

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 3, 2016

Volume 9 Issue 22

Market Overview



Signals Overview

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

Tonight's Research Points

- Weak SPY performance the 1st 2 days of the month has consistently been followed by a strong bounce.

Short-term Outlook

The Bottom Line

There still appears to be a short-side edge, but time is running low for the bears, since SPX is about to turn from short-term overbought to short-term oversold.

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						
February 3, 2016	Dn 2 days > 1.5% to start month	1-3 days	Bullish			
February 2, 2016	SPY dn. RSI2 > 85. Close < 299ma.	1-3 days	Bearish			
February 1, 2016	QE Buying Power Short Signal	1-6 days	Bearish			
January 29, 2016	NDX up 1%. SOX down.	1-6 days	Bearish			
Active - Long Term						
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%
February 1, 2016	FTD on strong breadth and weak vol	1-10 days	Bullish			
January 19, 2016	NASDAQ 100-day low. UpIss EMA < 37.5	1-19 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			

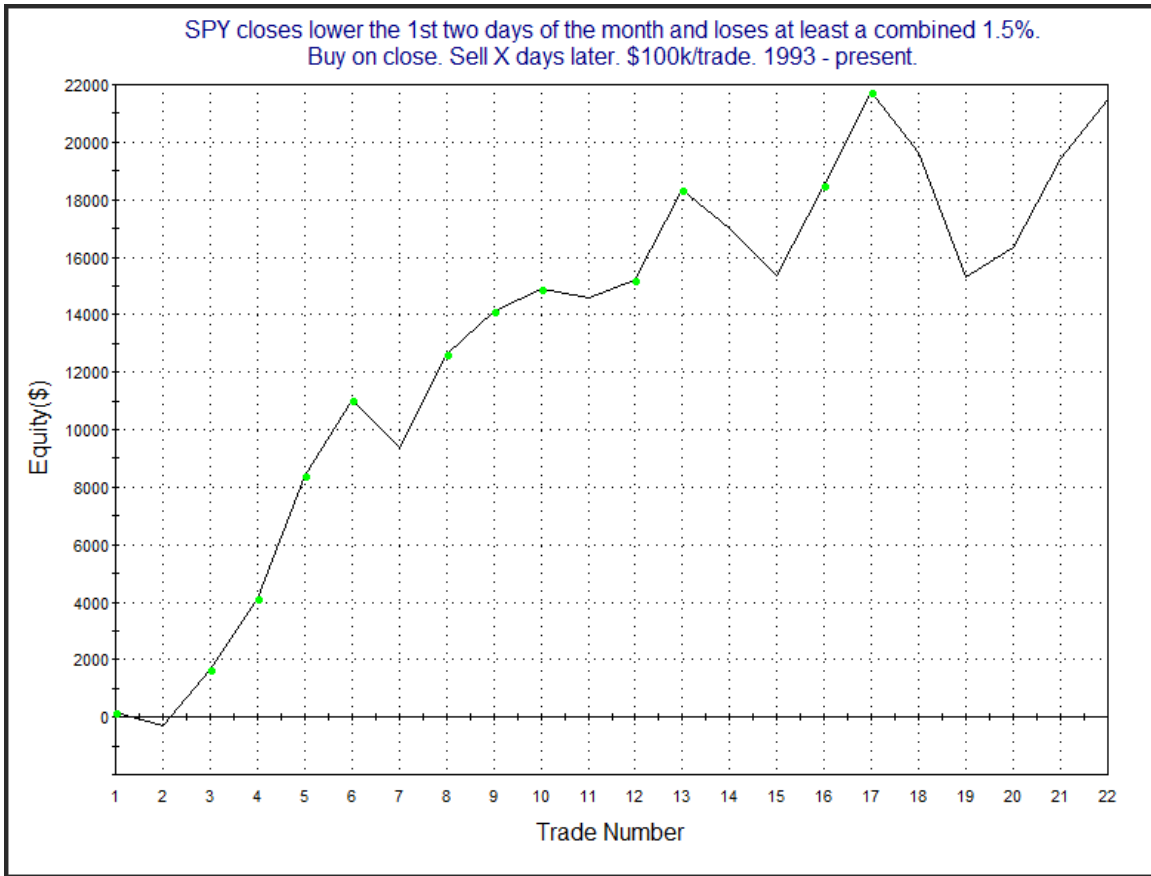
The Evidence

The bearish evidence we have been seeing played out on Tuesday. SPX lost 1.9%, the NASDAQ fell 2.2%, and the Russell 2000 declined 2.3%. Breadth was negative as the NYSE Up Issues % was 20% and the Up Volume % came in at 10%. Total NYSE volume rose some from Monday's level.

So after a tough January, February is off to a rough start having closed down both of the first two days. In the 6/3/11 Subscriber Letter I looked at other instances where the SPY had closed down the first two days of the month and the total loss was at least 1.5%. I have updated that study below.

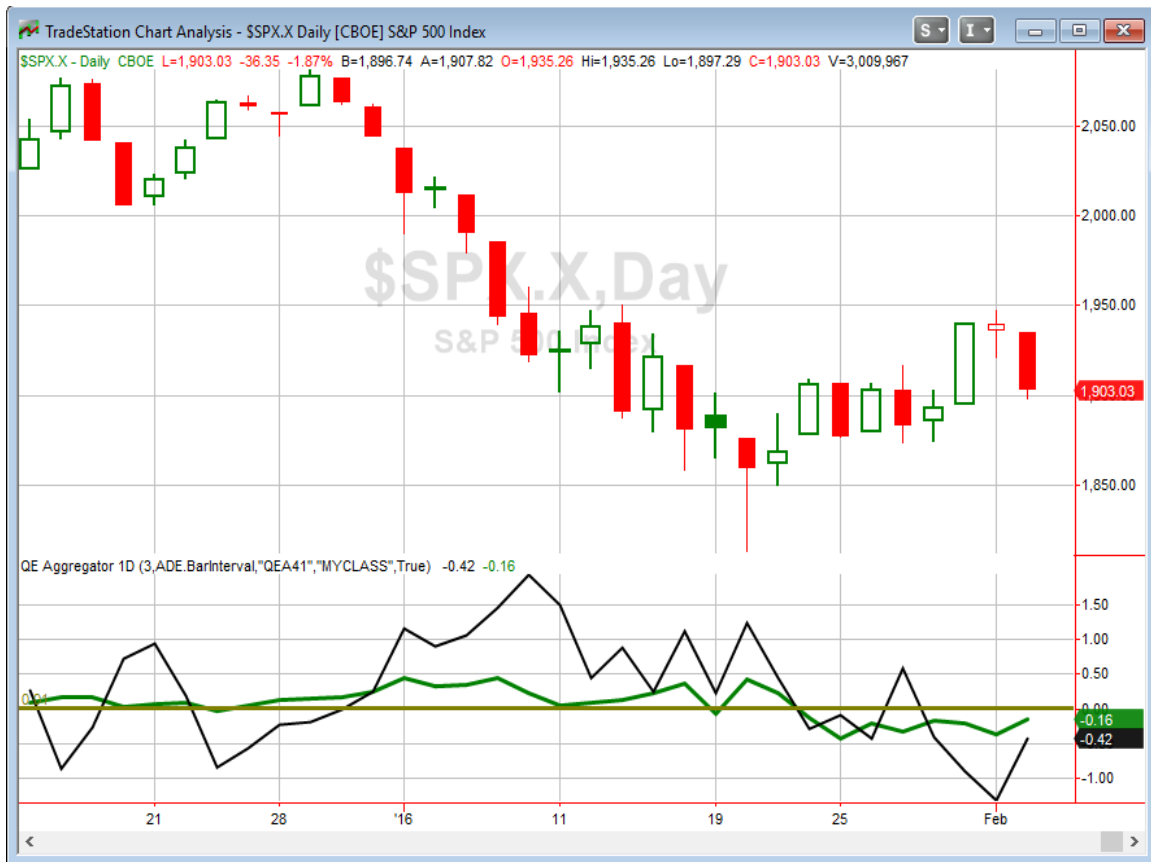
SPY closes lower the 1st two days of the month and loses at least a combined 1.5%. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	21,696.35	22	14	8	63.64	2,767.77	5,665.30	-2,131.55	-6,375.96	1.30	2.27	986.20
4	17,959.72	22	16	6	72.73	2,389.27	4,792.32	-3,378.11	-10,531.08	0.71	1.89	816.35
3	21,481.30	22	15	7	68.18	2,219.91	4,290.00	-1,688.19	-4,306.36	1.31	2.82	976.42
2	18,419.36	22	13	8	59.09	2,227.35	4,565.68	-1,317.02	-4,163.08	1.69	2.75	837.24
1	3,844.32	22	14	8	63.64	878.45	2,368.82	-1,056.74	-3,479.04	0.83	1.45	174.74
21 of 22 instances (95%) closed above the entry price at some point in the next week.												

As noted, this setup has almost always led to a bounce at some point in the next week. Below is an equity curve using a 3-day exit strategy.



A couple of recent trades looked like they were going to derail the curve, but it has quickly recovered and is now near new highs. I have included this study on the Active List tonight.

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



With tonight's evidence included the green Aggregator Line still could not move above zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still 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 strong new bullish evidence emerges. The Differential Pivot will be inverted at 1926.31 on Wednesday. That is 1.2% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, in order for SPX to remain "overbought" versus expectations it is going to need to close up over 1.2% on Wednesday. Anything less than that and SPX will be considered "oversold" as of Wednesday's close.

So there still appears to be a short-side edge. But the downside potential is getting smaller since the short Aggregator signal will end on Wednesday unless the market moves strongly higher. It is because of this that I generally view inverted pivots as opportune times to take profits. With the downside edge still currently intact, I do not see a reason to panic and

cover the current short position at any cost. But if I can get a favorable fill on Wednesday, I will act on it and cover my SPY short position for a nice profit.

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

The intermediate-term outlook was last updated in the 2/2/16 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

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

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

AXP - 1/3 @ \$52.88 (buy @ limit) (not filled – cancel for now)

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.

None tonight.

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
AXP(1/3)	1/25/2016	\$54.46	\$53.66	-1.47%		Catapult
AXP(1/3)	1/26/2016	\$55.02	\$53.66	-2.47%		Catapult
SPY(1/4)(s)	1/26/2016	\$193.72	\$190.16	1.84%		<i>cover @ \$190.00 limit</i>

I will cover SPY if it moves down even a little at the open or during the day on Wednesday.

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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