

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 10, 2015

Volume 8 Issue 217

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 Lower highs, lows & closes have consistently led to a bounce going into Turnaround Tuesday.
- 4+ day pullbacks that experience the worst day of the pullback are normally primed for a bounce.
- The 1st dip below the 10ma for SPY after spending at least 25 days above it has always been buyable.
- System 11111 is set up for SPY – which has led to short-term bounces in the past.

Short-term Outlook

The Bottom Line

More bullish evidence emerged and the market is now solidly oversold. I believe reward/risk squarely favors the bulls.

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						
November 10, 2015	1st close < 10ma in 25 days	1-4 days	Bullish			
November 10, 2015	Lower hi, low, close 3x. Monday	1-3 days	Bullish			
November 10, 2015	Dn 4+. Biggest drop. > 200ma	1-3 days	Bullish			
November 10, 2015	System 11111	1-4 days	Bullish			
November 9, 2015	Dn 3 from 20-high. Small drop today	1-3 days	Bullish	1.70%	0.80%	-1.80%
Active - Long Term						
November 10, 2015	1st close < 10ma in 25 days	1-20 days	Bullish			
November 2, 2015	Best 6 months	Nov-Apr	Bullish			
October 26, 2015	NASDAQ leading SPX	int term	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						
November 9, 2015	SPY down 3 but top 25% daily range	1 day	Bullish			

The Evidence

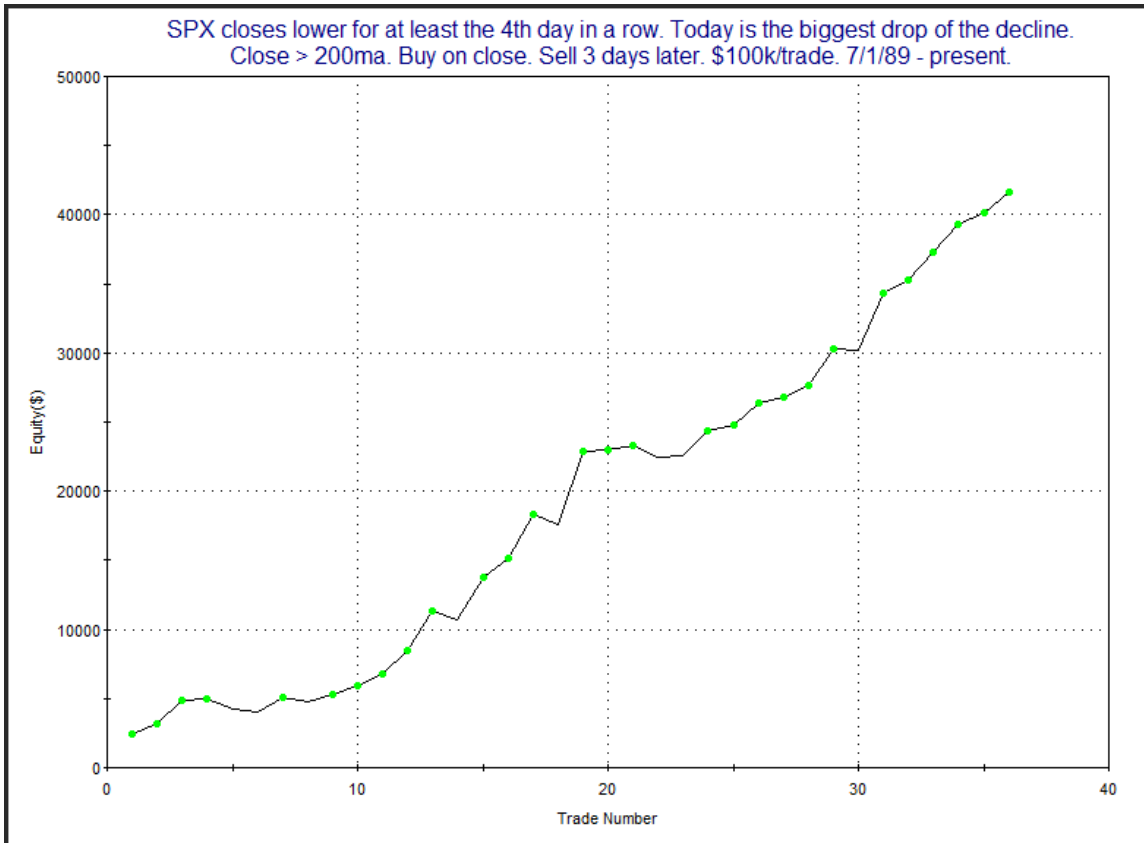
Monday saw some sizable losses across the market. The SPX closed down 1.0%, the NASDAQ also fell 1.0% and the Russell 2000 dropped 1.3%. Breadth was negative as the NYSE Up Issues % came in at 21% and the Up Volume % was 18%. Total NYSE volume declined some 3 from Friday's level.

Several studies appeared in the Quantifinder. I'll discuss the most compelling ones. The study below examined other multi-day selloffs that accelerated after already being down for a number of days. It was last seen in the 7/27/15 Subscriber Letter.

SPX closes lower for at least the 4th day in a row. Today is the biggest drop of the decline. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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	46,371.68	36	30	6	83.33	1,618.37	7,070.28	-363.24	-909.36	4.46	22.28	1,288.10
4	40,610.87	36	28	8	77.78	1,668.59	5,187.49	-763.72	-1,776.42	2.18	7.65	1,128.08
3	41,586.33	36	29	7	80.56	1,559.49	5,339.18	-519.83	-849.87	3.00	12.43	1,155.18
2	34,692.74	37	29	8	78.38	1,378.05	4,809.66	-658.85	-1,343.84	2.09	7.58	937.64
1	19,817.91	40	27	13	67.50	1,035.14	5,117.46	-625.44	-1,699.92	1.66	3.44	495.45
100% of instances closed above the entry price at some point in the next 6 days.												

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of that over the last 9 years. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact just before the period shown there

were 2 trades that were losers. Still, the evidence appears strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



The consistently strong upslope makes this an appealing looking equity curve.

In the 1/6/15 letter I noted that there was a strong bullish edge when ES had made at least three consecutive lower highs, lows, and closes. I also noted that this edge was even more substantial when it occurred on a Monday. This isn't surprising since [Tuesdays are known for their turnaround capabilities](#). I have updated the 1/6/15 studies below.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row.
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
6	102,218.99	121	73	48	60.33	2,586.62	12,086.91	-1,804.25	-7,910.10	1.43	2.18	844.79
5	73,302.50	123	74	49	60.16	2,246.72	9,205.12	-1,897.03	-7,677.25	1.18	1.79	595.96
4	98,383.19	124	82	42	66.13	1,994.94	8,971.36	-1,552.42	-4,660.94	1.29	2.51	793.41
3	81,043.76	125	82	43	65.60	1,717.21	8,565.74	-1,389.95	-3,906.68	1.24	2.36	648.35
2	52,392.34	134	84	49	62.69	1,495.21	12,814.15	-1,493.98	-9,235.25	1.00	1.72	390.99
1	64,561.95	169	107	62	63.31	1,325.76	14,507.65	-1,246.69	-7,436.23	1.06	1.84	382.02

As you can see, the edge appears to be fairly potent. But as I mentioned above, it has looked even better going into Tuesdays. Here are the numbers with the Monday filter added.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday. 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
6	69,664.17	39	29	10	74.36	2,881.61	12,086.91	-1,390.25	-3,988.72	2.07	6.01	1,786.26
5	54,885.83	41	28	13	68.29	2,951.34	9,205.12	-2,134.74	-4,985.90	1.38	2.98	1,338.68
4	54,960.98	41	30	11	73.17	2,377.08	8,971.36	-1,486.49	-3,428.66	1.60	4.36	1,340.51
3	54,200.66	41	34	7	82.93	1,912.72	8,565.74	-1,547.40	-3,346.70	1.24	6.00	1,321.97
2	38,268.00	41	30	11	73.17	1,568.94	5,165.69	-800.01	-1,899.52	1.96	5.35	933.37
1	24,016.77	41	26	15	63.41	1,423.25	4,645.80	-865.85	-2,736.00	1.64	2.85	585.77

These are even better, and suggest a strong upside edge. I further broke them out based on the long-term trend. When I did so, I found there to be a substantial difference in expectations. Let's first look at instances below the 200ma.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday. 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
6	52,350.19	17	13	4	76.47	4,428.61	12,086.91	-1,305.44	-3,988.72	3.39	11.03	3,079.42
5	39,116.69	19	12	7	63.16	4,726.43	9,205.12	-2,514.36	-4,985.90	1.88	3.22	2,058.77
4	38,162.05	19	13	6	68.42	3,786.84	8,971.36	-1,844.48	-3,428.66	2.05	4.45	2,008.53
3	33,691.30	19	15	4	78.95	2,782.73	8,565.74	-2,012.39	-3,346.70	1.38	5.19	1,773.23
2	25,302.53	19	14	5	73.68	2,177.34	5,165.69	-1,036.06	-1,899.52	2.10	5.88	1,331.71
1	19,554.98	19	12	7	63.16	2,345.47	4,645.80	-1,227.25	-2,736.00	1.91	3.28	1,029.21

18 of 19 instances (95%) closed above the entry price at some point in the next 3 days.

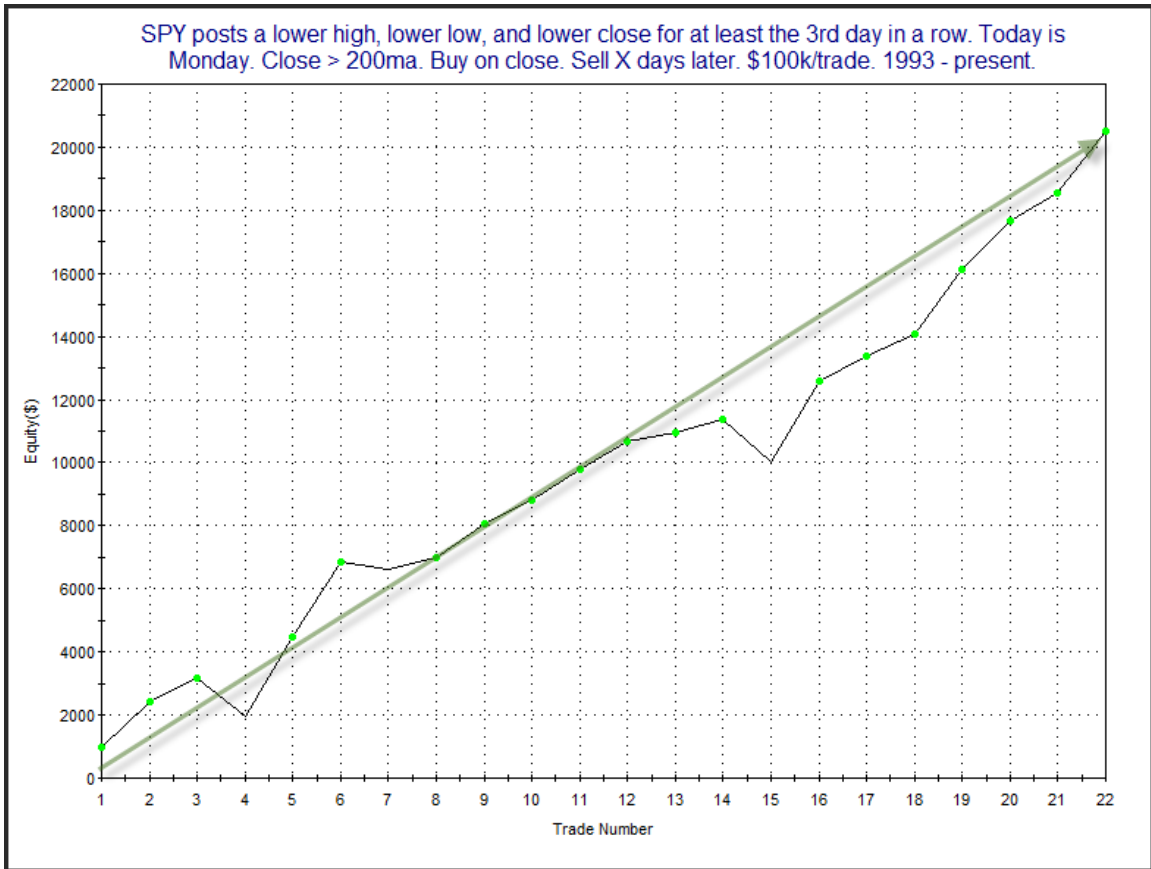
The numbers here are incredibly strong from an average trade standpoint. This is likely due in large part to the increased volatility often seen during long-term downtrends. So let's take a look and see how the setup has fared when SPY has been above its 200ma.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday. 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	15,769.14	22	16	6	72.73	1,620.01	4,541.40	-1,691.85	-4,057.15	0.96	2.55	716.78
4	16,798.92	22	17	5	77.27	1,299.02	3,363.54	-1,056.90	-1,484.00	1.23	4.18	763.59
3	20,509.36	22	19	3	86.36	1,225.87	2,556.72	-927.41	-1,335.78	1.32	8.37	932.24
2	12,965.47	22	16	6	72.73	1,036.58	2,025.36	-603.30	-904.24	1.72	4.58	589.34
1	4,461.79	22	14	8	63.64	632.77	1,226.82	-549.63	-1,677.36	1.15	2.01	202.81

All 22 instances closed above the entry price at some point in the next 4 days.

The size of the bounces is not nearly as large as during long-term downtrends, but they couldn't get any more reliable. There has yet to be an instance where SPY has failed to bounce at some point in the next four days. And much of the edge has played out in the first 3 days. Below is the profit curve for a 3-day holding strategy.



The fairly consistent movement from lower left to upper right is an encouraging sign for the bulls. I have therefore included the study on the short-term Active List.

Another Quantifinder study showed that SPY is now set up to trigger QE numbered system 11111 on Tuesday. A trade at or below SPY's closing price would mean an entry for this system. System 11111 has done fairly well over the years. With SPY, it has done very well. I last noted this in the 12/2/14 Letter. Below are the stats.

SPY System 11111.
\$100k/trade. \$0.01/share commission. 1994 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$10,920.36	Profit Factor	32.26
Gross Profit	\$11,269.73	Gross Loss	(\$349.37)
Total Number of Trades	14	Percent Profitable	92.86%
Winning Trades	13	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$780.03	Ratio Avg. Win:Avg. Loss	2.48
Avg. Winning Trade	\$866.90	Avg. Losing Trade	(\$349.37)
Largest Winning Trade	\$2,456.58	Largest Losing Trade	(\$349.37)

There have not been a whole lot of instances but the stats are extremely lopsided in favor of the bulls. Below is the list of hypothetical trades.

SPY System 11111.
\$100k/trade. \$0.01/share commission. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/06/94	Buy	\$47.25	0.53%	\$655.03
09/08/94	Sell	\$47.50		(\$253.56)
04/03/95	Buy	\$50.12	0.58%	\$877.80
04/04/95	Sell	\$50.41		(\$99.75)
05/19/95	Buy	\$51.98	1.33%	\$1,468.39
05/22/95	Sell	\$52.67		(\$114.42)
02/16/96	Buy	\$65.06	0.06%	\$275.94
02/21/96	Sell	\$65.10		(\$1,808.94)
10/01/96	Buy	\$68.59	0.57%	\$670.22
10/01/96	Sell	\$68.98		(\$218.55)
12/04/96	Buy	\$74.83	0.73%	\$788.24
12/09/96	Sell	\$75.38		(\$2,899.12)
11/24/99	Buy	\$140.75	0.36%	\$1,508.04
12/02/99	Sell	\$141.25		(\$1,239.00)
11/02/06	Buy	\$136.51	1.15%	\$1,292.10
11/06/06	Sell	\$138.08		(\$226.30)
09/01/09	Buy	\$101.95	0.11%	\$1,257.75
09/04/09	Sell	\$102.06		(\$2,320.50)
03/23/12	Buy	\$139.20	1.73%	\$1,730.38
03/26/12	Sell	\$141.61		(\$466.70)
08/24/12	Buy	\$140.31	2.47%	\$2,463.70
09/06/12	Sell	\$143.77		(\$127.80)
09/24/12	Buy	\$145.15	(0.35%)	\$746.65
09/27/12	Sell	\$144.64		(\$1,507.00)
12/04/13	Buy	\$179.10	1.03%	\$1,117.56
12/06/13	Sell	\$180.94		(\$417.00)
06/13/14	Buy	\$193.54	0.67%	\$737.88
06/17/14	Sell	\$194.83		(\$123.84)

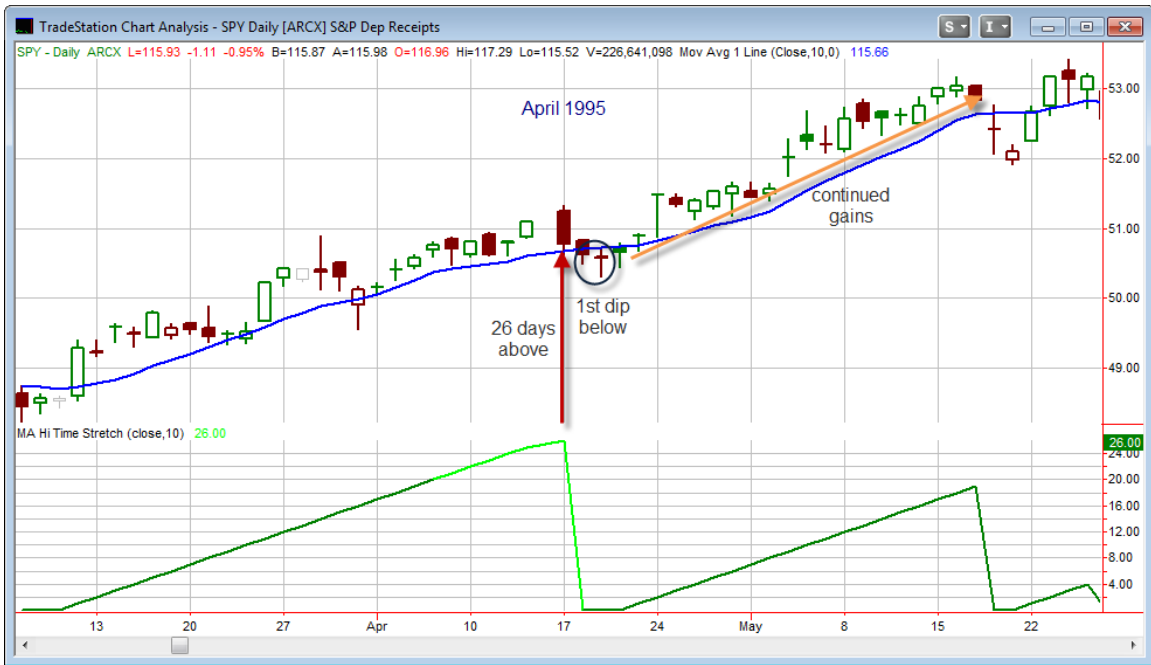
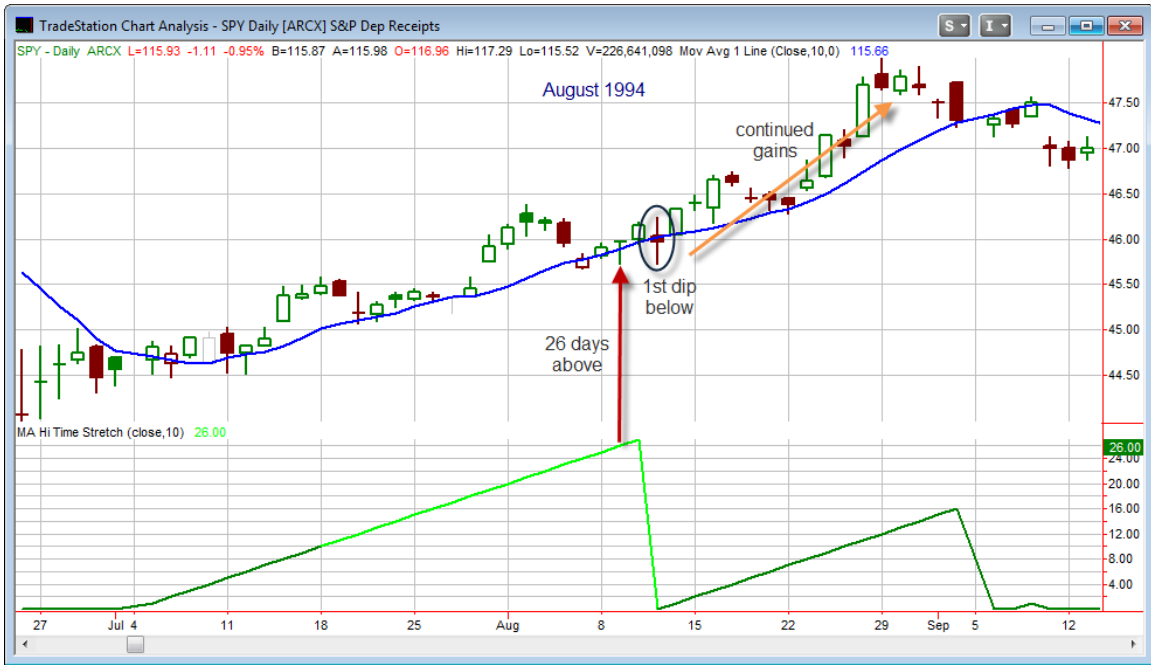
Avg bars in trade: 3.5

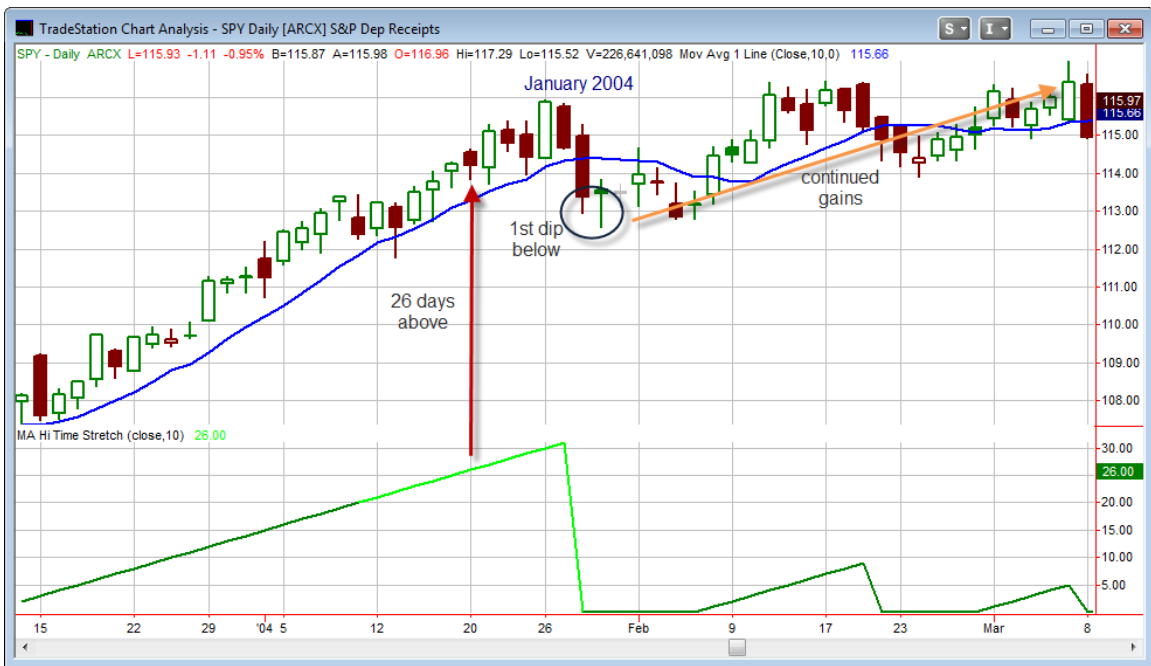
The short time in these trades and the high percent that end up profitable speaks to the probability of a quick bounce here. I have incorporated this setup into the Aggregator as well. Subscribers may find a link to system the 11111 page below:

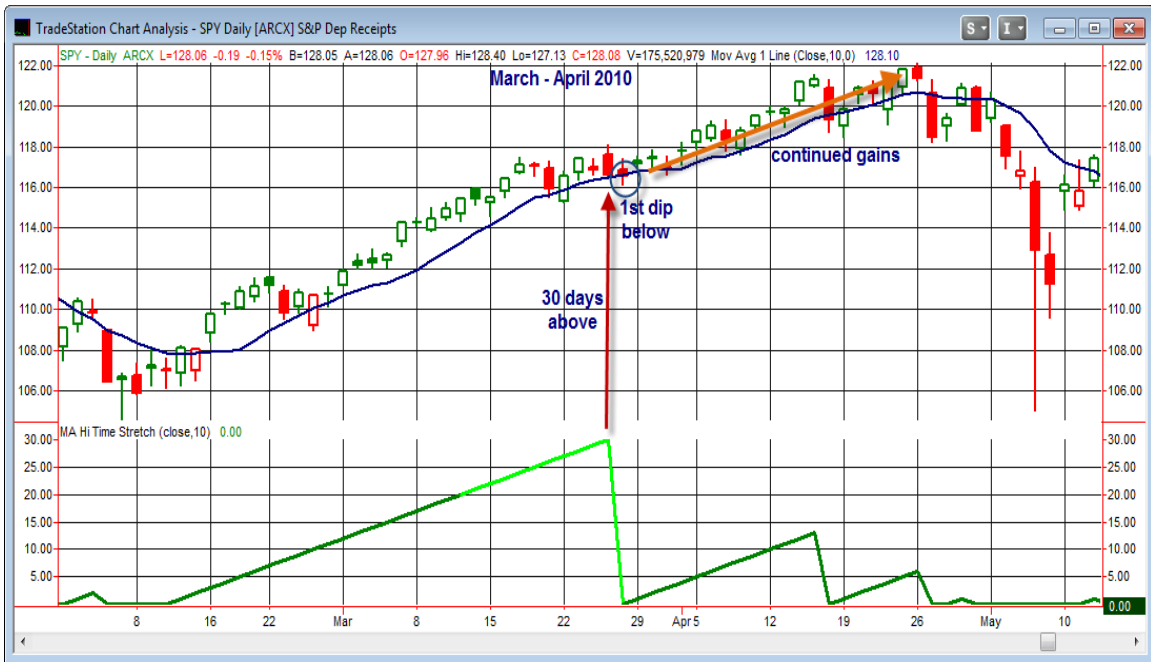
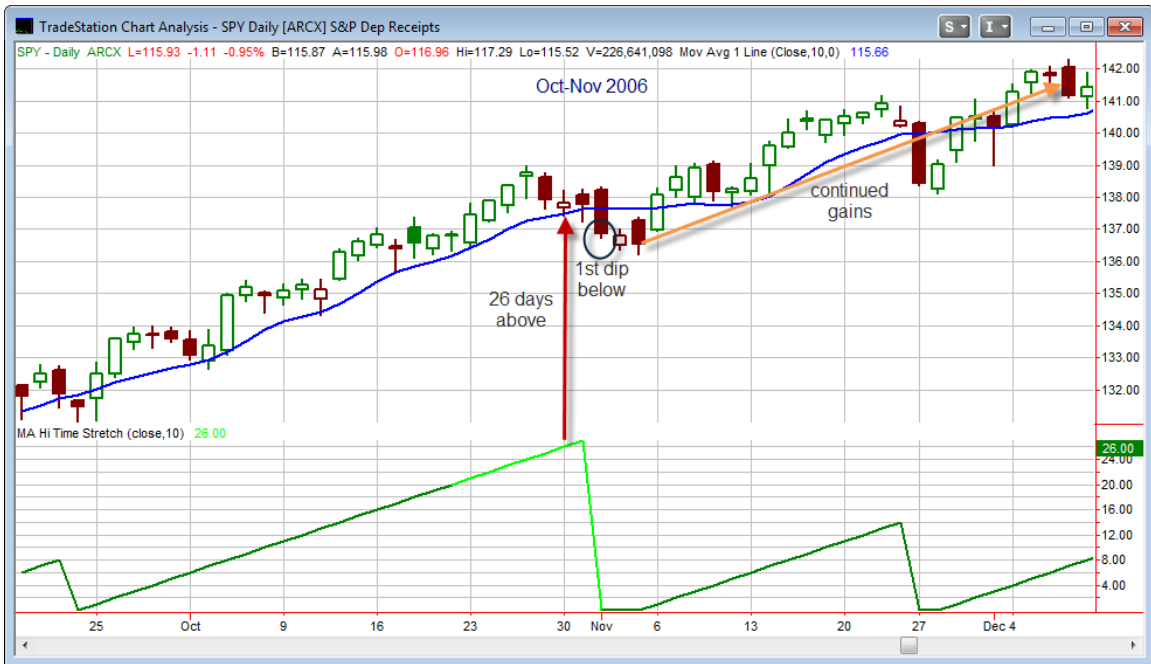
<http://quantifiableedges.com/system-11111/>

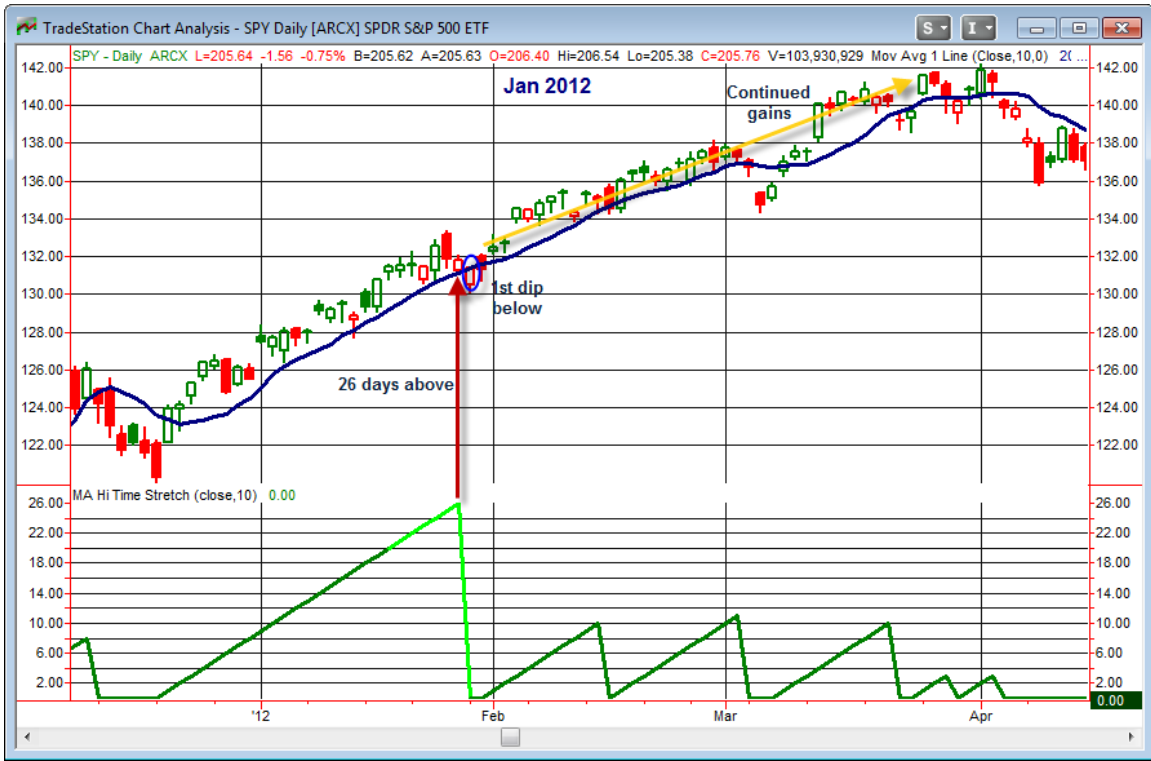
Also notable about Monday's action is that the SPY closed below its 10ma for the first time since October 1st. In the 12/2/14 Subscriber Letter I looked at all the instances where SPY had traded above its 10ma for at least 25 days then closed below it. Since its inception in 1993 there have been only nine other instances where SPY had a run of 25 days or more. I showed the charts of every instance and noted how the market reacted after it finally did close beneath its 10ma. I noted that the first dip never had resulted in the end of the rally. Below I have republished those 8 charts and added a 9th one to show

the Dec. 2014 instance. The indicator in the bottom pane of each chart shows the number of days the SPY has closed above its 10ma.









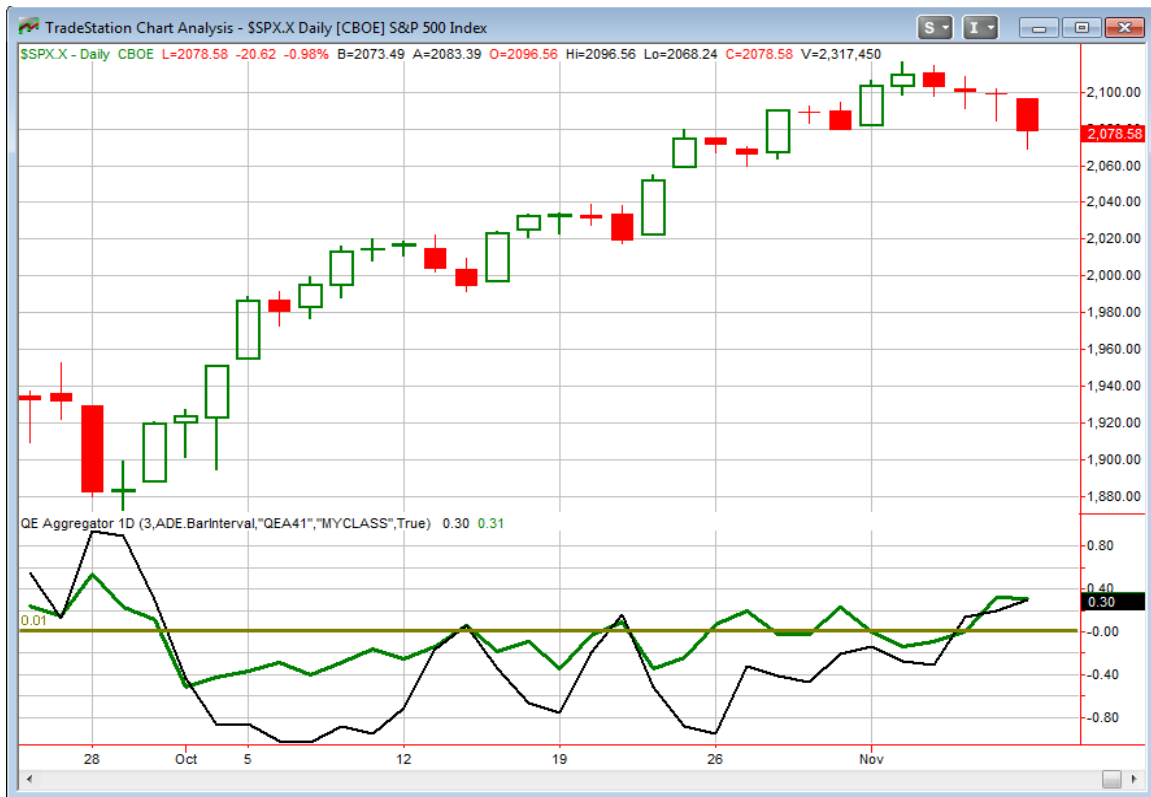


Aside from the last one, these charts all looked very similar. A brief examination is all that's needed to see that the first trip below the 10ma was a short one, and the uptrend quickly reasserted itself. Of course if you've been reading Quantifiable Edges for any period of time, you're probably used to looking at numbers. So below you will find the stats table.

After closing above the 10ma for at least 25 days in a row SPY closes below it today. 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
20	33,485.02	9	9	0	100.00	3,720.56	7,915.86	0.00	0.00	100.00	100.00	3,720.56
19	33,680.20	9	9	0	100.00	3,742.24	6,866.19	0.00	0.00	100.00	100.00	3,742.24
18	28,598.00	9	9	0	100.00	3,177.56	5,903.19	0.00	0.00	100.00	100.00	3,177.56
17	27,232.59	9	9	0	100.00	3,025.84	5,537.25	0.00	0.00	100.00	100.00	3,025.84
16	28,449.36	9	9	0	100.00	3,161.04	5,662.44	0.00	0.00	100.00	100.00	3,161.04
15	28,539.43	9	9	0	100.00	3,171.05	6,047.64	0.00	0.00	100.00	100.00	3,171.05
14	28,298.44	9	9	0	100.00	3,144.27	6,115.05	0.00	0.00	100.00	100.00	3,144.27
13	30,260.42	9	9	0	100.00	3,362.27	6,500.25	0.00	0.00	100.00	100.00	3,362.27
12	24,155.67	9	8	1	88.89	3,260.64	5,604.66	-1,929.42	-1,929.42	1.69	13.52	2,683.96
11	21,205.74	9	8	1	88.89	3,127.60	5,845.41	-3,815.10	-3,815.10	0.82	6.56	2,356.19
10	18,988.60	9	8	1	88.89	2,753.26	5,325.39	-3,037.50	-3,037.50	0.91	7.25	2,109.84
9	16,720.23	9	8	1	88.89	2,385.88	4,882.41	-2,366.82	-2,366.82	1.01	8.06	1,857.80
8	16,426.62	9	8	1	88.89	2,148.70	4,574.25	-763.02	-763.02	2.82	22.53	1,825.18
7	12,570.70	9	8	1	88.89	1,729.29	4,304.61	-1,263.60	-1,263.60	1.37	10.95	1,396.74
6	11,270.76	9	7	2	77.78	1,674.16	3,158.64	-224.19	-280.80	7.47	26.14	1,252.31
5	13,105.45	9	8	1	88.89	1,695.51	3,466.80	-458.64	-458.64	3.70	29.57	1,456.16
4	13,696.76	9	9	0	100.00	1,521.86	3,158.64	0.00	0.00	100.00	100.00	1,521.86
3	9,326.80	9	9	0	100.00	1,036.31	2,744.55	0.00	0.00	100.00	100.00	1,036.31
2	5,884.90	9	8	1	88.89	764.81	1,656.36	-233.60	-233.60	3.27	26.19	653.88
1	4,165.73	9	6	3	66.67	726.82	1,974.15	-65.07	-98.75	11.17	22.34	462.86

Strong and persistent upside movement like we have seen lately hasn't normally just ended and lead to an immediate correction. The 1st dip has always been just that – a dip. New highs were always made in short order. After these new highs were made there may have been a loss of momentum that turned into a substantial top. It never came on the 1st dip, though – and the 1st dip is where we are now. The caveat here is obviously the low sample size. But with every instance positive not just for a day or 2, but for 10 of the next 20 days, I find these results very compelling. I have decided to include this study on both the short and intermediate-term Active List.

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



With tonight's studies taken into account the green Aggregator Line remained 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 held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal stayed long at the close.

Expectations are set to remain bullish on Tuesday based on the current active studies. A substantial amount of bearish evidence would need to emerge to change this. The Differential Pivot will be 2095.01 on Tuesday. That is 0.8% above Monday's close. This means that SPX would need to close up at least 0.8% in order to move from oversold to overbought on Tuesday.

The Aggregator has had a bullish formation for a few days now, but this is the 1st time really like the setup. The evidence appears strong and there is now a good amount of room to the upside before the market would be considered "overbought". So reward/risk appears strongly favorable. I began scaling into a long index position at the close on Monday. I will add to it again at Tuesday's close if the market closes down much further. Additionally, there is a new Catapult that triggered that I have listed in the Trade Ideas section down near the bottom of the letter.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 11/9 –slightly bullish*

The intermediate-term outlook was last updated in the 11/9 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

SPG – 1/3 @ \$191.51 (buy @ limit)

Broad Market Large Cap CBI – 1(SPG)

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 – buy ¼ index position @ \$206.75 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to continue scaling into a long position if SPY suffers a bit more selling on Tuesday.

SPG – buy 1/3 Catapult position @ \$191.51 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for SPG.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/9/2015	\$208.08	\$208.08	0.00%		bought on close

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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