

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 7, 2016

Volume 9 Issue 4

Market Overview



Signals Overview

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

Tonight's Research Points

- The gap down to an intermediate-term low along with the partial reversal triggered a bullish study.
- Fed liquidity is likely to see an increase this upcoming week, and that has historically been bullish for the market.
- The CBI remains at 0, and that has typically made bounces from 50-day lows unreliable – especially compared to instances with high CBI readings.

Short-term Outlook

The Bottom Line

Evidence is bullish and the market is strongly oversold. I believe there is an upside edge, but the dormant CBI readings are a bit of a concern.

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						
January 7, 2016	Fed SOMA expected to rise this week	1-5 days	Bullish			
January 7, 2016	Gap < 50-low. Close > open but down	1-2 days	Bullish			
January 5, 2016	Down 3 < 200 but > 20-low. 1% drop	1-4 days	Bullish			
January 5, 2016	3 Lower high, low, close. Monday.	1-6 days	Bullish			
January 4, 2016	2 unfilled gaps down	1-5 days	Bullish			
January 4, 2016	Down last 2 days of positive quarter	1-5 days	Bullish			
Active - Long Term						
January 5, 2016	Down 3 < 200 but > 20-low. 1% drop	1-17 days	Bullish			
January 4, 2016	Down last 2 days of positive quarter	1-15 days	Bullish			
December 24, 2015	Up 3 days. 90% up vol today	1-14 days	Bullish	3.40%	-2.15%	-3.80%
December 24, 2015	Up 2% frm 3 ago. 3/10 HV < 0.25	1-19 days	Bullish	4.50%	-1.80%	-3.60%
December 22, 2015	Golden Cross	int term	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			

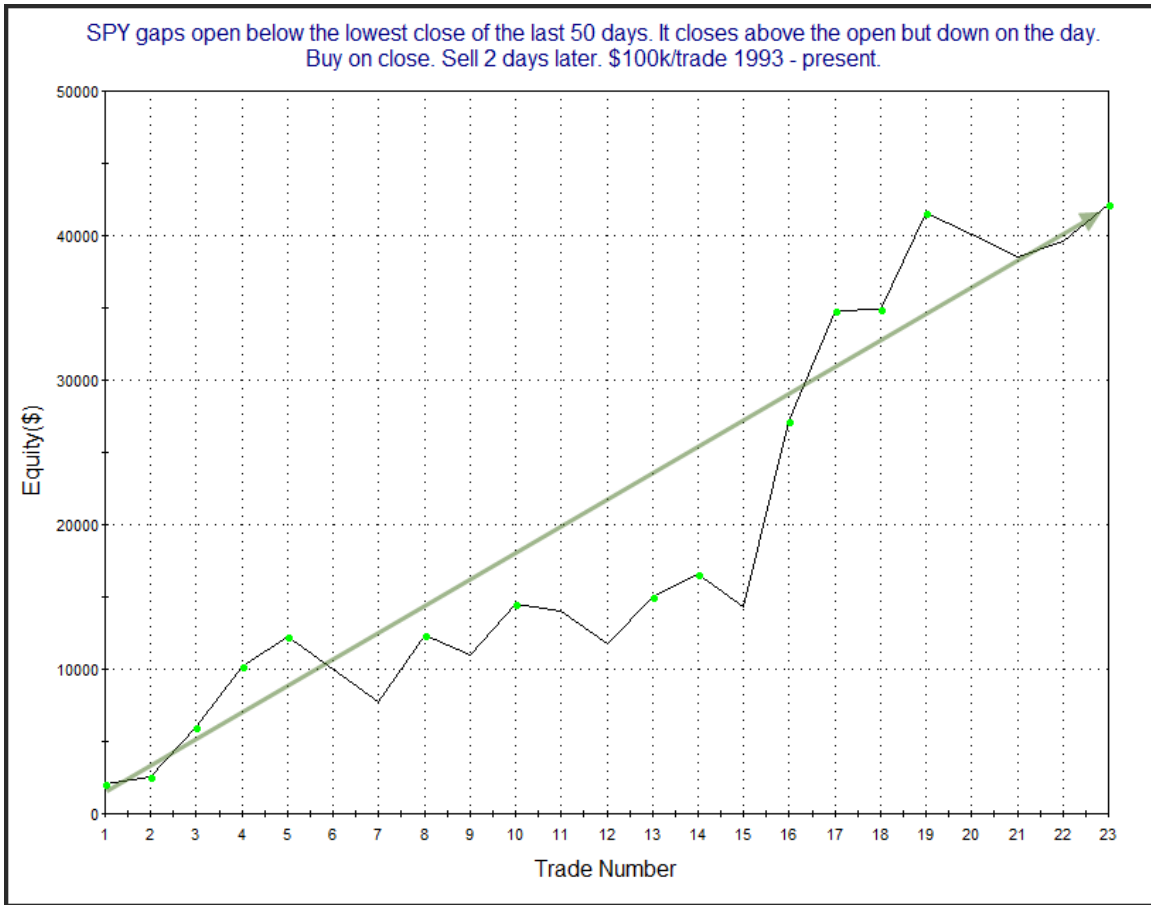
The Evidence

The market struggled on Wednesday. Even with a late surge the numbers looked bad. The SPX lost 1.3%, the NASDAQ fell 1.1%, and the Russell 2000 declined 1.45%. Breadth was negative as the NYSE Up Issues % came in at 25% and the Up Volume % was 15%. Total NYSE volume rose some from Tuesday's level.

SPY gapped down big at the open. It closed above the open but still never got positive on the day. The gap down and partial reversal from a 50-day low is something that I have looked at in the past. This next study is from the 11/14/12 letter. Results are all updated.

SPY gaps open below the lowest close of the last 50 days. It closes above the open but down on the day. 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	42,051.46	22	14	8	63.64	4,526.99	11,377.00	-2,665.80	-4,576.11	1.70	2.97	1,911.43
4	45,972.09	23	14	9	60.87	4,726.07	11,714.64	-2,243.65	-6,725.16	2.11	3.28	1,998.79
3	34,782.83	23	13	10	56.52	3,833.05	10,848.52	-1,504.68	-5,355.22	2.55	3.31	1,512.30
2	42,169.28	23	15	8	65.22	3,740.38	12,814.15	-1,742.05	-2,255.52	2.15	4.03	1,833.45
1	30,928.08	24	15	9	62.50	3,046.94	14,507.65	-1,641.79	-3,576.07	1.86	3.09	1,288.67
91% of instances closed above the entry price at some point in the next week.												

I referred to this as a "partial reversal" because it closed above the open, but not high enough to actually close positive. Results appear to favor the long side, especially over the first two days. Below is a profit curve assuming a 2-day holding period.



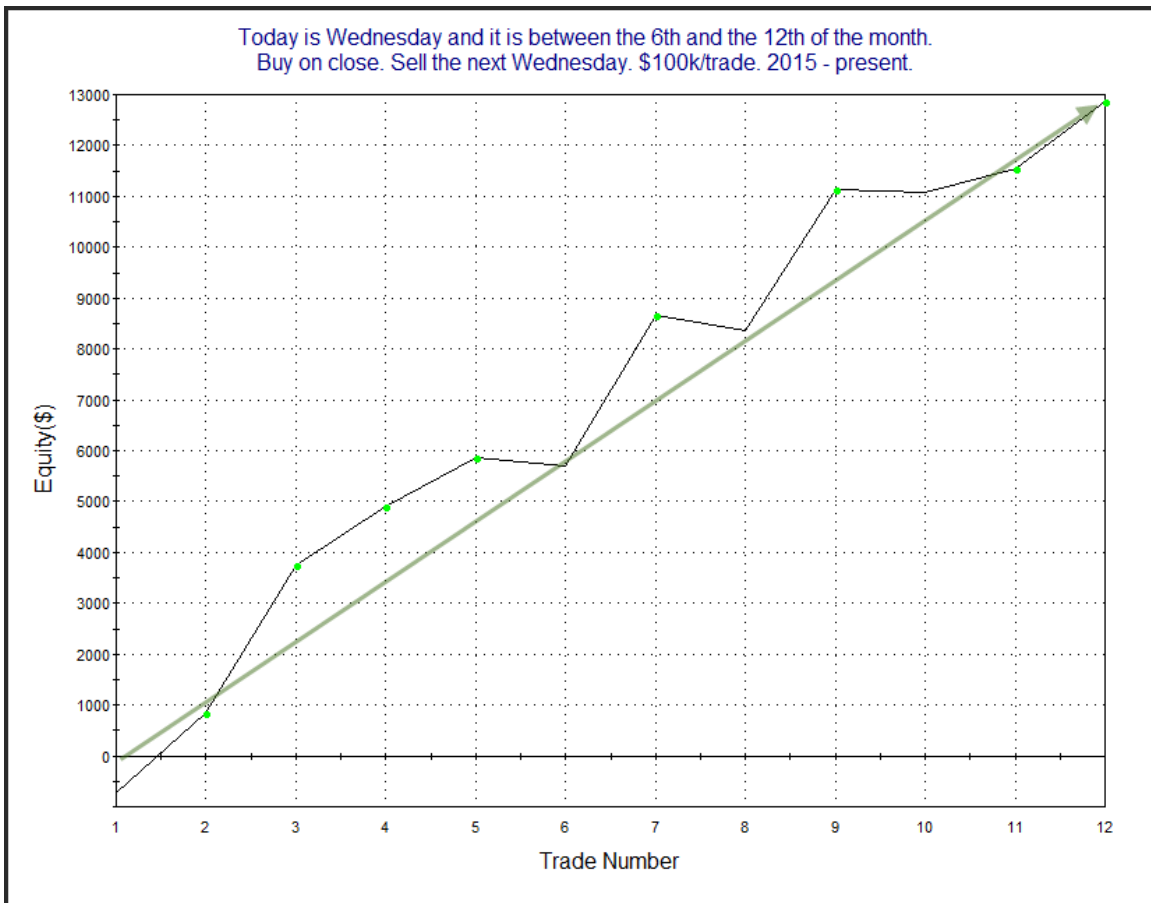
There were a few outsized gains which skewed the curve a bit, but the slope has been upwards throughout the entire time. I have therefore included this study on the Short Term Active List.

In this past weekend's letter I discussed how the Fed's SOMA account in 2015 tended to grow and shrink around the same times each month. And weeks when the SOMA was growing saw the stock market shine, while weeks when it was flat or down saw the market generally struggle. The weeks are measured on a Wednesday to Wednesday basis, because Wednesday is the day that the SOMA is valued. (Though it is not normally recorded on that day.) We are now moving into a time of the month where the SOMA has seen increases and the market has benefitted. This can be seen in the study below.

Today is Wednesday and it is between the 6th and the 12th of the month.
Buy on close. Sell X days later. \$100k/trade. 2015 - 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	12,403.42	12	8	4	66.67	1,715.77	2,914.08	-330.69	-716.87	5.19	10.38	1,033.62
4	8,529.48	12	8	4	66.67	1,308.73	2,988.48	-485.09	-1,178.88	2.70	5.40	710.79
3	7,059.44	12	9	3	75.00	1,146.13	2,539.68	-1,085.24	-1,232.64	1.06	3.17	588.29
2	4,540.66	12	9	3	75.00	1,027.55	1,725.60	-1,569.10	-2,494.08	0.65	1.96	378.39
1	5,314.74	12	10	2	83.33	683.32	1,775.76	-759.23	-1,393.44	0.90	4.50	442.89

Stats here appear quite strong. Below is a profit curve showing holding until the following Wednesday.



While instances are low, the stats and curve are impressive. I think this study is worth taking into consideration. With some positive flows expected this upcoming week I have included this study on the Active List.

There is one thing that concerns me about this selloff and whether the market will soon be able to mount a bounce. That is the fact that the CBI is still stuck at 0. Historically, the higher the CBI the better the chance of both a short and intermediate-term bounce. The studies below will exemplify this.

The first one looks at performance following 50-day low closes when the CBI is 0.

SPX closes at a 50-day low. Quantifiable Edges Capitulative Breadth Index (CBI) closes at 0. Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	-8,768.50	15	9	6	60.00	2,480.69	9,253.36	-5,182.46	-8,467.20	0.48	0.72	-584.57
19	-12,130.17	16	9	6	56.25	2,241.17	8,112.56	-5,383.45	-10,277.60	0.42	0.62	-758.14
18	-14,294.73	16	9	7	56.25	2,854.19	8,035.28	-5,711.77	-9,871.20	0.50	0.64	-893.42
17	-17,667.26	16	9	7	56.25	2,268.27	7,502.60	-5,440.24	-9,362.94	0.42	0.54	-1,104.20
16	-15,818.25	16	7	9	43.75	3,222.97	8,222.04	-4,264.34	-11,305.65	0.76	0.59	-988.64
15	-17,818.27	16	8	8	50.00	2,601.55	7,142.88	-4,828.83	-12,312.24	0.54	0.54	-1,113.64
14	-23,279.53	16	9	7	56.25	2,553.91	7,388.52	-6,609.25	-11,857.23	0.39	0.50	-1,454.97
13	-16,989.23	17	8	8	47.06	2,708.62	6,388.48	-4,832.27	-12,624.57	0.56	0.56	-999.37
12	-17,420.75	17	7	10	41.18	3,224.32	6,582.60	-3,999.10	-15,900.12	0.81	0.56	-1,024.75
11	-11,811.71	19	8	9	42.11	2,650.46	5,230.20	-3,668.37	-14,269.74	0.72	0.64	-621.67
10	-3,090.89	19	10	8	52.63	2,115.60	5,656.16	-3,030.86	-11,524.02	0.70	0.87	-162.68
9	-1,121.78	18	11	7	61.11	2,662.43	5,415.45	-4,344.07	-10,076.34	0.61	0.96	-62.32
8	-2,135.92	19	11	8	57.89	2,537.99	6,540.41	-3,756.72	-9,551.73	0.68	0.93	-112.42
7	-7,357.98	21	11	9	52.38	1,767.16	5,140.96	-2,977.42	-7,354.80	0.59	0.73	-350.38
6	-6,244.50	22	10	11	45.45	2,400.87	4,405.04	-2,750.29	-10,529.91	0.87	0.79	-283.84
5	-6,898.79	25	10	12	40.00	2,229.12	5,486.55	-2,432.50	-6,711.66	0.92	0.76	-275.95
4	1,069.79	24	14	10	58.33	1,932.58	5,070.22	-2,598.64	-10,632.61	0.74	1.04	44.57
3	10,046.97	28	17	9	60.71	1,542.64	4,682.36	-1,797.54	-5,403.51	0.86	1.62	358.82
2	10,485.54	31	15	13	48.39	1,701.21	3,615.24	-1,156.35	-4,264.42	1.47	1.70	338.24
1	3,648.32	36	22	12	61.11	750.66	1,966.48	-1,072.18	-4,302.72	0.70	1.28	101.34

Other than perhaps a very quick bounce this has not been a favorable setup for the bulls. From 1-4 weeks out the results have all been net negative.

Now let's look at instances where the 50-day was accompanied by a CBI of between 1-5.

SPX closes at a 50-day low. Quantifiable Edges Capitulative Breadth Index (CBI) closes between 1 & 5.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	63,859.63	44	27	15	61.36	4,596.51	14,491.80	-4,016.40	-15,803.20	1.14	2.06	1,451.36
19	41,763.63	44	29	14	65.91	4,274.13	16,726.50	-5,870.44	-24,445.99	0.73	1.51	949.17
18	32,132.34	44	29	13	65.91	3,826.71	16,682.40	-6,064.79	-23,557.89	0.63	1.41	730.28
17	33,390.80	45	31	13	68.89	3,270.02	12,849.30	-5,229.21	-17,331.23	0.63	1.49	742.02
16	15,584.08	44	27	16	61.36	3,245.81	11,683.80	-4,503.30	-16,394.16	0.72	1.22	354.18
15	21,269.50	43	26	17	60.47	3,597.02	13,946.40	-4,250.17	-11,359.38	0.85	1.29	494.64
14	15,790.84	47	25	19	53.19	3,563.52	12,511.80	-3,857.74	-14,192.64	0.92	1.22	335.98
13	-18,201.37	51	23	24	45.10	3,616.17	11,849.44	-4,223.89	-18,220.50	0.86	0.82	-356.89
12	5,650.39	51	28	22	54.90	3,334.86	11,107.92	-3,987.53	-13,434.12	0.84	1.06	110.79
11	31,660.09	50	27	22	54.00	3,807.06	13,256.10	-3,233.20	-10,244.70	1.18	1.45	633.20
10	367.38	50	23	26	46.00	3,883.48	11,861.10	-3,421.25	-14,281.20	1.14	1.00	7.35
9	2,752.19	51	26	23	50.98	3,561.41	11,281.50	-3,906.28	-18,648.00	0.91	1.03	53.96
8	3,030.39	54	28	23	51.85	3,113.01	9,398.70	-3,657.99	-17,685.00	0.85	1.04	56.12
7	34,847.06	54	31	22	57.41	3,190.81	10,005.56	-2,912.18	-12,654.00	1.10	1.54	645.32
6	19,487.64	58	29	25	50.00	2,688.62	8,667.90	-2,339.29	-10,967.40	1.15	1.33	335.99
5	41,621.33	62	30	27	48.39	2,892.86	8,609.40	-1,672.76	-8,127.00	1.73	1.92	671.31
4	6,179.41	67	37	25	55.22	1,940.63	5,090.39	-2,624.96	-6,629.40	0.74	1.09	92.23
3	4,914.88	73	38	28	52.05	1,946.82	5,916.60	-2,466.58	-10,286.10	0.79	1.07	67.33
2	9,259.47	82	40	33	48.78	1,529.94	4,917.60	-1,573.89	-9,270.00	0.97	1.18	112.92
1	6,677.70	102	42	43	41.18	1,113.60	5,394.60	-932.41	-3,810.60	1.19	1.17	65.47

Still nothing I would want to place a strong wager on, but the results table has turned from mostly red to mostly green. So some improvement is certainly seen. Now let's look at CBI readings between 6-9.

SPX closes at a 50-day low. Quantifiable Edges Capitulative Breadth Index (CBI) closes between 6 & 9.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	101,196.75	32	24	8	75.00	5,444.47	18,816.00	-3,683.82	-8,515.46	1.48	4.43	3,162.40
19	106,746.60	33	26	7	78.79	5,344.03	17,744.64	-4,599.76	-10,655.01	1.16	4.32	3,234.75
18	116,211.55	33	26	7	78.79	5,667.59	16,843.52	-4,449.40	-9,663.20	1.27	4.73	3,521.56
17	100,862.69	35	26	8	74.29	5,086.95	15,897.60	-3,924.76	-11,919.20	1.30	4.21	2,881.79
16	80,735.20	36	26	9	72.22	4,669.56	13,953.28	-4,519.28	-11,488.05	1.03	2.98	2,242.64
15	59,996.74	35	26	9	74.29	4,544.22	14,585.60	-6,461.45	-19,549.18	0.70	2.03	1,714.19
14	63,458.52	36	27	8	75.00	4,368.48	13,489.92	-6,811.31	-16,931.28	0.64	2.16	1,762.74
13	59,645.59	38	28	9	73.68	3,988.49	14,524.16	-5,781.35	-13,985.32	0.69	2.15	1,569.62
12	67,756.27	39	28	9	71.79	3,926.19	15,473.92	-4,686.35	-15,050.34	0.84	2.61	1,737.34
11	51,189.38	38	26	12	68.42	3,593.10	13,534.72	-3,519.26	-12,064.08	1.02	2.21	1,347.09
10	78,272.36	39	26	12	66.67	4,618.14	21,519.33	-3,483.27	-11,180.43	1.33	2.87	2,006.98
9	66,113.25	40	25	13	62.50	4,542.00	14,515.20	-3,648.97	-11,287.50	1.24	2.39	1,652.83
8	77,560.55	40	26	13	65.00	4,428.06	15,803.97	-2,889.92	-10,383.24	1.53	3.06	1,939.01
7	66,040.07	40	28	12	70.00	3,830.95	17,319.54	-3,435.54	-14,010.70	1.12	2.60	1,651.00
6	73,551.04	42	29	12	69.05	3,781.82	14,933.73	-3,010.14	-8,930.67	1.26	3.04	1,751.22
5	65,791.86	46	28	15	60.87	3,512.12	11,371.92	-2,169.83	-5,731.35	1.62	3.02	1,430.26
4	32,604.29	46	28	16	60.87	3,047.59	13,377.28	-3,295.52	-14,820.98	0.92	1.62	708.79
3	36,809.72	52	31	17	59.62	2,635.37	10,908.87	-2,640.41	-13,815.18	1.00	1.82	707.88
2	30,558.87	56	34	18	60.71	2,040.37	7,495.68	-2,156.33	-8,077.85	0.95	1.79	545.69
1	1,627.09	63	36	22	57.14	1,189.35	6,331.29	-1,872.24	-6,659.22	0.64	1.04	25.83

These are some solid bullish numbers. And the edge seems to persist from Day 1 and throughout the next 4 weeks. Lastly, let's look at high CBI readings of 10 or above.

SPX closes at a 50-day low. Quantifiable Edges Capitulative Breadth Index (CBI) closes >= 10.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	94,498.66	18	17	1	94.44	5,570.27	17,878.08	-196.00	-196.00	28.42	483.14	5,249.93
19	91,414.84	18	16	2	88.89	5,940.52	17,534.88	-1,816.75	-2,993.00	3.27	26.16	5,078.60
18	94,152.11	18	17	1	94.44	5,700.01	20,061.36	-2,748.00	-2,748.00	2.07	35.26	5,230.67
17	92,059.85	18	16	2	88.89	6,151.17	21,217.68	-3,179.43	-4,214.00	1.93	15.48	5,114.44
16	78,690.41	18	16	2	88.89	5,350.09	15,329.16	-3,455.52	-6,614.00	1.55	12.39	4,371.69
15	72,864.52	18	14	4	77.78	5,740.17	17,338.20	-1,874.45	-5,572.00	3.06	10.72	4,048.03
14	51,363.29	19	15	4	78.95	4,521.41	15,991.80	-4,114.46	-14,731.00	1.10	4.12	2,703.33
13	56,611.15	19	14	5	73.68	5,304.68	19,377.60	-3,530.87	-11,946.00	1.50	4.21	2,979.53
12	55,464.38	19	14	5	73.68	5,145.58	17,982.36	-3,314.74	-8,812.00	1.55	4.35	2,919.18
11	61,399.38	19	13	6	68.42	5,858.22	20,758.32	-2,459.58	-9,945.00	2.38	5.16	3,231.55
10	54,609.93	19	14	5	73.68	4,517.76	16,319.16	-1,727.75	-4,118.00	2.61	7.32	2,874.21
9	58,251.27	19	14	5	73.68	4,620.68	12,246.96	-1,287.65	-1,765.40	3.59	10.05	3,065.86
8	45,169.59	20	15	4	75.00	4,005.78	15,615.60	-3,729.28	-5,568.00	1.07	4.03	2,258.48
7	49,139.77	20	14	6	70.00	4,505.56	12,720.84	-2,323.02	-4,980.00	1.94	4.53	2,456.99
6	45,939.81	20	14	6	70.00	4,563.58	18,349.11	-2,991.71	-8,839.00	1.53	3.56	2,296.99
5	50,631.99	20	14	6	70.00	4,793.64	18,981.60	-2,746.48	-5,174.95	1.75	4.07	2,531.60
4	41,827.89	21	13	7	61.90	4,517.30	17,851.68	-2,413.85	-4,365.00	1.87	3.48	1,991.80
3	9,452.50	26	13	8	50.00	3,473.87	13,853.40	-4,463.48	-9,701.00	0.78	1.26	363.56
2	31,734.89	33	18	10	54.55	3,588.31	13,116.84	-3,285.48	-8,631.00	1.09	1.97	961.66
1	15,441.14	41	20	12	48.78	2,101.19	10,716.03	-2,215.22	-6,760.90	0.95	1.58	376.61

These are by far the most appealing results, from Day 1 right through day 20. And 20 days out there was just one loser and it only lost 0.2%. Of course we are not near this right now. We are in the first situation with a CBI of 0. And that has me a little concerned.

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



With tonight's new studies under consideration the green Aggregator Line remained well above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also far above zero. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is still strongly 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.

With all the short-term studies now bullish, evidence is set to remain positive on Thursday. This could change if strong bearish evidence emerges. The Differential Pivot will be 2029.73 on Thursday. That is 2.0% above Wednesday's close. So for SPX to move from oversold to overbought versus expectations on Thursday it will need to close up at least 2.0%. That is a pretty unlikely gain for just 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Evidence is still pointing higher. Part of that is based on anticipated Fed liquidity flows, but we are also seeing price action and seasonality studies that are suggesting a bullish edge. I currently hold 2 (of a possible 4) lots of SPY. If the CBI was showing signs of life I would almost certainly be looking to add a 3rd lot here. But with the CBI locked at 0 I am not inclined to get too strongly invested here. Instead I will wait another day or two and see what changes and what new evidence emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/4 – bullish

The intermediate-term outlook was last updated in the 1/4 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	12/31/2015	\$203.87	\$198.82	-2.48%		Aggregator
SPY(1/4)	1/4/2016	\$201.02	\$198.82	-1.09%		Aggregator

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