

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 25, 2015

Volume 8 Issue 121

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The extremely weak closing TICK suggests an up day on Wednesday.
- Weak closes at 5-day lows often lead to a bounce.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is slightly bullish but the SPX is now slightly overbought. This appears to be a solidly neutral state.

**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
<b>Active - Short Term</b>						
June 25, 2015	Weak close. 5-low, >200ma	1-4 days	Bullish			
June 25, 2015	Low TICK. 5-day low SPX.	1 day	Bullish			
June 22, 2015	June post-opex weak	1-5 days	Bearish	-2.00%	1.00%	1.80%
June 19, 2015	QE Buy Pwr Short / Opex overbought	1-5 days	Bearish			
<b>Active - Long Term</b>						
June 23, 2015	Russell late June strength vs SPX	until July	neutral			
June 16, 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			

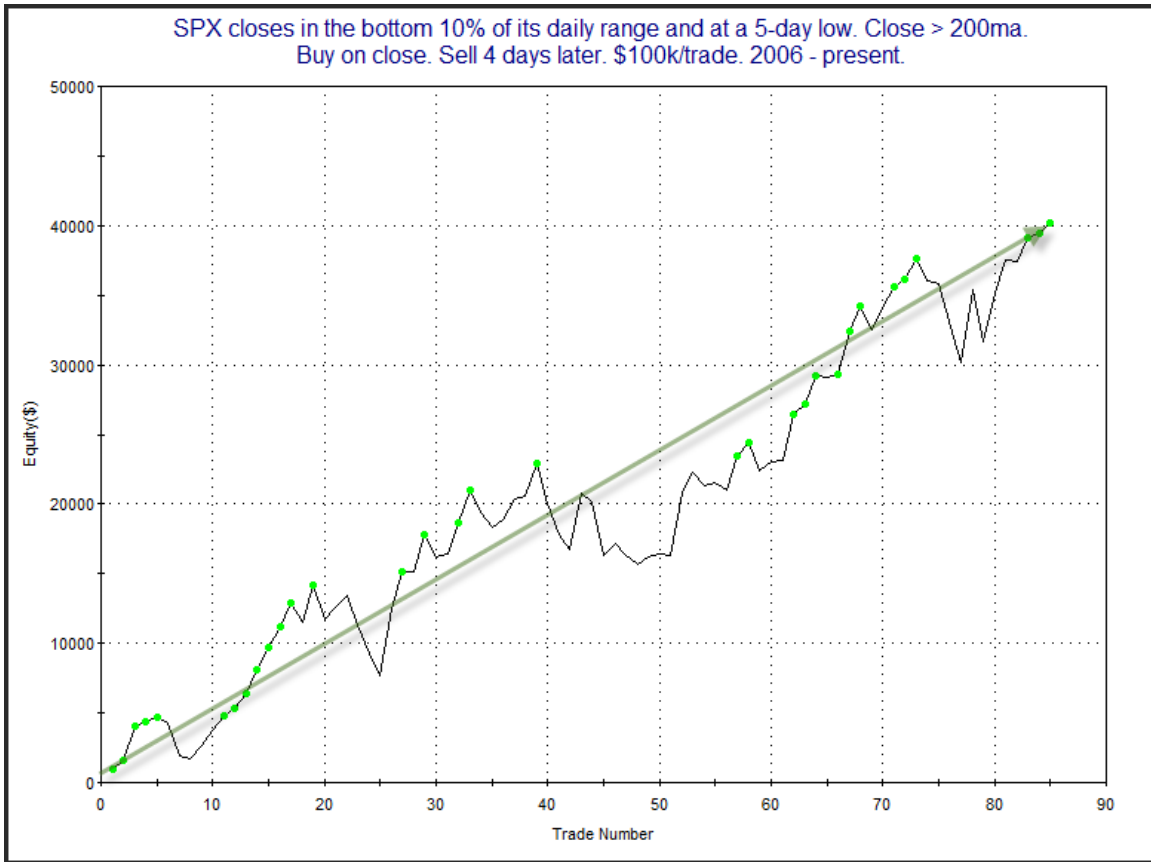
**The Evidence**

The market suffered some losses on Wednesday. The SPX and NASDAQ each fell 0.7%, and the Russell 2000 dropped 0.9%. Breadth was negative as the NYSE Up Issues % came in at 30% and the Up Volume % was 21%. Total NYSE volume rose some from Tuesday.

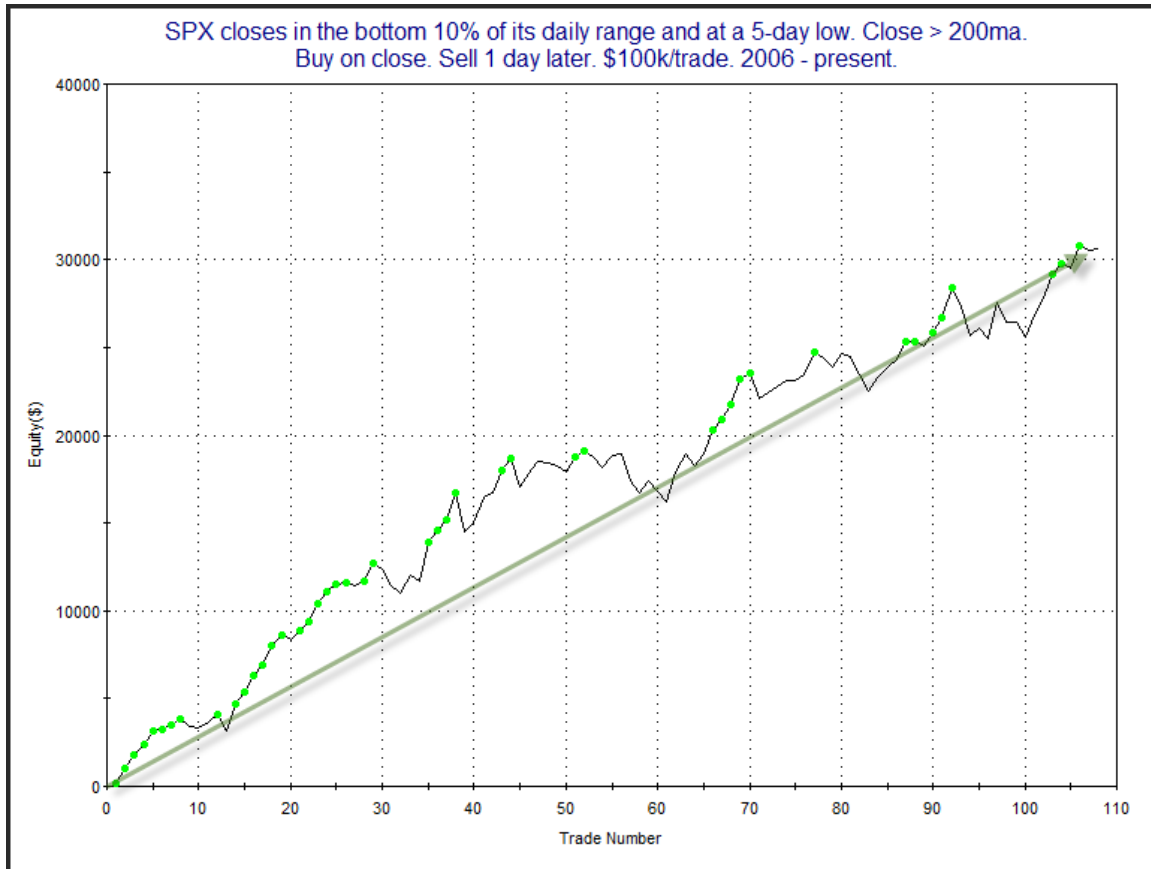
The selling also put SPX at a short-term closing low. Over the last several years when SPX has closed near the bottom of its range and at a 5-day low, it has typically been followed by a bounce in the next few days. This can be seen in the study below.

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	51,105.30	82	53	29	64.63	1,861.82	5,555.16	-1,640.38	-3,680.82	1.13	2.07	623.24
4	40,200.80	85	54	31	63.53	1,590.75	5,290.00	-1,474.18	-3,863.84	1.08	1.88	472.95
3	34,468.25	91	59	32	64.84	1,239.33	4,895.50	-1,207.88	-3,437.94	1.03	1.89	378.77
2	29,950.57	99	58	41	58.59	1,141.25	4,424.50	-883.94	-2,726.97	1.29	1.83	302.53
1	30,613.99	108	72	36	66.67	757.12	2,230.60	-663.85	-2,200.08	1.14	2.28	283.46
<b>91% of instances closed above the entry price at some point in the next week.</b>												

The stats here appear to suggest a pretty solid upside tendency over the last 8 ½ years. Below is a look at the profit curve assuming a 4-day holding period.



The upslope has persisted the whole time and the curve is again at new highs. The 1-day curve was also appealing. I have published that below.



Here again we see a steady move higher from lower left to upper right. This seems to serve as some confirmation of the short-term upside edge. I have included this study on the Short-Term Active List tonight.

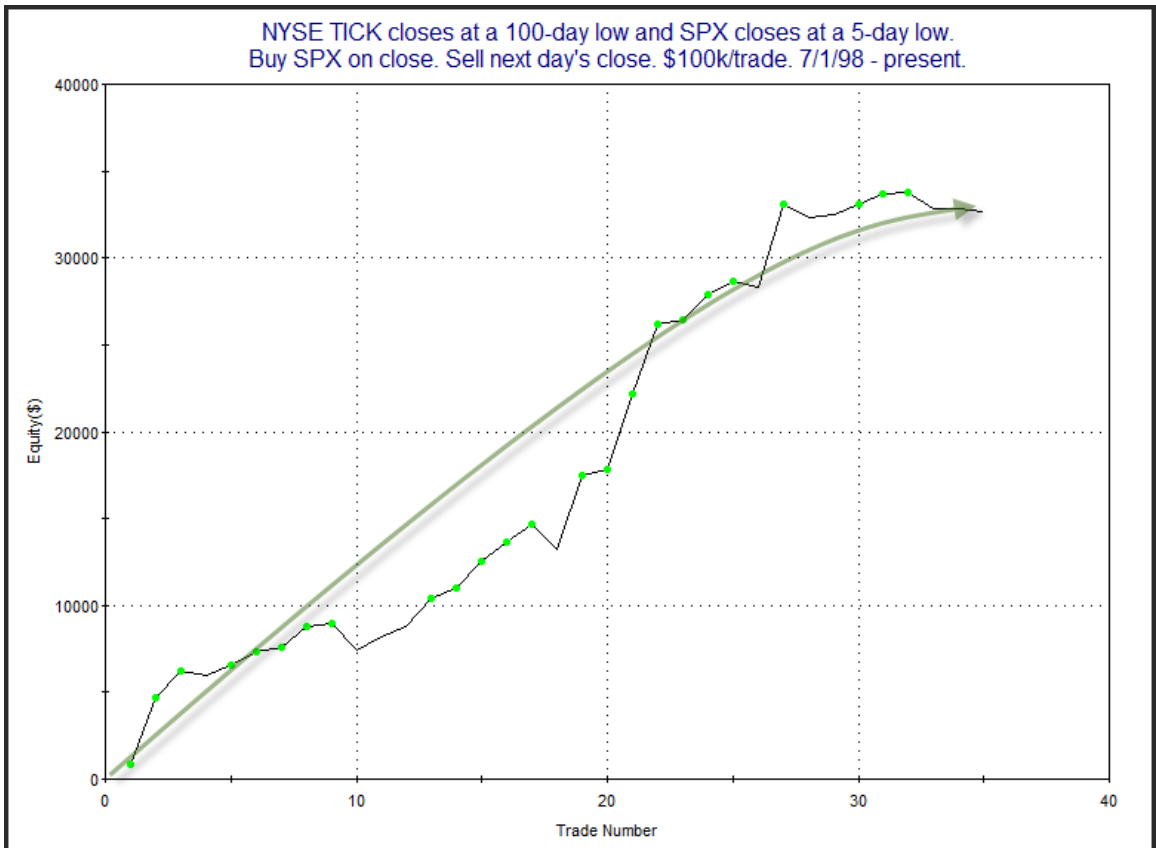
My friend and colleague, Tom McClellan ( <http://www.mcoscillator.com/> ), taught me a while back that closing TICK values can be used as a valuable indicator. Closing TICK values tend to do a good job of representing end of day order imbalances. When the closing TICK is very weak that means there are a lot of sell orders at the end of the day. A strong closing TICK would indicate lots of buy orders coming in at the end of the day. The final flurry of buying or selling, and market participants' willingness to hold positions overnight, can act as a good sentiment gauge.

On Tuesday the NYSE closing TICK was -784. This is a very low reading and it represents the lowest reading in over 100 trading days. The study below was last seen in the 7/30/14 Subscriber Letter. It looks at short-term SPX lows in conjunction with long-term closing TICK lows. Results have been updated.

NYSE TICK closes at a 100-day low and SPX closes at a 5-day low.  
Buy SPX on close. Sell next day's close. \$100k/trade. 7/1/98 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$32,638.28	Profit Factor	7.10
Gross Profit	\$37,984.97	Gross Loss	(\$5,346.69)
Total Number of Trades	35	Percent Profitable	80.00%
Winning Trades	28	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$932.52	Ratio Avg. Win:Avg. Loss	1.78
Avg. Winning Trade	\$1,356.61	Avg. Losing Trade	(\$763.81)
Largest Winning Trade	\$4,723.23	Largest Losing Trade	(\$1,506.56)

Everything above suggests a strong upside edge for the next day. Below is an equity curve to see how the edge has played out over time.



The upward slope has flattened a bit lately. But it has not rolled over and still deserves the benefit of the doubt.

In the 7/30/14 letter I also included a filter to see the instances that occurred while the SPX was above the 200ma. Below are those stats (updated).

NYSE TICK closes at a 100-day low and SPX closes at a 5-day low. SPX > 200ma.  
Buy SPX on close. Sell next day's close. \$100k/trade. 7/1/98 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ▲</span>			
All Trades			
Total Net Profit	\$7,667.93	Profit Factor	2.94
Gross Profit	\$11,625.82	Gross Loss	(\$3,957.89)
Total Number of Trades	22	Percent Profitable	72.73%
Winning Trades	16	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$348.54	Ratio Avg. Win:Avg. Loss	1.10
Avg. Winning Trade	\$726.61	Avg. Losing Trade	(\$659.65)
Largest Winning Trade	\$1,569.26	Largest Losing Trade	(\$1,506.56)

While the stats here remain strong, they are not quite as impressive as without the filter. The reduced volatility during uptrends vs downtrends seems to have dampened the averages some. The average trade here gains about \$350 instead of \$900. Still, I decided this TICK study was worth including in the Active Studies List.

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



With the bullish studies tonight the green Aggregator Line inched above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dipped just below 0. The negative Differential Line reading means 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain positive on Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *inverted at 2113.44* on Thursday. That is 0.2% *above* Wednesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, or order to remain "overbought" versus recent expectations, SPX will need to close up at least 0.2% on Thursday. Anything less than that and it will be considered short-term oversold.

The evidence flipped and so did the overbought/oversold condition. And neither in a decisive way as both lines are very close to 0. In other words, the short-term outlook is about as neutral as it could possibly be. I'm not inclined to get involved with new positions at this time and will wait for a more favorable reward/risk opportunity.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 6/22– slightly bullish***

The intermediate-term outlook was last updated in the 6/22 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***

*None*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 0***

**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	\$48.78	51.26%	\$42.95	Aggressive VIX

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