

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 1, 2015

Volume 8 Issue 189

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Bounce still not compelling since it failed to close above close of 3 days ago and is < 200ma.
- Turn of the month just ain't what it used to be.

## *Short-term Outlook*

### *The Bottom Line*

The market bounce has arrived. And with evidence mixed and the SPX nearing short-term overbought, this seems like an opportune time to reduce long exposure.

**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
<b>Active - Short Term</b>						
October 1, 2015	Up 2 from 20-low < 3 ago < 200ma	1-2 days	Bearish			
September 29, 2015	CBI >= 10. SPX < 200ma.	1-8 days	Bullish			
<b>Active - Long Term</b>						
September 29, 2015	CBI >= 11. SPX < 200ma.	1-20 days	Bullish			
September 30, 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			
<b>Dropped Tonight</b>						
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	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			

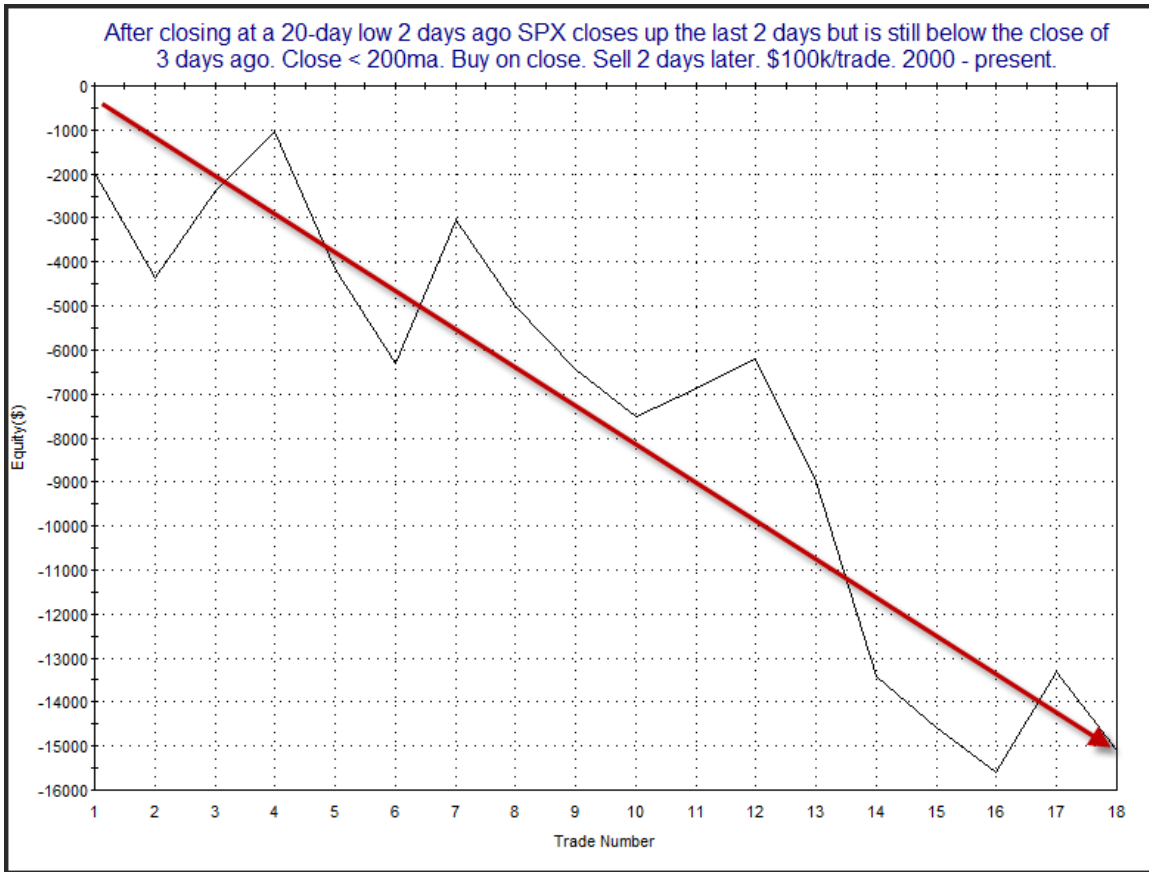
**The Evidence**

Wednesday was a rally day. The SPX rose 1.9%, the NASDAQ gained 2.3%, and the Russell 2000 rallied 1.6%. Breadth was strongly positive as the NYSE Up Issues % came in at 75% and the Up Volume % was 87%. Total NYSE volume rose from Tuesday's level.

In the 6/6/12 letter I looked at scenarios where the SPX bounced from 20-day lows over a 2-day period but failed to make up for the losses of the day just previous to the 2-day bounce. I filtered this study by the 200ma. It triggered again today and I have updated it below.

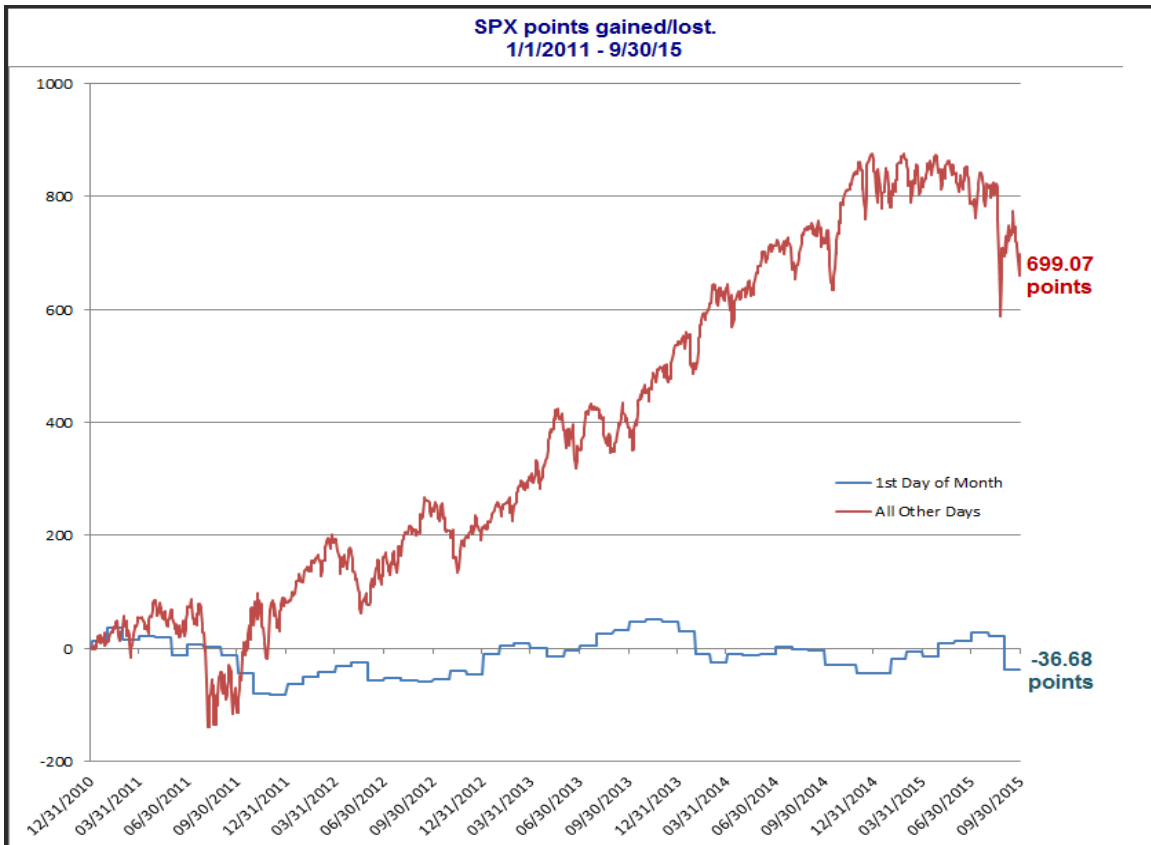
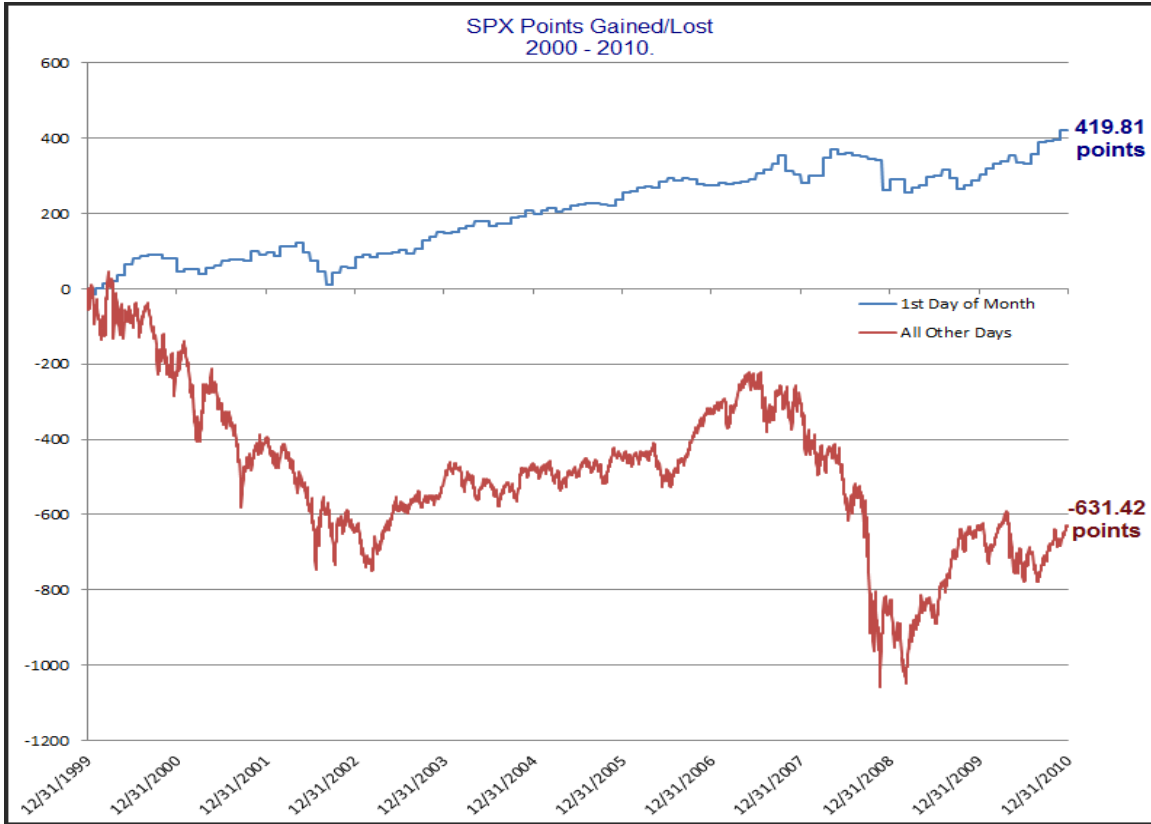
After closing at a 20-day low 2 days ago SPX closes up the last 2 days but is still below the close of 3 days ago. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	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	-16,039.33	17	8	9	47.06	1,925.32	4,138.50	-3,493.54	-7,353.33	0.55	0.49	-943.49
4	-10,612.76	17	8	9	47.06	1,736.03	4,871.43	-2,722.33	-4,944.54	0.64	0.57	-624.28
3	-12,195.87	18	5	13	27.78	2,188.49	5,558.47	-1,779.87	-3,535.84	1.23	0.47	-677.55
2	-15,079.53	18	6	12	33.33	1,689.65	3,251.01	-2,101.45	-4,424.00	0.80	0.40	-837.75
1	-6,097.19	18	7	11	38.89	1,713.45	3,863.25	-1,644.67	-5,253.30	1.04	0.66	-338.73

The setup appears to suggest a bearish edge. I have included below a 2-day equity curve.



The downslope here is fairly consistent despite the choppiness. This seems to support the suggestion of a bearish edge.

Thursday is the 1<sup>st</sup> day of October. While first of the month often triggers some bullish seasonal studies the first day of the month has weakened substantially in recent years. In the 5/29/15 subscriber letter I showed a couple of charts that demonstrated just how drastic the change in the “1<sup>st</sup> of the Month versus All Other Days” has been. I have updated that study below. The charts show SPX points gained (or lost) for 2 time periods. The first one looks at 2000-2010. The 2<sup>nd</sup> one shows 2011 – present.



Quite the contrast. The first of the month just ain't what it used to be. And there were no 1<sup>st</sup> of month studies that emerged on Wednesday suggesting the current setup was special as compared to other starts to the month.

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



Even with tonight's bearish study taken into account the green Aggregator Line still held a little 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 Thursday. Of course this could change if strong bearish evidence emerges, or if the CBI drops to 3 and the bullish study expires. The Differential Pivot will be *highly inverted* at 1898.95 on Thursday. That is 1.1% *below* Wednesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to

need to close down at least 1.1% if it is going to remain short-term oversold. Anything other than that and it will be considered overbought versus short-term expectations as of Thursday's close.

I often view inverted pivots as opportune times to take profits if the market moves any further in my direction. That is because upside is now limited. In addition to that, the evidence is mixed and now only slightly (and precariously) bullish. Several Catapults hit their triggers on Wednesday, dropping the CBI from 12 down to 4. So I will be taking profits on the ones that expired in the morning. Additionally, I will exit my SPY position if I can get a decent fill there. Indications the last few days were that a bounce was likely. I positioned to take advantage of it. And now that it has arrived, it is time for me to take profits and await the next favorable setup.

***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***

*MDT – 1/3 @ \$66.53*

*MDT – 1/3 @ \$64.52 (2<sup>nd</sup> lot) – not filled – cancel for now*

*GILD – 1/3 @ \$94.80*

*ABBV – 1/3 @ \$52.50*

***Broad Market Large Cap CBI – 4/3 (MDT-2, 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.*

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MON(1/3)	9/23/2015	\$86.42	\$85.34	-1.25%		<i>sell on open</i>
MON(1/3)	9/24/2015	\$83.83	\$85.34	1.80%		<i>sell on open</i>
QCOM(1/3)	9/25/2015	\$53.27	\$53.73	0.86%		<i>sell on open</i>
TWX(1/3)	9/25/2015	\$67.62	\$68.75	1.67%		<i>sell on open</i>
QCOM(1/3)	9/28/2015	\$53.05	\$53.73	1.28%		<i>sell on open</i>
MDT(1/3)	9/28/2015	\$66.08	\$66.94	1.30%		Catapult
QCOM(1/3)	9/29/2015	\$52.50	\$53.73	2.34%		<i>sell on open</i>
FOXA(1/3)	9/29/2015	\$25.19	\$26.98	7.11%		<i>sell on open</i>
GILD(1/3)	9/29/2015	\$94.80	\$98.19	3.58%		Catapult
ABBV(1/3)	9/29/2015	\$52.50	\$54.41	3.64%		Catapult
SPY(1/4)	9/29/2015	\$188.25	\$191.63	1.80%		<i>sell @ \$191.63 limit</i>

*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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