

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 30, 2015

Volume 8 Issue 124

Market Overview



Signals Overview

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

Tonight's Research Points

- The stretched VIX is suggesting a bounce over the next few days.
- Four lower lows and a 20-day low in an uptrend has often been followed by a bounce.
- Strong drops to new lows in uptrends typically suggest an upside edge – especially when they occur on a Monday.
- The strongly negative closing TICK values of late have triggered a bullish setup for our TICK Tomoscillator.

Short-term Outlook

The Bottom Line

Bullish evidence continues to build and the market is now quite oversold. I am partially long and looking to get longer.

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 30, 2015	TICK TomOsc < 1%	1 day	Bullish			
June 30, 2015	20-low. Big drop on a Monday > 200	1-4 days	Bullish			
June 30, 2015	4 Lower Lows. 20-day low.	1-8 days	Bullish			
June 30, 2015	VIX 25% > 10ma	1-2 days	Bullish			
June 29, 2015	3 dn from 20-day high	1-3 days	Bullish	1.80%	-0.80%	-1.80%
June 25, 2015	Weak close. 5-low, >200ma	1-4 days	Bullish			
Active - Long Term						
June 23, 2015	Russell late June strength vs SPX	until July	neutral			
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						
June 16, 2015	2x unfilled gap down > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.00%

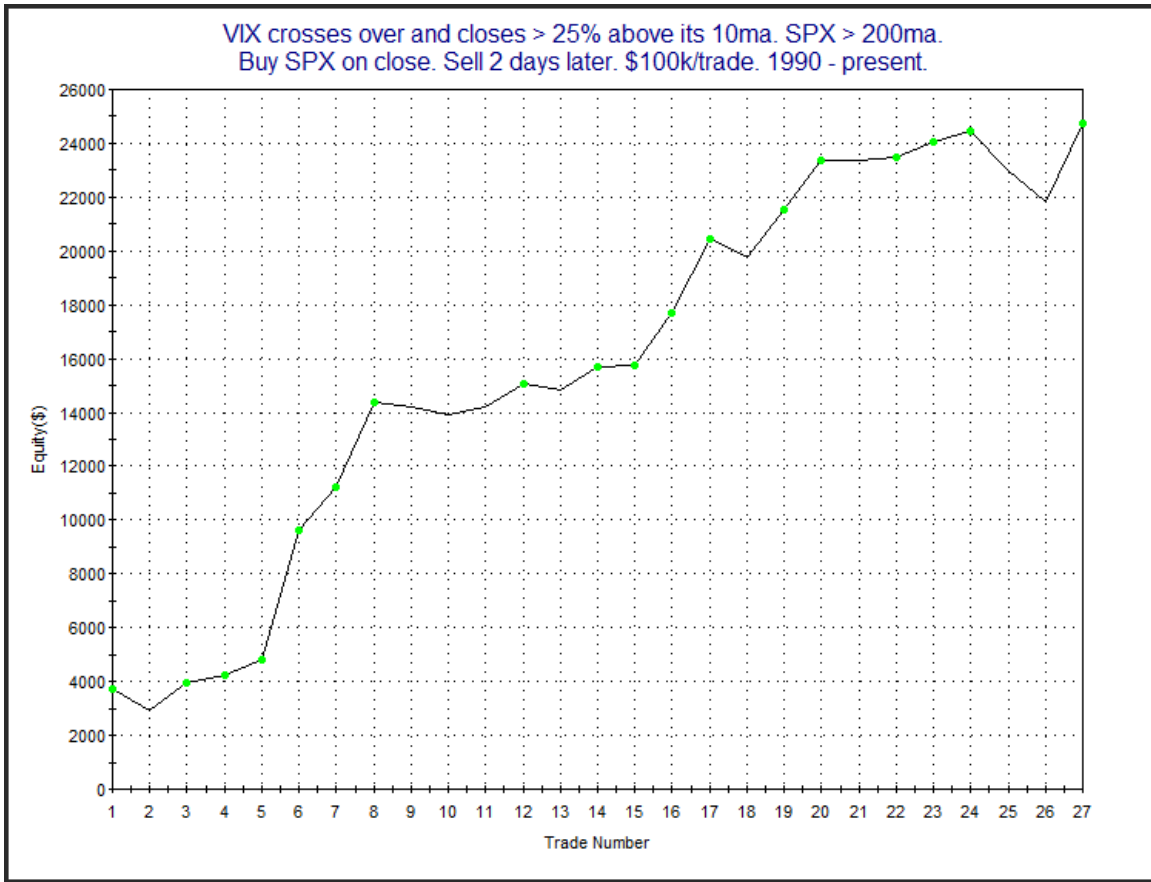
The Evidence

The market got slammed on Monday from open to close. The SPX finished down 2.1%, the NASDAQ fell 2.4%, and the Russell 2000 dropped 2.6%. Breadth was strongly negative as the NYSE Up Issues % came in at 9% and the Up Volume % was 5%. Total NYSE volume declined from Friday's level.

While the SPX declined sharply, the VIX index rose sharply. In fact it closed over 33% above its 10-day moving average. In the 8/1/14 letter I examined stretches of 25% or more. I have updated that study below.

VIX crosses over and closes > 25% above its 10ma. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 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	24,710.25	27	15	12	55.56	2,397.53	7,070.28	-937.73	-1,759.84	2.56	3.20	915.19
4	28,872.66	27	19	8	70.37	2,033.54	4,690.50	-1,220.57	-2,616.60	1.67	3.96	1,069.36
3	20,380.82	27	19	8	70.37	1,531.91	3,940.55	-1,090.69	-2,269.28	1.40	3.34	754.85
2	24,741.23	27	19	8	70.37	1,561.74	4,809.66	-616.47	-1,478.36	2.53	6.02	916.34
1	17,790.03	27	21	6	77.78	1,094.22	5,117.46	-864.75	-1,632.28	1.27	4.43	658.89
25 of 27 instances (92%) closed above the entry price at some point in the next 3 days.												

Impressive consistency. Sizable bounces seem to have been the norm under these circumstances. Below is a profit curve that assumes a 2-day exit strategy.



New highs again have the upslope intact. I have included this study on the Active List.

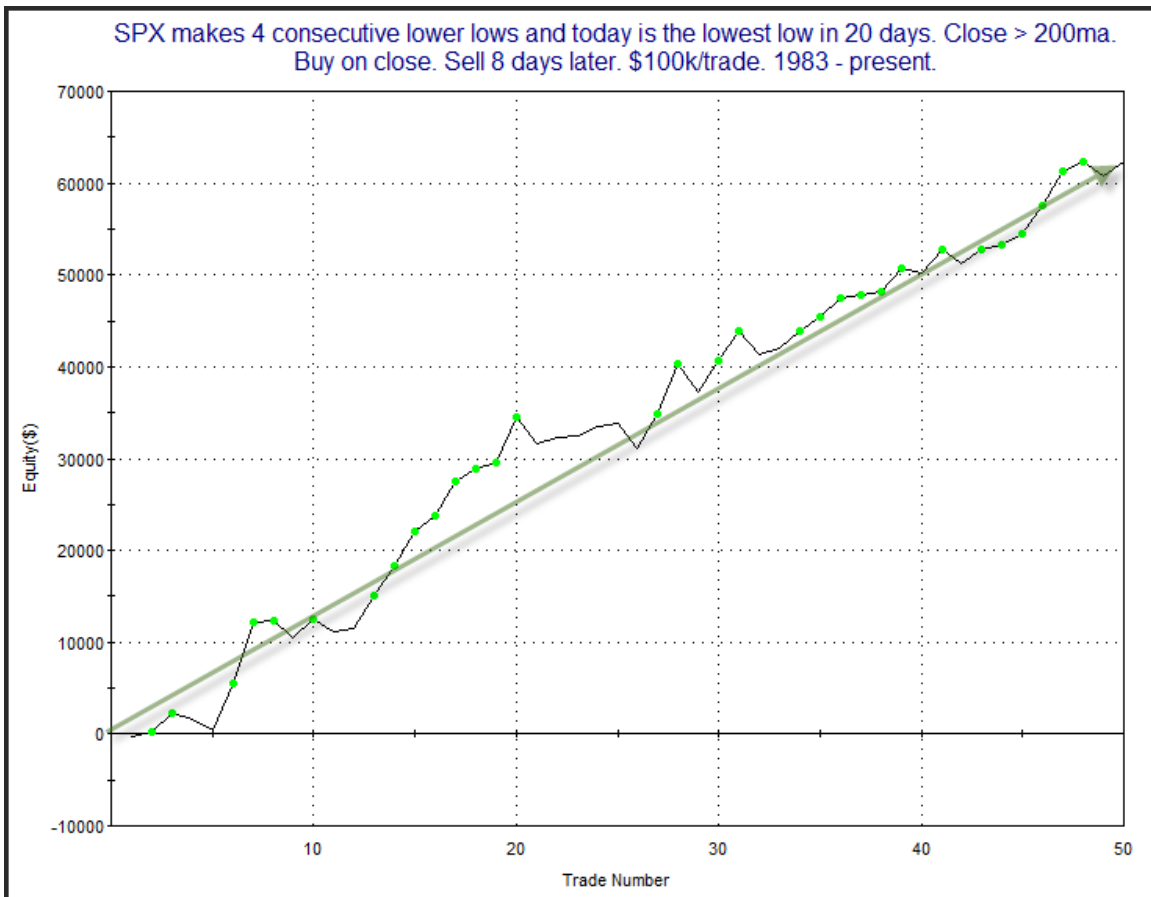
This next study was last seen in the 6/10/15 Subscriber Letter. It examines times when SPX posted four consecutive lower lows and a 20-day low as it did on Monday. I have updated the stats table below.

SPX makes 4 consecutive lower lows and today is the lowest low in 20 days. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1983 - 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	54,709.62	50	34	16	68.00	2,284.22	5,268.12	-1,434.62	-3,910.79	1.59	3.38	1,094.19
9	59,013.65	50	37	13	74.00	2,167.30	6,263.40	-1,628.96	-3,859.20	1.33	3.79	1,180.27
8	62,265.21	50	38	12	76.00	2,168.77	6,529.38	-1,679.02	-3,075.97	1.29	4.09	1,245.30
7	57,899.30	50	34	16	68.00	2,112.47	5,954.52	-870.29	-2,637.75	2.43	5.16	1,157.99
6	47,760.13	51	39	12	76.47	1,584.03	5,148.00	-1,168.08	-3,084.00	1.36	4.41	936.47
5	33,885.01	51	32	19	62.75	1,670.00	3,689.40	-1,029.21	-3,056.25	1.62	2.73	664.41
4	28,538.19	51	30	21	58.82	1,599.20	3,847.44	-925.62	-1,828.50	1.73	2.47	559.57
3	16,160.04	51	28	23	54.90	1,302.64	3,939.79	-883.22	-2,708.81	1.47	1.80	316.86
2	15,742.68	51	29	22	56.86	1,108.64	2,794.56	-745.81	-2,218.50	1.49	1.96	308.68
1	7,554.88	51	33	18	64.71	717.87	2,536.10	-896.38	-1,949.22	0.80	1.47	148.13

45 of 51 instances (88%) closed above the entry price at some point in the next week.

Results above suggest a solid bullish short-term edge. To see how it has played out over the years I have included below an equity curve assuming an 8-day exit strategy.

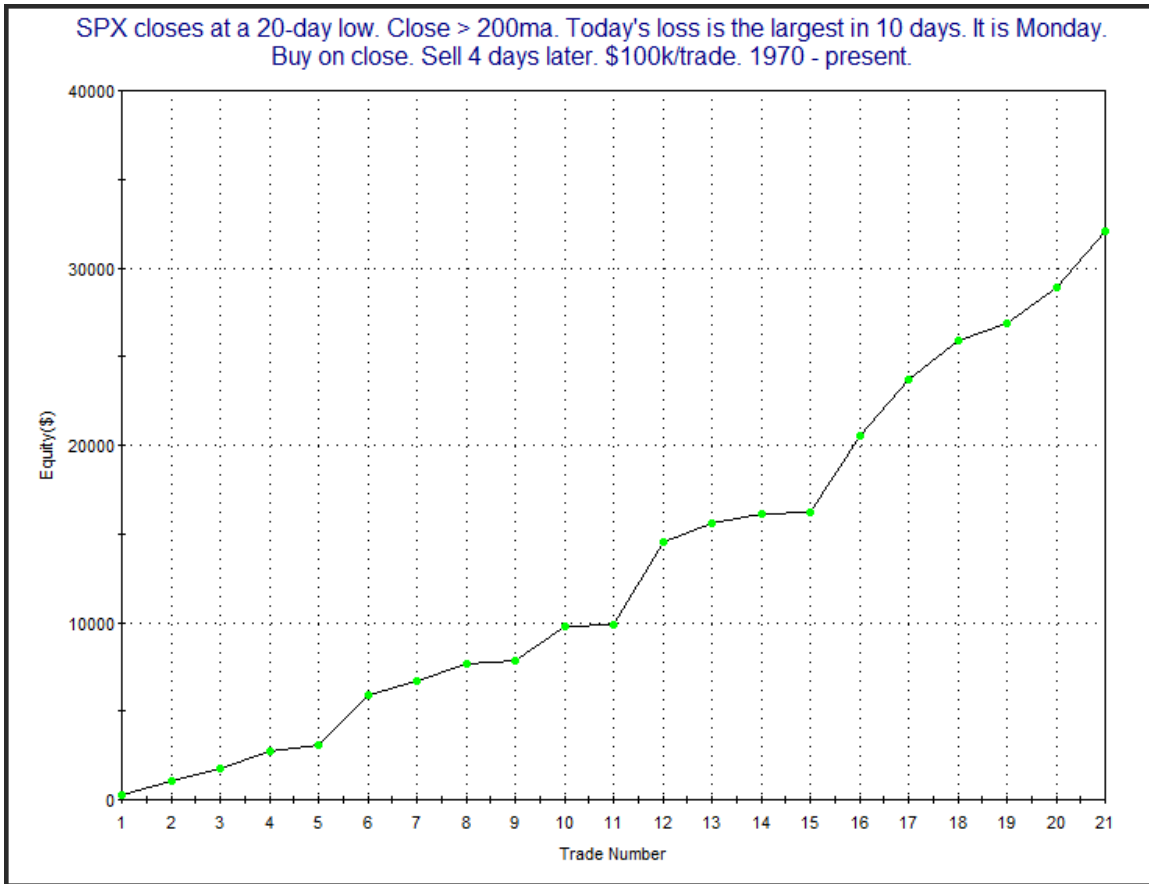


The strong, steady rise helps to confirm the upside edge suggested by the stats table.

There were a few Turnaround Tuesday studies in the Quantifinder as well. The one below was the most compelling. It also considered the long-term uptrend, intermediate-term low, and strong selling on Monday. It was last seen in the 2/4/14 letter. All stats are now updated.

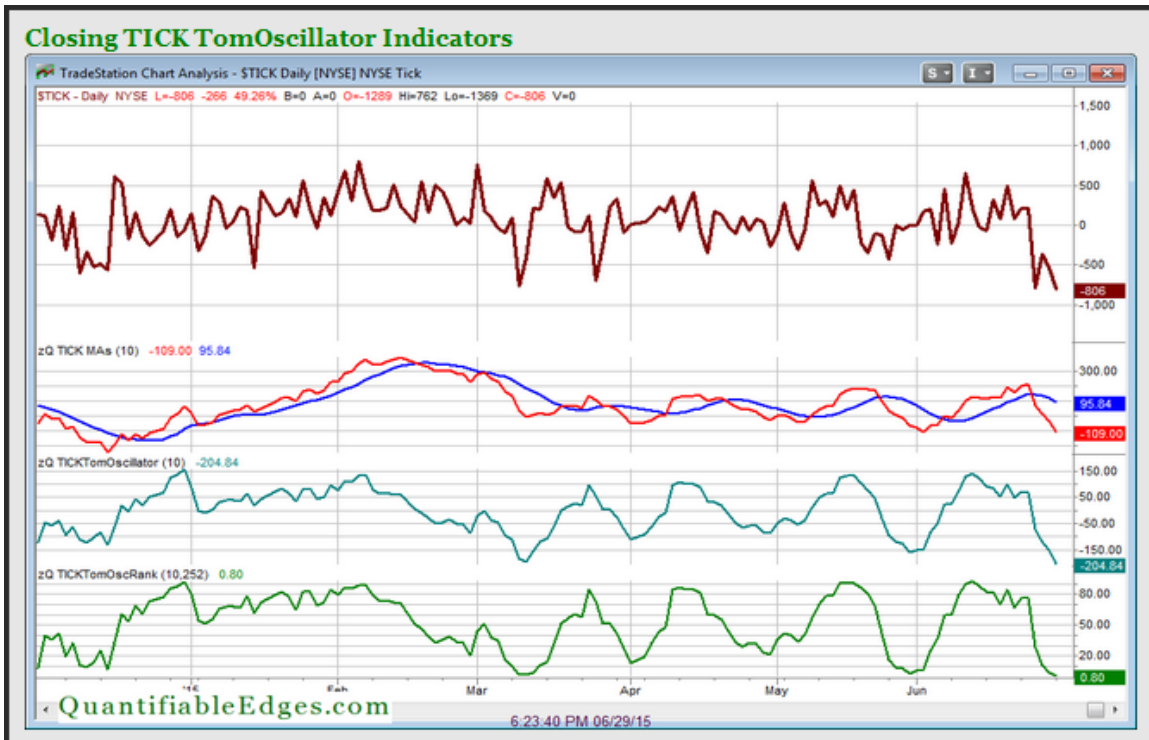
SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days. It is Monday. Buy on close. Sell X days later. \$100k/trade. 1970 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	37,978.96	21	18	3	85.71	2,221.88	7,070.28	-671.63	-732.06	3.31	19.85	1,808.52
4	32,072.52	21	21	0	100.00	1,527.26	4,690.50	0.00	0.00	100.00	100.00	1,527.26
3	24,048.59	21	17	4	80.95	1,525.70	3,940.55	-472.08	-897.60	3.23	13.74	1,145.17
2	18,778.25	21	17	4	80.95	1,238.73	4,809.66	-570.05	-925.32	2.17	9.24	894.20
1	8,661.46	21	14	7	66.67	856.19	5,117.46	-475.03	-2,264.50	1.80	3.60	412.45

Every time this has occurred since 1970 we have seen SPX close higher 4 days later. You can't get more compelling numbers than that. Below is a profit curve looking at a 4-day exit strategy.



Nothing here makes me think any less of the numbers.

There were also some studies that used the TICK TomOscillator. The TICK Tomoscillator is the brain child of my friend and fellow market analyst, Tom McClellan of [McClellan Financial Publications \(click for Tom's article on the indicator\)](#). It uses the NYSE closing TICK readings to measure recent end-of-day sentiment. I first introduced the TICK Tomoscillator in the 4/19/11 subscriber letter. For those that are not familiar with the TICK Tomoscillator, you may find a detailed description in the [May 13, 2011 blog](#). The Tomoscillator % Rank Monday came in at 0%, meaning Monday's reading is the lowest in the last year. Subscribers may find Tomoscillator readings on the charts page every night. Below you can see the Oscillator reading from tonight's chart page:



The TICK Tomoscillator is also included in the QE Indicators/Functions for Tradestation package which can be downloaded by all subscribers for free.

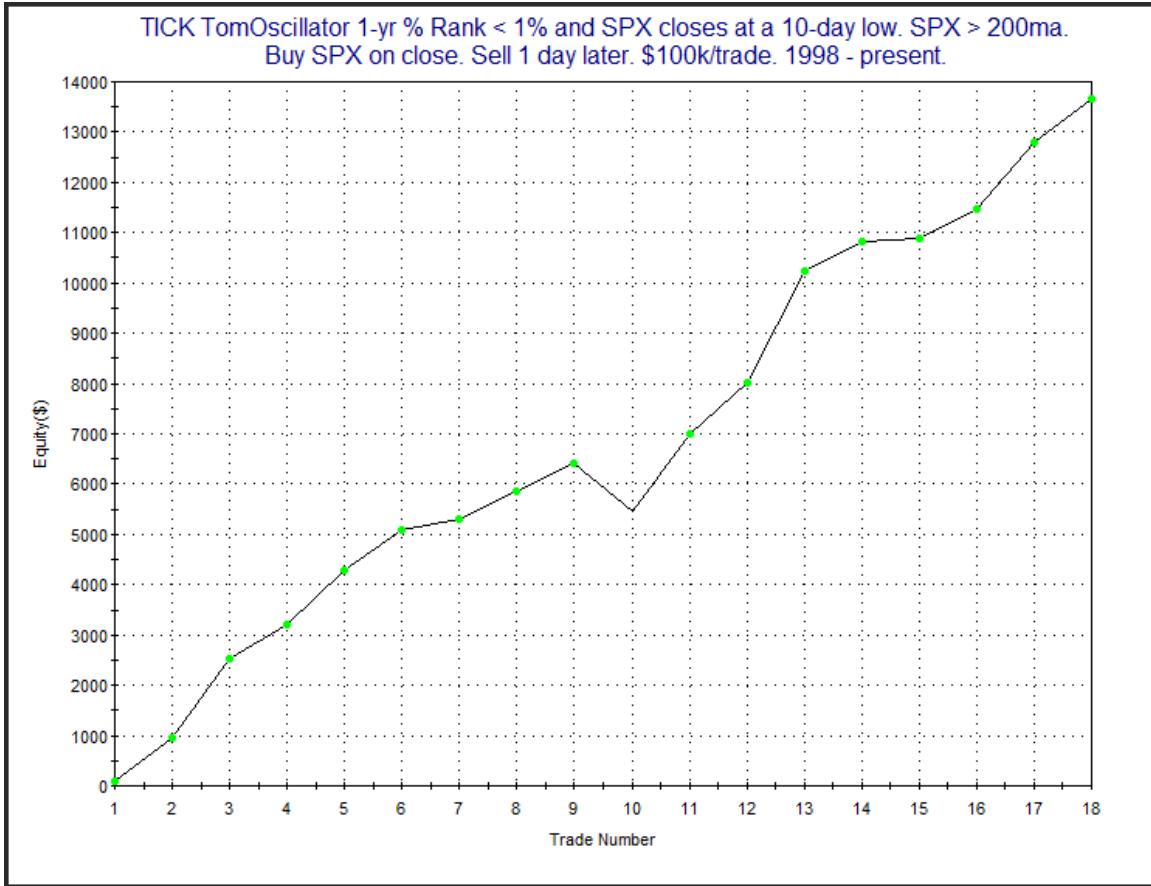
The study below uses the Tomoscillator % Rank reading rather than just the raw reading.

**TICK TomOscillator 1-yr % Rank < 1% and SPX closes at a 10-day low. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	13,784.55	14	8	6	57.14	2,792.69	5,308.60	-1,426.16	-4,360.44	1.96	2.61	984.61
9	18,990.23	14	11	3	78.57	2,232.28	4,786.10	-1,854.93	-5,073.84	1.20	4.41	1,356.44
8	18,080.20	15	10	5	66.67	2,828.90	4,792.75	-2,041.77	-5,882.94	1.39	2.77	1,205.35
7	19,267.68	15	11	4	73.33	2,156.60	4,205.84	-1,113.73	-2,375.10	1.94	5.33	1,284.51
6	15,530.31	15	12	3	80.00	1,623.41	3,839.52	-1,316.88	-1,781.60	1.23	4.93	1,035.35
5	8,547.52	15	10	5	66.67	1,412.98	3,199.60	-1,116.46	-2,274.60	1.27	2.53	569.83
4	5,577.52	16	10	6	62.50	1,338.91	2,288.36	-1,301.93	-3,019.20	1.03	1.71	348.60
3	8,491.60	17	11	6	64.71	1,183.19	2,450.24	-753.92	-1,332.24	1.57	2.88	499.51
2	11,673.98	17	13	4	76.47	1,043.94	1,963.50	-474.30	-806.48	2.20	7.15	686.70
1	13,651.44	18	17	1	94.44	858.30	2,230.60	-939.60	-939.60	0.91	15.53	758.41

**All 18 instances closed above the entry price
on either Day 1 or Day 2.**

There appears to be a strong inclination for the market to bounce immediately, and then eventually follow through with more upside. Below a profit curve for the 1-day exit.



I see no red flags here.

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



Tonight's studies helped the green Aggregator line move further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also moved higher above 0. It is now quite high. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are very positive and the SPX is strongly 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 Tuesday. This is unlikely to change. The Differential Pivot will be 2100.37 on Tuesday. That is 2.1% above Monday's close. That is a tall order for a 1-day increase. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Greece, Puerto Rico, and China are all acting as potential scares for the market. Greece took much of the blame for Monday's decline. But all sharp market declines come with some news attached. So I do not concern myself with it. The studies suggest we should see a bounce in the next few days. I already have some long exposure. And with the market getting more oversold and the evidence more bullish I will look to add to my long exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/29– slightly bullish

The intermediate-term outlook was last updated in the 6/29/15 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

RTN - \$97.79 (bought @ limit)

New

RTN - \$95.92 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2(RTN-2)

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 at \$205.67 LIMIT. Based on the short-term outlook above, I will look to add another lot to my long position if SPY comes within \$0.25 of Monday's close.

RTN – buy 1/3 Catapult position @ \$95.92 LIMIT. This is a Catapult trade from above. It is the 2nd of 3 possible lots for RTN. Though they have done well over time, Catapults tend to be quite volatile and are traded without initial stops. Those new to Catapults should examine the information on the [Catapult System page](#).

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$42.95	33.18%	\$42.95	stopped out intraday
RTN(1/3)	6/29/2015	\$96.52	\$95.92	-0.62%		Catapult
SPY(1/4)	6/29/2015	\$208.04	\$205.42	-1.26%		Aggregator

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