

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 7, 2015

Volume 8 Issue 193

Market Overview



Signals Overview

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

Tonight's Research Points

- Tuesday's mild decline did not generate strong new evidence

Short-term Outlook

The Bottom Line

The market is still overbought bearish evidence from the past few days suggest the pullback should have further to go. 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
Active - Short Term						
October 6, 2015	3+ days up today strongest < 200	1-4 days	Bearish			
October 6, 2015	1% gain 2x. 10-high < 200ma	1-3 days	Bearish			
October 6, 2015	QE Buying Power Swing Short	1-6 days	Bearish			
Active - Long Term						
October 6, 2015	SPX up 3+ days. Up Vol % > 90%	1-14 days	Bullish			
September 29, 2015	CBI >= 11	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

Monday saw moderate moves that left the indices mostly lower. The SPX lost 0.4% while the NASDAQ and the Russell 2000 each closed down 0.7%. Interestingly, breadth was actually positive as the NYSE Up Issues % came in at 55% and the Up Volume % was 62%. Total NYSE volume declined from Monday's level.

After the 5-day run-up the moderate decline was expected. There were a few old studies that appeared in the Quantifinder. They appeared mixed in nature. Unfortunately, upon further examination, the edges they seemed to suggest did not appear to persist when the market was below the 200ma. One example looked at moderate declines (less than 1%) following 5+ days up in a row. It was last discussed in the 12/1/08 letter. To review, let's first look at instances when the market is locked in long-term uptrend (above the 200ma).

After closing higher for at least 5 days in a row, SPX closes down but < 1%. 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	105,529.07	184	124	60	67.39	1,595.60	5,325.98	-1,538.76	-4,494.20	1.04	2.14	573.53
9	95,607.36	191	126	65	65.97	1,524.86	5,152.74	-1,484.99	-4,582.13	1.03	1.99	500.56
8	93,937.84	194	124	70	63.92	1,534.82	5,359.98	-1,376.85	-4,201.80	1.11	1.97	484.22
7	71,957.89	197	125	72	63.45	1,404.49	5,360.64	-1,438.94	-4,298.80	0.98	1.69	365.27
6	71,317.95	202	131	71	64.85	1,248.37	4,948.64	-1,298.85	-4,826.08	0.96	1.77	353.06
5	64,151.67	202	128	74	63.37	1,155.59	4,252.50	-1,131.95	-4,995.66	1.02	1.77	317.58
4	68,754.30	202	129	73	63.86	1,062.79	3,843.00	-936.25	-4,523.06	1.14	2.01	340.37
3	47,771.16	202	127	75	62.87	886.49	2,787.00	-864.17	-7,083.44	1.03	1.74	236.49
2	41,640.19	202	129	73	63.86	694.90	2,261.88	-657.56	-2,614.95	1.06	1.87	206.14
1	21,517.95	202	112	88	55.45	545.72	2,336.04	-450.03	-1,744.10	1.21	1.54	106.52

Numbers here all seem to mildly favor the bulls over the next 1-10 days. But now let's look at the same parameters when SPX close below its 200ma.

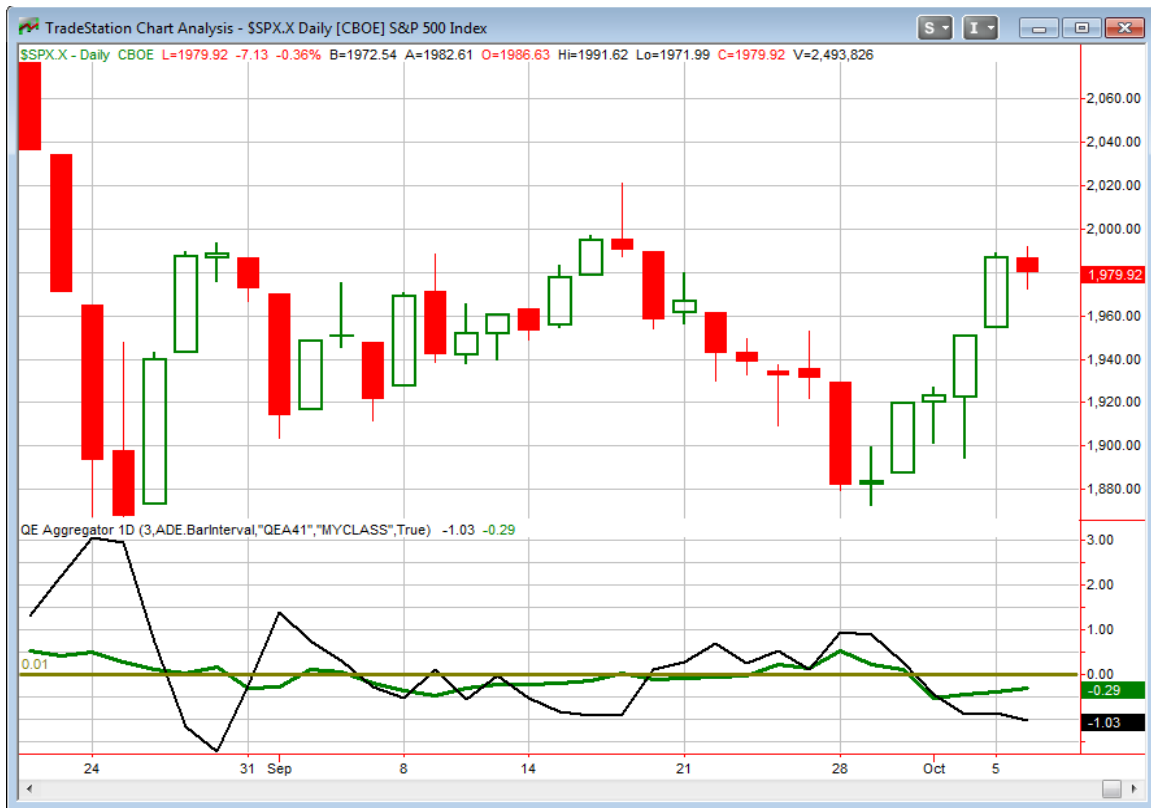
After closing higher for at least 5 days in a row, SPX closes down but < 1%. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1960 - present.

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	-14,778.13	36	18	18	50.00	2,422.57	7,069.04	-3,243.57	-8,703.38	0.75	0.75	-410.50
9	-12,299.45	36	20	16	55.56	1,868.60	6,116.16	-3,104.46	-6,031.61	0.60	0.75	-341.65
8	-11,463.66	36	18	18	50.00	1,832.74	4,520.64	-2,469.61	-5,220.06	0.74	0.74	-318.44
7	-12,157.39	36	18	18	50.00	1,739.54	4,742.24	-2,414.95	-4,407.81	0.72	0.72	-337.71
6	-7,662.54	37	17	20	45.95	1,759.57	3,999.88	-1,878.76	-4,833.11	0.94	0.80	-207.10
5	-8,970.37	37	18	19	48.65	1,547.93	4,224.99	-1,938.58	-4,655.76	0.80	0.76	-242.44
4	-7,083.91	37	18	19	48.65	1,413.86	4,642.52	-1,712.28	-5,615.78	0.83	0.78	-191.46
3	-10,011.01	37	17	19	45.95	1,229.71	3,470.04	-1,627.16	-6,185.99	0.76	0.68	-270.57
2	-2,006.43	37	20	17	54.05	873.58	2,548.98	-1,145.77	-3,098.39	0.76	0.90	-54.23
1	362.95	37	17	20	45.95	603.09	1,777.86	-494.48	-1,516.20	1.22	1.04	9.81

As you can see, the numbers went from mildly bullish to mildly bearish. (But not bearish enough for inclusion on the Active List.)

This really is not that unusual. Market behavior is often different during uptrends versus downtrends. This study just illustrates that point.

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



With new studies lacking the green Aggregator Line again closed 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 remained 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 stayed short at the close.

Based on the current Active Studies, expectations are set to remain bearish on Wednesday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1934.47 on Wednesday. That is a whopping 2.3% below Tuesday's close. This means that for SPX to turn from overbought to oversold versus expectations on Wednesday it will need to close down at least 2.3%. That would be very large 1-day drop. A more likely scenario for working off the overbought condition is a multi-day decline or consolidation.

So without any new compelling evidence emerging, not much has changed from last night. The market declined as expected but the studies from last night all suggest an even deeper pullback over the next few days. And even with the decline the market remains squarely overbought. So there is really nothing for me to do just yet. I will hold my short index positions for another day and see what unfolds on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/5 – somewhat bearish

The intermediate-term outlook was last updated in the 10/515 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

None

Broad Market Large Cap CBI – 0

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
GILD(1/3)	9/29/2015	\$94.80	\$98.82	4.24%		sold on open
VZ(1/3)	10/2/2015	\$42.55	\$44.00	3.41%		sold on open
SPY(1/4)(s)	10/2/2015	\$192.13	\$197.79	-2.95%		Aggregator
SPY(1/4)(s)	10/5/2015	\$196.46	\$197.79	-0.68%		Aggregator
SPY(1/4)(s)	10/6/2015	\$198.47	\$197.79	0.34%		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.

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