

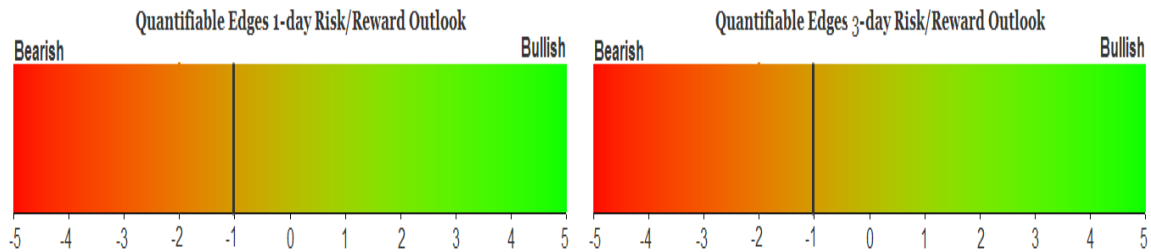
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 26, 2016

Volume 9 Issue 16

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Flat

## Tonight's Research Points

- Unfilled gaps down after unfilled gaps up below the 200ma are often bearish.
- The CBI has risen to 8.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is now suggesting a short-term bearish edge. But the elevated CBI points towards a rally. I am not inclined to get involved with index bets until the directional edge is more clear.

**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 25, 2016	VXO drops 15%-20%. SPX < 200ma	1-2 days	Bearish			
January 21, 2016	SPX dn 1%. SOX up.	1-5 days	Bullish			
<b>Active - Long Term</b>						
January 19, 2016	NASDAQ 100-day low. UpIss EMA<37.5	1-19 days	Bullish			
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			
November 2, 2015	Best 6 months	Nov-Apr	Bullish			
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 22, 2016	SPY closes 1%<high but up on day	1-2 days	bullish			

**The Evidence**

Monday was a tough day for the market. SPX and NASDAQ lost 1.6%, and the Russell 2000 fell 2.3%. Breadth was negative as the NYSE Up Issues % was 17% and the Up Volume % came in at 27%. Total NYSE volume declined from Friday's level.

The most compelling study to appear in the Quantifinder this evening was the one below, which looked at the 2-day action in SPY. It was last seen way back in the 2/13/11 letter and has been updated.

SPY has unfilled gap up that closes higher than the open followed by an unfilled gap down that closes lower than the open. Both gaps are at least 0.25% Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2003 - 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	-11,394.91	13	3	10	23.08	2,379.94	4,371.06	-1,853.47	-4,622.60	1.28	0.39	-876.53
4	-28,311.16	13	2	11	15.38	2,958.45	3,107.94	-3,111.64	-12,422.13	0.95	0.17	-2,177.78
3	-24,614.18	13	4	9	30.77	817.99	1,678.08	-3,098.46	-9,199.26	0.26	0.12	-1,893.40
2	-15,690.16	13	3	10	23.08	638.42	1,167.36	-1,760.54	-4,349.31	0.36	0.11	-1,206.94
1	-9,125.58	13	4	9	30.77	847.78	1,952.85	-1,390.74	-5,444.46	0.61	0.27	-701.97

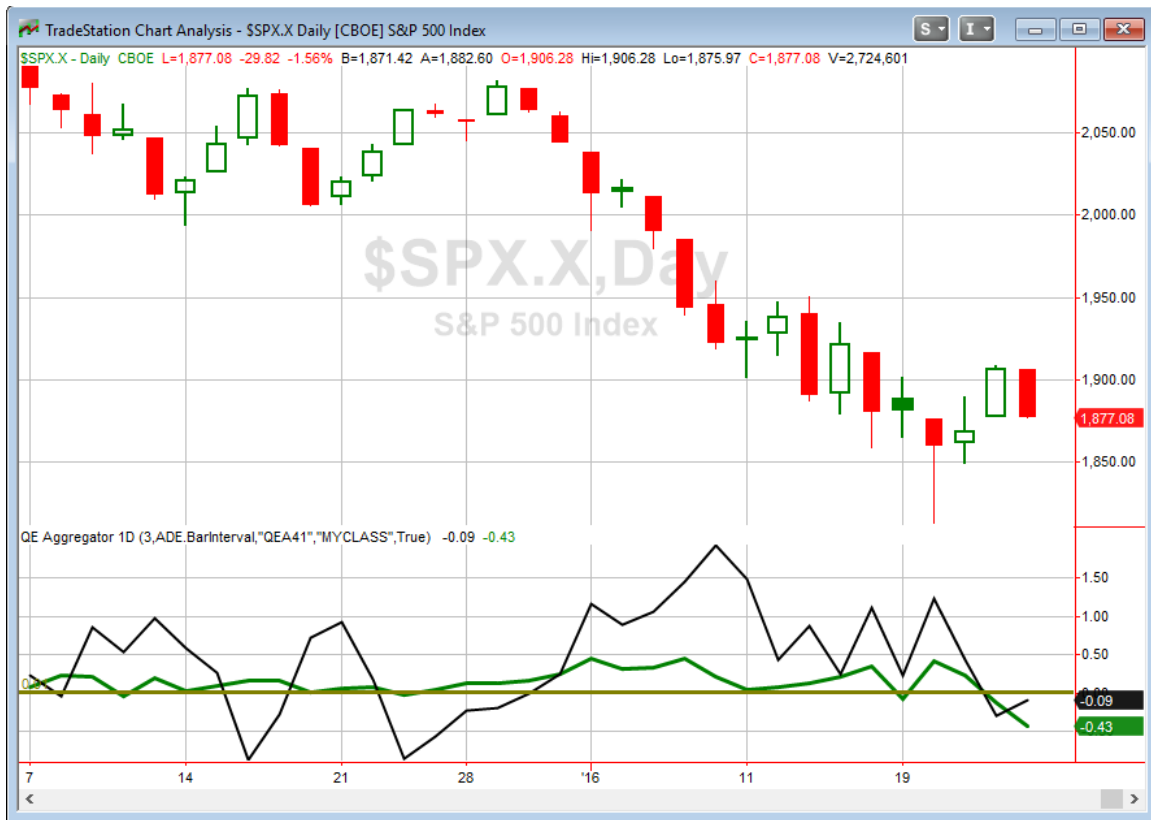
Potential downside here appears to be sizable. Possibly the unfilled gap up with the higher close saw a good number of people chase the market higher (on Friday). The unfilled gap down immediately after (Monday) causes many of those same people to be trapped long. Those trapped longs could continue to exert selling pressure over the next few days. I have listed below all of the instances assuming a 4-day holding period.

SPY has unfilled gap up that closes higher than the open followed by an unfilled gap down that closes lower than the open. Both gaps are at least 0.25% Close < 200ma.  
Buy on close. Sell 4 days later. \$100k/trade. 2003 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/19/2003	Buy	\$85.18	-0.83%	\$656.88
2/25/2003	Sell	\$84.47		(\$3,472.08)
6/16/2006	Buy	\$124.65	-0.15%	\$842.10
6/22/2006	Sell	\$124.46		(\$882.20)
1/15/2008	Buy	\$138.17	-5.39%	\$686.85
1/22/2008	Sell	\$130.72		(\$8,798.91)
6/6/2008	Buy	\$136.29	-1.35%	\$886.93
6/12/2008	Sell	\$134.45		(\$2,030.41)
6/26/2008	Buy	\$128.23	-1.60%	\$724.47
7/2/2008	Sell	\$126.18		(\$1,791.70)
8/29/2008	Buy	\$128.79	-3.39%	\$1,489.92
9/5/2008	Sell	\$124.42		(\$5,269.04)
10/21/2008	Buy	\$95.86	-12.42%	\$0.00
10/27/2008	Sell	\$83.95		(\$12,682.88)
1/29/2009	Buy	\$84.55	-1.44%	\$1,004.70
2/4/2009	Sell	\$83.33		(\$3,829.68)
5/11/2009	Buy	\$91.24	-2.77%	\$646.64
5/15/2009	Sell	\$88.71		(\$3,386.64)
9/7/2010	Buy	\$109.64	2.81%	\$3,018.72
9/13/2010	Sell	\$112.72		\$0.00
10/17/2011	Buy	\$120.23	3.11%	\$3,232.59
10/21/2011	Sell	\$123.97		(\$855.93)
11/14/2011	Buy	\$125.46	-2.77%	\$1,028.13
11/18/2011	Sell	\$121.98		(\$3,371.31)
12/12/2011	Buy	\$124.21	-2.11%	\$1,094.80
12/16/2011	Sell	\$121.59		(\$2,342.55)

The current instance is the first one in over 4 years. Results here appear strong enough to merit some consideration. I have added this study to the Active List tonight.

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



With tonight's study considered the green Aggregator Line fell further below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal stayed short at the close.

Expectations on Tuesday are primed to remain negative if nothing new emerges. Of course this could easily change if new bullish evidence emerges. The Differential Pivot will be slightly inverted at 1879.46 on Tuesday. That is 0.1% above Monday's close. An inverted pivot means the differential line will cross through zero if SPX closes flat. In this case it is going to need to close up about 2 points in order to remain "overbought" versus recent expectations. Anything short of that will leave SPX oversold.

So the bearish Aggregator formation remains in place. But the CBI inched up again and now stands at "8". It is unlikely I would enter new positions with an inverted pivot. With the CBI now suggesting a decent bullish edge, there is no way I would consider trading short. I am inclined to wait and see what edges emerge in the next few days before committing new capital to index positions.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 1/25 – 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)

NSC – 1/3 @ \$71.44 (buy @ limit) (filled)

C - 1/3 @ \$40.15 (buy @ limit)

AXP - 1/3 @ \$55.06 (buy @ limit) (filled)

NSC – 1/3 @ \$68.59 (buy @ limit) (filled)

*New*

AXP - 1/3 @ \$55.02 (buy @ limit)

**Broad Market Large Cap CBI – 8(COF-2, NSC-3, C, AXP-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.*

**AXP – buy 1/3 Catapult position @ \$55.02 LIMIT.** This is from the Catapult section above. It is the 2<sup>nd</sup> of 3 possible lots for AXP.

**C– buy 1/3 Catapult position @ \$39.55 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of 3 possible lots for C.

**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
<i>SPY(1/4)</i>	<i>1/4/2016</i>	<i>\$201.02</i>	<i>\$189.92</i>	<i>-5.52%</i>		<i>sold on open</i>
<i>SPY(1/4)</i>	<i>1/8/2016</i>	<i>\$191.92</i>	<i>\$189.92</i>	<i>-1.04%</i>		<i>sold on open</i>
COF(1/3)	1/8/2016	\$65.08	\$58.66	-9.86%		Catapult
COF(1/3)	1/11/2016	\$64.23	\$58.66	-8.67%		Catapult
NSC(1/3)	1/13/2016	\$75.93	\$67.73	-10.80%		Catapult
NSC(1/3)	1/19/2016	\$71.44	\$67.73	-5.19%		Catapult
NSC(1/3)	1/25/2016	\$68.59	\$67.73	-1.25%		Catapult
AXP(1/3)	1/25/2016	\$54.46	\$55.02	1.03%		Catapult

*APC was sold at the open as was indicated in last night's letter.*

*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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