

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 29, 2016

Volume 9 Issue 19

Market Overview



Signals Overview

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

Tonight's Research Points

- A SOX decline combined with a strong NDX has often been followed by a market pullback over the last 16 years.

Short-term Outlook

The Bottom Line

Evidence is suggesting a downside edge, and the market is now a bit overbought.

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 29, 2016	NDX up 1%. SOX down.	1-6 days	Bearish			
January 26, 2016	Unfilled Gap Up. Unfilled Gap dn. <200	1-4 days	Bearish			
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			

The Evidence

The market had a pretty good day on Thursday. SPX rose 0.55%, the NASDAQ gained 0.9%, and the Russell 2000 moved up 0.05%. Breadth was positive as the NYSE Up Issues % was 66% and the Up Volume % came in at 55%. Total NYSE volume declined some from Wednesday's level

An interesting aspect of Thursday's action was the discrepancy between the NDX and the SOX. While the NDX rose 1.4% on Thursday, the SOX declined 0.3% - which is very unusual action. It brought about a study last seen in the 4/27/15 Letter, which I have updated below.

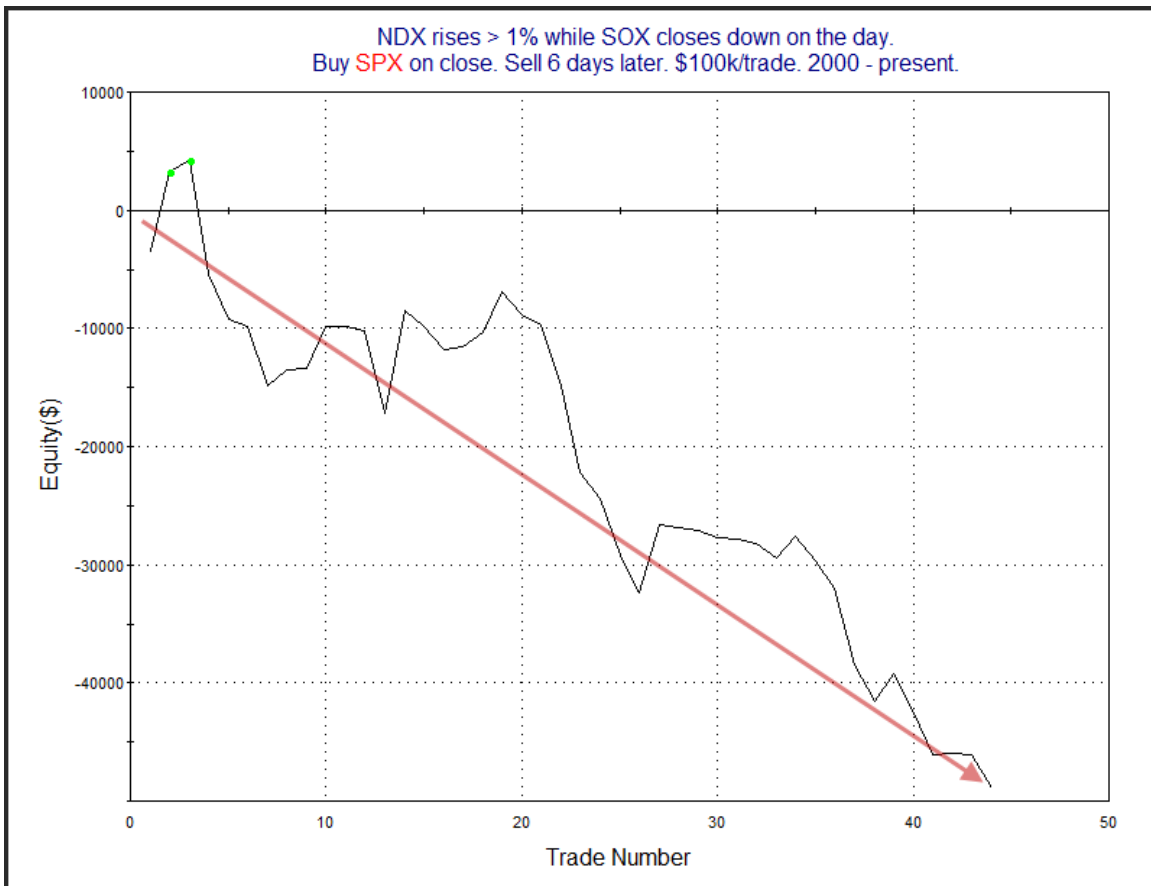
NDX rises > 1% while SOX closes down on the day. Buy NDX on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-82,532.34	42	16	26	38.10	4,885.26	18,826.33	-6,180.64	-13,954.56	0.79	0.49	-1,965.06
9	-79,934.22	42	13	29	30.95	5,566.44	22,154.89	-5,251.65	-15,780.45	1.06	0.48	-1,903.20
8	-76,451.12	43	12	31	27.91	6,143.82	30,307.45	-4,844.42	-13,288.50	1.27	0.49	-1,777.93
7	-89,473.31	44	10	34	22.73	7,565.22	31,628.02	-4,856.63	-17,436.00	1.56	0.46	-2,033.48
6	-118,360.53	44	10	34	22.73	6,786.44	23,421.19	-5,477.20	-21,090.48	1.24	0.36	-2,690.01
5	-84,917.30	45	15	30	33.33	4,162.09	12,749.43	-4,911.62	-12,790.08	0.85	0.42	-1,887.05
4	-53,857.88	45	20	25	44.44	3,053.56	11,322.33	-4,597.16	-12,796.24	0.66	0.53	-1,196.84
3	-29,601.99	46	18	28	39.13	4,324.74	15,615.69	-3,837.40	-15,779.50	1.13	0.72	-643.52
2	-5,550.05	48	22	26	45.83	3,275.40	16,624.43	-2,984.96	-9,160.50	1.10	0.93	-115.63
1	-2,851.05	50	23	27	46.00	2,537.61	9,397.52	-2,267.26	-6,256.64	1.12	0.95	-57.02

Six days later 77% of the instances were losers and the average occurrence was nearly a 2.7% loss. That seems to be a fairly substantial edge. I also updated how the SPX performed while this was all going on.

NDX rises > 1% while SOX closes down on the day.
Buy SPX on close. Sell X days later. \$100k/trade. 2000 - present.

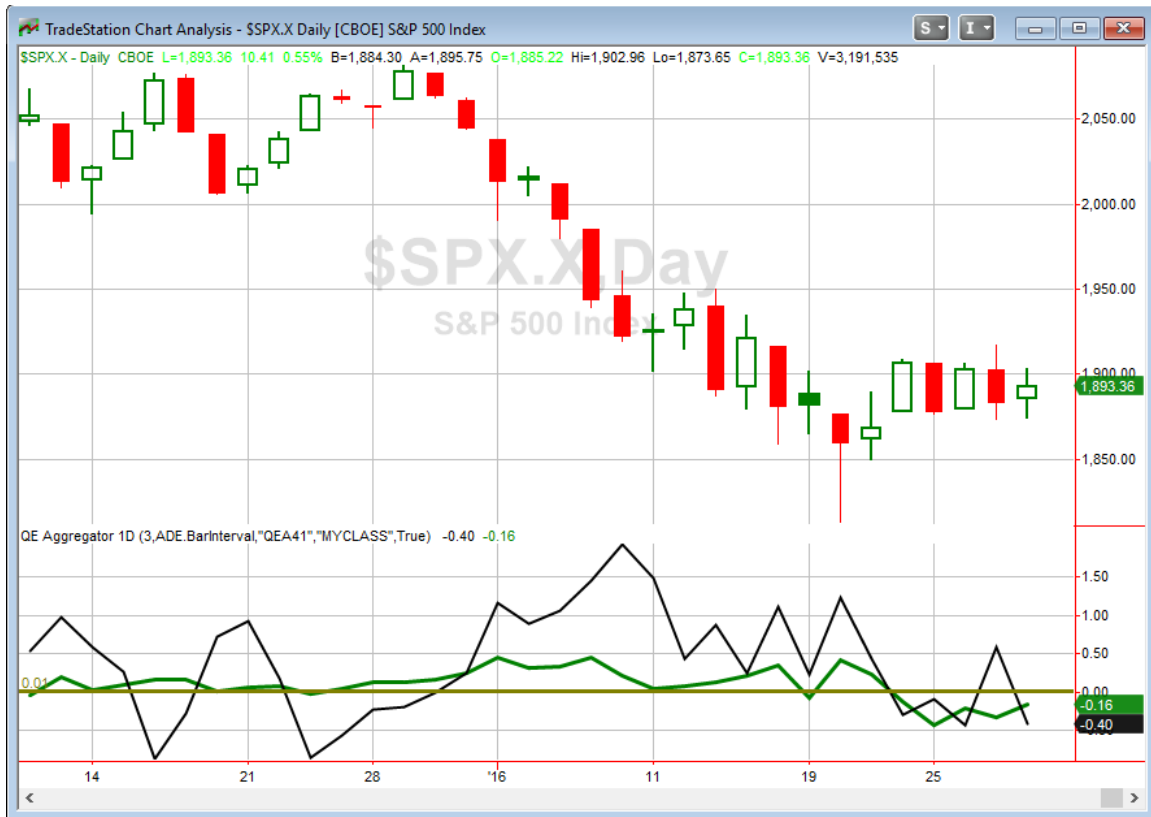
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-18,994.47	42	17	25	40.48	2,831.05	9,774.70	-2,684.89	-8,478.02	1.05	0.72	-452.25
9	-27,558.58	42	18	24	42.86	2,641.24	9,278.30	-3,129.20	-8,963.07	0.84	0.63	-656.16
8	-34,917.00	43	19	24	44.19	2,220.79	9,165.45	-3,213.00	-7,574.41	0.69	0.55	-812.02
7	-43,667.21	44	19	25	43.18	2,102.23	10,101.57	-3,344.38	-11,391.59	0.63	0.48	-992.44
6	-48,902.65	44	13	31	29.55	2,802.31	8,753.07	-2,752.67	-9,589.14	1.02	0.43	-1,111.42
5	-43,625.88	45	18	27	40.00	1,750.93	6,877.04	-2,783.06	-7,519.22	0.63	0.42	-969.46
4	-28,309.52	45	21	24	46.67	1,659.24	5,068.10	-2,631.40	-11,917.40	0.63	0.55	-629.10
3	-13,942.86	46	20	26	43.48	1,888.68	6,877.26	-1,989.10	-9,480.90	0.95	0.73	-303.11
2	-7,333.28	48	20	28	41.67	1,602.90	5,842.98	-1,406.83	-6,411.90	1.14	0.81	-152.78
1	3,043.62	50	25	25	50.00	1,223.83	5,396.04	-1,102.08	-2,692.80	1.11	1.11	60.87

The pullbacks haven't been quite as reliable or as strong as the NDX but there still appears to be a decent downside edge. Below is an equity curve that assumes a 6-day holding period.



While choppy, it has persisted lower and continues to make new lows. Overall, this study appears worthy of consideration.

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 dropped back down 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 changed from flat to short at the close.

Expectations on Friday are primed to remain negative if nothing new emerges. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be inverted at 1889.20 on Friday. That is 0.2% below Thursday's close. So for SPX to move from overbought to oversold versus expectations it will only need to close down about 0.2% on Friday.

So there appears to be a bit of a downside edge. But with the market so close to moving back to “oversold” the size of the opportunity does not appear to be very large. I may take a short position to try and take advantage of the apparent downside edge, but only if SPY closes up strongly on Friday.

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

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

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

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

New

AXP - 1/3 @ \$52.88 (buy @ limit) (filled)

Broad Market Large Cap CBI – 3(AXP-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.

SPY – short ¼ index position @ \$192.11 LIMIT ON CLOSE. (\$3 above the Based on the short-term section above. If SPY spikes up and closes here or higher on Friday I will look to take on some short exposure.

AXP – buy 1/3 Catapult position @ \$52.88 LIMIT. This is from the Catapult section above. It is the last of 3 possible lots for AXP.

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
COF(1/3)	1/8/2016	\$65.08	\$63.78	-2.00%		<i>sold on open</i>
COF(1/3)	1/11/2016	\$64.23	\$63.78	-0.70%		<i>sold on open</i>
NSC(1/3)	1/13/2016	\$75.93	\$69.92	-7.92%		<i>sold on open</i>
NSC(1/3)	1/19/2016	\$71.44	\$69.92	-2.13%		<i>sold on open</i>
NSC(1/3)	1/25/2016	\$68.59	\$69.92	1.94%		<i>sold on open</i>
AXP(1/3)	1/25/2016	\$54.46	\$52.88	-2.90%		Catapult
AXP(1/3)	1/26/2016	\$55.02	\$52.88	-3.89%		Catapult
C(1/3)	1/26/2016	\$39.55	\$40.39	2.12%		<i>sell on open</i>

C hit its exit target on Thursday. It will be sold at the open on Friday.

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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