

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 21, 2015

Volume 8 Issue 161

Market Overview



Signals Overview

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

Tonight's Research Points

- Bullish studies related to breadth, price action, VIX action, and closing TICK values all triggered on Thursday.

Short-term Outlook

The Bottom Line

Strong bullish evidence emerged and the market is now very oversold. I believe there is a longside edge and I am looking to take advantage of it.

The Evidence

The market got slammed on Thursday, crossed down through its 200ma and made a new 50-day closing low. The SPX declined 2.1%, the NASDAQ dropped 2.8%, and the Russell 2000 fell 2.5%. Breadth was strongly negative as the NYSE Up Issues % came in at 16% and the Up Volume % was 12%. Total NYSE volume rose from Wednesday’s level.

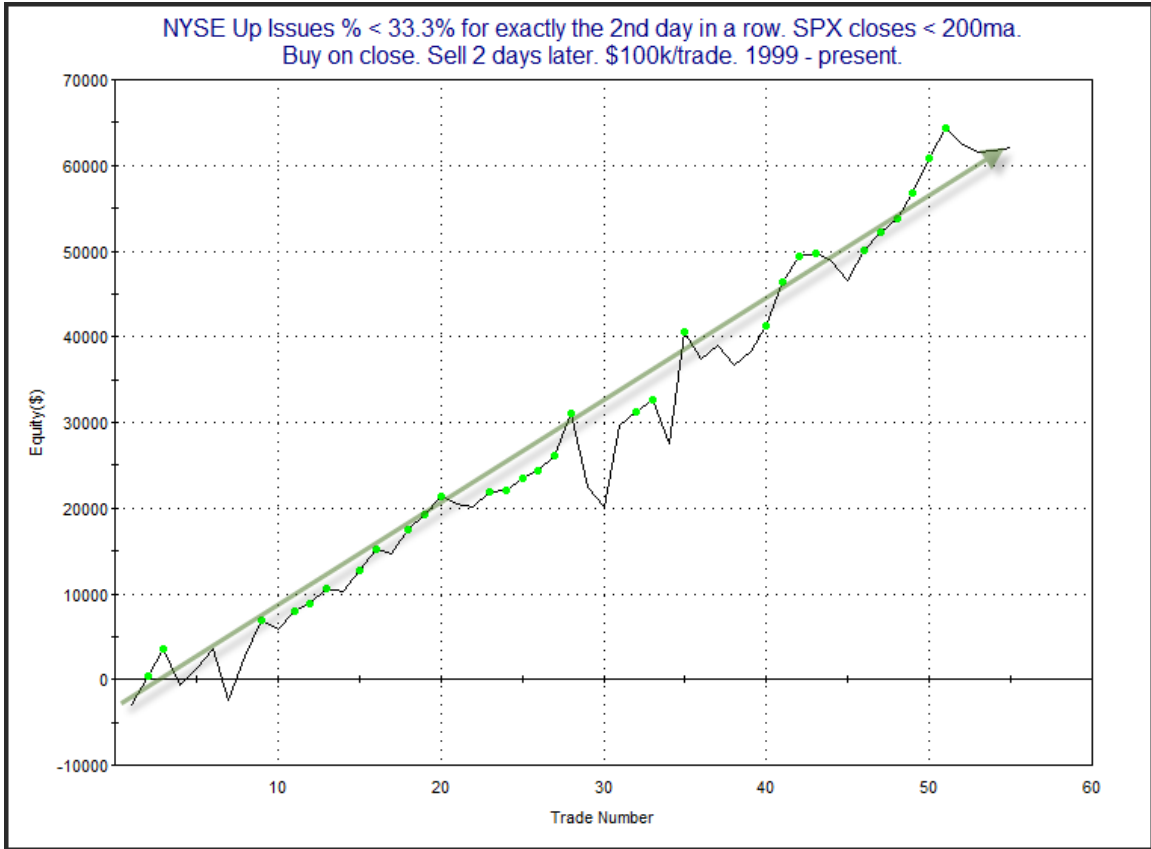
The Quantifinder triggered a good number of studies – and all of them were bullish. They were related to breadth, price action, VIX movement, and closing TICK values. I have highlighted the most suitable ones in each category below.

Breadth

Thursday was the 2nd day in a row of lopsided negative breadth. Thursday also closed under the 200ma. This brought about the study below from the 11/15/12 letter. Results are updated.

NYSE Up Issues % < 33.3% for exactly the 2nd day in a row. SPX closes < 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	65,357.79	48	34	14	70.83	3,163.89	8,609.40	-3,015.33	-9,314.08	1.05	2.55	1,361.62
4	40,808.41	52	31	21	59.62	3,117.98	8,810.76	-2,659.48	-6,869.52	1.17	1.73	784.78
3	51,573.15	55	33	22	60.00	3,534.38	13,853.40	-2,957.33	-11,502.27	1.20	1.79	937.69
2	62,076.18	55	38	17	69.09	2,783.46	13,116.84	-2,570.32	-8,631.00	1.08	2.42	1,128.66
1	42,037.26	55	35	20	63.64	1,951.96	10,716.03	-1,314.07	-6,633.36	1.49	2.60	764.31
52 of 55 instances (95%) closed above the entry price at some point in the next week.												

For the considerable sample size and low number of criteria these results are astonishingly consistent. The stat at the bottom of the table is what seems most striking. Below is an equity curve using a 2-day exit.



What's especially impressive about this study is that it has posted such consistently bullish returns despite the "downtrend" filter. That's fairly unusual to see.

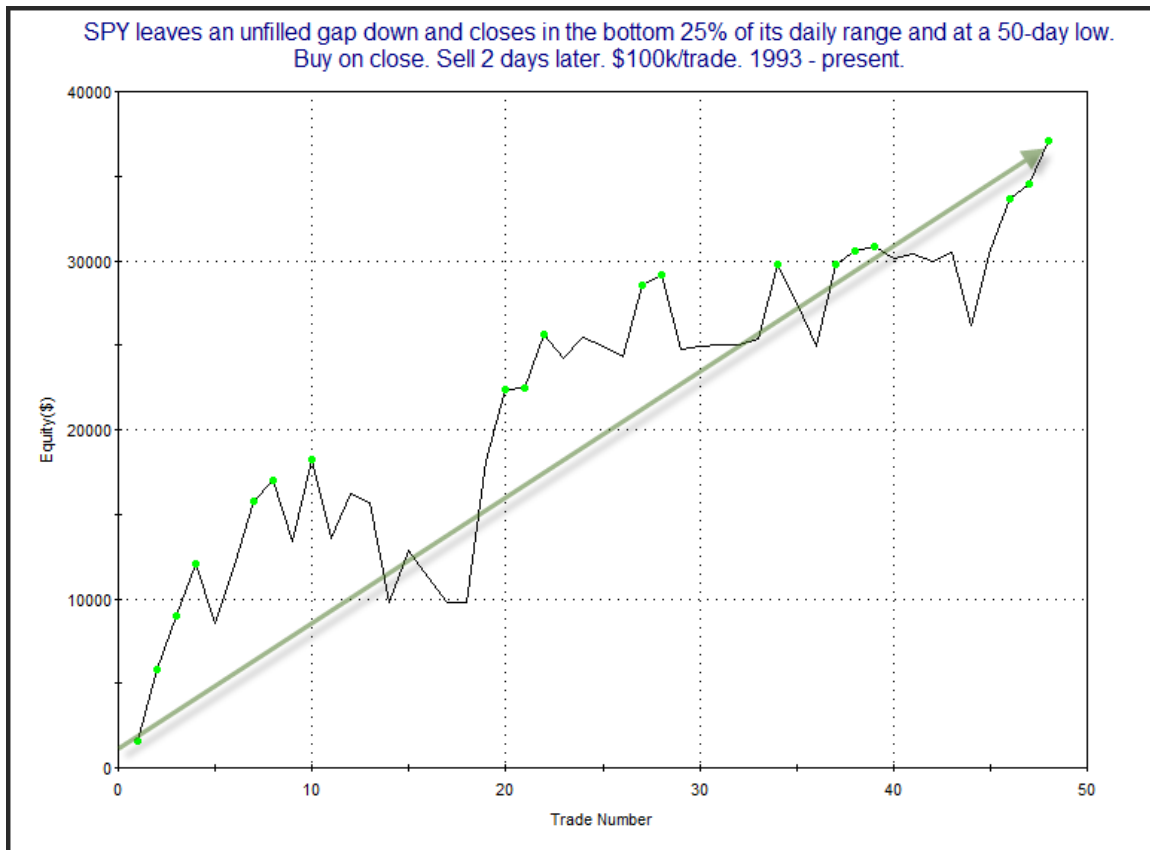
Price Action

There was a study from the 6/13/11 subscriber letter that suggested the unfilled gap down and weak close were likely to lead to a bounce. I have updated the results below.

SPY leaves an unfilled gap down and closes in the bottom 25% of its daily range and at a 50-day low.
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	47,729.63	43	28	15	65.12	3,412.38	10,816.00	-3,187.81	-7,955.64	1.07	2.00	1,109.99
4	24,844.64	45	25	20	55.56	3,214.97	13,568.00	-2,776.48	-10,531.08	1.16	1.45	552.10
3	37,106.48	48	31	17	64.58	2,440.49	8,358.40	-2,267.57	-5,835.94	1.08	1.96	773.05
2	16,710.82	50	27	23	54.00	2,308.58	7,756.80	-1,983.51	-7,761.78	1.16	1.37	334.22
1	17,318.94	51	30	21	58.82	1,482.77	5,764.38	-1,293.53	-7,417.30	1.15	1.64	339.59

Numbers here appear solidly bullish. Below is a 2-day profit curve.



Choppy but continuously upward sloping. This also seems worth consideration.

Closing TICK

My friend and colleague, Tom McClellan, taught me a while back that closing TICK values can be used as a valuable indicator. Closing TICK values tend to do a good job of representing end of day order imbalances. When the closing TICK is very weak that means there are a lot of sell orders at the end of the day. A strong closing TICK would indicate lots of buy orders coming in at the end of the day. The final flurry of buying or selling, and market participants' willingness to hold positions overnight, can act as a good sentiment gauge.

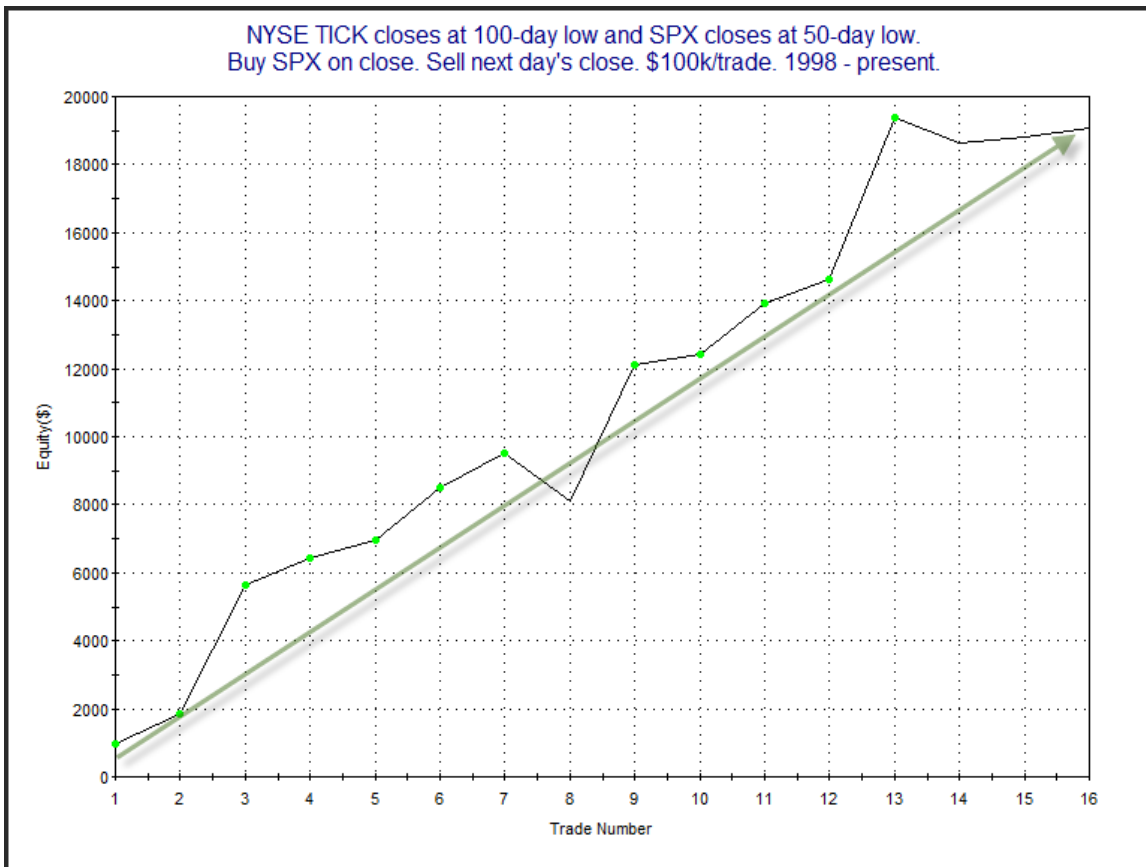
On Thursday the NYSE closing TICK was -826. This is a very low reading and it represents the lowest reading since July of 2014. The study below was last seen in the 5/18/12

Subscriber Letter. It looks at intermediate-term SPX lows in conjunction with long-term closing TICK lows. Results have been updated.

NYSE TICK closes at 100-day low and SPX closes at 50-day low.
Buy SPX on close. Sell next day's close. \$100k/trade. 1998 - present.

TradeStation Performance Summary		Collapse ^
All Trades		
Total Net Profit	\$19,062.24	Profit Factor 9.99
Gross Profit	\$21,183.68	Gross Loss (\$2,121.44)
Total Number of Trades	16	Percent Profitable 87.50%
Winning Trades	14	Losing Trades 2
Even Trades	0	
Avg. Trade Net Profit	\$1,191.39	Ratio Avg. Win:Avg. Loss 1.43
Avg. Winning Trade	\$1,513.12	Avg. Losing Trade (\$1,060.72)
Largest Winning Trade	\$4,723.23	Largest Losing Trade (\$1,388.80)

Instances are a bit low but the numbers are compelling. Below is a profit curve.



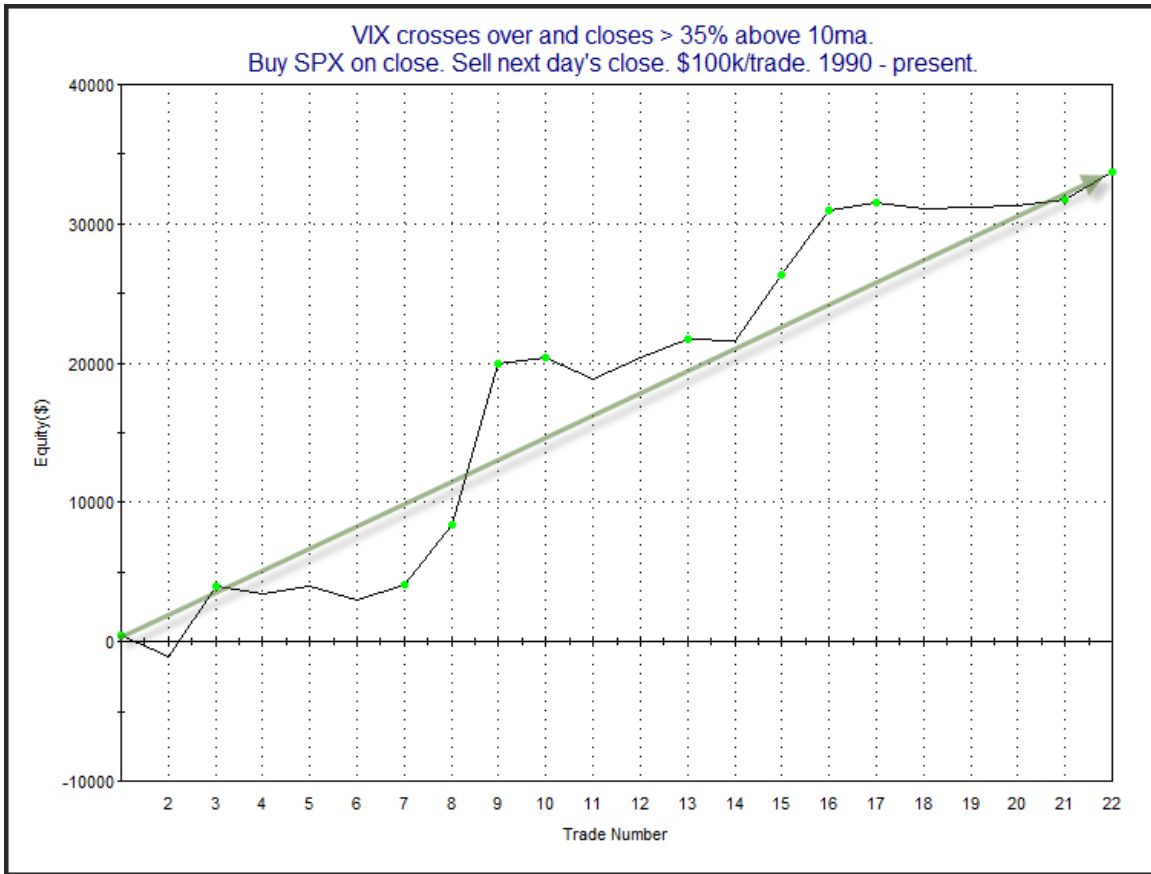
The strong, steady upslope serves as some confirmation for the bullish numbers.

VIX

The VIX has been spiking, and that continued on Thursday, suggesting fear is reaching a level where a reversal is likely. In fact, it closed 36% above the 10ma. The study below was from the 10/16/14 subscriber letter. It examines spikes of at least 35% above the 10ma. Results are updated.

TradeStation Performance Summary Collapse ↕			
All Trades			
Total Net Profit	\$33,714.83	Profit Factor	7.60
Gross Profit	\$38,822.65	Gross Loss	(\$5,107.82)
Total Number of Trades	22	Percent Profitable	72.73%
Winning Trades	16	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$1,532.49	Ratio Avg. Win:Avg. Loss	2.85
Avg. Winning Trade	\$2,426.42	Avg. Losing Trade	(\$851.30)
Largest Winning Trade	\$11,558.43	Largest Losing Trade	(\$1,532.16)

Numbers here are also impressive. Below is the profit curve.



So the spiking VIX also seems to favor the bulls – at least for Friday.

We therefore have 4 new studies being added to the Short-Term Active List.

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



With tonight's studies factored in and the QE Buying Power Swing Short Signal reaching its target the green Aggregator Line shot above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line moved even further above 0. The positive Differential Line reading means SPX is now 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.

Expectations are currently set to remain bullish on Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 2105.67 on Friday. That is a whopping 3.4% above Thursday's close. So for SPX to move from oversold to overbought on Friday it will need to close at least 3.4% higher. That's a very big move and highly unlikely to be accomplished in just one day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

There is quite a bit of evidence pointing up and plenty of room to let profits run in the next few days. I believe there is a pretty strong upside edge and will be looking to take advantage of it.

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

EBAY – 1/3 @ \$26.52

COP – 1/3 @ \$47.00

PG – 1/3 @ \$73.91

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(EBAY, COP, PG)

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.

EBAY – buy 1/3 Catapult position @ \$26.52 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for EBAY.

COP – buy 1/3 Catapult position @ \$47.00 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for COP.

PG – buy 1/3 Catapult position @ \$73.91 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for PG.

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 @ \$204.20 LIMIT. Based on the short-term outlook above, I will begin scaling into a long position. The limit is a bit above Thursday's close to give me a little better chance of receiving a fill on the order.

SPY – buy ¼ index position @ \$203.75 LIMIT ON CLOSe. Based on the short-term outlook above. If SPY struggles on Friday I will look to up the ante and take on a 2nd lot at the close.

Current Open Trade Ideas

None

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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