

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 3, 2015

Volume 8 Issue 233

## 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.
- 10-day high to a 10-day low has been followed by more selling

## *Short-term Outlook*

### *The Bottom Line*

Evidence is still leaning bullish and the market is now oversold. There appears to be an upside edge. But it does not appear to be a very strong one.

**Summary of Recent Active Studies (see Letters from listed dates for details) – not updated 12/3**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
<b>Active - Short Term</b>						
December 1, 2015	Outside last 2 days and lowest close 3	1-5 days	Bullish	2.10%	-1.30%	-2.70%
November 23, 2015	VIX 10% above 10ma to 10% below	1-8 days	Bullish	2.40%	-1.10%	-2.20%
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
December 1, 2015	Close in bottom 1/2 of range end of 1 day		Bullish			

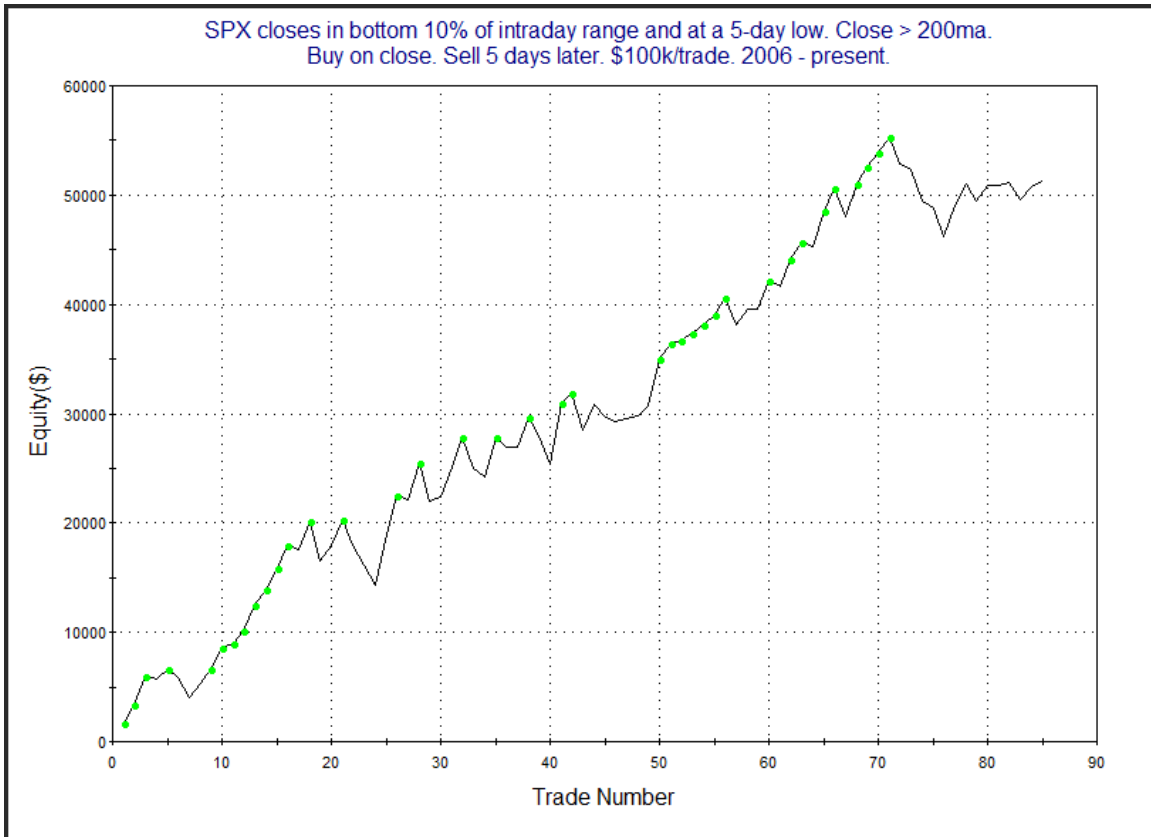
**The Evidence**

Wednesday was a big down day for the market. The SPX closed down 1.1%, the NASDAQ lost 0.6%, and the Russell 2000 fell 1.0%. Breadth was negative as the NYSE Up Issues % came in at 23% and the Up Volume % was 21%. Total NYSE volume rose from Tuesday’s level.

The selling also put SPX at a short-term closing low. Over the last several years when SPX has closed near the bottom of its intraday 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 bottom 10% of intraday 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	51,217.58	85	55	30	64.71	1,822.78	5,555.16	-1,634.52	-3,680.82	1.12	2.04	602.56
4	38,276.34	88	55	33	62.50	1,587.12	5,290.00	-1,485.30	-3,863.84	1.07	1.78	434.96
3	33,334.06	95	61	34	64.21	1,236.51	4,895.50	-1,238.04	-3,437.94	1.00	1.79	350.88
2	28,687.93	104	60	44	57.69	1,129.91	4,424.50	-888.78	-2,726.97	1.27	1.73	275.85
1	29,646.08	114	74	40	64.91	754.62	2,230.60	-654.90	-2,200.08	1.15	2.13	260.05
<b>91% of instances closed above the entry price at some point in the next 5 days.</b>												

The stats here appear to suggest a pretty solid upside tendency over the last 10 years. Below is a look at the profit curve assuming a 5-day holding period.



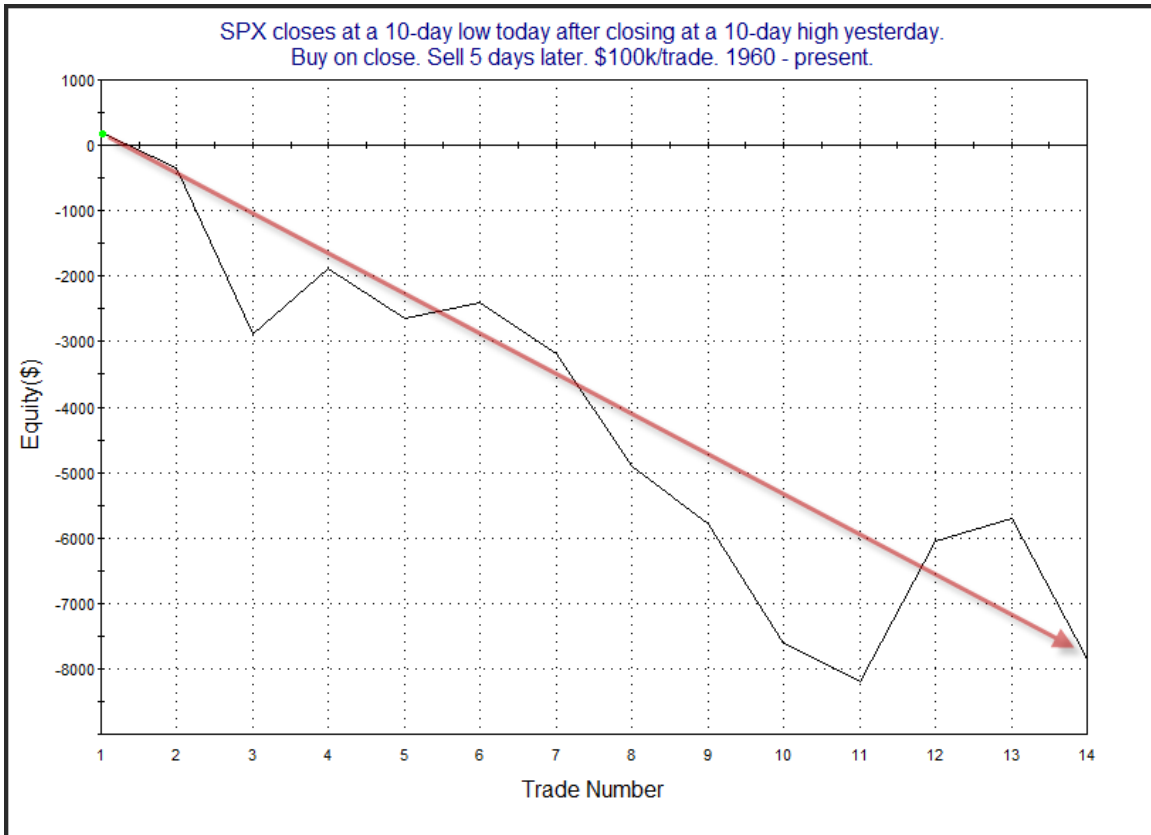
The profit curve had a bit of a dip a short while back, but it seems to be getting back on track. I have included this study on the Short-Term Active List tonight.

Not everything shown in the Quantifinder was bullish though. Moving from a 10-day closing high to a 10-day closing low in 1 day is extremely unusual. It's something I last looked at in the 6/2/11 letter. As you'll see below it is something that has only happened 14 times in the last 55 years. The table below is updated.

SPX closes at a 10-day low today after closing at a 10-day high yesterday. Buy on close. Sell X days later. \$100k/trade. 1960 - present.

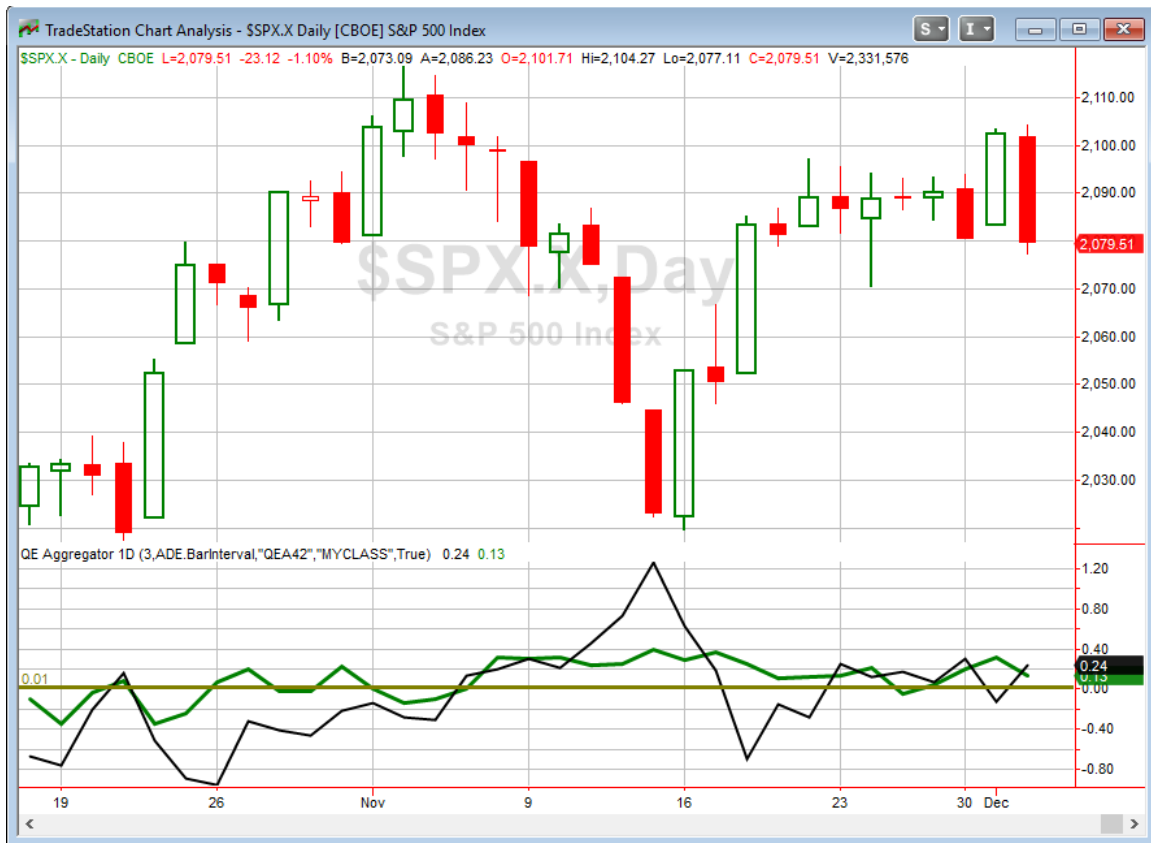
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-5,005.08	14	6	8	42.86	1,551.35	3,550.60	-1,789.15	-4,804.80	0.87	0.65	-357.51
4	-5,050.33	14	6	8	42.86	1,182.54	2,399.28	-1,518.20	-3,076.79	0.78	0.58	-360.74
3	-7,858.81	14	5	9	35.71	787.48	2,159.82	-1,310.69	-2,547.82	0.60	0.33	-561.34
2	-3,763.21	14	3	11	21.43	1,174.83	2,437.50	-662.52	-1,583.78	1.77	0.48	-268.80
1	-2,282.73	14	5	9	35.71	553.10	1,681.00	-560.91	-1,269.00	0.99	0.55	-163.05

It's not an overwhelming downside edge, and instances are a little low, but it still seemed worth examining the profit curve.



This study serves as warning that the sharp drop may have more selling to undergo.

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



With tonight's studies considered the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose back above zero. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is short-term oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close on above 0. Therefore, the Aggregator signal turned long at the close.

Based on the current studies, evidence is set to remain positive on Thursday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 2084.42 on Thursday. That is 0.2% above Wednesday's close. So SPX would need to close up at least 0.2% in order to move from oversold to overbought on Thursday.

Evidence is mixed but leaning bullish. The market is "oversold", but not very. There appears to be a moderate upside edge. I do not think it is worth pursuing at this point. I instead will give it another day and see how things play out on Thursday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/30 –slightly bullish***

The intermediate-term outlook was last updated in the 11/30/14 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*

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2015 Hanna Capital Management, LLC.