

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 21, 2015

Volume 8 Issue 138

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- 2 days of weak breadth while SPX rises has been extremely rare.
- The SPX & VIX rising to start the weak used to be a bearish sign, but not in recent years.

Short-term Outlook

The Bottom Line

There still appears to be a mild bearish edge, but SPX could easily turn oversold versus expectations on Tuesday.

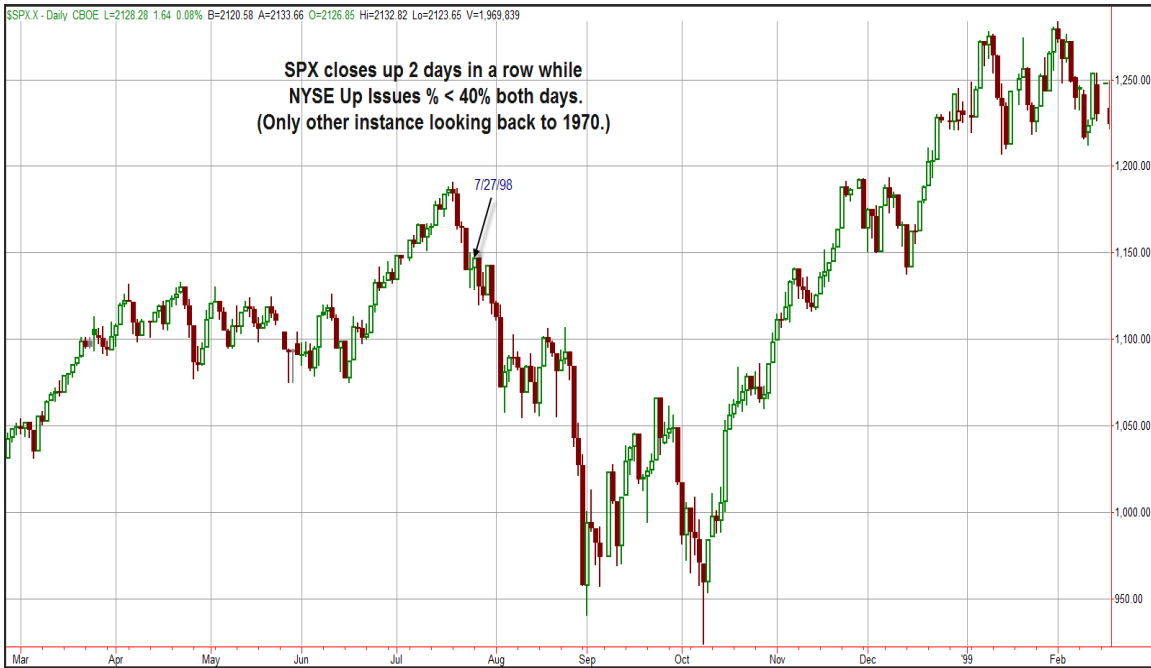
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
July 17, 2015	NDX up 1%. SOX dn.	1-6 days	Bearish	-3.10%	1.80%	4.00%
July 17, 2015	SPX top 1-% 10-day range opex Thurs	1-5 days	Bearish	-1.60%	0.90%	1.75%
July 16, 2015	3+ Higher hi, low, close. Dn close.	1-4 days	Bullish	1.45%	-0.75%	-1.50%
July 14, 2015	VIX 10% to 10% below 10ma	1-8 days	Bullish			
July 14, 2015	QE Buying Power Short	1-6 days	Bearish			
Active - Long Term						
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			

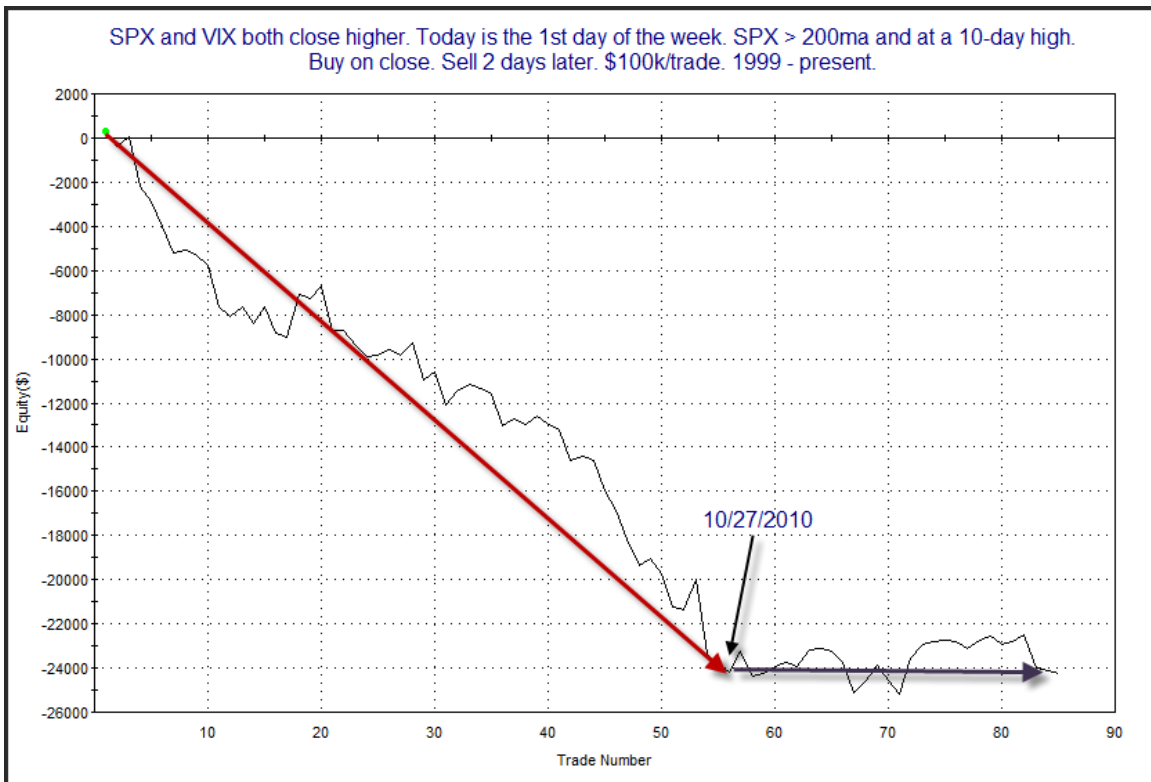
The Evidence

Monday was another day of mixed results for the indices on poor breadth. The SPX closed up 0.1% and the NASDAQ rallied 0.2%, but the Russell 2000 lost 0.5%. Breadth was negative as the NYSE Up Issues % came in at 32% and the Up Volume % was 29%. Total NYSE volume dropped some from Friday's level.

Like Friday we saw poor breadth accompany the SPX gain. And like Friday a number of studies related to this triggered in the Quantifinder. But once again none of them have performed as bearish in recent years so I have not included them as active studies. Still, Monday was the 2nd day in a row that SPX closed higher while the NYSE Up Issues % closed below 40%. So I decided to examine other instances where there were two consecutive days like this in the past. As you might suspect, it has been very rare. The only other instance since 1970 (as far back as my breadth data goes) occurred on 7/27/98. It would be very dangerous to read anything into just 1 instance, but I thought readers might find the chart interesting, so I have included it below.



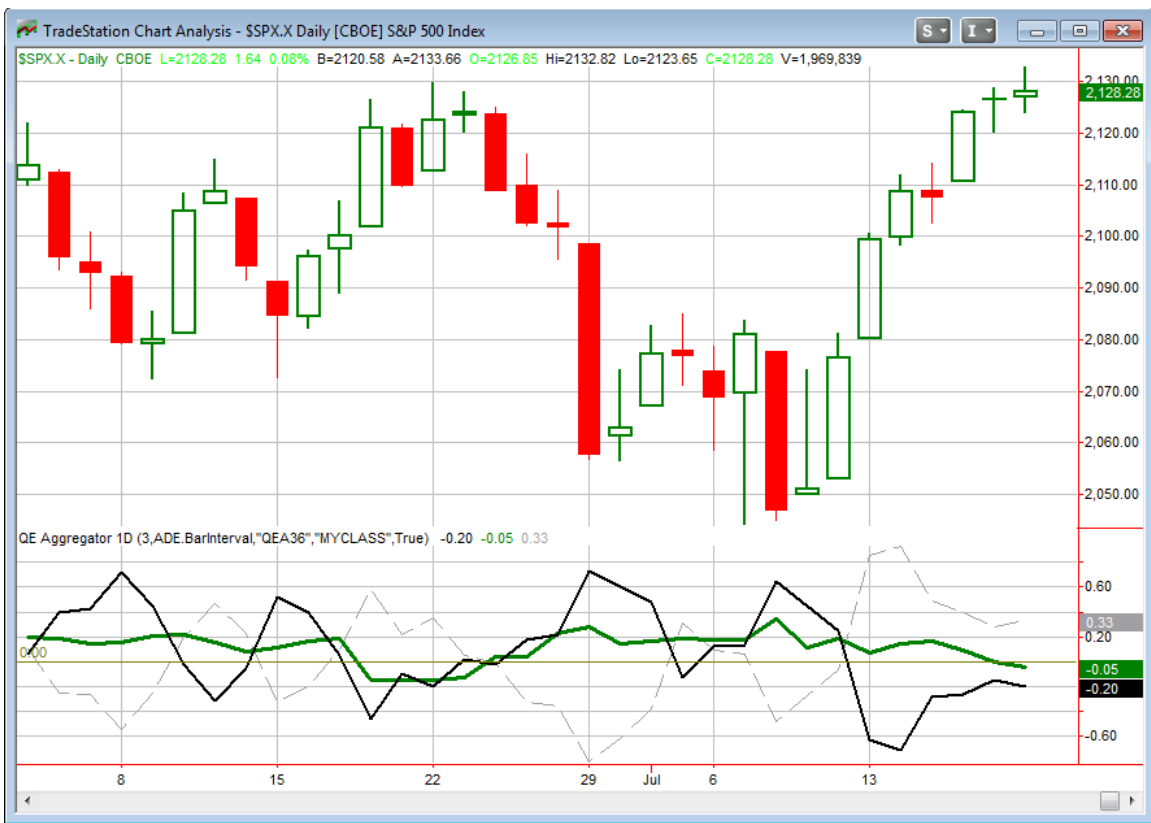
It is also notable that the VIX rose along with the SPX. This triggered a few studies also. The most relevant was last featured in the 9/17/13 letter. I reviewed that study tonight as well. An updated equity curve for a 2-day holding period is below.



While this setup provided bearish hints for many years, it has not been bearish during the strong bull market over the last 5 years or so. I have decided to eliminate it from the Quantifinder for now.

So we had interesting action, but nothing suggesting a reliable and compelling edge. Therefore, nothing new will be added to the Active List tonight.

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



Without any new studies qualifying for the Active List the green Aggregator line held below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal stayed short at the close.

Based on the current active studies, expectations are set to remain negative on Tuesday. Of course this could change if additional bullish evidence emerges. The Differential Pivot will be *inverted at 2132.74* on Tuesday. That is 0.2% *above* where SPX closed on Monday. An inverted pivot means the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.2% on Tuesday in order to remain “overbought” versus recent expectations.

My overall outlook is much the same as last night. There appears to be a bearish edge. But it does not appear strong enough to compel me to take a short position. I don’t like trying to short when the market is just below a possible breakout to a new high, because a new high could cause an acceleration upwards. Also, I generally do not take on new positions with an inverted pivot. The fact that SPX will no longer be overbought with any close lower on Tuesday severely limits the possible reward on potential short trades. So I will remain sidelined and awaiting a more favorable entry opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/20– slightly bullish

The intermediate-term outlook was last updated in the 7/20 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

None

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