

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 13, 2016

Volume 9 Issue 8

Market Overview



Signals Overview

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

Tonight's Research Points

- Nothing new & compelling emerged along with Tuesday's rally.
- The CBI ticked down to 3 – a neutral reading.

Short-term Outlook

The Bottom Line

Evidence is still leaning bullish. And the market is still considered oversold. So the Aggregator is in a bullish formation and I believe there is an upside edge. But the bullish formation won't last beyond Wednesday if SPX rallies much. And evidence could fade over the next couple of days. I still believe there is an upside edge. Just not as strong of an edge as we saw the last couple of nights.

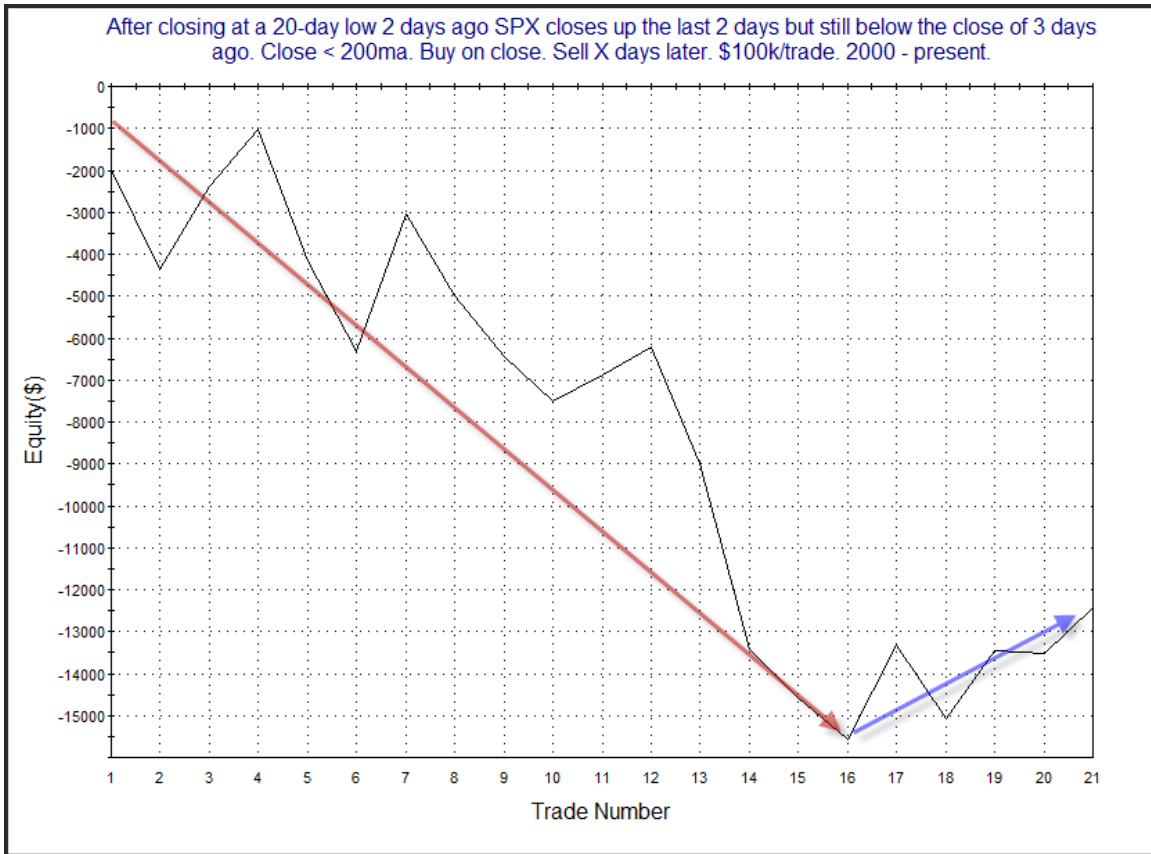
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
January 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			
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 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			
Dropped Tonight						
January 5, 2016	3 Lower high, low, close. Monday.	1-6 days	Bullish			

The Evidence

Tuesday was another day of swings. In the end the market put in some gains. The SPX finished up 0.8%, the NASDAQ rose 1.0%, and the Russell 2000 increased 0.3%. Breadth was negative though as the NYSE Up Issues % came in at 46% and the Up Volume % was 48%. Total NYSE volume rose some from Monday's level.

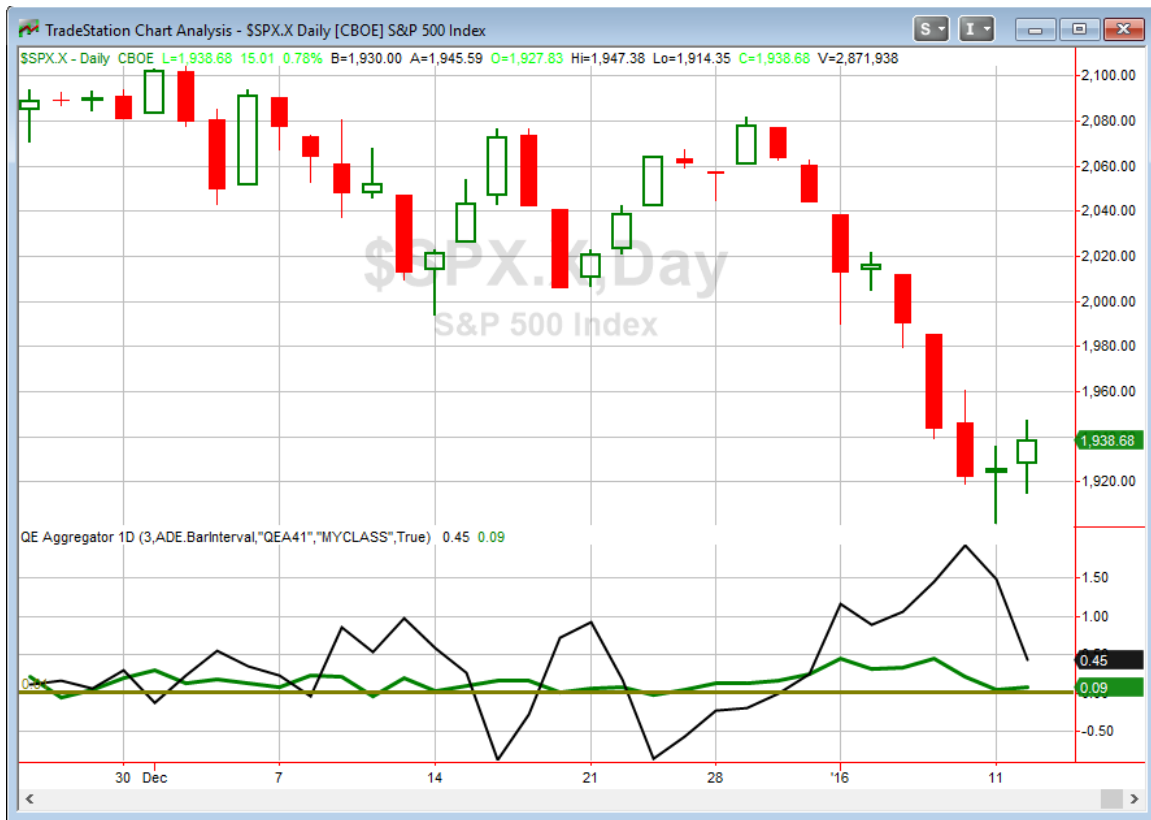
The moves up on Tuesday were relatively mild compared to the selling we have seen lately. For instance, SPX is still in the bottom 21% of its 10-day range. And the Russell 2000 is still in the bottom 12.5% of its 10-day range. There was only 1 study that triggered in the Quantifinder tonight. It examined relatively weak bounces from intermediate-term lows. When I reviewed it again tonight I found that the edge had not played out nearly as well in more recent instances. Below is a look at the 2-day profit curve, which was actually the most bearish looking of the curves.



With the low number of instances and the recent reversal I am not inclined to consider this study bearish for the time being. I will not be including it on the Active List tonight.

As you will see in the Catapult and CBI section of the letter, the CBI fell from 6 down to 3. Three is considered a neutral reading.

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



Without any new studies being added tonight the green Aggregator Line again 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 dropped quite a bit but also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is still 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 Wednesday. This is unlikely to change, though it is possible if strong bearish evidence emerges. The Differential Pivot will be 1941.60 on Wednesday. That is just 0.15% above Tuesday's close. So for SPX to move from oversold to overbought versus expectations on Tuesday it will need to close a mere 3 points or so.

So there still appears to be an upside edge. But it is certainly not as strong of an edge as we saw the last few days. Current short-term evidence will be expiring in the next few days and intermediate-term expectations are no longer bullish. The reduced edge has me looking to reduce my long index exposure. It would not surprise me to see this bounce fail, and if it does, that might make for a better entry point to load up on long index exposure. There is one new Catapult that triggered. So I will look to get into that. But I will be

exiting other Catapult trades and will also be looking for SPY exits to reduce my overall exposure.

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

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

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

New

NSC – 1/3 @ \$75.93 (buy @ limit)

Broad Market Large Cap CBI – 3(COF-2, NSC)

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.

NSC – buy 1/3 Catapult position @ \$75.93 LIMIT. This is a Catapult trade from above. It is the 1st of 3 possible lots for NSC.

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)	12/31/2015	\$203.87	\$193.66	-5.01%		sell @ \$193.50 limit
SPY(1/4)	1/4/2016	\$201.02	\$193.66	-3.66%		sell @ \$194.00 limit ON CLOSE
SPY(1/4)	1/8/2016	\$191.92	\$193.66	0.91%		sell @ \$195.00 limit ON CLOSE
CMCSA(1/3)	1/8/2016	\$54.61	\$54.87	0.48%		<i>sell on open</i>
COF(1/3)	1/8/2016	\$65.08	\$65.80	1.11%		Catapult
DIS(1/3)	1/8/2016	\$99.50	\$101.46	1.97%		<i>sell on open</i>
COF(1/3)	1/11/2016	\$64.23	\$65.80	2.44%		Catapult
DIS(1/3)	1/11/2016	\$99.25	\$101.46	2.23%		<i>sell on open</i>

With the CBI now low and the Aggregator ready to turn neutral (or bearish) if SPX closes much higher on Wednesday I am looking to take off some of my SPY position.

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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