

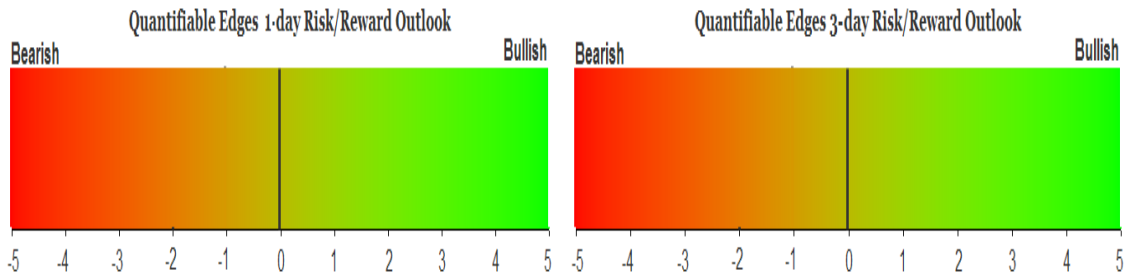
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 28, 2015

Volume 8 Issue 166

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr Swing |
|------------|----------------|------------------|
| Flat | 50% Long VXX | Flat |

Tonight's Research Points

- The low volume on Thursday's rally could be a problem for bulls.

Short-term Outlook

The Bottom Line

The strong 2-day rally has the market short-term overbought. And while we are seeing some bearish evidence emerge, the net still shows a slight bullish expectation. The leaves me overall neutral.

The Evidence

The market bounce continued on Thursday. The SPX rose 2.4%, the NASDAQ rallied 2.5%, and the Russell 2000 gained 1.9%. Breadth was strongly positive as the NYSE Up Issues % came in at 87% and the Up Volume % was 96%. Total NYSE volume dipped to the lowest level we have seen in the last week.

One potential issue that the Quantifinder identified was the light volume that accompanied the otherwise strong rally. I took an old study from the 10/21/2008 subscriber letter and sliced and diced it a bit. The basic concept was that 2%+ gains that were not accompanied by strong volume have seen the market struggle in the following days. Before I show the results with low volume I will first show performance following 2% gains on relatively high volume.

NYSE volume is the **highest** in 5 days. SPX rises over 2% but close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

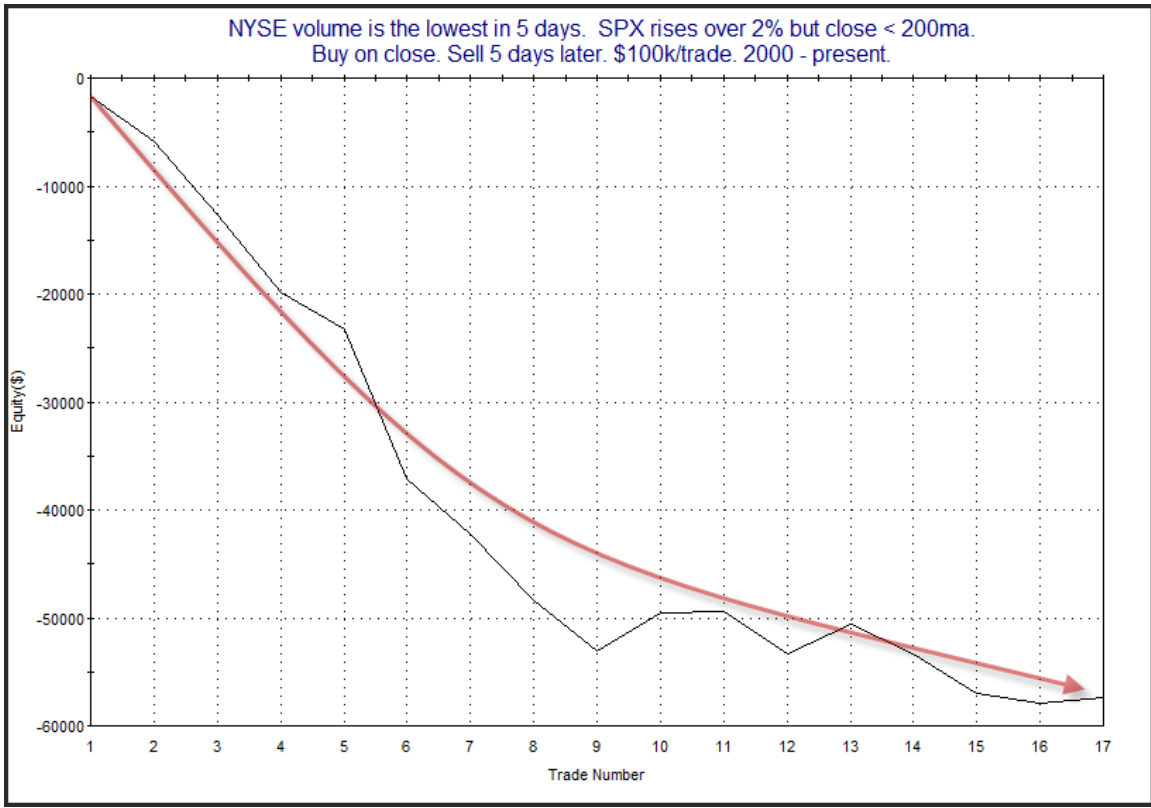
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | 33,470.45 | 39 | 29 | 10 | 74.36 | 2,621.66 | 9,334.72 | -4,255.77 | -17,314.65 | 0.62 | 1.79 | 858.22 |
| 4 | 32,122.43 | 39 | 25 | 14 | 64.10 | 2,755.62 | 11,930.04 | -2,626.29 | -11,413.39 | 1.05 | 1.87 | 823.65 |
| 3 | 24,734.31 | 40 | 21 | 19 | 52.50 | 3,056.54 | 10,868.60 | -2,076.47 | -5,686.53 | 1.47 | 1.63 | 618.36 |
| 2 | 920.70 | 42 | 18 | 24 | 42.86 | 2,220.78 | 7,112.64 | -1,627.22 | -6,598.86 | 1.36 | 1.02 | 21.92 |
| 1 | 1,245.30 | 42 | 21 | 21 | 50.00 | 1,241.28 | 6,420.72 | -1,181.98 | -4,142.00 | 1.05 | 1.05 | 29.65 |

A week later ¾ of the instances closed higher and the average instance saw the SPX up about 0.9%. Those are some fairly bullish numbers. But Thursday did not post a 5-day high in volume. It posted a 5-day LOW. Below are the results under these conditions.

NYSE volume is the **lowest** in 5 days. SPX rises over 2% but close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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 | -57,373.84 | 17 | 4 | 13 | 23.53 | 1,715.41 | 3,612.16 | -4,941.19 | -13,784.48 | 0.35 | 0.11 | -3,374.93 |
| 4 | -29,189.40 | 17 | 5 | 12 | 29.41 | 2,732.64 | 5,734.40 | -3,571.05 | -10,971.63 | 0.77 | 0.32 | -1,717.02 |
| 3 | -32,710.91 | 17 | 5 | 12 | 29.41 | 2,513.47 | 5,372.64 | -3,773.19 | -8,419.83 | 0.67 | 0.28 | -1,924.17 |
| 2 | -24,457.43 | 18 | 8 | 10 | 44.44 | 1,236.16 | 2,707.25 | -3,434.67 | -8,950.62 | 0.36 | 0.29 | -1,358.75 |
| 1 | -581.46 | 18 | 11 | 7 | 61.11 | 675.85 | 2,077.44 | -1,145.11 | -3,065.35 | 0.59 | 0.93 | -32.30 |

Numbers here are completely different. Now ¾ of the instances closed DOWN 5 days later – and by a substantial amount. Below is a profit curve.



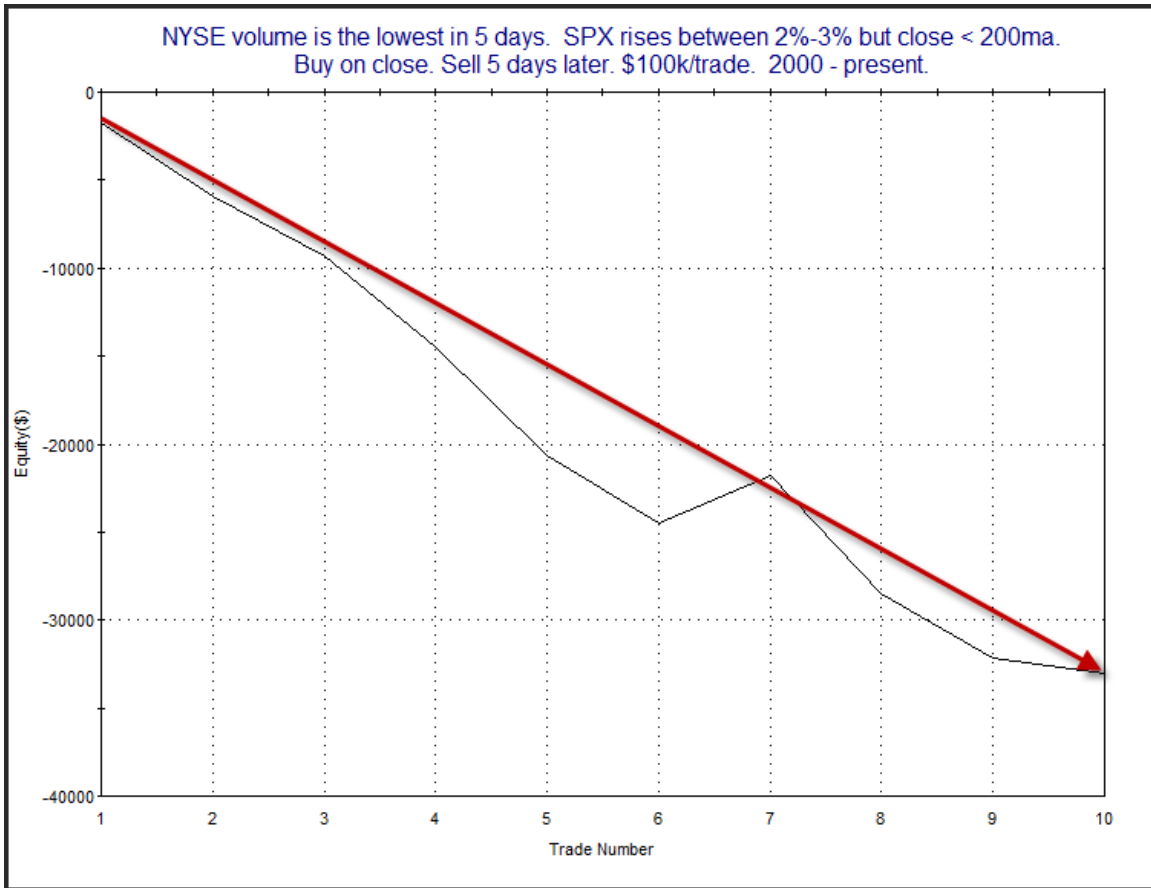
Not entirely straight, but it has sloped downward the entire time.

Of course this test includes a wide range of rally days – anything above 2%. With Thursday’s rally being 2.4%, I decided to look closer at moves between 2-3%. Below are the results with the extra filter.

NYSE volume is the lowest in 5 days. SPX rises between 2-3% but close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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 | -33,009.96 | 10 | 1 | 9 | 10.00 | 2,686.40 | 2,686.40 | -3,966.26 | -6,695.61 | 0.68 | 0.08 | -3,301.00 |
| 4 | -20,487.27 | 10 | 2 | 8 | 20.00 | 1,829.56 | 2,554.84 | -3,018.30 | -6,719.68 | 0.61 | 0.15 | -2,048.73 |
| 3 | -16,219.49 | 10 | 3 | 7 | 30.00 | 3,376.41 | 5,372.64 | -3,764.10 | -8,419.83 | 0.90 | 0.38 | -1,621.95 |
| 2 | -9,061.96 | 10 | 4 | 6 | 40.00 | 998.28 | 1,744.20 | -2,175.85 | -3,684.37 | 0.46 | 0.31 | -906.20 |
| 1 | -165.42 | 10 | 6 | 4 | 60.00 | 565.96 | 1,524.64 | -890.29 | -1,260.46 | 0.64 | 0.95 | -16.54 |

Not a lot of instances, but numbers here appear even more bearish. Below again is the 5-day profit curve.



That looks like a steady, persistent move lower. Overall, the strong rally on low volume appears worth some consideration.

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



Even with tonight's bearish study factored in the green Aggregator Line remained slightly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line has taken a big dive over the last 2 days and is now strongly 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 sides of 0. Therefore the Aggregator signal turned flat at the close.

Expectations are currently set to remain bullish on Friday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1886.60 on Friday. That is over 100 points and 5.0% below Thursday's close. While it seems anything could happen in this market, a 5% 1-day decline on Friday seems unlikely. A more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

Not only did the rally on Thursday cause the Differential Line to dive lower, but it also caused a sharp drop in the Quantifiable Edges CBI indicator. It went from 67 on Wednesday all the way down to 19 on Thursday. Nineteen is still a high number and considered bullish, but that is still a heck of a big drop. More rallying on Friday could

see it drop even more. Often when the CBI spikes this high I will try and keep a portion of my index position until the CBI drops back to neutral. But with the strongly bearish volume study tonight and highly volatile market lately, I will look to exit my full index position on Friday if I can get a decent price. As well as the CBI has worked over the years I will NOT look to take on short positions at least until it returns to 3 or lower. Of course the big drop in the CBI also means that I will be exiting many Catapult positions at the open on Friday. Details are in the trade ideas section below.

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

PG – 1/3 @ \$73.91 (bought @ 73.55)

PG – 1/3 @ \$71.84 – 2nd lot

MDLZ – 1/3 @ \$43.20

UTX – 1/3 @ \$93.01

ALL – 1/3 @ \$61.25

ALL 1/3 @ \$58.39 limit

IBM 1/3 @ \$143.47 limit

MDLZ 1/3 @ \$41.96 limit

PG 1/3 @ \$69.14 limit – 3rd lot

SPG 1/3 @ \$182.07 limit

UTX 1/3 @ \$90.87 limit

ALL 1/3 @ \$56.99 limit

IBM 1/3 @ \$140.96 limit

MDLZ 1/3 @ \$41.31 limit

MON 1/3 @ \$89.42 limit

ORCL 1/3 @ \$35.45 limit

QCOM 1/3 @ \$53.88 limit

SPG 1/3 @ \$177.09 limit

UTX 1/3 @ \$88.80 limit

Broad Market Large Cap CBI – 19

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 tonight.](#)

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|------------------|------------------|-----------------|-----------------|---------------|------|-----------------------|
| SPY(1/4) | 8/21/2015 | \$201.73 | \$197.02 | -2.33% | | sold on open |
| SPY(1/4) | 8/21/2015 | \$197.63 | \$199.16 | 0.77% | | sell @ \$198.50 limit |
| EBAY(1/3) | 8/21/2015 | \$26.33 | \$27.10 | 2.92% | | sell on open |
| COP(1/3) | 8/21/2015 | \$46.66 | \$45.87 | -1.69% | | sell on open |
| PG(1/3) | 8/21/2015 | \$73.55 | \$71.48 | -2.81% | | Catapult |
| EBAY(1/3) | 8/24/2015 | \$23.87 | \$27.10 | 13.53% | | sell on open |
| COP(1/3) | 8/24/2015 | \$41.98 | \$45.87 | 9.27% | | sell on open |
| PG(1/3) | 8/24/2015 | \$68.57 | \$71.48 | 4.24% | | Catapult |
| MO(1/3) | 8/24/2015 | \$48.71 | \$53.71 | 10.26% | | sell on open |
| GS(1/3) | 8/24/2015 | \$178.46 | \$189.21 | 6.02% | | sell on open |
| CVX(1/3) | 8/24/2015 | \$70.55 | \$77.64 | 10.05% | | sell on open |
| DVN(1/3) | 8/24/2015 | \$38.42 | \$40.78 | 6.14% | | sell on open |
| MDLZ(1/3) | 8/24/2015 | \$41.12 | \$42.76 | 3.99% | | Catapult |
| AMZN(1/3) | 8/24/2015 | \$463.58 | \$513.71 | 10.81% | | sold on open |
| UTX(1/3) | 8/24/2015 | \$88.67 | \$93.27 | 5.19% | | Catapult |
| AAPL(1/3) | 8/24/2015 | \$94.87 | \$112.23 | 18.30% | | sold on open |
| FOXA(1/3) | 8/24/2015 | \$24.82 | \$27.80 | 12.01% | | sell on open |
| NOV(1/3) | 8/24/2015 | \$35.12 | \$39.96 | 13.78% | | sold on open |
| ALL(1/3) | 8/24/2015 | \$60.11 | \$58.74 | -2.28% | | Catapult |
| ALL(1/3) | 8/25/2015 | \$58.39 | \$58.74 | 0.60% | | Catapult |
| APA(1/3) | 8/25/2015 | \$40.49 | \$42.79 | 5.68% | | sell on open |
| COF(1/3) | 8/25/2015 | \$73.53 | \$77.36 | 5.21% | | sell on open |
| COP(1/3) | 8/25/2015 | \$42.93 | \$45.87 | 6.85% | | sell on open |
| CVX(1/3) | 8/25/2015 | \$72.12 | \$77.64 | 7.65% | | sell on open |
| DD(1/3) | 8/25/2015 | \$49.98 | \$52.02 | 4.08% | | sell on open |
| DOW(1/3) | 8/25/2015 | \$40.35 | \$43.60 | 8.05% | | sell on open |
| DVN(1/3) | 8/25/2015 | \$38.08 | \$40.78 | 7.09% | | sell on open |
| EMR(1/3) | 8/25/2015 | \$46.36 | \$47.64 | 2.76% | | sell on open |
| FCX(1/3) | 8/25/2015 | \$8.68 | \$10.19 | 17.40% | | sell on open |
| GOOG(1/3) | 8/25/2015 | \$589.61 | \$639.40 | 8.44% | | sold on open |
| GS(1/3) | 8/25/2015 | \$179.46 | \$189.21 | 5.43% | | sell on open |
| IBM(1/3) | 8/25/2015 | \$143.47 | \$148.54 | 3.53% | | Catapult |
| MDLZ(1/3) | 8/25/2015 | \$41.96 | \$42.76 | 1.91% | | Catapult |
| MMM(1/3) | 8/25/2015 | \$138.58 | \$143.90 | 3.84% | | sell on open |
| MO(1/3) | 8/25/2015 | \$52.14 | \$53.71 | 3.01% | | sell on open |
| NSC(1/3) | 8/25/2015 | \$74.74 | \$77.92 | 4.25% | | sell on open |
| PG(1/3) | 8/25/2015 | \$69.14 | \$71.48 | 3.38% | | Catapult |
| SPG(1/3) | 8/25/2015 | \$182.07 | \$185.73 | 2.01% | | Catapult |
| TWX(1/3) | 8/25/2015 | \$69.81 | \$72.82 | 4.31% | | sell on open |
| UTX(1/3) | 8/25/2015 | \$90.87 | \$93.27 | 2.64% | | Catapult |
| XOM(1/3) | 8/25/2015 | \$68.72 | \$74.85 | 8.92% | | sell on open |
| SPY(1/4) | 8/25/2015 | \$189.55 | \$199.16 | 5.07% | | sell @ \$199.16 limit |
| MO(1/3) | 8/26/2015 | \$51.82 | \$53.71 | 3.65% | | sell on open |
| APA(1/3) | 8/26/2015 | \$38.90 | \$42.79 | 10.00% | | sell on open |
| ALL(1/3) | 8/26/2015 | \$56.99 | \$58.74 | 3.07% | | Catapult |
| FCX(1/3) | 8/26/2015 | \$8.24 | \$10.19 | 23.67% | | sell on open |
| MDLZ(1/3) | 8/26/2015 | \$41.31 | \$42.76 | 3.51% | | Catapult |
| GE(1/3) | 8/26/2015 | \$23.27 | \$25.01 | 7.48% | | sell on open |
| | | | | | | |

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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