

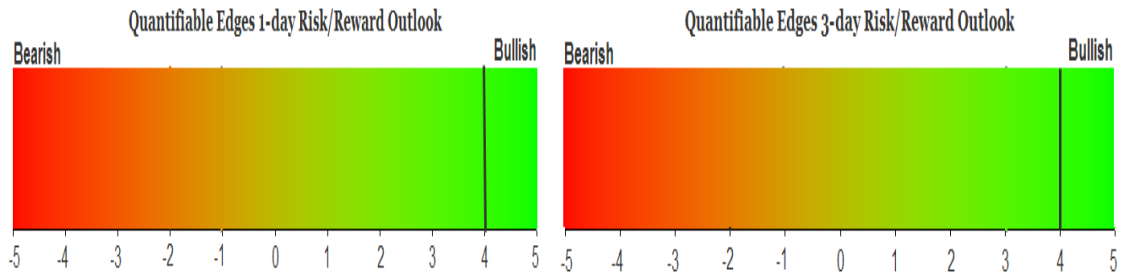
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 9, 2015

Volume 8 Issue 109

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 Lower highs, lows & closes have consistently led to a bounce going into Turnaround Tuesday.
- 3-day pullbacks & a 20-day low on a Monday have been a powerful hint of an upcoming bounce.
- Weak closes at 5-day lows often lead to a bounce.

Short-term Outlook

The Bottom Line

Upside evidence is building and the market is more oversold than it has been in a long time. There appears to be a fairly strong upside 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 suffered some selling on Monday. The SPX declined 0.7%, the NASDAQ gave up 0.9% and the Russell 2000 fell 0.6%. Breadth was negative as the NYSE Up Issues % came in at 30% and the Up Volume % was 27%. Total NYSE volume fell a little from Friday's level.

I have been expecting a short-term rally over the last several days, and it certainly has not materialized. But we got a fair amount of new evidence on Monday that is making the bullish case stronger.

Several studies again triggered in the Quantifinder. Below I have decided to discuss the most compelling ones. I've shown many times in the past that Tuesdays have a well-earned reputation for being a day when the market will often halt a decline. The next couple of studies take the Turnaround Tuesday tendency into consideration. This first one was from the 1/28/14 Letter. It combined 3 down days with a 20-day low and the Turnaround Tuesday. Results are updated.

Today is Monday. SPX closes down for exactly 3rd day in a row and at a 20-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	21,835.04	11	11	0	100.00	1,985.00	5,016.83	0.00	0.00	100.00	100.00	1,985.00	
9	22,149.64	11	10	1	90.91	2,217.74	5,024.40	-27.75	-27.75	79.92	799.19	2,013.60	
8	14,833.01	11	9	2	81.82	1,947.78	5,300.00	-1,348.52	-2,241.75	1.44	6.50	1,348.46	
7	10,826.89	11	8	3	72.73	1,874.75	5,345.05	-1,390.36	-1,959.00	1.35	3.60	984.26	
6	8,122.72	11	8	3	72.73	1,749.40	4,399.00	-1,957.50	-3,496.50	0.89	2.38	738.43	
5	12,749.00	12	8	4	66.67	2,307.19	4,608.35	-1,427.14	-2,268.75	1.62	3.23	1,062.42	
4	13,159.93	12	10	2	83.33	1,560.90	4,690.50	-1,224.54	-2,082.00	1.27	6.37	1,096.66	
3	10,381.74	12	10	2	83.33	1,337.55	3,940.55	-1,496.87	-1,918.24	0.89	4.47	865.15	
2	7,154.44	12	8	4	66.67	1,223.65	3,744.45	-658.68	-1,704.00	1.86	3.72	596.20	
1	3,072.64	12	7	5	58.33	848.46	1,532.88	-573.31	-1,692.52	1.48	2.07	256.05	

There were just a small number of instances here. Still, 2 weeks out they've been a perfect 11 for 11. And just a few days out the numbers are appealing as well. Below is the full list of instances using a 4-day exit strategy.

Today is Monday. SPX closes down for exactly 3rd day in a row and at a 20-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/06/89	Buy	\$332.61	1.95%	\$2,037.00
11/10/89	Sell	\$339.10		(\$513.00)
08/19/91	Buy	\$376.46	4.70%	\$5,003.20
08/23/91	Sell	\$394.16		\$0.00
09/20/93	Buy	\$455.05	0.57%	\$797.16
09/24/93	Sell	\$457.63		(\$1,186.98)
04/27/98	Buy	\$1,086.54	3.17%	\$3,172.16
05/01/98	Sell	\$1,121.02		(\$464.60)
05/24/99	Buy	\$1,306.65	(0.37%)	\$823.08
05/28/99	Sell	\$1,301.82		(\$2,229.84)
08/02/99	Buy	\$1,328.05	(2.09%)	\$600.75
08/06/99	Sell	\$1,300.29		(\$3,056.25)
03/22/04	Buy	\$1,095.44	1.15%	\$1,804.53
03/26/04	Sell	\$1,108.02		(\$762.58)
05/10/04	Buy	\$1,087.12	0.79%	\$1,424.15
05/14/04	Sell	\$1,095.66		(\$982.80)
05/17/04	Buy	\$1,084.08	0.88%	\$2,010.20
05/21/04	Sell	\$1,093.59		\$0.00
06/27/05	Buy	\$1,190.69	0.31%	\$1,110.54
07/01/05	Sell	\$1,194.44		(\$14.94)
03/05/07	Buy	\$1,374.12	2.09%	\$2,594.16
03/09/07	Sell	\$1,402.85		\$0.00
01/27/14	Buy	\$1,781.56	0.06%	\$963.76
01/31/14	Sell	\$1,782.59		(\$622.16)

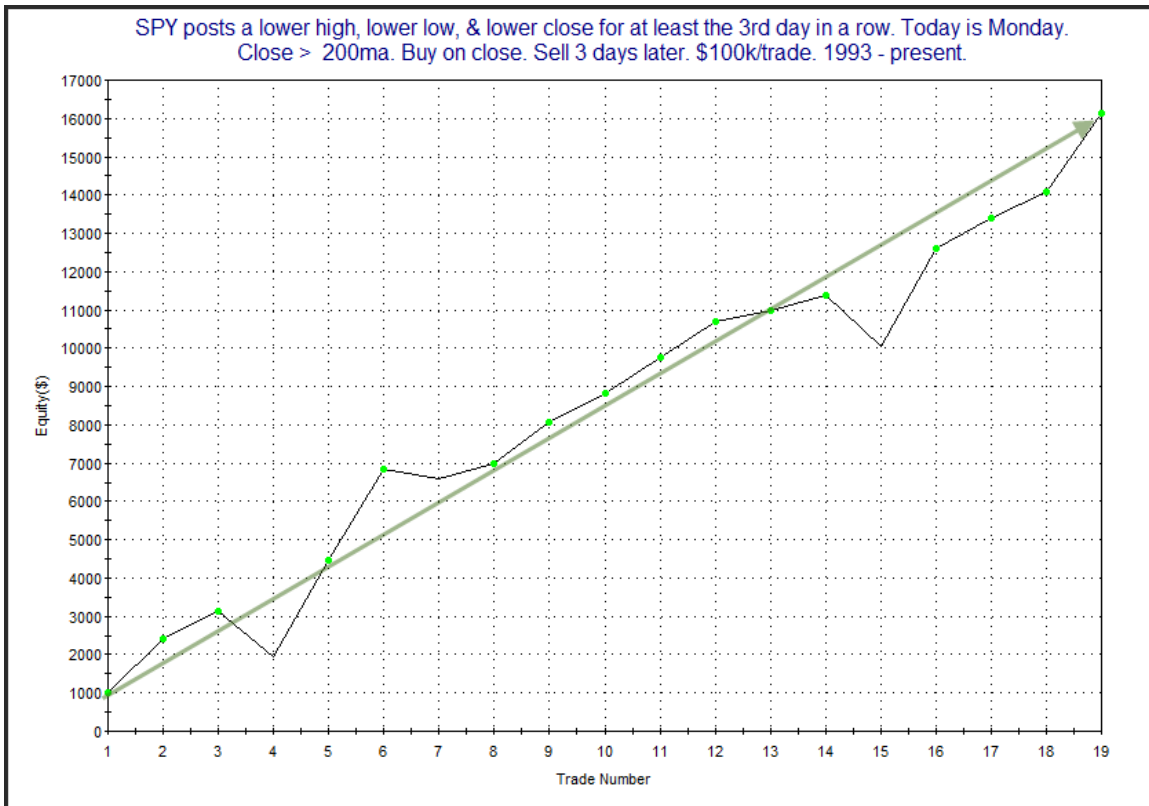
The 2nd Turnaround Tuesday study was from the 1/6/15 Letter. It examined the persistent selling that has occurred over the last 3 days, with SPY making lower highs, lows & closes each day. Results here are also updated.

SPY posts a lower high, lower low, & lower close for at least the 3rd day in a row. Today is Monday.
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
5	12,754.77	19	13	6	68.42	1,761.99	4,541.40	-1,691.85	-4,057.15	1.04	2.26	671.30
4	13,642.32	19	14	5	73.68	1,351.92	3,363.54	-1,056.90	-1,484.00	1.28	3.58	718.02
3	16,135.48	19	16	3	84.21	1,182.36	2,556.72	-927.41	-1,335.78	1.27	6.80	849.24
2	8,849.12	19	13	6	68.42	959.15	2,025.36	-603.30	-904.24	1.59	3.44	465.74
1	3,040.36	19	12	7	63.16	618.58	1,211.04	-626.09	-1,677.36	0.99	1.69	160.02

All 19 instances closed above the entry price at some point in the next 4 days.

The bounces have not been huge, but they couldn't get any more reliable. There has yet to be an instance where SPY has failed to bounce at some point in the next four days. And much of the edge has played out in the first 3 days. Below is the profit curve for a 3-day holding strategy.

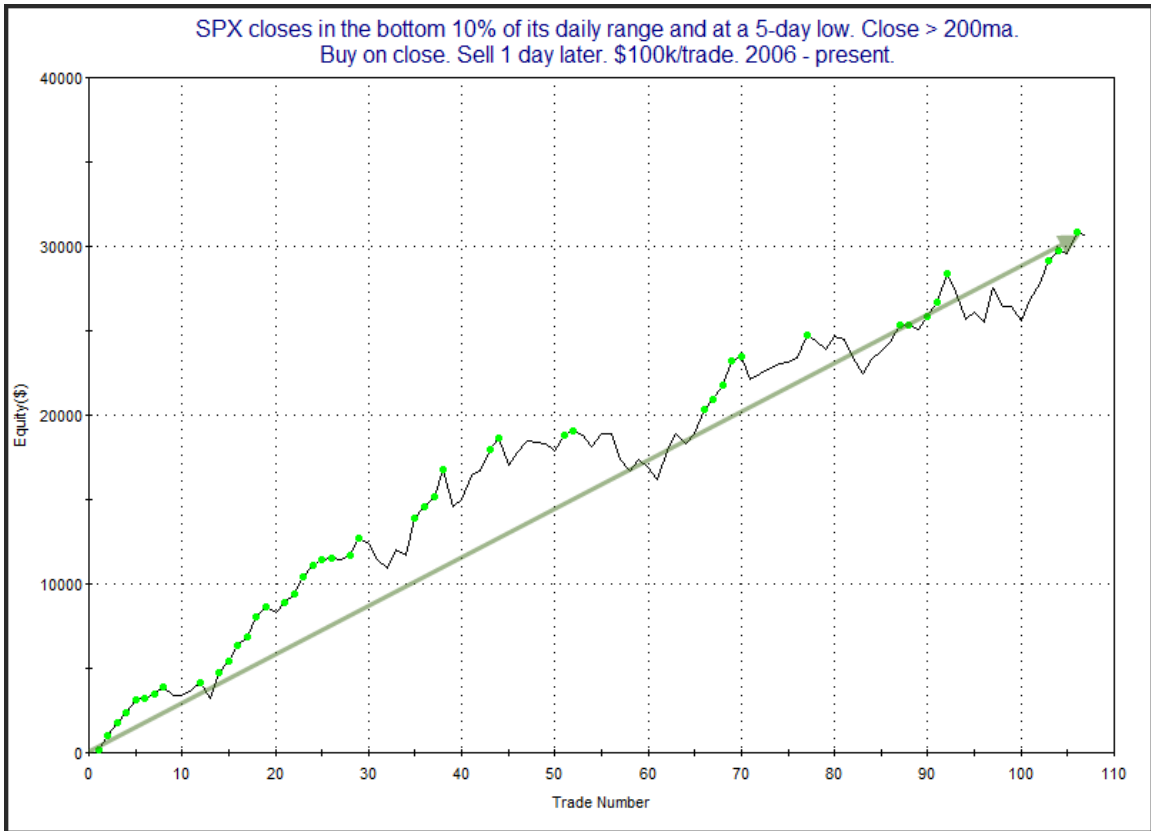


The consistent movement from lower left to upper right is an encouraging sign for the bulls. I have therefore included the study on the short-term Active List.

This next study from the 3/27/14 Letter did not use a Turnaround Tuesday filter, but it did offer interesting results. Over the last several years when SPX has closed near the bottom of its range and at a 5-day low, it has typically been followed by a bounce in the next few days. Here is an updated results table.

SPX closes in the bottom 10% of its daily range and at a 5-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2006 - 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	50,858.09	81	52	29	64.20	1,892.87	5,555.16	-1,640.38	-3,680.82	1.15	2.07	627.88
4	39,488.95	84	53	31	63.10	1,607.33	5,290.00	-1,474.18	-3,863.84	1.09	1.86	470.11
3	33,048.40	90	58	32	64.44	1,236.22	4,895.50	-1,207.88	-3,437.94	1.02	1.86	367.20
2	28,706.41	98	57	41	58.16	1,139.44	4,424.50	-883.94	-2,726.97	1.29	1.79	292.92
1	30,572.23	107	71	36	66.36	767.19	2,230.60	-663.85	-2,200.08	1.16	2.28	285.72
91% of instances closed above the entry price at some point in the next week.												

The stats here appear to suggest a pretty solid upside tendency over the last 9 years. The 1-day holding period had the most compelling curve and I have pasted it below.



The profit curve has had a steady move higher from lower left to upper right. This seems to serve as some confirmation of the short-term upside edge.

So we have a few studies tonight all suggesting a short-term bullish edge.

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



With tonight's bullish studies being added 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 now very far 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.

With all the short-term studies now pointing higher, expectations are set to remain positive on Tuesday. This is highly unlikely to change. The Differential Pivot will be 2107.75 on Tuesday. That is 1.4% above Monday's close. This means that SPX would need to close up at least 1.4% on Tuesday for the Differential Line to close below zero and signal an overbought condition. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

Bullish evidence continues to strengthen, and the SPX is now more oversold that it has been in months. Price action & Turnaround Tuesday seasonality are both suggesting a bounce. I continue to like the long side. My only hesitation is that I would prefer to see the CBI spiking a bit more at this point. Still, other evidence is strong enough that I will again look to up my long exposure. This would be the 3rd of a possible 4 lots. It is highly unlikely I would get all the way up to 4 lots without a stronger CBI spike.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/8– slightly bullish

The intermediate-term outlook was last updated in the 6/8/15 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

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

BAX - \$65.02 (bought 1/3 @ limit) – 2nd lot

New

BAX - \$64.54 (buy 1/3 @ limit) – 3rd lot

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(BAX-3)

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 @ \$64.54 LIMIT. This is the 3rd of 3 possible lots. 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 @ \$208.48 LIMIT ON OPEN If not filled on open, I will cancel the order and look to enter at \$208.48 LIMIT ON CLOSE. I don't want to get sucked into a gap up and then a strong intraday selloff. So I will take a more conservative approach and either look to buy a gap down or a close lower.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$43.98	36.37%	\$37.90	Aggressive VIX
SPY(1/4)	5/29/2015	\$211.14	\$208.48	-1.26%		Aggregator
SPY(1/4)	6/5/2015	\$209.95	\$208.48	-0.70%		Aggregator
BAX(1/3)	6/5/2015	\$65.50	\$64.54	-1.47%		Catapult
BAX(1/3)	6/5/2015	\$65.02	\$64.54	-0.74%		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.