

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 10, 2015

Volume 8 Issue 174

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	Flat	Short

Tonight's Research Points

- Sharp drops that only partially retrace gains from the day before are often followed by more selling the next day.
- 1% drops after FTDs are often followed by more selling the next day.

Short-term Outlook

The Bottom Line

Bearish evidence continues to dominate but the market is now short-term oversold. This is leaving me largely neutral.

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 10, 2015	1% drop but < 3/4 of yesterday's gain	1 day	Bearish			
September 10, 2015	1% Drop The Day After FTD	1 day	Bearish			
September 9, 2015	QE Buying Power System short signal	1-6 days	Bearish			
September 9, 2015	FTD on mild breadth & volume	1-2 days	Bearish			
September 8, 2015	SPX dn 1% before 3-day US-only wknd	1-4 days	Bearish	-3.20%	1.00%	1.90%
September 4, 2015	Lowest volume in 10. SPX > 10ma < 200	1-5 days	Bearish			
Active - Long Term						
September 9, 2015	FTD on mild breadth & volume	int term	Bearish			
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			

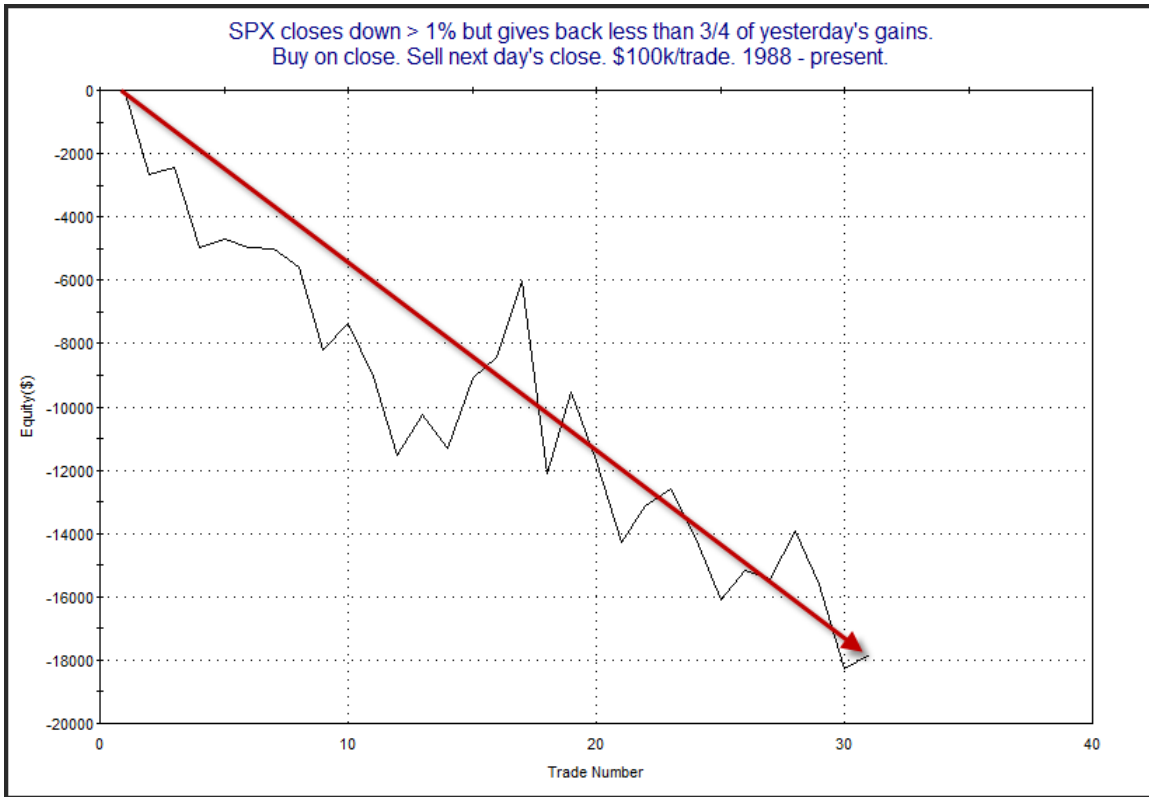
The Evidence

The negative bias suggested by the studies last night certainly played out during the day on Wednesday. The SPX finished down 1.4%, the NASDAQ declined 1.2%, and the Russell 2000 lost 1.2%. Breadth was negative as the NYSE Up Issues % came in at 30% and the Up Volume % was 14%. Total NYSE volume rose from Tuesday's level.

Today's pullback was sizable but a bit different than many others because it followed a day where the market posted very strong gains. In the 10/20/11 subscriber letter I looked at other instances where a sharp drop occurred but the drop was not even able to erase as much as three quarters of the previous day's gains. I have updated the results of that study below.

SPX closes down > 1% but gives back less than 3/4 of yesterday's gains. Buy on close. Sell next day's close. \$100k/trade. 1988 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$17,835.45)	Profit Factor	0.46
Gross Profit	\$15,015.38	Gross Loss	(\$32,850.83)
Total Number of Trades	31	Percent Profitable	41.94%
Winning Trades	13	Losing Trades	18
Even Trades	0		
Avg. Trade Net Profit	(\$575.34)	Ratio Avg. Win:Avg. Loss	0.63
Avg. Winning Trade	\$1,155.03	Avg. Losing Trade	(\$1,825.05)

Here we see that in most circumstances the market dip continues for another day before chopping around. Below is a profit curve to see how the edge has played out over time.

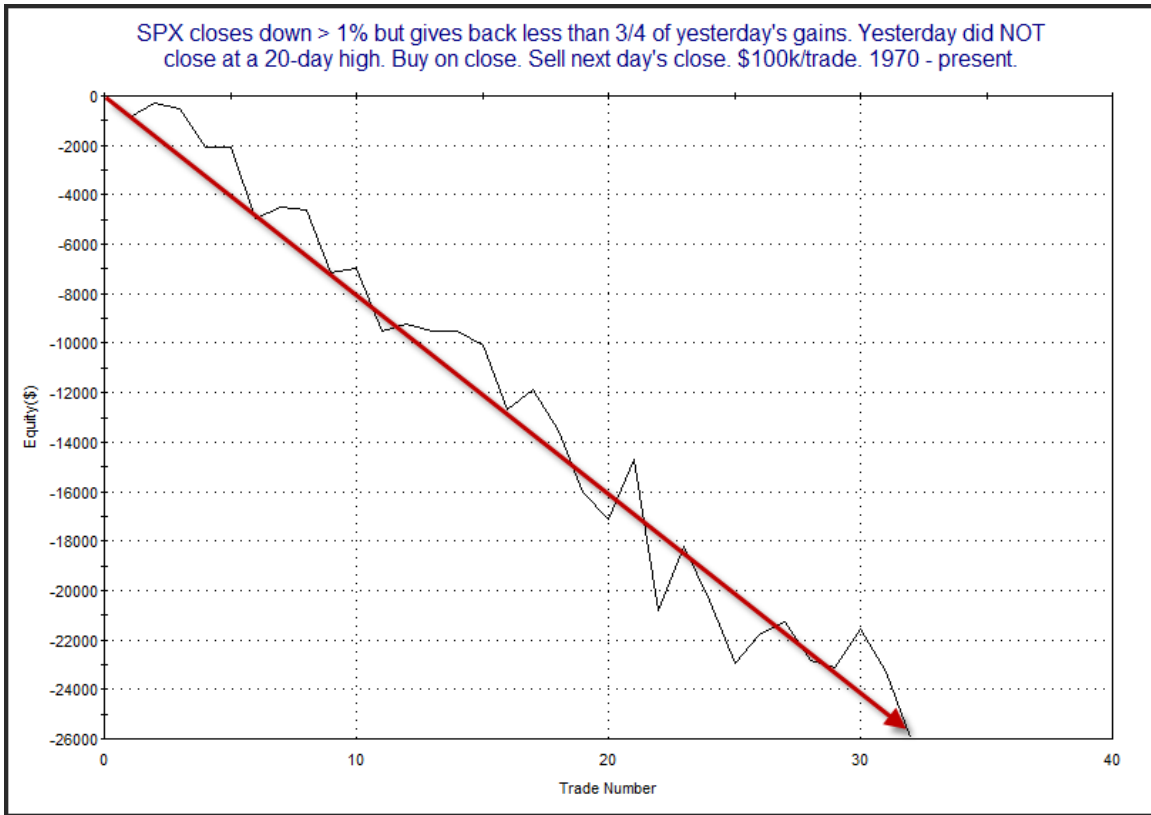


Some studies suggested that 1% drops that occur from under 20-day highs are generally more likely to bounce. So in the 9/9/2011 letter I applied this concept to the above study. I also lengthened the look-back a bit so as to get a good sized number of instances. Those results are updated below.

SPX closes down > 1% but gives back less than 3/4 of yesterday's gains. Yesterday did NOT close at a 20-day high. Buy on close. Sell next day's close. \$100k/trade. 1970 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	(\$25,930.45)	Profit Factor	0.29
Gross Profit	\$10,510.42	Gross Loss	(\$36,440.87)
Total Number of Trades	32	Percent Profitable	31.25%
Winning Trades	10	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	(\$810.33)	Ratio Avg. Win:Avg. Loss	0.63
Avg. Winning Trade	\$1,051.04	Avg. Losing Trade	(\$1,656.40)
Largest Winning Trade	\$2,568.00	Largest Losing Trade	(\$6,060.08)

Stats here are even more bearish. Below is a look at the profit curve.



Looking at the profit curve the downside edge appears to be both consistent and strong. I have included this study on tonight's active list.

It is also notable that Tuesday was a Follow Through Day (FTD). Having a recent FTD in effect is a market condition that I have found useful as a filter in the past. The study below is from the 5/31/12 letter and it looks at large drops immediately following a FTD. Results are updated.

SPX closes down > 1% on the day after a Follow Through Day.
Buy SPX on close. Sell X days later. \$100k/trade. 1971 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	(\$15,107.33)	Profit Factor		0.06
Gross Profit	\$975.68	Gross Loss		(\$16,083.01)
Total Number of Trades	12	Percent Profitable		25.00%
Winning Trades	3	Losing Trades		9
Even Trades	0			
Avg. Trade Net Profit	(\$1,258.94)	Ratio Avg. Win:Avg. Loss		0.18
Avg. Winning Trade	\$325.23	Avg. Losing Trade		(\$1,787.00)
Largest Winning Trade	\$451.82	Largest Losing Trade		(\$4,302.72)

The number of trades is a bit low, but the early indications appear to strongly favor another day of selling. Especially impressive is the fact that the average of the 9 down instances was nearly 4x as large as the biggest up day. That is a risk/reward scenario that strongly suggests a 1-day downside edge. Below is a more detailed look at the instances.

SPX closes down > 1% on the day after a Follow Through Day. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
03/30/73	Buy	\$111.52	(1.20%)	\$161.28
04/02/73	Sell	\$110.18		(\$1,648.64)
08/03/82	Buy	\$107.83	(1.58%)	\$0.00
08/04/82	Sell	\$106.13		(\$2,085.75)
08/18/83	Buy	\$163.55	0.26%	\$898.17
08/19/83	Sell	\$163.97		(\$782.08)
04/22/87	Buy	\$287.18	(0.13%)	\$675.12
04/23/87	Sell	\$286.82		(\$1,009.20)
09/09/98	Buy	\$1,006.20	(2.58%)	\$0.00
09/10/98	Sell	\$980.20		(\$3,717.45)
04/26/00	Buy	\$1,460.99	0.27%	\$558.96
04/27/00	Sell	\$1,464.92		(\$1,780.24)
10/25/00	Buy	\$1,364.90	(0.03%)	\$570.86
10/26/00	Sell	\$1,364.44		(\$1,980.49)
01/04/01	Buy	\$1,333.29	(2.61%)	\$111.00
01/05/01	Sell	\$1,298.47		(\$2,875.50)
03/09/01	Buy	\$1,233.42	(4.31%)	\$0.00
03/12/01	Sell	\$1,180.30		(\$4,587.84)
04/02/01	Buy	\$1,145.85	(3.44%)	\$0.00
04/03/01	Sell	\$1,106.40		(\$3,972.42)
10/19/11	Buy	\$1,209.88	0.46%	\$791.30
10/20/11	Sell	\$1,215.39		(\$1,028.28)
05/30/12	Buy	\$1,313.32	(0.23%)	\$487.92
05/31/12	Sell	\$1,310.33		(\$1,095.92)
		Avg Run-Up: \$354	Avg Drawdn: -\$2,213	

Overall I find these results compelling enough to include this study on the Active List.

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



The bearish studies tonight helped the green Aggregator Line sink further below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line managed to inch up above 0. The positive Differential Line reading means SPX is now oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 bearish on Thursday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be *inverted* at 1920.64 on Thursday. That is 1.1% *below* Wednesday's close. An inverted pivot means that the Differential Line would cross through zero if SPX closes flat. In this case SPX would need to close down at least 1.1% on Thursday in order to remain oversold versus

expectations. Anything short of that and it will be considered overbought as of Thursday's close.

So the Aggregator is back to neutral. I'm still non-committal as well. Most evidence is pointing lower despite the fact that the market sold off hard on Wednesday and is now oversold. So there could very well be downside follow-through in the next few days. The CBI is now down to 7. Not quite neutral, but back below the 10 level for the 1st time in a while. Most of the massive cluster of Catapult signals provided nice gains. These last stragglers may end up losers, but a few losers is to be expected in such a huge cluster of Catapult trades. Once the CBI returns to 3 or lower that is considered "neutral". I'd be much more comfortable shorting if that were the case. But I'll need to wait until the market is no longer oversold to consider a short position anyway. So I'll remain patient in this volatile market. I'm content with the gains from the last few weeks and awaiting the next strongly favorable reward/risk setup to put new capital to work.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/8– neutral

The intermediate-term outlook was last updated in the 9/8/15 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

PG 1/3 @ \$69.14 limit – 3rd lot

SPG 1/3 @ \$182.07 limit

MON 1/3 @ \$89.42 limit

QCOM 1/3 @ \$53.88 limit

SPG 1/3 @ \$177.09 limit

Broad Market Large Cap CBI – 7

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	\$68.48	-6.89%		Catapult
PG(1/3)	8/24/2015	\$68.57	\$68.48	-0.13%		Catapult
UTX(1/3)	8/24/2015	\$88.67	\$93.65	5.62%		sold on open
ALL(1/3)	8/24/2015	\$60.11	\$57.35	-4.59%		sell on open
ALL(1/3)	8/25/2015	\$58.39	\$57.35	-1.78%		sell on open
IBM(1/3)	8/25/2015	\$143.47	\$145.05	1.10%		sell on open
PG(1/3)	8/25/2015	\$69.14	\$68.48	-0.95%		Catapult
SPG(1/3)	8/25/2015	\$182.07	\$174.60	-4.10%		Catapult
UTX(1/3)	8/25/2015	\$90.87	\$93.65	3.06%		sold on open
ALL(1/3)	8/26/2015	\$56.99	\$57.35	0.63%		sell on open

ALL & IBM hit their intraday target prices and those trade ideas will be exited at Thursday's 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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