

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 27, 2015

Volume 8 Issue 100

Market Overview



Signals Overview

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

Tonight's Research Points

- When the market has moved from a 50-day high to an 8-day low in just 2 days it has commonly been followed by a bounce.
- A gap down to a short-term low followed by further selling during a long-term uptrend has often led to higher prices in the next few days.

Short-term Outlook

The Bottom Line

New evidence tonight is suggesting a short-term upside edge. And with the market now squarely oversold this could be a buying opportunity.

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 27, 2015	50-high to 8 low in 2 days	1-5 days	Bullish	1.80%	-1.20%	-2.25%
May 27, 2015	3 up high,low, close. Dn close others up	1-4 days	Bullish	1.80%	-1.20%	-2.35%
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 21, 2015	Gap & Reverse 2x. 10-high > 200ma.	1-2 days	Bearish			
May 20, 2015	3 up high,low, close. Dn close others up	1-4 days	Bullish			

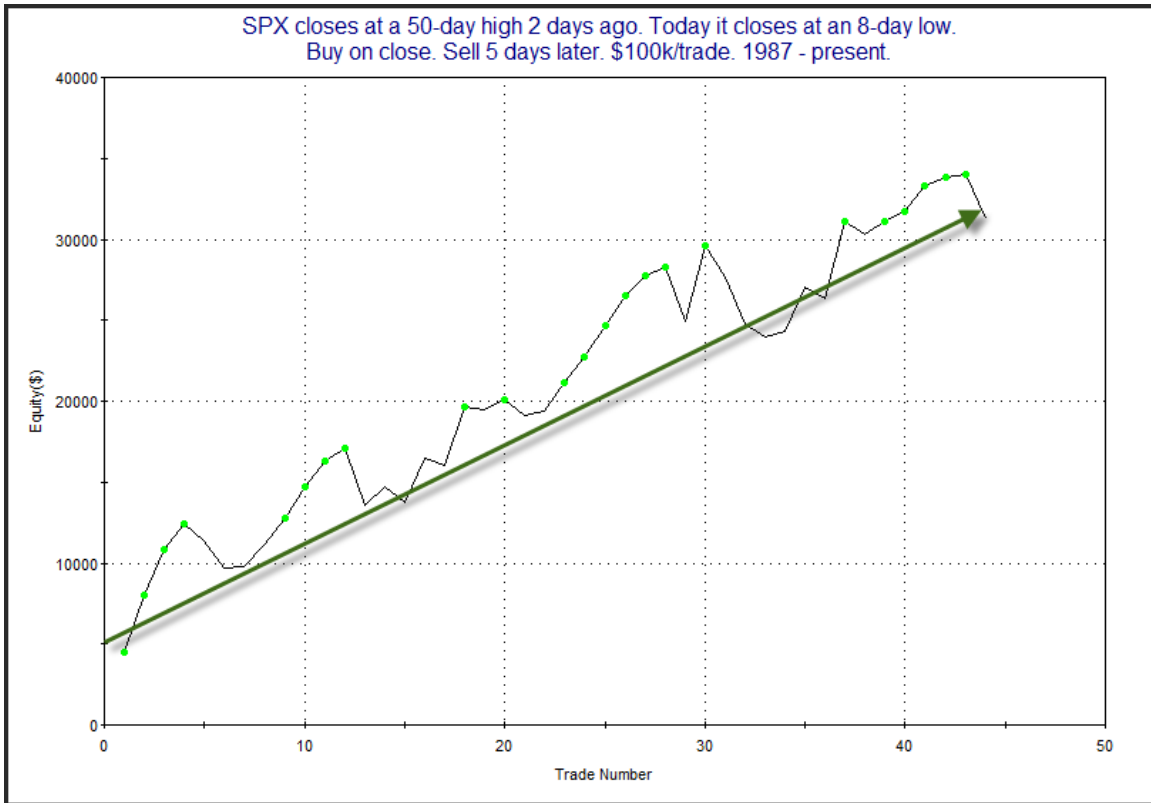
The Evidence

The market suffered some strong selling on Tuesday. The SPX fell 1.0%, and the NASDAQ and Russell 2000 each dropped 1.1%. Breadth was negative as the NYSE Up Issues % came in at 22% and the Up Volume % was 12%. Total NYSE volume spiked above recent levels.

The strong pullback on Tuesday triggered a number of interesting studies. Below I have featured two of the most compelling studies I examined. This 1st one looked at relatively sharp selloffs from intermediate-term highs. It showed that there has been a strong tendency for situations like the current one to bounce. The study was last seen in the 3/5/15 Letter. I have updated the results below.

SPX closes at a 50-day high 2 days ago. Today it closes at an 8-day low. Buy on close. Sell X days later. \$100k/trade. 1987 - 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	31,268.49	44	30	14	68.18	1,781.67	4,726.48	-1,584.40	-3,502.11	1.12	2.41	710.65
4	29,856.39	44	30	14	68.18	1,481.72	4,732.80	-1,042.52	-2,555.39	1.42	3.05	678.55
3	10,702.44	44	26	18	59.09	1,123.73	2,985.55	-1,028.59	-2,866.27	1.09	1.58	243.24
2	5,132.51	44	24	20	54.55	987.70	3,515.34	-928.62	-2,051.10	1.06	1.28	116.65
1	8,756.33	46	27	19	58.70	719.26	2,002.36	-561.24	-2,200.08	1.28	1.82	190.36
39 of 44 instances (89%) closed above the entry price at some point in the next 5 days.												

The stats all suggest an upside edge over the next 1-5 days. Below I have produced a profit curve using a 5-day exit strategy.



The strong, steady upslope is quite impressive and makes the study all the more compelling.

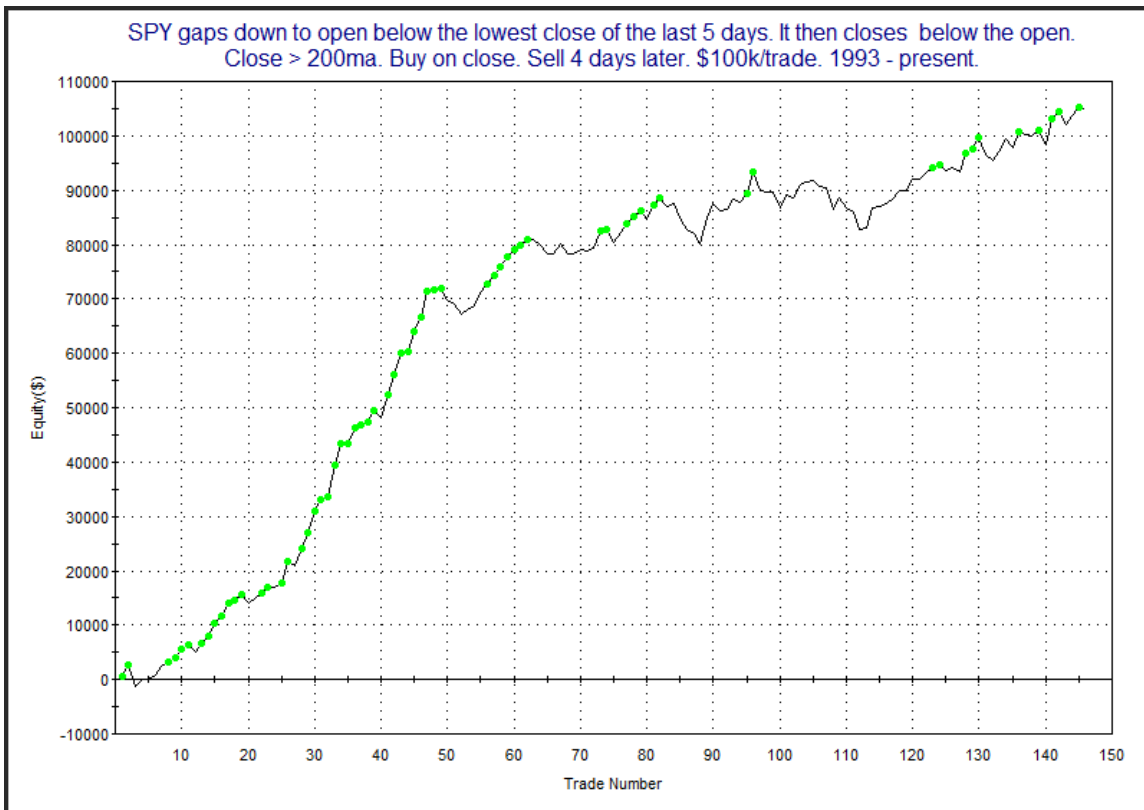
I also found the unfilled gap down and continued selloff to be interesting. The study below considers the fact that the gap down on Tuesday put SPY at a short-term low immediately and then the selling continued from there.

SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	129,510.94	123	79	44	64.23	2,743.36	9,282.24	-1,982.15	-14,007.15	1.38	2.48	1,052.93
9	131,113.92	128	83	45	64.84	2,631.45	7,585.77	-1,939.93	-10,036.80	1.36	2.50	1,024.33
8	120,497.13	130	85	44	65.38	2,489.21	7,858.26	-2,070.13	-14,030.10	1.20	2.32	926.90
7	108,719.18	136	90	46	66.18	2,140.94	8,324.13	-1,825.33	-8,047.80	1.17	2.29	799.41
6	113,612.80	138	96	42	69.57	1,949.30	7,873.02	-1,750.48	-7,910.10	1.11	2.55	823.28
5	106,038.16	139	93	45	66.91	1,825.05	8,239.74	-1,415.38	-4,103.46	1.29	2.66	762.86
4	105,076.68	146	99	47	67.81	1,726.36	5,581.02	-1,400.70	-4,096.40	1.23	2.60	719.70
3	91,704.49	150	96	53	64.00	1,579.68	5,117.85	-1,131.04	-4,085.40	1.40	2.53	611.36
2	77,719.68	162	105	54	64.81	1,229.47	5,477.88	-951.38	-2,614.66	1.29	2.51	479.75
1	51,548.52	175	112	63	64.00	843.32	5,764.38	-681.01	-3,772.68	1.24	2.20	294.56

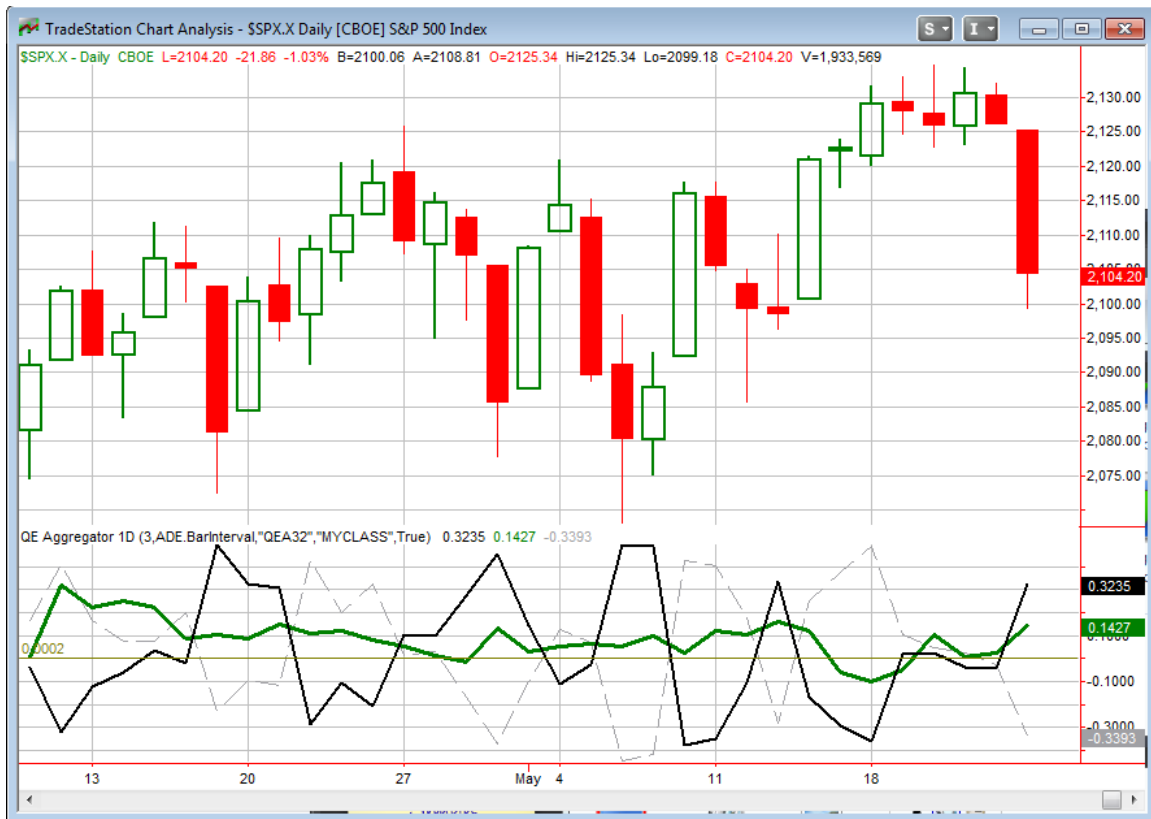
89% of instances closed above the entry price at some point in the next 5 days.

There are a sizable number of occurrences and the numbers all appear squarely positive. Below is a look at a profit curve that assumes a 4-day holding period.



While not quite as steep as it once was, the curve has continued to move higher and again made new highs the last time it triggered. I have also added this study to the Active List tonight.

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



Tonight's bullish studies helped the green Aggregator Line move higher above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line shot strongly into positive territory. 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 positive on Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 2131.80 on Wednesday. That is 1.3% above Tuesday's close. This means SPX would need to close at least 1.3% higher on Wednesday in order to

move back to “overbought” versus expectations. So there is plenty of room to the upside to potentially profit from a long trade.

The studies appear bullish and the market has quickly become oversold. I like the current setup and will look to take advantage of it with some long-side exposure. Of course it is not much of a pullback at this point – having closed at a 50-day high just 2 days ago. So I will not get heavily involved just yet. I will look to start scaling long on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/26– slightly bullish

The intermediate-term outlook was last updated in the 5/26 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.

SPY – buy ¼ index position @ \$210.70 LIMIT. Based on short-term outlook above I will begin scaling into a long position if I can get a decent fill.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$44.31	37.40%	\$37.90	Aggressive VIX
HAL(1/3)	5/8/2015	\$46.35	\$45.45	-1.94%		Aggregator

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