

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 1, 2015

Volume 8 Issue 168

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Long VXX	Flat

Tonight's Research Points

- 1st trading day of the month is often bullish – but not under current circumstances.
- September looks to be volatile.

Short-term Outlook

The Bottom Line

Evidence is now leaning bearish and the market is short-term overbought. This suggests a downside edge, but the setup appears fleeting and too risky for me to try and take advantage.

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 31, 2015	NR7 & 3up from 50-day low.	1-.3 days	Bullish			
August 28, 2015	2% Rally. Low Volume 5 days.	1-5 days	Bearish			
August 27, 2015	1% drop, 50-low. Big reversal.	1-5 days	Bullish			
August 24, 2015	CBI > 10. SPX < 200.	1-8 days	Bullish			
Active - Long Term						
August 31, 2015	NASDAQ leading SPX	int term	Bullish			
August 21, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
August 31, 2015	NASDAQ breadth 3:2 negative x3	1 day	Bearish			
August 24, 2015	Fri dn 1.5x 20-day ATR	1-6 days	Bullish			

The Evidence

Monday was a tough day for the market. The SPX fell 0.8%, the NASDAQ declined 1.1%, and the Russell 2000 lost 0.3%. Breadth was positive as the NYSE Up Issues % came in at 43% and the Up Volume % was 42%. Total NYSE volume rose some from Friday's level.

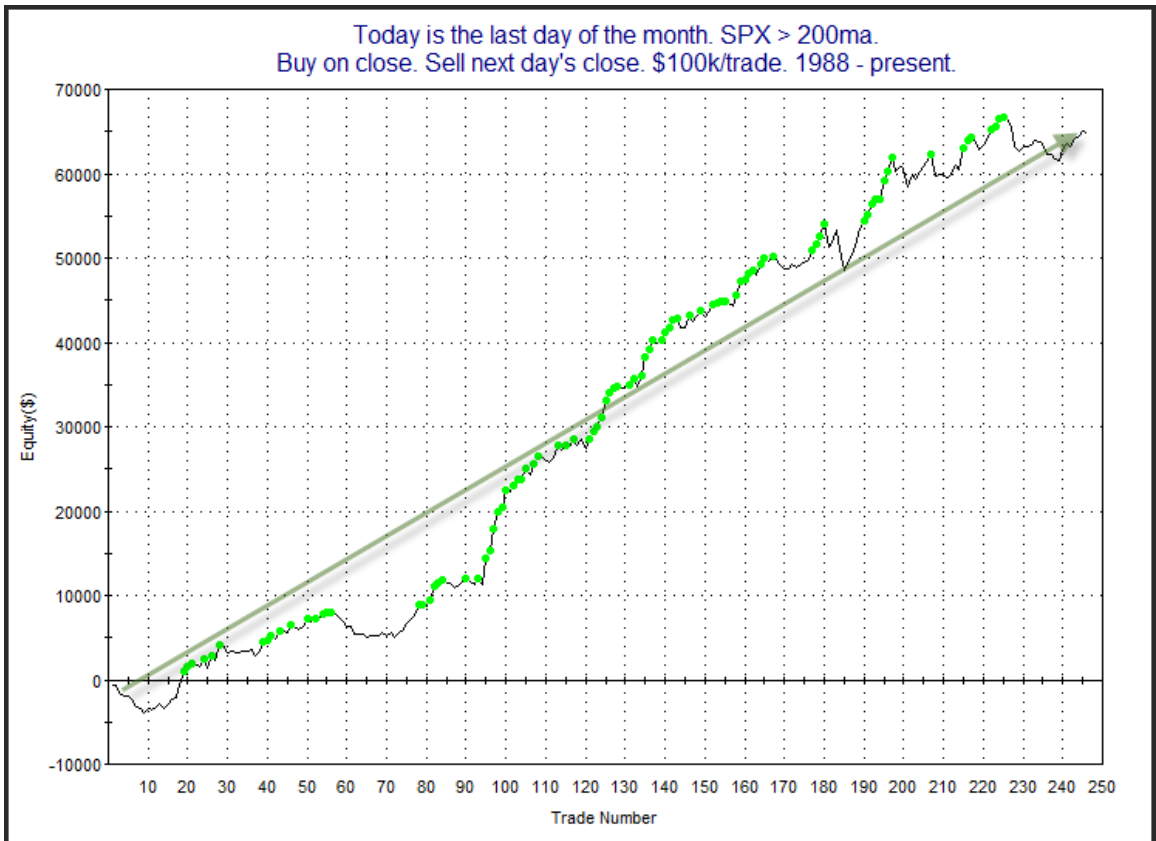
Tuesday is the 1st trading day of the month. The 1st trading day of the month is renowned for having a bullish tendency, though this edge has weakened quite a bit in recent years. It is also notable that this tendency has primarily played out during uptrending markets. During down times the 1st of the month has not been particularly bullish. Using the 200ma as our measure of uptrend versus downtrend, I will demonstrate this concept below.

This first study shows performance since 1988 of committing for the 1st of the month if the SPX is trading above its 200ma.

Today is the last day of the month. SPX > 200ma.
Buy on close. Sell next day's close. \$100k/trade. 1988 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$64,822.73	Profit Factor	2.27
Gross Profit	\$116,042.89	Gross Loss	(\$51,220.16)
Total Number of Trades	246	Percent Profitable	61.38%
Winning Trades	151	Losing Trades	95
Even Trades	0		
Avg. Trade Net Profit	\$263.51	Ratio Avg. Win:Avg. Loss	1.43
Avg. Winning Trade	\$768.50	Avg. Losing Trade	(\$539.16)
Largest Winning Trade	\$3,119.10	Largest Losing Trade	(\$2,617.60)

The numbers all look very solid. About 61% of the trades were winners, and the winners were about 1.5 times the size of the losers, making for a profit factor of 2.3. Below is an equity curve that graphically displays the results of this approach.



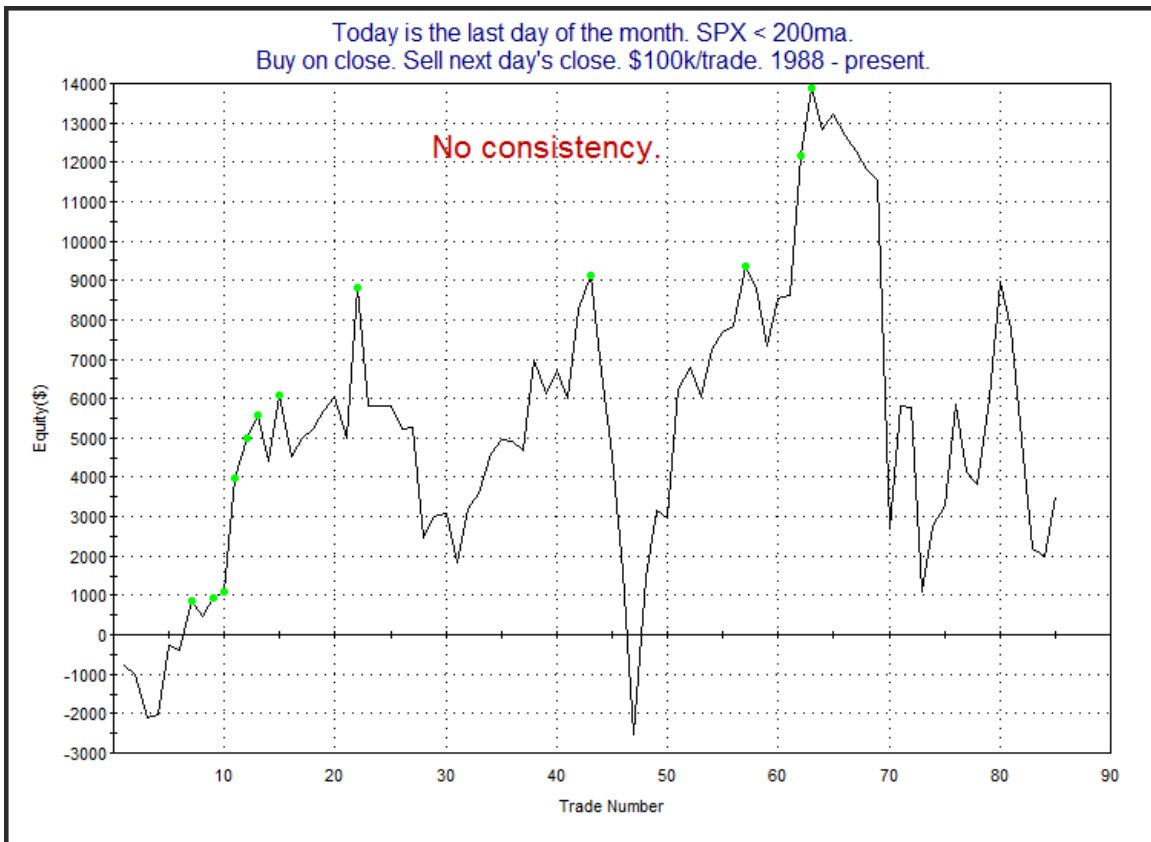
As I noted, recent years have not done as well, but the overall slope still appears up.

Next let's look at times like now when the SPX is below its 200ma.

Today is the last day of the month. SPX < 200ma.
Buy on close. Sell next days close. \$100k/trade. 1988 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$7,768.28	Profit Factor	1.16
Gross Profit	\$57,627.53	Gross Loss	(\$49,859.25)
Total Number of Trades	81	Percent Profitable	55.56%
Winning Trades	45	Losing Trades	36
Even Trades	0		
Avg. Trade Net Profit	\$95.90	Ratio Avg. Win:Avg. Loss	0.92
Avg. Winning Trade	\$1,280.61	Avg. Losing Trade	(\$1,384.98)
Largest Winning Trade	\$3,980.86	Largest Losing Trade	(\$8,883.33)

The numbers here net out to a positive number, but just barely. It certainly doesn't appear to be anything you would want to base a trade on. Below is an equity curve.



The extremely inconsistent results confirm this setup to be unreliable. So turn of the month does not appear to be providing a strong edge for Tuesday.

September has a well-earned reputation as the worst month of the year for the stock market. In 2010 and 2011 I looked at September performance following very weak August performances. This year we again have suffered a difficult August with the SPX closing down about 6.3%. Below is an updated version of the study from the 9/1/11 letter.

SPX closes down at least 4% for August. Buy SPX on close of last day in August. Sell close on last day of September. \$100k/trade. 1960 - 2014.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/31/66	Buy	\$77.10	(0.70%)	\$4,811.87
09/30/66	Sell	\$76.56		(\$2,684.79)
08/30/74	Buy	\$72.15	(11.93%)	\$1,191.96
09/30/74	Sell	\$63.54		(\$13,347.18)
08/31/81	Buy	\$122.78	(5.38%)	\$1,465.20
09/30/81	Sell	\$116.17		(\$10,248.26)
08/31/90	Buy	\$322.56	(5.12%)	\$1,230.70
09/28/90	Sell	\$306.05		(\$8,242.90)
08/29/97	Buy	\$899.47	5.32%	\$6,784.32
09/30/97	Sell	\$947.28		\$0.00
08/31/98	Buy	\$957.55	6.21%	\$11,289.20
09/30/98	Sell	\$1,017.05		(\$1,825.20)
08/31/01	Buy	\$1,133.58	(8.17%)	\$1,920.16
09/28/01	Sell	\$1,040.94		(\$16,617.04)
08/31/10	Buy	\$1,049.33	8.76%	\$10,243.85
09/30/10	Sell	\$1,141.20		\$0.00
08/31/11	Buy	\$1,218.89	(7.18%)	\$852.80
09/30/11	Sell	\$1,131.42		(\$8,582.94)

There may be a slight bearish bias but it is early to say for certain. One thing that is evident in all of these Septembers is that there was high volatility. The 1966 instance saw the smallest range with the market moving a little over 5% from high to low. Seven of the nine instances saw ranges of 9.4%+ in September. So I would not look for the action to dull this month.

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



Without any new studies making the Active List the green Aggregator Line dipped below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal turned short at the close.

Expectations are currently set to remain bearish on Tuesday. Of course this could change if more strong bullish evidence emerges. The Differential Pivot will be *inverted* at 1996.25 on Tuesday. That is 1.2% *above* Monday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. So for SPX to remain overbought versus expectations on Tuesday it will need to close up at least 1.2%. Anything short of that and it will be considered short-term oversold.

So there appears to be a bit of a downside edge. But the inverted pivot suggests it could be fleeting. I rarely look to take on positions when there is an inverted pivot, because if the directional bias plays out, then the position really only lasts one day. This somewhat limits reward and negatively skews the reward/risk. Adding to my concern about taking on short exposure here is the still-high CBI. As I stated yesterday, it is unlikely that I will

take on short exposure until the CBI is giving a more neutral reading. So it will be wait-and-see for me on Tuesday. But I will be ready to act on Wednesday should a strong edge emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/31 – neutral

The intermediate-term outlook was last updated in the 8/31 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

UTX – 1/3 @ \$93.01

ALL – 1/3 @ \$61.25

ALL 1/3 @ \$58.39 limit

IBM 1/3 @ \$143.47 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

MON 1/3 @ \$89.42 limit

QCOM 1/3 @ \$53.88 limit

SPG 1/3 @ \$177.09 limit

UTX 1/3 @ \$88.80 limit

Broad Market Large Cap CBI – 15

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
PG(1/3)	8/21/2015	\$73.55	\$70.67	-3.92%		Catapult
PG(1/3)	8/24/2015	\$68.57	\$70.67	3.06%		Catapult
MDLZ(1/3)	8/24/2015	\$41.12	\$42.68	3.79%		<i>sold on open</i>
UTX(1/3)	8/24/2015	\$88.67	\$91.61	3.32%		Catapult
ALL(1/3)	8/24/2015	\$60.11	\$58.28	-3.04%		Catapult
ALL(1/3)	8/25/2015	\$58.39	\$58.28	-0.19%		Catapult
IBM(1/3)	8/25/2015	\$143.47	\$147.89	3.08%		Catapult
MDLZ(1/3)	8/25/2015	\$41.96	\$42.68	1.72%		<i>sold on open</i>
PG(1/3)	8/25/2015	\$69.14	\$70.67	2.21%		Catapult
SPG(1/3)	8/25/2015	\$182.07	\$179.32	-1.51%		Catapult
UTX(1/3)	8/25/2015	\$90.87	\$91.61	0.81%		Catapult
ALL(1/3)	8/26/2015	\$56.99	\$58.28	2.26%		Catapult
MDLZ(1/3)	8/26/2015	\$41.31	\$42.68	3.32%		<i>sold on open</i>

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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