

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 15, 2016

Volume 9 Issue 10

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The high-volume rally off the 50-day high appears favorable for the next few days.
- Strong breadth and volume on the bounce on Thursday suggest Friday could see more buying.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is still leaning bullish. And the market is still oversold. Odds seem to favor more upside over the next few days rather than an immediate leg down.

*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**

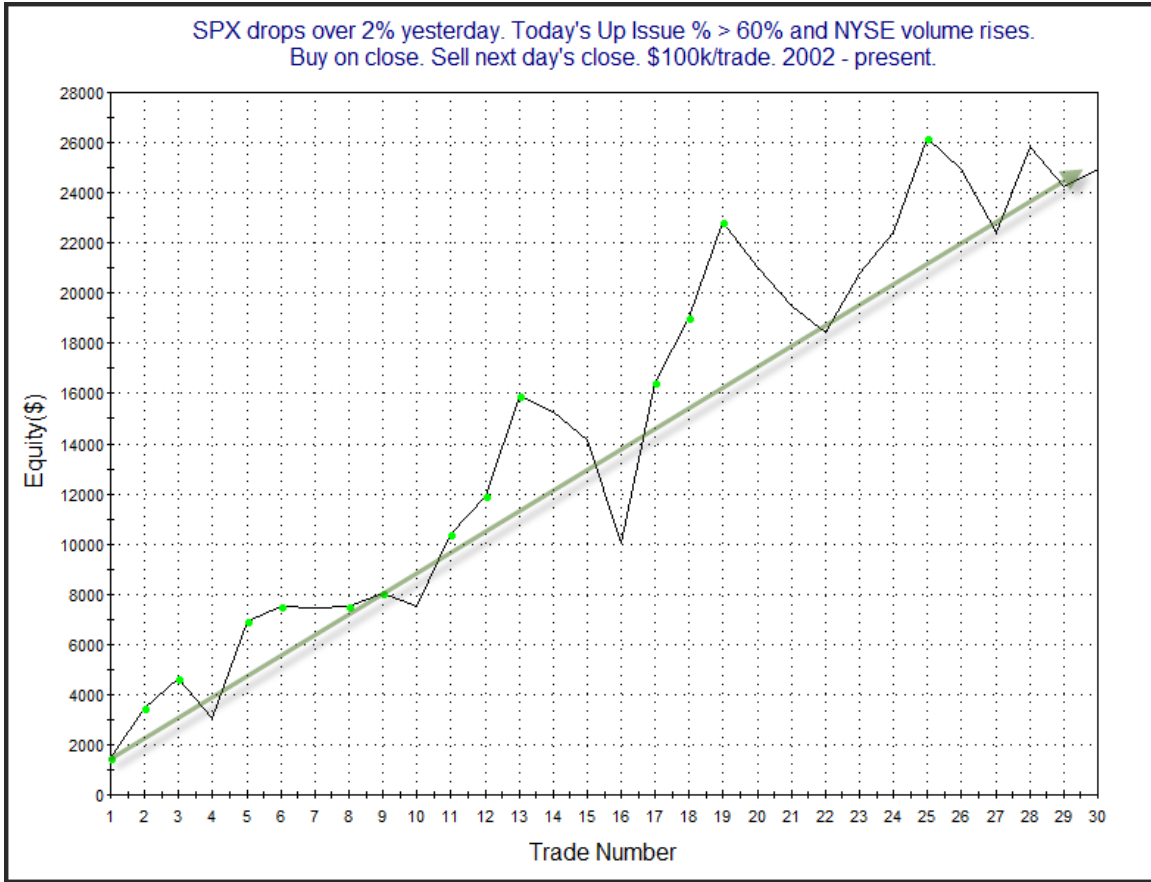
More wild action left the indices higher on Thursday. The SPX finished up 1.7%, the NASDAQ rose 2.0%, and the Russell 2000 rallied 1.5%. Breadth was positive as the NYSE Up Issues % came in at 67% and the Up Volume % was 77%. Total NYSE volume rose to the highest level in a few weeks.

Often the first day of a bounce off a low area can provide clues as to how the bounce is likely to unfold. The clues I saw tonight suggest the bounce will likely have further to go. This first study was last seen in the 10/27/11 letter. It looked at times when the bounce was accompanied by both strong breadth and strong volume.

SPX drops over 2% yesterday. Today's Up Issue % > 60% and NYSE volume rises.  
Buy on close. Sell next day's close. \$100k/trade. 2002 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$24,957.02	Profit Factor		2.40
Gross Profit	\$42,741.35	Gross Loss		(\$17,784.33)
Total Number of Trades	30	Percent Profitable		60.00%
Winning Trades	18	Losing Trades		12
Even Trades	0			
Avg. Trade Net Profit	\$831.90	Ratio Avg. Win:Avg. Loss		1.60
Avg. Winning Trade	\$2,374.52	Avg. Losing Trade		(\$1,482.03)
Largest Winning Trade	\$6,420.72	Largest Losing Trade		(\$4,142.00)

The numbers here are quite strong and suggest some likely follow through on Friday. Below is a look at the profit curve.



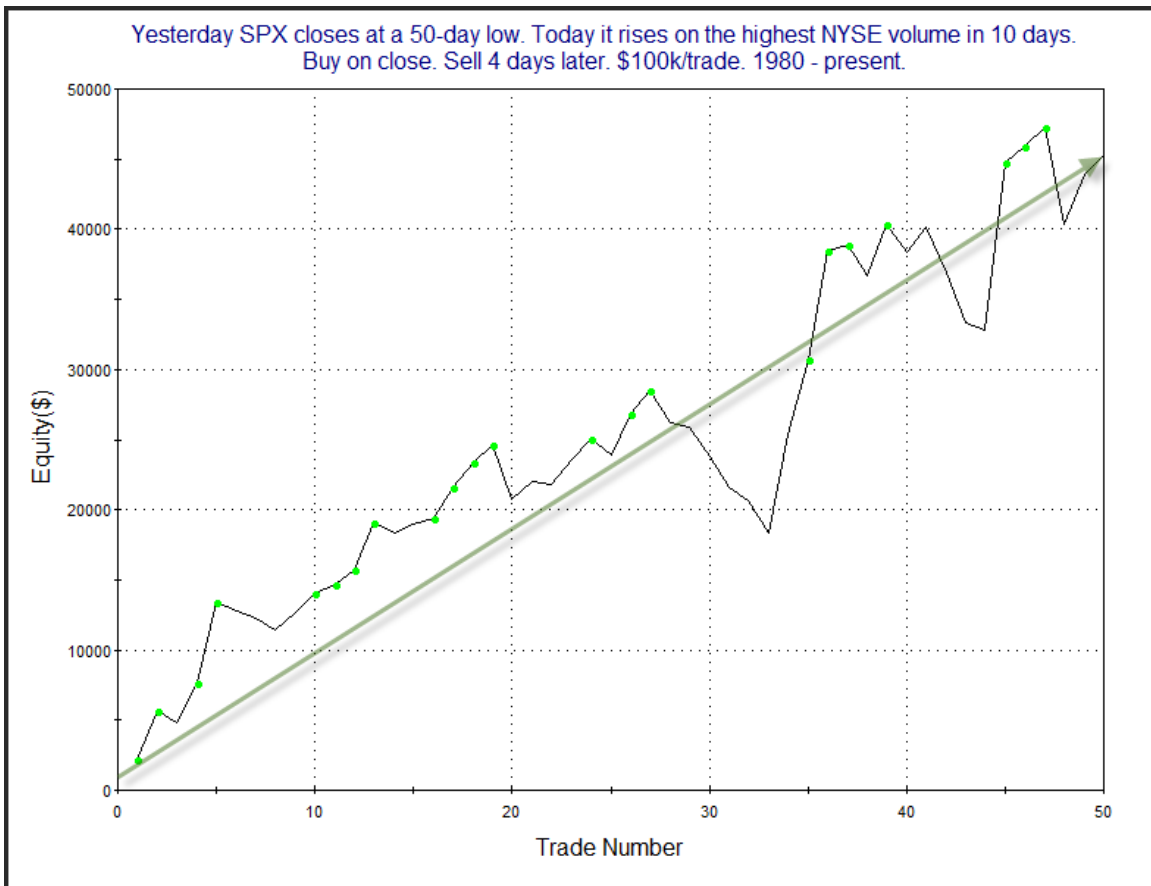
Choppy but headed the right general direction the whole time. This study seems worth consideration.

In the past I have examined bounces from 50-day lows based on the volume. I have found that when the 1<sup>st</sup> day had very low volume or very high volume the probabilities of follow-through increased substantially. Days where volume did not hit an extreme showed no bullish edge going forward. Tonight I have re-run the stats for setups like Thursday where the NYSE posted the highest volume in the last 10 days.

Yesterday SPX closes at a 50-day low. Today it rises on the highest NYSE volume in 10 days.  
Buy on close. Sell X days later. \$100k/trade. 1980 - present.

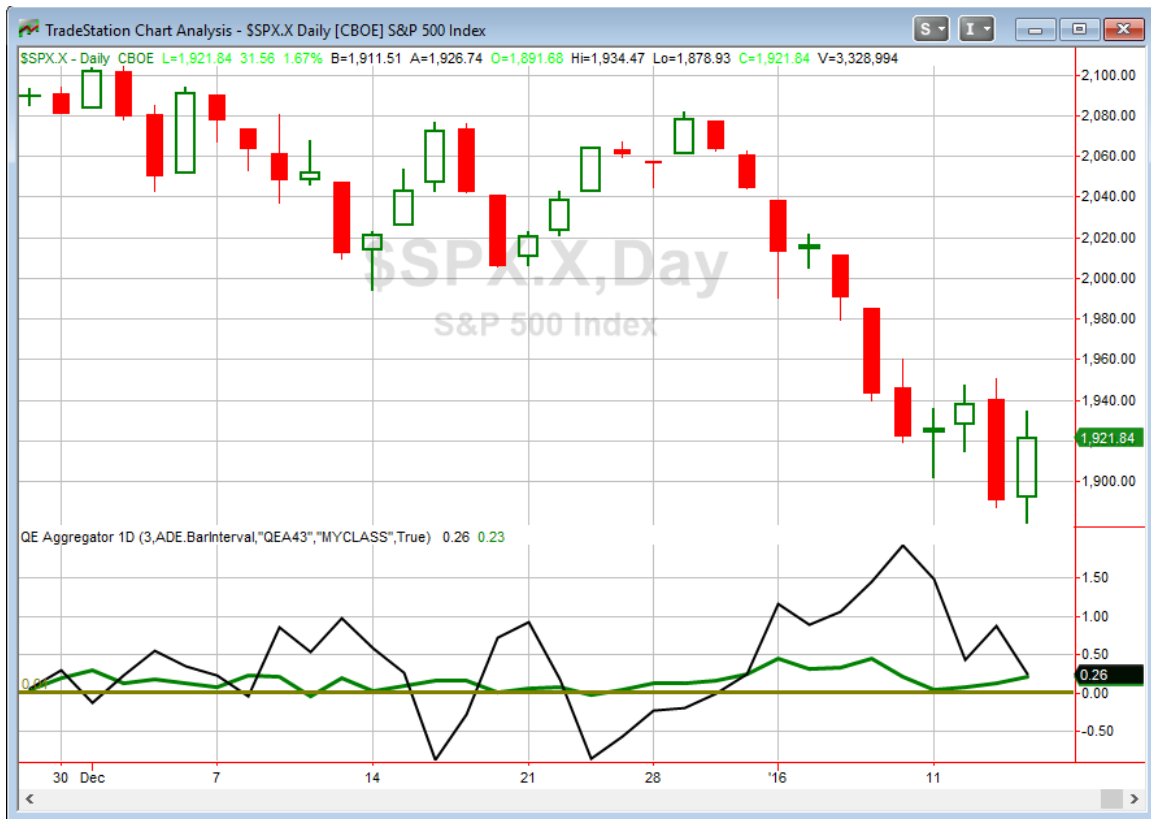
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	32,562.72	50	33	17	66.00	2,427.70	10,340.00	-2,797.13	-11,026.82	0.87	1.68	651.25
4	45,318.77	50	30	20	60.00	2,759.01	11,930.04	-1,872.58	-6,936.99	1.47	2.21	906.38
3	35,979.10	52	33	19	63.46	2,246.36	10,868.60	-2,007.94	-11,129.52	1.12	1.94	691.91
2	28,047.12	54	31	23	57.41	1,765.88	7,112.64	-1,160.66	-4,815.84	1.52	2.05	519.39
1	18,349.45	54	29	25	53.70	1,740.54	9,089.88	-1,285.05	-4,761.33	1.35	1.57	339.80

The stats here appear to favor follow-through over the next few days. Much of the edge has come in the 1st 4 days. Below is an equity curve using a 4-day holding period.



Like the previous study, the profit curve is choppy but generally upsloping the entire time. I have also added this study to the Active List.

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



With tonight's studies being added the green Aggregator Line moved further 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 Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1944.76 on Friday. That is 1.2% above Thursday's close. So for SPX to move from oversold to overbought versus expectations on Friday it will need to close up at least 1.2%.

Evidence continues to favor the bulls and the market is still squarely oversold despite the strong selloff. The CBI did not budge on Thursday and remains at 5. The Catapult System not only looks for stocks that are selling off hard but also tries to determine whether the selling is capitulative, or whether it is possibly initiative. To this point, despite the strong market selloff, the CBI has not spiked. But I suspect if we get another strong leg down we will start to see more and more stocks triggering, and the CBI will likely rise much quicker

than it has so far on this selloff. I already have a fair amount of long exposure. I am not inclined just yet to take on new positions. Instead I will see what Friday brings and then decide over the weekend if I want to increase or decrease my size.

***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)

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

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 ON CLOSE.** This is a Catapult trade that did not fill from last night. I will only look to buy it on a close here, rather than stepping into a strong intraday selloff. It is the 2<sup>nd</sup> 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)	1/4/2016	\$201.02	\$191.93	-4.52%		Aggregator
SPY(1/4)	1/8/2016	\$191.92	\$191.93	0.01%		Aggregator
COF(1/3)	1/8/2016	\$65.08	\$64.60	-0.74%		Catapult
COF(1/3)	1/11/2016	\$64.23	\$64.60	0.58%		Catapult
NSC(1/3)	1/13/2016	\$75.93	\$72.15	-4.98%		Catapult
APC(1/3)	1/14/2016	\$34.86	\$35.00	0.40%		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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