

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 9, 2015

Volume 8 Issue 195

Market Overview



Signals Overview

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

Tonight's Research Points

- Low volume at an 20-day high < 200ma has been followed by short-term drops.
- The Zweig Breadth Thrust suggests bullish intermediate-term implications

Short-term Outlook

The Bottom Line

No real change from yesterday. 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 9, 2015	Vol 5-low. SPX 10-high < 200	1-3 days	Bearish			
October 8, 2015	VXO 20% < 10ma	1-2 days	Bearish			
October 6, 2015	3+ days up today strongest < 200	1-4 days	Bearish			
October 6, 2015	QE Buying Power Swing Short	1-6 days	Bearish			
Active - Long Term						
October 9, 2015	Zweig Breadth Thrust	1-20 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			

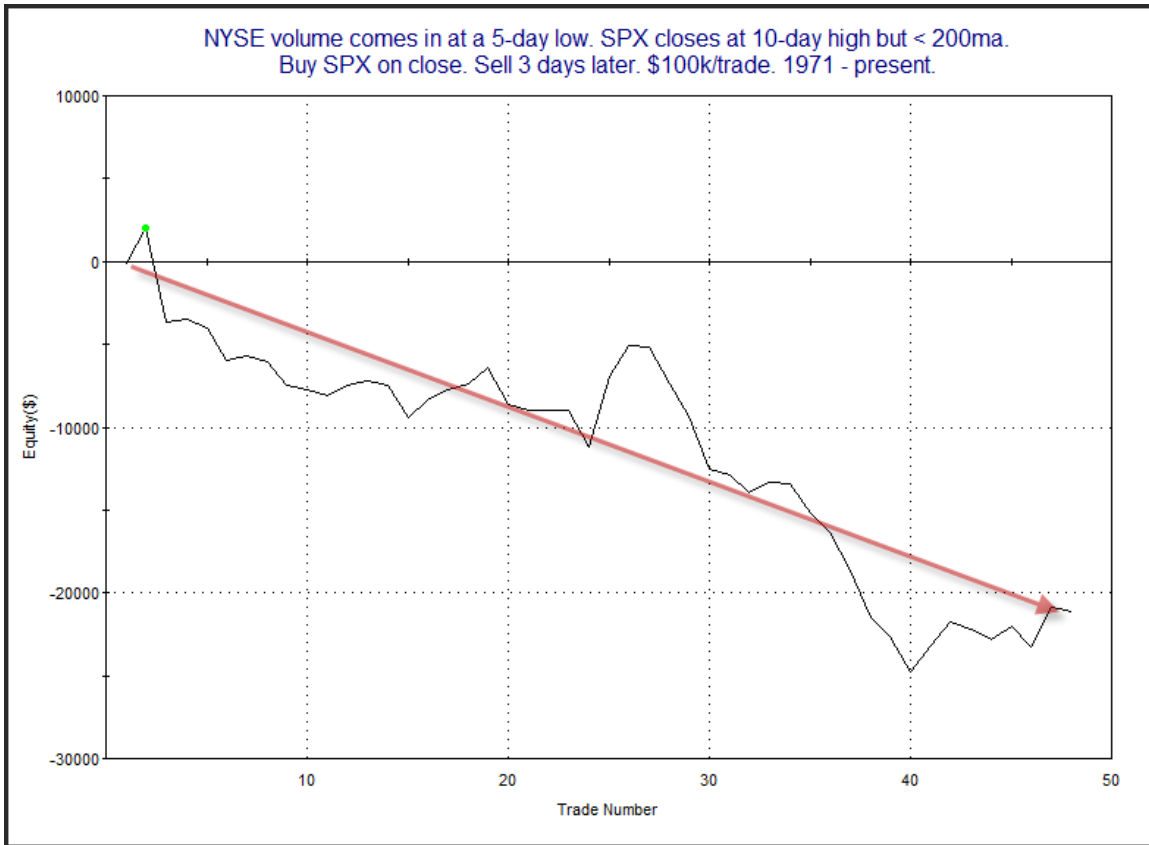
The Evidence

Despite being overbought and facing bearish evidence, the market continued upwards on Thursday. The SPX rose 0.9%, the NASDAQ closed up 0.4%, and the Russell 2000 rallied 0.9%. Breadth was strongly positive as the NYSE Up Issues % came in at 76% and the Up Volume % was 82%. Total NYSE volume came in at the lightest level in weeks.

The low volume along with the short-term high during a long-term downtrend triggered a few studies tonight. I combined a few of these concepts to concoct the study below.

NYSE volume comes in at a 5-day low. SPX closes at 10-day high but < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	-36,551.12	47	22	25	46.81	1,220.54	4,166.46	-2,536.12	-6,523.10	0.48	0.42	-777.68
4	-23,446.72	48	24	24	50.00	1,402.34	5,734.40	-2,379.29	-5,663.22	0.59	0.59	-488.47
3	-21,107.00	48	17	31	35.42	1,135.28	4,243.79	-1,303.45	-5,681.40	0.87	0.48	-439.73
2	-17,139.73	48	20	28	41.67	1,170.09	5,136.87	-1,447.91	-5,264.73	0.81	0.58	-357.08
1	-11,727.62	53	26	26	49.06	621.34	3,850.37	-1,072.40	-8,883.33	0.58	0.58	-221.28

Losses outsize gains here by a sizable amount, suggesting a possible downside edge. Below is a profit curve for the 3-day holding period.



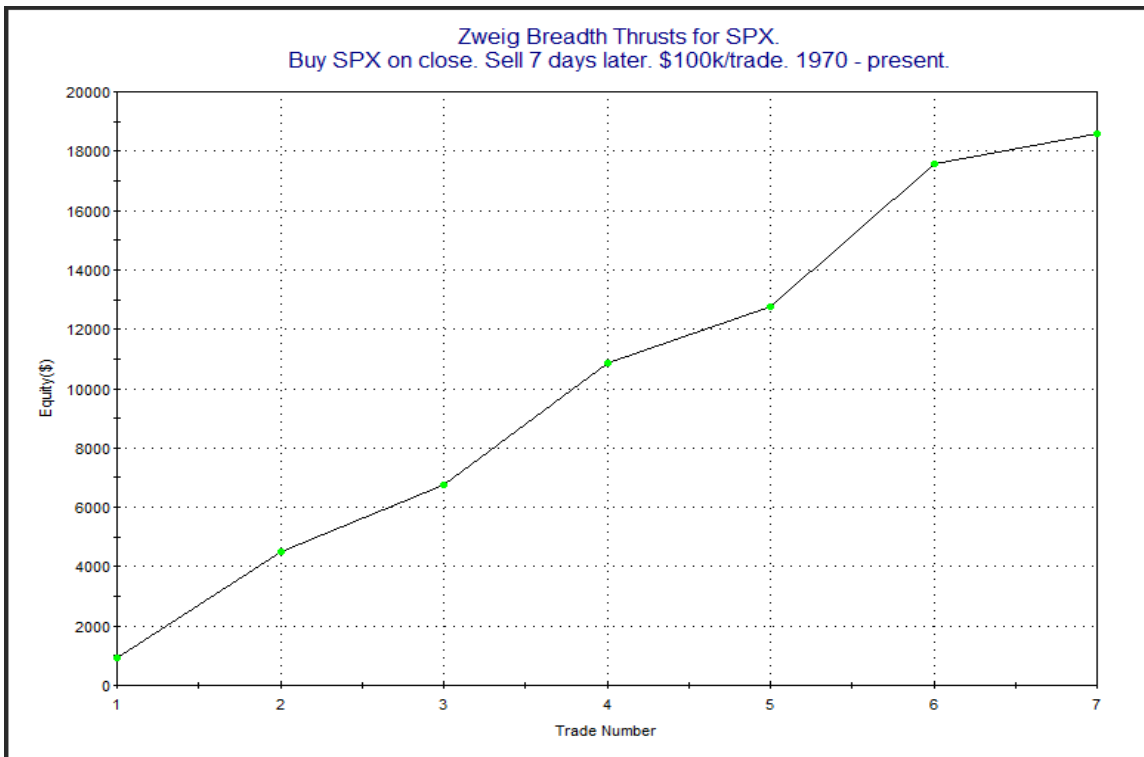
The curve is a bit choppy, but it has moved from upper left to lower right for a while. I think it is worth adding to the Active List.

The strong breadth we have seen recently has caused the 10-day exponential moving average of the Up Issues % to rise up over 63%. A move through 61.5% after being below 40% within the last 2 weeks is considered a Zweig Breadth Thrust trigger. This is a signal created by Martin Zweig. Over the long haul it has been a rare but powerful signal. Below is a stats table summarizing the signals.

Zweig Breadth Thrusts for SPX.
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	44,341.15	7	7	0	100.00	6,334.45	8,868.75	0.00	0.00	100.00	100.00	6,334.45
19	40,941.48	7	7	0	100.00	5,848.78	8,424.52	0.00	0.00	100.00	100.00	5,848.78
18	42,197.04	7	7	0	100.00	6,028.15	9,503.00	0.00	0.00	100.00	100.00	6,028.15
17	39,961.03	7	7	0	100.00	5,708.72	9,953.84	0.00	0.00	100.00	100.00	5,708.72
16	38,246.37	7	7	0	100.00	5,463.77	8,910.72	0.00	0.00	100.00	100.00	5,463.77
15	29,759.25	7	7	0	100.00	4,251.32	8,150.48	0.00	0.00	100.00	100.00	4,251.32
14	24,942.33	7	7	0	100.00	3,563.19	7,027.80	0.00	0.00	100.00	100.00	3,563.19
13	27,478.28	7	7	0	100.00	3,925.47	7,911.80	0.00	0.00	100.00	100.00	3,925.47
12	23,845.68	7	6	1	85.71	3,976.64	8,106.28	-14.14	-14.14	281.23	1,687.40	3,406.53
11	20,925.11	7	7	0	100.00	2,989.30	7,372.56	0.00	0.00	100.00	100.00	2,989.30
10	16,958.79	7	7	0	100.00	2,422.68	8,530.60	0.00	0.00	100.00	100.00	2,422.68
9	14,839.42	7	7	0	100.00	2,119.92	6,409.00	0.00	0.00	100.00	100.00	2,119.92
8	13,449.04	7	6	1	85.71	2,383.59	4,782.88	-852.50	-852.50	2.80	16.78	1,921.29
7	18,571.22	7	7	0	100.00	2,653.03	5,728.32	0.00	0.00	100.00	100.00	2,653.03
6	18,572.71	7	7	0	100.00	2,653.24	4,813.75	0.00	0.00	100.00	100.00	2,653.24
5	14,120.76	7	7	0	100.00	2,017.25	3,615.56	0.00	0.00	100.00	100.00	2,017.25
4	10,095.18	7	6	1	85.71	1,699.70	4,888.52	-103.00	-103.00	16.50	99.01	1,442.17
3	8,611.67	7	4	3	57.14	2,518.06	4,031.04	-486.86	-947.38	5.17	6.90	1,230.24
2	4,083.92	7	5	2	71.43	1,501.17	4,224.40	-1,710.97	-3,226.25	0.88	2.19	583.42
1	3,481.42	7	5	2	71.43	1,067.33	2,731.56	-927.63	-1,288.75	1.15	2.88	497.35

Over both the short and intermediate-term there have been strong gains. Below is a profit curve that assumes a 6-day holding period.



That is a nice, steady rise. I have also listed all of the signals since 1970 below, along with their 4 week results.

Zweig Breadth Thrusts for SPX. 20-day holding period results. \$100k/trade. 1970 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/03/71	Buy	\$97.06	4.75%	\$5,963.70
01/03/72	Sell	\$101.67		(\$1,709.80)
10/10/74	Buy	\$69.79	7.77%	\$10,911.84
11/07/74	Sell	\$75.21		(\$1,417.68)
01/03/75	Buy	\$70.71	8.87%	\$11,283.72
01/31/75	Sell	\$76.98		(\$2,361.38)
08/20/82	Buy	\$113.02	8.39%	\$11,103.04
09/20/82	Sell	\$122.50		(\$928.20)
08/03/84	Buy	\$162.35	2.66%	\$3,966.75
08/31/84	Sell	\$166.67		(\$953.25)
03/18/09	Buy	\$794.35	8.93%	\$9,500.00
04/16/09	Sell	\$865.30		(\$3,518.75)
10/18/13	Buy	\$1,744.50	3.08%	\$3,062.04
11/15/13	Sell	\$1,798.18		(\$228.00)

All 7 instances saw a runup of at least 3% over the next 4 weeks, and only once did the market pull back as much as even 2.5%.

So the Zweig Breadth Thrust appears to have some bullish potential. But I am a little concerned including it on the Active List with just 7 instances. I am especially wary because another breadth study, from the 7/26/10 letter also triggered. I have updated its results below.

NYSE Up Issues % > 70% today and yesterday. SPX closes at 10-day high but < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-22,601.46	16	5	11	31.25	1,908.00	2,639.42	-2,921.95	-6,523.10	0.65	0.30	-1,412.59
4	-18,561.68	16	5	11	31.25	1,720.40	2,440.31	-2,469.43	-4,850.32	0.70	0.32	-1,160.10
3	-11,998.67	17	7	10	41.18	1,395.76	3,571.25	-2,176.90	-5,878.78	0.64	0.45	-705.80
2	-8,669.02	17	8	9	47.06	680.29	1,599.88	-1,567.93	-4,170.54	0.43	0.39	-509.94
1	-5,059.34	17	8	9	47.06	441.44	1,111.50	-954.54	-1,986.06	0.46	0.41	-297.61

All 17 instances closed below the entry price at some point in the next week.

Instances here are a bit larger. The combination of strong breadth and short-term overbought during a downtrend have consistently led to a short-term pullback.

With this in mind, I elected not to include either breadth study on the short-term Active List. But since there were no conflicting breadth signals for the intermediate-term, I did add the Zweig Breadth Thrust to the intermediate-term 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 slated to remain bearish on Friday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1957.69 on Friday. That is 2.8% 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 2.8%. That would be a huge decline for just 1 day. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

The market has refused to pull back in spite of bearish evidence and overbought readings. We have seen some intermediate-term evidence over the last few days that suggests thrusts as strong as we have seen lately are both rare and possibly intermediate-term bullish. But short-term evidence is still pointing bearish and I am still looking to gain from a short-term market dip. I won't be adding to my short position on Friday, but I will continue to hold it and see what new evidence emerges.

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	\$201.21	-4.73%		Aggregator
SPY(1/4)(s)	10/5/2015	\$196.46	\$201.21	-2.42%		Aggregator
SPY(1/4)(s)	10/6/2015	\$198.47	\$201.21	-1.38%		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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