

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 4, 2015

Volume 8 Issue 171

Market Overview



Signals Overview

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

Tonight's Research Points

- The Friday before Labor Day has been seasonally strong.
- Monday's extremely low volume casts doubt on the move higher. Such moves have often been followed by pullback when the SPX has been in a similar position.

Short-term Outlook

The Bottom Line

Evidence is still quite mixed. Though the Aggregator is bullish, the reward/risk does not appear great. I still don't believe the edge is strong enough to take an index trade..

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						
September 3, 2015	SPY 1.5% drop. Unfill gap up > yest hi	1-3 days	Bullish			
September 3, 2015	VXO 15% drop	1-2 days	Bearish			
August 28, 2015	2% Rally. Low Volume 5 days.	1-5 days	Bearish			
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			

The Evidence

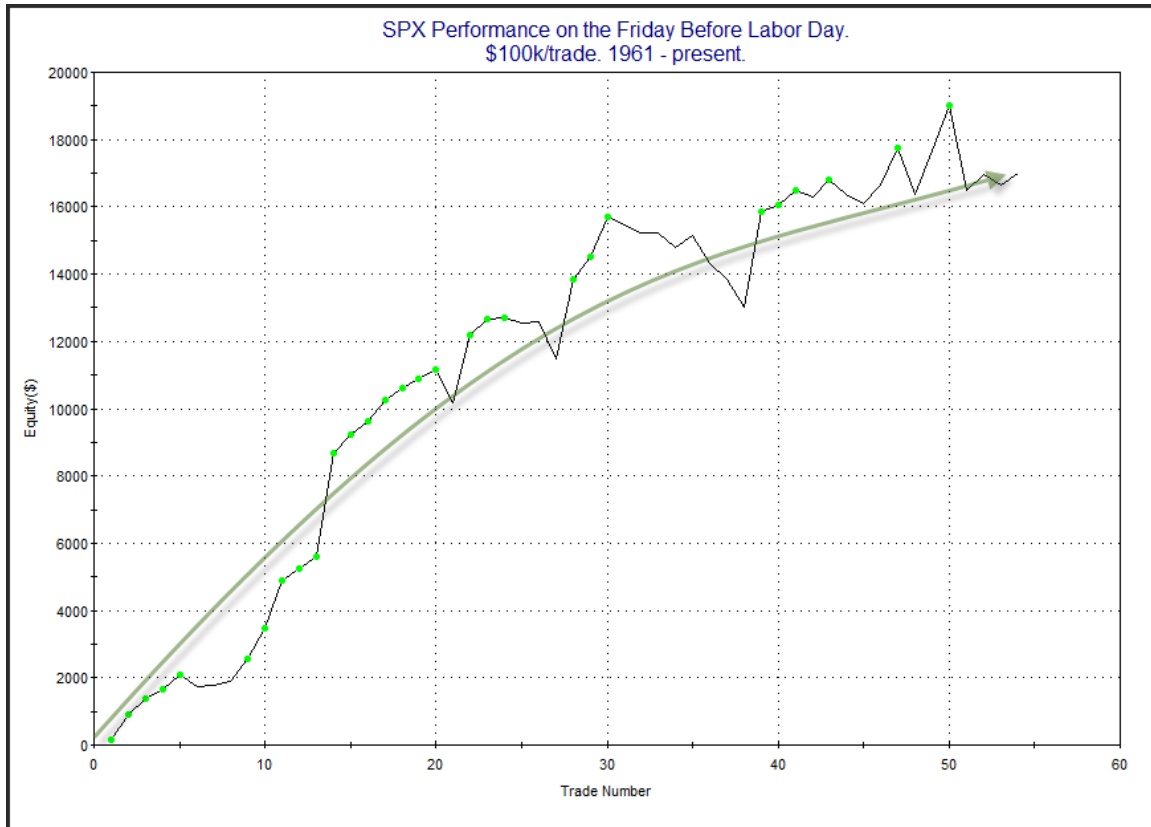
Thursday started strong but finished mixed for the market. The SPX rose 0.1%, the NASDAQ declined 0.4%, and the Russell 2000 fell 0.1%. Breadth was positive as the NYSE Up Issues % came in at 65% and the Up Volume % was 70%. Total NYSE volume declined to a very low level – perhaps somewhat inspired by the coming holiday weekend.

The Quantifinder came up with a mix of studies tonight. Below are the ones I found compelling.

The Friday before Labor Day has long been a strong day for the market. Below is a stats table based on buying the Thursday before Labor Day and selling the close on Friday. This study last appeared in the 8/29/14 Letter and is updated.

SPX Performance on the Friday Before Labor Day. \$100k/trade. 1961 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$16,992.57	Profit Factor	2.58
Gross Profit	\$27,724.70	Gross Loss	(\$10,732.13)
Total Number of Trades	54	Percent Profitable	70.37%
Winning Trades	38	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	\$314.68	Ratio Avg. Win:Avg. Loss	1.09
Avg. Winning Trade	\$729.60	Avg. Losing Trade	(\$670.76)
Largest Winning Trade	\$3,084.48	Largest Losing Trade	(\$2,527.35)

With 70% of the days finishing higher, a profit factor of over 2.5, and an average trade over 0.3% the stats are quite compelling. Below you can see how the edge has evolved over time.



While the 60s and 70s look a little stronger the upside edge still appears to be intact. I have included this study on the Active List tonight.

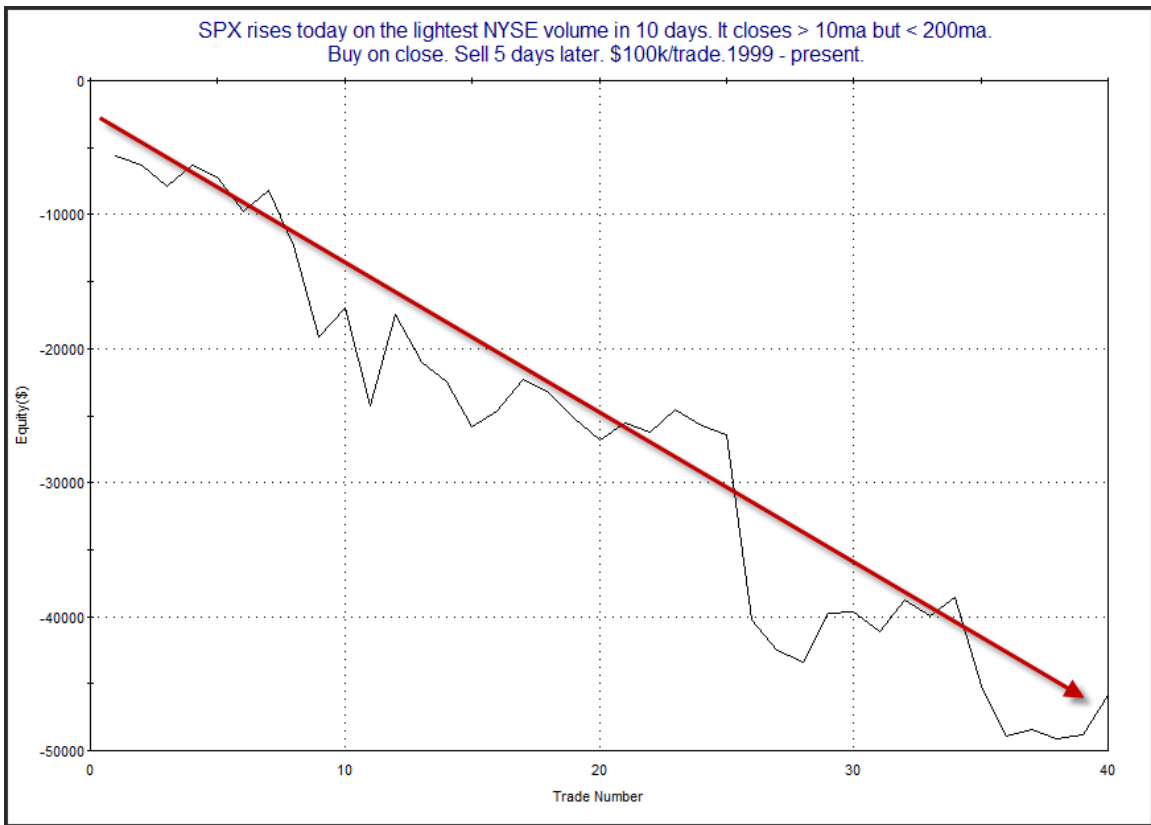
But other evidence tonight pointed lower. Very low volume while the market is rising is often a bearish sign. In the 11/8/11 subscriber letter I examined this. The study below took into account not only the low-volume rise but also the position of the market in relation to its short and long-term moving averages.

SPX rises today on the lightest NYSE volume in 10 days. It closes > 10ma but < 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	-45,846.54	40	15	25	37.50	2,000.81	6,877.04	-3,034.35	-13,784.48	0.66	0.40	-1,146.16
4	-37,605.51	42	19	23	45.24	1,976.97	5,734.40	-3,268.17	-10,971.63	0.60	0.50	-895.37
3	-29,546.73	43	16	27	37.21	1,802.26	4,455.68	-2,162.33	-7,806.29	0.83	0.49	-687.13
2	-30,766.85	44	20	24	45.45	1,027.91	2,192.44	-2,138.55	-8,950.62	0.48	0.40	-699.25
1	-9,033.71	49	24	25	48.98	1,120.52	4,699.94	-1,437.04	-8,883.33	0.78	0.75	-184.36

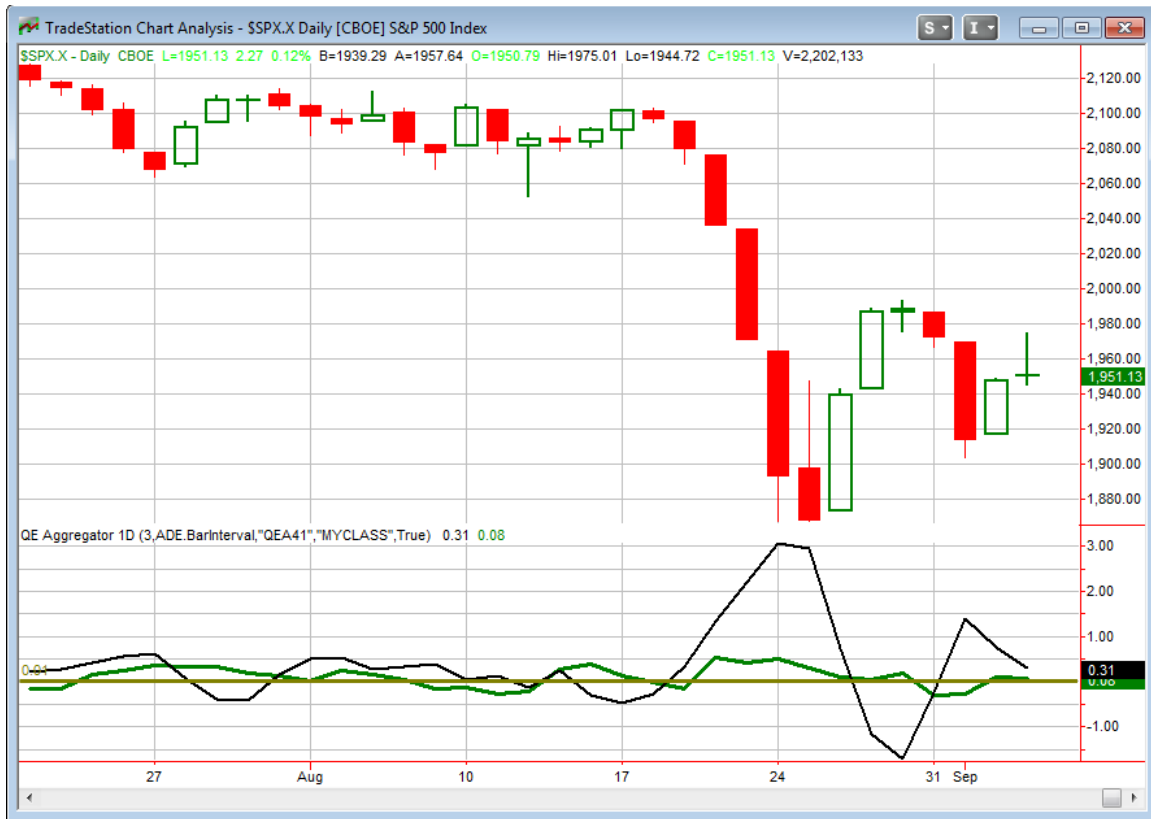
88% of instances closed below the entry price at some point in the next week.

The numbers here appear fairly compelling for the bears. Below is a profit curve for a 5-day holding period.



The strong and relatively smooth downslope suggests a bearish edge. I have also included this study on the active list. So for the 2nd night in a row we are seeing a mix of bullish and bearish evidence being added to the equation.

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



Despite the mix of studies tonight the green Aggregator Line held 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 is also just a little above 0. The positive Differential Line reading means SPX is 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 flip to bearish on Friday. Of course this could change if more new bullish evidence emerges. The Differential Pivot will be *inverted* at 1905.51 on Friday. That is 2.3% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. So in this case, SPX is going to need to close down at least 2.3% on Friday in order to remain "oversold" versus expectations. Any less of a selloff and it will be considered short-term "overbought" as of Friday's close.

So the bullish Aggregator signal remains in effect for Friday. But the inverted Differential Pivot and the expectations slated to turn negative mean the Aggregator formation could easily turn bearish on Friday. In other words, the bullish outlook will likely be short-lived. It is not strong enough to get me interested in trying a trade. And if someone wanted to trade it they would need to be nimble and would likely want to get out with any profits by the end of the day on Friday. So for me this means a bit more waiting. I have no problem exercising a little patience in a wild market like this one.

On another note, the remaining Catapult signals have yet to reach their target. So the CBI remains elevated at 15. A strong up day on Friday could cause this number to dive, but for now I remain extremely hesitant to short until the CBI gets back to a neutral (low) reading.

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	\$69.93	-4.92%		Catapult
PG(1/3)	8/24/2015	\$68.57	\$69.93	1.98%		Catapult
UTX(1/3)	8/24/2015	\$88.67	\$91.91	3.65%		Catapult
ALL(1/3)	8/24/2015	\$60.11	\$57.98	-3.54%		Catapult
ALL(1/3)	8/25/2015	\$58.39	\$57.98	-0.70%		Catapult
IBM(1/3)	8/25/2015	\$143.47	\$146.78	2.31%		Catapult
PG(1/3)	8/25/2015	\$69.14	\$69.93	1.14%		Catapult
SPG(1/3)	8/25/2015	\$182.07	\$177.92	-2.28%		Catapult
UTX(1/3)	8/25/2015	\$90.87	\$91.91	1.14%		Catapult
ALL(1/3)	8/26/2015	\$56.99	\$57.98	1.74%		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.

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