

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 7, 2015

Volume 8 Issue 128

Market Overview



Signals Overview

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

Tonight's Research Points

- Under similar circumstances “Turnaround Tuesday” has failed to live up to its reputation.

Short-term Outlook

The Bottom Line

The Aggregator is now bullish, but evidence is a little weak. I think there is a long-side edge, but I will be a bit conservative with my entry.

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						
July 6, 2015	20-low then 3-day consolidation	1-5 days	Bullish	1.90%	-1.40%	-2.80%
July 2, 2015	2-day bounce from big drop	1-5 days	Bullish			
July 1, 2015	20 low reversal bar	1-5 days	Bullish	2.10%	-1.40%	-2.50%
June 30, 2015	4 Lower Lows. 20-day low.	1-8 days	Bullish			
Active - Long Term						
July 1, 2015	20 low reversal bar	1-10 days	Bullish	2.90%	-1.85%	-3.40%
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

Monday was a down day for the market. The SPX lost 0.4%, the NASDAQ fell 0.3%, and the Russell 2000 closed down 0.1%. Breadth was negative as the NYSE Up Issues % came in at 36% and the Up Volume % was 26%. Total NYSE volume rose from Thursday’s level.

The action did not trigger much in the way of Quantifinder studies. But as I laid out in the “Turnaround Tuesday” study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. Unfortunately, as I showed in the 6/16/15 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row and it was Monday. Here are those results.

SPX closes down for the 2nd day in a row. Today is Monday.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$23,040.97	Profit Factor	1.80	
Gross Profit	\$51,882.11	Gross Loss	(\$28,841.14)	
Total Number of Trades	80	Percent Profitable	53.75%	
Winning Trades	43	Losing Trades	37	
Even Trades	0			
Avg. Trade Net Profit	\$288.01	Ratio Avg. Win:Avg. Loss	1.55	
Avg. Winning Trade	\$1,206.56	Avg. Losing Trade	(\$779.49)	
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)	

The win rate is just above 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (*unlike* now).

SPX closes down for exactly the 2nd day in a row. Today is Monday. SPX < 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	\$23,315.03	Profit Factor	2.83
Gross Profit	\$36,050.39	Gross Loss	(\$12,735.36)
Total Number of Trades	33	Percent Profitable	63.64%
Winning Trades	21	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$706.52	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,716.69	Avg. Losing Trade	(\$1,061.28)

We see here under half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	(\$274.06)	Profit Factor	0.98
Gross Profit	\$15,831.72	Gross Loss	(\$16,105.78)
Total Number of Trades	47	Percent Profitable	46.81%
Winning Trades	22	Losing Trades	25
Even Trades	0		
Avg. Trade Net Profit	(\$5.83)	Ratio Avg. Win:Avg. Loss	1.12
Avg. Winning Trade	\$719.62	Avg. Losing Trade	(\$644.23)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn't fit here. In fact, the tendency for a while appeared to slightly favor a continuation of the 2-day pullback. Recent instances have turned the stats close to breakeven, so I am not really convinced of an edge in either direction at this point. But I am convinced that “Turnaround Tuesday” does not seem to provide a strong

bullish edge under these circumstances. Therefore, nothing new will be added to the Active List tonight.

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



With nothing new emerging the green Aggregator line held above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose above 0. The positive Differential Line reading means SPX is now 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 Tuesday. Of course that can change if compelling bearish evidence emerges. The Differential Pivot will be 2089.40 on Tuesday. That is 1% above Monday's close. So it will take a strong close higher in order for SPX to turn back to overbought.

Being 1% from the Differential Pivot means there is some room to the upside. This increases the reward side of reward/risk potential. But I am not terribly enthused by the upside evidence. While studies from the last few days lean bullish, evidence tonight was lacking. Of course a 3rd down day on Tuesday would likely be accompanied by some bullish studies. So rather than jump in at this level, I'll be looking to get long if Tuesday again closes lower. I'll also note that a new Catapult triggered, so I'll be looking for an entry there as well.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/6– slightly bullish

The intermediate-term outlook was last updated in the 7/6 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 1/3 @ limit)

RTN - \$97.92 (bought 1/3 @ limit)

RTN - \$95.68 (no fill) – cancel order for now

New

CVX - \$94.77 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 4(RTN-3, CVX)

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.

CVX – buy 1/3 Catapult position @ \$94.77 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for CVX. 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](#).

SPY – buy ¼ index position @ \$206.71 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to start scaling into an index position on a down close on Tuesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
RTN(1/3)	6/29/2015	\$96.52	\$96.75	0.24%		Catapult
RTN(1/3)	6/30/2015	\$95.92	\$96.75	0.87%		Catapult

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