

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 29, 2015

Volume 8 Issue 187

Market Overview



Signals Overview

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

Tonight's Research Points

- 4 down days with today the largest and tomorrow Tuesday suggests upside.
- 2.5% drops in SPX following a 5-day low have typically been followed by a strong and quick bounce.
- The spiking CBI suggests a bounce.

Short-term Outlook

The Bottom Line

The strong selloff on Monday brought about strongly bullish short-term evidence. And with the market now strongly oversold, there appears to be a substantial upside edge for the next few days.

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 29, 2015	CBI >= 10. SPX < 200ma.	1-8 days	Bullish			
September 29, 2015	Dn 4 days. Big drop. Monday.	1-2 days	Bullish			
September 29, 2015	2.5% drop from 5-day low < 200ma	1-2 days	Bullish			
Active - Long Term						
September 29, 2015	CBI >= 11. SPX < 200ma.	1-20 days	Bullish			
September 9, 2015	FTD on mild breadth & volume	int term	Bearish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
September 28, 2015	3+ down. Smallest drop of decline. <200	1 day	Bullish			
September 25, 2015	3 down. Close top 25% of range.	1-2 days	Bullish			

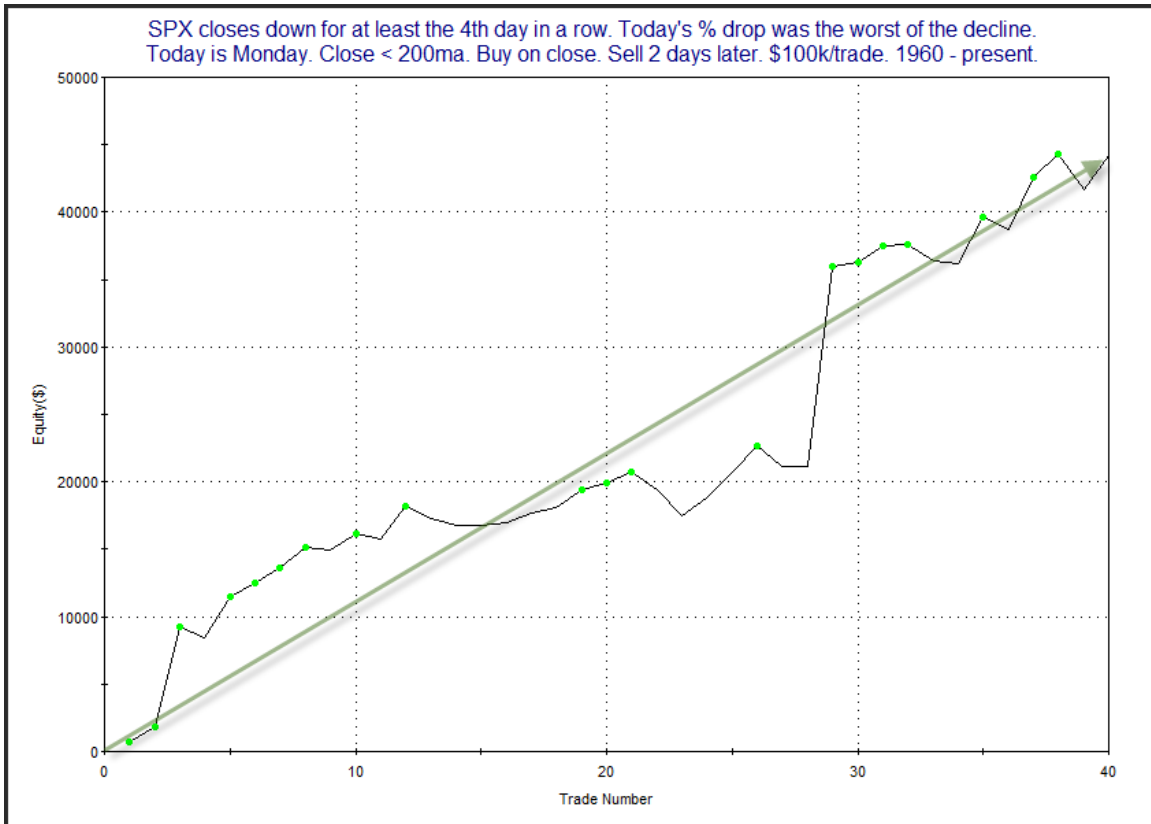
The Evidence

The market got clobbered on Monday. The SPX finished the day down 2.6%, the NASDAQ lost 3.0%, and the Russell 2000 dropped 2.9%. Breadth was negative as the NYSE Up Issues % came in just under 10% and the Up Volume % was 5%. Total NYSE volume rose some from Friday's level.

The Quantifinder showed a few studies that dealt with edges related to multi-day drops and Turnaround Tuesdays. The one below was from the 11/22/11 subscriber letter. It was perhaps the most compelling along these lines. I have updated the results.

SPX closes down for at least the 4th day in a row. Today's % drop was the worst of the decline. Today is Monday. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - 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
10	66,490.92	38	25	13	65.79	3,891.34	13,728.48	-2,368.66	-4,314.24	1.64	3.16	1,749.76
9	61,515.35	38	26	12	68.42	3,414.40	11,965.80	-2,271.58	-4,134.48	1.50	3.26	1,618.83
8	63,113.17	38	26	12	68.42	3,091.44	8,853.36	-1,438.69	-3,466.80	2.15	4.66	1,660.87
7	39,563.46	38	25	13	65.79	2,489.69	5,222.90	-1,744.52	-3,497.66	1.43	2.74	1,041.14
6	35,373.78	38	23	15	60.53	2,659.26	5,204.89	-1,719.29	-3,598.39	1.55	2.37	930.89
5	21,536.13	40	21	19	52.50	2,590.79	6,853.60	-1,730.02	-4,741.38	1.50	1.66	538.40
4	34,352.26	40	22	18	55.00	2,267.91	10,385.16	-863.43	-2,476.48	2.63	3.21	858.81
3	35,151.36	40	23	17	57.50	2,272.93	10,398.48	-1,007.41	-2,847.73	2.26	3.05	878.78
2	44,163.48	40	27	13	67.50	2,102.23	14,891.76	-968.99	-2,588.77	2.17	4.51	1,104.09
1	18,330.56	40	23	17	57.50	1,256.30	5,328.00	-621.43	-1,544.01	2.02	2.74	458.26

The numbers here all look very impressive. As you'll see below, the profit curve does also.



The persistent upslope serves as some confirmation of the bullish edge suggested by the numbers.

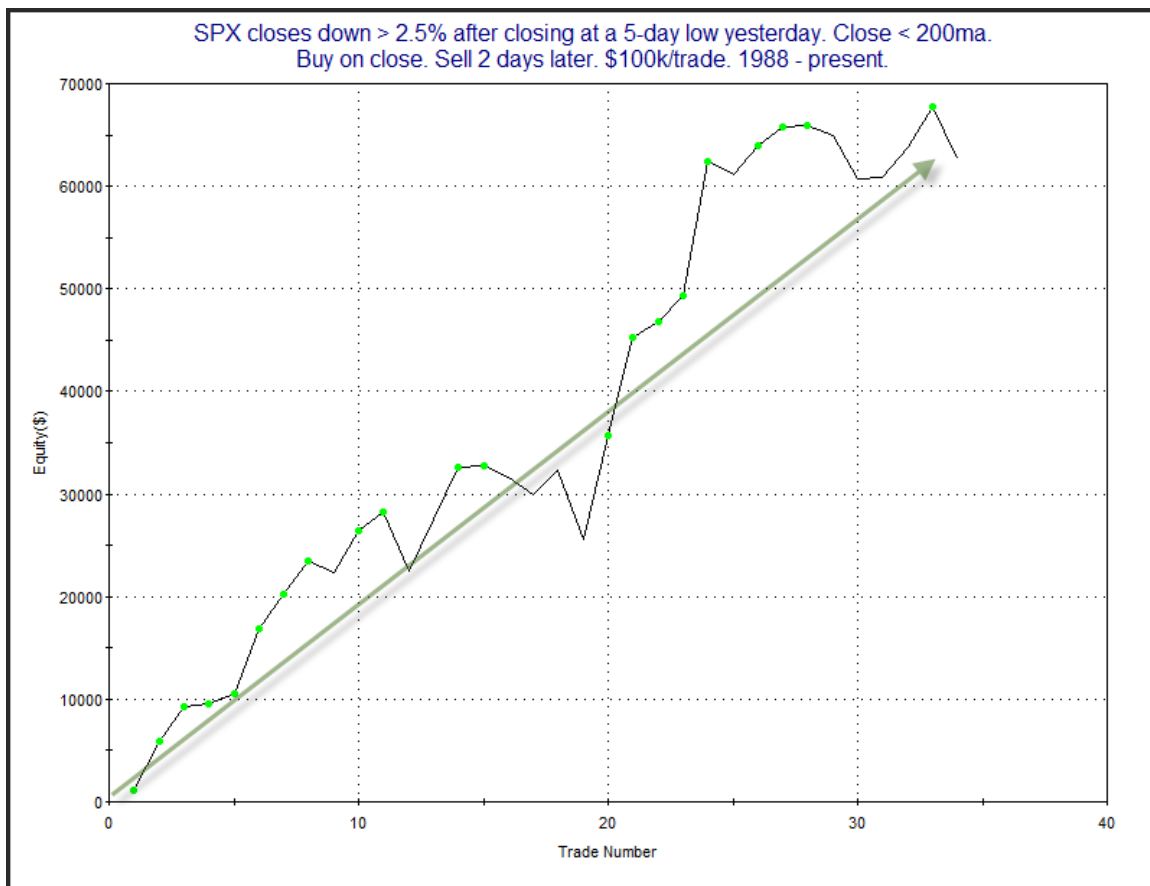
In the 10/4/11 letter I showed some studies that examined sharp 1-day SPX drops of at least 2.5%. I found that drops from already-low areas produced a greater edge. The study below matched the current situation. It looks at strong drops from short-term lows in long-term downtrends.

SPX closes down > 2.5% after closing at a 5-day low yesterday. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	83,715.61	29	22	7	75.86	4,744.25	18,981.60	-2,951.11	-6,440.08	1.61	5.05	2,886.75
4	39,478.84	32	20	12	62.50	4,318.57	17,851.68	-3,907.71	-14,820.98	1.11	1.84	1,233.71
3	58,817.69	33	20	13	60.61	4,514.91	13,853.40	-2,421.58	-13,815.18	1.86	2.87	1,782.35
2	62,648.40	34	25	9	73.53	3,635.96	13,116.84	-3,138.95	-6,763.30	1.16	3.22	1,842.60
1	44,695.35	37	24	13	64.86	2,829.14	10,716.03	-1,784.93	-5,702.04	1.59	2.93	1,207.98

94% of instances closed above the entry price at some point in the next week.

Numbers here appear strongly bullish. I also produced a profit curve for the 2-day holding period.



The last instance did not pan out, but the curve still looks appealing. I have included this study on the Active List as well.

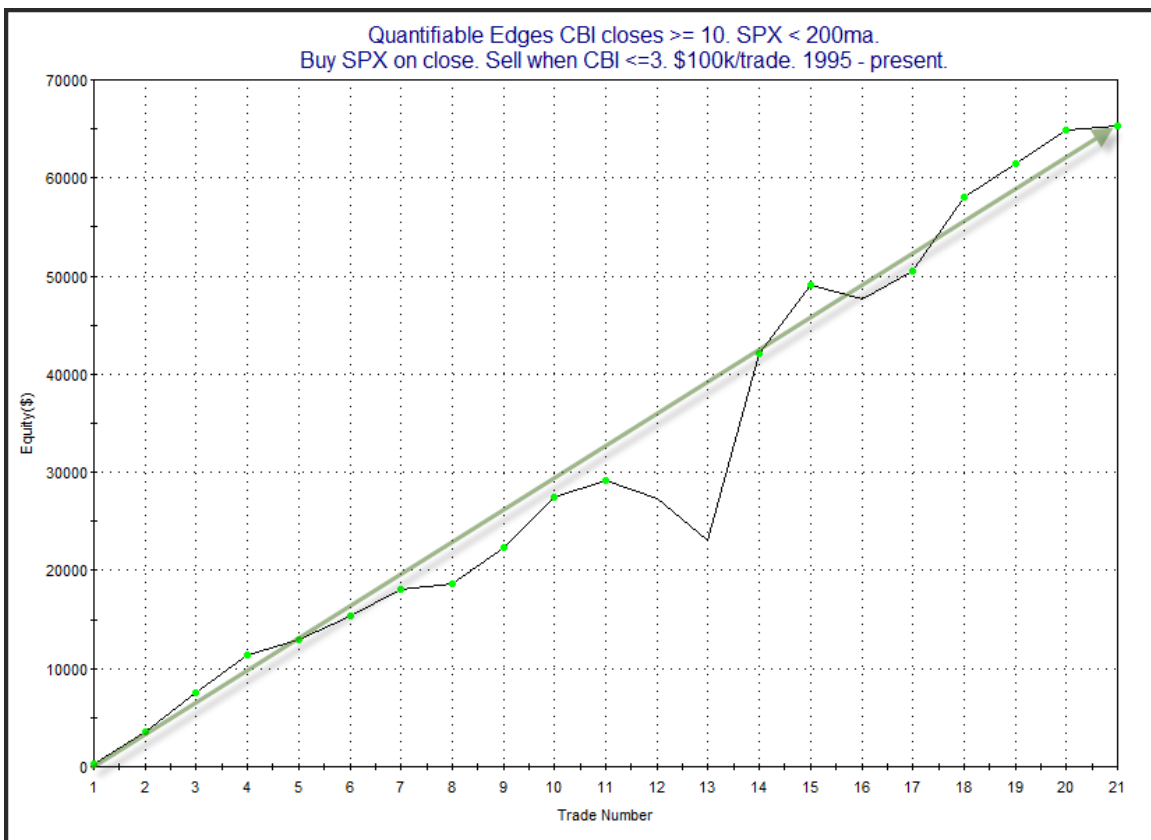
There were also a few new Catapults that triggered on Monday. This caused the CBI to rise from 7 to 12. This is above the 10 or 11 that has historically been followed by a bounce on a reliable basis. I have included below a few CBI studies.

This first CBI-related study examines other times the CBI reached 10 while SPX was below its 200-day moving average. It only looks to exit the position after the CBI has returned to neutral (3 or lower).

Quantifiable Edges CBI closes ≥ 10 . SPX $< 200ma$.
 Buy SPX on close. Sell when CBI ≤ 3 . \$100k/trade. 1995 - present.

TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	\$65,298.62	Profit Factor	9.64
Gross Profit	\$72,859.34	Gross Loss	(\$7,560.72)
Total Number of Trades	21	Percent Profitable	85.71%
Winning Trades	18	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$3,109.46	Ratio Avg. Win:Avg. Loss	1.61
Avg. Winning Trade	\$4,047.74	Avg. Losing Trade	(\$2,520.24)
Largest Winning Trade	\$18,981.60	Largest Losing Trade	(\$4,214.00)

The record is impressive. Below is the profit curve.



No red flags here. I also looked at these instances to see how they performed over the next 1-20 days. Those results are below.

Quantifiable Edges CBI closes ≥ 10 . SPX $< 200ma$.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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
20	98,415.21	21	18	3	85.71	5,986.96	17,878.08	-3,116.68	-9,103.22	1.92	11.53	4,686.44
19	89,309.37	21	17	4	80.95	6,140.91	17,534.88	-3,771.53	-9,779.42	1.63	6.92	4,252.83
18	93,627.41	21	18	3	85.71	5,937.51	20,061.36	-4,415.91	-6,608.14	1.34	8.07	4,458.45
17	99,970.71	21	18	3	85.71	6,139.82	21,217.68	-3,515.33	-4,241.44	1.75	10.48	4,760.51
16	85,971.06	21	18	3	85.71	5,452.03	15,329.16	-4,055.16	-6,614.00	1.34	8.07	4,093.86
15	81,042.49	21	16	5	76.19	5,909.00	17,338.20	-2,700.31	-6,494.46	2.19	7.00	3,859.17
14	57,462.72	22	16	6	72.73	5,100.14	15,991.80	-4,023.26	-14,731.00	1.27	3.38	2,611.94
13	63,895.20	22	15	7	68.18	5,901.75	19,377.60	-3,518.71	-11,946.00	1.68	3.59	2,904.33
12	65,543.75	22	16	6	72.73	5,427.98	17,982.36	-3,550.67	-8,812.00	1.53	4.08	2,979.26
11	71,996.28	22	16	6	72.73	5,671.18	20,758.32	-3,123.78	-9,945.00	1.82	4.84	3,272.56
10	64,062.54	22	17	5	77.27	4,642.07	16,319.16	-2,970.55	-4,579.54	1.56	5.31	2,911.93
9	69,482.18	23	17	5	73.91	4,884.35	12,246.96	-2,710.34	-5,391.54	1.80	6.13	3,020.96
8	57,172.40	23	17	6	73.91	4,453.25	15,615.60	-3,088.82	-5,568.00	1.44	4.08	2,485.76
7	53,315.49	23	16	7	69.57	4,448.33	12,720.84	-2,551.10	-4,980.00	1.74	3.99	2,318.06
6	46,172.29	23	16	7	69.57	4,136.24	18,349.11	-2,858.22	-8,839.00	1.45	3.31	2,007.49
5	52,349.05	23	16	7	69.57	4,456.91	18,981.60	-2,708.80	-5,174.95	1.65	3.76	2,276.05
4	48,907.75	23	15	8	65.22	4,358.49	17,851.68	-2,058.70	-4,365.00	2.12	3.97	2,126.42
3	11,329.78	24	13	10	54.17	3,825.78	13,853.40	-3,840.54	-9,701.00	1.00	1.30	472.07
2	10,040.20	24	13	11	54.17	3,460.96	13,116.84	-3,177.47	-8,631.00	1.09	1.29	418.34
1	14,470.62	24	14	10	58.33	2,692.79	10,716.03	-2,322.84	-6,760.90	1.16	1.62	602.94

Numbers here appear strong for both the short and intermediate-term.

While 10 has been a strong indication for a short-term bounce, 11 or higher has been a reading I have often referenced for the intermediate-term. Monday was just the 26th time the CBI reached as high as 11 (regardless of SPX position versus the 200ma). Looking out 20 days later, nearly every other instance has been trading higher. Below is the full listing of triggers and the 20-day results.

Quantifiable Edges CBI closes >= 11.
Buy SPX on close. Sell 20 days later. \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.39%	\$1,889.40
01/03/97	Sell	\$748.03		(\$3,806.94)
04/03/97	Buy	\$750.32	6.43%	\$7,156.73
05/01/97	Sell	\$798.53		(\$2,231.74)
08/15/97	Buy	\$900.81	2.10%	\$4,391.16
09/15/97	Sell	\$919.77		(\$829.17)
08/28/98	Buy	\$1,027.25	2.09%	\$3,768.45
09/28/98	Sell	\$1,048.70		(\$8,463.25)
09/18/01	Buy	\$1,032.74	6.27%	\$6,616.32
10/16/01	Sell	\$1,097.54		(\$8,447.04)
07/18/02	Buy	\$881.56	5.52%	\$5,845.49
08/15/02	Sell	\$930.25		(\$11,964.44)
02/02/04	Buy	\$1,135.26	1.22%	\$2,087.36
03/02/04	Sell	\$1,149.10		(\$952.16)
04/18/05	Buy	\$1,145.98	1.72%	\$2,861.43
05/16/05	Sell	\$1,165.69		(\$855.21)
03/05/07	Buy	\$1,374.12	3.67%	\$4,663.44
04/02/07	Sell	\$1,424.55		(\$730.08)
01/22/08	Buy	\$1,310.51	3.78%	\$6,498.76
02/20/08	Sell	\$1,360.02		(\$3,074.96)
03/07/08	Buy	\$1,293.37	6.12%	\$7,189.49
04/07/08	Sell	\$1,372.53		(\$2,802.03)
07/02/08	Buy	\$1,261.53	0.46%	\$2,341.56
07/31/08	Sell	\$1,267.38		(\$4,826.11)
10/07/08	Buy	\$996.23	0.96%	\$4,808.00
11/04/08	Sell	\$1,005.75		(\$15,643.00)
11/20/08	Buy	\$752.44	18.00%	\$21,966.12
12/19/08	Sell	\$887.88		(\$1,453.32)
03/02/09	Buy	\$700.82	12.37%	\$18,762.46
03/30/09	Sell	\$787.53		(\$4,832.26)
05/20/10	Buy	\$1,071.59	4.29%	\$4,596.06
06/18/10	Sell	\$1,117.51		(\$2,865.33)
06/29/10	Buy	\$1,041.24	6.23%	\$7,652.16
07/28/10	Sell	\$1,106.13		(\$2,911.68)
08/08/11	Buy	\$1,119.46	4.09%	\$9,901.25
09/06/11	Sell	\$1,165.24		(\$1,594.88)
05/18/12	Buy	\$1,295.22	3.83%	\$4,081.00
06/18/12	Sell	\$1,344.78		(\$2,192.96)
11/16/12	Buy	\$1,359.88	5.18%	\$5,745.83
12/17/12	Sell	\$1,430.36		\$0.00
08/01/14	Buy	\$1,925.15	4.06%	\$4,074.39
08/29/14	Sell	\$2,003.37		(\$1,038.87)
10/13/14	Buy	\$1,874.74	8.72%	\$8,689.88
11/10/14	Sell	\$2,038.26		(\$2,866.24)
12/16/14	Buy	\$1,972.74	1.01%	\$6,040.50
01/15/15	Sell	\$1,992.67		\$0.00
07/24/15	Buy	\$2,079.65	(5.23%)	\$1,660.32
08/21/15	Sell	\$1,970.89		(\$5,220.48)
08/21/15	Buy	\$1,970.89	(0.20%)	\$2,498.50
09/21/15	Sell	\$1,966.97		(\$5,194.00)

The last 2 instances were the first 2 not to close higher 20 days later. They were not total failures though as both of them did close higher as late as 17 days later. So the CBI spike seems to be worth consideration for both the short and intermediate-term.

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



With tonight's studies taken into account the green Aggregator Line moved further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also moved higher 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.

Based on the current Active Studies expectations are set to remain bullish on Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1934.46 on Tuesday. That is a whopping 2.8% above Monday's close.

Therefore, for SPX to move from oversold to overbought on Tuesday it would need to close up at least 2.8%. That is unlikely to happen in just 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

While the intermediate-term outlook is bearish, the short-term outlook is now clearly bullish, and reward/risk appears to be quite favorable. A bounce here could be sharp since it could invoke some short-covering. And it also has plenty of room to run before SPX would be considered overbought. Since it is a counter-trend trade I am going to scale in slowly, and it is unlikely I will ever reach a full-sized position here. If the bounce comes quickly I may be inclined to take swift profits. I'll see how it plays out over the next few days and how big of a position I build. For Tuesday I will be looking to add both a small amount of index exposure as well as some Catapult trades.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/28 – bearish

The intermediate-term outlook was last updated in the 9/28 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

QCOM - 1/3 @ \$53.27

TWX – 1/3 @ \$67.62

QCOM - 1/3 @ \$53.22

MDT – 1/3 @ \$66.53

New!

QCOM - 1/3 @ \$52.54 (3rd lot)

MDT – 1/3 @ \$64.52 (2nd lot)

FOXA – 1/3 @ \$25.19

GILD – 1/3 @ \$94.80

ABBV – 1/3 @ \$52.50

Broad Market Large Cap CBI – 12/7 (MON-3, QCOM-3, TWX, MDT-2, FOXA, GILD, ABBV)

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.

***SPY – buy ¼ index position @ \$188.25 LIMIT.** This is based on the short-term outlook above. I place the limit a little above Monday’s close in case SPY gaps up and does not quite fill that gap.*

***QCOM – buy 1/3 Catapult position @ \$52.54 LIMIT.** This is the 3rd and final lot of QCOM.*

***MDT – buy 1/3 Catapult position @ \$64.52 LIMIT.** This is the 2nd of 3 possible lots of MDT.*

***FOXA – buy 1/3 Catapult position @ \$25.19 LIMIT.** This is the 1st of 3 possible lots of FOXA.*

***GILD – buy 1/3 Catapult position @ \$94.80 LIMIT.** This is the 1st of 3 possible lots of GILD.*

***ABBV – buy 1/3 Catapult position @ \$52.50 LIMIT.** This is the 1st of 3 possible lots of MDT.*

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	\$83.11	-3.83%		Catapult
MON(1/3)	9/24/2015	\$83.83	\$83.11	-0.86%		Catapult
QCOM(1/3)	9/25/2015	\$53.27	\$52.54	-1.37%		Catapult
TWX(1/3)	9/25/2015	\$67.62	\$66.46	-1.72%		Catapult
QCOM(1/3)	9/28/2015	\$53.05	\$52.54	-0.96%		Catapult
MDT(1/3)	9/28/2015	\$66.08	\$64.52	-2.36%		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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