

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 25, 2015

Volume 8 Issue 185

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	75% Long XIV	Flat

Tonight's Research Points

- When SPY closes near the top of its range but still down for at least the third consecutive day, a move higher is often seen over the next 2 days.

Short-term Outlook

The Bottom Line

Expectations are now bullish and the market is still oversold. I am leaning bullish, but not greatly.

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 25, 2015	3 down. Close top 25% of range.	1-2 days	Bullish			
Active - Long Term						
September 9, 2015	FTD on mild breadth & volume	int term	Bearish			
August 31, 2015	NASDAQ leading SPX	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
September 21, 2015	September post-opex weakest week	1-4 days	Bearish			
September 21, 2015	1st 5-low in 10 days	1-4 days	Bullish			

The Evidence

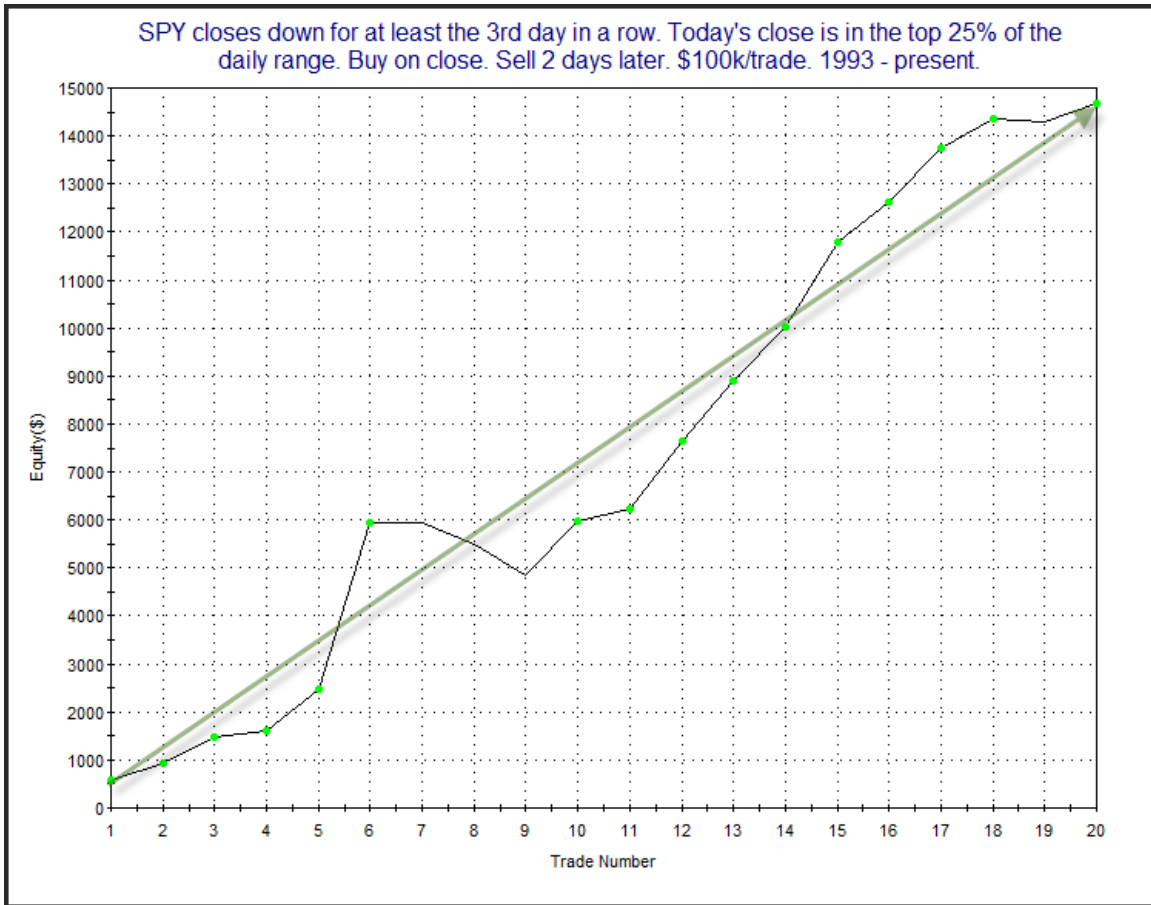
Thursday started off bad, but losses were pretty moderate by the time 4pm EST came. The SPX finished the day down 0.3%, the NASDAQ lost 0.4%, and the Russell 2000 dropped 0.2%. Breadth was negative as the NYSE Up Issues % came in at 40% and the Up Volume % was 41%. Total NYSE volume rose some from Wednesday's level.

What intrigued me about today's action was that the market closed down for the 3rd day in a row but still enjoyed a strong reversal. This is something I looked at in the 12/28/12 subscriber letter. I have updated the study below.

SPY closes down for at least the 3rd day in a row. Today's close is in the top 25% of the daily range. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Collapse
All Trades				
Total Net Profit	\$14,689.49	Profit Factor	13.68	
Gross Profit	\$15,847.81	Gross Loss	(\$1,158.32)	
Total Number of Trades	20	Percent Profitable	80.00%	
Winning Trades	16	Losing Trades	4	
Even Trades	0			
Avg. Trade Net Profit	\$734.47	Ratio Avg. Win:Avg. Loss	3.42	
Avg. Winning Trade	\$990.49	Avg. Losing Trade	(\$289.58)	
Largest Winning Trade	\$3,498.30	Largest Losing Trade	(\$627.59)	

Stats here appear strongly bullish. Not only is there a very high percentage of winners, but the average win dwarfed the average loss. This made for a gaudy profit factor of over 13 and a good-sized average trade. Let's also take a look at the profit curve.



The strong, steady upslope is appealing and makes the study more compelling. The one possible concern I had was that the setup is occurring below the 200ma. Sometimes pullback studies like this tend to work a lot better when above the 200ma than below it. So I checked to see how instances did that occurred below the 200ma.

SPY closes down for at least the 3rd day in a row. Today's close is > 200ma but in the top 25% of the daily range. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/08/98	Buy	\$96.59	3.50%	\$5,019.75
10/12/98	Sell	\$99.97		(\$1,386.90)
03/03/08	Buy	\$133.50	0.25%	\$951.23
03/05/08	Sell	\$133.83		(\$1,879.99)
08/16/10	Buy	\$108.26	1.41%	\$1,965.99
08/18/10	Sell	\$109.79		\$0.00
09/06/11	Buy	\$116.99	1.75%	\$3,373.30
09/08/11	Sell	\$119.04		\$0.00

Unfortunately there have only been 4 prior instances. So it would be dangerous to draw any solid conclusions based on this evidence alone. But they do not do anything that would dissuade me from incorporating the broader study into my thinking. So I have included the broader study on the Active List tonight.

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



With tonight's new study taken into account the green Aggregator Line rose above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained 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 turned long at the close.

Based on the current active studies, expectations are currently set to remain positive on Friday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1938.73 on Friday. That is 0.3% above Thursday's close. Therefore, for SPX to move from overbought back to oversold on Friday it would only need to close up 0.3%.

So the Aggregator is suggesting a short-term bullish edge. And to me it appears there may be a small one. If my intermediate-term outlook were not bearish I would certainly be looking to take advantage of this with some long index exposure. But I am not inclined to at this point. The short-term bullish evidence is primarily just the one study. There is nothing else confirming it at the moment. And with the Differential Pivot pretty nearby, it appears potential reward is fairly limited. There were 2 new Catapult triggers that appeared. And so I will look to gain a bit more exposure that way. But I will not take on new index exposure just yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/21– slightly bearish

The intermediate-term outlook was last updated in the 9/21 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

MON 1/3 @ \$89.42 limit (not filled and was cancelled)

MON 1/3 @ \$86.50 limit

MON 1/3 @ \$84.38 limit

New!

QCOM - 1/3 @ \$53.27

TWX – 1/3 @ \$67.62

Broad Market Large Cap CBI – 5(MON-3, QCOM, TWX)

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.

QCOM – buy 1/3 Catapult position @ \$53.27 LIMIT. This is the 1st of 3 possible lots of QCOM.

TWX – buy 1/3 Catapult position @ \$67.62 LIMIT. This is the 1st of 3 possible lots of TWX.

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](#).

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MON(1/3)	9/23/2015	\$86.42	\$83.95	-2.86%		Catapult
MON(1/3)	9/24/2015	\$83.83	\$83.95	0.14%		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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