

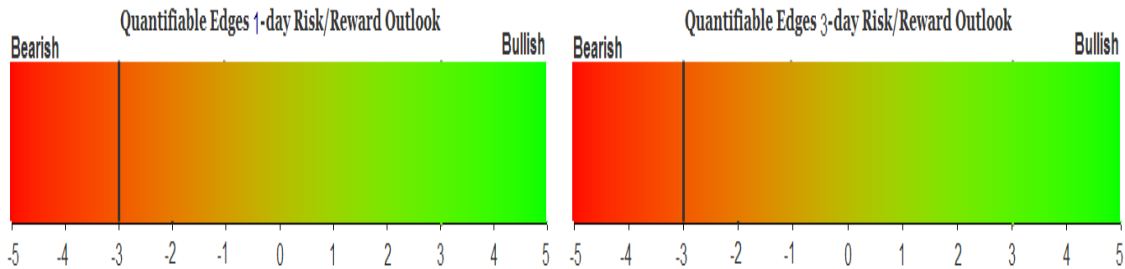
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 2, 2015

Volume 8 Issue 190

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Long VXX	Flat

## Tonight's Research Points

- 3 days higher in a long-term downtrend when not coming off an intermediate-term low has historically been followed by a pullback.

## *Short-term Outlook*

### *The Bottom Line*

The bounce appears almost done. The market is overbought and bearish evidence is starting to dominate. I believe there is a short-side edge.

**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 2, 2015	SPX up 3 < 200. No 50-low	1-3 days	Bearish			
October 1, 2015	Up 2 from 20-low < 3 ago < 200	1-2 days	Bearish			
<b>Active - Long Term</b>						
September 29, 2015	CBI >= 11.	int term	Bearish			
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			
<b>Dropped Tonight</b>						
September 29, 2015	CBI >= 10. SPX < 200ma	1-8 days	Bullish			

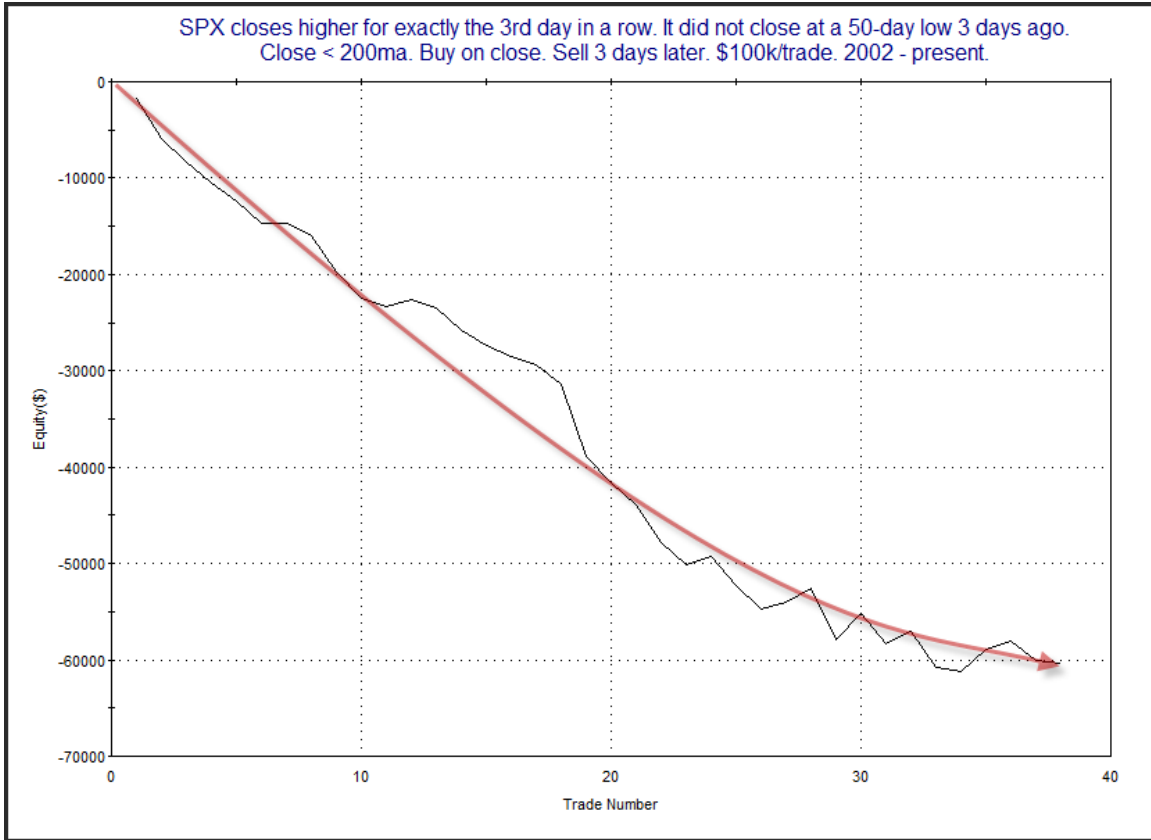
**The Evidence**

The market gapped up on Thursday, then spent most of the day in negative territory before a late rally caused most of the indices to finish positive. The SPX and NASDAQ closed up 0.2%, while the Russell 2000 lost 0.3%. Breadth was mixed as the NYSE Up Issues % came in at 48% and the Up Volume % was 52%. Total NYSE volume sank some from Wednesday's level.

There were several studies that triggered in the Quantifinder tonight. Most of them looked at 3-day or greater rallies in the SPX during a long-term downtrend. The one I chose to discuss appeared the most relevant and the most compelling. It had last been seen in the 12/23/11 letter. All stats are updated.

SPX closes higher for exactly the 3rd day in a row. It did not close at a 50-day low 3 days ago. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2002 - 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: ProfitFactor	All: Win/Loss Ratio	All: Avg Trade
5	-48,733.01	35	14	21	40.00	1,401.97	3,468.36	-3,255.27	-9,202.08	0.29	0.43	-1,392.37
4	-57,662.52	38	14	24	36.84	1,264.91	2,966.88	-3,140.47	-7,499.80	0.23	0.40	-1,517.43
3	-60,345.95	38	8	30	21.05	1,368.68	2,728.32	-2,376.51	-7,527.12	0.15	0.58	-1,588.05
2	-31,442.02	38	8	30	21.05	988.76	2,295.72	-1,311.74	-4,121.10	0.20	0.75	-827.42
1	-20,618.53	38	14	24	36.84	1,025.86	3,348.84	-1,457.52	-4,871.22	0.41	0.70	-542.59
<b>35 of 38 instances (92%) closed below the entry price at some point in the next few days.</b>												

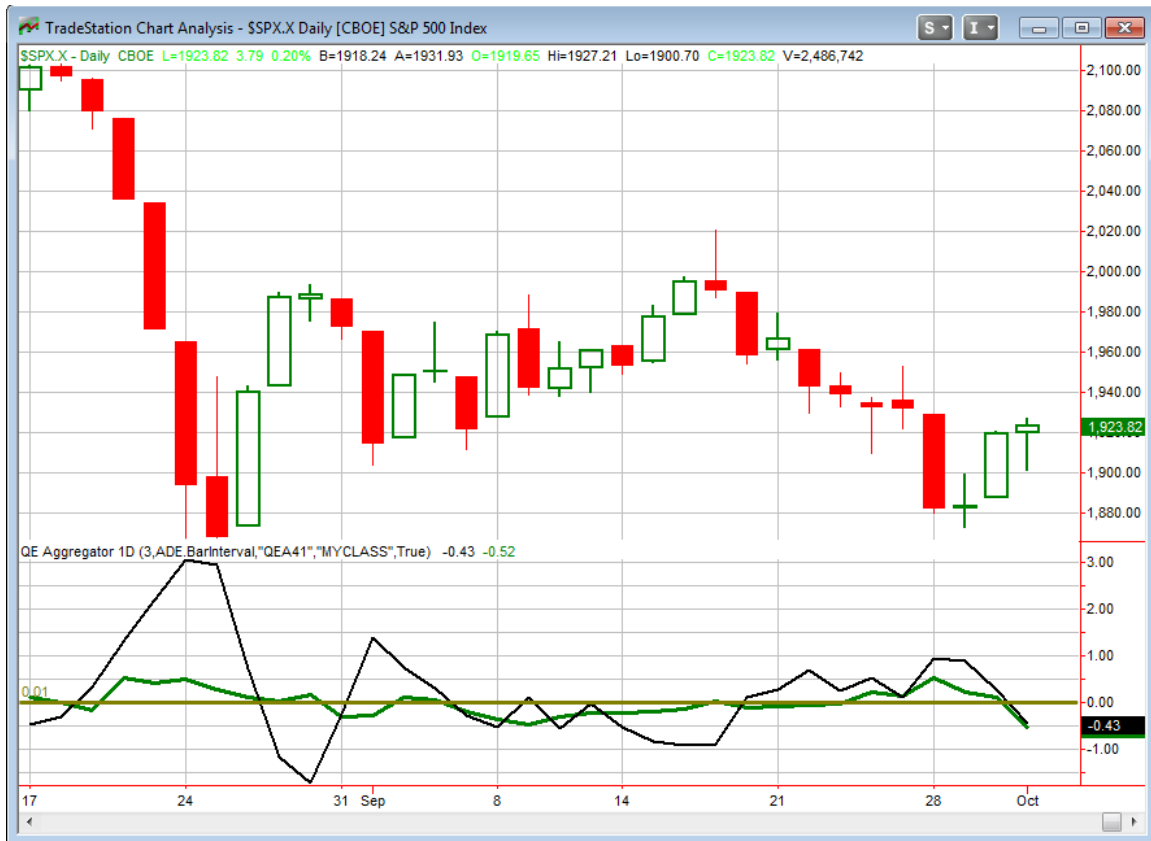
The statistics here appear strongly negative. The downside edge appears to max out around day 3, so I ran the profit curve below using that time frame.



While flattening out just a tad lately this equity curve still looks very appealing and serves as confirmation of the bearish tendencies.

Of further note the Quantifiable Edges CBI dropped from 4 to 2 on Thursday. Anything  $\leq 3$  is considered neutral. So after spiking to a strongly bullish 12 just a few days ago, the 3-day rally has turned the CBI reading quickly back to neutral.

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



With tonight's bearish study taken into account the green Aggregator Line dropped below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also dropped below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal turned from long to short at the close.

Based on the current Active Studies, expectations are set to remain bearish on Friday. Of course this could change if strong bullish evidence emerges. The Differential Pivot will be 1900.90 on Friday. That is 1.2% below Thursday's close. This means that for SPX to turn from overbought to oversold versus expectations on Friday it will need to close down at least 1.2%.

The CBI is no longer a factor, the intermediate-term outlook is bearish, and short-term evidence is now also pointing bearish. Additionally, the market is overbought with some room to the downside before it would turn to oversold. This all suggests a short-side edge with favorable reward/risk. My only concern is that SPX is still just near the midpoint of its 10-day range. I would rather it was a bit higher. Still, I intend to dip my toe in on the short side for an index position on Friday if I can get a favorable fill.

***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***

*GILD – 1/3 @ \$94.80*

*New*

*VZ – 1/3 @ \$42.96*

***Broad Market Large Cap CBI – 2 (GILD, VZ)***

**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 – sell short ¼ index position @ \$192.13 LIMIT.** Based on the short-term outlook above I will begin looking to scale into a short index position.*

***VZ – buy 1/3 Catapult position @ \$42.96 LIMIT.** This is the 1<sup>st</sup> of 3 possible lots of VZ.*

**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
<b>MON(1/3)</b>	<b>9/23/2015</b>	<b>\$86.42</b>	<b>\$85.36</b>	<b>-1.23%</b>		<b><i>sold on open</i></b>
<b>MON(1/3)</b>	<b>9/24/2015</b>	<b>\$83.83</b>	<b>\$85.36</b>	<b>1.83%</b>		<b><i>sold on open</i></b>
<b>QCOM(1/3)</b>	<b>9/25/2015</b>	<b>\$53.27</b>	<b>\$53.60</b>	<b>0.62%</b>		<b><i>sold on open</i></b>
<b>TWX(1/3)</b>	<b>9/25/2015</b>	<b>\$67.62</b>	<b>\$68.63</b>	<b>1.49%</b>		<b><i>sold on open</i></b>
<b>QCOM(1/3)</b>	<b>9/28/2015</b>	<b>\$53.05</b>	<b>\$53.60</b>	<b>1.04%</b>		<b><i>sold on open</i></b>
MDT(1/3)	9/28/2015	\$66.08	\$68.40	3.51%		<b><i>sell on open</i></b>
<b>QCOM(1/3)</b>	<b>9/29/2015</b>	<b>\$52.50</b>	<b>\$53.60</b>	<b>2.10%</b>		<b><i>sold on open</i></b>
<b>FOXA(1/3)</b>	<b>9/29/2015</b>	<b>\$25.19</b>	<b>\$27.08</b>	<b>7.50%</b>		<b><i>sold on open</i></b>
GILD(1/3)	9/29/2015	\$94.80	\$98.27	3.66%		Catapult
ABBV(1/3)	9/29/2015	\$52.50	\$55.13	5.01%		<b><i>sell on open</i></b>
<b>SPY(1/4)</b>	<b>9/29/2015</b>	<b>\$188.25</b>	<b>\$192.08</b>	<b>2.03%</b>		<b><i>sold on open</i></b>

***MDT and ABBV reached their exit triggers and will be sold at the open on Friday.***

*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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