

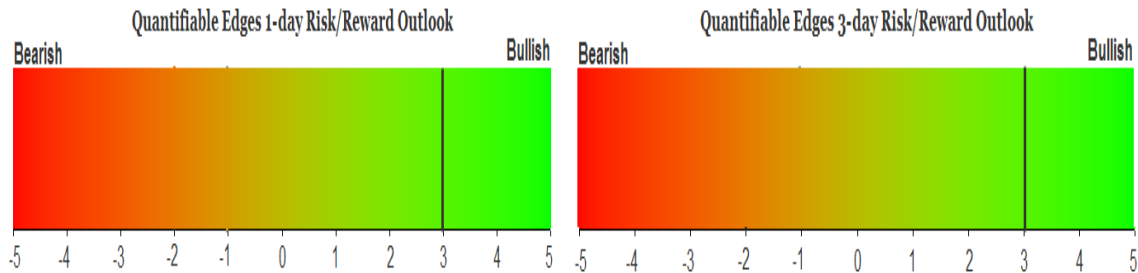
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 5, 2015

Volume 8 Issue 149

Market Overview



Signals Overview

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

Tonight's Research Points

- 3-day pullbacks with a low 3/10 Offset HV suggest a bullish edge.

Short-term Outlook

The Bottom Line

The market is strongly oversold versus expectations and short-term bullish evidence is beginning to emerge. I believe there is an upside 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
Active - Short Term						
August 5, 2015	Down 3 days. 3/10 HV Offset < 0.25.	1-3 days	Bullish	1.80%	-1.10%	-2.35%
Active - Long Term						
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

There was moderate selling across the board on Tuesday. The SPX, NASDAQ, and Russell 2000 all closed down 0.2%. Breadth was also mildly negative as the NYSE Up Issues % came in at 47% and the Up Volume % was 46%. Total NYSE volume rose a little from Monday'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 just a couple of weeks ago in the 7/24/15 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.

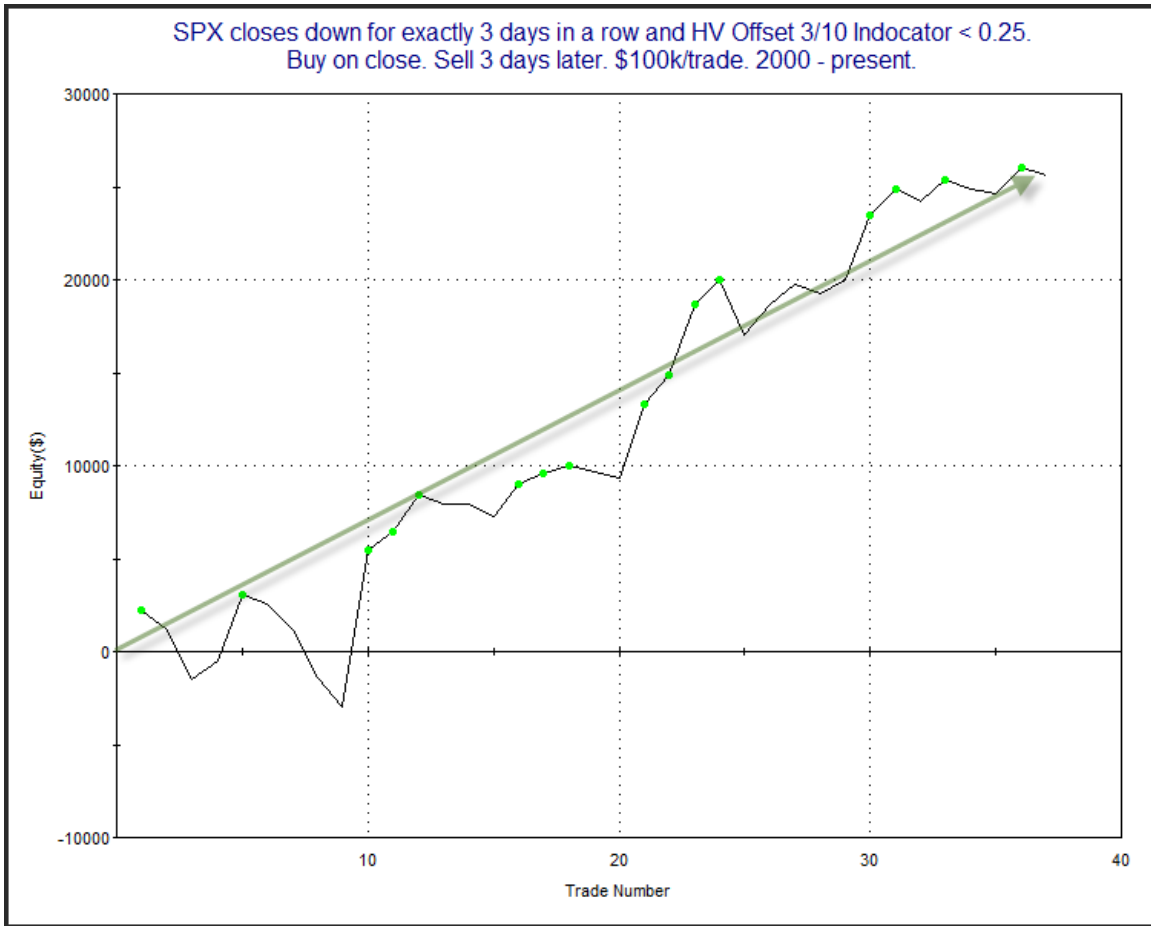
Now let's look at times like now where the 3/10 Offset HV is very low.

SPX closes down for exactly 3 days 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	27,801.36	36	23	13	63.89	2,421.15	11,382.35	-2,145.00	-4,624.64	1.13	2.00	772.26
7	15,570.61	36	20	16	55.56	2,432.13	10,117.38	-2,067.00	-5,582.08	1.18	1.47	432.52
6	20,044.61	37	22	15	59.46	2,380.45	5,903.59	-2,155.01	-7,964.16	1.10	1.62	541.75
5	24,923.18	37	23	14	62.16	2,285.08	8,234.80	-1,973.83	-7,032.56	1.16	1.90	673.60
4	20,881.14	37	23	14	62.16	2,031.42	8,810.76	-1,845.82	-7,145.44	1.10	1.81	564.36
3	25,655.44	37	20	17	54.05	2,130.48	8,432.34	-997.30	-3,021.92	2.14	2.51	693.39
2	20,930.95	37	23	14	62.16	1,613.08	5,018.23	-1,154.98	-5,271.36	1.40	2.29	565.70
1	8,832.57	37	23	14	62.16	948.67	2,971.43	-927.62	-4,660.72	1.02	1.68	238.72

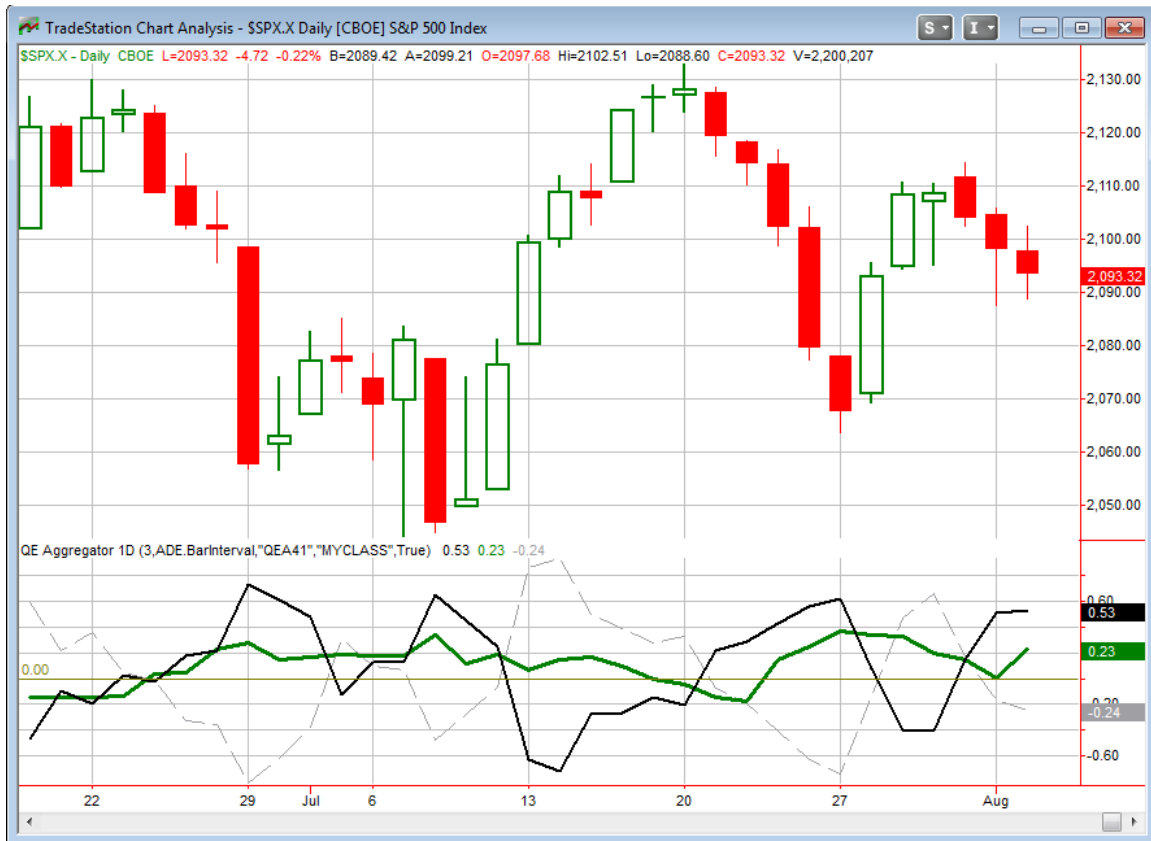
33 of 37 instances (89%) closed above the entry price at some point in the next week.

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 appears to be providing a favorable entry point for longs.

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



With tonight's bullish study taken into account the green Aggregator Line held just barely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still well 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.

Expectations are set to remain bullish on Wednesday based on the current studies. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2117.71 on Wednesday. That is 1.2% above Tuesday's close. So for SPX to turn back to overbought on Wednesday it will need to close up a sizable 1.2%.

The Aggregator formation is still bullish. We now have some short-term evidence suggesting an upside edge. The market has pulled back, and it appears to be offering a favorable entry point. I already have some long exposure, and I will look to take on a little more Wednesday if I can get a decent fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/3 – slightly bullish

The intermediate-term outlook was last updated in the 8/3 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

COP – 1/3 @ \$55.83 (bought @ limit)

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

COP – 1/3 @ \$52.09

DD– 1/3 @ \$56.94

DD

DD– 1/3 @ \$55.90

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6/2(COP-3, DD-3)

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.

SPY – buy ¼ index position @ \$209.38 limit. Based on the short-term outlook above, I will look to take on a 2nd lot of SPY if I can get filled at Tuesday's closing price or better.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
COP(1/3)	7/23/2015	\$55.10	\$49.87	-9.49%		Catapult
COP(1/3)	7/24/2015	\$53.95	\$49.87	-7.56%		Catapult
COP(1/3)	7/27/2015	\$51.34	\$49.87	-2.86%		Catapult
DD(1/3)	7/27/2015	\$56.83	\$54.64	-3.85%		Catapult
DD(1/3)	7/28/2015	\$53.38	\$54.64	2.36%		Catapult
SPY(1/4)	7/28/2015	\$207.00	\$209.38	1.15%		Aggregator
DD(1/3)	7/29/2015	\$55.90	\$54.64	-2.25%		Catapult

Note: A full history of closed out trade ideas published in the Subscriber Letter since inception in 2008 can be found on the [QE Trade Ideas Results Sheet](#). It can be downloaded from the website at any time.

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