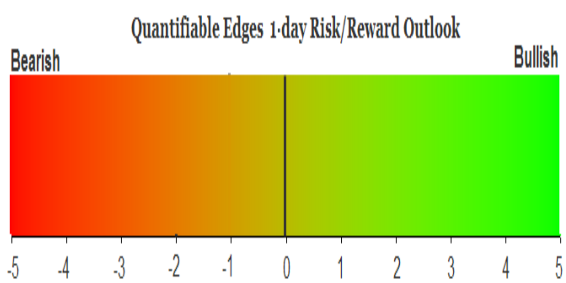
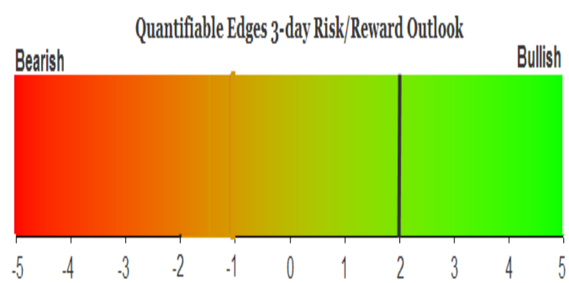
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 30, 2015 Volume 8 Issue 188

Market Overview





Signals Overview

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

Tonight's Research Points

- 4 day+ drops that reverse weakly often see more of a bounce the next day.
- Big drops followed by weak-breadth bounces will often see selling the next day.
- The persistent drop in the Russell 2000 suggests it could have even more selling to do.

Short-term Outlook

The Bottom Line

Evidence is mixed tonight. While the 3-day outlook remains bullish, Wednesday could see a bit of a pullback if certain studies hold to form. The market is still oversold. Overall, I am leaning bullish for the short-term.

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 30, 2015	Russell 200 down 8 days	1 day	Bearish			
September 30, 2015	Big drop. Bounce weak breadth	1 day	Bearish			
September 30, 2015	4 + days down. Weak bounce	1 day	Bullish			
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			

The Evidence

The market saw mixed results on Tuesday. The SPX finished the day up 0.1%, while the NASDAQ and the Russell 2000 dropped 0.6%. Breadth was also mixed as the NYSE Up Issues % came in just under 43% and the Up Volume % was 54%. Total NYSE volume declined some from Monday's level.

Sometimes the 1st day of a bounce can provide some hints as to whether that bounce is likely to succeed. In general, bounces that start of strong have a better chance of success. So sometimes when we see relatively weak SPX bounces like was seen on the studies point bearish. On Tuesday they were more mixed.

This first study was last seen in the 4/14/11 subscriber letter. It examined small bounces after multi-day drops that accelerated downwards.

After at least 4 lower closes with the last one being the largest, SPX rises today but the gain is < 0.25%. Buy on close. Sell 1 day later. $100k/trade. 1971 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$5,922.79	Profit Factor	9.65
Gross Profit	$6,607.65	Gross Loss	($684.86)
Total Number of Trades	13	Percent Profitable	76.92%
Winning Trades	10	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	$455.60	Ratio Avg. Win:Avg. Loss	2.89
Avg. Winning Trade	$660.77	Avg. Losing Trade	($228.29)
Largest Winning Trade	$1,520.40	Largest Losing Trade	($526.80)

Low instances but the initial results suggest a bullish tendency. Below is a list of all the instances.

After at least 4 lower closes with the last one being the largest, SPX rises today but the gain is < 0.25%. Buy on close. Sell 1 day later. $100k/trade. 1971 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
03/23/73	Buy	$108.88	0.88%	$1,395.36
03/26/73	Sell	$109.84		($541.62)
08/06/75	Buy	$86.25	0.06%	$1,147.41
08/07/75	Sell	$86.30		($649.04)
02/28/79	Buy	$96.27	0.64%	$1,038.00
03/01/79	Sell	$96.89		($311.40)
08/29/80	Buy	$122.38	1.11%	$1,617.66
09/02/80	Sell	$123.74		($490.20)
06/03/81	Buy	$130.71	0.19%	$1,147.50
06/04/81	Sell	$130.96		($757.35)
02/18/82	Buy	$113.82	(0.53%)	$667.28
02/19/82	Sell	$113.22		($1,308.22)
11/14/84	Buy	$165.99	(0.07%)	$301.00
11/15/84	Sell	$165.88		($228.76)
08/07/90	Buy	$334.83	1.05%	$1,302.26
08/08/90	Sell	$338.35		$0.00
09/11/91	Buy	$385.09	0.58%	$582.75
09/12/91	Sell	$387.34		$0.00
06/09/93	Buy	$445.78	(0.09%)	$98.56
06/10/93	Sell	$445.37		($378.56)
07/24/98	Buy	$1,140.80	0.57%	$562.02
07/27/98	Sell	$1,147.26		($1,097.94)
11/17/10	Buy	$1,178.59	1.54%	$1,822.80
11/18/10	Sell	$1,196.69		$0.00
04/13/11	Buy	$1,314.41	0.01%	$180.88
04/14/11	Sell	$1,314.52		($911.24)

I don’t love this study. There have only been 2 instances since 1998. But I still think the results are good enough to warrant some consideration. Of course as I mentioned there were bearish studies also.

In the 6/5/11 letter I looked at when there was a weak bounce after a strong selloff the day before. The weak bounce in this case was defined by poor breadth. I increased the size required of the selloff and updated the study.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

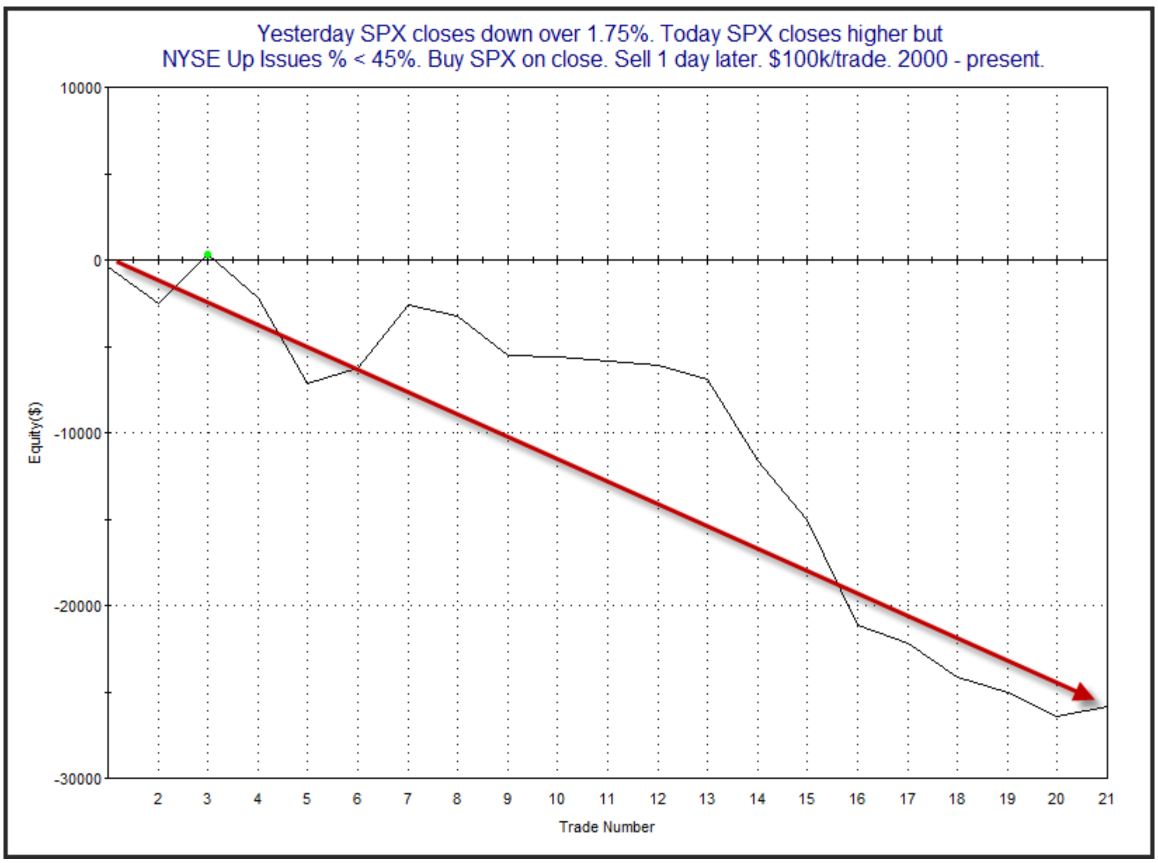
Yesterday SPX closed down over 1.75%. Today SPX closes higher but NYSE Up Issues % < 45%. Buy SPX on close. Sell 1 day later. $100k/trade. 2000 - present.

TradeStation Performance Summary

All Trades

Total Net Profit	($25,844.82)	Profit Factor	0.24
Gross Profit	$7,942.12	Gross Loss	($33,786.94)
Total Number of Trades	21	Percent Profitable	19.05%
Winning Trades	4	Losing Trades	17
Even Trades	0		
Avg. Trade Net Profit	($1,230.71)	Ratio Avg. Win:Avg. Loss	1.00
Avg. Winning Trade	$1,985.53	Avg. Losing Trade	($1,987.47)
Largest Winning Trade	$3,644.16	Largest Losing Trade	($6,094.64)

Instances are a little bit low but the numbers appear strongly bearish. Below is a profit curve.



The strong, steady downslope seems to support the stats. I have also included this study on the Active List.

Finally, while SPX closed up Tuesday, the Russell declined for the 8th day in a row. I looked back at other times in which the Russell fell 8 days in a row.

Russell 2000 closes down for the 8th day in a row. Buy on close. Sell X days later. $100k/trade. 1987 - 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	-20,361.64	8	0	8	0.00	0.00	0.00	-2,545.21	-6,037.03	0.00	0.00	-2,545.21
4	-18,591.93	8	1	7	12.50	351.64	351.64	-2,706.22	-5,446.40	0.13	0.02	-2,323.99
3	-19,495.38	8	1	7	12.50	500.64	500.64	-2,856.57	-7,849.92	0.18	0.03	-2,436.92
2	-18,751.43	8	1	7	12.50	456.68	456.68	-2,744.02	-6,028.88	0.17	0.02	-2,343.93
1	-14,460.10	8	2	6	25.00	233.35	351.64	-2,487.80	-5,724.02	0.09	0.03	-1,807.51

Since 1987 this was just the 9th instance. While 8 days in a row might suggest an oversold condition, when it has come to the Russell, oversold has gotten even more oversold over the next week in every instance. I have listed all 8 instances below assuming a 1-week hold.

Russell 2000 closes down for the 8th day in a row. Buy on close. Sell 5 days later. $100k/trade. 1987 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
09/24/90	Buy	$130.37	(1.50%)	$161.07
10/01/90	Sell	$128.42		($4,540.64)
06/26/91	Buy	$167.63	(0.35%)	$631.76
07/03/91	Sell	$167.05		($578.12)
07/12/96	Buy	$323.69	(0.66%)	$101.64
07/19/96	Sell	$321.54		($6,360.20)
07/28/98	Buy	$427.54	(6.06%)	$666.38
08/04/98	Sell	$401.63		($6,109.26)
08/28/98	Buy	$358.54	(3.20%)	$530.98
09/04/98	Sell	$347.07		($6,302.26)
10/05/98	Buy	$336.80	(3.32%)	$1,198.80
10/12/98	Sell	$325.62		($9,747.28)
09/19/01	Buy	$403.20	(3.33%)	$0.00
09/26/01	Sell	$389.79		($7,335.84)
05/17/06	Buy	$725.85	(2.01%)	$919.27
05/24/06	Sell	$711.27		($4,081.23)

This certainly seems to suggest that the Russell has been so weak that the weakness is likely to persist.

I also looked at how the SPX has performed during these same time periods. It has not been nearly as negative. Five days later 3 of the 8 instances saw the SPX close higher.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

In fact, the primary SPX downside for these instances all occurred on day 1. Below is the list of instance along with the 1-day SPX returns.

Russell 2000 closes down for the 8th day in a row. Buy SPX on close. Sell 1 day later. $100k/trade. 1987 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
09/24/90	Buy	$304.59	1.20%	$1,207.04
09/25/90	Sell	$308.26		($121.36)
06/26/91	Buy	$371.59	0.75%	$753.20
06/27/91	Sell	$374.39		$0.00
07/12/96	Buy	$646.19	(2.54%)	$0.00
07/15/96	Sell	$629.79		($2,541.00)
07/28/98	Buy	$1,130.24	(0.45%)	$732.16
07/29/98	Sell	$1,125.20		($726.88)
08/28/98	Buy	$1,027.25	(6.79%)	$601.40
08/31/98	Sell	$957.55		($6,775.45)
10/05/98	Buy	$988.55	(0.40%)	$2,040.20
10/06/98	Sell	$984.60		($1,388.75)
09/19/01	Buy	$1,016.10	(3.11%)	$0.00
09/20/01	Sell	$984.54		($3,097.78)
05/17/06	Buy	$1,270.32	(0.67%)	$356.46
05/18/06	Sell	$1,261.81		($668.46)

This still leans bearish, but not nearly to the degree that the Russell results did.

I have updated the Aggregator chart below.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

With tonight's studies taken into account the green Aggregator Line still held 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 held 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 Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1937.03 on Wednesday. That is a whopping 2.8% above Tuesday's close. Therefore, for SPX to move from oversold to overbought on Wednesday 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.

It is important to keep in mind that the Aggregator is based off of the 3-day expectations. So while they are positive, 1-day expectations are actually quite negative, thanks to the bearish evidence we saw tonight. With the market strongly oversold, that leaves the 1-day bias at the top of the letter in a neutral state while the 3-day is still fairly bullish. With the 1-day looking potentially bearish I will hold off on any new purchases. I instead will wait to see how Wednesday plays out and what new evidence emerges before taking on new positions.

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

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

MDT – 1/3 @ $64.52 (2nd lot) – not filled – cancel for now

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.

None tonight.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MON(1/3)	9/23/2015	$86.42	$83.60	-3.26%		Catapult
MON(1/3)	9/24/2015	$83.83	$83.60	-0.27%		Catapult
QCOM(1/3)	9/25/2015	$53.27	$52.43	-1.58%		Catapult
TWX(1/3)	9/25/2015	$67.62	$66.60	-1.51%		Catapult
QCOM(1/3)	9/28/2015	$53.05	$52.43	-1.17%		Catapult
MDT(1/3)	9/28/2015	$66.08	$66.37	0.44%		Catapult
QCOM(1/3)	9/29/2015	$52.50	$52.43	-0.13%		Catapult
FOXA(1/3)	9/29/2015	$25.19	$25.80	2.42%		Catapult
GILD(1/3)	9/29/2015	$94.80	$96.00	1.27%		Catapult
ABBV(1/3)	9/29/2015	$52.50	$52.79	0.55%		Catapult
SPY(1/4)	9/29/2015	$188.25	$188.12	-0.07%		Aggregator

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.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952