

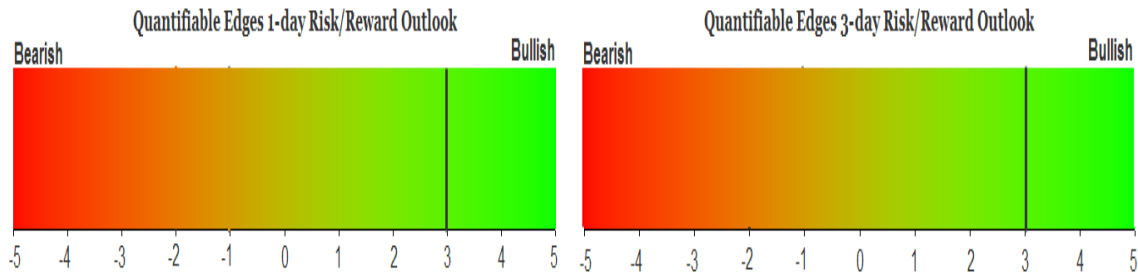
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 24, 2015

Volume 8 Issue 141

Market Overview



Signals Overview

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

Tonight's Research Points

- A strong move up by the SOX while the Nasdaq declined hints at strength for Friday.
- 3-day pullbacks with a low 3/10 Offset HV suggest a bullish edge.
- The CBI hit 8, which is a bullish level during long-term uptrends.

Short-term Outlook

The Bottom Line

Expectations are solidly positive and the market is oversold. This leaves the outlook neutral.

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 14, 2015	VIX 10% to 10% below 10ma	1-8 days	Bullish			
Active - Long Term						
July 22, 2015	4th Hindenburg Signal	1-35 days	Bearish	-6.40%	2.70%	4.80%
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			

(Not updated Thursday night.)

The Evidence

The market sold off on Thursday. The SPX lost 0.6%, the NASDAQ fell 0.5%, and the Russell 2000 declined 1.1%. Breadth was negative as the NYSE Up Issues % came in at 32% and the Up Volume % was 28%. Total NYSE volume rose some from Wednesday's level.

A positive about the SPX pullback over the last 3 days is that the 3/10 Offset HV Indicator is extremely low. As a brief review the 3/10 Offset HV compares the current 3-day historical volatility to the historical volatility of the 10 days prior to these three. When very low readings occur that means there has been a sharp contraction in volatility. This often leads to a volatility expansion. It isn't often useful in determining direction. It does suggest that a large move could occur, though. The 0.25 level is one I tend to use. Historically it has reached 0.25 or lower about 9% of the time. The 3 days following such low readings have seen the 3-day HV expand 5.5 times over the next 3 days. A chart of the indicator can be found on the Quantifiable Edges charts page.

So let's take a look and see how the market has reacted following 3-day pullbacks with low readings vs. those without low readings. I last did this in the 9/5/14 letter and have updated the studies below. First I'll show times when the 3/10 Offset HV is above 0.25.

SPX closes down for exactly 3rd day in a row and HV Offset 3/10 indicator > 0.25.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	53,348.45	131	76	55	58.02	2,869.26	10,849.26	-2,994.83	-16,890.72	0.96	1.32	407.24
9	74,759.56	136	82	54	60.29	2,697.42	12,144.60	-2,711.65	-15,942.36	0.99	1.51	549.70
8	58,743.42	139	83	55	59.71	2,621.64	12,293.93	-2,888.22	-14,092.68	0.91	1.37	422.61
7	64,923.36	147	84	63	57.14	2,548.56	12,277.87	-2,367.55	-9,109.80	1.08	1.44	441.66
6	46,110.03	151	84	67	55.63	2,269.70	10,326.58	-2,157.39	-11,683.62	1.05	1.32	305.36
5	52,600.77	161	84	77	52.17	2,317.97	9,830.18	-1,845.56	-18,000.90	1.26	1.37	326.71
4	56,484.46	170	100	70	58.82	1,843.85	7,119.69	-1,827.15	-17,037.90	1.01	1.44	332.26
3	42,190.70	170	97	73	57.06	1,633.76	7,687.63	-1,592.93	-10,286.10	1.03	1.36	248.18
2	27,794.35	170	94	76	55.29	1,403.77	7,249.63	-1,370.53	-9,270.00	1.02	1.27	163.50
1	37,056.06	170	103	67	60.59	1,016.56	6,901.83	-1,009.70	-3,810.60	1.01	1.55	217.98

As we knew from past studies there is a mild upside bias after a 3-day pullback. It appears over the last 15 years that the edge has really only lasted 1-day. Returns after the 1st day are fairly flat.

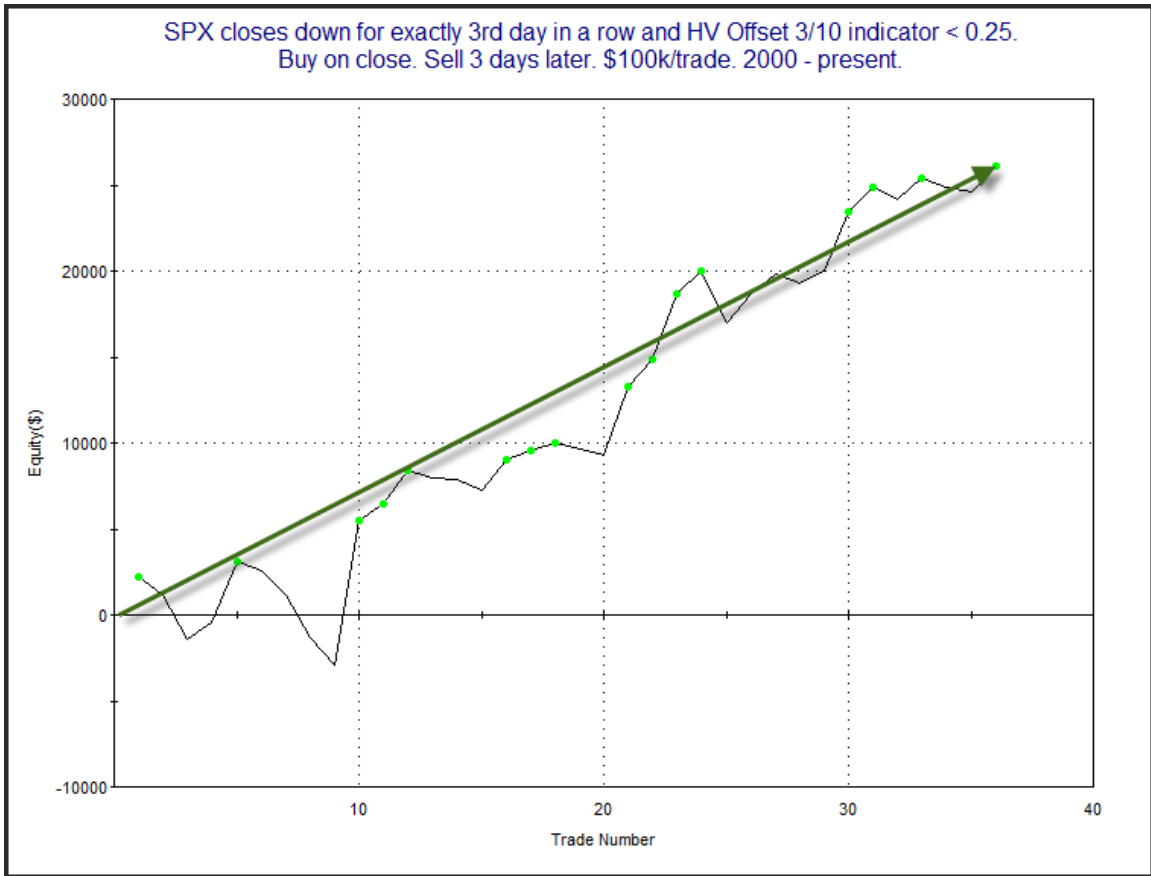
Now let's look at times like now where the 3/10 Offset HV is very low.

SPX closes down for exactly 3rd day in a row and HV Offset 3/10 indicator < 0.25.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	34,270.19	35	23	12	65.71	2,613.46	13,815.90	-2,153.28	-5,143.04	1.21	2.33	979.15
9	32,717.53	35	23	12	65.71	2,338.33	11,206.23	-1,755.34	-5,817.60	1.33	2.55	934.79
8	28,216.37	35	23	12	65.71	2,421.15	11,382.35	-2,289.17	-4,624.64	1.06	2.03	806.18
7	15,763.78	35	20	15	57.14	2,432.13	10,117.38	-2,191.92	-5,582.08	1.11	1.48	450.39
6	19,961.42	36	21	15	58.33	2,489.84	5,903.59	-2,155.01	-7,964.16	1.16	1.62	554.48
5	24,618.62	36	22	14	61.11	2,375.10	8,234.80	-1,973.83	-7,032.56	1.20	1.89	683.85
4	20,579.40	36	22	14	61.11	2,110.04	8,810.76	-1,845.82	-7,145.44	1.14	1.80	571.65
3	26,073.74	36	20	16	55.56	2,130.48	8,432.34	-1,033.49	-3,021.92	2.06	2.58	724.27
2	22,552.92	36	23	13	63.89	1,613.08	5,018.23	-1,119.06	-5,271.36	1.44	2.55	626.47
1	9,890.07	36	23	13	63.89	948.67	2,971.43	-917.63	-4,660.72	1.03	1.83	274.72

32 of 36 instances (89%) closed above the entry price at some point in the next week.

These numbers appear to be quite a bit better - both immediately and after a couple of weeks. The reliability of some kind of bounce improves nicely as well. Below is a profit curve assuming a 3-day exit strategy.



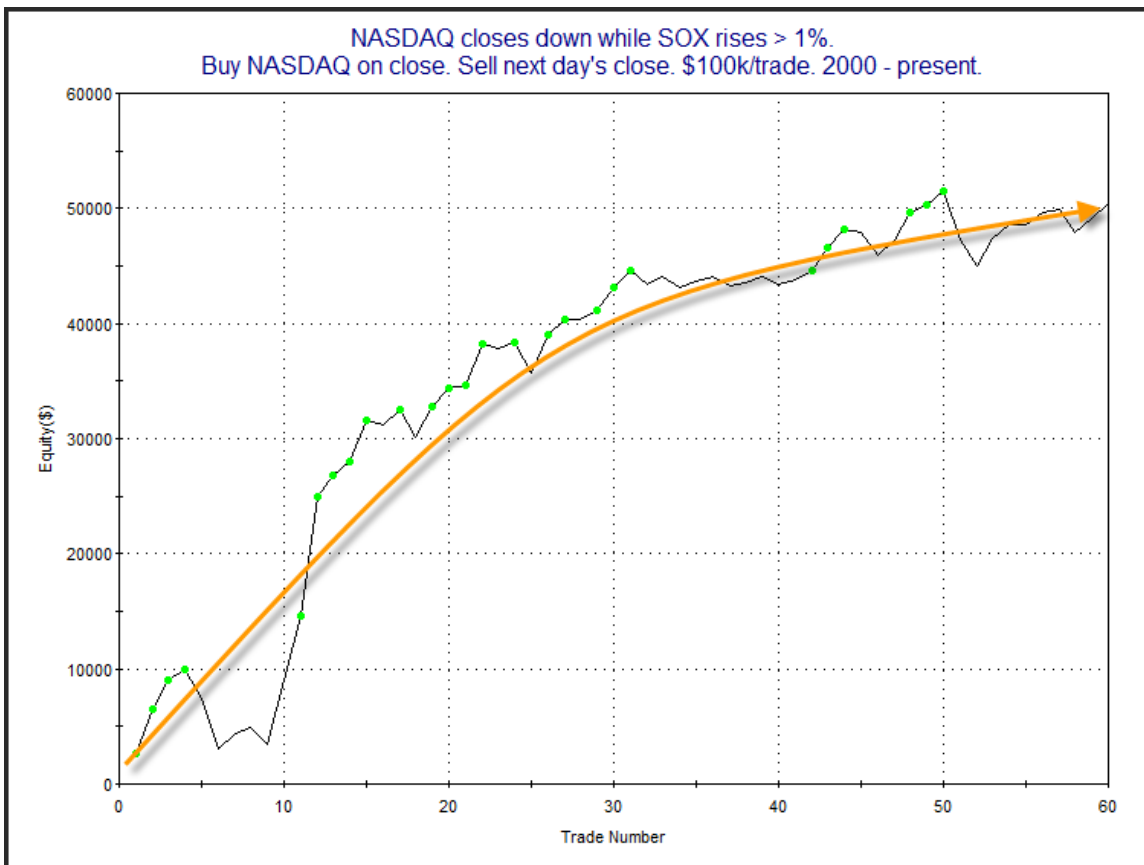
The strong upslope appears to confirm the stats table. The current pullback certainly contains some appealing characteristics.

Another study I found worth reviewing was from the 7/26/12 subscriber letter. It looked at times where the NASDAQ composite declined while the SOX rose at least 1%. I have updated all the stats below.

NASDAQ closes down while SOX rises > 1%.
 Buy NASDAQ on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	\$50,502.43	Profit Factor	2.77
Gross Profit	\$79,045.27	Gross Loss	(\$28,542.84)
Total Number of Trades	60	Percent Profitable	71.67%
Winning Trades	43	Losing Trades	17
Even Trades	0		
Avg. Trade Net Profit	\$841.71	Ratio Avg. Win:Avg. Loss	1.09
Avg. Winning Trade	\$1,838.26	Avg. Losing Trade	(\$1,678.99)
Largest Winning Trade	\$10,390.72	Largest Losing Trade	(\$4,353.48)

Results here seem to suggest a 1-day upside edge for the Nasdaq. The “% Profitable”, “Profit Factor” and “Avg Trade” are all impressive. Below is a profit curve.



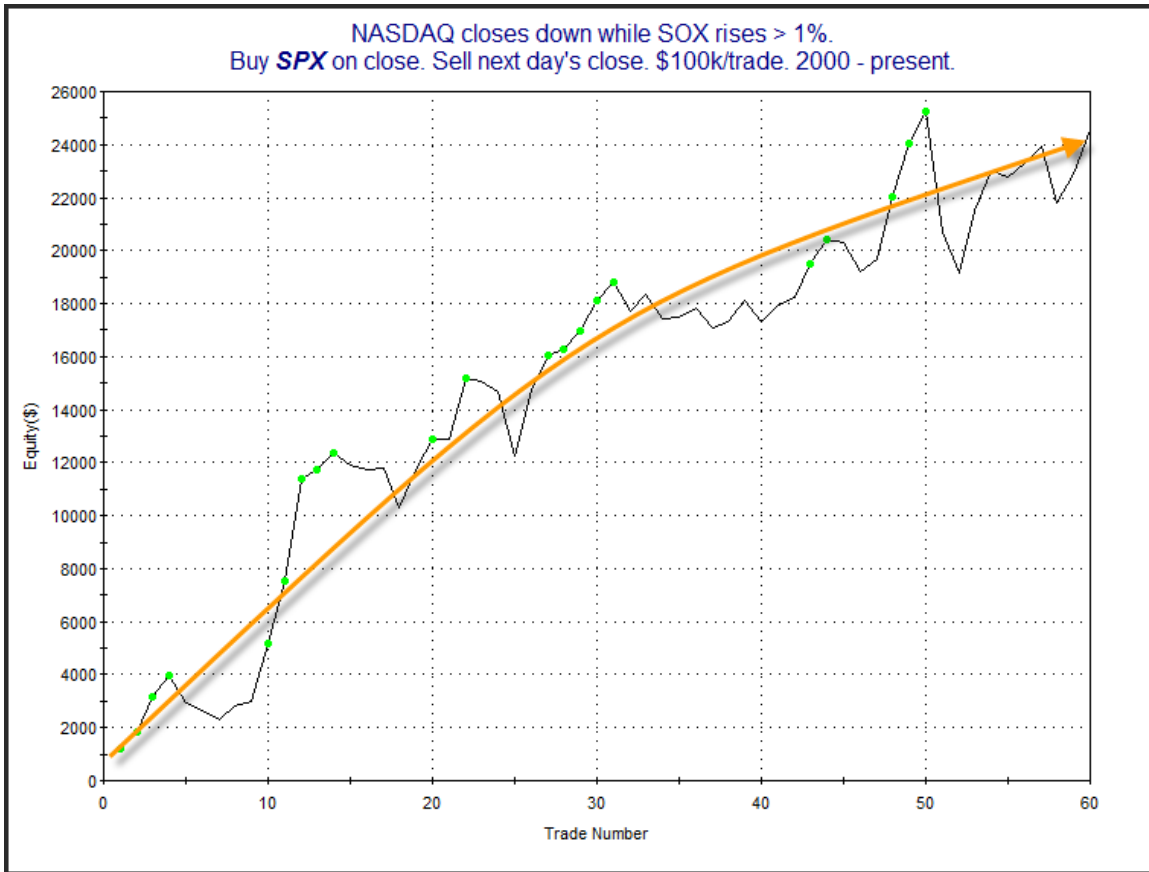
There appears to be some flattening in the curve as some of the biggest winners appeared early on. Still, the slope remains generally up and the study seems to be worth consideration.

Of course the Aggregator anticipates SPX movement not Nasdaq movement, though the two are highly correlated. I decided to see how the SPX has performed when the setup triggered.

NASDAQ closes down while SOX rises > 1%. Buy SPX on close. Sell next day's close. \$100k/trade. 2000 - present.			
TradeStation Performance Summary			Collapse ↕
All Trades			
Total Net Profit	\$24,550.30	Profit Factor	2.23
Gross Profit	\$44,571.55	Gross Loss	(\$20,021.25)
Total Number of Trades	60	Percent Profitable	66.67%
Winning Trades	40	Losing Trades	20
Even Trades	0		
Avg. Trade Net Profit	\$409.17	Ratio Avg. Win:Avg. Loss	1.11
Avg. Winning Trade	\$1,114.29	Avg. Losing Trade	(\$1,001.06)
Largest Winning Trade	\$3,863.25	Largest Losing Trade	(\$4,520.40)

Based on these results it appears the SPX has benefitted as well. The strength of the upside edge isn't quite as strong though. The average instance sees a rise of about 0.4% instead of the 0.8% shown in the Nasdaq results. Traders looking to take advantage of the setup could consider trading the Nasdaq rather than the S&P in cases like this.

I also ran the SPX profit curve and have included it below.



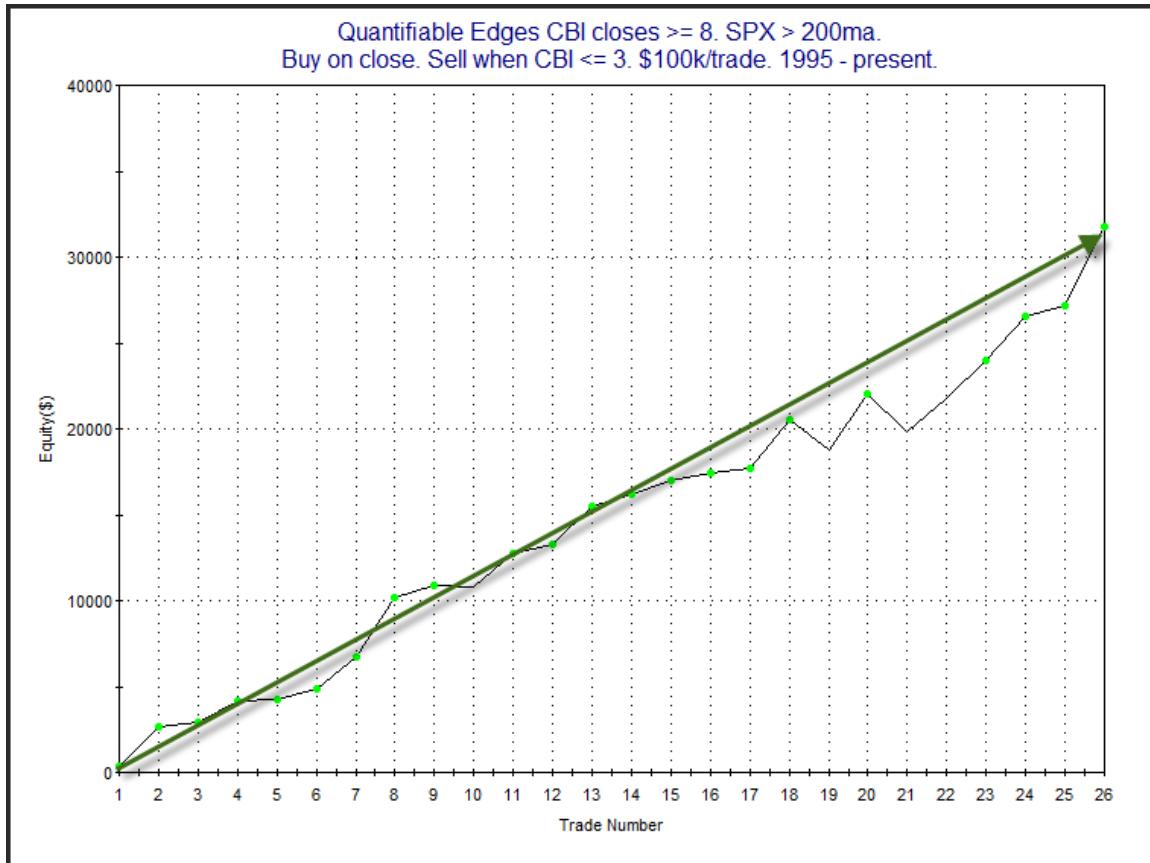
The curve here appears similar to the Nasdaq profit curve without as much flattening.

Another indicator starting to give strong readings is the Quantifiable Edges Capitulative Breadth Index (CBI). It reached 8 at the close on Thursday. While 10 is the level I often refer to as a very strong bullish indication, levels as low as 7 or 8 have often been followed by market bounces when the market has been in a long-term uptrend. Below I have produced a table showing results if you entered SPX long at differing CBI levels and then exited the position when the CBI returned to 3 or lower. (I consider 3 or lower to be neutral.)

Quantifiable Edges CBI closes $\geq X$. SPX > 200ma.
Buy on close. Sell when CBI ≤ 3 . \$100k/trade. 1995 - present.

X	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	18,654.20	12	12	0	100.00	1,554.52	5,471.50	0.00	0.00	100.00	100.00	1,554.52
9	23,995.39	18	16	2	88.89	1,573.59	5,471.50	-591.04	-1,129.59	2.66	21.30	1,333.08
8	31,760.70	26	23	3	88.46	1,554.40	4,627.00	-1,330.17	-2,178.16	1.17	8.96	1,221.57
7	45,173.56	40	35	5	87.50	1,424.14	4,627.00	-934.25	-2,178.16	1.52	10.67	1,129.34

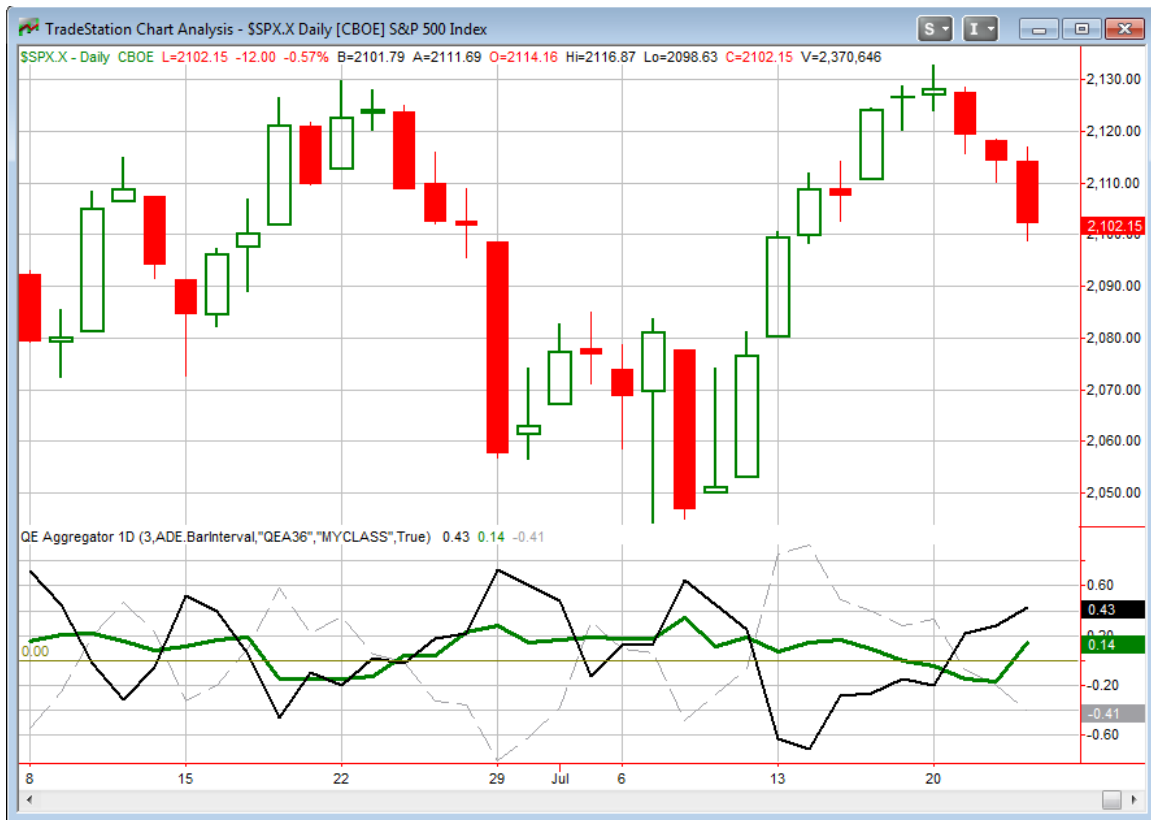
As you can see, results have been solid across the spectrum. The 8 level is highlighted since that is where we are at currently. Below is a profit curve of this strategy.



The strong, steady upslope serves as confirmation of the bullish edge.

So between the SOX action, the low HV 3-day pullback, and the spiking CBI we are seeing come compelling short-term evidence tonight.

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



The bullish studies tonight helped push the green Aggregator line above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained 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 turned long at the close.

Based on the current active studies, expectations are set to remain positive on Friday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 2115.04 on Friday. That is 0.6% above Thursday's close. In order to move to overbought versus expectations, SPX will need to close up at least 0.6% on Friday.

The market is oversold, and I like the bullish evidence that is emerging. There is also ample room to the upside to realize some decent profits. So I am ready to start scaling into a long index position. Additionally, I will be looking to increase my stock exposure with new Catapult trades triggering. Details are in the Trade Ideas section down below.

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

APA – 1/3 @ \$47.53 (bought @ limit)

APA – 1/3 @ \$47.53 (bought 2nd lot @ limit)

OXY – 1/3 @ \$69.47 (bought @ limit)

COP – 1/3 @ \$55.83 (bought @ limit)

UTX – 1/3 @ \$101.55 (bought @ limit)

New

COP – 1/3 @ \$55.83 (buy 2nd lot @ limit)

UTX – 1/3 @ \$101.55 (buy 2nd lot @ limit)

ORCL– 1/3 @ \$39.00 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 8/5(APA-2, OXY, COP-2, UTX-2, ORCL)

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.

ORCL – buy 1/3 Catapult position @ \$39.00 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for ORCL.

COP – buy 1/3 Catapult position @ \$54.04 LIMIT. This is a Catapult trade from above. It is the 2nd of 3 possible lots for COP.

UTX – buy 1/3 Catapult position @ \$101.14 LIMIT. This is a Catapult trade from above. It is the 2nd of 3 possible lots for UTX.

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 @ \$210.18 LIMIT. Based on the short-term outlook above, I will look to begin scaling into a long index position.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APA(1/3)	7/22/2015	\$47.32	\$47.35	0.06%		Catapult
APA(1/3)	7/23/2015	\$47.32	\$47.35	0.06%		bought @ limit
OXY(1/3)	7/23/2015	\$69.44	\$69.69	0.36%		bought on open
COP(1/3)	7/23/2015	\$55.10	\$54.04	-1.92%		bought on open
UTX(1/3)	7/23/2015	\$101.55	\$101.14	-0.40%		bought @ limit

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2015 Hanna Capital Management, LLC.