

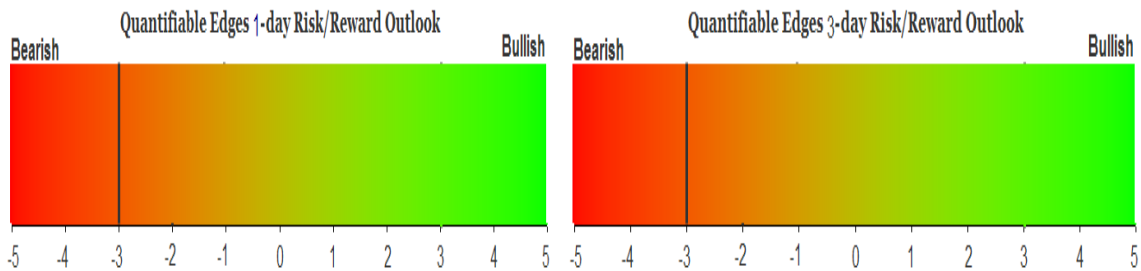
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 20, 2015

Volume 8 Issue 202

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
<b>Short</b>	<b>100% Short SPY</b>	<b>Short</b>

## Tonight's Research Points

- Monday's mild up close near the top of its range suggests a bearish 1-day edge.
- The weak breadth also suggests a downside edge.
- 3 days higher with the most recent being the small during a downtrend suggests a sizable downside edge.

## *Short-term Outlook*

### *The Bottom Line*

Evidence again points south and the market is again overbought. There appears to be a solid short-term bearish edge.

**Summary of Recent Active Studies (see Letters from listed dates for details) – not updated tonight**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
<b>Active - Short Term</b>						
October 19, 2015	20 high < 200ma	1-2 days	Bearish			
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			
<b>Active - Long Term</b>						
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			

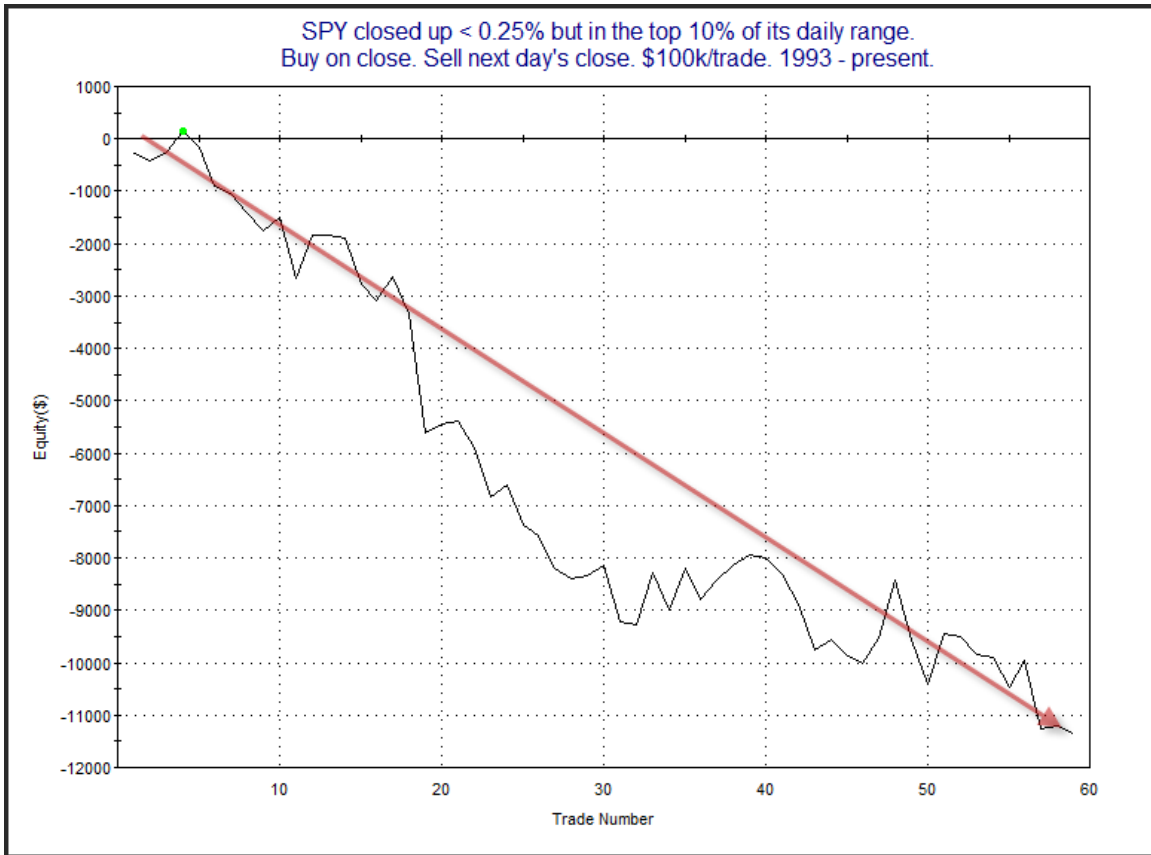
**The Evidence**

Monday saw mild gains for the indices. The SPX gained 0.03%, the NASDAQ rose 0.4%, and the Russell 2000 closed up 0.2%. Breadth was negative though as the NYSE Up Issues % came in at 46% and the Up Volume % was 40%. Total NYSE declined from Friday’s level.

There was a decent amount of bearish evidence that emerged at the close. The study below appeared in the Quantifinder and was fairly compelling. It was last seen in the 8/13/15 letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

TradeStation Performance Summary <span style="float: right;">Collapse ▲</span>			
<b>All Trades</b>			
Total Net Profit	(\$11,334.49)	Profit Factor	0.44
Gross Profit	\$8,782.24	Gross Loss	(\$20,116.73)
Total Number of Trades	59	Percent Profitable	37.29%
Winning Trades	22	Losing Trades	37
Even Trades	0		
Avg. Trade Net Profit	(\$192.11)	Ratio Avg. Win:Avg. Loss	0.73
Avg. Winning Trade	\$399.19	Avg. Losing Trade	(\$543.70)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



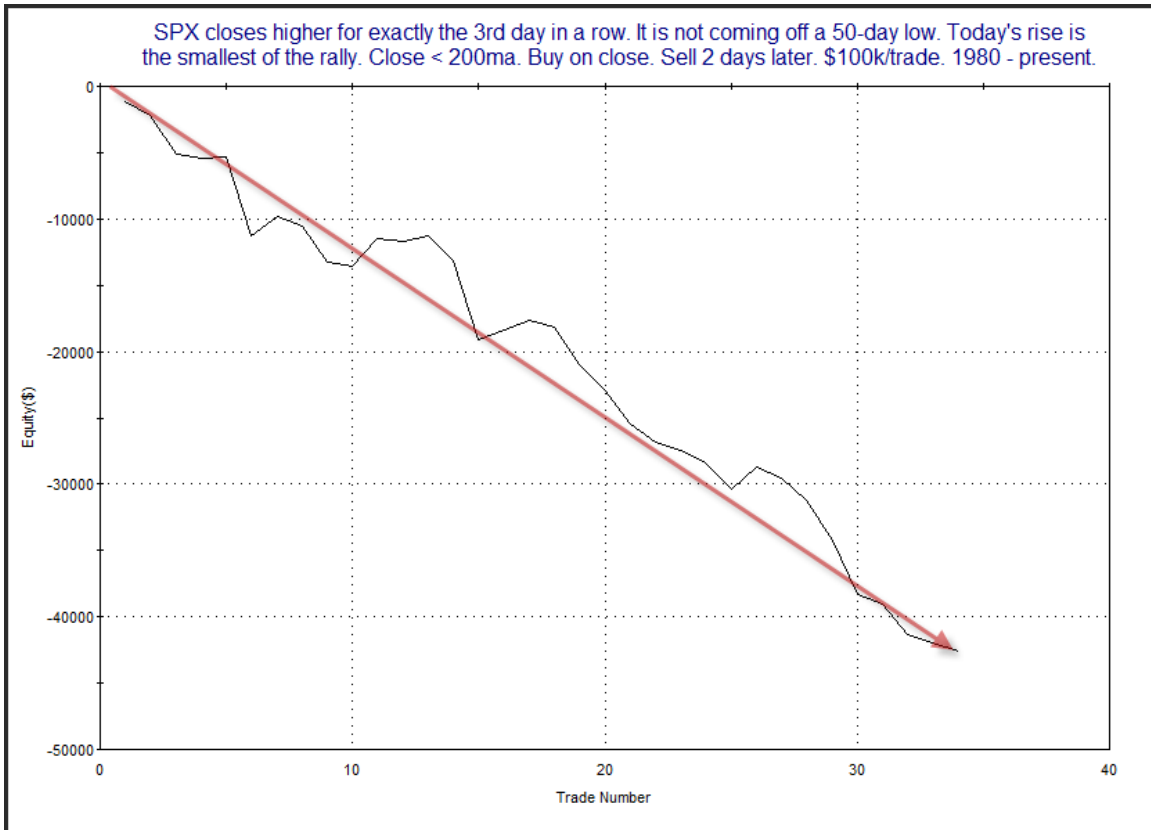
It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day.

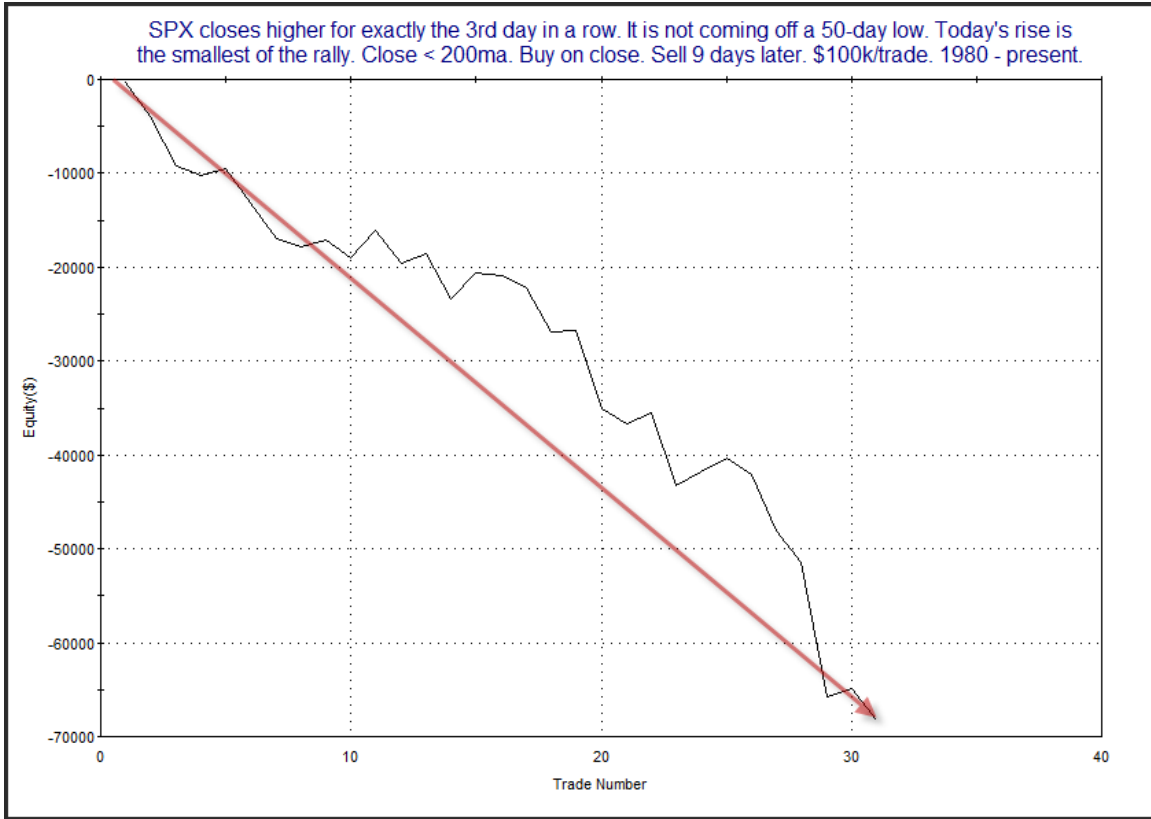
The study below is a combination of studies that appeared in the 8/31/11 subscriber letter. It looks at 3-day rises that are weakening occur under the 200ma.

SPX closes higher for exactly the 3rd day in a row. It is not coming off a 50-day low. Today's rise is the smallest of the rally. Close < 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
10	-59,878.31	31	9	22	29.03	1,677.53	3,971.50	-3,408.01	-11,029.50	0.49	0.20	-1,931.56
9	-68,233.71	31	10	21	32.26	1,331.04	2,876.16	-3,883.05	-14,427.84	0.34	0.16	-2,201.09
8	-66,564.27	32	9	22	28.13	1,253.00	2,815.68	-3,538.24	-11,381.76	0.35	0.14	-2,080.13
7	-64,135.41	32	11	21	34.38	1,425.46	3,789.42	-3,800.74	-10,368.30	0.38	0.20	-2,004.23
6	-55,602.82	33	11	22	33.33	1,689.97	4,257.96	-3,372.38	-9,287.58	0.50	0.25	-1,684.93
5	-52,721.66	33	12	21	36.36	1,231.59	2,934.54	-3,214.32	-9,202.08	0.38	0.22	-1,597.63
4	-51,204.70	34	11	23	32.35	1,205.47	2,766.03	-2,802.82	-7,499.80	0.43	0.21	-1,506.02
3	-50,161.67	34	10	24	29.41	1,118.72	2,685.76	-2,556.20	-7,527.12	0.44	0.18	-1,475.34
2	-42,557.90	34	7	27	20.59	1,012.38	2,060.80	-1,838.69	-5,979.14	0.55	0.14	-1,251.70
1	-13,946.19	34	16	18	47.06	773.92	2,170.08	-1,462.72	-4,871.22	0.53	0.47	-410.18

Stats here are squarely bearish. Below are the profit curves for the 2 and 9-day holding periods.





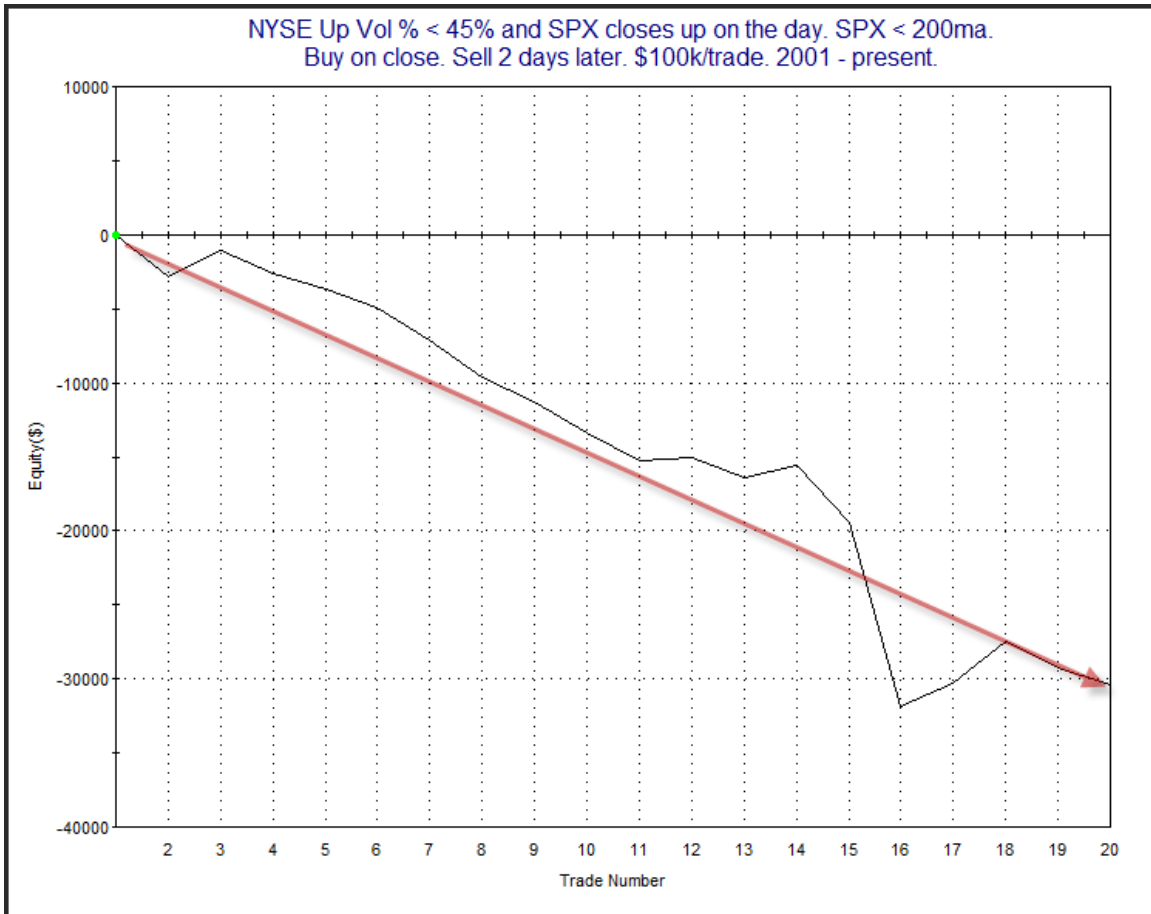
The 2-day is a little steadier, but the 9-day is also appealing.

Lastly, the Quantifinder also identified the study below, from the 3/31/10 subscriber letter.

NYSE Up Vol % < 45% and SPX closes up on the day. SPX < 200ma.  
Buy on close. Sell X days later. \$100k/trade. 2001 - present.

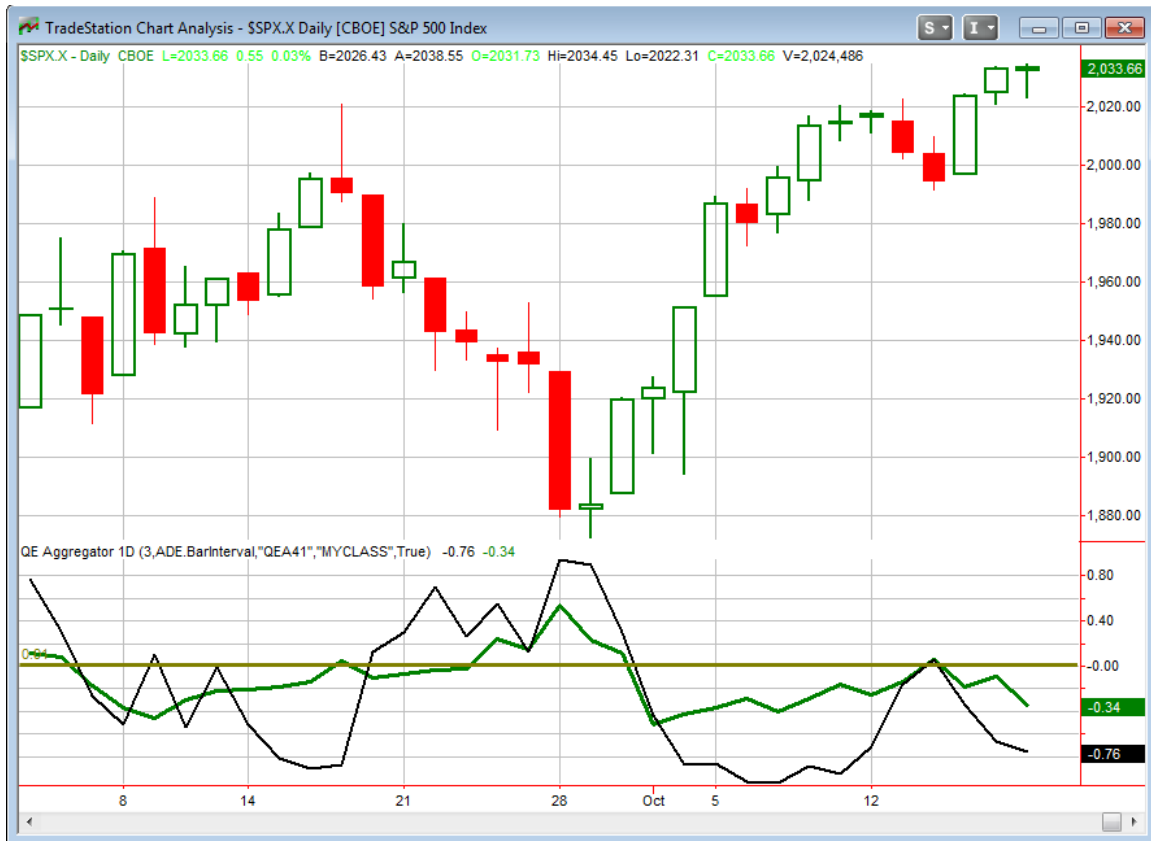
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-50,217.08	19	6	13	31.58	2,401.40	5,194.80	-4,971.19	-25,773.42	0.48	0.22	-2,643.00
9	-46,039.68	19	5	14	26.32	3,724.14	5,043.48	-4,618.60	-24,896.02	0.81	0.29	-2,423.14
8	-33,896.87	20	6	14	30.00	3,690.65	10,740.40	-4,002.91	-18,744.38	0.92	0.40	-1,694.84
7	-34,034.76	20	7	13	35.00	3,139.10	6,400.90	-4,308.34	-17,818.60	0.73	0.39	-1,701.74
6	-24,534.76	21	6	15	28.57	3,406.70	6,670.40	-2,998.33	-12,844.48	1.14	0.45	-1,168.32
5	-23,652.44	22	7	15	31.82	2,225.30	5,057.80	-2,615.30	-9,372.60	0.85	0.40	-1,075.11
4	-25,344.22	22	8	14	36.36	1,815.97	3,703.44	-2,848.00	-8,138.50	0.64	0.36	-1,152.01
3	-27,723.52	23	6	17	26.09	1,972.63	3,564.00	-2,327.02	-6,854.44	0.85	0.30	-1,205.37
2	-37,211.70	23	7	16	30.43	1,202.65	2,882.10	-2,851.89	-12,374.88	0.42	0.18	-1,617.90
1	-22,083.37	23	6	17	26.09	1,051.91	2,427.60	-1,670.29	-8,783.02	0.63	0.22	-960.15

The numbers here appear strongly negative – especially over the first couple of days. Below is a look at a 2-day profit curve.



This seems to serve as some confirmation that the weak breadth is also an indication of a likely pullback over the next couple of days.

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



With tonight's studies factored in the green Aggregator Line held 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 Tuesday. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 2018.70 on Tuesday. That is 0.7% below Monday's close. This means that for SPX to turn from overbought to oversold versus expectations on Tuesday it will need to close at least 0.7%.

Bearish evidence continues to build and the market remains overbought. The persistent upmove, the struggle to close higher, and the weak breadth all suggest a move lower over the next 1-2 days. I have a small short position. I will look to add to it if I can get a favorable fill on Tuesday.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 10/19 – 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 @ \$203.87.** Based on the short-term section above I will look add some to my short position if the market shows some strength on Tuesday.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	10/16/2015	\$202.83	\$203.37	-0.27%		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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