

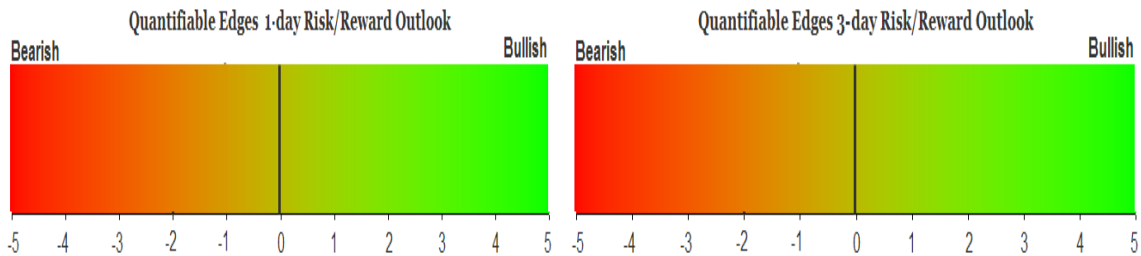
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 15, 2015

Volume 8 Issue 93

Market Overview



Signals Overview

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

Tonight's Research Points

- Low volume on the SPX breakout to a new high is a potential positive.
- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.

Short-term Outlook

The Bottom Line

Evidence is mixed but leaning bullish. The market is now overbought. That combination has the Aggregator neutral, and I am feeling neutral as well.

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 15, 2015	Top of range close Opex Thursday	1-4 days	Bearish			
May 15, 2015	Low volume breakout to 50-high	1-5 days	Bullish			
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

Thursday was a rally day. The SPX rose 1.1%, the NASDAQ jumped 1.4%, and the Russell 2000 gained 1.0%. Breadth was positive as the NYSE Up Issues % came in at 75% and the Up Volume % was 69%. Total NYSE volume declined some from Wednesday's level.

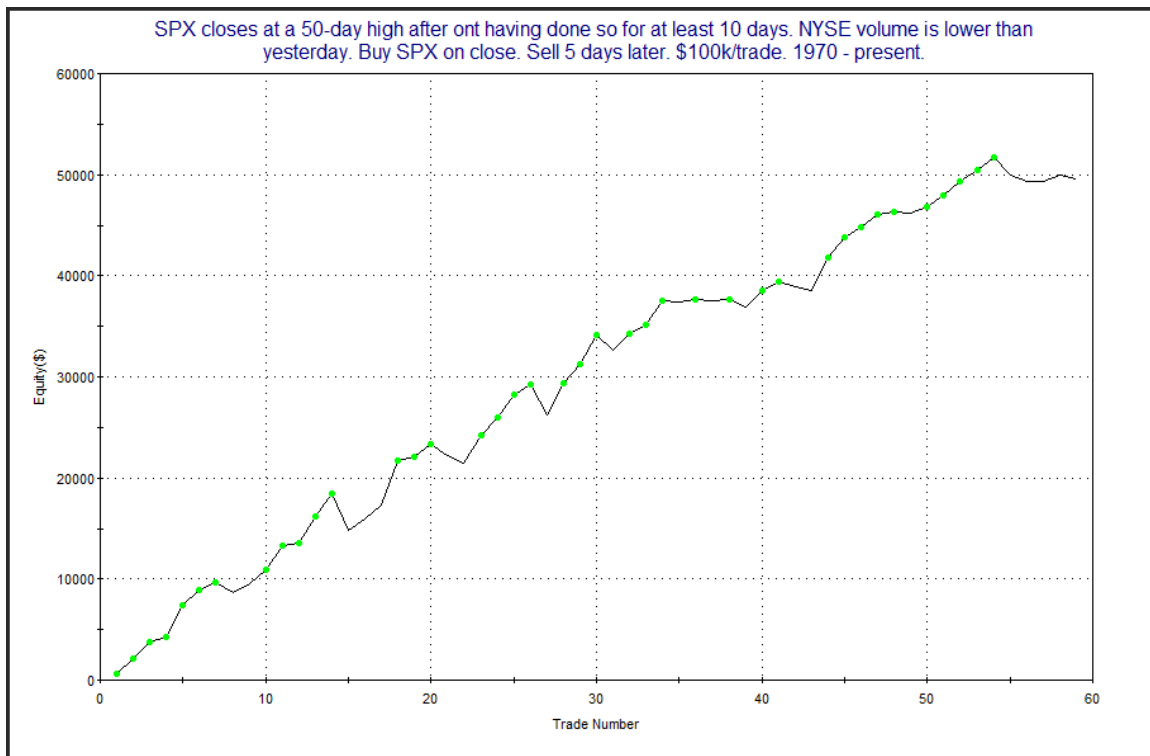
SPX closed at a new high on Thursday. This triggered the study below, which looks at light volume breakouts. It was last seen in the 2/17/15 Letter. It shows that low volume has actually been a positive. (Contrary to popular belief.)

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	33,302.43	55	31	24	56.36	2,729.33	11,088.84	-2,137.78	-8,157.10	1.28	1.65	605.50
19	33,430.54	56	32	24	57.14	2,617.57	9,628.99	-2,097.15	-9,056.82	1.25	1.66	596.97
18	33,524.09	56	34	22	60.71	2,516.26	11,076.80	-2,364.95	-9,094.80	1.06	1.64	598.64
17	33,345.41	56	34	22	60.71	2,591.11	10,017.28	-2,488.75	-8,682.96	1.04	1.61	595.45
16	34,530.74	56	35	21	62.50	2,476.58	10,944.36	-2,483.31	-9,243.81	1.00	1.66	616.62
15	30,349.46	56	36	20	64.29	2,291.40	8,166.13	-2,607.04	-9,354.92	0.88	1.58	541.95
14	36,854.11	58	40	18	68.97	2,024.32	7,314.30	-2,451.04	-6,525.68	0.83	1.84	635.42
13	35,882.40	59	38	21	64.41	2,003.56	7,780.85	-1,916.81	-5,160.09	1.05	1.89	608.18
12	23,019.39	59	33	26	55.93	2,040.71	5,996.75	-1,704.77	-4,539.14	1.20	1.52	390.16
11	18,840.19	59	31	28	52.54	2,042.12	5,809.60	-1,588.05	-6,029.07	1.29	1.42	319.33
10	20,512.58	59	30	29	50.85	2,062.42	5,960.00	-1,426.21	-4,324.52	1.45	1.50	347.67
9	26,964.95	59	39	20	66.10	1,608.32	5,147.20	-1,787.97	-5,812.26	0.90	1.75	457.03
8	32,978.28	59	40	19	67.80	1,550.49	5,096.00	-1,528.48	-4,186.55	1.01	2.14	558.95
7	34,355.61	59	39	20	66.10	1,432.47	4,655.00	-1,075.54	-3,211.35	1.33	2.60	582.30
6	47,698.99	59	41	18	69.49	1,509.69	5,002.50	-788.79	-3,563.65	1.91	4.36	808.46
5	49,534.84	59	44	15	74.58	1,486.34	4,482.50	-1,057.61	-3,693.73	1.41	4.12	839.57
4	33,801.80	59	42	17	71.19	1,240.29	4,440.00	-1,075.91	-2,913.85	1.15	2.85	572.91
3	32,130.64	59	39	20	66.10	1,194.83	3,950.00	-723.38	-1,802.37	1.65	3.22	544.59
2	18,739.93	59	39	20	66.10	804.94	2,212.98	-632.63	-1,912.60	1.27	2.48	317.63
1	8,736.53	59	39	19	66.10	454.27	1,384.02	-472.62	-1,921.32	0.96	1.97	148.08

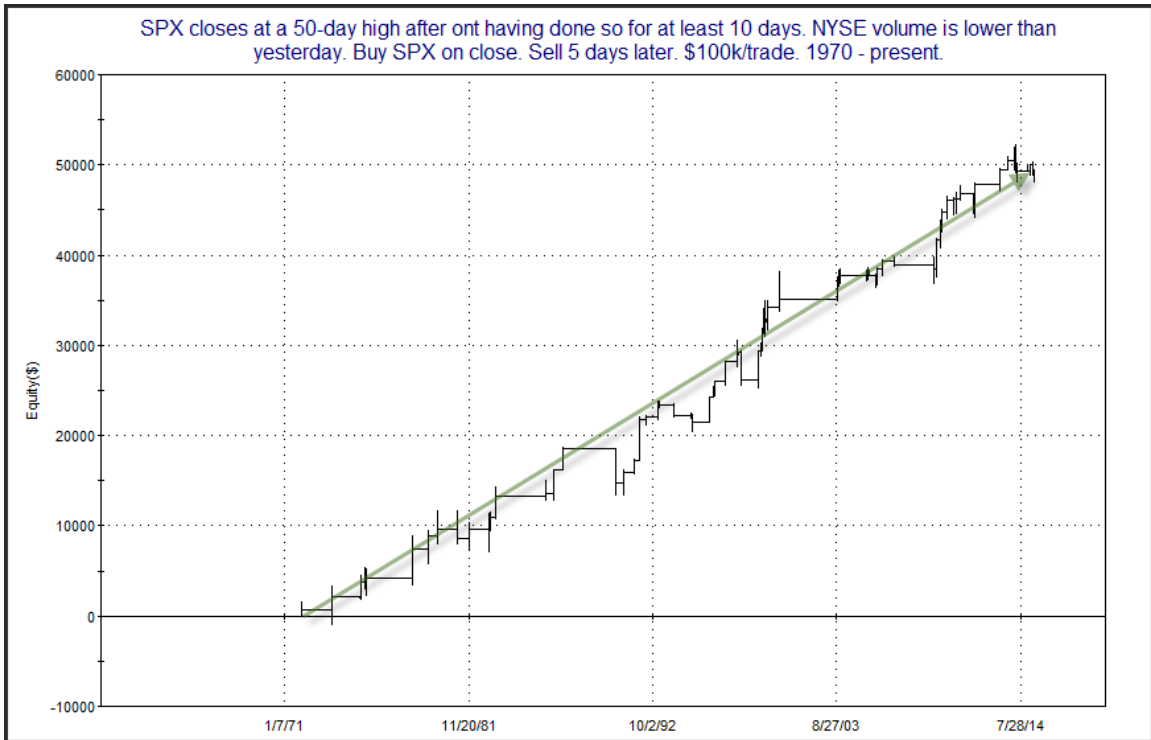
55 of 59 instances (93%) closed above the entry price at some point in the next week.

Here we see that there appears to be a strong upside inclination over the first week. Beyond that there isn't any edge.

To see how the 1-week edge has played out over time I have produced a profit curve below.



The last few instances have struggled a little bit, but the upslope still appears intact. I also ran it using time instead of instances in the x-axis.



This provides further illustration of the persistent upside edge.

I have found in the past that a very strong rise in volume that accompanies a breakout can be a positive, but any rise less than extremely high volume has generally not been a good sign. The study below illustrates this. It was also seen in the 2/17/15 letter.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	-6,309.72	93	44	49	47.31	3,372.06	13,393.77	-3,156.74	-11,548.62	1.07	0.96	-67.85
19	10,233.75	94	49	45	52.13	3,117.98	9,135.36	-3,167.72	-11,862.36	0.98	1.07	108.87
18	11,751.38	94	49	45	52.13	3,006.39	9,503.00	-3,012.48	-10,293.66	1.00	1.09	125.01
17	7,850.92	94	50	44	53.19	2,859.55	9,953.84	-3,071.06	-9,419.67	0.93	1.06	83.52
16	2,439.13	96	51	45	53.13	2,674.42	8,910.72	-2,976.81	-9,482.88	0.90	1.02	25.41
15	6,829.71	96	49	47	51.04	2,676.26	8,150.48	-2,644.83	-9,608.60	1.01	1.05	71.14
14	-6,884.75	96	53	43	55.21	2,312.10	7,702.40	-3,009.91	-10,120.46	0.77	0.95	-71.72
13	-7,945.59	96	50	46	52.08	2,315.11	7,911.80	-2,689.16	-9,725.34	0.86	0.94	-82.77
12	-14,602.40	96	51	45	53.13	2,135.80	10,197.98	-2,745.07	-9,878.00	0.78	0.88	-152.11
11	-8,070.58	96	48	48	50.00	2,290.95	10,372.44	-2,459.08	-9,482.88	0.93	0.93	-84.07
10	-15,549.82	96	45	51	46.88	2,204.33	10,507.25	-2,249.89	-8,683.66	0.98	0.86	-161.98
9	-10,645.40	96	44	52	45.83	2,131.83	8,413.73	-2,008.57	-6,878.68	1.06	0.90	-110.89
8	-15,283.07	96	49	47	51.04	1,691.00	8,524.75	-2,088.13	-7,085.22	0.81	0.84	-159.20
7	1,230.92	96	47	49	48.96	1,783.59	6,337.26	-1,685.67	-7,255.84	1.06	1.01	12.82
6	-1,236.00	96	51	45	53.13	1,479.43	6,819.80	-1,704.16	-7,103.18	0.87	0.98	-12.88
5	-5,358.47	96	43	53	44.79	1,589.43	8,516.82	-1,390.64	-6,088.44	1.14	0.93	-55.82
4	-13,346.99	96	48	48	50.00	1,228.56	6,716.71	-1,506.62	-5,585.56	0.82	0.82	-139.03
3	589.92	96	52	44	54.17	1,124.78	6,740.50	-1,315.88	-5,361.06	0.85	1.01	6.15
2	-3,075.11	96	55	41	57.29	731.01	4,028.44	-1,055.62	-4,276.16	0.69	0.93	-32.03
1	7,192.71	96	54	42	56.25	514.10	2,731.56	-489.74	-2,722.61	1.05	1.35	74.92

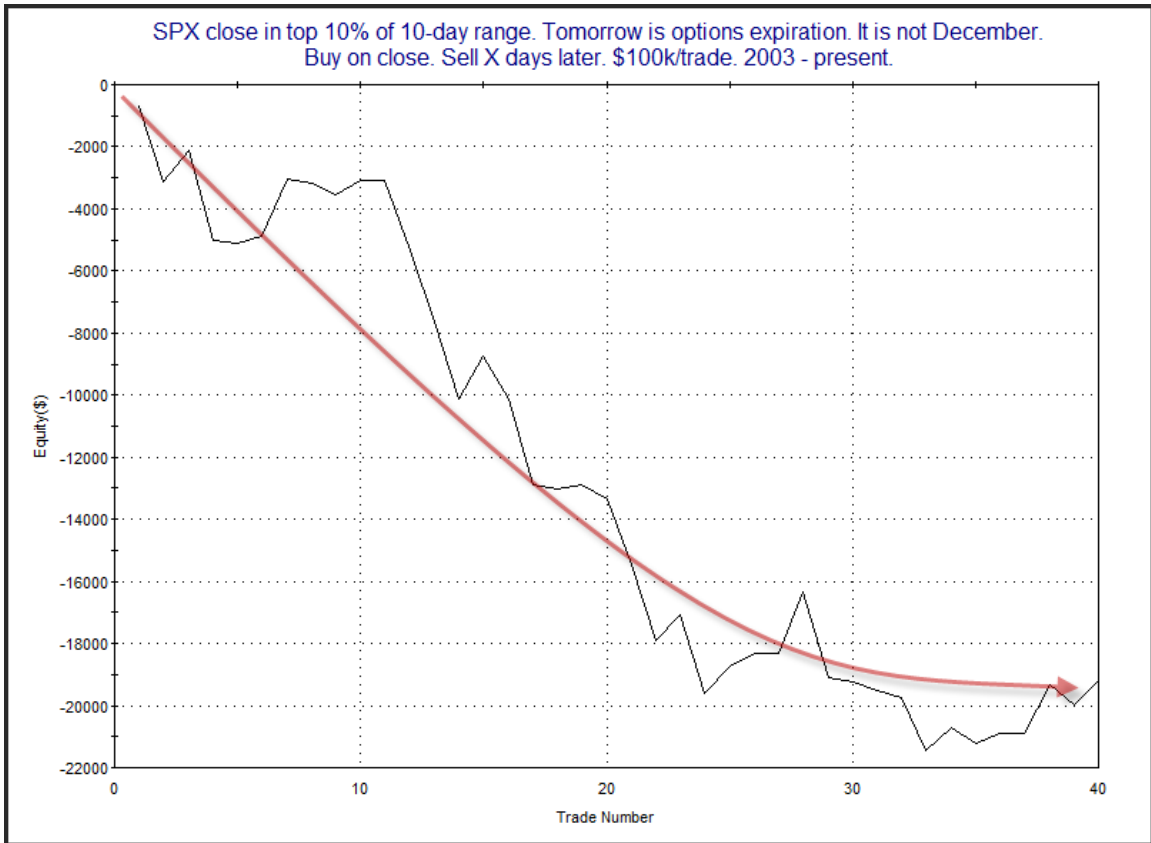
As you can see, higher volume breaks to new highs do not carry the same bullish implications. These stats appear to be almost dead neutral. But of course volume was lower on Friday. And that appears to be a positive.

But not everything tonight was bullish. The study below last appeared in the 9/19/14 Letter. It looks at times the market closed at a high level just before options expiration. (It also excludes December since the 2nd half of December is a seasonally strong period.) Opex Friday and the days that follow have generally been a bad time for an overbought market. The results are all updated.

SPX close in top 10% of 10-day range. Tomorrow is options expiration. It is not December. Buy on close. Sell X days later. \$100k/trade. 2003 - present.

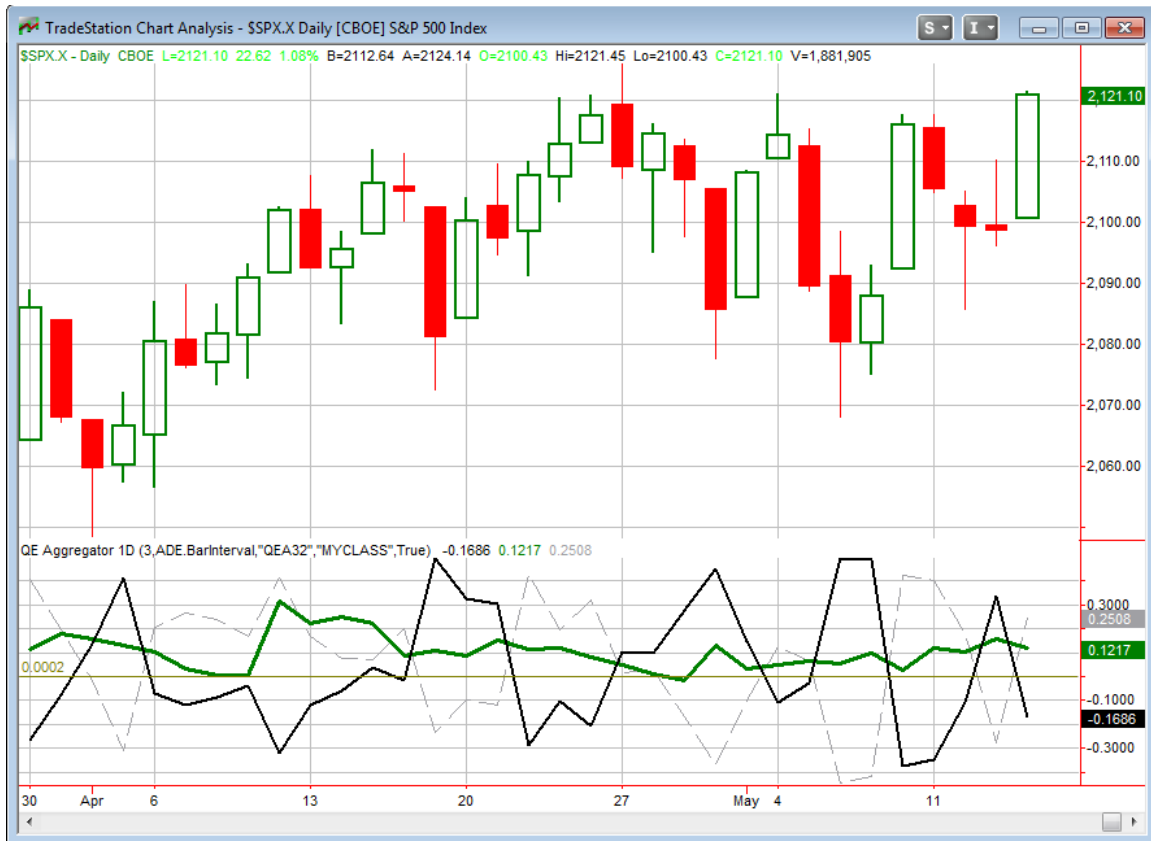
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-21,291.93	40	15	25	37.50	887.49	3,768.30	-1,384.17	-4,932.90	0.64	0.38	-532.30
4	-19,181.38	40	16	24	40.00	788.84	1,994.25	-1,325.12	-2,899.20	0.60	0.40	-479.53
3	-11,289.16	40	19	21	47.50	712.26	2,166.00	-1,182.00	-2,828.70	0.60	0.55	-282.23
2	-9,376.75	40	25	15	62.50	457.73	1,588.40	-1,388.01	-3,784.65	0.33	0.55	-234.42
1	-2,633.72	40	22	18	55.00	389.83	2,286.84	-622.77	-2,875.60	0.63	0.77	-65.84

Numbers here appear squarely bearish. Below is a profit curve that assumes a 4-day holding period.



The curve has flattened a bit recently, but still seems strong enough for the study to merit consideration. I elected to add this study to the Active List tonight.

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



With the mix of studies 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 fell 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 turned flat at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. This could change if more bearish evidence emerges. The Differential Pivot will be 2104.18 on Friday. That is 0.8% below Thursday's close. So for SPX to change from overbought to oversold versus expectations on Friday it will need to close down at least 0.8%.

My conservatism cost me yesterday as the bullish Aggregator signal was immediately followed by a strong pop higher. But now it is back to neutral. And I am overall neutral as well. With mixed evidence and an overbought market this doesn't seem like an ideal place to get involved. I will continue to manage my current positions while I wait for a more favorable setup to emerge before taking on new ones.

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	\$42.65	32.25%	\$37.90	Aggressive VIX
HAL(1/3)	5/8/2015	\$46.35	\$46.44	0.19%		Catapult

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