

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 25, 2015

Volume 8 Issue 163

Market Overview



Signals Overview

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

Tonight's Research Points

- The selloff has reached historic proportions by a number of measures.
- Evidence continues to point to a bounce.

Short-term Outlook

The Bottom Line

Strong bullish evidence continues to emerge and the market is very oversold. While the environment is a bit dangerous I believe there is a longside edge and I am looking increase my long exposure to take advantage of it.

The Evidence

Another day another selloff. On Monday the SPX declined 3.9%, the NASDAQ dropped 3.8%, and the Russell 2000 fell 3.9%. Breadth was extremely negative as the NYSE Up Issues % came in at 5% and the Up Volume % was 2%. Total NYSE volume hit the highest level in a long time.

The last 3 days have been a selloff of historic proportions. This can be seen a number of ways. Perhaps the simplest is to examine other times when SPX closed down > 2% for 3 days in a row. That has only happened 3 other times – October 1987, July 2002, and again in August 2002.

The Quantifiable Edges CBI is hitting extremes as well. It closed at 45 on Monday. There have only been 2 other days since 1995 where the CBI closed that high. On July 23, 2002 it closed at 52, and on October 10, 2008 it closed at 48. So price action is extreme and capitulative breadth is extreme.

VIX movement is also extreme. It closed up over 40% for the 2nd day in a row on Monday. It now sits over 100% above where it closed just 2 trading days ago. This is a 1st for the VIX dating back to 1990.

In the last 2 days the SPX has traded in a range of almost 170 points, which is larger than the trading range it traded in for all of 2015 up through 2 days ago.

When action gets as extreme as we are seeing now it makes it even more difficult to quantify and generate accurate estimates from. So we need to look for themes. And the overwhelming message from the studies that triggered was that there is now blood in the streets, and historically that has been an opportune time to buy. Of course I am not going to just going to share generalities. I chose a couple of studies with compelling results to highlight tonight as well.

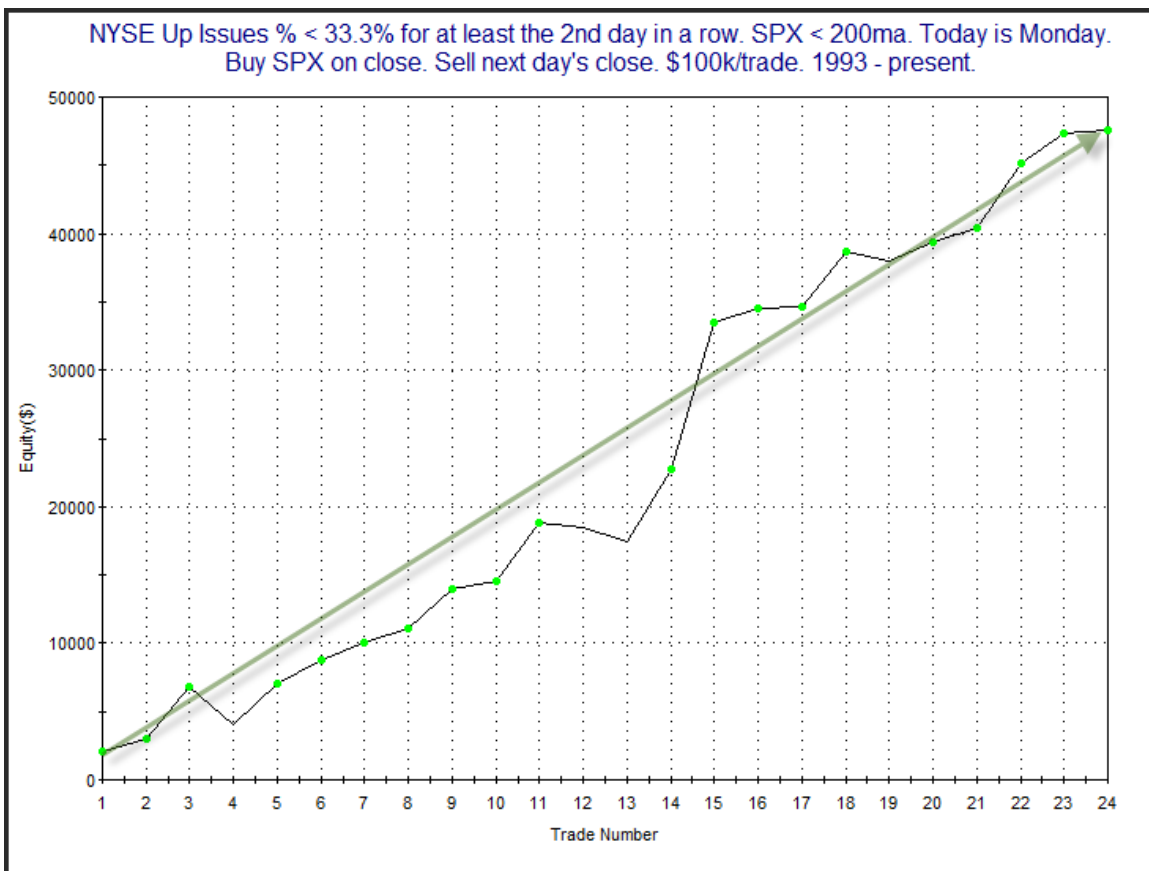
One seasonal advantage that the market may have is that Tuesday is coming up, and Tuesday has been the #1 day of the week for oversold bounces to occur. In the 10/14/14 letter I showed a Turnaround Tuesday related study. It also required the Up Issues % close below 33.3% for AT LEAST the 2nd day in a row. Results are updated.

NYSE Up Issues % < 33.3% for at least the 2nd day in a row. SPX < 200ma. Today is Monday.
Buy SPX 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	67,430.09	24	18	6	75.00	5,094.84	13,733.46	-4,046.18	-7,414.56	1.26	3.78	2,809.59
4	58,472.82	24	18	6	75.00	4,105.31	14,020.11	-2,570.45	-5,934.24	1.60	4.79	2,436.37
3	42,305.46	24	18	6	75.00	3,500.34	12,304.89	-3,450.10	-11,502.27	1.01	3.04	1,762.73
2	38,749.11	24	19	5	79.17	2,578.25	9,496.89	-2,047.54	-5,167.89	1.26	4.78	1,614.55
1	47,530.29	24	20	4	83.33	2,610.62	10,716.03	-1,170.52	-2,680.15	2.23	11.15	1,980.43

All 24 instances closed above the entry price on either Day 1 or Day 2.

This appears to have been a powerful combination. The curve below assumes a 1-day holding period (Turnaround Tuesday.)



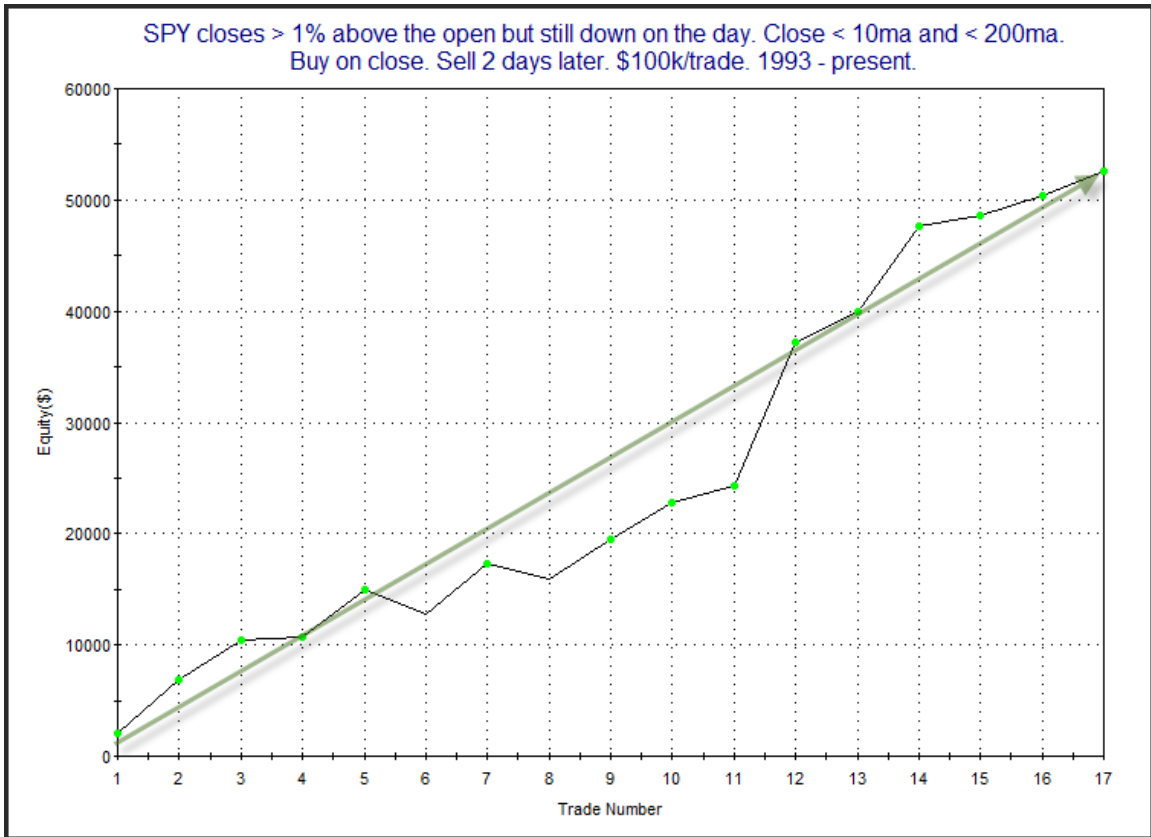
Here we see a strong, consistent upslope that confirms the bullish tendency.

Another study that caught my eye tonight considered the sizable gap and partial reversal of that gap. It examined times when SPY rose over 1% from open to close but still finished down on the day and below the 10ma. I showed a version of this study in the 12/10/14 letter. Below I have added a 200ma filter as well.

SPY closes > 1% above the open but still down on the day. Close < 10ma and < 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
10	38,608.15	14	9	5	64.29	5,727.78	12,037.05	-2,588.38	-4,065.60	2.21	3.98	2,757.72
9	45,887.12	14	12	2	85.71	4,102.55	10,391.40	-1,671.76	-2,059.71	2.45	14.72	3,277.65
8	49,260.51	14	11	3	78.57	5,013.98	10,774.35	-1,964.43	-3,155.60	2.55	9.36	3,518.61
7	61,500.83	14	12	2	85.71	5,380.25	15,348.76	-1,531.09	-2,787.78	3.51	21.08	4,392.92
6	59,305.36	14	13	1	92.86	4,749.87	11,639.99	-2,442.90	-2,442.90	1.94	25.28	4,236.10
5	43,446.67	16	12	4	75.00	4,789.67	11,238.92	-3,507.33	-6,614.24	1.37	4.10	2,715.42
4	41,287.79	17	12	5	70.59	4,319.50	10,630.48	-2,109.23	-6,725.16	2.05	4.91	2,428.69
3	27,271.84	17	12	5	70.59	3,162.75	6,933.92	-2,136.24	-5,355.22	1.48	3.55	1,604.23
2	52,518.83	17	15	2	88.24	3,740.31	12,814.15	-1,792.88	-2,251.30	2.09	15.65	3,089.34
1	44,756.71	17	15	2	88.24	3,236.24	14,507.65	-1,893.41	-3,547.32	1.71	12.82	2,632.75

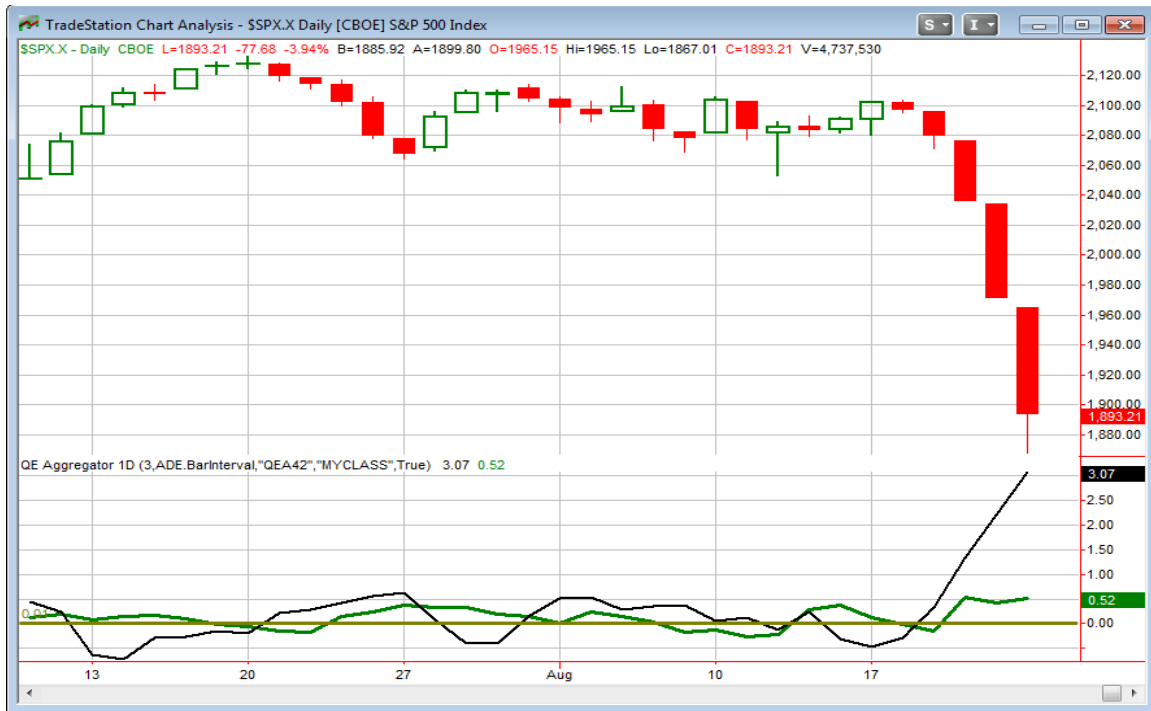
The only instance that went more than 4 days before closing above the entry price triggered on 9/17/2001. That was the day the market re-opened after the 9/11/2001 attacks.

Here again we see very strong numbers on a somewhat small sample size. Below is a profit curve showing a 2-day holding period.



The strong steady upslope shows the gains were not due to just a few outliers. I have included both of these studies on the Active List tonight.

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



With tonight's studies factored in the green Aggregator Line stayed well 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 now massively above 0. The positive Differential Line reading means SPX is strongly 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 currently set to remain bullish on Tuesday. With all the current short-term bullish evidence we are seeing this is unlikely to change. The Differential Pivot will be 2035.57 on Tuesday. That is over 140 points (and 7.5%) above Monday's close. So it would take a historic rally on Tuesday in order to turn the market to an overbought condition. More likely we will need to see a multi-day rally or consolidation in order to work off the oversold condition.

Monday was a huge down day for the market that sparked fear in many traders and wiped out months of market gains. But the extreme action just generated more evidence suggesting the market is ripe for a bounce. As I discuss last night, market conditions are abnormally volatile. This adds risk to the equation. Traders may elect to sit out in such environments. And I do not view that as a poor decision. I prefer to try and take advantage of what I perceive is irrational, emotional overreactions by others and up my long exposure. I will be doing that both through Catapults and perhaps through increased index exposure as well.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 8/24 – 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 (bought @ \$26.33)

COP – 1/3 @ \$47.00 (bought @ \$46.66)

PG – 1/3 @ \$73.91 (bought @ 73.55)

EBAY – 1/3 @ \$25.77 - 2nd lot

COP – 1/3 @ \$45.39 – 2nd lot

PG – 1/3 @ \$71.84 – 2nd lot

MO – 1/3 @ \$53.94

GS – 1/3 @ \$187.74

CVX – 1/3 @ \$75.76

DVN – 1/3 @ \$41.09

MDLZ – 1/3 @ \$43.20

AMZN – 1/3 @ \$494.47

UTX – 1/3 @ \$93.01

AAPL – 1/3 @ \$105.76

FOXA – 1/3 @ \$27.94

NOV – 1/3 @ \$37.21

ALL – 1/3 @ \$61.25

New

AAPL 1/3 @ \$103.12 limit

ALL 1/3 @ \$58.39 limit

AMZN 1/3 @ \$463.37 limit

APA 1/3 @ \$40.49 limit

COF 1/3 @ \$73.53 limit

COP 1/3 @ \$42.93 limit

CVX 1/3 @ \$72.12 limit

DD 1/3 @ \$49.98 limit

DIS 1/3 @ \$95.36 limit

DOW 1/3 @ \$40.35 limit

DVN 1/3 @ \$38.08 limit

EBAY 1/3 @ \$24.93 limit

EMR 1/3 @ \$46.36 limit

FCX 1/3 @ \$8.68 limit

FOXA 1/3 @ \$26.66 limit
GOOG 1/3 @ \$589.61 limit
GS 1/3 @ \$179.46 limit
IBM 1/3 @ \$143.47 limit
LMT 1/3 @ \$197.46 limit
MDLZ 1/3 @ \$41.96 limit
MMM 1/3 @ \$138.58 limit
MO 1/3 @ \$52.14 limit
NSC 1/3 @ \$74.74 limit
PG 1/3 @ \$69.14 limit
SPG 1/3 @ \$182.07 limit
TWX 1/3 @ \$69.81 limit
UTX 1/3 @ \$90.87 limit
XOM 1/3 @ \$68.72 limit

Broad Market Large Cap CBI – 45

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.

Catapults:

AAPL 1/3 @ \$103.12 limit
ALL 1/3 @ \$58.39 limit
AMZN 1/3 @ \$463.37 limit
APA 1/3 @ \$40.49 limit
COF 1/3 @ \$73.53 limit
COP 1/3 @ \$42.93 limit
CVX 1/3 @ \$72.12 limit
DD 1/3 @ \$49.98 limit
DIS 1/3 @ \$95.36 limit
DOW 1/3 @ \$40.35 limit
DVN 1/3 @ \$38.08 limit
EBAY 1/3 @ \$24.93 limit
EMR 1/3 @ \$46.36 limit
FCX 1/3 @ \$8.68 limit
FOXA 1/3 @ \$26.66 limit
GOOG 1/3 @ \$589.61 limit

GS 1/3 @ \$179.46 limit
IBM 1/3 @ \$143.47 limit
LMT 1/3 @ \$197.46 limit
MDLZ 1/3 @ \$41.96 limit
MMM 1/3 @ \$138.58 limit
MO 1/3 @ \$52.14 limit
NSC 1/3 @ \$74.74 limit
PG 1/3 @ \$69.14 limit
SPG 1/3 @ \$182.07 limit
TWX 1/3 @ \$69.81 limit
UTX 1/3 @ \$90.87 limit
XOM 1/3 @ \$68.72 limit

All prices shown above are LIMIT prices.

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](#).

One question I am often asked about Catapults is how I handle them when so many trigger at once. During times like this I will often either reduce the size of each trade, or trade options, which allow me lower total outlay as well as a natural stop (\$0). I will keep it simple for the letter, though and just treat them all the same.

SPY – buy ¼ index position @ \$189.55 LIMIT. Based on the short-term outlook above, I will continue scaling into a long position.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/21/2015	\$201.73	\$189.55	-6.04%		Aggregator
SPY(1/4)	8/21/2015	\$197.63	\$189.55	-4.09%		Aggregator
EBAY(1/3)	8/21/2015	\$26.33	\$24.93	-5.32%		Catapult
COP(1/3)	8/21/2015	\$46.66	\$42.93	-7.99%		Catapult
PG(1/3)	8/21/2015	\$73.55	\$69.14	-6.00%		Catapult
EBAY(1/3)	8/24/2015	\$23.87	\$24.93	4.44%		Catapult
COP(1/3)	8/24/2015	\$41.98	\$42.93	2.26%		Catapult
PG(1/3)	8/24/2015	\$68.57	\$69.14	0.83%		Catapult
MO(1/3)	8/24/2015	\$48.71	\$52.14	7.04%		Catapult
GS(1/3)	8/24/2015	\$178.46	\$179.46	0.56%		Catapult
CVX(1/3)	8/24/2015	\$70.55	\$72.12	2.23%		Catapult
DVN(1/3)	8/24/2015	\$38.42	\$38.08	-0.88%		Catapult
MDLZ(1/3)	8/24/2015	\$41.12	\$41.96	2.04%		Catapult
AMZN(1/3)	8/24/2015	\$463.58	\$463.37	-0.05%		Catapult
UTX(1/3)	8/24/2015	\$88.67	\$90.87	2.48%		Catapult
AAPL(1/3)	8/24/2015	\$94.87	\$103.12	8.70%		Catapult
FOXA(1/3)	8/24/2015	\$24.82	\$26.66	7.41%		Catapult
NOV(1/3)	8/24/2015	\$35.12	\$37.25	6.06%		Catapult
ALL(1/3)	8/24/2015	\$60.11	\$58.39	-2.86%		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.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2015 Hanna Capital Management, LLC.