

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 28, 2015

Volume 8 Issue 143

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.
- 5-day drops under similar market conditions, while rare, have often led to a bounce.

## *Short-term Outlook*

### *The Bottom Line*

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

**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 28, 2015	Unfilled gap dn. 3 dn & 10-low	1-2 days	Bullish			
July 28, 2015	Dn 5. > 200 & > 20-low	1-2 days	Bullish			
July 27, 2015	SPX dn 4. Big drop.	1-5 days	Bullish	2.10%	-0.85%	-1.50%
July 27, 2015	CBI reaches 10+. SPX > 200ma.	1-4 days	Bullish			
July 24, 2015	SPX dn 3. 3/10 Offset HV < 0.25	1-3 days	Bullish			
July 17, 2015	NDX up 1%. SOX dn.	1-6 days	Bearish	-3.10%	1.80%	4.00%
<b>Active - Long Term</b>						
July 27, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%
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			

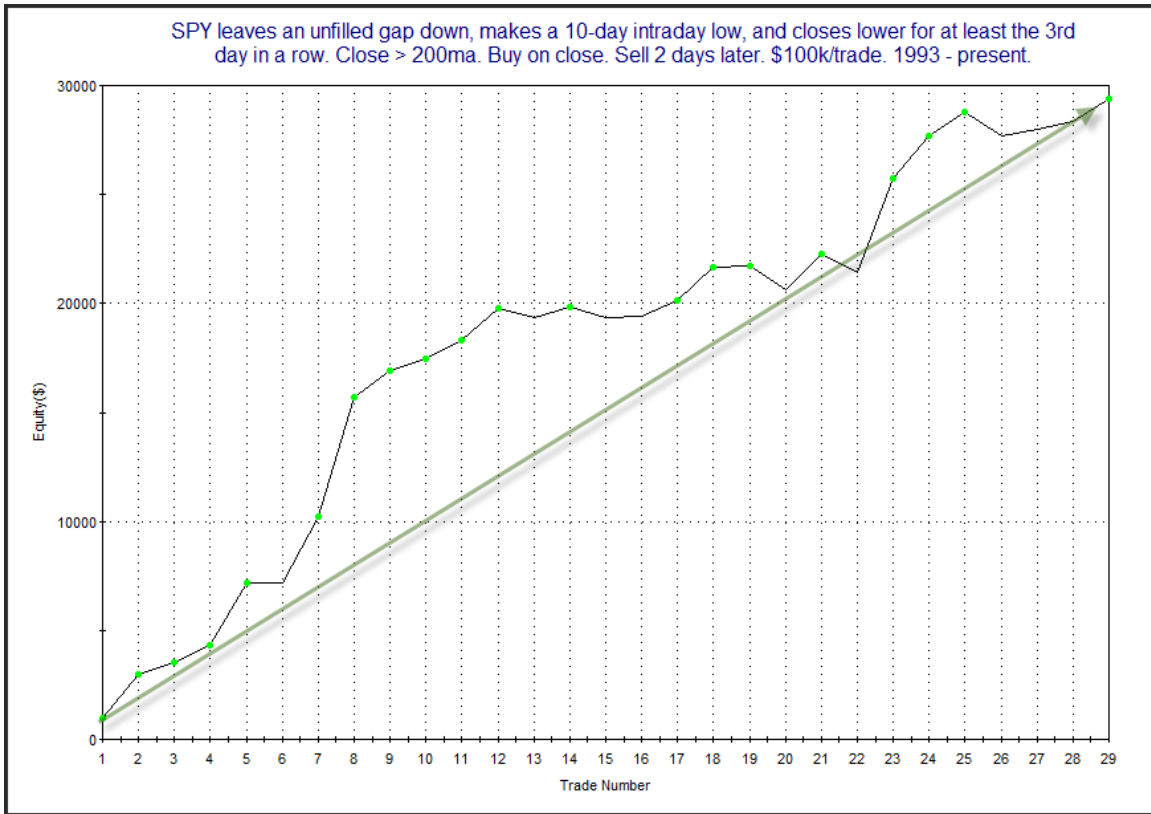
**The Evidence**

The market sold off again on Monday. The SPX lost 0.6%, the NASDAQ fell 1.0%, and the Russell 2000 declined 0.9%. Breadth was negative as the NYSE Up Issues % came in at 28% and the Up Volume % was 23%. Total NYSE volume rose some from Friday's level.

In the 3/7/12 subscriber letter I examined unfilled gaps and new lows that happened on at least the third down day in a row. I also included a long-term trend filter. The results table is updated below.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for at least the 3rd day in a row. Close > 200ma. 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	27,510.92	29	21	8	72.41	1,871.60	8,239.74	-1,474.09	-4,770.78	1.27	3.33	948.65
4	19,280.09	29	19	10	65.52	1,825.64	5,581.02	-1,540.70	-4,430.01	1.18	2.25	664.83
3	29,927.35	29	23	6	79.31	1,570.84	4,249.44	-1,033.66	-1,847.47	1.52	5.83	1,031.98
2	29,368.37	29	23	5	79.31	1,450.70	5,477.88	-799.55	-1,118.36	1.81	8.35	1,012.70
1	14,356.66	30	22	8	73.33	893.49	5,764.38	-662.52	-1,677.36	1.35	3.71	478.56

A very high percentage of instances saw an almost immediate bounce. Below is the equity curve using a 2-day hold.



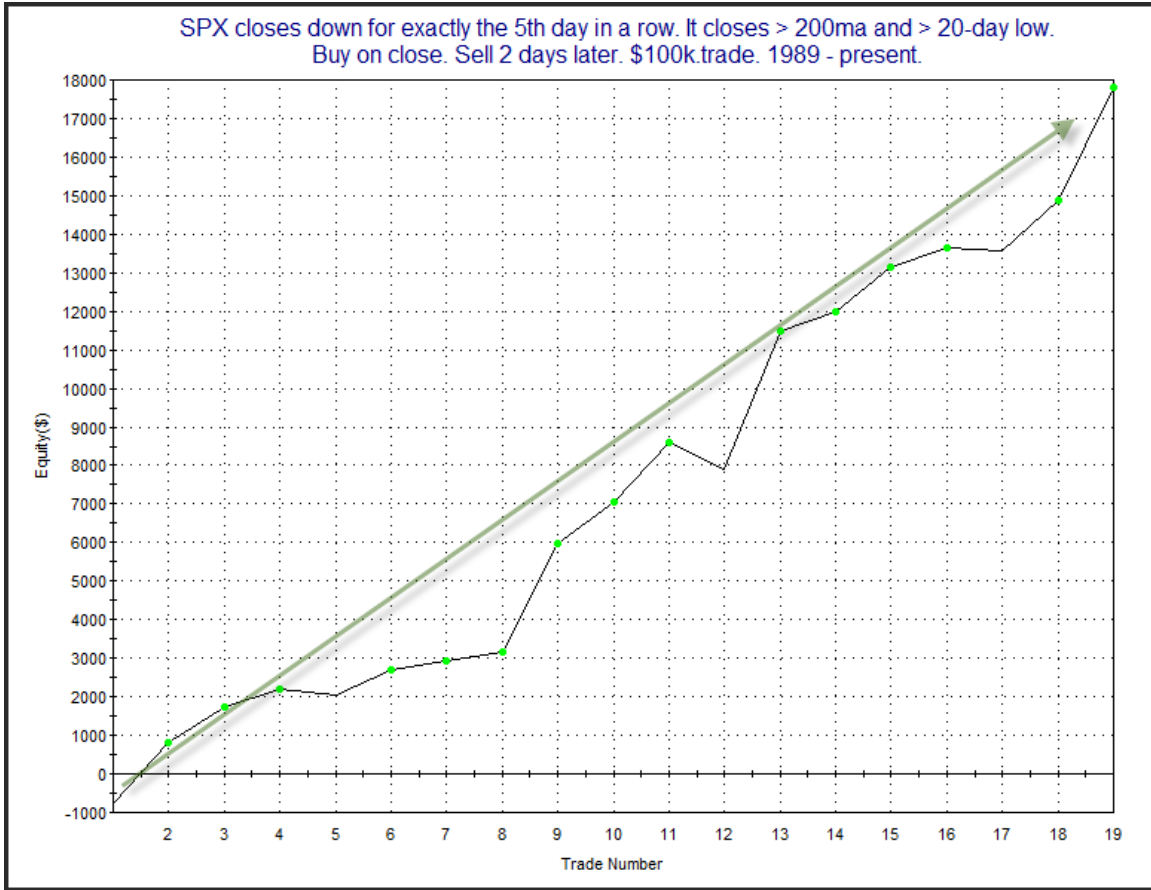
The persistent upslope serves as confirmation of the bullish edge.

Another Quantifinder required 5 lower closes above the 200ma and also above a 20-day low. I last showed it in the 9/26/13 Letter and have updated it below.

SPX closes down for exactly the 5th day in a row. It closes > 200ma and > 20-day low. Buy on close. Sell X days later. \$100k/trade. 1989 - present.

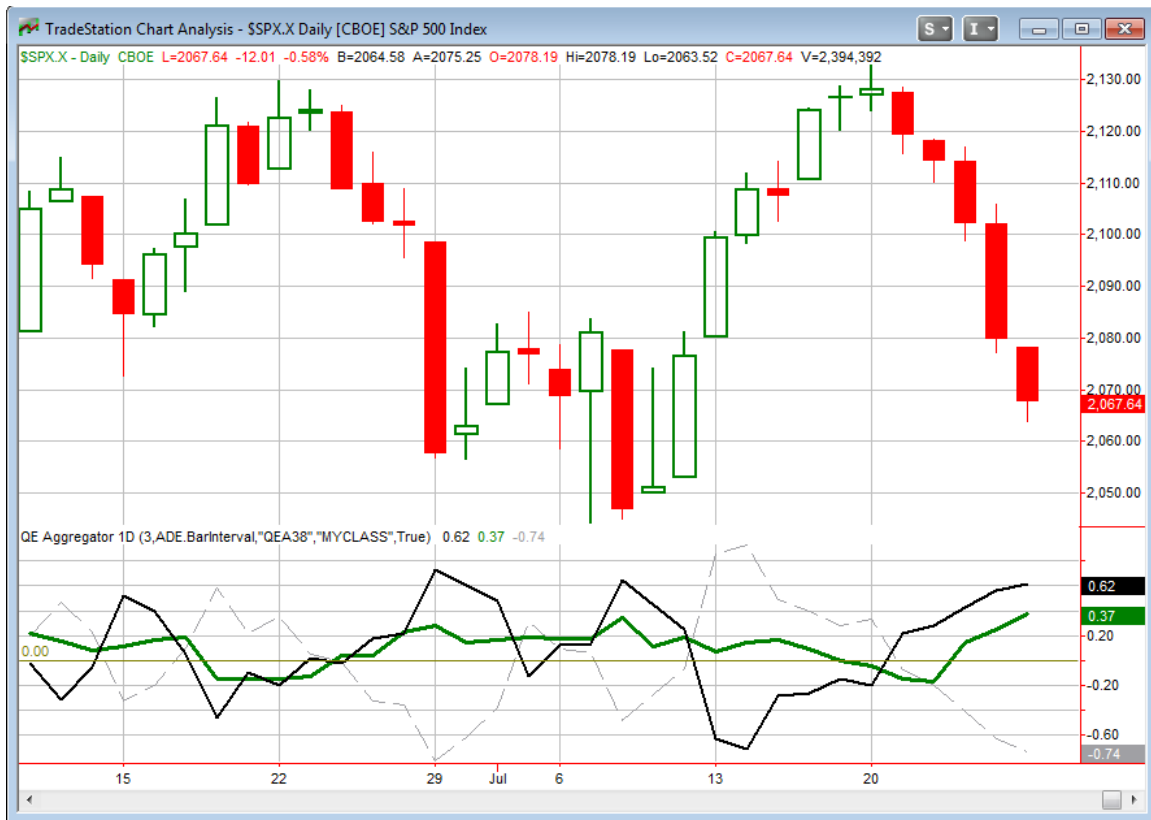
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	14,255.90	19	12	7	63.16	1,634.31	5,460.84	-765.12	-1,479.60	2.14	3.66	750.31
4	16,148.06	19	14	5	73.68	1,428.35	5,187.49	-769.76	-1,389.15	1.86	5.20	849.90
3	17,918.41	19	15	4	78.95	1,405.47	5,339.18	-790.91	-1,169.92	1.78	6.66	943.07
2	17,808.38	19	15	4	78.95	1,296.84	3,591.28	-411.05	-763.84	3.15	11.83	937.28
1	7,306.66	19	13	6	68.42	791.02	1,367.55	-496.11	-1,155.00	1.59	3.45	384.56

Based on the stats table there appears to be a bullish inclination, especially over the first 2-3 days. Below is a profit curve to see how the edge has evolved.



The profit curve supports the idea of a bullish edge. I have included both of these studies on the Active List tonight.

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



The bullish studies tonight helped push the green Aggregator line further 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 pushed further 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 Tuesday. This is highly unlikely to change. The Differential Pivot will be 2098.09 on Tuesday. That is 1.5% above Monday's close. In order to move to overbought versus expectations, SPX will need to close up at least 1.5% on Tuesday. That is a tall order for 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Nothing really changed tonight. I continue to like the bullish evidence. The market is strongly oversold short-term. And there is plenty of room to the upside before it could turn overbought. I am already partially long, and I will again look to increase my long exposure on Tuesday.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 7/27– slightly bullish***

The intermediate-term outlook was last updated in the 7/27/15 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 2<sup>nd</sup> lot @ limit)*

*OXY – 1/3 @ \$69.47 (bought @ limit)*

*COP – 1/3 @ \$55.83 (bought @ limit)*

*UTX – 1/3 @ \$101.55 (bought @ limit)*

*COP – 1/3 @ \$55.83 (bought 2<sup>nd</sup> lot @ limit)*

*UTX – 1/3 @ \$101.55 (bought 2<sup>nd</sup> lot @ limit)*

*ORCL– 1/3 @ \$39.00 (bought @ limit)*

*COP – 1/3 @ \$52.09*

*UTX – 1/3 @ \$99.31*

*ORCL– 1/3 @ \$39.00*

*APA – 1/3 @ \$45.08*

*EMR – 1/3 @ \$50.68*

*DD– 1/3 @ \$56.94*

*NSC – 1/3 @ \$82.96*

*New*

*ORCL*

*DD*

*EMR*

*NSC*

*DVN*

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

*None*

***Broad Market Large Cap CBI – 20/9(APA-3, OXY, COP-3, UTX-3, ORCL-3, EMR-2, DD-2, NSC-2, DVN)***

### **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 @ \$38.51 LIMIT.** This is a Catapult trade from above. It is the last of 3 possible lots for ORCL.

**DD – buy 1/3 Catapult position @ \$56.73 LIMIT.** This is a Catapult trade from above. It is the 2<sup>nd</sup> of 3 possible lots for DD.

**EMR – buy 1/3 Catapult position @ \$50.46 LIMIT.** This is a Catapult trade from above. It is the 2<sup>nd</sup> of 3 possible lots for EMR.

**NSC – buy 1/3 Catapult position @ \$82.80 LIMIT.** This is a Catapult trade from above. It is the 2<sup>nd</sup> of 3 possible lots for NSC.

**DVN – buy 1/3 Catapult position @ \$48.83 LIMIT.** This is a Catapult trade from above. It is the 1<sup>st</sup> of 3 possible lots for DVN.

*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 @ \$207.00 LIMIT.** Based on the short-term outlook above, I will look to continue 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	\$44.51	-5.94%		Catapult
APA(1/3)	7/23/2015	\$47.32	\$44.51	-5.94%		Catapult
COP(1/3)	7/23/2015	\$55.10	\$50.65	-8.08%		Catapult
OXY(1/3)	7/23/2015	\$69.44	\$67.76	-2.42%		Catapult
UTX(1/3)	7/23/2015	\$101.55	\$98.87	-2.64%		Catapult
COP(1/3)	7/24/2015	\$53.95	\$50.65	-6.12%		Catapult
ORCL(1/3)	7/24/2015	\$39.00	\$38.51	-1.26%		Catapult
SPY(1/4)	7/24/2015	\$210.18	\$206.79	-1.61%		Aggregator
UTX(1/3)	7/24/2015	\$101.00	\$98.87	-2.11%		Catapult
APA(1/3)	7/27/2015	\$44.28	\$44.51	0.52%		Catapult
COP(1/3)	7/27/2015	\$51.34	\$50.65	-1.34%		Catapult
DD(1/3)	7/27/2015	\$56.83	\$56.73	-0.18%		Catapult
EMR(1/3)	7/27/2015	\$50.39	\$50.46	0.14%		Catapult
NSC(1/3)	7/27/2015	\$82.31	\$82.80	0.60%		Catapult
ORCL(1/3)	7/27/2015	\$38.72	\$38.51	-0.54%		Catapult
SPY(1/4)	7/27/2015	\$206.94	\$206.79	-0.07%		Aggregator
UTX(1/3)	7/27/2015	\$98.78	\$98.87	0.09%		Catapult

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