

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 19, 2015

Volume 8 Issue 95

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

Short-term Outlook

The Bottom Line

Bearish evidence continues to build and the SPX remains overbought. There appears to be a short-term downside edge.

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 19, 2015	SPX up. VIX up on a Monday.	1-2 days	Bearish			
May 18, 2015	SPY low vol. VIX low close. OpEx Fri.	1-5 days	Bearish			
May 18, 2015	QE Buying Power Index short	1-4 days	Bearish			
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			
Active - Long Term						
May 18, 2015	NASDAQ leading SPX	int term	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			
Dropped Tonight						
May 6, 2015	1% drop on 2:1 negative breadth > 200	1-9 days	Bullish	3.00%	-2.50%	-5.40%

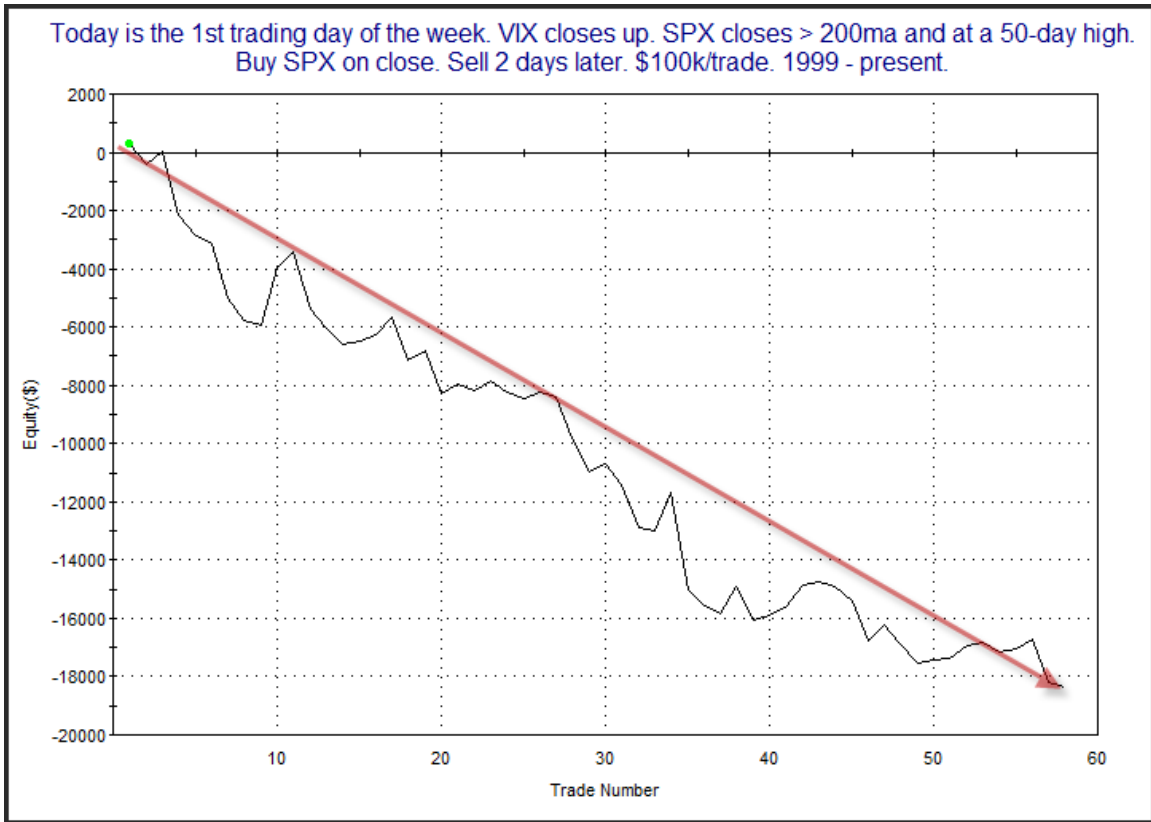
The Evidence

The market posted some gains on Monday. The SPX rose 0.3%, the NASDAQ gained 0.6% and the Russell 2000 rallied 1.1%. Breadth was mildly positive as the NYSE Up Issues % came in at 55% and the Up Volume % was also 55%. Total NYSE volume came in extremely light.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 12/30/14 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-12,183.91	53	26	27	49.06	1,067.41	3,260.25	-1,479.13	-5,048.68	0.72	0.69	-229.89
4	-7,959.89	58	28	30	48.28	947.81	2,953.65	-1,149.95	-4,271.52	0.82	0.77	-137.24
3	-10,180.73	58	25	33	43.10	781.33	2,641.80	-900.43	-3,887.84	0.87	0.66	-175.53
2	-18,338.99	58	25	33	43.10	443.03	1,981.72	-891.35	-3,372.16	0.50	0.38	-316.19
1	-7,598.33	58	21	37	36.21	328.47	769.70	-391.79	-1,580.04	0.84	0.48	-131.01

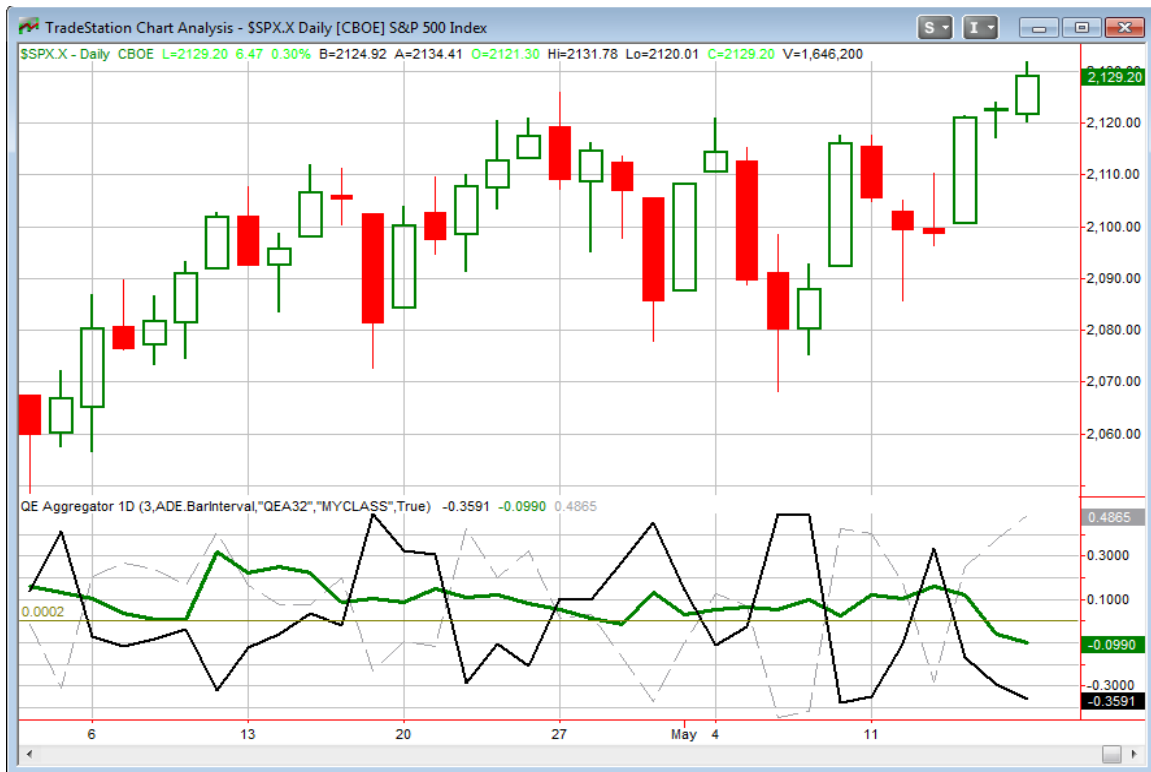
Results here appear squarely bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long and fairly steady decline, with the most recent instance again making new lows. This study seems worthy of consideration.

While there were a few other studies that appeared in the Quantifinder tonight, I did not find recent results nearly as compelling. So this was the only study to make the cut and reach the Active List tonight.

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



With the bearish studies tonight the green Aggregator Line remained below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line also stayed below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal remained short at the close.

Based on the current active studies, expectations are set to remain negative on Tuesday. This could change if more bullish evidence emerges. The Differential Pivot will be nearly flat at 2129.22 on Tuesday. That is just 0.02 SPX points above Monday's close. Essentially this means that SPX will remain "overbought" versus expectations on any up close, or it will flip to "oversold" versus recent expectations on any down close.

There still appears to be a bit of a downside edge. I took some short exposure on Monday. With the Differential Pivot effectively flat, I do not intend to add any more short exposure at this point. This is because the potential reward for an Aggregator trade is limited. Any down close on Tuesday would turn the SPX "oversold" and would mean the end of the Aggregator short signal. So I will look to take advantage of a possible move lower on Tuesday with my current short exposure, but with the Differential Pivot flat and the intermediate-term outlook bullish, I will be careful not to overstay my welcome if SPX does close lower.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 5/18– slightly bullish*

The intermediate-term outlook was last updated in the 5/18 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	\$44.40	37.67%	\$37.90	Aggressive VIX
HAL(1/3)	5/8/2015	\$46.35	\$46.71	0.78%		Catapult
SPY(1/4)	5/18/2015	\$212.44	\$213.10	-0.31%		Aggregator

I will look to cover my SPY short ON CLOSE <= \$213.00.

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