

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 4, 2015

Volume 8 Issue 213

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The sizable move up in the VIX with SPX hitting a new high suggests bearish implications for the next 1-2 days.

## *Short-term Outlook*

### *The Bottom Line*

Expectations have turned negative and the market is strongly overbought. There appears to be a downside edge. I am a bit wary about shorting against this strong uptrend though.

**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
<b>Active - Short Term</b>						
November 4, 2015	VIX up 2.5%. SPX up. Midweek	1-2 days	Bearish			
<b>Active - Long Term</b>						
November 2, 2015	Best 6 months	Nov-Apr	Bullish			
October 26, 2015	NASDAQ leading SPX	int term	Bullish			
October 9, 2015	Zweig Breadth Thrust	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			

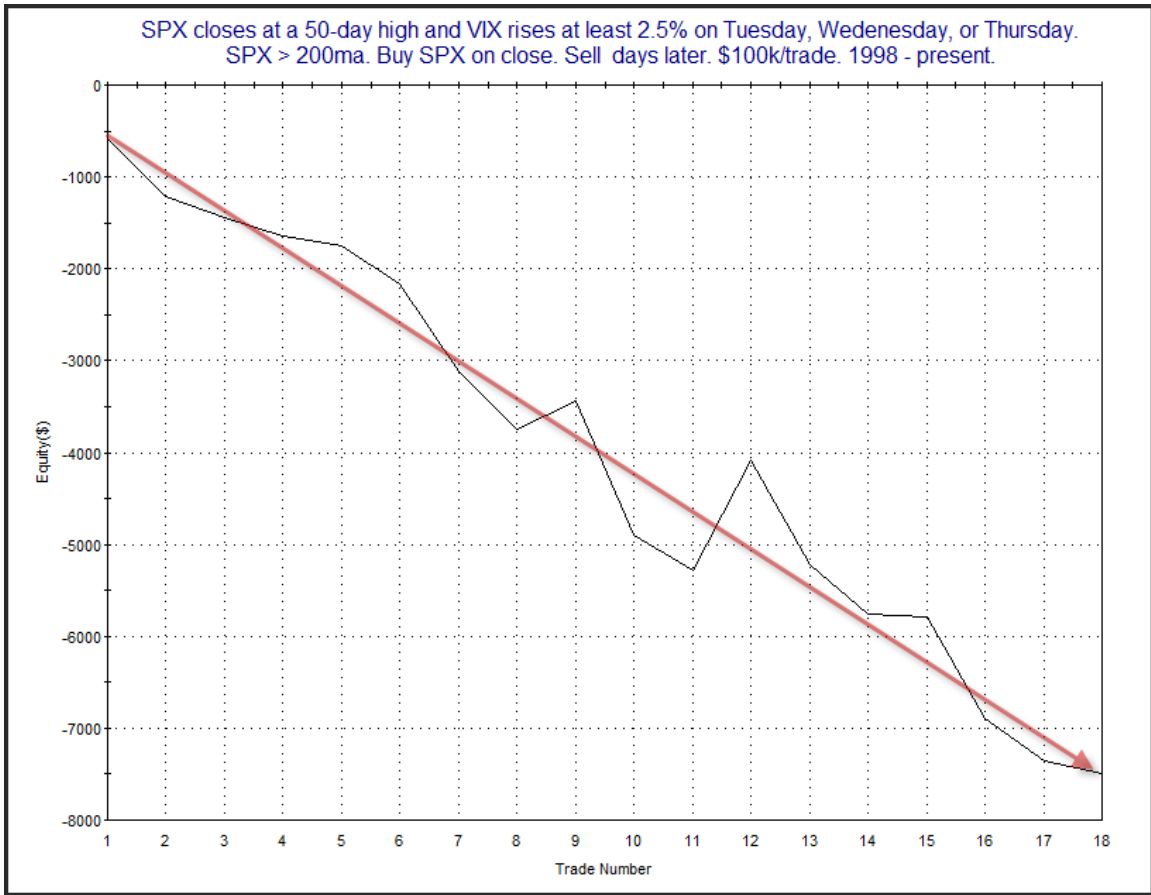
**The Evidence**

The bulls won the day again on Tuesday. The SPX closed up 0.3%, the NASDAQ rose 0.4%, and the Russell 2000 gained 0.5%. Breadth was positive as the NYSE Up Issues % came in at 56% and the Up Volume % was 67%. Total NYSE volume rose a little from Monday's level.

There were also a few studies related to VIX action that appeared in the Quantifinder. The one below was the most compelling. It last appeared in the 7/25/14 letter. New readers may wonder why I use a day-of-week filter with this study. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Because of this I typically separate out those days from the rest of the week when conducting VIX-based studies. This particular study looks at large mid-week rises in the VIX during times the SPX is closing at a 50-day high. All results are updated.

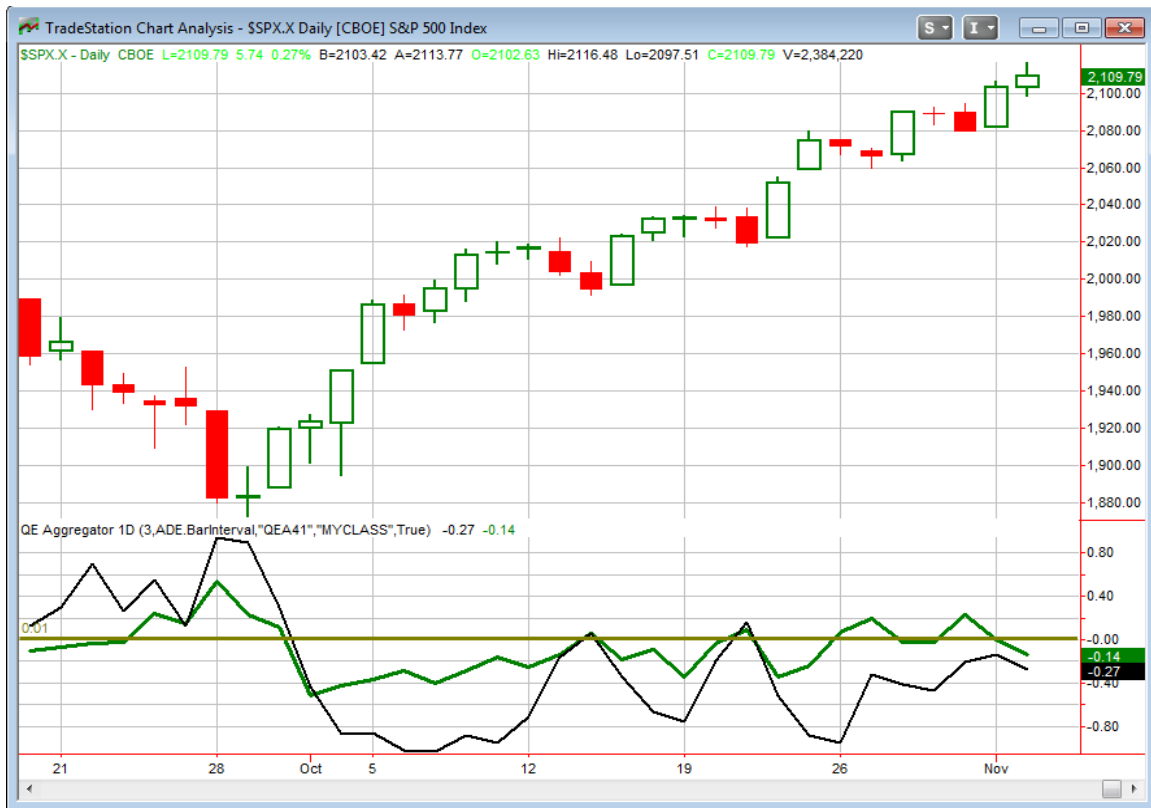
SPX closes at a 50-day high and VIX rises at least 2.5% on Tuesday, Wednesday, or Thursday. SPX > 200ma. Buy SPX on close. Sell days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-9,285.33	18	7	11	38.89	847.66	2,108.40	-1,383.54	-4,149.36	0.61	0.39	-515.85
4	-10,753.99	18	5	13	27.78	677.71	1,629.60	-1,087.89	-4,240.48	0.62	0.24	-597.44
3	-9,882.22	18	7	11	38.89	553.18	1,271.55	-1,250.41	-4,423.40	0.44	0.28	-549.01
2	-7,485.74	18	2	16	11.11	757.10	1,192.71	-562.50	-1,461.48	1.35	0.17	-415.87
1	-2,756.52	21	10	11	47.62	257.99	1,108.05	-485.13	-1,008.70	0.53	0.48	-131.26
<b>100% of instances closed below the entry price at some point in the next 4 days.</b>												

Instances are a bit low, but the numbers are quite lopsided. Below is a profit curve assuming a 2-day exit strategy.



Nice, steady decline. I see nothing here that would cause me to doubt the downside edge.

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



With the new bearish study tonight the green Aggregator Line dipped below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line stayed 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 short at the close.

Based on the current active studies, expectation are set to remain negative on Wednesday. This could easily change if new bullish evidence emerges. The Differential Pivot will be 2082.90 on Wednesday. That is 1.3% below Tuesday's close. So for SPX to move from overbought to oversold versus expectations it will need to close down at least 1.3% on Wednesday.

So there appears to be a bit of a downside edge. And there is some room to the south before the market would be considered "oversold". So risk/reward on the surface appears pretty good. But we really only have the one bearish study. And the market has been in such a persistent uptrend that it is difficult to bet against it. While I am a little torn tonight, I have decided not to take on any short exposure just yet. I believe reward/risk favors the short side, but the edge just is not compelling enough to get me to take on a counter-trend trade right here.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/2 –slightly bullish***

The intermediate-term outlook was last updated in the 11/2/15 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**

*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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