

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 10, 2015

Volume 8 Issue 238

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Flat

Tonight's Research Points

- 3-day pullbacks with a low 3/10 Offset HV suggest a bullish edge.

Short-term Outlook

The Bottom Line

Evidence is bullish and the SPX is oversold. This is suggesting an upside edge. I am short-term bullish.

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						
December 10, 2015	3 days dn. 3/10 Offset HV < 0.25	1-3 days	Bullish			
December 9, 2015	Up Issue % < 33.3% 2 days in row	1-2 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						
December 3, 2015	5-day low bottom 10% of range	1-5 days	Bullish			

The Evidence

Wednesday was the 3rd day of selling for most indices. The SPX declined 0.8%, the NASDAQ lost 1.5%, and the Russell 2000 fell 1.2%. Breadth was negative as the NYSE Up Issues % came in at 40% and the Up Volume % was 49%. Total NYSE volume rose for the 2nd day in a row.

A positive about the SPX pullback over the last 3 days is that the 3/10 Offset HV Indicator is extremely low. As a brief review the 3/10 Offset HV compares the current 3-day historical volatility to the historical volatility of the 10 days prior to these three. When very low readings occur that means there has been a sharp contraction in volatility. This often leads to a volatility expansion. It isn't often useful in determining direction. It does suggest that a large move could occur, though. The 0.25 level is one I tend to use. Historically it has reached 0.25 or lower about 9% of the time. The 3 days following such low readings have seen the 3-day HV expand 5.5 times over the next 3 days. A chart of the indicator can be found on the Quantifiable Edges charts page.

So let's take a look and see how the market has reacted following 3-day pullbacks with low readings vs. those without low readings. I last did this in the 8/5/15 letter and have updated the studies below. First I'll show times when the 3/10 Offset HV is above 0.25.

SPX closes down exactly 3 days in a row and HV Offset 3/10 Indicator > 0.25.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	56,154.86	134	78	56	58.21	2,884.82	10,849.26	-3,015.37	-16,890.72	0.96	1.33	419.07
9	77,040.80	139	84	55	60.43	2,711.03	12,144.60	-2,739.74	-15,942.36	0.99	1.51	554.25
8	58,428.66	142	85	56	59.86	2,626.51	12,293.93	-2,943.29	-14,092.68	0.89	1.35	411.47
7	67,843.63	150	86	64	57.33	2,559.46	12,277.87	-2,379.22	-9,109.80	1.08	1.45	452.29
6	47,902.97	154	86	68	55.84	2,264.46	10,326.58	-2,159.43	-11,683.62	1.05	1.33	311.06
5	53,056.28	164	85	79	51.83	2,328.82	9,830.18	-1,834.09	-18,000.90	1.27	1.37	323.51
4	54,047.78	173	101	72	58.38	1,853.83	7,119.69	-1,849.85	-17,037.90	1.00	1.41	312.41
3	34,464.12	173	98	75	56.65	1,647.36	7,687.63	-1,693.02	-10,286.10	0.97	1.27	199.21
2	19,579.50	173	95	78	54.91	1,403.13	7,249.63	-1,457.92	-9,270.00	0.96	1.17	113.18
1	35,310.36	173	104	69	60.12	1,020.99	6,901.83	-1,027.14	-3,810.60	0.99	1.50	204.11

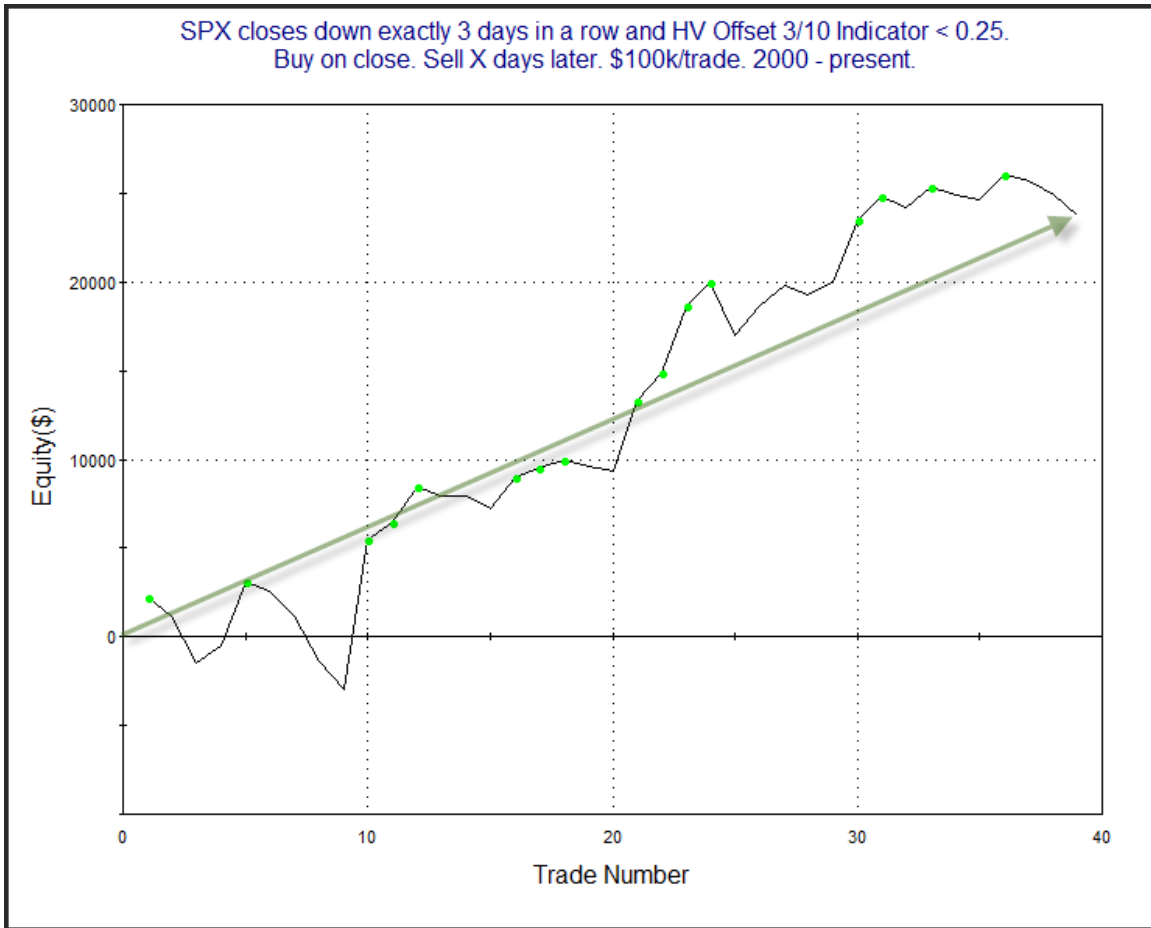
As we knew from past studies there is a mild upside bias after a 3-day pullback. It appears over the last 15 years that the edge has really only lasted 1-day. Returns after the 1st day are fairly flat.

Now let's look at times like now where the 3/10 Offset HV is very low.

SPX closes down exactly 3 days in a row and HV Offset 3/10 Indicator < 0.25.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

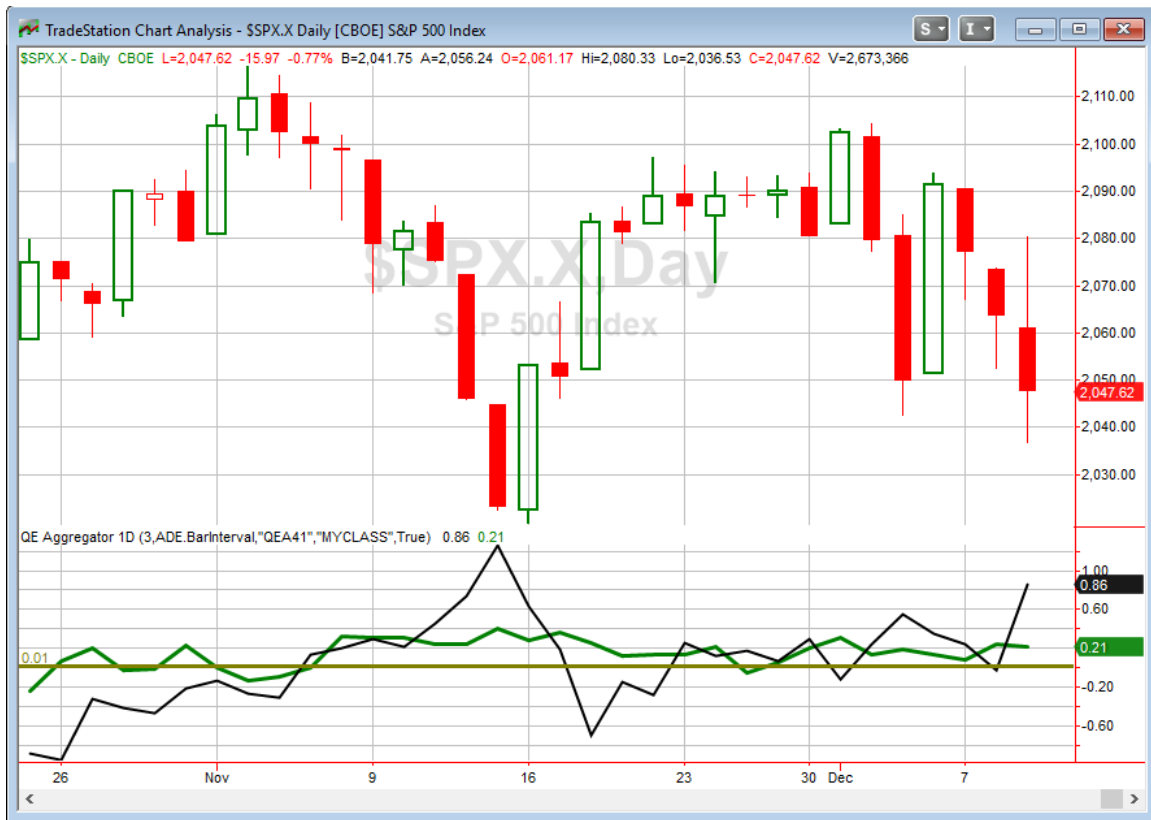
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	32,925.05	37	23	14	62.16	2,613.46	13,815.90	-1,941.75	-5,143.04	1.35	2.21	889.87
9	31,764.84	37	23	14	62.16	2,338.33	11,206.23	-1,572.63	-5,817.60	1.49	2.44	858.51
8	26,983.56	38	23	15	60.53	2,421.15	11,382.35	-1,913.52	-4,624.64	1.27	1.94	710.09
7	12,812.18	38	20	18	52.63	2,432.13	10,117.38	-1,990.58	-5,582.08	1.22	1.36	337.16
6	17,540.45	39	22	17	56.41	2,380.45	5,903.59	-2,048.79	-7,964.16	1.16	1.50	449.76
5	20,908.91	39	23	16	58.97	2,285.08	8,234.80	-1,978.00	-7,032.56	1.16	1.66	536.13
4	18,889.75	39	24	15	61.54	1,968.04	8,810.76	-1,889.55	-7,145.44	1.04	1.67	484.35
3	23,777.79	39	20	19	51.28	2,130.48	8,432.34	-991.14	-3,021.92	2.15	2.26	609.69
2	19,650.67	39	23	16	58.97	1,613.08	5,018.23	-1,090.63	-5,271.36	1.48	2.13	503.86
1	8,169.87	39	24	15	61.54	921.91	2,971.43	-930.39	-4,660.72	0.99	1.59	209.48

These numbers appear to be quite a bit better - both immediately and after a couple of weeks. Below is a profit curve assuming a 3-day exit strategy.



The strong upslope appears to confirm the stats table. The current pullback appears to be providing a favorable entry point for longs.

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



With tonight's study being 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 spiked 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 above 0. Therefore, the Aggregator signal turned long at the close.

Based on the current studies, evidence is set to remain positive on Thursday. This could change if strong bearish evidence emerges. The Differential Pivot will be 2085.11 on Thursday. That 1.8% above Wednesday's close. So for SPX to move from oversold to overbought on Thursday it is going to need to close up at least 1.8%. That would be a very large move for just 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

We have a couple of studies pointing towards a rise in the next few days. Additionally, SPX is now oversold versus recent expectations. It is also sitting at a short-term (10-day) low, which generally provides a lower-risk entry point. This combination leaves me with a bullish outlook. I intend to begin scaling into a long position on Thursday if I can get a decent fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/7 –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

KMI – 1/3 @ \$16.82 (bought @ limit)

KMI – 1/3 @ \$16.42 (bought @ limit)

KMI – 1/3 @ \$15.72 (not filled – cancel for now)

Broad Market Large Cap CBI – 3(KMI)

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 at \$205.34 LIMIT. Based on the short-term outlook above, I will look to start scaling in to a long index position.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KMI(1/3)	12/7/2015	\$15.66	\$16.81	7.34%		Catapult
KMI(1/3)	12/8/2015	\$15.29	\$16.81	9.94%		Catapult

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