

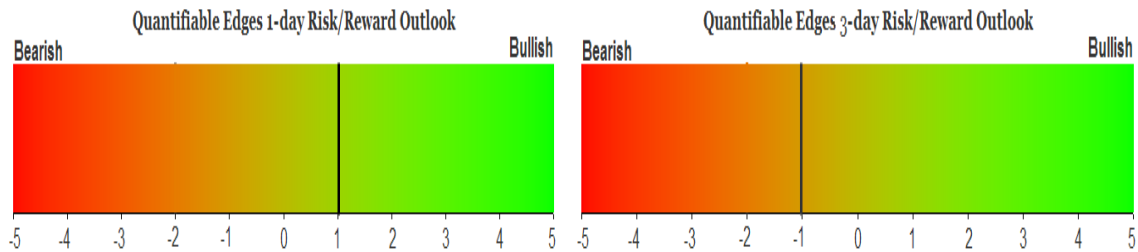
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 27, 2016

Volume 9 Issue 17

Market Overview



Signals Overview

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

Tonight's Research Points

- 1% up, 1% down, and another 1% up is often followed by more upside the next day.
- When SPY closes strong right before a Fed Day, that reduces the potential Fed Day edge.

Short-term Outlook

The Bottom Line

There is more bullish evidence emerging, but the net is still pointing down over the next few days. I still would not bet against a high CBI, so I am flat and looking to stay there for another day.

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 27, 2016	1% up 1% dn 1% up.	1 day	Bullish			
January 26, 2016	Unfilled Gap Up. Unfilled Gap dn. <200	1-4 days	Bearish			
January 21, 2016	SPX dn 1%. SOX up.	1-5 days	Bullish			
Active - Long Term						
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			
Dropped Tonight						
January 25, 2016	VXO drops 15%-20%. SPX < 200ma	1-2 days	Bearish			

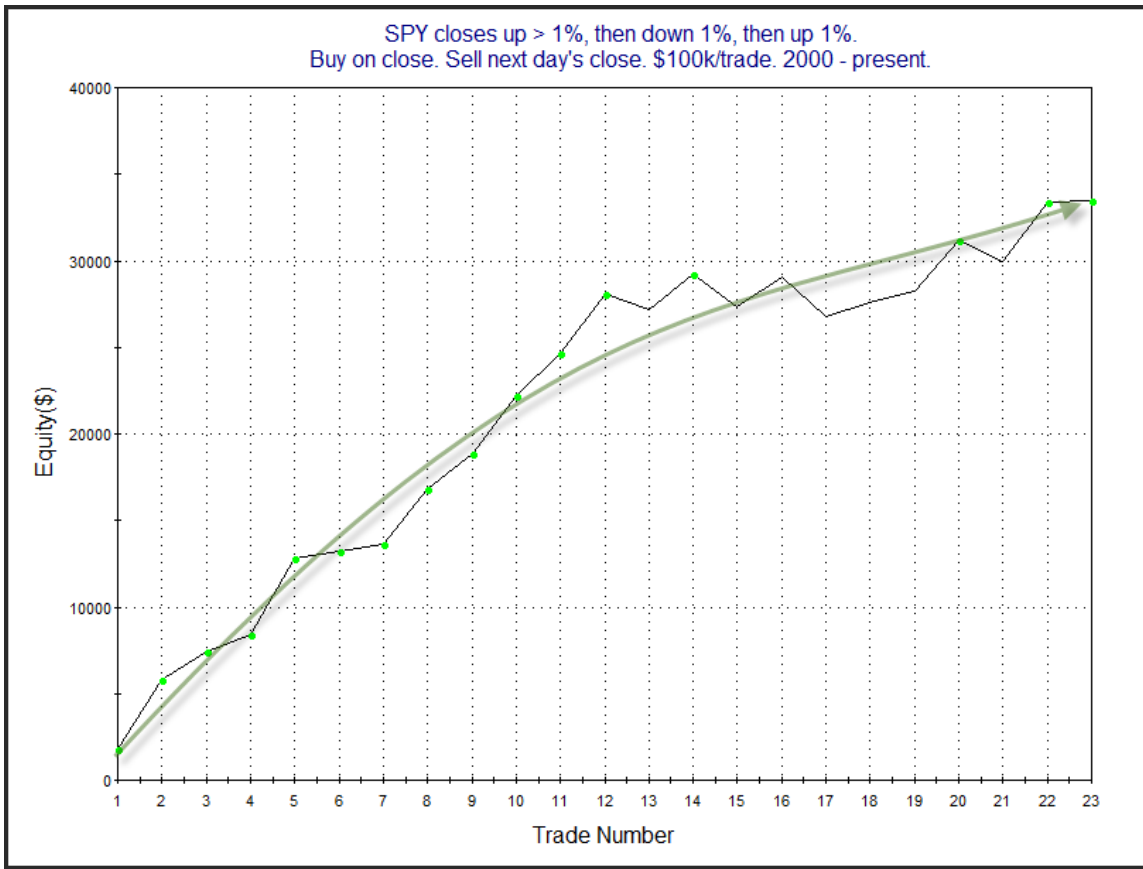
The Evidence

Tuesday the market reversed course once again – this time posting a strong up day. SPX gained 1.4%, the NASDAQ rose 1.1%, and the Russell 2000 rallied 2.1%. Breadth was strongly positive as the NYSE Up Issues % was 82% and the Up Volume % came in at 90%. Total NYSE volume rose from Monday’s level.

The study below was from the Quantifinder. It examined ping-pong activity like we have seen the last few days. It was last seen in the 2/6/13 subscriber letter. I have updated it below.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$33,439.20	Profit Factor	6.25
Gross Profit	\$39,808.67	Gross Loss	(\$6,369.47)
Total Number of Trades	23	Percent Profitable	82.61%
Winning Trades	19	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,453.88	Ratio Avg. Win:Avg. Loss	1.32
Avg. Winning Trade	\$2,095.19	Avg. Losing Trade	(\$1,592.37)
Largest Winning Trade	\$4,377.20	Largest Losing Trade	(\$2,348.90)

It is only a 1-day edge but the numbers look compelling. The profit curve is below.



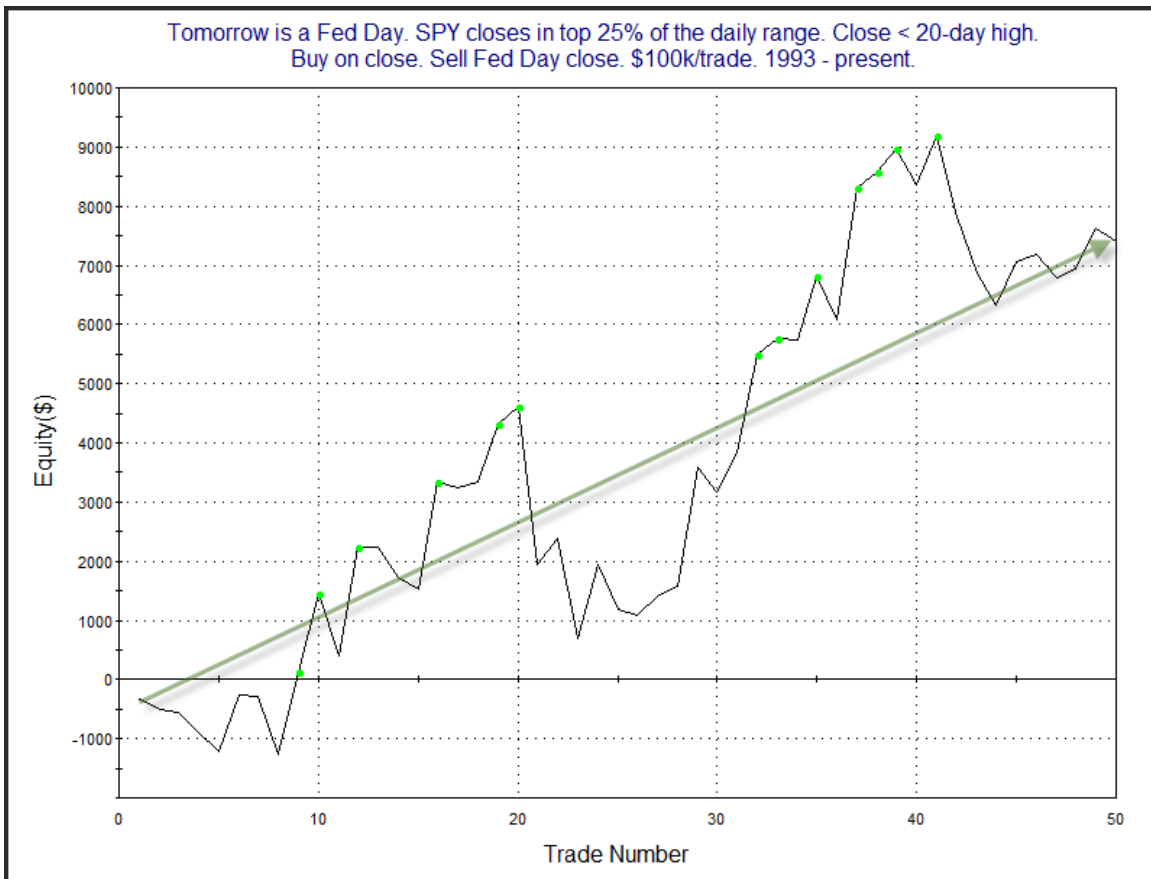
That is a decent looking curve, and supportive of the idea of a 1-day bullish edge. I have included this study on the Active List.

Wednesday the Fed will conclude their 2-day meeting and announce any policy changes. Fed Days in general have shown a bullish propensity as far back as 1982. But the degree of the edge has varied depending on a number of factors. One factor that seems to play a part is where the market has closed within its daily range. A low close suggests some fear going into a Fed Day, while a close in the upper part of the day's range could indicate people looking to front-run the bullish edge. Not surprisingly, Fed Days have done a lot better when the day before closed poorly than when it closed strongly. Another factor is whether the market closed at an intermediate-term high or not. It is obviously not at an intermediate-term high right now. Taking these two factors into consideration we see the study below, which was last seen in the 9/17/14 letter.

Tomorrow is a Fed Day. SPY closes in top 25% of the daily range. Close < 20-day high.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

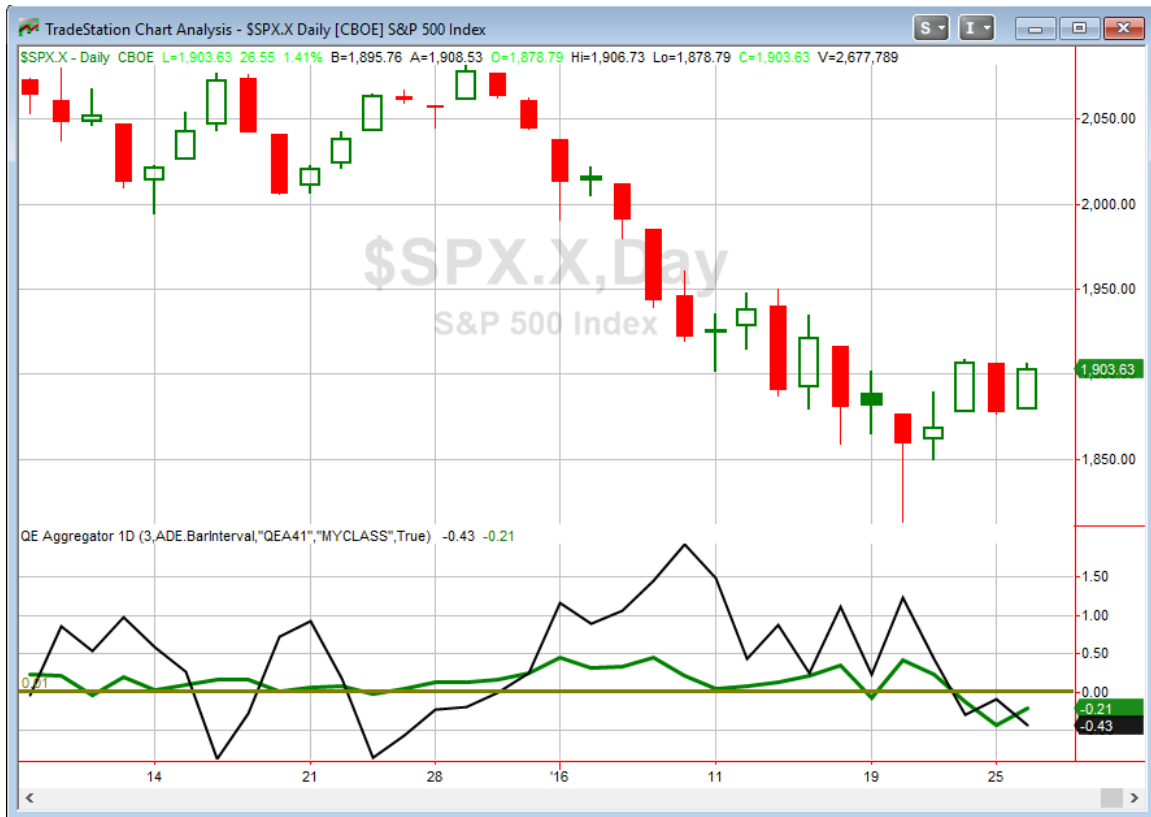
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$7,407.83	Profit Factor	1.51
Gross Profit	\$21,989.67	Gross Loss	(\$14,581.84)
Total Number of Trades	50	Percent Profitable	50.00%
Winning Trades	25	Losing Trades	24
Even Trades	1		
Avg. Trade Net Profit	\$148.16	Ratio Avg. Win:Avg. Loss	1.45
Avg. Winning Trade	\$879.59	Avg. Losing Trade	(\$607.58)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,683.80)

The average win to loss ratio isn't bad but the winning percentage is breakeven. Below is a profit curve showing how the trades have played out over time.



Not a terribly smooth curve. It seems there may be a mild bullish seasonal edge, but not a terribly reliable one.

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



Tonight the green Aggregator Line remained 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 Wednesday are primed to remain negative if nothing new emerges. Of course this could change if new bullish evidence emerges. The Differential Pivot will be inverted at 1916.70 on Wednesday. That is 0.7% above Tuesday'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 0.7% 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 as you'll see below, there was no reduction in the CBI, and it remains at a somewhat-bullish "8". So...repeat of last night...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 still 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) (filled)

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

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

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

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
COF(1/3)	1/8/2016	\$65.08	\$60.38	-7.22%		Catapult
COF(1/3)	1/11/2016	\$64.23	\$60.38	-5.99%		Catapult
NSC(1/3)	1/13/2016	\$75.93	\$68.90	-9.26%		Catapult
NSC(1/3)	1/19/2016	\$71.44	\$68.90	-3.56%		Catapult
NSC(1/3)	1/25/2016	\$68.59	\$68.90	0.45%		Catapult
AXP(1/3)	1/25/2016	\$54.46	\$55.09	1.16%		Catapult
AXP(1/3)	1/26/2016	\$55.02	\$55.09	0.13%		Catapult
C(1/3)	1/26/2016	\$39.55	\$40.50	2.40%		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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