

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 23, 2015

Volume 8 Issue 205

Market Overview



Signals Overview

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

Tonight's Research Points

- 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.
- The 1-day gap up and strong move higher to a short-term high in a downtrend suggests a downside edge.

Short-term Outlook

The Bottom Line

The rally Thursday turned the market overbought and led to some short-term evidence emerging.

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 23, 2015	Gap up. Close top 10% daily & 10-day	1-3 days	Bearish			
October 23, 2015	5-low to 10-high in 1 day	1-2 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 21, 2015	Up Issue > 60%. SPX down & < 200ma	1-2 days	Bullish			
October 20, 2015	Up Vol % < 45%. SPX up < 200ma	1-2 days	Bearish			

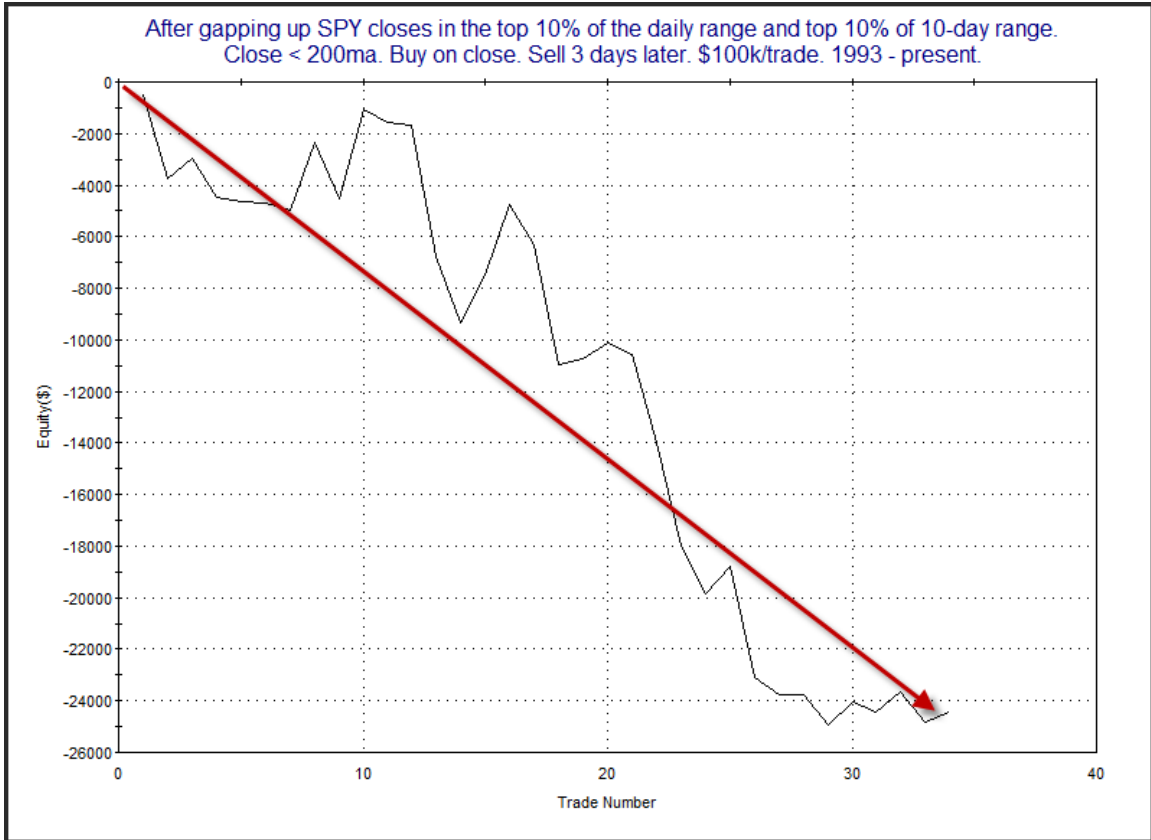
The Evidence

Thursday was a big rally day for the market. The SPX and NASDAQ each rose 1.7%, and the Russell 2000 gained 0.8%. Breadth was positive as the NYSE Up Issues % came in at 74% and the Up Volume % was 70%. Total NYSE volume rose some from Wednesday’s level.

Action was similar to what we saw 1 week ago, and 2 studies emerged from that 10/16/15 letter. The first one below looked at gaps up and closes in the upper part of both the daily and 10-day range. I have updated the stats.

After gapping up SPY closes in the top 10% of the 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	-15,544.83	30	17	12	56.67	1,221.04	3,095.18	-3,025.21	-6,223.36	0.40	0.57	-518.16
4	-14,152.23	33	15	18	45.45	1,470.45	5,167.16	-2,011.61	-5,244.16	0.73	0.61	-428.86
3	-24,440.08	34	11	23	32.35	1,401.31	3,447.12	-1,732.80	-5,133.72	0.81	0.39	-718.83
2	-20,308.93	36	16	20	44.44	823.50	2,075.22	-1,674.25	-5,196.96	0.49	0.39	-564.14
1	-11,414.79	38	18	20	47.37	621.93	2,238.25	-1,130.47	-3,187.90	0.55	0.50	-300.39

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 Wednesday to a short-term high Thursday triggered the study below, which triggered for the 2nd time in the last 6 trading days, and not having done so since May of 2009. This also I updated.

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

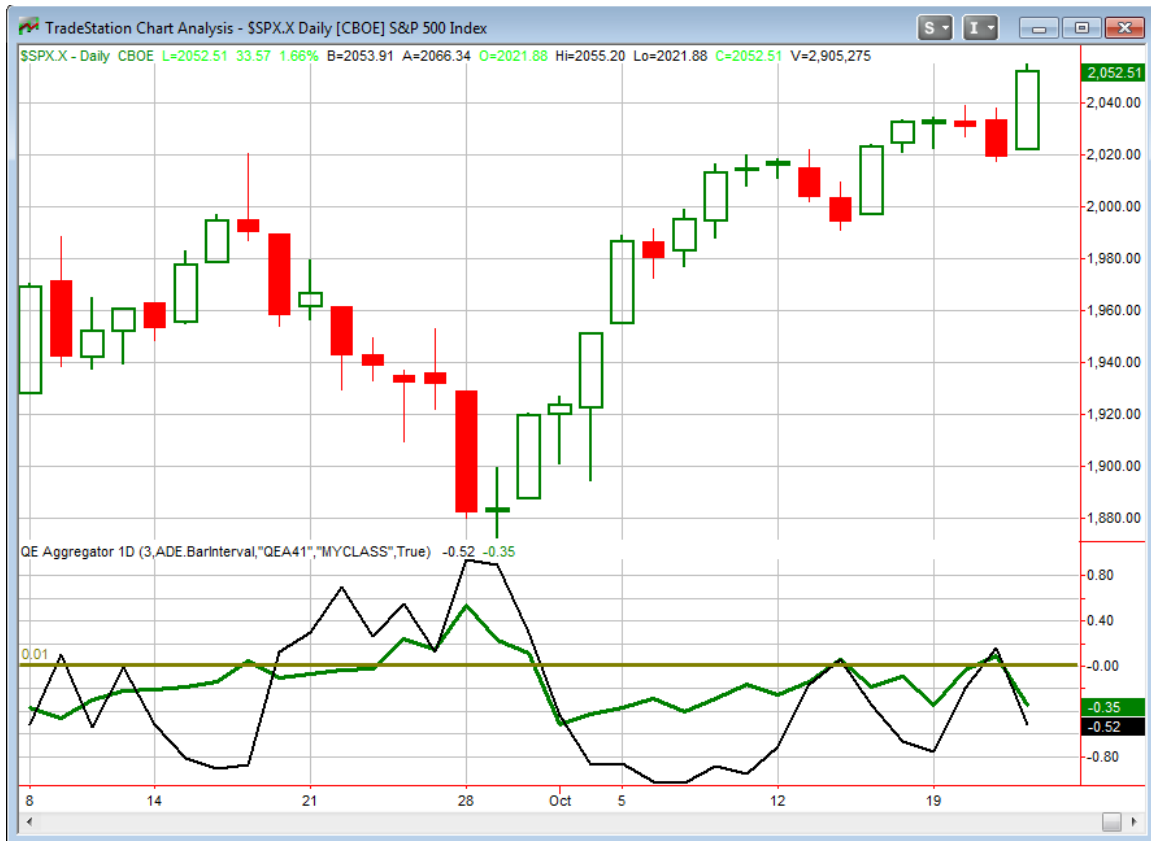
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-11,937.01	11	4	7	36.36	1,306.81	3,750.69	-2,452.04	-5,452.18	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	-9,804.44	12	5	7	41.67	727.48	960.29	-1,920.26	-3,820.62	0.38	0.27	-817.04
2	-12,343.62	12	2	10	16.67	730.46	980.72	-1,380.45	-3,630.44	0.53	0.11	-1,028.63
1	-4,243.99	12	5	7	41.67	752.69	1,512.48	-1,143.92	-3,094.18	0.66	0.47	-353.67

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

Yesterday SPX closed at a 5-day low. Today it closed at a 10-day high and > 200ma. Buy on close. Sell 2 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)
10/15/15	Buy	\$2,023.86	0.48%	\$518.91
10/19/15	Sell	\$2,033.66		(\$166.60)

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 the new bearish studies tonight 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 dove 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 flipped from long to short at the close.

Based on the current active studies expectations are slated to remain negative on Friday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2020.67 on Friday. That is a hefty 1.6% below Thursday's close. It is unlikely we will see that size of a drop occur just on Friday. A more likely scenario is a multi-day decline or consolidation.

The setup is very similar to last week and we see the same studies emerging that we did then. That instance took 3-4 days before the pullback occurred. I liked the setup then and I like it again now. Evidence is decent and the market is strongly overbought. I will look to take on some short index exposure on Friday if I can get a decent fill.

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

New

ABBV – 1/3 @ \$48.27 (buy @ limit)

Broad Market Large Cap CBI – 1 (ABBV)

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 – sell short 1/4 index position @ \$205.26 LIMIT. Based on the short-term outlook above, I will begin to scale into a short index position.

ABBV – buy 1/3 Catapult position @ \$48.27 LIMIT. This is the 1st of 3 possible lots of ABBV.

Though they have done well over time, Catapults tend to be quite volatile and are traded without initial stops. Those new to Catapults should examine the information on the [Catapult System page](#).

Current Open Trade Ideas

None.

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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