

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 16, 2015

Volume 8 Issue 221

Market Overview



Signals Overview

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

Tonight's Research Points

- A strong drop on the 3rd day of a pullback under the 200ma but above a 20-day low has most often been followed by a rally in the next few days.
- Down moves going into op-ex week have consistently led to bounces.
- 2 unfilled down gaps have typically been followed by a bounce.
- The spike in the VIX also suggests a short-term reversal.
- SOMA remains flat again this past week.

Short-term Outlook

The Bottom Line

More bullish evidence emerged and the market is very strongly oversold. I believe reward/risk 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 16, 2015	Dn 3. 1% drop. >20-low. < 200ma	1-4 days	Bullish			
November 16, 2015	Unfilled gap down 2x. Close <200ma	1-5 days	Bullish			
November 16, 2015	Down 3 & opex next week	1-2 days	Bullish			
November 16, 2015	VIX crosses over 25% above 10ma	1 day	Bullish			
November 13, 2015	Unfilled gap down. Low close in ranges	1-5 days	Bullish			
November 11, 2015	1st close 10-low in 30days	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 10, 2015	1st close < 10ma in 25 days	1-4 days	Bullish			
November 10, 2015	System 11111	1-4 days	Bullish			

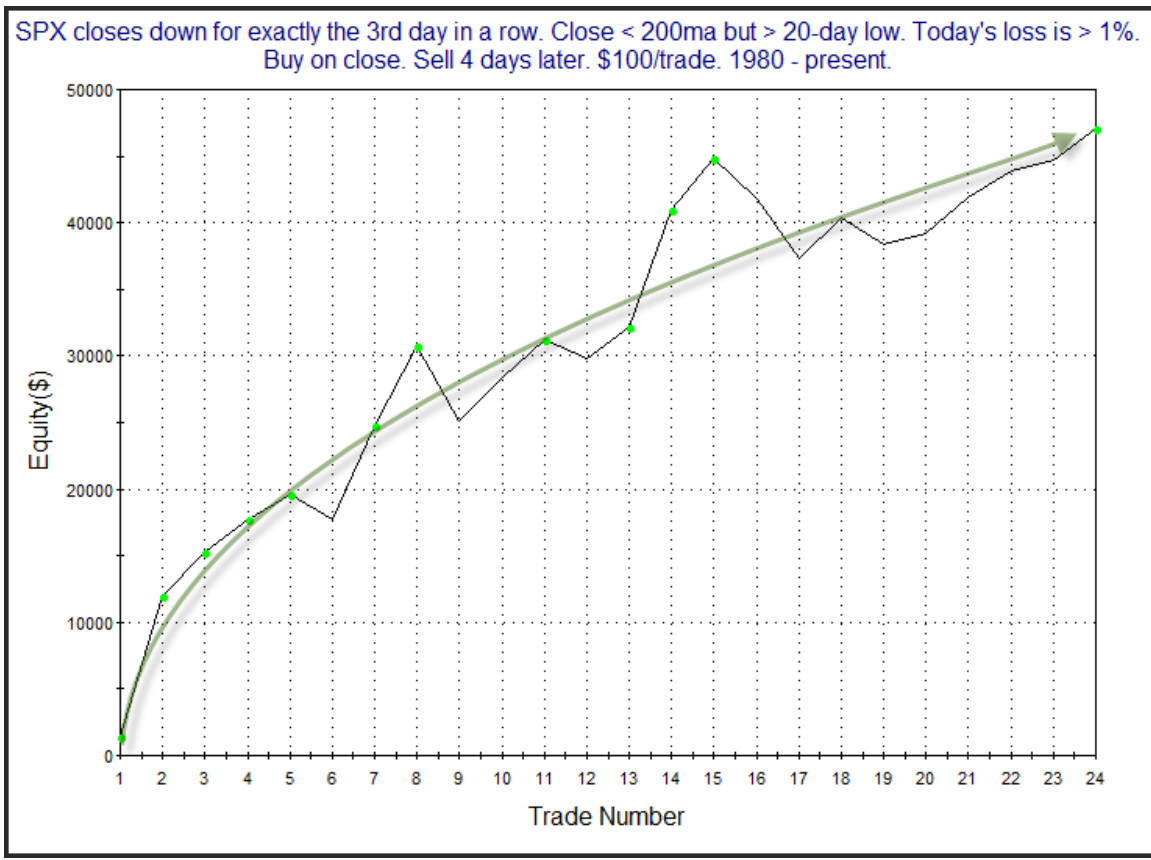
The Evidence

Friday was another day of selling. The SPX declined 1.1%, the NASDAQ fell 1.5% and the Russell 2000 lost 0.7%. Breadth was negative as the NYSE Up Issues % came in at 39% and the Up Volume % was 32%. Total NYSE volume rose for the 2nd day in a row.

The strong move lower over the last few days has triggered a large number of studies in the Quantifinder. The one below combined a few of the themes shown in other Quantifinder studies. It was last seen in the 12/15/11 letter and has been updated.

SPX closes down for exactly the 3rd day in a row. Close < 200ma but > 20-day low. Today's loss is > 1%. Buy on close. Sell X days later. \$100/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	60,122.94	23	17	6	73.91	4,338.45	13,815.90	-2,271.78	-4,560.60	1.91	5.41	2,614.04
9	56,111.20	23	16	7	69.57	4,282.52	12,019.45	-1,772.72	-5,068.80	2.42	5.52	2,439.62
8	54,944.20	23	16	6	69.57	4,558.71	12,293.93	-2,999.21	-6,288.70	1.52	4.05	2,388.88
7	43,625.95	23	17	6	73.91	3,622.73	12,277.87	-2,993.42	-6,115.59	1.21	3.43	1,896.78
6	38,233.81	24	17	7	70.83	3,761.94	10,326.58	-3,674.16	-11,683.62	1.02	2.49	1,593.08
5	43,098.54	24	17	7	70.83	3,863.85	12,331.51	-3,226.71	-5,973.00	1.20	2.91	1,795.77
4	47,102.92	24	18	6	75.00	3,644.17	10,588.68	-3,082.02	-5,638.06	1.18	3.55	1,962.62
3	40,613.49	24	16	8	66.67	3,186.35	8,432.34	-1,296.02	-2,616.64	2.46	4.92	1,692.23
2	24,112.82	24	14	10	58.33	2,578.88	7,249.63	-1,199.16	-2,936.78	2.15	3.01	1,004.70
1	18,478.15	24	17	7	70.83	1,543.90	6,901.83	-1,109.74	-3,162.00	1.39	3.38	769.92

Results here appear solidly bullish. Below is the 4-day profit curve.



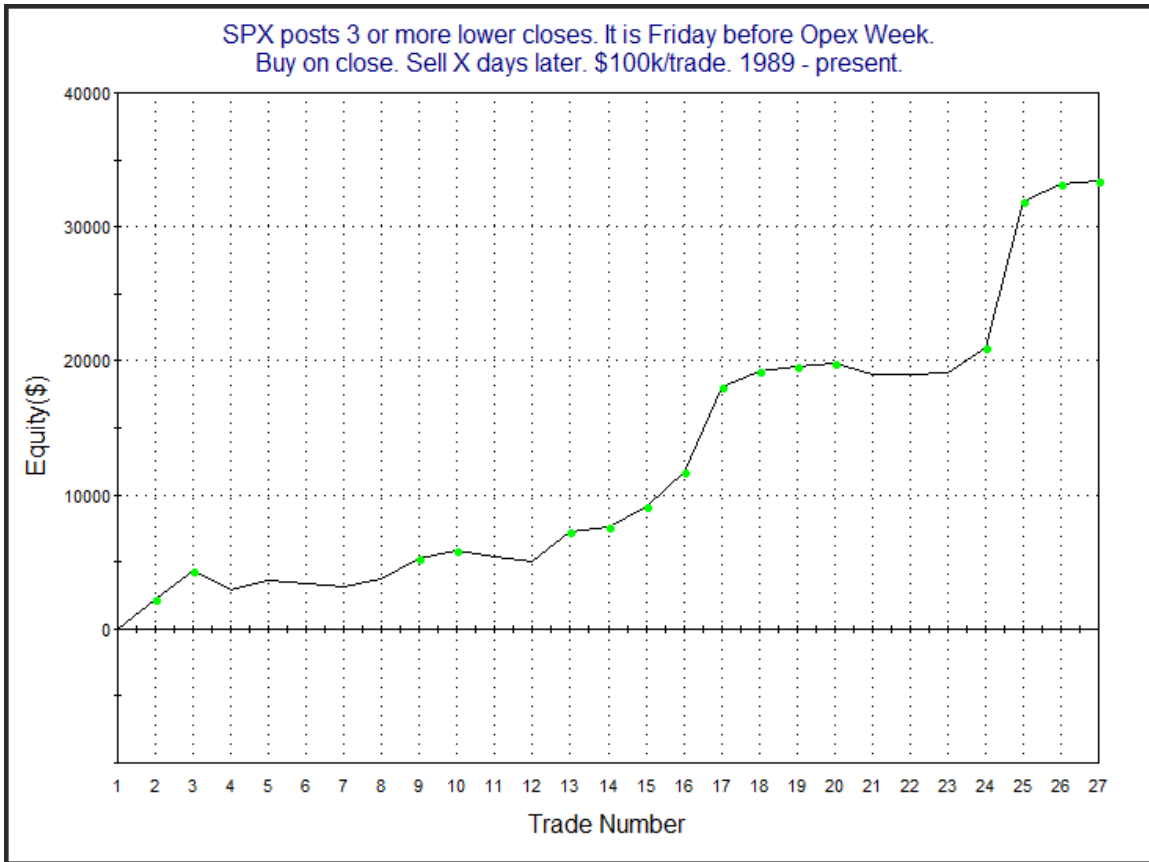
The strong upslope acts as some confirmation of the bullish edge.

The fact that next week is opex week also seems to favor the bulls. In the 8/16/10 subscriber letter I looked at other times SPX closed down at least 3 days in a row and it was the Friday before opex week. I have updated those results below.

SPX posts 3 or more lower closes. It is Friday before Opex Week. Buy on close. Sell X days later. \$100k/trade. 1989 - 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	31,415.03	27	18	9	66.67	2,187.89	5,393.97	-885.23	-2,348.40	2.47	4.94	1,163.52
4	30,839.91	27	19	8	70.37	1,937.08	5,731.96	-745.57	-2,266.11	2.60	6.17	1,142.22
3	30,316.20	27	20	7	74.07	1,733.24	5,215.85	-621.23	-1,610.84	2.79	7.97	1,122.82
2	33,464.55	27	20	7	74.07	1,853.93	10,965.69	-516.31	-1,306.06	3.59	10.26	1,239.43
1	23,398.15	27	20	7	74.07	1,373.90	11,558.43	-582.84	-1,075.29	2.36	6.74	866.60

Numbers here are strong. Below is a look at the 2-day profit curve.



The 25th instance was a sizable outlier but the curve has sloped higher on a pretty consistent basis anyway. I have included this study on the active list tonight.

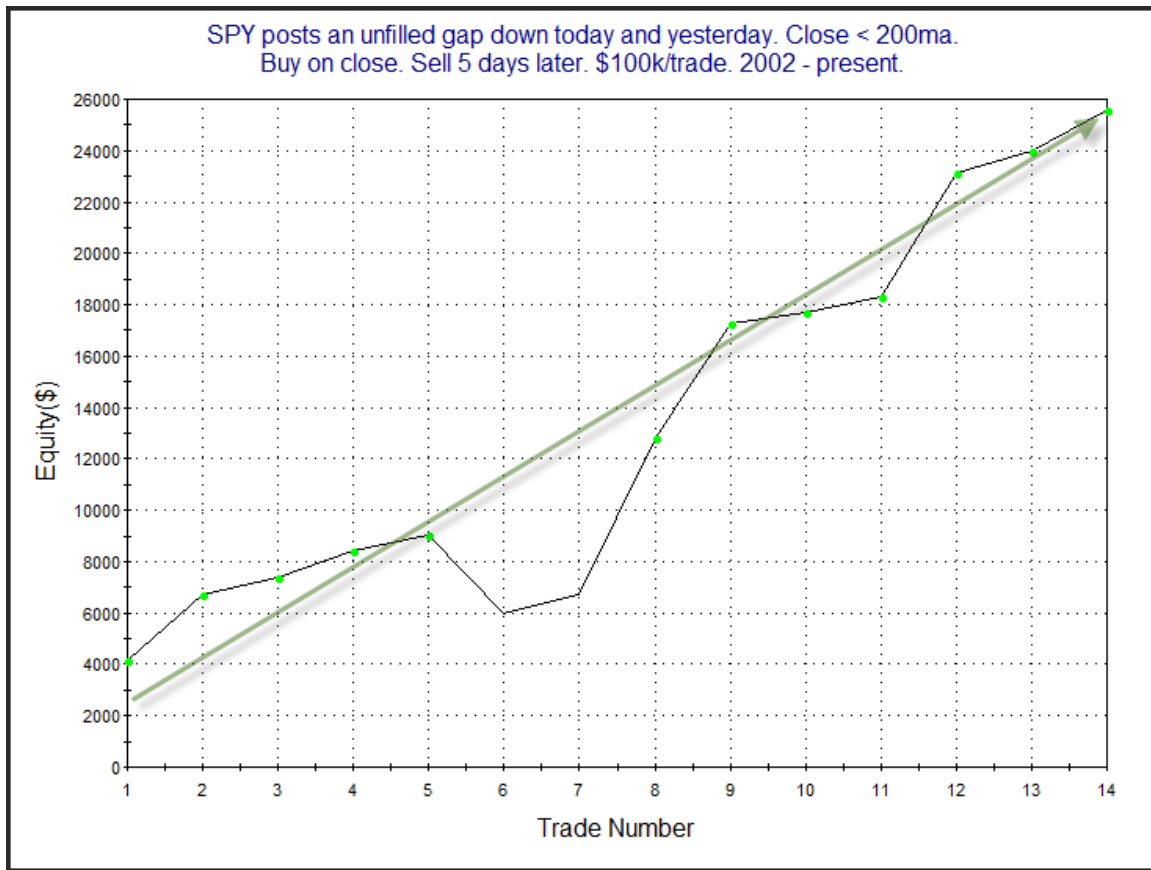
Both Thursday and Friday saw SPY leave an unfilled gap down. That is fairly unusual. In the 11/24/10 letter I looked at times SPY gapped down 2 days in a row. I have updated that research for downtrending environments below.

SPY posts an unfilled gap down today and yesterday. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2002 - 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	25,559.48	14	13	1	92.86	2,202.28	6,103.89	-3,070.17	-3,070.17	0.72	9.33	1,825.68
4	20,739.27	14	9	5	64.29	2,877.21	6,941.43	-1,031.12	-2,061.72	2.79	5.02	1,481.38
3	13,320.25	14	8	6	57.14	2,466.72	5,888.16	-1,068.91	-2,134.40	2.31	3.08	951.45
2	12,995.94	15	8	7	53.33	2,960.77	5,091.84	-1,527.18	-5,231.80	1.94	2.22	866.40
1	5,463.42	18	10	8	55.56	1,346.47	2,818.20	-1,000.16	-4,080.40	1.35	1.68	303.52

**100% of instances closed above the entry price
at some point in the next week.**

Every instance but one was higher 5 days later. The numbers are compelling. Here is the profit curve.



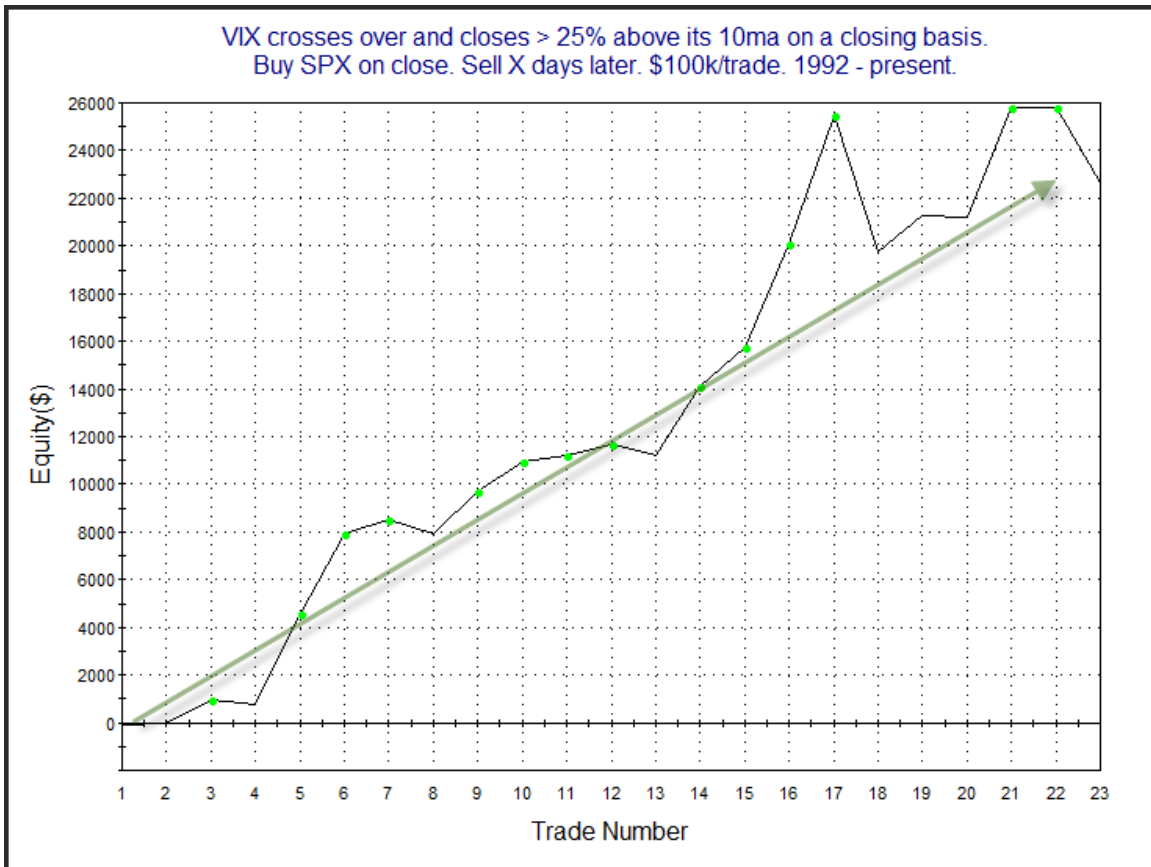
As you would expect with such a high percentage of winners, the curve looks strong too.

Action in the VIX was also interesting. Option traders paid up for protection and the VIX spiked well above its short-term moving averages. The study below is from the 11/2/09 letter. It shows how SPX has performed when the VIX has spiked more than 25% above its 10ma.

VIX crosses over and closes > 25% above its 10ma on a closing basis.
Buy SPX on close. Sell X days later. \$100k/trade. 1992 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$22,643.24	Profit Factor		3.19
Gross Profit	\$32,965.77	Gross Loss		(\$10,322.53)
Total Number of Trades	23	Percent Profitable		69.57%
Winning Trades	16	Losing Trades		7
Even Trades	0			
Avg. Trade Net Profit	\$984.49	Ratio Avg. Win:Avg. Loss		1.40
Avg. Winning Trade	\$2,060.36	Avg. Losing Trade		(\$1,474.65)
Largest Winning Trade	\$5,394.60	Largest Losing Trade		(\$5,702.04)
Max. Consecutive Winning Trades	4	Max. Consecutive Losing Trades		1

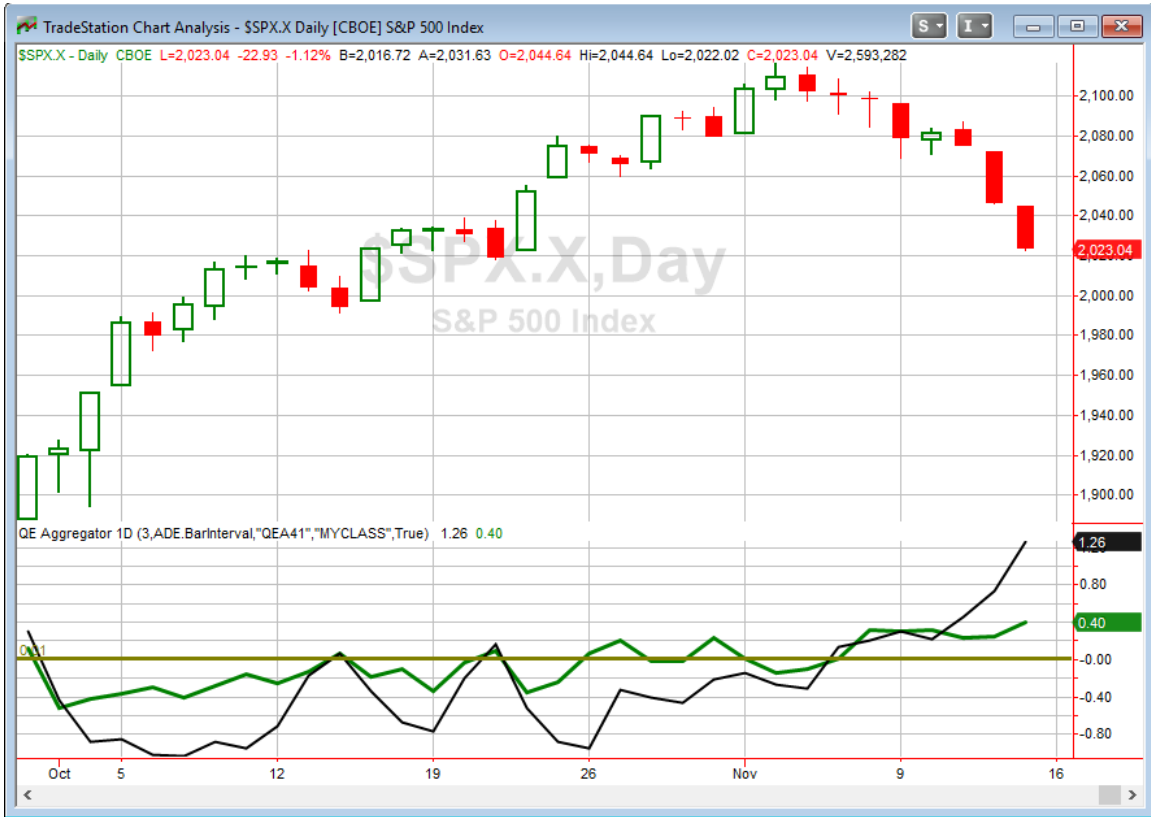
Numbers here suggest a bounce for SPX is likely on Monday. Below is a profit curve.



We have seen a little chop recently but the curve still looks impressive enough to give this study some consideration.

So between the 3-day pullback, the upcoming opex week, the unfilled gaps down, and the spike in the VIX there appears to be ample evidence suggesting an upside edge.

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



With tonight's research taken into account the green Aggregator Line moved far above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is at its highest level in a long time. The positive Differential Line reading means SPX is strongly 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 Monday based on the current active studies. This is highly unlikely to change. The Differential Pivot will be 2091.44 on Monday. That is a whopping 3.4% above Friday's close. This means that SPX would need to close up at least 3.4% in order to move from oversold to overbought on Monday. A rise that large is highly unlikely to occur in just one day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

There appears to ample evidence suggesting a bounce and the market is now strongly oversold. The Aggregator is bullish and I am too. I already have some long exposure. The CBI inched up to 2, which is still considered neutral for a CBI reading. I will be looking to add a bit more long exposure on Monday – especially if it closes down again heading into a potential “Turnaround Tuesday”.

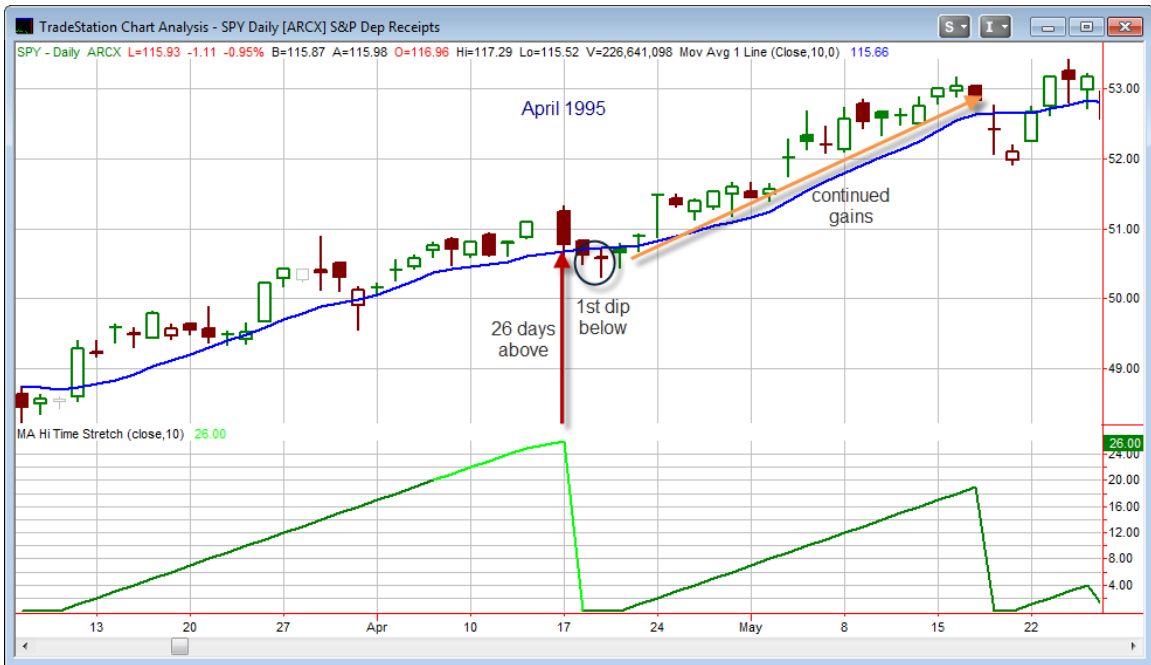
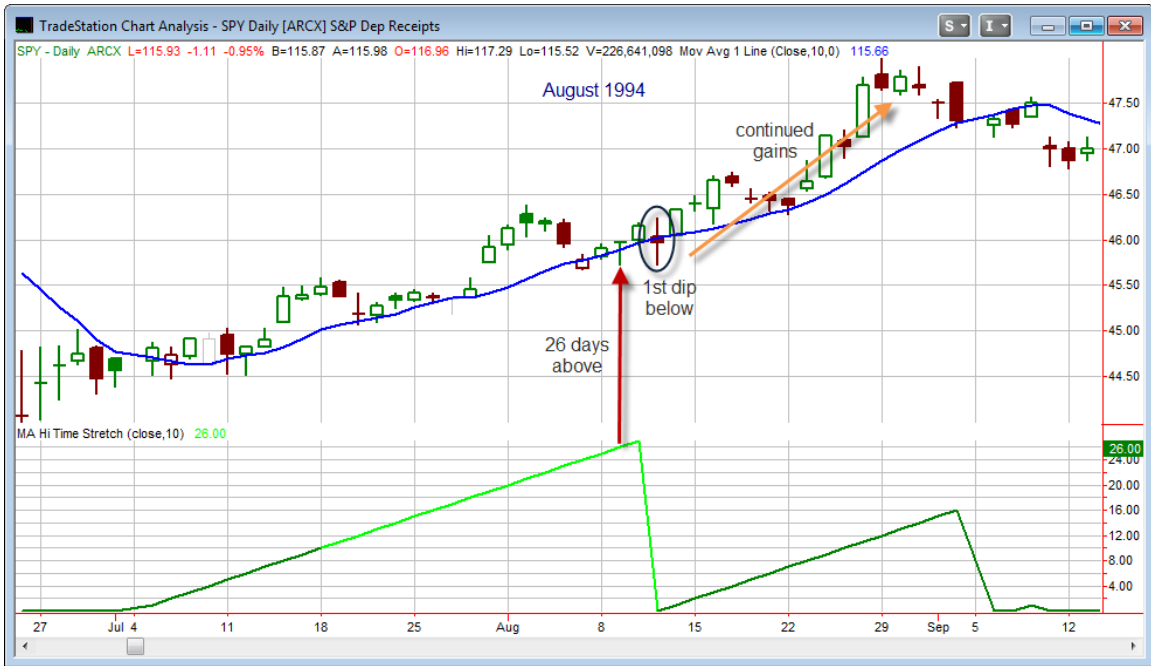
Intermediate-term Outlook (2 weeks – 2 months) – updated 11/16 –slightly bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

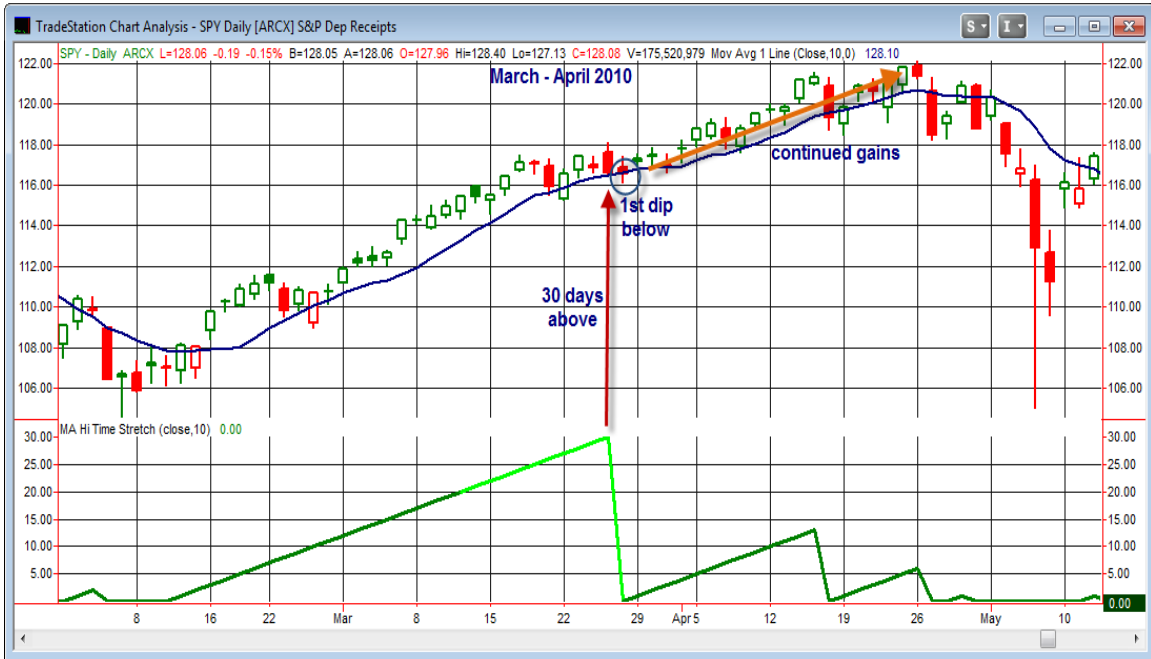
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *There were no changes this week and the combo systems are all still positive.*

The SPX had risen 6 weeks in a row coming into this past week. And in one week it gave back nearly half the gains it had made over those previous 6. From an intermediate-term standpoint, there was one new study that emerged. It appeared in Monday night’s letter. I have copied it below.

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.*

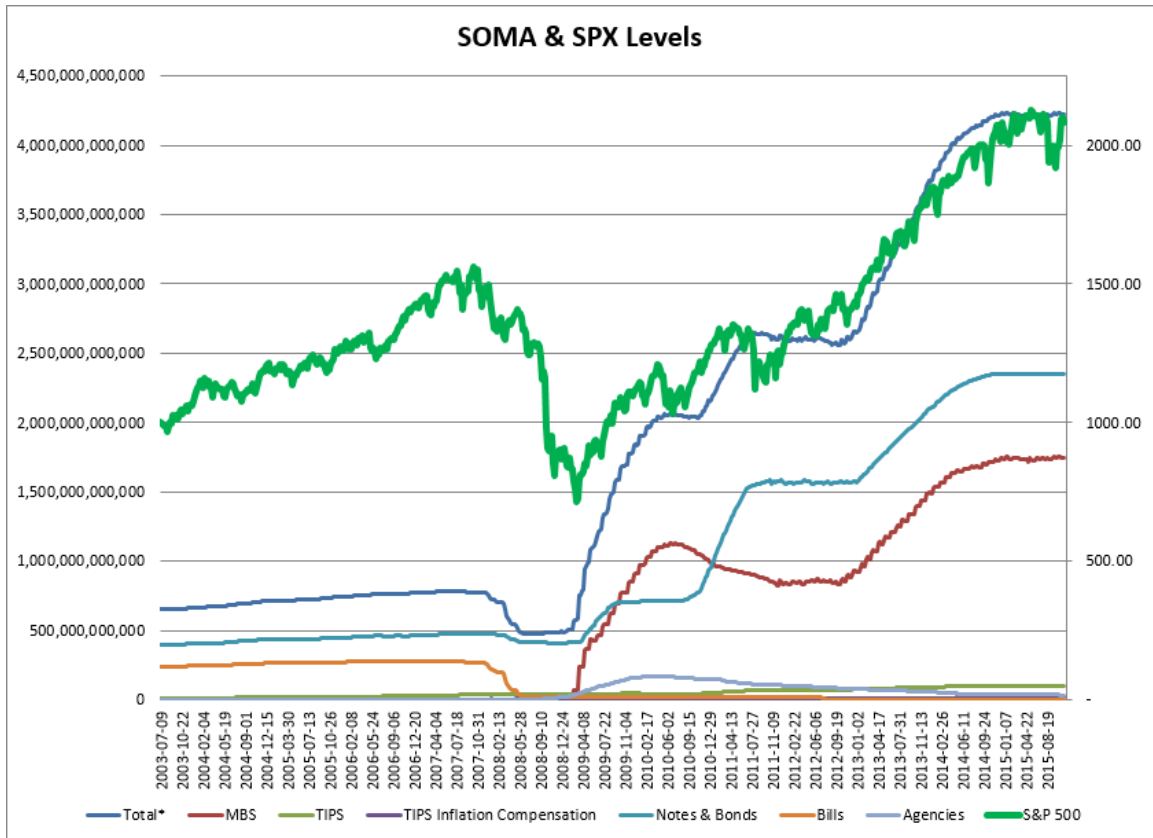
After closing above the 10ma for at least 25 days in a row SPY closes below it today. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	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.

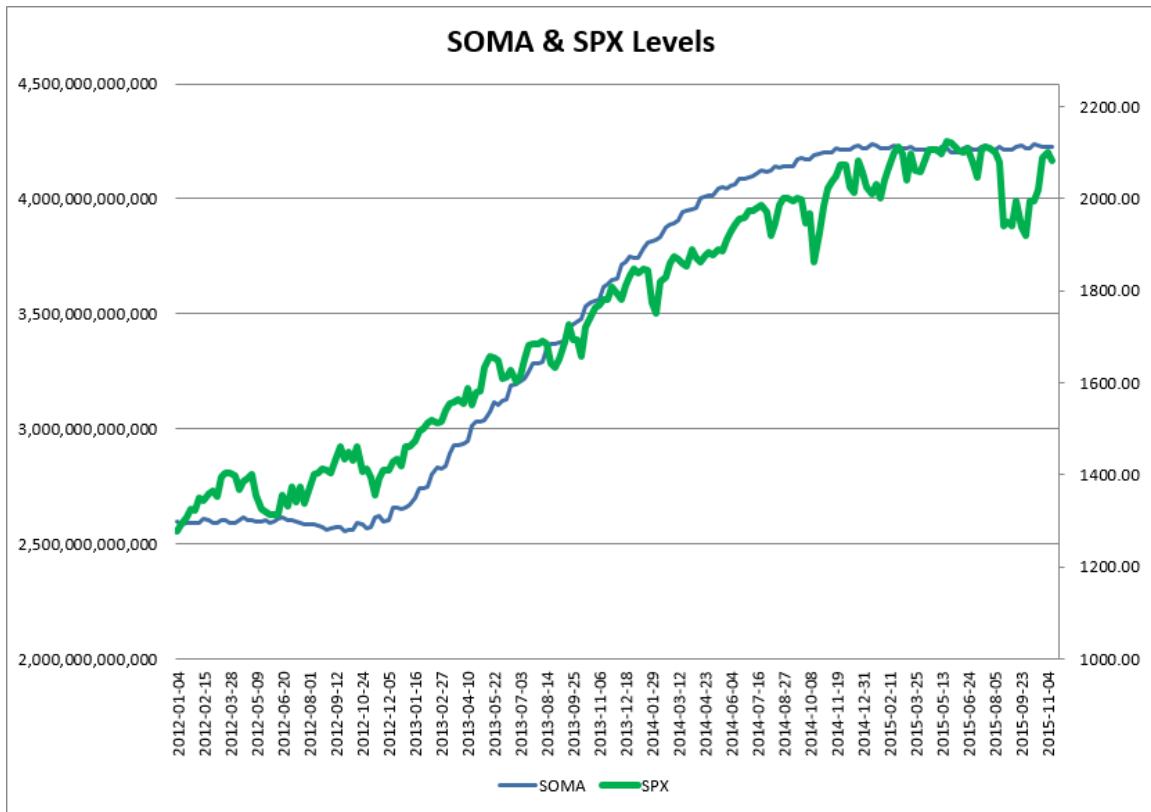
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities in the open market and increasing the size of its account. When the account has declined, the market has struggled. The obvious takeaway has been “don't fight the Fed”. As far as intermediate-term indicators go, this has been as good as anything in recent years.

While the Fed is not making new QE purchases any longer, it is continuing to reinvest maturities. Therefore, the total assets in their System Open Market Account (SOMA) has not begun to dive like the old Quantifiable Edges POMO indicators did. Below are long and short-term views of SOMA and SPX. First, the long-term view (back to 2003).



And now the zoomed-in view (2012 – present).



For the 2nd week in a row the SOMA total basically remained flat, with a rise of less than 0.01%. A few weeks ago the SOMA appeared to be breaking out, as it hit its first new high since January. But there has been no upside follow through over the last 4 weeks. A rising SOMA has supported market gains consistently over the last several years. Flat or declining SOMA readings have led to market struggles. I will continue to keep a close eye to see if the SOMA goes on to new highs (bullish) or whether it continues to fade back into its previous range (bearish).

The persistency study from above would seem to help the bull case some – although the current instance has already misbehaved compared to all the rest. So perhaps that is a warning sign in itself. Intermediate-term seasonality remains favorable and the NASDAQ is still leading, so the Market Timing Course indicators remain mostly bullish. The bears can point to the FTD study from a few weeks ago, the questionable Fed support, and the old breadth divergence study. Overall, I still think evidence tilts just slightly in favor of the bulls. For now I remain slightly bullish. I will be marginally more aggressive with long trades than shorts, but I am willing to trade both sides of the market if good short-term setups emerge.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

SPG – 1/3 @ \$191.51 (buy @ limit) – not filled

New

CVS – 1/3 @ \$91.81 (buy @ limit)

Broad Market Large Cap CBI – 2(SP, CVS)

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 @ \$200.50 LIMIT ON CLOSE. Based on the short-term outlook above will look to add a 3rd lot of SPY if it closes down strongly again on Monday.

SPG – buy 1/3 Catapult position @ \$186.84 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for SPG. The limit price is a little above Friday's close (but still below the original trigger) to ensure a better chance of a fill if SPG gaps up.

CVS – buy 1/3 Catapult position @ \$91.81 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for CVS.

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	\$202.54	-2.66%		Aggregator
SPY(1/4)	11/14/2015	\$204.35	\$202.54	-0.89%		bought on open

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