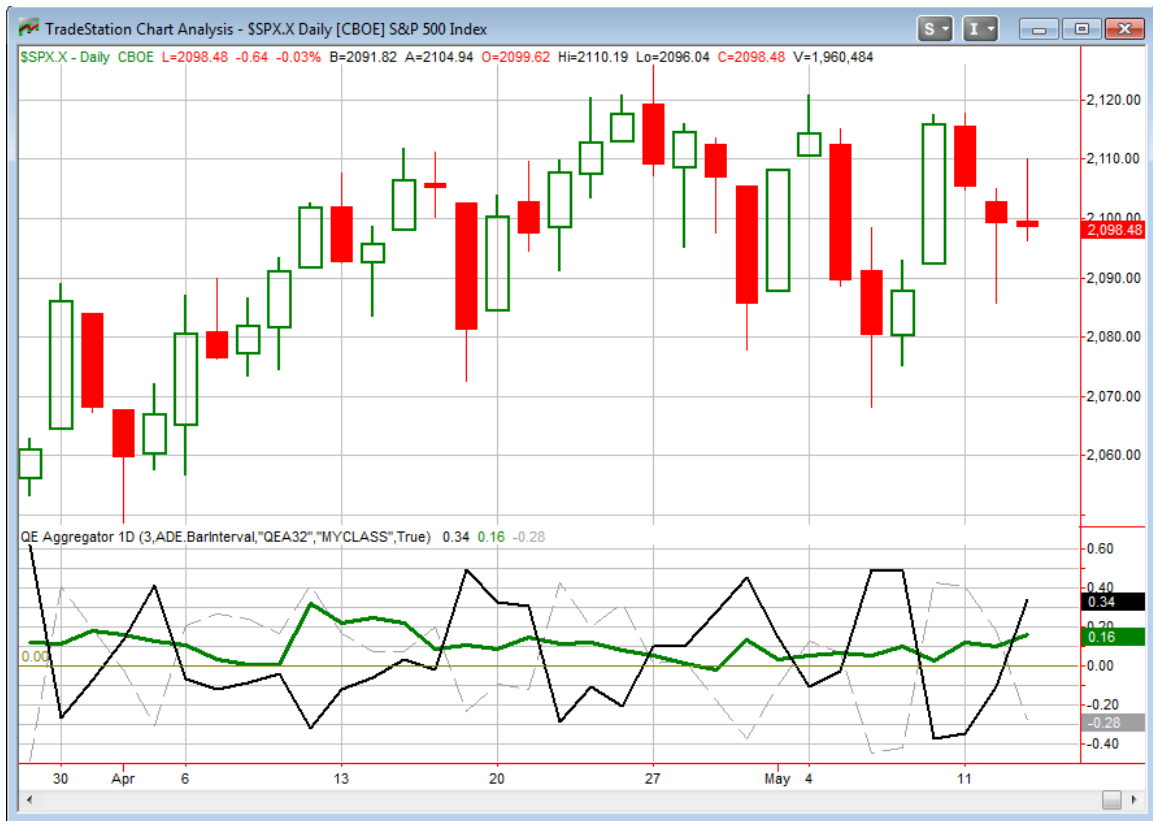
All 15 instances closed above the entry price at some point in the next week.

This setup would have been much more appealing.

So it appears the current pullback is not suggesting a substantial upside edge. I'll also note that this pullback is not very deep. The market is still mid-range. And in fact SPX again closed almost exactly on its 10-day moving average on Wednesday. This weakens reward/risk potential in a possible trade versus times the market is truly oversold.

With all this in mind, I have not added any new studies to the Active List tonight.

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



With nothing being added tonight 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 jumped back 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 easily change if new bearish evidence emerges. The Differential Pivot will be 2110.49 on Thursday. That is 0.6% above Wednesday's close. So for SPX to change from oversold to overbought versus expectations on Thursday it will need to close up at least 0.6%.

The Aggregator is now in a squarely bullish formation. But I am not yet convinced. Evidence is weak. If my intermediate-term outlook were currently bullish I might be more aggressive and begin scaling into a position here. But with a neutral intermediate-term outlook I want to see more compelling evidence before I do that. And Wednesday's action did not provide it. Additionally, the Systems Triggers sheet did not show very many setup for individual issues either. So I plan to give it another day before committing new capital to trades.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/11– neutral

The intermediate-term outlook was last updated in the 5/11 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

HAL @ \$46.35 (bought 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(HAL)

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	\$41.78	29.55%	\$37.90	Aggressive VIX
HAL(1/3)	5/8/2015	\$46.35	\$47.29	2.03%		Catapult

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2015 Hanna Capital Management, LLC.