

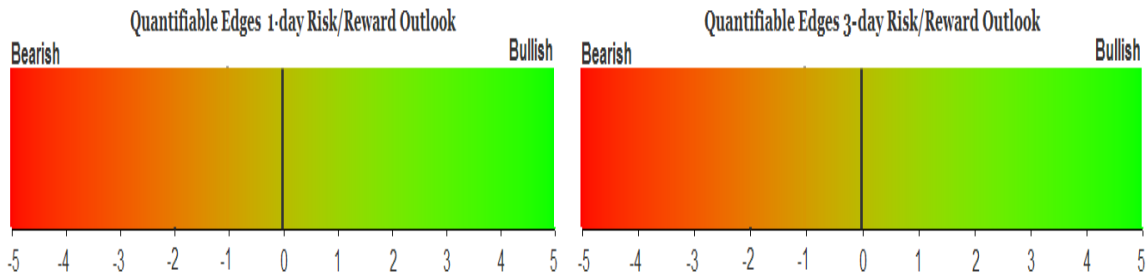
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 11, 2015

Volume 8 Issue 153

Market Overview



Signals Overview

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

Tonight's Research Points

- The steep drop in VXO may have signaled trouble if the market was in a downtrend, but does not appear concerning during a long-term uptrend.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, short-term evidence is somewhat lacking, and choppy conditions are messing with overbought/oversold measures. I do not see a compelling short-term 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 10, 2015	HV low. SPX not high.	1-5 days	Bullish	-2.30%	1.20%	2.20%
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

The market put in a solid move higher on Monday. The SPX rallied 1.3%, the NASDAQ gained 1.2%, and the Russell 2000 rose 1.3%. Breadth was positive as the NYSE Up Issues % came in at 75% and the Up Volume % was 89%. Total NYSE volume declined some from Friday.

The rally was accompanied by a very large drop in the VIX (and VXO, which is the old calculation for the VIX). Back in the 7/21/14 subscriber letter I noted that big drops in the VXO have had much different connotations depending on whether SPX is in a long-term uptrend or downtrend (as defined by its proximity to the 200ma). I decided to review those studies, which require a 15% 1-day VXO drop, in tonight's letter.

First let's consider what has followed when the large VXO drop has occurred during a long-term downtrend.

VXO closes down over 15%. SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-17,347.66	22	11	11	50.00	2,554.44	6,915.44	-4,131.50	-13,784.48	0.62	0.62	-788.53
4	-25,727.59	24	13	11	54.17	1,704.02	4,104.78	-4,352.71	-10,971.63	0.39	0.46	-1,071.98
3	-36,219.02	25	7	18	28.00	1,278.37	2,993.44	-2,509.31	-7,806.29	0.51	0.20	-1,448.76
2	-41,080.73	25	7	18	28.00	757.24	1,439.48	-2,576.74	-9,455.49	0.29	0.11	-1,643.23
1	-21,140.11	25	4	21	16.00	858.88	1,311.50	-1,170.27	-4,400.45	0.73	0.14	-845.60

We see here some very bearish statistics over the 1-2 day period. There is rarely upside follow-through when fear dissipates that quickly during a downtrend.

But now let's consider times like the present where SPX is in an uptrend.

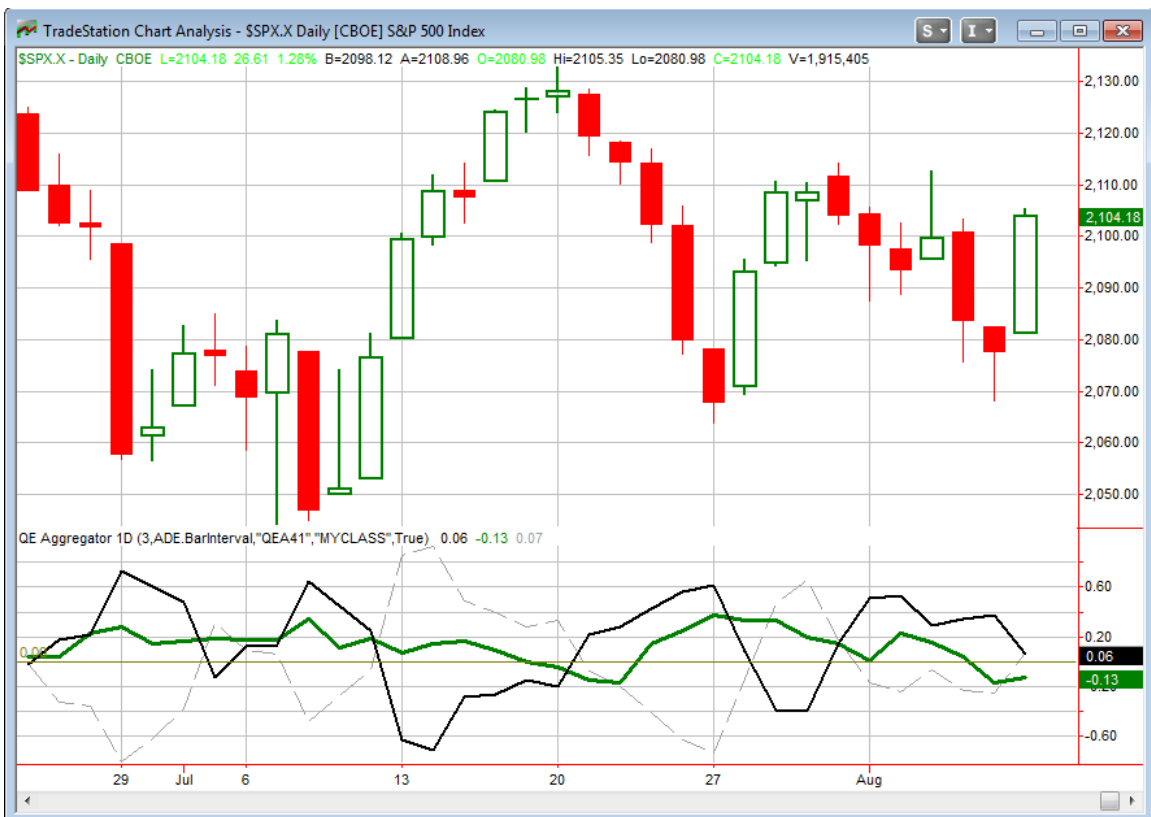
VXO closes down over 15%. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - present.

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	10,933.61	39	22	17	56.41	1,685.18	5,396.71	-1,537.67	-4,561.65	1.10	1.42	280.35
4	10,489.74	41	25	16	60.98	1,256.29	3,394.72	-1,307.34	-2,927.52	0.96	1.50	255.85
3	10,140.86	42	24	18	57.14	1,175.75	3,216.85	-1,004.29	-2,321.70	1.17	1.56	241.45
2	9,550.17	42	25	17	59.52	1,040.18	2,830.24	-967.90	-2,076.48	1.07	1.58	227.38
1	7,970.34	45	24	21	53.33	885.45	2,842.84	-632.40	-2,176.20	1.40	1.60	177.12

Here there is no hint of a short-term bearish inclination. In fact the setup has shown slight gains for each of the time periods measured. I don't think the numbers are strong enough to consider this a bullish setup, but it certainly is not bearish.

Monday's rally was not accompanied by strong evidence and SPX remains well inside its recent range.

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



With no new studies making the Active List tonight the green Aggregator Line remained below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but the SPX is still oversold. 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 stayed flat at the close.

Expectations are currently set to remain bearish on Tuesday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be *inverted* at 2092.23 on Tuesday. That is 0.6% *below* Monday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX will need to close down at least 0.6% on Tuesday in order to remain oversold. Anything other than a 0.6%+ decline and it will be considered "overbought" versus recent expectations.

The Aggregator remains in a neutral formation, expectations are lacking, and the Differential Pivot is inverted. Any one of these conditions could cause me to avoid taking on new index exposure. The combination means I have no interest in the current setup. I'll continue to wait for a more favorable reward/risk opportunity before putting new capital at risk.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/10 – slightly bullish

The intermediate-term outlook was last updated in the 8/10 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.

None.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
COP(1/3)	7/23/2015	\$55.10	\$50.20	-8.89%		Catapult
COP(1/3)	7/24/2015	\$53.95	\$50.20	-6.95%		Catapult
COP(1/3)	7/27/2015	\$51.34	\$50.20	-2.22%		Catapult
DD(1/3)	7/27/2015	\$56.83	\$54.39	-4.29%		Catapult
DD(1/3)	7/28/2015	\$53.38	\$54.39	1.89%		Catapult
DD(1/3)	7/29/2015	\$55.90	\$54.39	-2.70%		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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