

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 5, 2015

Volume 8 Issue 107

Market Overview



Signals Overview

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

Tonight's Research Points

- 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

More bullish evidence emerged on Thursday and there again is some room to the upside. I believe there is a solid upside short-term 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						
June 5, 2015	Gap to 5-low and close < open	1-4 days	Bullish			
June 3, 2015	1% drop then 5-day consolidation	1-3 days	Bullish			
June 1, 2015	2x unfilled gap down > 200ma	1-6 days	Bullish	2.00%	-1.40%	-2.50%
Active - Long Term						
June 1, 2015	2x unfilled gap down > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.00%
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			

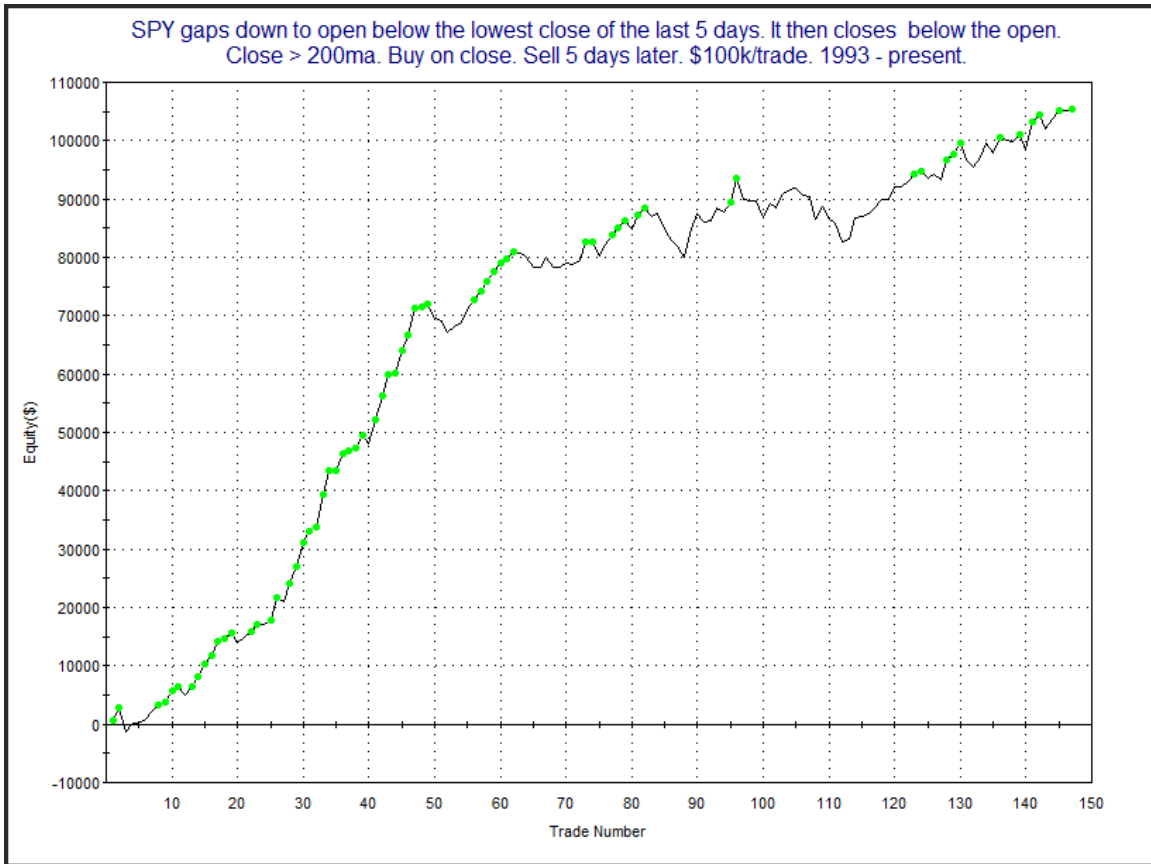
The Evidence

The market took a bit of a dive on Thursday. The SPX declined 0.9%, the NASDAQ fell 0.8% and the Russell 2000 closed down 1.1%. Breadth was negative as the NYSE Up Issues % came in at 23% and the Up Volume % was 15%. Total NYSE volume rose from Wednesday's level.

Interesting about Thursday was the unfilled gap down and continued selloff. The study below was seen recently in the 5/27/15 letter. It considers the fact that the gap down on Thursday put SPY at a short-term low immediately and then the selling continued from there.

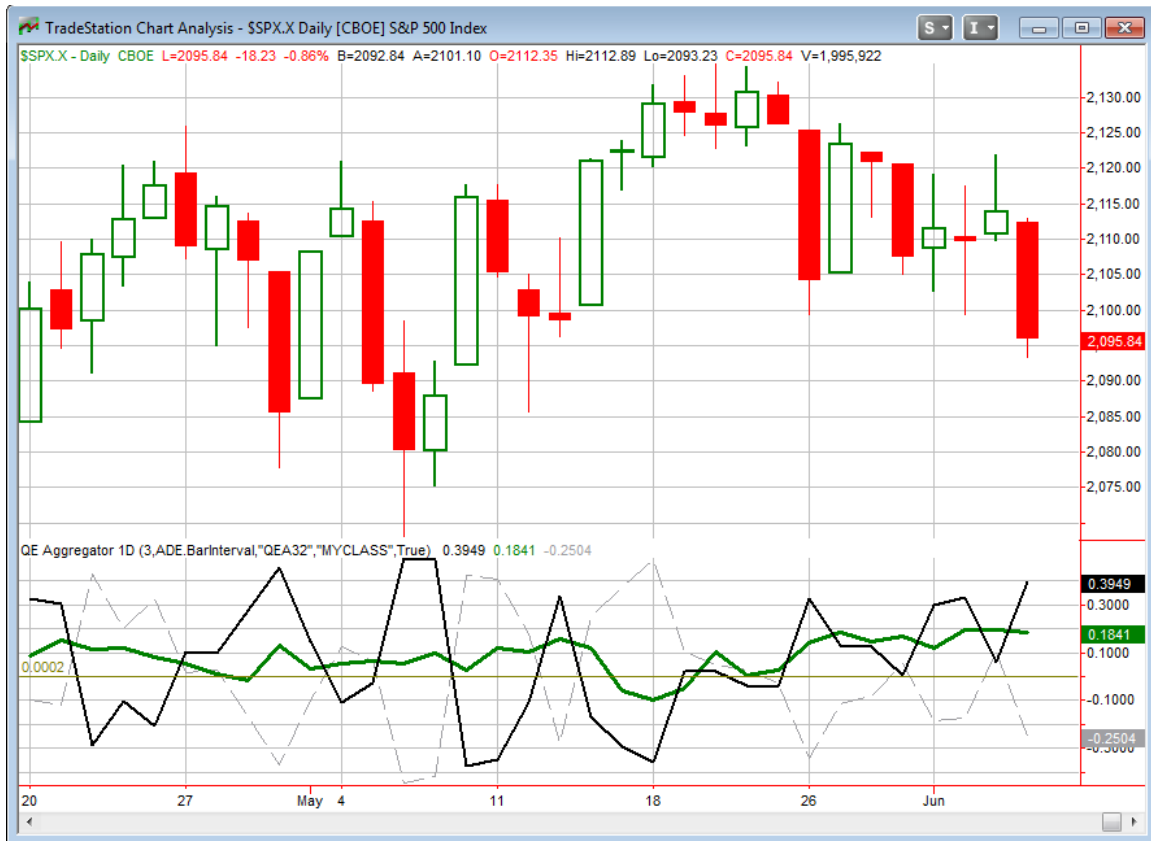
SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.													
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade	
10	127,136.26	123	79	44	64.23	2,743.36	9,282.24	-2,036.12	-14,007.15	1.35	2.42	1,033.63	
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	108,449.00	137	90	47	65.69	2,140.94	8,324.13	-1,792.24	-8,047.80	1.19	2.29	791.60	
6	114,191.08	139	97	42	69.78	1,935.17	7,873.02	-1,750.48	-7,910.10	1.11	2.55	821.52	
5	106,351.00	140	94	45	67.14	1,808.97	8,239.74	-1,415.38	-4,103.46	1.28	2.67	759.65	
4	105,489.05	147	100	47	68.03	1,713.22	5,581.02	-1,400.70	-4,096.40	1.22	2.60	717.61	
3	91,913.05	151	97	53	64.24	1,565.55	5,117.85	-1,131.04	-4,085.40	1.38	2.53	608.70	
2	78,553.92	163	106	54	65.03	1,225.74	5,477.88	-951.38	-2,614.66	1.29	2.53	481.93	
1	52,496.52	176	113	63	64.20	844.25	5,764.38	-681.01	-3,772.68	1.24	2.22	298.28	
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 added this study to the Active List tonight.

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



Tonight again the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is also still holding above 0. The positive Differential Line reading means 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 stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 2119.66 on Friday. That is 1.1% above Thursday's close. This means that SPX would need to close up at least 1.1% on Friday for the Differential Line to close below zero and signal an overbought condition.

With the selloff on Thursday I am seeing 1) more evidence of an upside edge and 2) room to the upside before the market would be considered overbought – which increases potential reward. So I am interested in adding some more long exposure here. But Friday is the employment report. Lately employment days have seen selling after the open. May was the only one so far in 2015 to see gains between the open and the close. So I'm interested in getting in if 1) we see a weak open, or 2) at the end of the day if SPX

closes down. I do not want to buy into the market mid-day and get run over. I'll also note that a new Catapult setup triggered that I will be looking to enter on Friday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/1– slightly bullish

The intermediate-term outlook was last updated in the 6/1/15 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

New

BAX - \$65.62 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(BAX)

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.

BAX – buy 1/3 Catapult position @ \$65.62 LIMIT. Catapults have done well over time, but are quite volatile and are not traded with initial stops. Traders new to Catapults & the CBI should check out the resources on the [Catapult System page](#).

SPY – buy ¼ index position @ \$210.00 LIMIT ON OPEN. If not filled on open, cancel order and buy @ \$210.00 LIMIT ON CLOSE. Based on the short-term outlook above, I would like to increase my long exposure with a gap down or a close lower. But I do not want to buy into an intraday selloff after a gap up. I'd rather wait for the end of the day in that case.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$44.10	36.74%	\$37.90	Aggressive VIX
SPY(1/4)	5/29/2015	\$211.14	\$210.13	-0.48%		Aggregator

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