

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 10, 2015

Volume 8 Issue 131

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Positive days that close poorly will often be followed by buying in the next few days.
- VIX-based studies are showing mixed messages

## *Short-term Outlook*

### *The Bottom Line*

Evidence remains net bullish and the SPX is still oversold. There appears to be a bullish 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
<b>Active - Short Term</b>						
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			
<b>Active - Long Term</b>						
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			

*(list not updated tonight)*

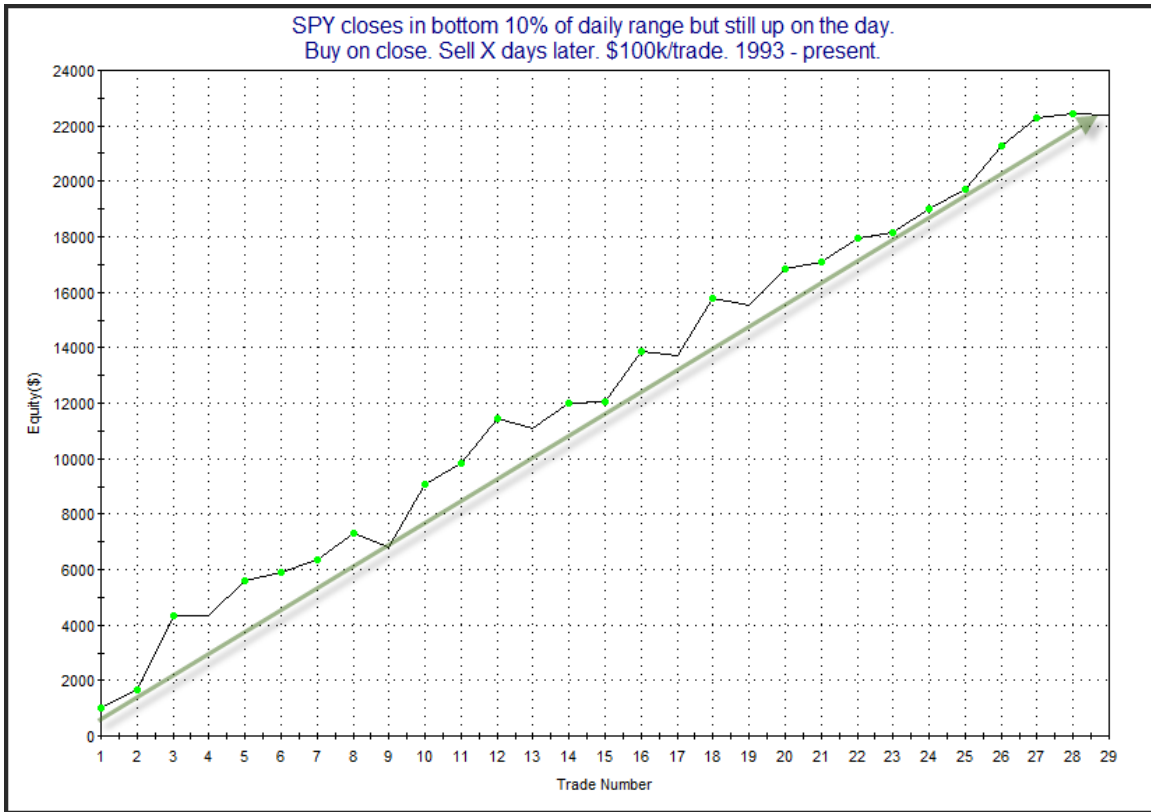
**The Evidence**

After a big gap up the market gave back most of its gains on Thursday – making for a small rebound. In the end the SPX rose 0.2%, the NASDAQ gained 0.3%, and the Russell 2000 closed up 0.4%. Breadth was positive as the NYSE Up Issues % came in at 59% and the Up Volume % was 65%. Total NYSE volume came in about average for the last several days.

The late-day selling and weak close may have felt like a negative as we approached the close, but it triggered a study that has been very bullish over the years. SPY closing in the bottom 10% of its daily range, but still up on the day is something that doesn't occur very often. It is something I explored in the 8/27/14 letter. Results below are all updated.

SPY closes in bottom 10% of daily range but still up on the day. 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	18,047.09	28	20	8	71.43	1,359.86	3,458.95	-1,143.77	-2,337.14	1.19	2.97	644.54
4	18,730.52	29	23	6	79.31	1,102.10	2,312.35	-1,102.95	-3,623.88	1.00	3.83	645.88
3	22,379.75	29	23	5	79.31	1,028.71	2,694.00	-256.09	-472.68	4.02	18.48	771.72
2	15,049.22	29	20	9	68.97	901.45	3,028.76	-331.09	-531.70	2.72	6.05	518.94
1	8,387.32	30	20	10	66.67	620.57	3,476.36	-402.41	-903.90	1.54	3.08	279.58
<b>All 30 instances closed above the entry price at some point in the next 4 days.</b>												

The numbers here are impressively bullish. I also ran a profit curve assuming a 3-day holding period.



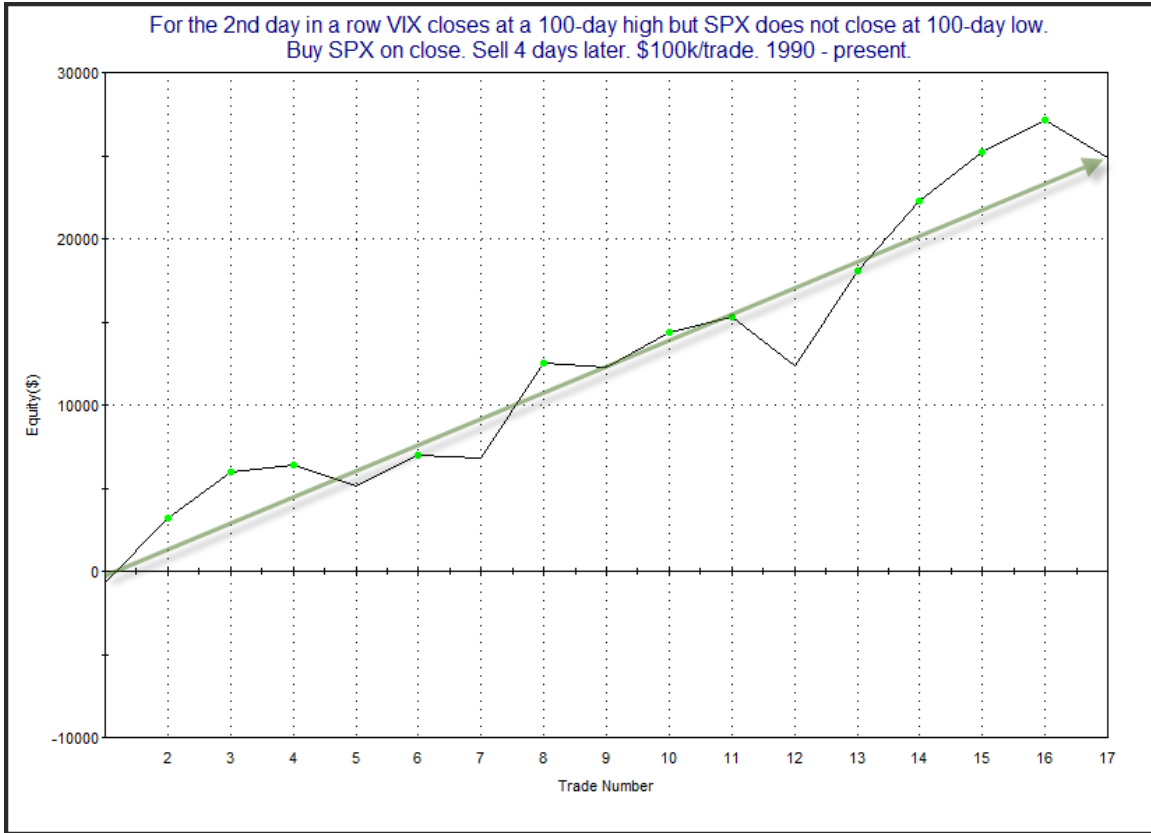
This curve is almost as straight as the arrow, and acts as confirmation of the upside edge. So we saw a bit more bullish evidence tonight.

Last night I showed a study that examined 100-day VIX highs that were not accompanied by 100-day SPX lows. This is now something that has happened 2 days in a row. I last looked at this condition in the 12/7/11 subscriber letter and have updated the study below.

For the 2nd day in a row VIX closes at a 100-day high but SPX does not close at 100-day low.  
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	23,812.30	17	11	6	64.71	2,890.77	5,957.64	-1,331.02	-2,395.80	2.17	3.98	1,400.72
4	24,898.46	17	11	6	64.71	2,947.65	5,731.96	-1,254.29	-2,881.84	2.35	4.31	1,464.62
3	20,923.13	17	11	6	64.71	2,648.98	5,471.10	-1,369.27	-3,191.92	1.93	3.55	1,230.77
2	13,971.31	17	12	5	70.59	1,816.31	6,245.15	-1,564.89	-2,290.68	1.16	2.79	821.84
1	16,712.30	17	11	5	64.71	1,729.43	4,396.50	-462.29	-1,632.28	3.74	8.23	983.08

Results here suggest a bullish tendency. Below is an equity curve that assumes a 4-day holding period.



The upslope appears steady enough to serve as confirmation of the bullish tendency.

But not everything that appeared was bullish. In the 12/7/11 subscriber letter I showed the study below. It considered the rising VIX along with the small up close for SPX during the middle of the week. It triggered again on Thursday and I have updated the results.

SPX rises between 0% - 0.25% and close < 200ma. VIX closes up. It is Tuesday, Wednesday, or Thursday. 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
5	-26,303.23	11	0	11	0.00	0.00	0.00	-2,391.20	-7,204.80	0.00	0.00	-2,391.20
4	-30,871.92	11	1	10	9.09	126.15	126.15	-3,099.81	-7,745.95	0.04	0.00	-2,806.54
3	-20,613.83	11	1	10	9.09	856.95	856.95	-2,147.08	-5,299.32	0.40	0.04	-1,873.98
2	-27,202.48	11	0	11	0.00	0.00	0.00	-2,472.95	-6,672.34	0.00	0.00	-2,472.95
1	-11,676.56	12	5	7	41.67	483.36	884.16	-2,013.34	-3,035.25	0.24	0.17	-973.05

Instances are a little lower than I normally like, but with every one lower on day 2, they demand a closer look. All instances are listed below.

SPX rises 0% - 0.25% and close < 200ma. VIX closes up. It is Tuesday, Wednesday, or Thursday. Buy SPX on close. Sell X days later. \$100k/trade. 98 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/29/98	Buy	\$1,049.00	(5.97%)	\$0.00
10/01/98	Sell	\$986.40		(\$6,431.50)
03/08/01	Buy	\$1,264.76	(6.68%)	\$0.00
03/12/01	Sell	\$1,180.30		(\$6,950.42)
05/02/01	Buy	\$1,267.42	(0.06%)	\$7.02
05/04/01	Sell	\$1,266.60		(\$2,762.76)
11/14/01	Buy	\$1,141.21	(0.22%)	\$456.75
11/16/01	Sell	\$1,138.65		(\$982.23)
06/04/02	Buy	\$1,040.69	(1.11%)	\$904.32
06/06/02	Sell	\$1,029.15		(\$1,322.88)
06/08/06	Buy	\$1,257.93	(1.71%)	\$367.35
06/12/06	Sell	\$1,236.41		(\$1,716.67)
01/15/09	Buy	\$843.74	(4.57%)	\$1,698.02
01/20/09	Sell	\$805.22		(\$4,633.86)
07/15/10	Buy	\$1,096.48	(2.30%)	\$0.00
07/19/10	Sell	\$1,071.25		(\$3,218.67)
08/18/10	Buy	\$1,094.16	(2.05%)	\$0.00
08/20/10	Sell	\$1,071.69		(\$2,752.75)
08/30/11	Buy	\$1,212.92	(0.70%)	\$1,458.78
09/01/11	Sell	\$1,204.42		(\$743.74)
12/06/11	Buy	\$1,258.47	(1.92%)	\$678.61
12/08/11	Sell	\$1,234.35		(\$2,133.00)
<b>Avg Run-up: 0.5% MAX run-up - 1.7%</b> <b>Avg Drawdown: -3.1%</b>				

These results certainly appear worth taking into account.

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



With the new studies taken into account 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 also held 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. While possible, evidence is strong enough that this is unlikely to change. The Differential Pivot will be 2091.76 on Friday. That is nearly 2.0% above Thursday's close. So for SPX to move from oversold to overbought it will need to close up at least 2.0% on Friday. That is a tall order. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Evidence is still favoring the bulls and the SPX is still clearly oversold. Additionally, there is still a good amount of room to the upside to potentially profit. I still like the setup and will again look to begin building a long index position.

***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***

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

DD – 1/3 @ 58.16 (buy @ limit)

*New*

DD – 1/3 @ 58.16 (buy @ limit)

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

*None*

***Broad Market Large Cap CBI – 3(CVX, DD-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.*

**DD – buy 1/3 Catapult position @ \$57.90 LIMIT.** This is a Catapult trade from above. It is the 2<sup>nd</sup> of 3 possible lots for DD. 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 @ \$204.90 LIMIT.** Based on the short-term outlook above, I will look to start scaling into an index position on Friday.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CVX(1/3)	7/7/2015	\$94.41	\$93.78	-0.67%		Catapult
DD(1/3)	7/9/2015	\$58.16	\$57.90	-0.45%		Catapult

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