

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 12, 2016

Volume 9 Issue 7

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The strong drop in VXO is a warning that a deeper selloff could ensue.
- 4 days below the lower Bollinger Band will normally cause a snap-back for the market.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is mostly bullish, and the market is still strongly oversold in the short-term. I am still looking for a bounce in the coming days.

*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
<b>Active - Short Term</b>						
January 12, 2016	4 days under lower Bollinger Band	1-2 days	Bullish			
January 11, 2016	Sharp drop in VXO	1-2 days	Bearish			
January 11, 2016	SPX down > 1% 3 days	1-5 days	Bullish	4.00%	-3.50%	-8.30%
January 11, 2016	Jan Opex Week Weak	1-5 days	Bearish	-2.60%	0.80%	1.75%
January 7, 2016	Fed SOMA expected to rise this week	1-5 days	Bullish			
January 5, 2016	3 Lower high, low, close. Monday.	1-6 days	Bullish			
<b>Active - Long Term</b>						
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 22, 2015	Golden Cross	int term	Bullish			
November 2, 2015	Best 6 months	Nov-Apr	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>						
January 8, 2016	Up Issue % < 33.3% 2 days in row	1-2 days	Bullish			
January 11, 2016	VIX 35% > 10ma	1 day	Bullish			
January 8, 2016	2% decline after 20-day low.	1-2 days	Bullish			

***The Evidence***

Monday saw some big back and forth movement and a mixed finish for the indices. The SPX gained 0.1%, the NASDAQ fell 0.1%, and the Russell 2000 declined 0.4%. Breadth was negative as the NYSE Up Issues % came in at 34% and the Up Volume % was 41%. Total NYSE volume rose some from Friday's level.

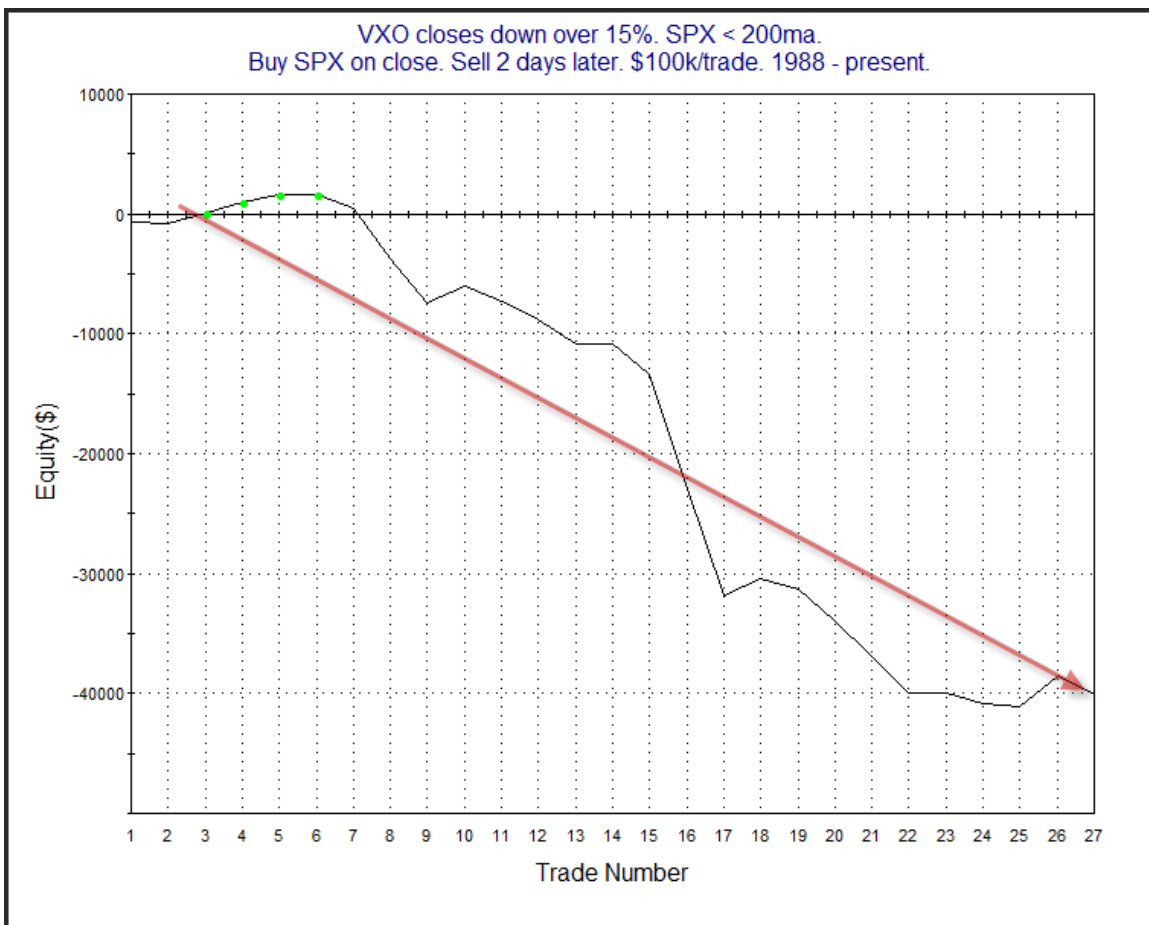
There was a mix of studies that triggered in the Quantifinder tonight. I looked at all of them but decided many did not appear as compelling as they once had, and they were not worth inclusion tonight.

The market action Monday was accompanied by a very large drop in the VIX (and VXO, which is the old calculation for the VIX). Back in the 7/21/14 subscriber letter I noted that big drops in the VXO have had much different connotations depending on whether SPX is in a long-term uptrend or downtrend (as defined by its proximity to the 200ma). Instances above the 200ma were basically short-term neutral. But large VXO drops during a long-term downtrend suggested a downside edge. Below is an updated look at the results table.

VXO closes down over 15%. SPX < 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-16,746.88	24	13	11	54.17	2,207.66	6,915.44	-4,131.50	-13,784.48	0.53	0.63	-697.79
4	-27,435.07	26	13	13	50.00	1,704.02	4,104.78	-3,814.41	-10,971.63	0.45	0.45	-1,055.20
3	-33,555.80	27	9	18	33.33	1,290.20	2,993.44	-2,509.31	-7,806.29	0.51	0.26	-1,242.81
2	-40,024.01	27	8	19	29.63	970.88	2,466.36	-2,515.32	-9,455.49	0.39	0.16	-1,482.37
1	-18,619.69	27	6	21	22.22	992.66	2,404.65	-1,170.27	-4,400.45	0.85	0.24	-689.62

We see here some very bearish statistics over the 1-2 day period. Below is a look at the profit curve.



It appears there is rarely upside follow-through when fear dissipates so quickly during a downtrend.

On a bullish note, the study below, from the 9/8/08 letter looked at a persistent stretches in the NASDAQ 100 below its lower Bollinger Band. Stats are updated.

NASDAQ 100 closes below its lower Bollinger Band 4 days in a row.  
Buy on close. Sell X days later. \$100k/trade. 1986 - present.

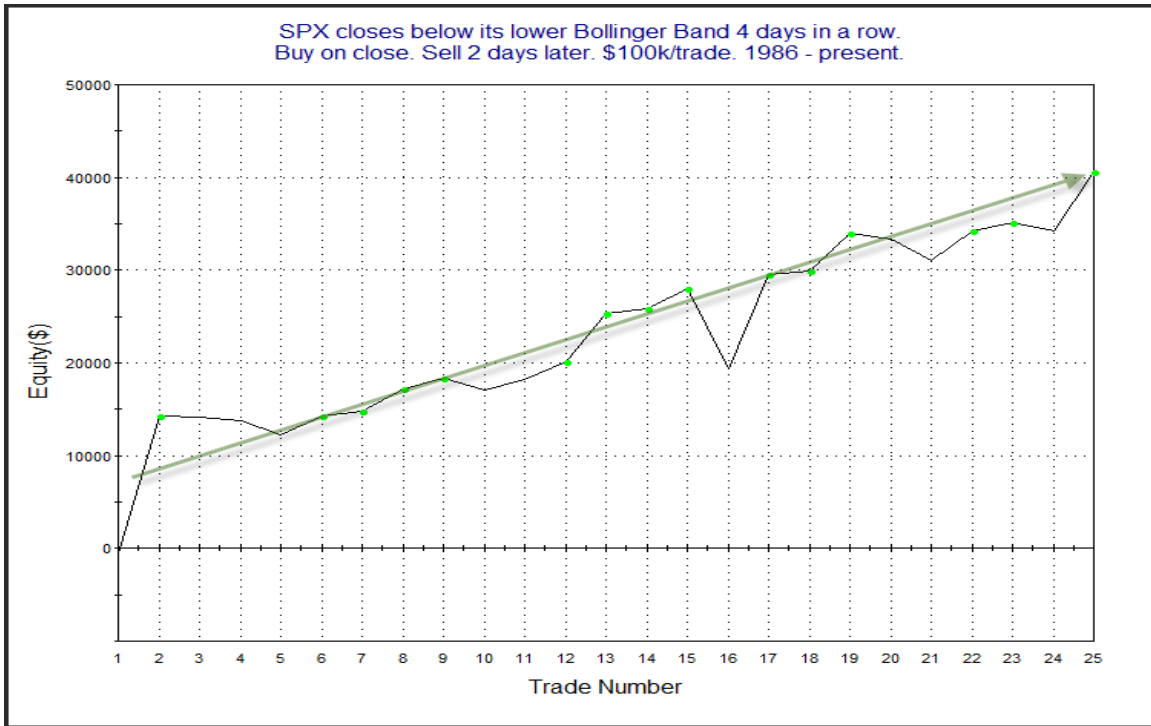
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15	73,276.08	17	11	6	64.71	8,740.75	23,532.96	-3,812.03	-7,208.82	2.29	4.20	4,310.36
14	54,607.42	17	12	5	70.59	7,177.30	22,095.04	-6,304.03	-12,015.00	1.14	2.73	3,212.20
13	55,501.27	17	12	5	70.59	6,923.81	19,752.48	-5,516.90	-9,578.25	1.26	3.01	3,264.78
12	65,749.66	17	12	5	70.59	7,259.64	21,124.40	-4,273.19	-6,811.50	1.70	4.08	3,867.63
11	47,629.71	17	12	5	70.59	5,766.34	18,631.36	-4,313.27	-6,966.75	1.34	3.21	2,801.75
10	55,093.61	17	12	5	70.59	5,670.04	19,915.28	-2,589.37	-4,110.75	2.19	5.26	3,240.80
9	58,110.76	17	13	4	76.47	5,283.43	17,878.96	-2,643.46	-3,965.36	2.00	6.50	3,418.28
8	39,354.57	17	12	5	70.59	4,354.51	13,582.80	-2,579.91	-7,603.68	1.69	4.05	2,314.97
7	37,687.37	17	11	6	64.71	4,187.31	15,953.52	-1,395.50	-2,655.52	3.00	5.50	2,216.90
6	22,332.48	17	11	6	64.71	4,138.99	14,522.64	-3,866.07	-8,848.50	1.07	1.96	1,313.68
5	22,531.19	17	11	6	64.71	3,655.42	15,028.64	-2,946.40	-9,778.46	1.24	2.27	1,325.36
4	25,885.73	17	12	5	70.59	3,553.85	9,397.52	-3,352.08	-10,777.82	1.06	2.54	1,522.69
3	25,839.68	19	14	5	73.68	2,712.01	7,507.20	-2,425.70	-4,680.00	1.12	3.13	1,359.98
2	40,133.13	23	14	9	60.87	3,982.02	12,046.32	-1,735.02	-4,116.00	2.30	3.57	1,744.92
1	25,379.91	35	19	16	54.29	2,549.80	10,285.08	-1,441.64	-4,163.25	1.77	2.10	725.14

The stats are strongly bullish. I also noted tonight that this study triggered for the SPX. So I ran the same test there.

SPX closes below its lower Bollinger Band 4 days in a row.  
Buy on close. Sell X days later. \$100k/trade. 1986 - present.

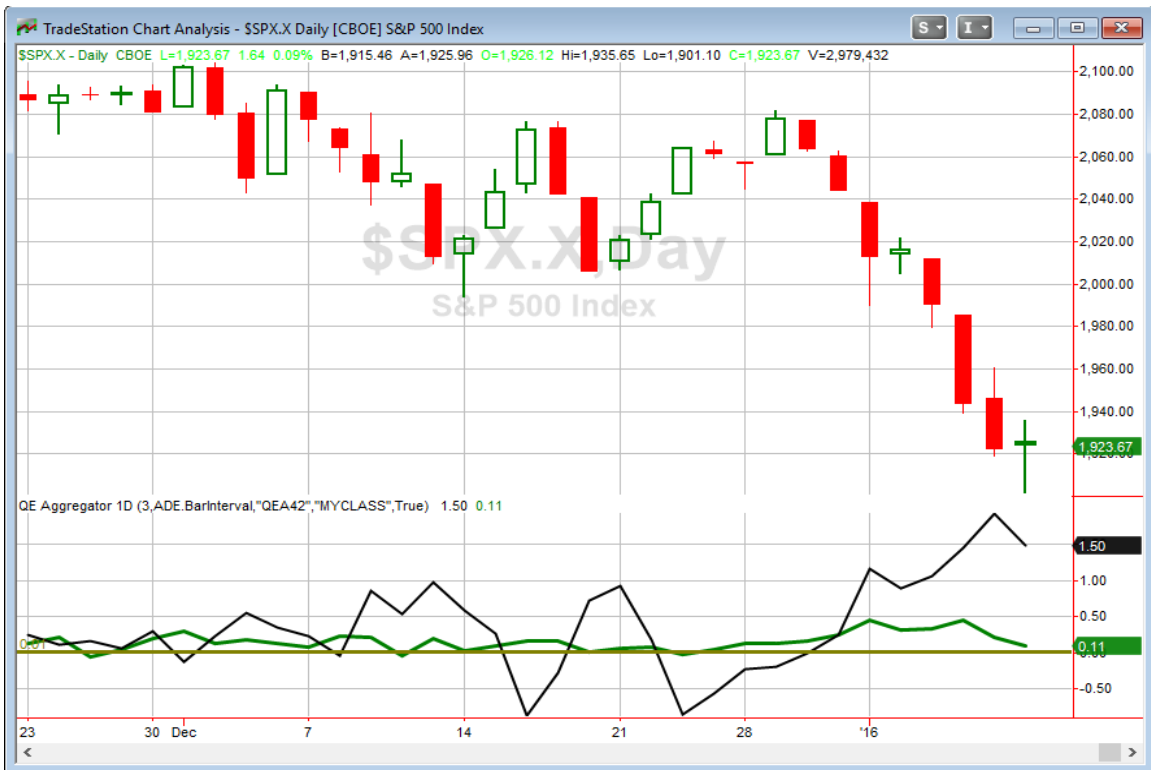
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	69,493.70	23	17	6	73.91	5,142.83	11,401.89	-2,989.07	-6,257.59	1.72	4.87	3,021.47
14	54,789.19	23	16	7	69.57	5,262.75	13,262.50	-4,202.11	-14,731.00	1.25	2.86	2,382.14
13	50,441.84	23	17	6	73.91	4,668.63	13,867.50	-4,820.80	-11,946.00	0.97	2.74	2,193.12
12	41,381.48	23	15	8	65.22	4,789.78	13,470.00	-3,808.16	-8,812.00	1.26	2.36	1,799.19
11	29,141.34	23	16	7	69.57	4,029.10	11,539.56	-5,046.33	-12,064.08	0.80	1.82	1,267.01
10	38,502.96	23	15	8	65.22	4,399.08	13,728.48	-3,435.40	-11,180.43	1.28	2.40	1,674.04
9	32,944.88	23	16	7	69.57	3,622.23	11,965.80	-3,572.98	-11,287.50	1.01	2.32	1,432.39
8	38,150.64	23	15	7	65.22	3,646.78	8,853.36	-2,364.43	-7,376.22	1.54	3.31	1,658.72
7	27,633.62	23	14	9	60.87	3,520.06	10,870.00	-2,405.24	-9,509.88	1.46	2.28	1,201.46
6	25,845.91	23	16	7	69.57	2,990.09	14,240.00	-3,142.22	-8,930.67	0.95	2.18	1,123.74
5	32,804.83	23	16	7	69.57	2,629.15	13,135.00	-1,323.08	-4,509.84	1.99	4.54	1,426.30
4	50,161.11	23	18	5	78.26	3,157.37	12,657.50	-1,334.30	-2,221.38	2.37	8.52	2,180.92
3	30,099.02	24	19	5	79.17	2,611.99	10,398.48	-3,905.75	-9,701.00	0.67	2.54	1,254.13
2	40,642.75	25	16	9	64.00	3,549.79	14,891.76	-1,794.87	-8,631.00	1.98	3.52	1,625.71
1	40,677.69	38	24	14	63.16	2,891.50	11,558.43	-2,051.32	-7,577.02	1.41	2.42	1,070.47

The numbers may not be quite as strong as the NASDAQ numbers, but they still appear squarely bullish. Of course a large portion of the gains have occurred in the first two days. Below is a 2-day profit curve.



The curve appears quite steady and serves as confirmation of the upside edge.

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



The mixed of studies tonight saw the green Aggregator Line dip a little but still hold above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remains quite high. The positive Differential Line reading means SPX is strongly oversold versus recent expectations. So expectations are positive and SPX is still very 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.

Based on the current active studies, expectations are set to remain positive on Tuesday. This is unlikely to change, though it is possible if strong bearish evidence emerges. The Differential Pivot will be 1964.46 on Tuesday. That is a 2.1% above Monday's close. So for SPX to move from oversold to overbought versus expectations on Monday it will need to close up at least 2.1%.

Evidence is now mixed but still leaning bullish. A move in either direction at this point could be volatile. As you will see below the CBI did nothing on Monday and remained stuck at 6. I still believe there is an upside edge. I will still look to take advantage of a potential bounce with the positions I currently have. I will not look to put on the last piece of index position until the CBI reaches 10 or higher. So I will wait to see how things play out on Tuesday before considering any new trade ideas.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/11 – neutral***

The intermediate-term outlook was last updated in the 12/14 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***

AAPL – 1/3 @ \$96.45 (buy @ limit)

CMCSA - 1/3 @ \$54.61 (buy @ limit)

COF - 1/3 @ \$65.08 (buy @ limit)

DIS – 1/3 @ \$99.50 (buy @ limit)

COF - 1/3 @ \$64.23 (buy @ limit)

DIS – 1/3 @ \$99.25 (buy @ limit)

***Broad Market Large Cap CBI – 6(AAPL, CMCSA, COF-2, DIS-2)***

### **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	\$192.11	-5.77%		Aggregator
SPY(1/4)	1/4/2016	\$201.02	\$192.11	-4.43%		Aggregator
SPY(1/4)	1/8/2016	\$191.92	\$192.11	0.10%		Aggregator
CMCSA(1/3)	1/8/2016	\$54.61	\$54.72	0.20%		Catapult
COF(1/3)	1/8/2016	\$65.08	\$64.76	-0.49%		Catapult
DIS(1/3)	1/8/2016	\$99.50	\$99.92	0.42%		Catapult
COF(1/3)	1/11/2016	\$64.23	\$64.76	0.83%		Catapult
DIS(1/3)	1/11/2016	\$99.25	\$99.92	0.68%		Catapult

*Note: A full history of closed out trade ideas published in the Subscriber Letter since inception in 2008 can be found on the [QE Trade Ideas Results Sheet](#). It can be downloaded from the website at any time.*

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