

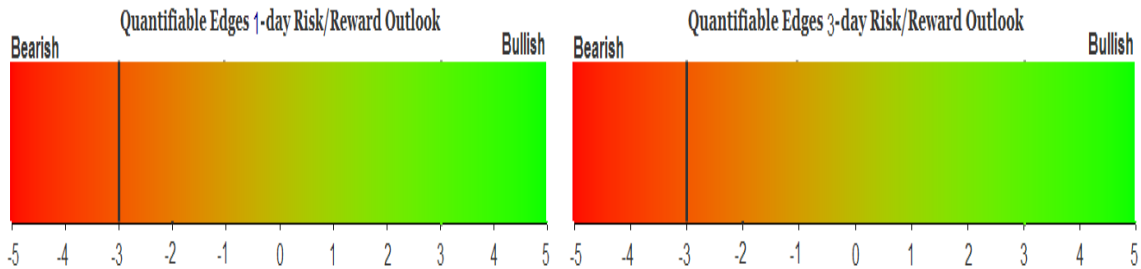
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 16, 2015

Volume 8 Issue 200

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- The 1-day gap up and strong move higher to a short-term high in a downtrend suggests a downside edge.
- A strong move up from a 5-day low to a 10-day high has been rare but has typically been followed by a pullback in the next 2 days.

Short-term Outlook

The Bottom Line

Evidence quickly flipped back to bearish and the strong move up on Thursday quickly turned the market overbought. I now believe there is a downside 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 16, 2015	Gap up. Close < 200 but top 10% 1 & 10	1-3 days	Bearish			
October 16, 2015	5 low to 10-high < 200	1-2 days	Bearish	-1.90%		
October 15, 2015	1st 5 low in 10 days	1-4 days	Bullish			
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 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			

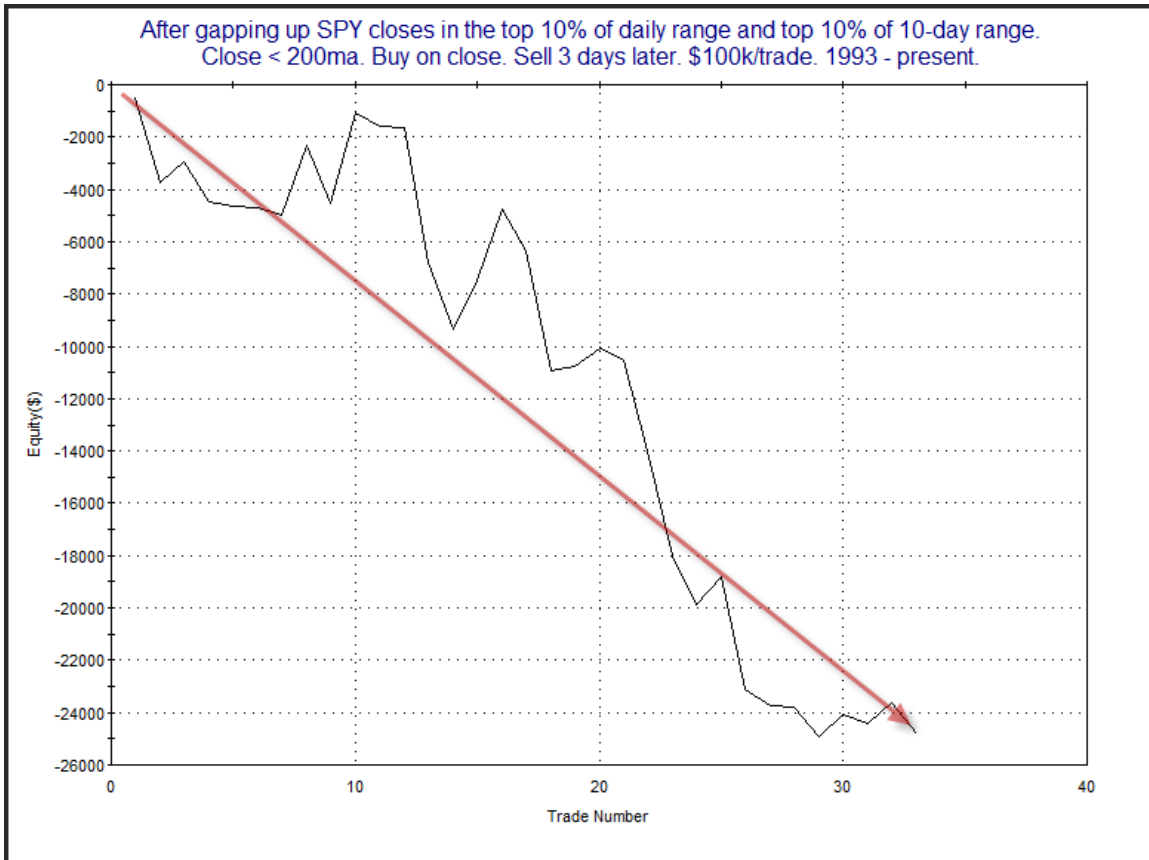
The Evidence

A big rally arrived on Thursday. The SPX gained 1.5%, the NASDAQ rose 1.8%, and the Russell 2000 closed up 2.3%. Breadth was strongly positive as the NYSE Up Issues % came in at 79% and the Up Volume % was 81%. Total NYSE volume rose for the 3rd day in a row.

I have a time crunch today so comments will be brief. The gap up and strong move to a high triggered the study below from the 8/30/11 letter. I have updated the stats.

After gapping up SPY closes in the top 10% of daily range and top 10% of 10-day range. Close < 200ma. 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	-16,982.37	29	16	12	55.17	1,207.51	3,095.18	-3,025.21	-6,223.36	0.40	0.53	-585.60
4	-13,905.23	32	15	17	46.88	1,470.45	5,167.16	-2,115.41	-5,244.16	0.70	0.61	-434.54
3	-24,805.63	33	10	23	30.30	1,504.88	3,447.12	-1,732.80	-5,133.72	0.87	0.38	-751.69
2	-20,812.81	35	15	20	42.86	844.81	2,075.22	-1,674.25	-5,196.96	0.50	0.38	-594.65
1	-11,918.37	36	16	20	44.44	668.20	2,238.25	-1,130.47	-3,187.90	0.59	0.47	-331.07

The numbers suggest a bit of a downside edge. Below is a look at the profit curve.



Though choppy this offers some confirmation of the downside edge.

The fact that the market went from a short-term low yesterday to a short-term high today triggered the study below, which has not triggered since the 5/27/09 letter. This also I updated.

Yesterday SPX closed at a 5-day low. Today SPX closed at a 10-day high but < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1980 - 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	-11,937.01	11	4	7	36.36	1,306.81	3,750.69	-2,452.04	-5,452.18	0.53	0.30	-1,085.18
4	-9,154.48	11	5	6	45.45	1,434.11	3,546.86	-2,720.84	-4,865.63	0.53	0.44	-832.23
3	-10,143.03	11	4	7	36.36	824.70	960.29	-1,920.26	-3,820.62	0.43	0.25	-922.09
2	-12,823.82	11	1	10	9.09	980.72	980.72	-1,380.45	-3,630.44	0.71	0.07	-1,165.80
1	-4,697.24	11	4	7	36.36	827.55	1,512.48	-1,143.92	-3,094.18	0.72	0.41	-427.02

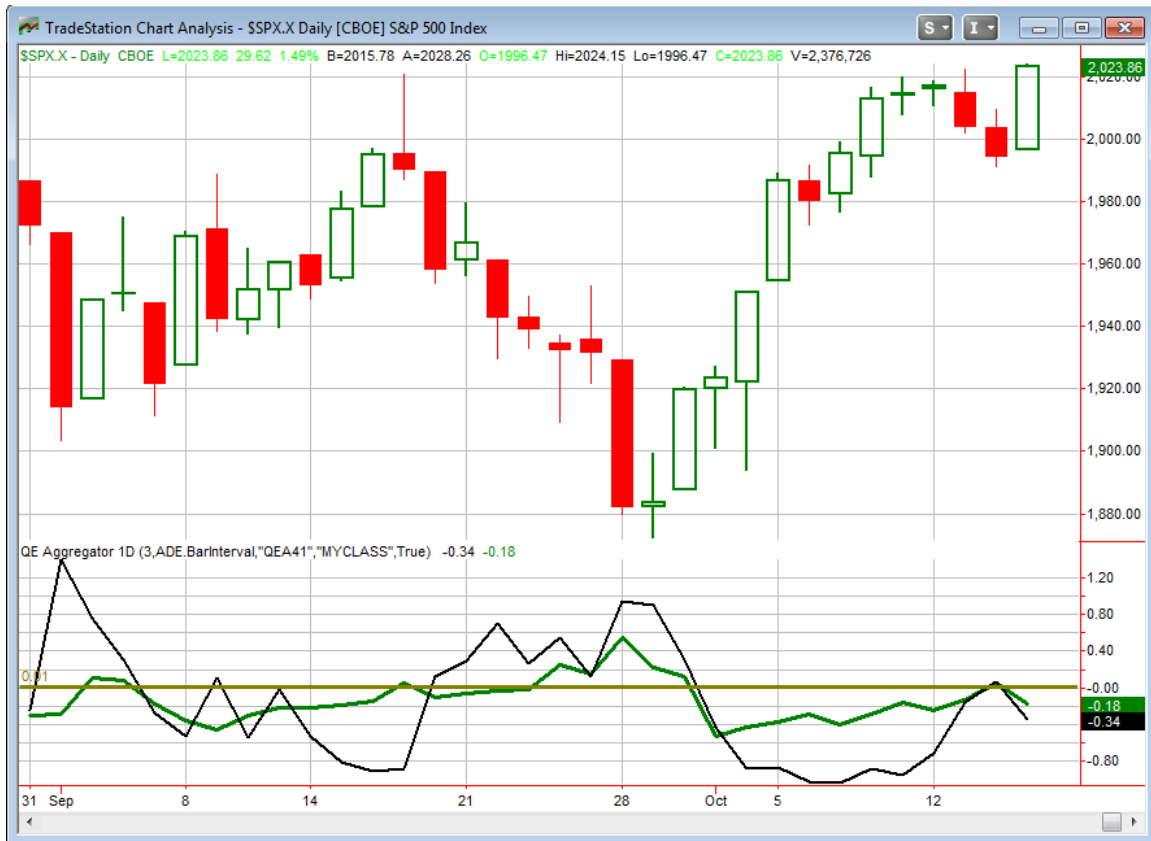
As you can see, the action we saw on Thursday has been quite rare. But the numbers are very bearish. Below is the list of instances.

Yesterday SPX closed at a 5-day low. Today SPX closed at a 10-day high but < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
02/24/84	Buy	\$157.50	(0.43%)	\$1,318.72
02/28/84	Sell	\$156.82		(\$710.08)
12/12/90	Buy	\$330.18	(1.02%)	\$120.80
12/14/90	Sell	\$326.82		(\$1,519.06)
07/19/94	Buy	\$453.86	(0.28%)	\$66.00
07/21/94	Sell	\$452.61		(\$697.40)
01/03/01	Buy	\$1,347.53	(3.64%)	\$200.54
01/05/01	Sell	\$1,298.47		(\$3,890.92)
10/10/01	Buy	\$1,080.99	0.99%	\$1,671.64
10/12/01	Sell	\$1,091.65		(\$813.28)
11/27/02	Buy	\$938.87	(0.46%)	\$1,637.70
12/02/02	Sell	\$934.53		(\$1,180.84)
05/01/08	Buy	\$1,409.34	(0.13%)	\$936.60
05/05/08	Sell	\$1,407.48		(\$347.90)
06/05/08	Buy	\$1,404.02	(3.01%)	\$0.00
06/09/08	Sell	\$1,361.77		(\$3,791.40)
08/05/08	Buy	\$1,284.79	(1.46%)	\$529.76
08/07/08	Sell	\$1,266.08		(\$1,578.50)
12/16/08	Buy	\$913.18	(3.06%)	\$618.03
12/18/08	Sell	\$885.28		(\$3,825.90)
05/26/09	Buy	\$910.33	(0.38%)	\$382.59
05/28/09	Sell	\$906.83		(\$2,477.57)

Despite the low numbers I think the evidence is compelling enough to give this study some consideration.

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



With tonight's studies factored in the green Aggregator Line dropped back 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 reversed back 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 slated to remain bearish on Friday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1992.45 on Friday. That is 1.6% 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 1.5%.

Evidence quickly shifted and the previous dip never really worked off its overbought condition by some measures. The Aggregator is suggesting a bearish edge and there seems to be a decent amount of room to the downside to realize some profits. So I will again look to start scaling in to a short position. Details are in the Trade Ideas section down below.

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.

SPY – short ¼ index position @ \$202.29 LIMIT. Based on the short-term section above I will look to begin scaling in to a short position.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	10/6/2015	\$198.47	\$200.08	-0.81%		covered 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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