

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 8, 2015

Volume 8 Issue 194

Market Overview



Signals Overview

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

Tonight's Research Points

- The stretched VXO suggests a downside edge over the next 1-2 days.
- The recent strong breadth could lead to further rallying over the next couple of weeks.

Short-term Outlook

The Bottom Line

Bearish evidence continues to dominate the short-term. The market remains overbought. 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 8, 2015	VXO 20% below 10ma	1-2 days	Bearish			
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 8, 2015	7.5% Up Vol 2 of 3 days. 10-hi < 200	1-10 days	Bullish			
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

Wednesday was another day of gains for the market. The SPX rose 0.8%, the NASDAQ closed up 0.9%, and the Russell 2000 rallied 1.7%. Breadth was strongly positive as the NYSE Up Issues % came in at 76% and the Up Volume % was 81%. Total NYSE volume increased from Tuesday's level.

The VIX and VXO have dropped sharply over the last 7 days. These are measures of options premium. When they are falling it means premium is declining, and options traders are less fearful. The VXO-related study below was last seen in the 10/13/11 subscriber letter. It looks for times when the VXO becomes stretched more than 20% below its 10-day moving average. I have updated all the statistics.

VXO crosses down more than 20% below its 10ma. SPX < 200ma. Buy SPX 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	-39,702.25	13	4	9	30.77	1,565.68	3,957.60	-5,107.22	-13,784.48	0.31	0.14	-3,054.02
4	-33,012.85	13	4	9	30.77	1,185.56	1,709.52	-4,195.01	-10,971.63	0.28	0.13	-2,539.45
3	-26,287.70	13	3	10	23.08	1,360.27	2,468.40	-3,036.85	-7,806.29	0.45	0.13	-2,022.13
2	-26,804.82	13	4	9	30.77	2,002.79	4,479.84	-3,868.44	-9,986.13	0.52	0.23	-2,061.91
1	-8,413.92	13	5	8	38.46	905.22	2,860.08	-1,617.51	-5,245.02	0.56	0.35	-647.22

Reward/risk appears to strongly favor the bears based on the limited sample size. Below I have listed all the trades assuming a 2-day holding period.

VXO crosses down more than 20% below its 10ma. SPX < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1987 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/29/87	Buy	\$244.77	4.49%	\$4,479.84
11/02/87	Sell	\$255.75		\$0.00
11/25/87	Buy	\$244.10	(5.65%)	\$4.09
11/30/87	Sell	\$230.30		(\$7,496.97)
12/23/87	Buy	\$253.16	(3.00%)	\$0.00
12/28/87	Sell	\$245.57		(\$3,543.15)
11/16/90	Buy	\$317.12	(0.57%)	\$711.90
11/20/90	Sell	\$315.31		(\$570.15)
01/18/91	Buy	\$332.22	(1.18%)	\$0.00
01/22/91	Sell	\$328.31		(\$1,321.39)
07/14/94	Buy	\$453.41	(1.07%)	\$0.00
07/18/94	Sell	\$448.55		(\$1,621.40)
10/19/98	Buy	\$1,062.40	0.71%	\$2,035.10
10/21/98	Sell	\$1,069.90		(\$404.20)
07/29/02	Buy	\$898.96	1.41%	\$1,407.48
07/31/02	Sell	\$911.62		(\$1,582.86)
05/19/08	Buy	\$1,426.63	(2.52%)	\$0.00
05/21/08	Sell	\$1,390.71		(\$2,647.40)
07/22/08	Buy	\$1,277.01	(1.91%)	\$1,104.48
07/24/08	Sell	\$1,252.57		(\$1,991.34)
10/20/08	Buy	\$985.40	(8.99%)	\$4.04
10/22/08	Sell	\$896.78		(\$11,068.59)
11/04/08	Buy	\$1,005.75	(10.03%)	\$0.00
11/06/08	Sell	\$904.88		(\$10,494.99)
10/12/11	Buy	\$1,207.25	1.44%	\$1,423.52
10/14/11	Sell	\$1,224.58		(\$1,366.94)

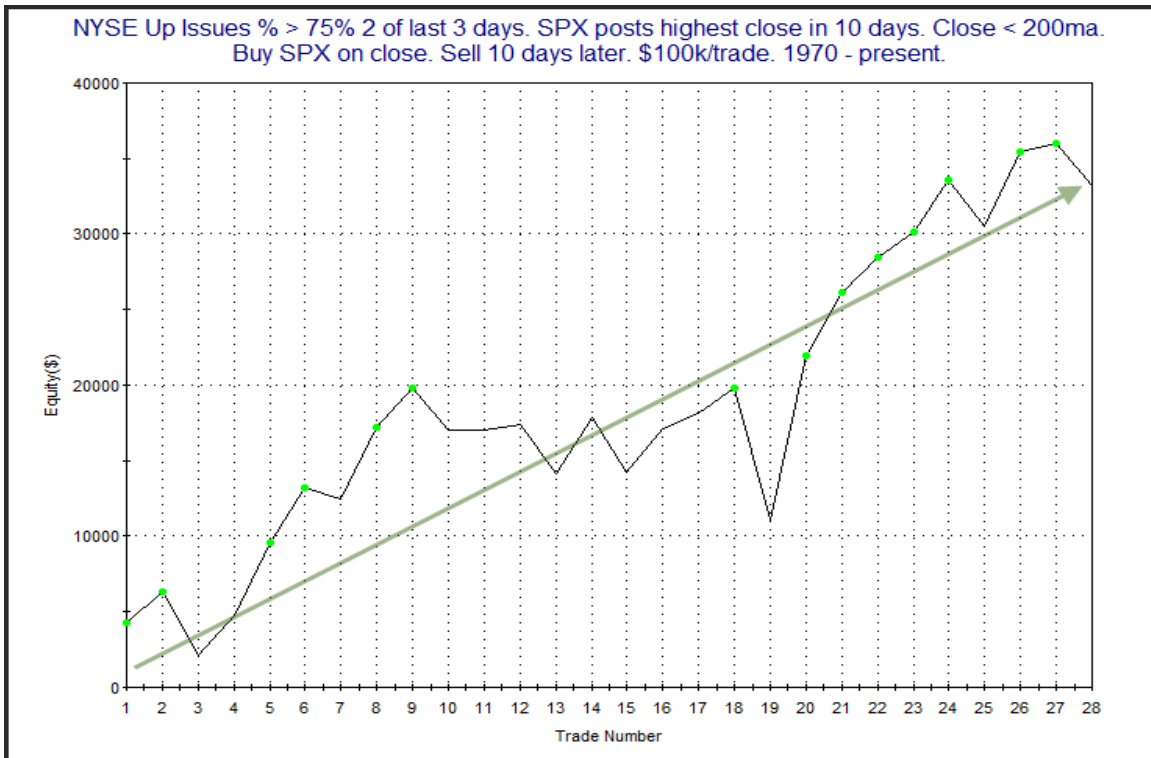
A deeper look seems to support the idea of a downside edge.

In the 11/10/09 subscriber letter I showed a study that examined 2 (of 3) days of strong breadth combined with a 10-day high. I have updated that study below.

NYSE Up Issues % > 75% 2 of last 3 days. SPX posts highest close in 10 days. Close < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.

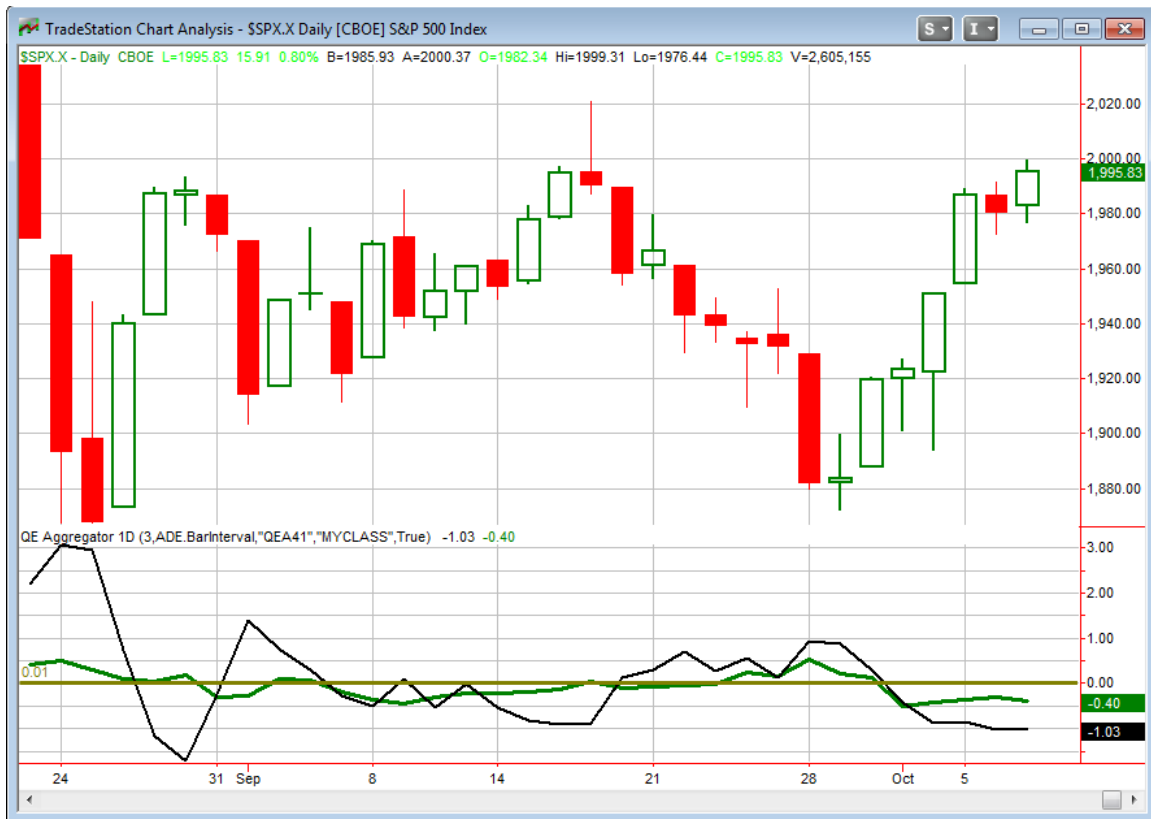
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	46,934.85	25	17	8	68.00	4,711.85	14,074.06	-4,145.82	-11,381.59	1.14	2.42	1,877.39
19	47,845.39	25	18	7	72.00	4,401.82	10,745.46	-4,483.90	-11,333.44	0.98	2.52	1,913.82
18	41,458.51	25	18	7	72.00	3,973.52	8,619.73	-4,294.98	-9,272.62	0.93	2.38	1,658.34
17	41,673.91	25	17	8	68.00	4,175.00	11,270.42	-3,662.64	-6,602.64	1.14	2.42	1,666.96
16	38,974.26	25	17	8	68.00	3,960.48	12,204.08	-3,544.25	-9,211.63	1.12	2.37	1,558.97
15	44,113.60	26	16	10	61.54	4,151.86	11,124.12	-2,231.62	-10,189.61	1.86	2.98	1,696.68
14	39,680.92	26	17	9	65.38	3,642.56	8,025.22	-2,471.40	-10,683.95	1.47	2.78	1,526.19
13	22,510.67	26	18	8	69.23	2,892.02	7,445.10	-3,693.21	-11,160.10	0.78	1.76	865.79
12	18,967.18	26	17	9	65.38	2,819.29	5,489.10	-3,217.85	-9,796.92	0.88	1.65	729.51
11	13,999.55	26	16	10	61.54	3,018.38	8,671.60	-3,429.46	-13,544.06	0.88	1.41	538.44
10	33,199.21	28	20	8	71.43	3,114.70	10,921.96	-3,636.85	-8,739.76	0.86	2.14	1,185.69
9	27,511.12	28	18	10	64.29	3,100.96	8,397.62	-2,830.61	-9,422.42	1.10	1.97	982.54
8	18,915.29	28	18	10	64.29	2,620.11	8,372.32	-2,824.67	-9,542.26	0.93	1.67	675.55
7	19,827.69	28	19	9	67.86	2,444.95	9,599.94	-2,958.48	-6,421.07	0.83	1.74	708.13
6	15,997.90	28	17	11	60.71	2,357.51	4,937.90	-2,189.07	-6,584.78	1.08	1.66	571.35
5	11,773.00	28	18	10	64.29	1,879.31	4,765.28	-2,205.46	-5,099.06	0.85	1.53	420.46
4	14,362.25	30	15	15	50.00	2,281.26	5,800.13	-1,323.77	-4,296.18	1.72	1.72	478.74
3	12,365.95	31	17	14	54.84	1,875.81	7,252.08	-1,394.48	-5,878.78	1.35	1.63	398.90
2	8,451.73	37	23	14	62.16	1,131.06	4,893.68	-1,254.48	-3,311.34	0.90	1.48	228.43
1	-2,241.12	38	18	18	47.37	745.65	2,903.78	-870.16	-2,973.30	0.86	0.86	-58.98

There are a lot of green numbers and the edge generally appears to be to the upside. The edge appears especially prominent over the first 2-10 days. Below is a 10-day profit curve.



While the curve is a bit choppy it does continue to push from lower left to upper right. This is the 2nd intermediate-term study in the last few days that examined strong breadth and suggested a possible bullish edge. I have included it on the Active List,

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



With tonight's studies taken into account 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 Thursday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1960.79 on Thursday. That is 1.8% below Wednesday's close. This means that for SPX to turn from overbought to oversold versus expectations on Thursday it will need to close down at least 1.8%.

The market has been stubborn about allowing any kind of a pullback. If we do not get one soon we may begin to see signs that one is less likely to happen. But right now it is bearish evidence that continues to dominate. And it is bearish evidence that continues to emerge. I don't intend to add to my short tonight. I do not feel that bearish case became much more compelling in the last day. But I will continue to hang onto the sizable short position I already hold. And of course I will re-evaluate on Thursday night to see if the edge changes and warrants any further action at that time.

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
SPY(1/4)(s)	10/2/2015	\$192.13	\$199.41	-3.79%		Aggregator
SPY(1/4)(s)	10/5/2015	\$196.46	\$199.41	-1.50%		Aggregator
SPY(1/4)(s)	10/6/2015	\$198.47	\$199.41	-0.47%		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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