

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 21, 2016

Volume 9 Issue 13

Market Overview



Signals Overview

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

Tonight's Research Points

- The gap down and partial reversal is typically a bullish pattern.
- With SPX down big, the strong SOX suggest a bounce is near.

Short-term Outlook

The Bottom Line

Evidence is again pointing higher and the market is obviously oversold. Still looking for a bounce.

The Evidence

I have a 102.5 fever tonight and am battling the flu. So this may be the shortest report ever, with almost no commentary. Sorry about that. Hopefully I will be in better shape tomorrow night. The market saw a scary selloff reverse course and finished the day with mixed results. Here are two studies I thought were worth some consideration.

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	37,036.48	23	14	9	60.87	4,526.99	11,377.00	-2,926.82	-5,014.98	1.55	2.41	1,610.28
4	43,381.77	24	14	10	58.33	4,726.07	11,714.64	-2,278.32	-6,725.16	2.07	2.90	1,807.57
3	31,414.41	24	13	11	54.17	3,833.05	10,848.52	-1,674.11	-5,355.22	2.29	2.71	1,308.93
2	37,556.36	25	15	10	60.00	3,740.38	12,814.15	-1,854.93	-3,463.80	2.02	3.02	1,502.25
1	28,666.54	26	16	10	61.54	2,864.82	14,507.65	-1,717.06	-3,576.07	1.67	2.67	1,102.56

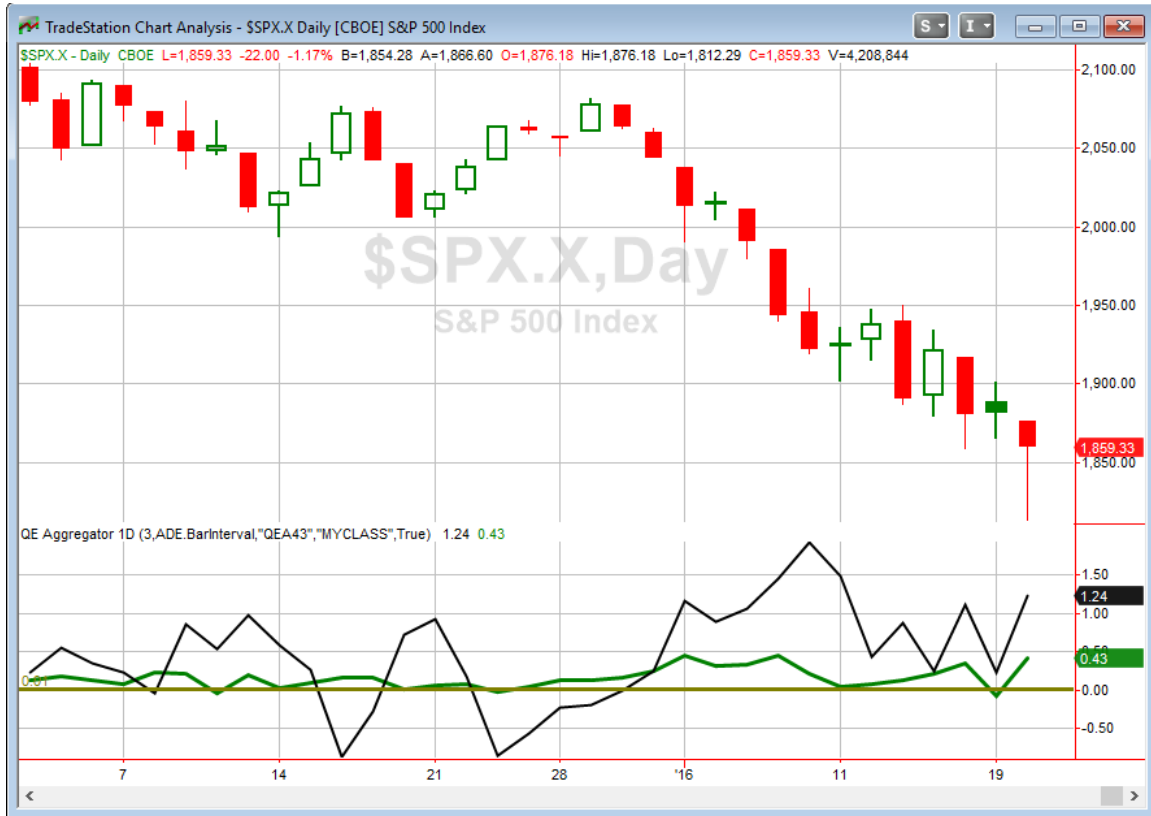
88% of instances closed above the entry price at some point in the next week.

SPX closes down more than 1% while SOX closes positive on the day.
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	104,848.80	40	33	7	82.50	3,870.90	11,713.29	-3,270.13	-10,522.80	1.18	5.58	2,621.22
19	91,721.73	40	32	8	80.00	3,802.09	10,333.79	-3,743.15	-8,900.14	1.02	4.06	2,293.04
18	91,034.88	41	32	9	78.05	3,911.03	7,942.20	-3,790.91	-11,288.16	1.03	3.67	2,220.36
17	98,147.53	41	35	6	85.37	3,531.17	8,324.04	-4,240.58	-8,272.88	0.83	4.86	2,393.84
16	98,805.50	41	34	7	82.93	3,523.08	8,271.50	-2,997.03	-6,871.40	1.18	5.71	2,409.89
15	97,300.00	43	36	7	83.72	3,371.45	9,409.63	-3,438.91	-8,166.80	0.98	5.04	2,262.79
14	87,296.04	43	33	10	76.74	3,353.73	9,676.59	-2,337.71	-6,963.20	1.43	4.73	2,030.14
13	73,868.71	44	35	9	79.55	3,043.20	9,660.97	-3,627.03	-6,427.70	0.84	3.26	1,678.83
12	60,632.61	44	34	10	77.27	2,672.38	7,763.14	-3,022.85	-6,508.05	0.88	3.01	1,378.01
11	61,086.94	44	32	12	72.73	3,124.58	7,280.34	-3,241.64	-12,064.08	0.96	2.57	1,388.34
10	41,270.47	44	31	13	70.45	2,651.58	8,223.93	-3,148.34	-11,180.43	0.84	2.01	937.97
9	33,943.41	46	30	16	65.22	2,474.52	9,602.19	-2,518.26	-11,287.50	0.98	1.84	737.90
8	48,554.72	46	30	16	65.22	2,569.27	6,547.32	-1,782.72	-7,376.22	1.44	2.70	1,055.54
7	47,429.07	47	31	16	65.96	2,648.53	12,150.45	-2,167.21	-9,509.88	1.22	2.37	1,009.13
6	50,170.26	48	34	14	70.83	2,631.58	18,349.11	-2,807.40	-11,038.16	0.94	2.28	1,045.21
5	44,466.96	49	32	17	65.31	2,519.76	13,733.46	-2,127.38	-9,314.08	1.18	2.23	907.49
4	39,321.87	49	29	20	59.18	2,357.06	14,020.11	-1,451.65	-6,410.56	1.62	2.35	802.49
3	23,713.49	51	29	22	56.86	2,129.59	12,304.89	-1,729.29	-8,330.40	1.23	1.62	464.97
2	14,546.25	52	27	25	51.92	1,971.14	9,496.89	-1,546.98	-4,324.92	1.27	1.38	279.74
1	14,667.15	54	24	30	44.44	1,559.32	10,716.03	-758.55	-3,446.88	2.06	1.64	271.61

The big intraday selloff caused all the short-term studies that were active last night to either meet their bearish objective or trade 1 standard deviation beyond their typical bullish drawdown and therefore be taken off the active list. So from a short-term standpoint there the above studies are playing a large role in generating estimates.

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



Tonight the green Aggregator Line rose back above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal turned long at the close.

Expectations on Thursday are primed to remain positive if nothing new emerges. The Differential Pivot will be 18793.5 on Thursday. That is 1.8% 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 1.8%.

There again appears to be a short-term bullish edge. I already have a 50% index position. With the CBI still just at 7 I am not inclined to add more to that (though I am a little tempted). I will look to add the one additional Catapult that triggered on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/19 – neutral

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) (filled)

APC - 1/3 @ \$30.85 (buy @ limit) (filled)

New

APC - 1/3 @ \$30.54 (buy @ limit)

Broad Market Large Cap CBI – 7(COF-2, NSC-2, APC-3)

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.

APC – buy 1/3 Catapult position @ \$30.54 LIMIT. This is from the Catapult section above. It is the 3rd 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
SPY(1/4)	1/4/2016	\$201.02	\$185.65	-7.65%		Aggregator
SPY(1/4)	1/8/2016	\$191.92	\$185.65	-3.27%		Aggregator
COF(1/3)	1/8/2016	\$65.08	\$60.76	-6.64%		Catapult
COF(1/3)	1/11/2016	\$64.23	\$60.76	-5.40%		Catapult
NSC(1/3)	1/13/2016	\$75.93	\$71.18	-6.26%		Catapult
APC(1/3)	1/14/2016	\$34.86	\$30.54	-12.39%		Catapult
NSC(1/3)	1/19/2016	\$71.44	\$71.18	-0.36%		Catapult
APC(1/3)	1/20/2016	\$30.24	\$30.54	0.99%		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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