

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 18, 2015

Volume 8 Issue 158

Market Overview



Signals Overview

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

Tonight's Research Points

- 5 gaps lower in a row often suggest an upside edge.
- The QE Buying Power Swing System is now short.

Short-term Outlook

The Bottom Line

Similar to yesterday, while short-term evidence leans bullish the market is overbought. This is not a great reward/risk scenario and leaves me overall 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						
August 18, 2015	QE Buying Power Swing Short Signal	1-6 days	Bearish			
August 18, 2015	5 gap down opens	1-3 days	Bullish			
August 14, 2015	SPY 1% reversal from 20-low. Then dn.	1-4 days	Bullish	2.50%	-0.90%	-1.80%
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%
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

A rough start was overcome and the market put in a solid day of gains on Monday. The SPX rose 0.5%, the NASDAQ gained 0.9%, and the Russell 2000 rallied 1.0%. Breadth was squarely positive as the NYSE Up Issues % came in at 59% and the Up Volume % was 66%. Total NYSE volume rose a little from Friday's low level.

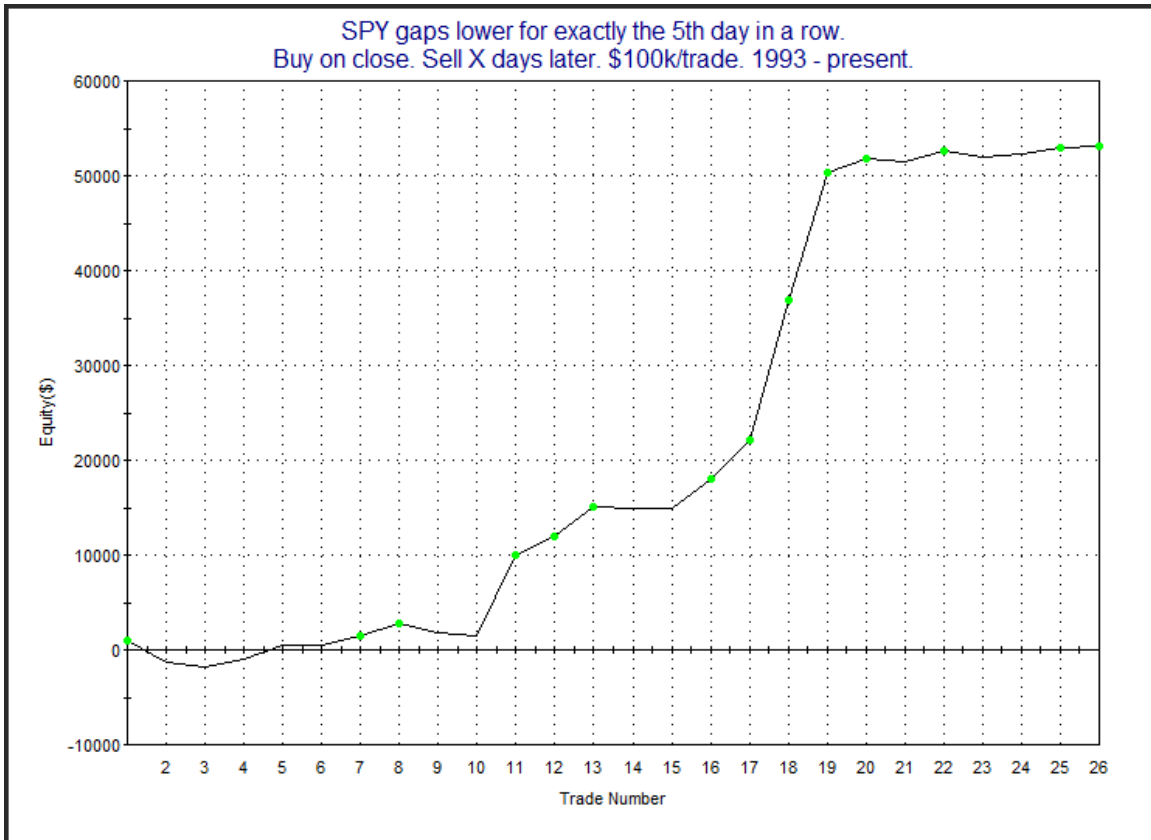
The choppy, tight range continues and the Quantifinder did not show much in the way of edges. But there was one interesting study that is worth a review. It was from the 5/7/14 letter and examined other times where the SPY opened the day with a gap down five days in a row.

SPY gaps lower for exactly the 5th day in a row. 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	62,573.79	26	16	10	61.54	4,714.94	19,398.00	-1,286.53	-3,070.17	3.66	5.86	2,406.68
4	54,398.78	26	14	12	53.85	4,503.02	17,914.00	-720.30	-2,061.72	6.25	7.29	2,092.26
3	53,071.27	26	19	7	73.08	3,060.57	14,708.85	-725.66	-2,305.68	4.22	11.45	2,041.20
2	44,706.37	26	18	8	69.23	2,875.30	12,693.50	-881.12	-2,084.16	3.26	7.34	1,719.48
1	24,211.59	26	17	9	65.38	1,971.63	11,683.71	-1,034.01	-2,244.48	1.91	3.60	931.22
25 of 26 instances (96%) closed above the entry point at some point in the next week. The 1 failure triggered on 6/24/2002.												

Results here appear very strongly bullish. One reason I find this study so interesting is that it only uses opening prices. It doesn't even take into account how the SPY closed on the day of the entry trigger. It's somewhat unusual to see this gap action take place day after day since there are only 26 examples of five consecutive gap down openings. But when futures are being pushed lower each morning, allowing institutions to perhaps buy

at a discount on a consistent basis, it certainly seems to suggest an upside edge going forward.

Below is an equity curve showing how this edge has played out over time using a 3-day exit.



Definitely not the smoothest curve here. Much of the strength in the numbers is thanks to instances 18 and 19, which occurred during the 2008 craziness. But even if you took them out the curve would be heading higher for a long time. So this study still appears worthy of consideration. I have included it on the Active List tonight and based estimates on data excluding those trades.

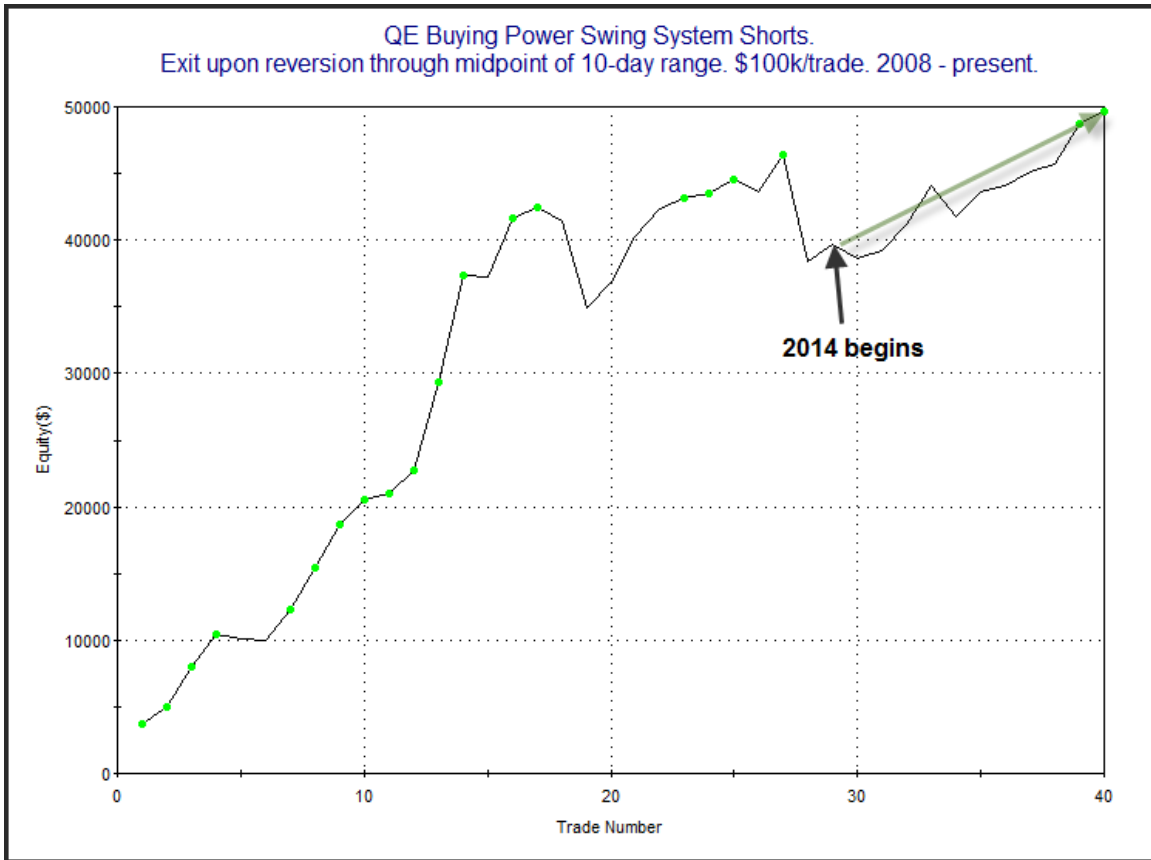
It is also notable that the QE Buying Power Swing System triggered short on Monday. The performance table below shows updated hypothetical results of having taken all short signals since 2008, and then exiting upon a reversion to the lower half of the recent range. (A short signal simply requires the QE Buying Power Index ≤ 0 and the SPX closes in

the top 20% of its 10-day range.) With no active Fed QE purchase plans currently the Buying Power Index has been locked at 0 since early November.

QE Buying Power Swing System Shorts. Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2008 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$49,621.27	Profit Factor	3.44
Gross Profit	\$69,989.67	Gross Loss	(\$20,368.40)
Total Number of Trades	40	Percent Profitable	77.50%
Winning Trades	31	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$1,240.53	Ratio Avg. Win:Avg. Loss	1.00
Avg. Winning Trade	\$2,257.73	Avg. Losing Trade	(\$2,263.16)
Largest Winning Trade	\$8,004.64	Largest Losing Trade	(\$8,003.49)

Results here are strong.

With QE3 having lasted so long I was wary of how shorts would work out when it finally ended. But while the uptrend has avoided turning into a downtrend, the short side has still offered profitable opportunities. Below is a look at the profit curve, with a demarcation where QE3 ended and the 2014 trades began.

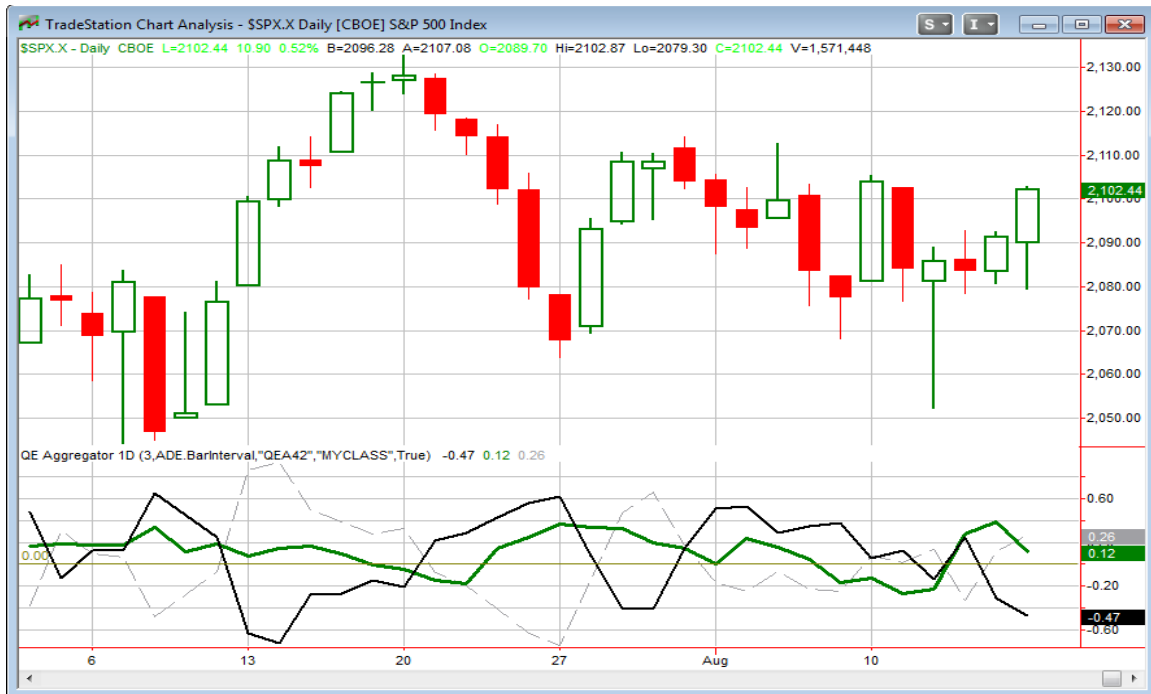


Not as steep as it was during bear market environments, but still nice results for the shorts. Below is the list of individual triggers.

QE Buying Power Swing System Shorts. Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2014 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/07/14	Short	\$2,031.92	(1.06%)	\$85.75
12/01/14	Cover	\$2,053.44		(\$2,148.16)
12/03/14	Short	\$2,074.33	0.68%	\$962.88
12/08/14	Cover	\$2,060.31		(\$246.72)
12/18/14	Short	\$2,061.23	1.97%	\$2,106.72
01/05/15	Cover	\$2,020.58		(\$1,551.36)
01/22/15	Short	\$2,063.15	2.96%	\$2,959.68
01/28/15	Cover	\$2,002.16		\$0.00
02/03/15	Short	\$2,050.03	(2.37%)	\$638.88
03/04/15	Cover	\$2,098.53		(\$3,338.88)
03/18/15	Short	\$2,099.42	1.83%	\$1,803.39
03/25/15	Cover	\$2,061.05		(\$725.68)
04/09/15	Short	\$2,091.18	0.48%	\$884.07
04/17/15	Cover	\$2,081.18		(\$974.31)
04/22/15	Short	\$2,107.96	1.07%	\$1,427.39
04/30/15	Cover	\$2,085.51		(\$844.12)
05/08/15	Short	\$2,116.10	0.56%	\$1,434.91
05/26/15	Cover	\$2,104.20		(\$875.14)
06/18/15	Short	\$2,121.24	3.00%	\$3,036.20
06/29/15	Cover	\$2,057.64		(\$405.61)
07/13/15	Short	\$2,099.60	0.95%	\$1,057.97
07/24/15	Cover	\$2,079.65		(\$1,561.34)

There were a few sizable drawdowns, and several of these required some patience. But the trades overall have done quite well.

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



With tonight's studies factored in the green Aggregator Line remained 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 below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite side of 0. Therefore the Aggregator signal stayed flat at the close.

Expectations are currently set to very slightly turn bearish on Tuesday. Of course this could change if new evidence emerges. The Differential Pivot will be 2078.76 on Tuesday. That is 1.1% below Monday's close. So for SPX to flip back to "oversold" versus expectations it will need to close down at least 1.1% on Tuesday. That is a decent-sized decline. While certainly possible, a more likely scenario for working off the overbought condition would be a multi-day selloff or consolidation.

My outlook is no different tonight than it was last night. The combination of positive expectations and an overbought market does not offer great reward/risk. We could also see the Aggregator easily swing in either direction from here. A rally on Tuesday will leave the market overbought and could trigger additional short-term bearish evidence. In that case, we would see a bearish configuration appear. But a selloff could see the QE Buying Power Short System signal an exit and evidence would likely swing back to bullish. So rather than try and anticipate too much, I will wait to see how things unfold before I determine my next move.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/17 – neutral

The intermediate-term outlook was last updated in the 8/17/15 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

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DD(1/3)	7/27/2015	\$56.83	\$54.27	-4.50%		exit on open
DD(1/3)	7/28/2015	\$53.38	\$54.27	1.67%		exit on open
DD(1/3)	7/29/2015	\$55.90	\$54.27	-2.92%		exit on open

DD hit its exit trigger on Monday and will be closed out at the open on Tuesday.

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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