

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 14, 2016

Volume 9 Issue 9

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The SPX 50-day low and very low McClellan Oscillator reading are suggestive of an upside edge.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is still leaning bullish. And the market is back to strongly oversold. It has been a tough market but it is overdue for a bounce and I am positioning to take advantage of one.

*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 14, 2016	McOsc very low. SPX 50-low	1-5 days	Bullish			
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%
<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 11, 2016	Sharp drop in VXO	1-2 days	Bearish			
January 12, 2016	4 days under lower Bollinger Band	1-2 days	Bullish			
January 7, 2016	Fed SOMA expected to rise this week	1-5 days	Bullish			

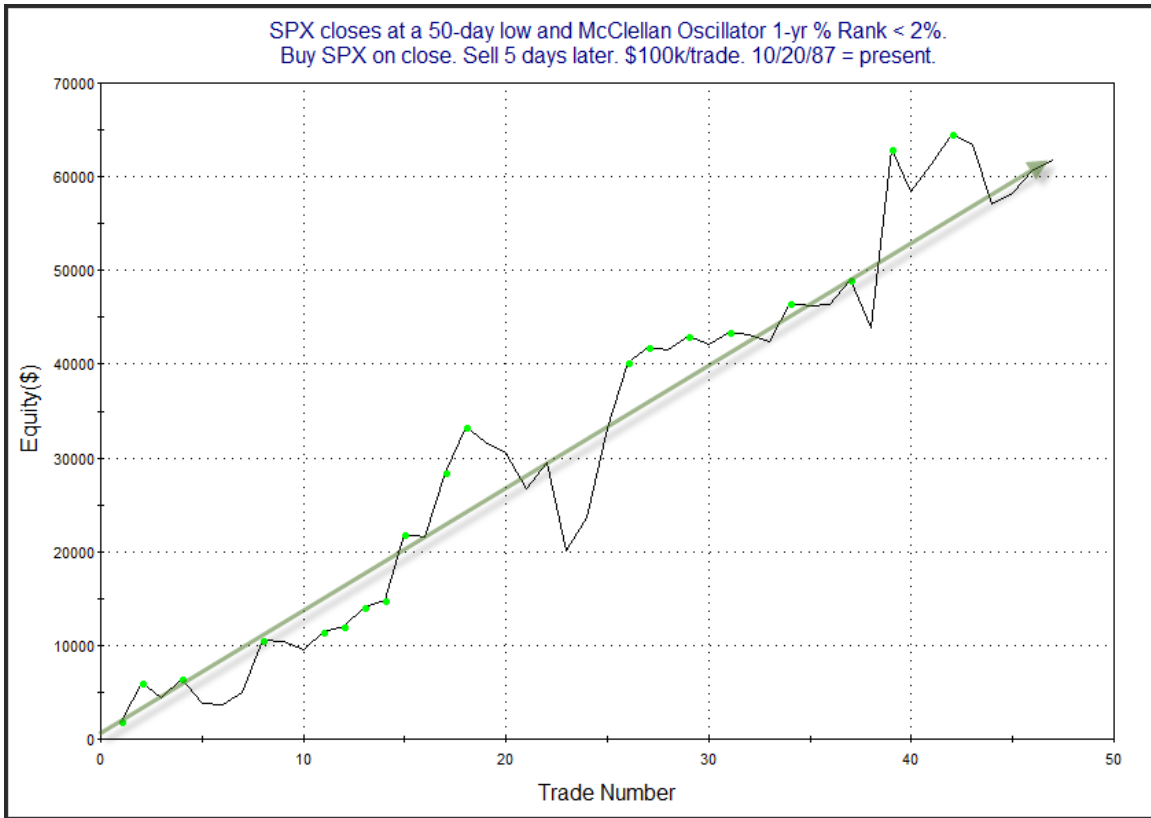
**The Evidence**

The market would have put in a pretty nice day if it closed after about 5 minutes. But instead it stayed open all day and prices plummeted. The SPX finished down 2.5%, the NASDAQ dropped 3.4%, and the Russell 2000 fell 3.3%. Breadth was strongly negative as the NYSE Up Issues % came in at 12% and the Up Volume % was 10%. Total NYSE volume rose for the 3<sup>rd</sup> day in a row.

The most compelling study I examined tonight looked at the McClellan Oscillator. Using Tradestation advance/decline data the McClellan Oscillator came in at -267.93 on Wednesday afternoon. That puts it among the lowest 2% of readings over the course of the last year. The study below looked at other times the % Rank of the McClellan Oscillator was < 2% and the SPX closed at a 50-day low. It was last seen in the 5/18/12 letter and has been updated.

SPX closes at a 50-day low and McClellan Oscillator 1-yr % Rank < 2%. Buy SPX on close. Sell X days later. \$100k/trade. 10/20/87 = 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	61,711.25	47	28	19	59.57	3,678.28	18,981.60	-2,172.66	-9,314.08	1.69	2.49	1,313.01	
4	41,180.83	50	32	18	64.00	2,818.17	17,851.68	-2,722.26	-14,820.98	1.04	1.84	823.62	
3	33,043.84	53	35	18	66.04	2,476.90	13,853.40	-2,980.42	-13,815.18	0.83	1.62	623.47	
2	42,696.07	65	40	25	61.54	2,646.40	13,116.84	-2,526.40	-8,657.72	1.05	1.68	656.86	
1	43,712.17	89	54	35	60.67	1,932.23	11,558.43	-1,732.24	-7,577.02	1.12	1.72	491.15	

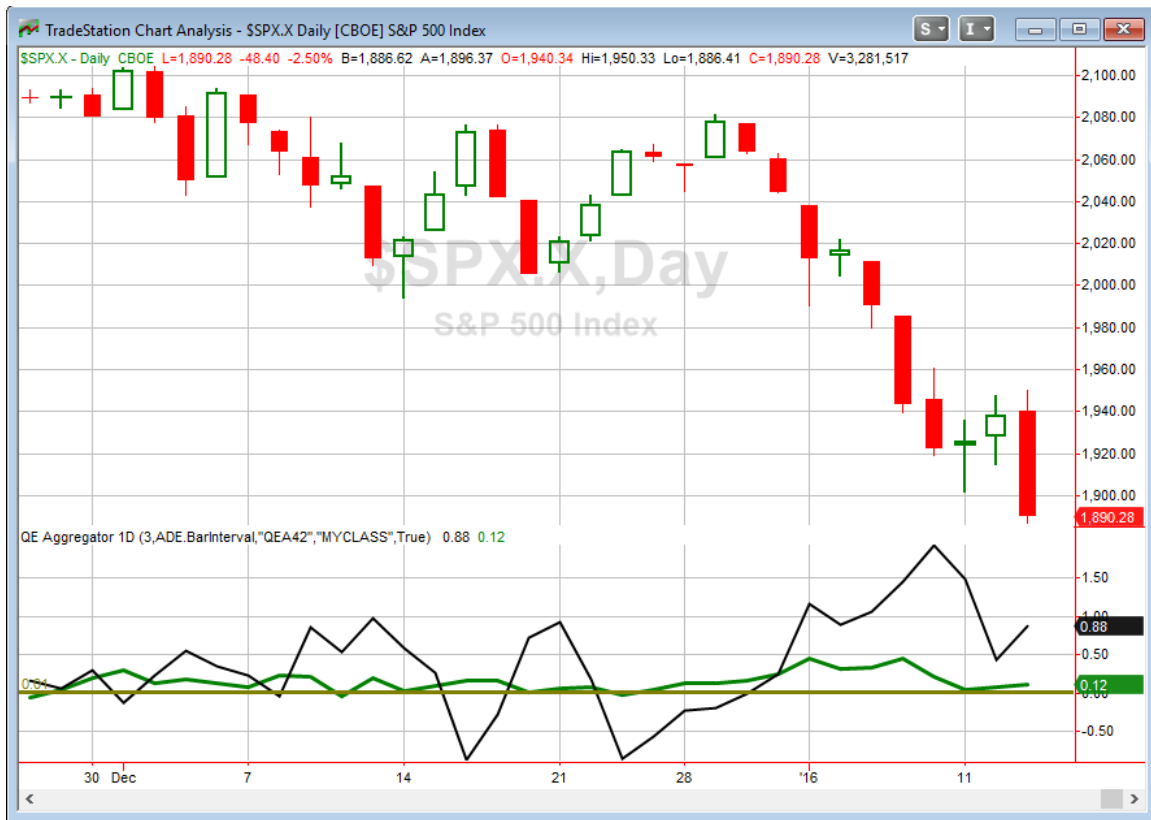
The numbers here look squarely bullish. I also examined the 5-day profit curve.



Despite the chop, the overall upslope appears persistent. I have included this study on the Active List for tonight.

And even with the strong selling we again only saw a mild uptick in the Quantifiable Edges CBI. It rose from 3 to 5 as you will see in the Catapult & CBI section lower down.

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



With tonight's study being added 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 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 Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1936.54 on Thursday. That is 2.5% above Wednesday's close. So for SPX to move from oversold to overbought versus expectations on Thursday it will need to post an extremely strong day on Thursday and rise about 2.5%.

I took off part of my SPY position at the open on Wednesday morning and it was not long before I was kicking myself for not taking off more. The new lows again have the SPX solidly oversold, and bullish evidence is dominating bearish. So there certainly appears to be an upside edge. (But that has not mattered the last couple of weeks.) There is also room to run before turning overbought. With the move higher in the CBI, I will be looking to take on a couple of new Catapult positions. And if the SPX closes down again on Thursday, I will look to add back the lot I exited on Wednesday.

***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) (filled)

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

NSC – 1/3 @ \$75.93 (buy @ limit) (filled)

***New***

APC - 1/3 @ \$34.86 (buy @ limit)

NSC – 1/3 @ \$71.44 (buy @ limit)

***Broad Market Large Cap CBI – 5(COF-2, NSC-2, APC)***

**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 @ \$71.44 LIMIT.** This is a Catapult trade from above. It is the 2<sup>nd</sup> of 3 possible lots for NSC.

**APC – buy 1/3 Catapult position @ \$34.86 LIMIT.** This is a Catapult trade from above. It is the 1<sup>st</sup> of 3 possible lots for APC.

**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
<b>SPY(1/4)</b>	<b>12/31/2015</b>	<b>\$203.87</b>	<b>\$194.45</b>	<b>-4.62%</b>		<b><i>sold on open</i></b>
SPY(1/4)	1/4/2016	\$201.02	\$188.83	-6.06%		sell @ \$194.00 limit ON CLOSE
SPY(1/4)	1/8/2016	\$191.92	\$188.83	-1.61%		sell @ \$195.00 limit ON CLOSE
<b>CMCSA(1/3)</b>	<b>1/8/2016</b>	<b>\$54.61</b>	<b>\$55.45</b>	<b>1.54%</b>		<b><i>sold on open</i></b>
COF(1/3)	1/8/2016	\$65.08	\$63.64	-2.21%		Catapult
<b>DIS(1/3)</b>	<b>1/8/2016</b>	<b>\$99.50</b>	<b>\$101.88</b>	<b>2.39%</b>		<b><i>sold on open</i></b>
COF(1/3)	1/11/2016	\$64.23	\$63.64	-0.92%		Catapult
<b>DIS(1/3)</b>	<b>1/11/2016</b>	<b>\$99.25</b>	<b>\$101.88</b>	<b>2.65%</b>		<b><i>sold on open</i></b>
NSC(1/3)	1/13/2016	\$75.93	\$71.44	-5.91%		bought @ limit

*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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