

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 15, 2015

Volume 8 Issue 199

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY has closed at a 5-day low for the 1st time in over 2 weeks. This suggests a short-term upside edge.
- A strong move up by the SOX while the Nasdaq declined hints at strength for Thursday.

Short-term Outlook

The Bottom Line

I am now seeing some short-term bullish evidence, and the market has turned slightly oversold. But the edge appears minimal and I am not inclined to act on it yet.

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 15, 2015	1st 5 low in 10 days	1-4 days	Bullish			
October 15, 2015	NASDAQ dn. SOX up > 1%	1 day	Bullish			
October 12, 2015	Up 3 > 10 < 200. smallest rise	1-4 days	Bearish			
October 12, 2015	Low vol & low range 10 > 10ma < 200ma	1-4 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			
Dropped Tonight						
October 13, 2015	NASDAQ up 4 days < 200ma	1-2 days	Bearish			

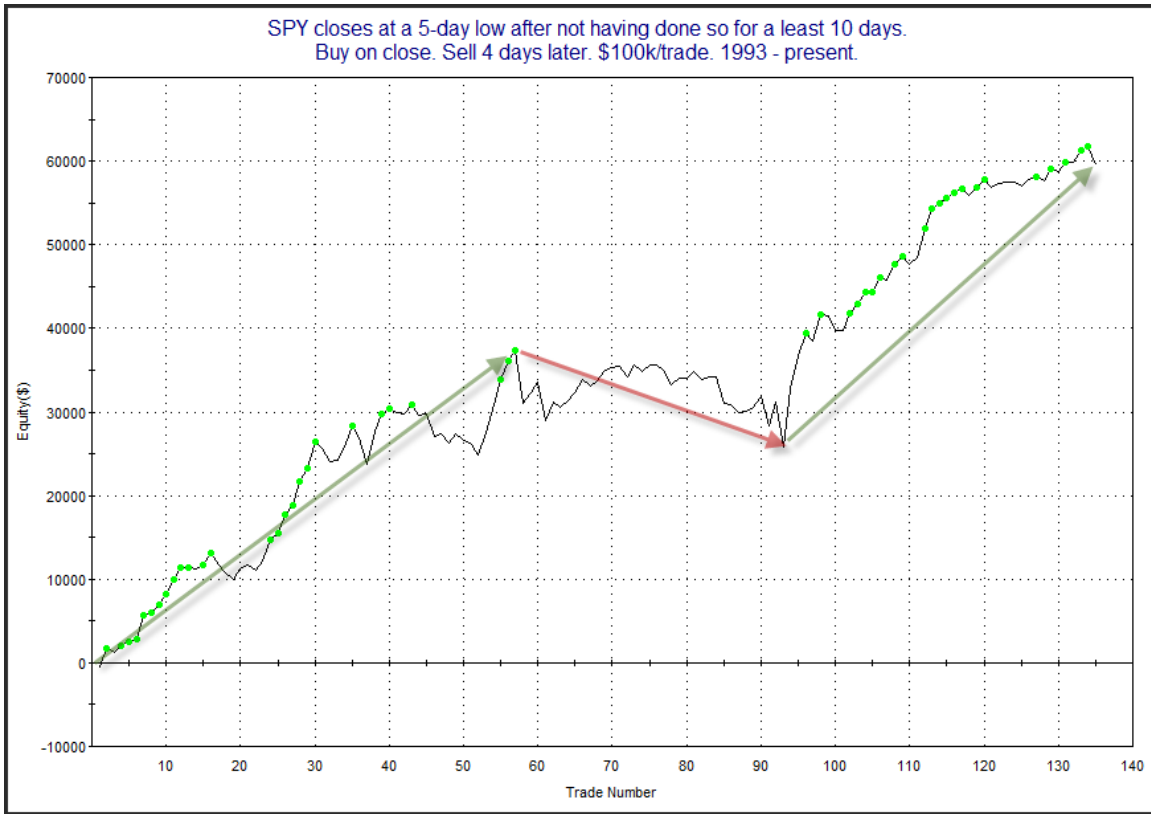
The Evidence

The market closed lower on Wednesday. The SPX fell 0.5% and the NASDAQ dropped 0.3%, and the Russell 2000 declined 1.0%. Breadth was negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 47%. Total NYSE volume rose some from Tuesday's level.

Wednesday marked the 1st time SPY has closed at a 5-day low in a while. In the 9/21/15 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

SPY closes at a 5-day low after not having done so for a least 10 days. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	46,245.95	135	84	50	62.22	1,474.29	6,103.89	-1,551.89	-4,906.44	0.95	1.60	342.56
4	59,564.74	135	88	47	65.19	1,361.13	6,941.43	-1,281.16	-6,244.56	1.06	1.99	441.22
3	35,601.16	135	81	54	60.00	1,226.02	5,888.16	-1,179.74	-5,295.84	1.04	1.56	263.71
2	23,543.35	135	76	58	56.30	1,048.76	3,809.72	-968.32	-3,737.28	1.08	1.42	174.40
1	16,496.23	135	76	59	56.30	802.08	2,812.20	-753.60	-3,909.03	1.06	1.37	122.19
117 of 135 instances (87%) closed above the entry price at some point in the next week.												

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



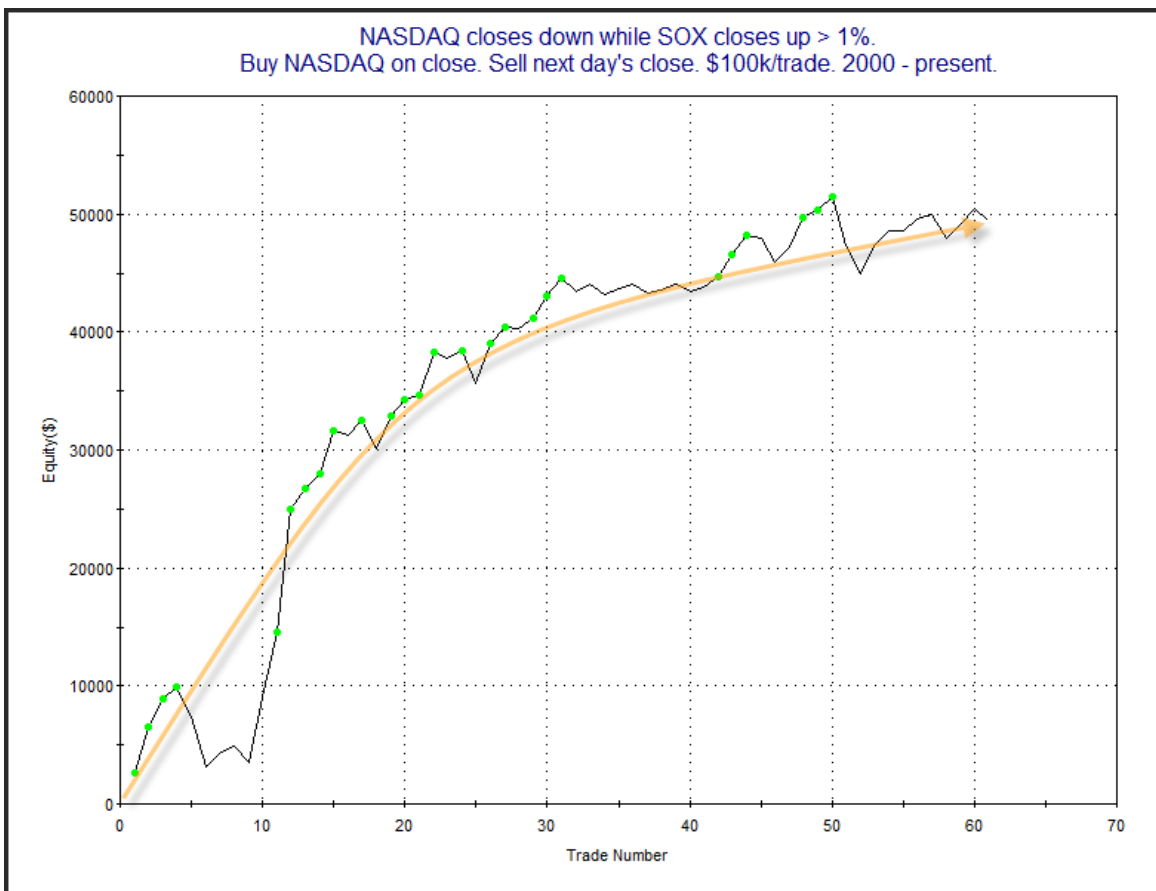
After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 40 trades or so the edge seems to have reasserted itself. The lesson with this study seems to be that persistent upmoves normally wither before they die, rather than turn on a dime.

Another study I found worth reviewing was from the 7/24/15 subscriber letter. It looked at times where the NASDAQ composite declined while the SOX rose at least 1%. I have updated all the stats below.

NASDAQ closes down while SOX closes up > 1%.
 Buy NASDAQ on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ▲			
All Trades			
Total Net Profit	\$49,404.61	Profit Factor	2.67
Gross Profit	\$79,045.27	Gross Loss	(\$29,640.66)
Total Number of Trades	61	Percent Profitable	70.49%
Winning Trades	43	Losing Trades	18
Even Trades	0		
Avg. Trade Net Profit	\$809.91	Ratio Avg. Win:Avg. Loss	1.12
Avg. Winning Trade	\$1,838.26	Avg. Losing Trade	(\$1,646.70)
Largest Winning Trade	\$10,390.72	Largest Losing Trade	(\$4,353.48)

Results here seem to suggest a 1-day upside edge for the Nasdaq. The “% Profitable”, “Profit Factor” and “Avg Trade” are all impressive. Below is a profit curve.



There appears to be some flattening in the curve as some of the biggest winners appeared early on. Still, the slope remains generally up and the study seems to be worth consideration.

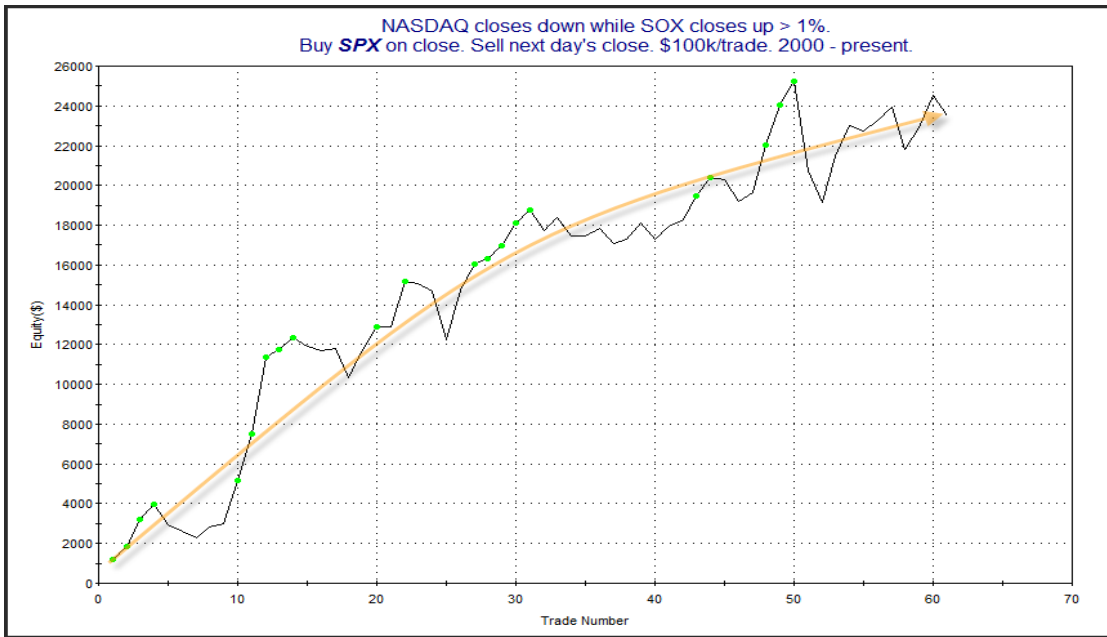
Of course the Aggregator anticipates SPX movement not Nasdaq movement, though the two are highly correlated. I decided to see how the SPX has performed when the setup triggered.

NASDAQ closes down while SOX closes up > 1%.
Buy **SPX** on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$23,492.80	Profit Factor	2.11
Gross Profit	\$44,571.55	Gross Loss	(\$21,078.75)
Total Number of Trades	61	Percent Profitable	65.57%
Winning Trades	40	Losing Trades	21
Even Trades	0		
Avg. Trade Net Profit	\$385.13	Ratio Avg. Win:Avg. Loss	1.11
Avg. Winning Trade	\$1,114.29	Avg. Losing Trade	(\$1,003.75)
Largest Winning Trade	\$3,863.25	Largest Losing Trade	(\$4,520.40)

Based on these results it appears the SPX has benefitted as well. The strength of the upside edge isn't quite as strong though. The average instance sees a rise of about 0.4% instead of the 0.8% shown in the Nasdaq results. Traders looking to take advantage of the setup could consider trading the Nasdaq rather than the S&P in cases like this.

I also ran the SPX profit curve and have included it below.



The curve here appears similar to the Nasdaq profit curve without as much flattening. I have added this study to the Active List tonight.

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



With tonight's studies factored in the green Aggregator Line crept just barely 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 inched above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and the SPX is slightly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal turned from short to long at the close.

Based on the current Active Studies, expectations are slated to remain bullish on Thursday. Of course this could change if strong new bearish evidence emerges. The Differential Pivot will be 2003.54 on Thursday. That is 0.5% above Wednesday's close. This means that for SPX to turn from oversold to overbought versus expectations on Thursday it will need to close up 0.5%.

The Aggregator has quickly shifted from bearish to bullish. But the evidence is still mixed, and the SPX has not even pulled back below its 10-day moving average. I am not excited about a bullish trade here, but I do think it is time to close out the remaining short position I have. I will wait a day and see how things play out on Thursday and what new edges emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/12 – neutral

The intermediate-term outlook was last updated in the 10/12 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
<i>SPY(1/4)(s)</i>	<i>10/2/2015</i>	<i>\$192.13</i>	<i>\$199.30</i>	<i>-3.73%</i>		<i>covered on close</i>
<i>SPY(1/4)(s)</i>	<i>10/5/2015</i>	<i>\$196.46</i>	<i>\$199.30</i>	<i>-1.45%</i>		<i>covered on close</i>
SPY(1/4)(s)	10/6/2015	\$198.47	\$199.30	-0.42%		cover on open

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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