

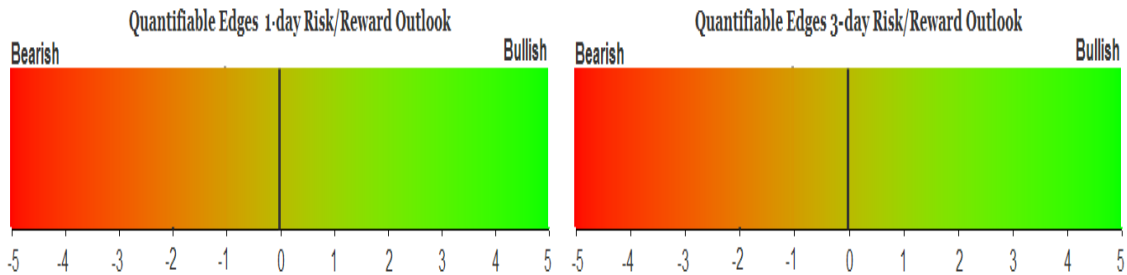
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 14, 2015

Volume 8 Issue 133

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- When the VIX moves from 10% above the 10ma to 10% below the 10ma in less than a week it has been typically followed by gains.
- The QE Buying Power Swing System is now short.
- Big VXO drops often lead to difficult market days the following day.
- 3 days of strong Nasdaq breadth are often followed by a down day.

## *Short-term Outlook*

### *The Bottom Line*

Evidence remains net bullish but the SPX is now short-term overbought. This leaves me neutral on the short-term.

**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 14, 2015	VIX 10% to 10% below 10ma	1-8 days	Bullish			
July 14, 2015	VXO drops 20% in 1 day	1 day	Bearish			
July 14, 2015	Nas Adv 1.5x Decl for 3 days	1 day	Bearish			
July 14, 2015	QE Buying Power Short	1-6 days	Bearish			
July 13, 2015	2 up from 20-day < 3 days ago.	1-3 days	Bullish	1.50%	-1.00%	-1.90%
July 10, 2015	SPY close bottom 10% but + on day	1-3 days	Bullish			
July 10, 2015	VIX 100 high. SPX not 100 low. 2x	1-4 days	Bullish			
July 9, 2015	VIX 100 high. SPX 20-low < 100-low	1-7 days	Bullish			
<b>Active - Long Term</b>						
July 9, 2015	VIX 100 high. SPX 20-low < 100-low	1-20 days	Bullish	3.10%	-1.60%	-3.20%
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			
<b>Dropped Tonight</b>						
July 10, 2015	SPX up small. VIX 100 high. Midwk.	1-2 days	Bearish			
July 9, 2015	Unfill Gap Dn to 50-day low	1-3 days	Bullish			

**The Evidence**

Monday was another strong move up for the market. The SPX rose 1.1%, the NASDAQ gained 1.5%, and the Russell 2000 closed up 1.1%. Breadth was positive as the NYSE Up Issues % came in at 71% and the Up Volume % was 81%. Total NYSE volume declined some from Friday's level.

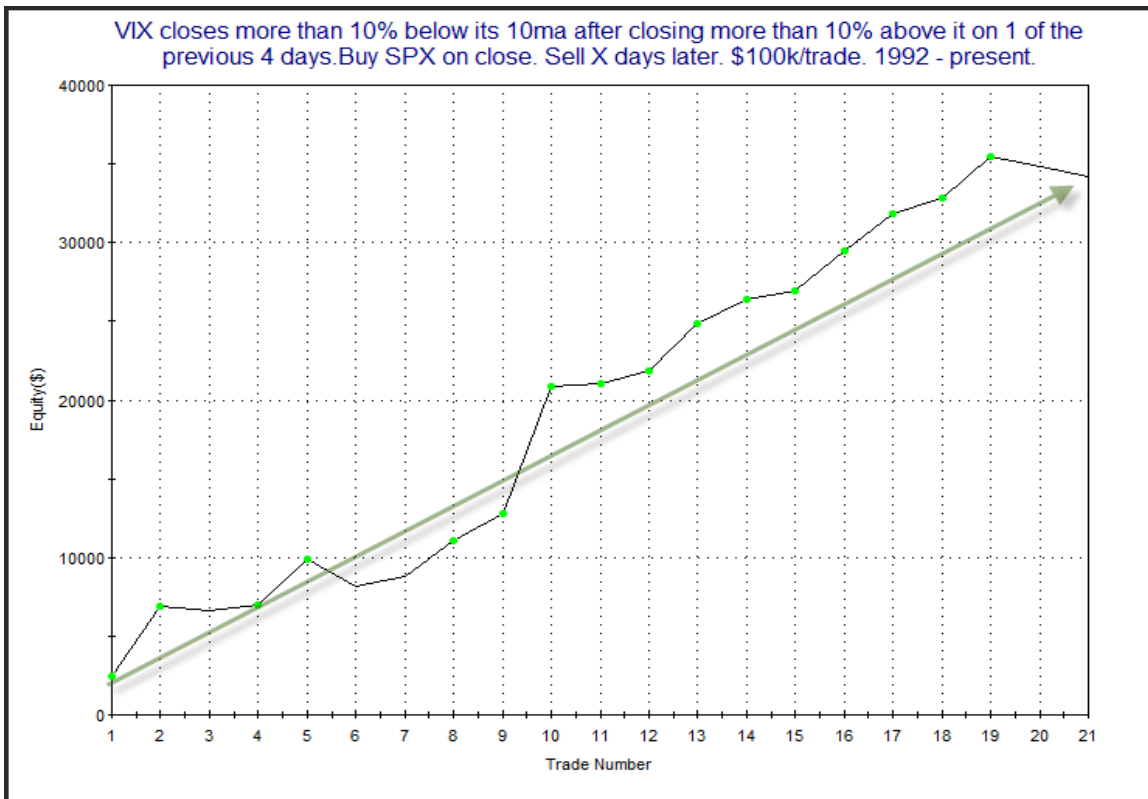
After closing at a high of 19.97 last Thursday, the VIX closed Monday at 13.90. The VIX is a measure of expected volatility in the market, and it tends to move up and down counter to the SPX. The Quantifinder study below considered the sharp drop in the VIX over the last few days after a sharp rise the previous few. It was last seen in the 1/23/15 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. Buy SPX on close. Sell X days later. \$100k/trade. 1992 - 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	30,682.82	21	16	5	76.19	2,575.93	8,115.80	-2,106.42	-3,412.50	1.22	3.91	1,461.09
9	30,484.33	21	15	6	71.43	2,439.11	8,397.40	-1,017.05	-2,403.36	2.40	6.00	1,451.63
8	34,212.28	21	17	4	80.95	2,197.99	8,076.20	-788.39	-1,733.94	2.79	11.85	1,629.16
7	30,361.89	21	16	5	76.19	2,221.27	7,749.50	-1,035.70	-2,030.40	2.14	6.86	1,445.80
6	26,245.27	21	15	6	71.43	2,171.08	5,305.30	-1,053.48	-3,271.68	2.06	5.15	1,249.77
5	25,292.21	21	14	7	66.67	2,209.40	5,361.40	-805.63	-2,011.20	2.74	5.48	1,204.39
4	14,570.85	21	16	5	76.19	1,441.68	4,981.90	-1,699.19	-2,927.52	0.85	2.72	693.85
3	8,489.99	22	14	8	63.64	1,120.42	3,799.40	-899.48	-1,683.22	1.25	2.18	385.91
2	7,582.21	22	12	10	54.55	1,116.07	3,839.00	-581.07	-1,767.90	1.92	2.30	344.65
1	6,196.94	22	13	9	59.09	749.22	2,952.40	-393.65	-1,582.62	1.90	2.75	281.68

**The most recent signal (1/22/15) was the first instance where SPX failed to close above its entry price at some point in the next 4 days.**

The market condition that would typically accompany such VIX movement is one where you see a strong rebound from a sharp decline during a long-term uptrend, which is basically what we are currently looking at. Results appear especially strong and consistent between days 4 and 8. Below I have provided the profit curve assuming an 8 day holding period.

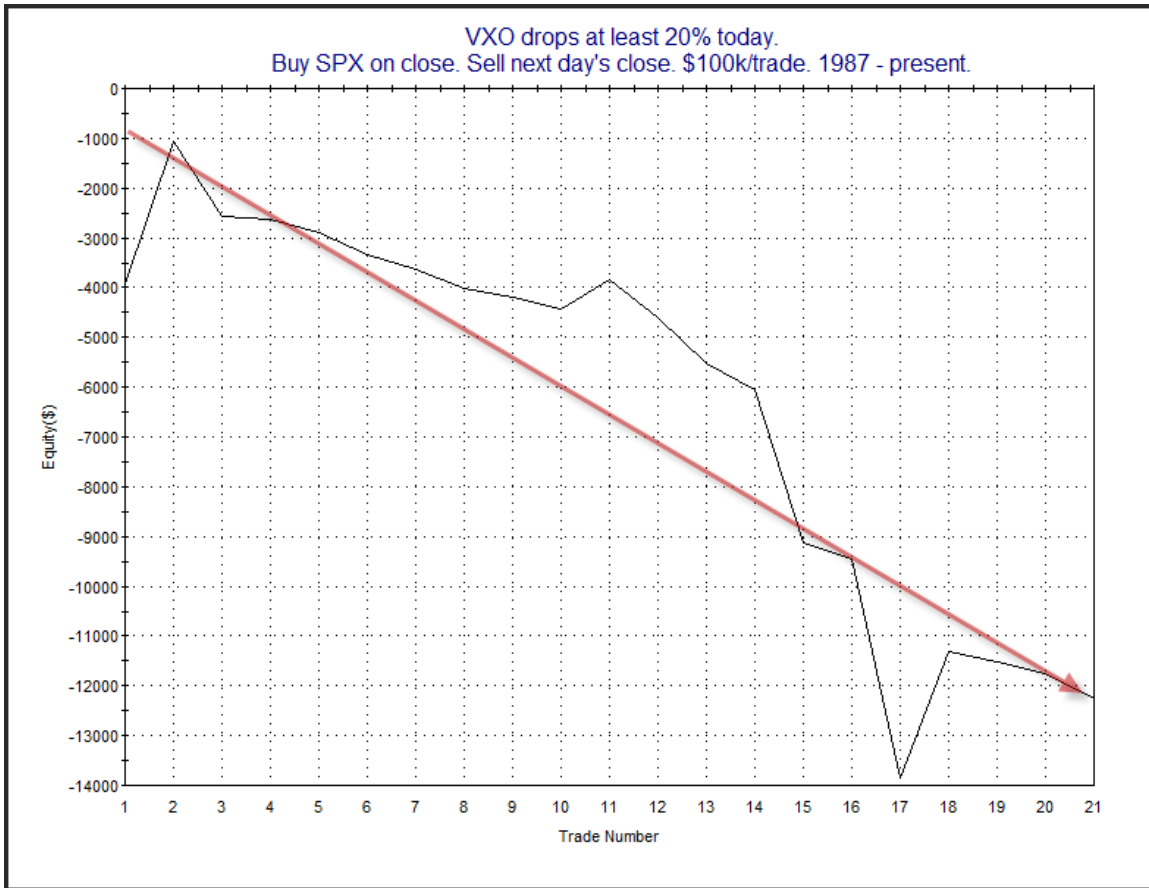


Despite the mild declines of the last 2 instances, this curve appears very strong and steady. It seems to support the idea of an upside edge. I have included this study on the Active List tonight.

But another volatility measure-related study suggested Tuesday could see a pullback. It used the VXO, which is the old calculation method of the VIX, and looked for 1-day drops of at least 20%. It was last seen in the 1/2/13 letter. Stats are updated.

TradeStation Performance Summary <span style="float: right;">Collapse ▲</span>			
All Trades			
Total Net Profit	(\$12,267.52)	Profit Factor	0.33
Gross Profit	\$5,997.43	Gross Loss	(\$18,264.95)
Total Number of Trades	21	Percent Profitable	14.29%
Winning Trades	3	Losing Trades	18
Even Trades	0		
Avg. Trade Net Profit	(\$584.17)	Ratio Avg. Win:Avg. Loss	1.97
Avg. Winning Trade	\$1,999.14	Avg. Losing Trade	(\$1,014.72)
Largest Winning Trade	\$2,860.08	Largest Losing Trade	(\$4,400.45)

Numbers here seem to suggest a downside edge. I've also included a profit curve for this one.



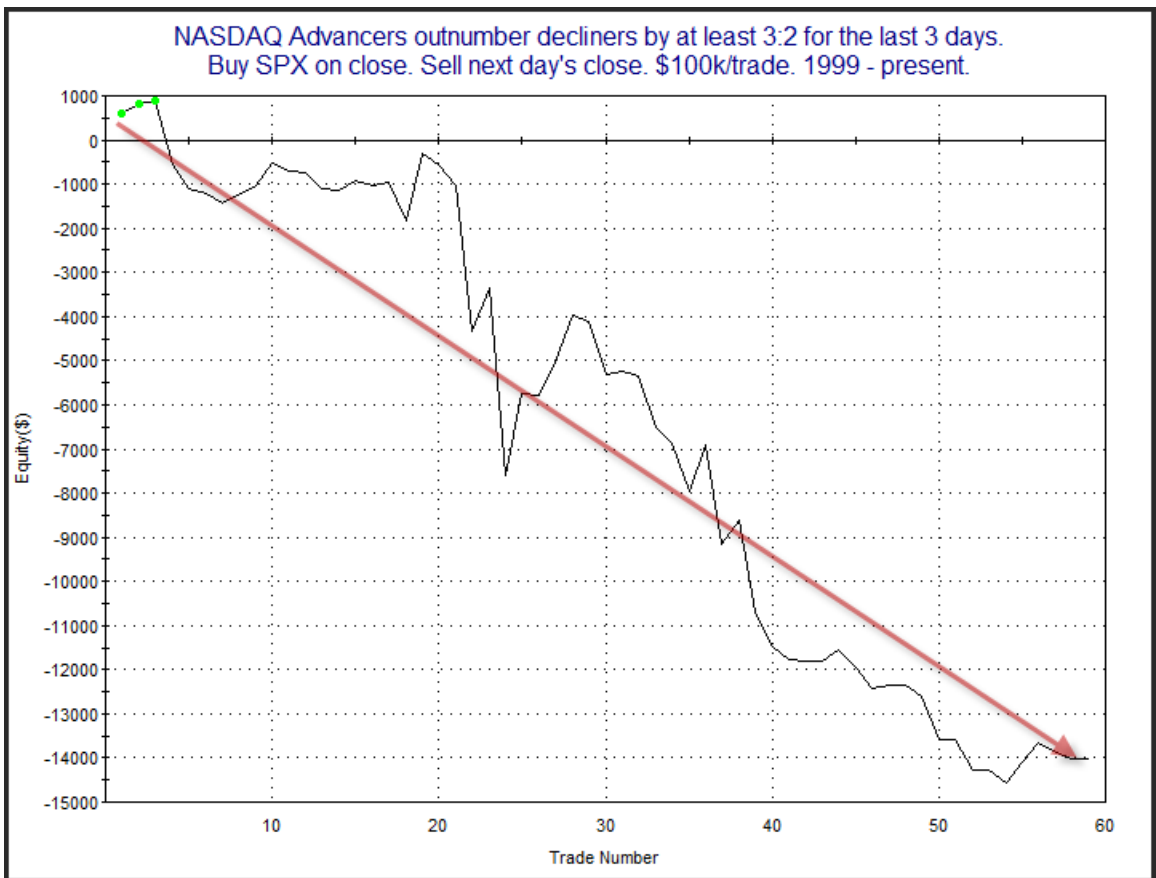
Big VXO drops have not often been a good sign for the next day.

Another study that appeared in the Quantifinder tonight looked at times Nasdaq advancers outnumbered decliners by more than 3:2 for 3 days in a row. It suggested a possible 1-day downside edge. I last showed it in the 9/6/13 letter and have updated the results below.

NASDAQ Advancers outnumber decliners by at least 3:2 for the last 3 days.  
Buy SPX on close. Sell next day's close. 1999 - present.


TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	(\$14,028.05)	Profit Factor	0.44
Gross Profit	\$11,129.01	Gross Loss	(\$25,157.06)
Total Number of Trades	59	Percent Profitable	38.98%
Winning Trades	23	Losing Trades	36
Even Trades	0		
Avg. Trade Net Profit	(\$237.76)	Ratio Avg. Win:Avg. Loss	0.69
Avg. Winning Trade	\$483.87	Avg. Losing Trade	(\$698.81)
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)

The numbers imply a bit of a downside edge. I also produced an equity curve.



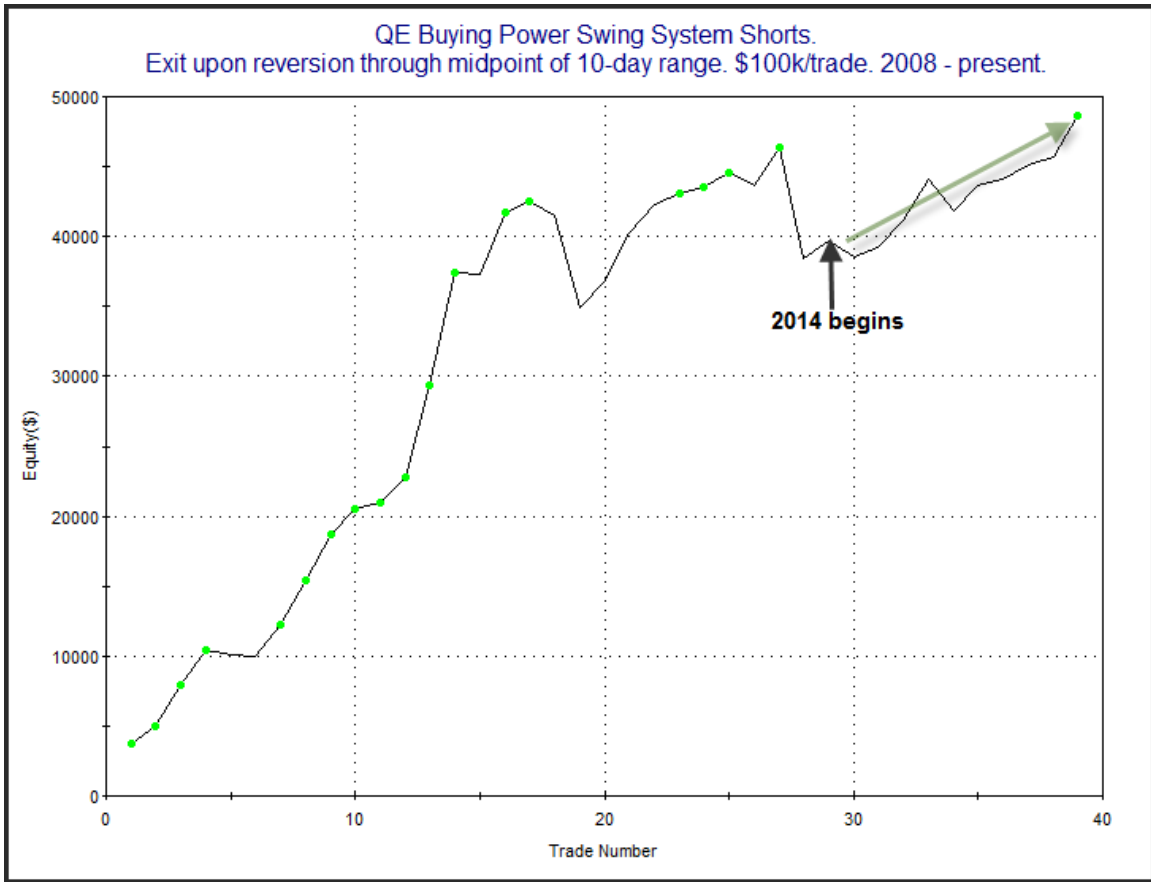
It's definitely choppy, but it has moved from upper left to lower right for a long time. I decided to also include this study on the active list.

It is also notable that the QE Buying Power Swing System triggered short on Monday. The performance table below shows updated hypothetical results of having taken all short signals since 2008, and then exiting upon a reversion to the lower half of the recent range. (A short signal simply requires the QE Buying Power Index  $\leq 0$  and the SPX closes in the top 20% of its 10-day range.) With no active Fed QE purchase plans currently the Buying Power Index has been locked at 0 since early November.

QE Buying Power Swing System Shorts. Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2008 - present.			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	\$48,683.62	Profit Factor	3.39
Gross Profit	\$69,052.02	Gross Loss	(\$20,368.40)
Total Number of Trades	39	Percent Profitable	76.92%
Winning Trades	30	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$1,248.30	Ratio Avg. Win:Avg. Loss	1.02
Avg. Winning Trade	\$2,301.73	Avg. Losing Trade	(\$2,263.16)
Largest Winning Trade	\$8,004.64	Largest Losing Trade	(\$8,003.49)

Results here are strong.

With QE3 having lasted so long I was wary of how shorts would work out with the strong seasonality and strong uptrend the market had coming into November. But while the uptrend has avoided turning into a downtrend, the short side has still offered profitable opportunities. Below is a look at the profit curve, with a demarcation where QE3 ended and the 2014 trades began.



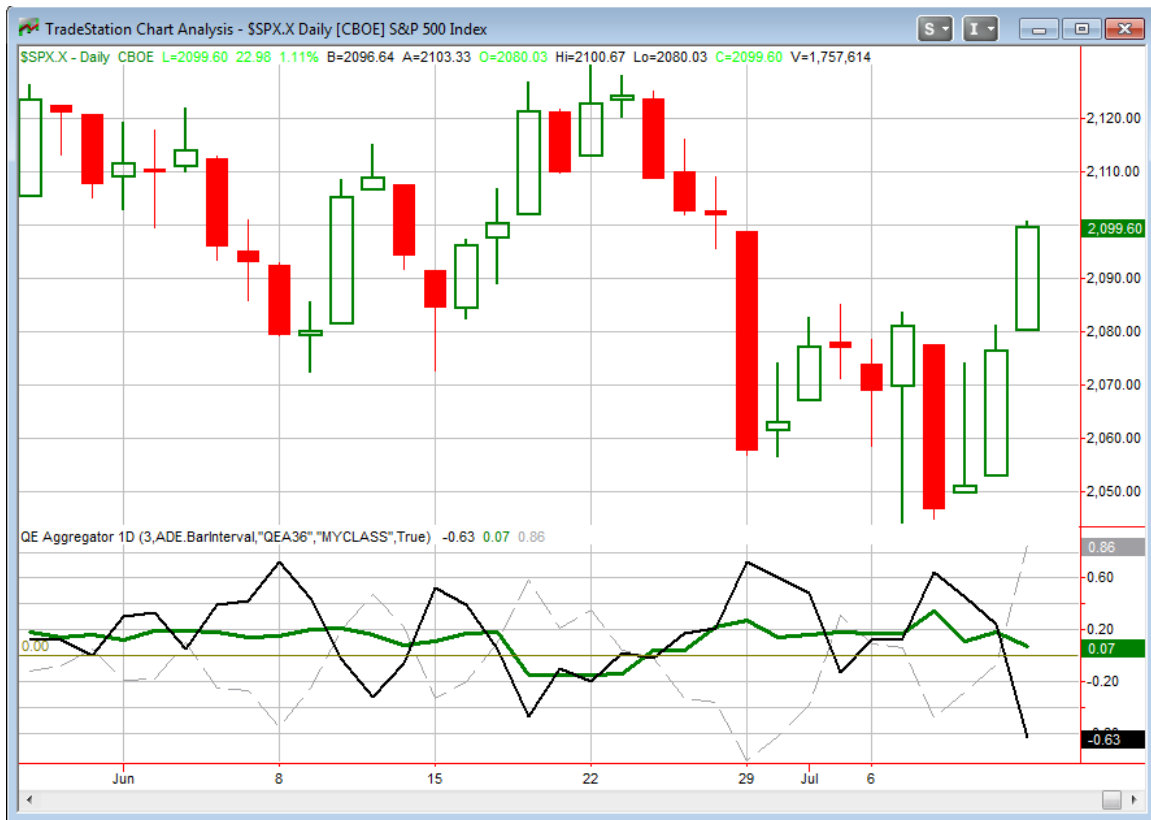
Not as steep as it was during bear market environments, but still nice results for the shorts. Below is the list of individual triggers.

QE Buying Power Swing System Shorts.  
Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2014 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/07/14	Short	\$2,031.92	(1.06%)	\$85.75
12/01/14	Cover	\$2,053.44		(\$2,148.16)
12/03/14	Short	\$2,074.33	0.68%	\$962.88
12/08/14	Cover	\$2,060.31		(\$246.72)
12/18/14	Short	\$2,061.23	1.97%	\$2,106.72
01/05/15	Cover	\$2,020.58		(\$1,551.36)
01/22/15	Short	\$2,063.15	2.96%	\$2,959.68
01/28/15	Cover	\$2,002.16		\$0.00
02/03/15	Short	\$2,050.03	(2.37%)	\$638.88
03/04/15	Cover	\$2,098.53		(\$3,338.88)
03/18/15	Short	\$2,099.42	1.83%	\$1,803.39
03/25/15	Cover	\$2,061.05		(\$725.68)
04/09/15	Short	\$2,091.18	0.48%	\$884.07
04/17/15	Cover	\$2,081.18		(\$974.31)
04/22/15	Short	\$2,107.96	1.07%	\$1,427.39
04/30/15	Cover	\$2,085.51		(\$844.12)
05/08/15	Short	\$2,116.10	0.56%	\$1,434.91
05/26/15	Cover	\$2,104.20		(\$875.14)
06/18/15	Short	\$2,121.24	3.00%	\$3,036.20
06/29/15	Cover	\$2,057.64		(\$405.61)

There were a few sizable drawdowns, and several of these required some patience. But the trades overall have done quite well.

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



With the new evidence taken into account the green Aggregator line still 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 dove down 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 turned flat at the close.

Based on the current active studies, expectations are set to remain positive on Tuesday. Of course this could change if additional bearish evidence emerges. The Differential Pivot will be 2063.68 on Tuesday. That is 1.7% below Monday's close. So for SPX to move back to oversold on Tuesday it will need to close down at least 1.7%. That is a sizable drop. A more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

So the Aggregator is now neutral, and I am too. The market is clearly overbought on a short-term basis. We have mixed evidence overall. And despite the fact that a number of new studies lean bearish, the net expectations remain mildly bullish. Bottom line is there does not appear to be a clear and compelling edge here. So I will wait until there is one.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 7/13– slightly bullish***

The intermediate-term outlook was last updated in the 7/13 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)

**Catapult for ETF's Trades**

None

**Broad Market Large Cap CBI – I(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.

None tonight.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CVX(1/3)	7/7/2015	\$94.41	\$94.60	0.20%		Catapult
DD(1/3)	7/9/2015	\$58.16	\$59.51	2.32%		sell on open

DD met its exit trigger and I will exit that trade idea at Tuesday's open.

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