

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 12, 2015

Volume 8 Issue 219

Market Overview



Signals Overview

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

Tonight's Research Points

- Weak closes at 5-day lows often lead to a bounce.
- The 1st 10-day low in a while is often buyable, but it has been less reliable when the market is drifting sideways.

Short-term Outlook

The Bottom Line

More bullish evidence emerged and the market is still 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 12, 2015	1st 10 low in 30+ days	1-4 days	Bullish			
November 12, 2015	5-low. Bottom 10% range. > 200	1 day	Bullish			
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			
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	Dn 3 from 20-high. Small drop today	1-3 days	Bullish			
November 11, 2015	Mild bounce after 4+ dn	1 day	Bullish			

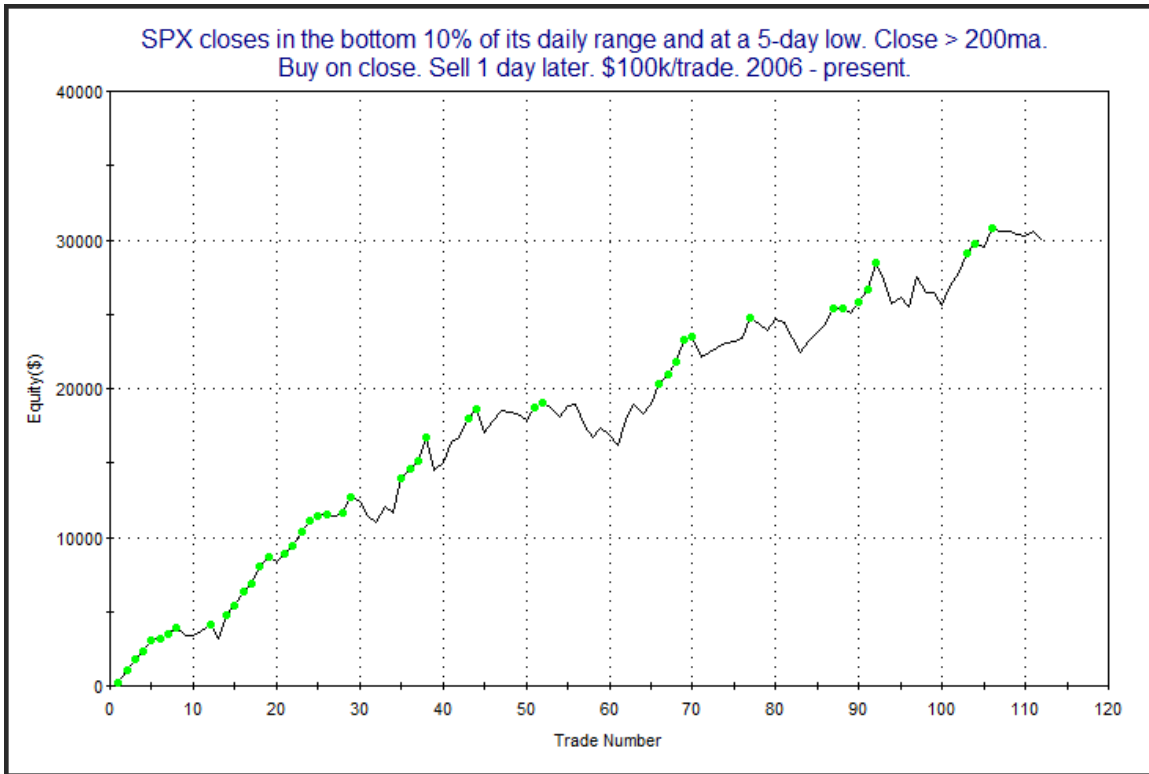
The Evidence

The market could not get much going on Wednesday, and ended with some losses. The SPX and NASDAQ each fell 0.3% and the Russell 2000 declined 0.8%. Breadth was negative as the NYSE Up Issues % came in at 44% and the Up Volume % was 34%. Total NYSE volume declined for the 3rd day in a row.

The selling put SPX at a short-term closing low. Over the last several years when SPX has closed near the bottom of its range and at a 5-day low, it has typically been followed by a bounce in the next few days. This can be seen in the study below.

SPX closes in the bottom 10% of its daily range and at a 5-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2006 - 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	50,805.74	84	54	30	64.29	1,848.91	5,555.16	-1,634.52	-3,680.82	1.13	2.04	604.83
4	39,455.21	87	55	32	63.22	1,587.12	5,290.00	-1,494.88	-3,863.84	1.06	1.82	453.51
3	34,380.94	94	61	33	64.89	1,236.51	4,895.50	-1,243.83	-3,437.94	0.99	1.84	365.75
2	31,225.21	102	60	42	58.82	1,129.91	4,424.50	-870.70	-2,726.97	1.30	1.85	306.13
1	29,972.96	112	73	39	65.18	750.35	2,230.60	-635.96	-2,200.08	1.18	2.21	267.62
91% of instances closed above the entry price at some point in the net week.												

The stats here appear to suggest a pretty solid upside tendency over the last 9 years. Below is a look at the profit curve assuming a 1-day holding period, since that had the most impressive profit curve.



The profit curve has had a steady move higher from lower left to upper right. I'll keep an eye on the recent dip to see if it changes the shape of the curve, but I'm not overly concerned yet. I have included this study on the Short-Term Active List tonight.

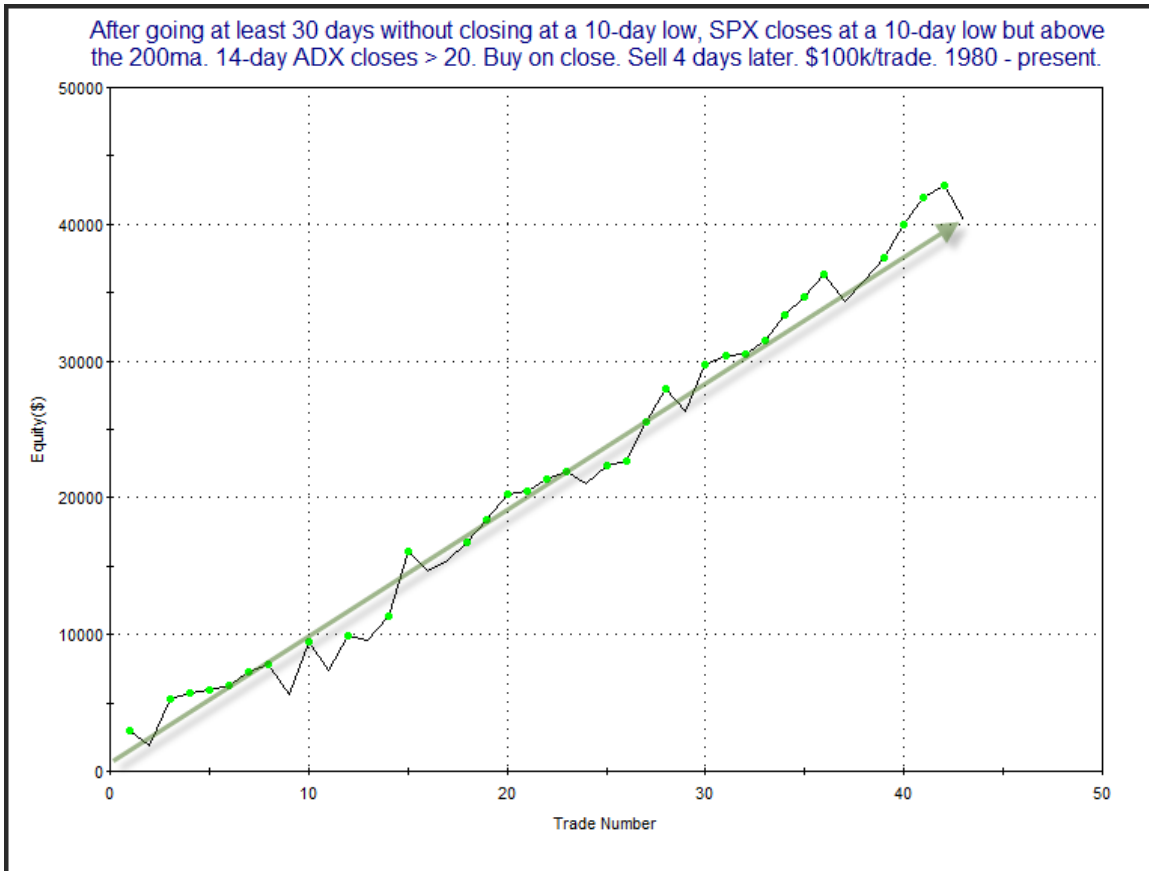
Also notable about the low close on Wednesday is that it was the 1st 10-day low close since 9/28. Before today SPX had gone 31 trading days without posting a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after such a long time without one has provided a solid upside edge. In the 8/15/13 letter I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. In that letter I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. Updated results are below with that filter included.

After going at least 30 days without closing at a 10-day low, SPX closes at a 10-day low but above the 200ma. 14-day ADX closes > 20. 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	70,270.41	43	29	14	67.44	3,054.89	12,395.76	-1,308.66	-5,362.24	2.33	4.84	1,634.20
9	68,597.89	43	32	11	74.42	2,635.13	10,529.82	-1,429.67	-3,753.36	1.84	5.36	1,595.30
8	66,301.08	43	33	10	76.74	2,501.91	10,554.48	-1,626.20	-6,117.72	1.54	5.08	1,541.89
7	46,824.84	43	31	12	72.09	2,393.41	7,743.24	-2,280.90	-8,141.12	1.05	2.71	1,088.95
6	46,688.41	43	32	11	74.42	2,028.10	5,893.74	-1,655.54	-4,111.40	1.23	3.56	1,085.78
5	40,019.71	43	29	14	67.44	1,964.92	4,608.35	-1,211.64	-3,502.11	1.62	3.36	930.69
4	40,256.99	43	34	9	79.07	1,613.71	4,690.50	-1,623.23	-2,616.60	0.99	3.76	936.21
3	20,209.53	43	30	13	69.77	1,262.33	3,940.55	-1,358.49	-4,464.88	0.93	2.14	469.99
2	12,101.64	43	28	15	65.12	1,030.05	3,744.45	-1,115.98	-7,559.56	0.92	1.72	281.43
1	7,959.08	43	27	16	62.79	702.00	2,287.60	-687.18	-1,922.40	1.02	1.72	185.09

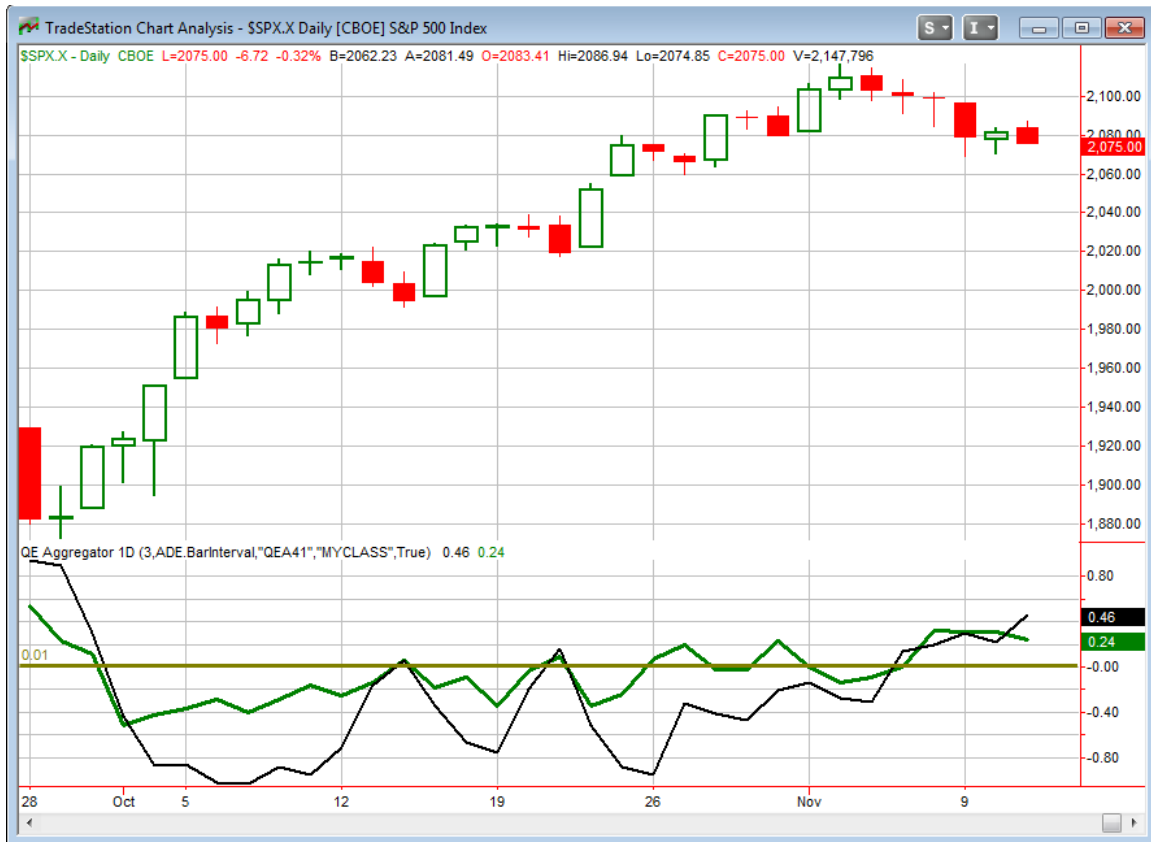
41 of 43 instances (95%) closed above the entry price at some point in the next week.

The numbers here are quite good, suggesting a short-term upside edge. Below is a profit curve.



This profit curve also shows a strong steady upslope. I have also included this study on the 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 Thursday based on the current active studies. A substantial amount of bearish evidence would need to emerge to change this. The Differential Pivot will be 2103.91 on Wednesday. That is 0.8% above Wednesday's close. This means that SPX would need to close up at least 0.8% in order to move from oversold to overbought on Thursday.

My overall outlook is very similar to last night. The Aggregator remains bullish. Evidence is strong and there is plenty of room to the upside offering good potential reward. I have a small long position. I will continue to ride it in anticipation of a move higher. I will not add to it here. With SPX so close to its 200ma, I would rather wait and see how Thursday unfolds and what new studies emerge.

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) – not filled – cancel for now

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.

None tonight

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/9/2015	\$208.08	\$207.74	-0.16%		Aggregator

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