

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 26, 2015

Volume 8 Issue 164

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

Similar to last night, 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

It looked like the market might actually bounce in the morning, but the bounce failed to make it through the day. By the close the SPX declined 1.4%, the NASDAQ dropped 0.4%, and the Russell 2000 fell 0.7%. Breadth was negative as the NYSE Up Issues % came in at 46% and the Up Volume % was 22%. Total NYSE volume declined some from Monday's high level.

The breadth and persistency of the selloff continue to be historic. As you will see below the CBI continued to spike. It is now at a whopping 73 – easily eclipsing the old record of 52 set in July of 2002.

Part of the reason that the Catapults have done so well historically is that when strongly oversold markets bounce, the stocks that are the most oversold tend to bounce the best. ([Here is an old blog post that illustrates this.](#)) The Catapult system identifies stocks that are undergoing “capitulative” selling. But with the CBI rising to an unprecedented (and fairly astonishing) 73, that means that there are a MASSIVE amount of stocks that qualify. So throwing a dart will likely get you an SP100 stock that is primed for a bounce. Rather than trading individual Catapults as I do, you could just trade OEF or SPY at this point.

Part of the reason the CBI is spiking so high is that we have seen a highly unusual number of consecutive days with strong (and broad) selling. In fact, Tuesday marked the 4th day in a row in which SPX closed down at least 1.25%. Below is the (short) list of other instances along with their 4-day returns.

SPX closes down > 1.25% for 4 days in a row. Buy on close. Sell 4 days later. \$100k/trade. 1960 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/19/87	Buy	\$224.83	10.40%	\$15,286.92
10/23/87	Sell	\$248.22		(\$3,716.28)
07/23/02	Buy	\$797.70	12.69%	\$12,657.50
07/29/02	Sell	\$898.96		(\$2,752.50)
10/07/08	Buy	\$996.23	0.71%	\$2,483.00
10/13/08	Sell	\$1,003.35		(\$15,643.00)

While there are only 3 other instances, these 3 instances provide a wonderful example of the kind of extreme conditions the market is experiencing and what we may see going

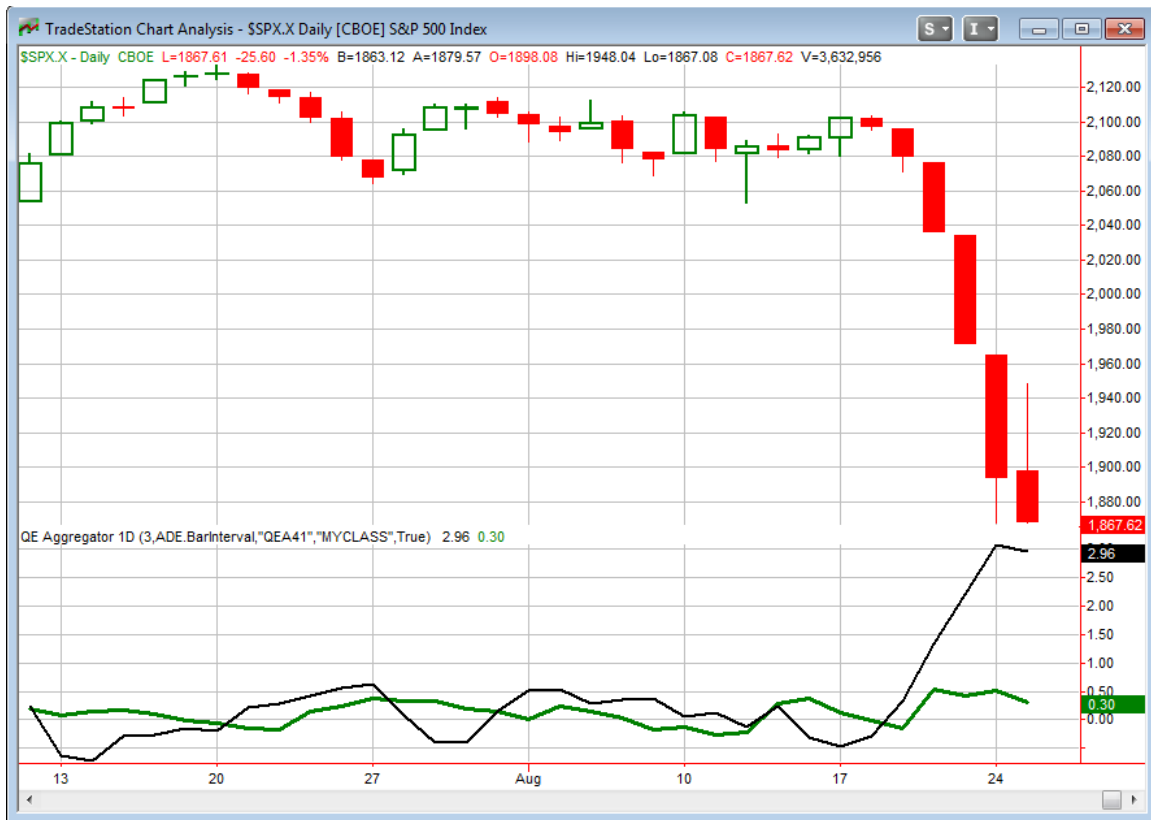
forward. You note that all 3 instances occurred “near” multi-week bottoms that were eventually retested. Even if I used criteria less strict than what is above, you would see a tendency for the market to bounce over the short-term.

Perhaps the biggest “lesson” from the above study is the one provided by the 2008 instance. The other instances saw strong, and almost immediate bounces. But 2008 saw a strong bout of selling before the bounce kicked in. When I said they all occurred “near” a bottom, I meant in time. The 2008 instance saw the market bottom just 3 days after it triggered. But during those 3 days the SPX declined an additional 15.6%! And by the time day 4 closed the entire drawdown had been overcome and the trade was positive. Of course traders would have had to endure a big, scary decline and hold on tight to realize that small profit in 2008.

Bringing it back to the present, with the strong selling and extreme indications we are seeing via price action, breadth, and VIX movement, I believe the environment is quite similar to those we see in the short list above. I also believe a strong bounce is likely to occur in very short order. The difficulty is that in the time between now and when the bounce truly kicks in there could be a substantial amount of short-term pain. Will the market rocket upwards from here like it did in 1987 and 2002? Or will it require an even bigger washout before bouncing as it did in 2008?

I did not add any new studies to the Active List tonight, and instead just kept those that are already in place.

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



Once again 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 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 100 points (and 6.1%) above Tuesday's close. So it would take a historic rally on Wednesday 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.

Overall, my outlook remains much the same as last night. I expect a bounce to occur in short order, but there could be further selling before it arrives. Still, the edge appears strong enough for me to look to take advantage of it. On Wednesday that will mean looking for entry into more Catapult positions.

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

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 – 3rd lot

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 – 3rd lot

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 – 3rd lot
SPG 1/3 @ \$182.07 limit
TWX 1/3 @ \$69.81 limit
UTX 1/3 @ \$90.87 limit
XOM 1/3 @ \$68.72 limit

New

ALL 1/3 @ \$56.99 limit
APA 1/3 @ \$38.90 limit
CMCSA 1/3 @ \$53.85 limit
COF 1/3 @ \$72.25 limit
CVS 1/3 @ \$100.00 limit
CVX 1/3 @ \$70.02 limit
DD 1/3 @ \$49.06 limit
DOW 1/3 @ \$39.39 limit
DVN 1/3 @ \$36.63 limit
EMR 1/3 @ \$45.16 limit
FCX 1/3 @ \$8.24 limit
GE 1/3 @ \$23.27 limit
GOOG 1/3 @ \$582.06 limit
GS 1/3 @ \$178.22 limit
IBM 1/3 @ \$140.96 limit
MDLZ 1/3 @ \$41.31 limit
MMM 1/3 @ \$137.64 limit
MO 1/3 @ \$51.82 limit
MON 1/3 @ \$89.42 limit
MS 1/3 @ \$31.76 limit
NSC 1/3 @ \$72.44 limit
ORCL 1/3 @ \$35.45 limit
QCOM 1/3 @ \$53.88 limit
SPG 1/3 @ \$177.09 limit
TWX 1/3 @ \$69.69 limit
UTX 1/3 @ \$88.80 limit
WBA 1/3 @ \$81.00 limit
XOM 1/3 @ \$68.71 limit

Broad Market Large Cap CBI – 73

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:

ALL 1/3 @ \$56.99 limit
APA 1/3 @ \$38.90 limit
CMCSA 1/3 @ \$53.85 limit
COF 1/3 @ \$72.25 limit
CVS 1/3 @ \$100.00 limit
CVX 1/3 @ \$70.02 limit
DD 1/3 @ \$49.06 limit
DOW 1/3 @ \$39.39 limit
DVN 1/3 @ \$36.63 limit
EMR 1/3 @ \$45.16 limit
FCX 1/3 @ \$8.24 limit
GE 1/3 @ \$23.27 limit
GOOG 1/3 @ \$582.06 limit
GS 1/3 @ \$178.22 limit
IBM 1/3 @ \$140.96 limit
MDLZ 1/3 @ \$41.31 limit
MMM 1/3 @ \$137.64 limit
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QCOM 1/3 @ \$53.88 limit
SPG 1/3 @ \$177.09 limit
TWX 1/3 @ \$69.69 limit
UTX 1/3 @ \$88.80 limit
WBA 1/3 @ \$81.00 limit
XOM 1/3 @ \$68.71 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 sometimes 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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/21/2015	\$201.73	\$187.27	-7.17%		Aggregator
SPY(1/4)	8/21/2015	\$197.63	\$187.27	-5.24%		Aggregator
EBAY(1/3)	8/21/2015	\$26.33	\$25.23	-4.18%		Catapult
COP(1/3)	8/21/2015	\$46.66	\$42.19	-9.58%		Catapult
PG(1/3)	8/21/2015	\$73.55	\$68.42	-6.97%		Catapult
EBAY(1/3)	8/24/2015	\$23.87	\$25.23	5.70%		Catapult
COP(1/3)	8/24/2015	\$41.98	\$42.19	0.50%		Catapult
PG(1/3)	8/24/2015	\$68.57	\$68.42	-0.22%		Catapult
MO(1/3)	8/24/2015	\$48.71	\$51.82	6.38%		Catapult
GS(1/3)	8/24/2015	\$178.46	\$178.22	-0.13%		Catapult
CVX(1/3)	8/24/2015	\$70.55	\$70.02	-0.75%		Catapult
DVN(1/3)	8/24/2015	\$38.42	\$36.63	-4.66%		Catapult
MDLZ(1/3)	8/24/2015	\$41.12	\$41.31	0.46%		Catapult
AMZN(1/3)	8/24/2015	\$463.58	\$466.37	0.60%		Catapult
UTX(1/3)	8/24/2015	\$88.67	\$88.80	0.15%		Catapult
AAPL(1/3)	8/24/2015	\$94.87	\$103.74	9.35%		Catapult
FOXA(1/3)	8/24/2015	\$24.82	\$26.73	7.70%		Catapult
NOV(1/3)	8/24/2015	\$35.12	\$37.35	6.35%		Catapult
ALL(1/3)	8/24/2015	\$60.11	\$56.99	-5.19%		Catapult
ALL(1/3)	8/25/2015	\$58.39	\$56.99	-2.40%		Catapult
APA(1/3)	8/25/2015	\$40.49	\$38.90	-3.93%		Catapult
COF(1/3)	8/25/2015	\$73.53	\$72.25	-1.74%		Catapult
COP(1/3)	8/25/2015	\$42.93	\$42.19	-1.72%		Catapult
CVX(1/3)	8/25/2015	\$72.12	\$70.02	-2.91%		Catapult
DD(1/3)	8/25/2015	\$49.98	\$49.06	-1.84%		Catapult
DOW(1/3)	8/25/2015	\$40.35	\$39.39	-2.38%		Catapult
DVN(1/3)	8/25/2015	\$38.08	\$36.63	-3.81%		Catapult
EMR(1/3)	8/25/2015	\$46.36	\$45.16	-2.59%		Catapult
FCX(1/3)	8/25/2015	\$8.68	\$8.24	-5.07%		Catapult
GOOG(1/3)	8/25/2015	\$589.61	\$582.06	-1.28%		Catapult
GS(1/3)	8/25/2015	\$179.46	\$178.22	-0.69%		Catapult
IBM(1/3)	8/25/2015	\$143.47	\$140.96	-1.75%		Catapult
MDLZ(1/3)	8/25/2015	\$41.96	\$41.31	-1.55%		Catapult
MMM(1/3)	8/25/2015	\$138.58	\$137.64	-0.68%		Catapult
MO(1/3)	8/25/2015	\$52.14	\$51.82	-0.61%		Catapult
NSC(1/3)	8/25/2015	\$74.74	\$72.44	-3.08%		Catapult
PG(1/3)	8/25/2015	\$69.14	\$68.42	-1.04%		Catapult
SPG(1/3)	8/25/2015	\$182.07	\$177.09	-2.74%		Catapult
TWX(1/3)	8/25/2015	\$69.81	\$69.69	-0.17%		Catapult
UTX(1/3)	8/25/2015	\$90.87	\$88.80	-2.28%		Catapult
XOM(1/3)	8/25/2015	\$68.72	\$68.71	-0.01%		Catapult
SPY(1/4)	8/25/2015	\$189.55	\$187.27	-1.20%		Aggregator

Please note that the 6 orders that did not get filled on Tuesday will be cancelled for the time being. These are in AAPL, DIS, AMZN, FOXA, LMT, & EBAY.

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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