

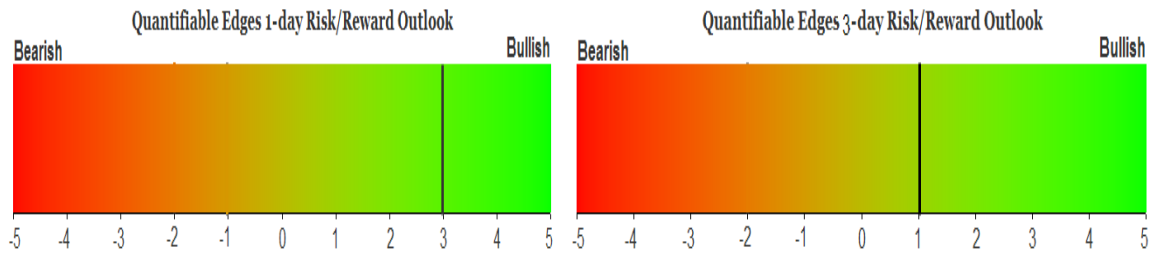
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 10, 2016

Volume 9 Issue 27

Market Overview



Signals Overview

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

Tonight's Research Points

- The 3-day pullback / 20-day low in the SPX appears to suggest a bounce.

Short-term Outlook

The Bottom Line

There appears to be a good chance of a move higher on Wednesday, but evidence beyond that is murky. I am not inclined to act on current evidence with just 1 day to try and take advantage.

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 10, 2016 | Dn 3. 20-low. Small decline. < 200 | 1 day | Bullish | | | |
| Active - Long Term | | | | | | |
| February 1, 2016 | 290% 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 | | | |
| Dropped Tonight | | | | | | |
| February 9, 2016 | 1% drop. Decl 2x Adv. 50-low. | 1 day | Bullish | | | |
| February 9, 2016 | Up Issue % < 33.3% 2x. Monday. < 200 | 1 day | Bullish | | | |
| February 8, 2016 | SPY 5 low 1st time in over 10 days/ | 1-2 days | Bullish | | | |

The Evidence

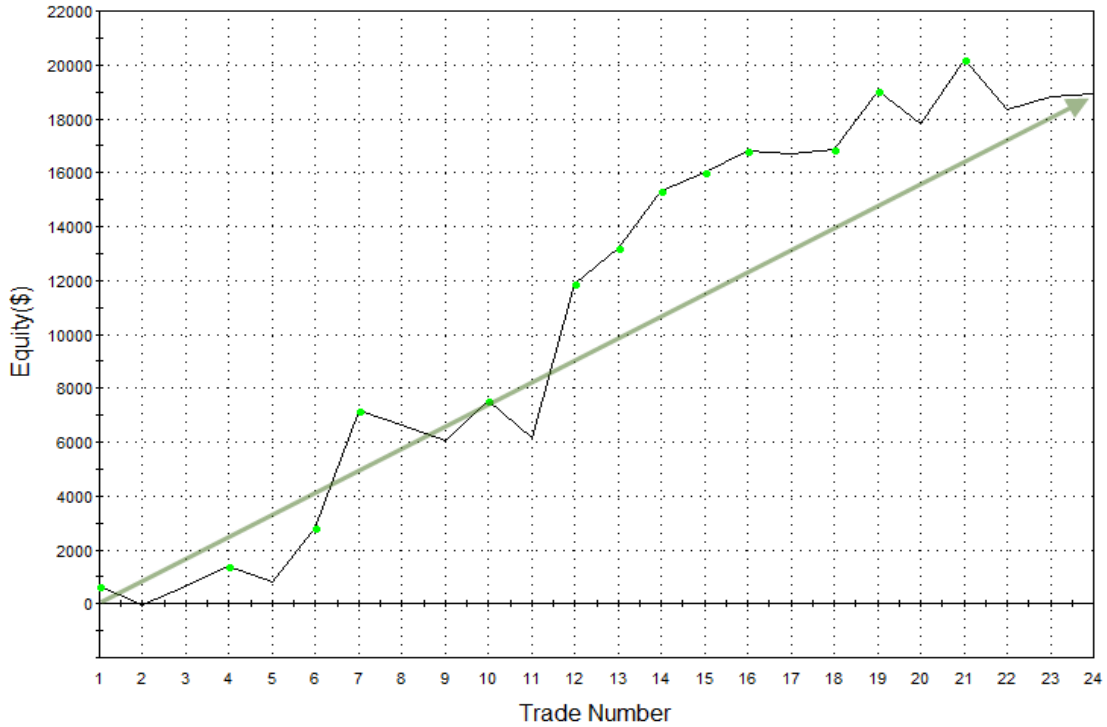
Tuesday nearly closed up for some indices, but in the end the majors all lost a little. The SPX closed down 0.1%, the NASDAQ fell 0.3%, and the Russell 2000 declined 0.6%. Breadth was negative as the NYSE Up Issues % was 30% and the Up Volume % came in at 35%. Total NYSE volume declined some from Monday's level.

There were a few studies that looked at the 3-day pullback and certain characteristics of it that suggested a possible upside edge. The fact that Tuesday's drop was the mildest of the decline was one of those characteristics. The study below is from the 11/16/12 Letter and it combined the mild decline with the fact that the SPX also closed at a 20-day low. Results are updated.

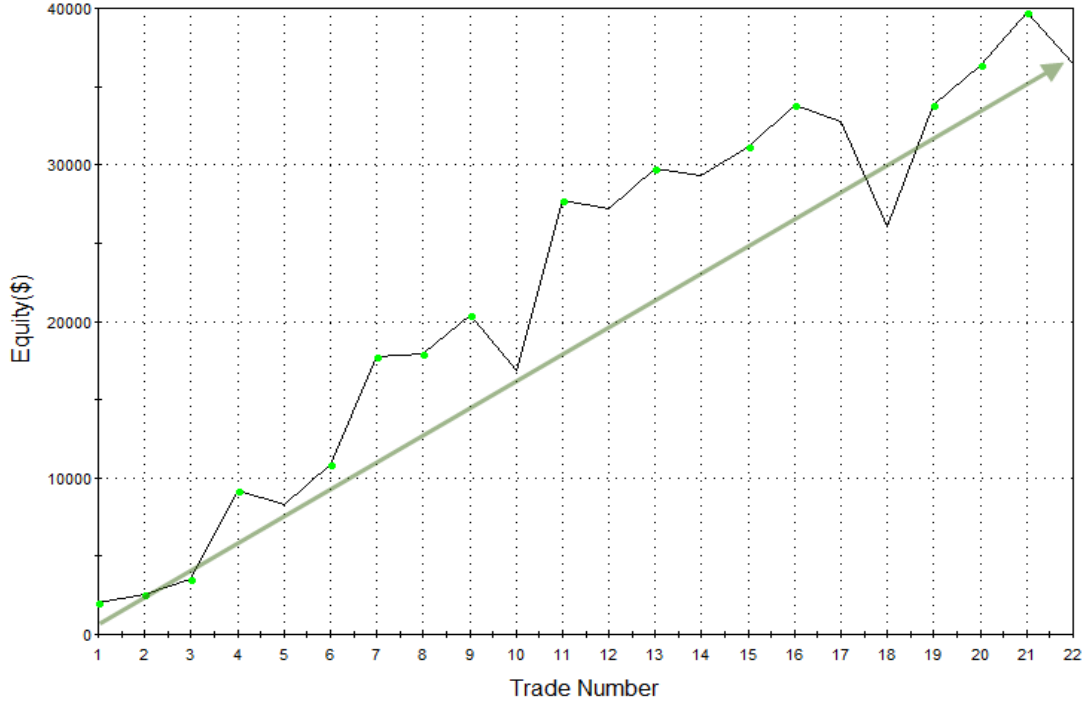
| SPX closes down for at least the 3rd day in a row, at a 20-day low, and < 200ma. Today's drop was the mildest of the decline. Buy SPX on close. Sell X days later. \$100k/trade. 1992 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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 | 27,016.30 | 20 | 15 | 5 | 75.00 | 2,933.66 | 7,733.75 | -3,397.71 | -9,519.30 | 0.86 | 2.59 | 1,350.82 |
| 9 | 37,101.01 | 22 | 16 | 6 | 72.73 | 3,327.52 | 12,144.60 | -2,689.90 | -11,603.34 | 1.24 | 3.30 | 1,686.41 |
| 8 | 30,272.15 | 22 | 15 | 7 | 68.18 | 3,344.03 | 8,611.46 | -2,841.19 | -11,037.60 | 1.18 | 2.52 | 1,376.01 |
| 7 | 36,469.13 | 22 | 15 | 7 | 68.18 | 3,526.50 | 10,870.00 | -2,346.91 | -6,719.58 | 1.50 | 3.22 | 1,657.69 |
| 6 | 30,599.47 | 22 | 14 | 8 | 63.64 | 3,254.18 | 14,240.00 | -1,869.88 | -4,484.34 | 1.74 | 3.05 | 1,390.88 |
| 5 | 24,876.93 | 22 | 13 | 9 | 59.09 | 2,986.40 | 13,135.00 | -1,549.58 | -2,963.52 | 1.93 | 2.78 | 1,130.77 |
| 4 | 23,775.11 | 22 | 14 | 8 | 63.64 | 2,653.28 | 12,657.50 | -1,671.35 | -4,672.36 | 1.59 | 2.78 | 1,080.69 |
| 3 | 11,785.07 | 22 | 14 | 8 | 63.64 | 2,077.24 | 6,892.50 | -2,162.04 | -5,681.34 | 0.96 | 1.68 | 535.69 |
| 2 | 16,489.65 | 23 | 15 | 8 | 65.22 | 1,871.74 | 5,122.50 | -1,448.31 | -2,368.73 | 1.29 | 2.42 | 716.94 |
| 1 | 18,907.45 | 24 | 16 | 8 | 66.67 | 1,615.50 | 5,716.25 | -867.57 | -1,858.94 | 1.86 | 3.72 | 787.81 |

Here it appears there is a decent upside edge both right off the bat and over the next couple of weeks. Much of the edge has been realized on day 1. I have produced that profit curve below along with a 7-day curve.

SPX closes down for at least the 3rd day in a row, at a 20-day low, and < 200ma. Today's drop was the mildest of the decline. Buy SPX on close. Sell 1 day later. \$100k/trade. 1992 - present.



SPX closes down for at least the 3rd day in a row, at a 20-day low, and < 200ma. Today's drop was the mildest of the decline. Buy SPX on close. Sell 7 days later. \$100k/trade. 1992 - present.



Both cures appear impressive. But with close to half of the gains being realized on just Day 1, I have decided to include this on the Active List as just a 1-day study.

One concern I have about the selloff the last couple of days is that while the market has been hitting new lows, the CBI has been stuck at 0. In the 1/7/16 blog I looked at how the market had performed following 50-day lows when the CBI was at different levels. Below I have updated the table that examined performance when the CBI was 0.

| SPX closes at a 50-day low. Quantifiable Edges Capitulative Breadth Index (CBI) closes at 0. 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 | -12,509.00 | 16 | 9 | 7 | 56.25 | 2,480.69 | 9,253.36 | -4,976.46 | -8,467.20 | 0.50 | 0.64 | -781.81 | |
| 19 | -16,016.67 | 17 | 9 | 7 | 52.94 | 2,241.17 | 8,112.56 | -5,169.60 | -10,277.60 | 0.43 | 0.56 | -942.16 | |
| 18 | -18,656.23 | 17 | 9 | 8 | 52.94 | 2,854.19 | 8,035.28 | -5,542.99 | -9,871.20 | 0.51 | 0.58 | -1,097.43 | |
| 17 | -20,211.26 | 17 | 9 | 8 | 52.94 | 2,268.27 | 7,502.60 | -5,078.21 | -9,362.94 | 0.45 | 0.50 | -1,188.90 | |
| 16 | -18,319.25 | 17 | 7 | 10 | 41.18 | 3,222.97 | 8,222.04 | -4,088.01 | -11,305.65 | 0.79 | 0.55 | -1,077.60 | |
| 15 | -22,663.27 | 17 | 8 | 9 | 47.06 | 2,601.55 | 7,142.88 | -4,830.63 | -12,312.24 | 0.54 | 0.48 | -1,333.13 | |
| 14 | -28,645.03 | 17 | 9 | 8 | 52.94 | 2,553.91 | 7,388.52 | -6,453.78 | -11,857.23 | 0.40 | 0.45 | -1,685.00 | |
| 13 | -21,320.73 | 18 | 8 | 9 | 44.44 | 2,708.62 | 6,388.48 | -4,776.63 | -12,624.57 | 0.57 | 0.50 | -1,184.48 | |
| 12 | -23,079.75 | 18 | 7 | 11 | 38.89 | 3,224.32 | 6,582.60 | -4,150.00 | -15,900.12 | 0.78 | 0.49 | -1,282.21 | |
| 11 | -15,979.71 | 20 | 8 | 10 | 40.00 | 2,650.46 | 5,230.20 | -3,718.34 | -14,269.74 | 0.71 | 0.57 | -798.99 | |
| 10 | -9,154.39 | 20 | 10 | 9 | 50.00 | 2,115.60 | 5,656.16 | -3,367.82 | -11,524.02 | 0.63 | 0.70 | -457.72 | |
| 9 | -7,668.28 | 19 | 11 | 8 | 57.89 | 2,662.43 | 5,415.45 | -4,619.38 | -10,076.34 | 0.58 | 0.79 | -403.59 | |
| 8 | -7,582.42 | 20 | 11 | 9 | 55.00 | 2,537.99 | 6,540.41 | -3,944.47 | -9,551.73 | 0.64 | 0.79 | -379.12 | |
| 7 | -12,856.48 | 22 | 11 | 10 | 50.00 | 1,767.16 | 5,140.96 | -3,229.53 | -7,354.80 | 0.55 | 0.60 | -584.39 | |
| 6 | -9,665.50 | 23 | 10 | 12 | 43.48 | 2,400.87 | 4,405.04 | -2,806.19 | -10,529.91 | 0.86 | 0.71 | -420.24 | |
| 5 | -11,897.79 | 26 | 10 | 13 | 38.46 | 2,229.12 | 5,486.55 | -2,629.92 | -6,711.66 | 0.85 | 0.65 | -457.61 | |
| 4 | -1,509.21 | 25 | 14 | 11 | 56.00 | 1,932.58 | 5,070.22 | -2,596.85 | -10,632.61 | 0.74 | 0.95 | -60.37 | |
| 3 | 6,717.47 | 29 | 17 | 10 | 58.62 | 1,542.64 | 4,682.36 | -1,950.74 | -5,403.51 | 0.79 | 1.34 | 231.64 | |
| 2 | 7,074.04 | 32 | 15 | 14 | 46.88 | 1,701.21 | 3,615.24 | -1,317.43 | -4,264.42 | 1.29 | 1.38 | 221.06 | |
| 1 | 1,224.63 | 39 | 22 | 14 | 56.41 | 750.66 | 1,966.48 | -1,092.13 | -4,302.72 | 0.69 | 1.08 | 31.40 | |

While not overtly bearish, this has certainly not been good for the bulls. Total returns have been net negative from 4-20 days out. This would look substantially better if the CBI was spiking. To see the study broken down by multiple CBI levels, [check out the 1/7/16 blog post](#).

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



With tonight's study being considered the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also remained 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 stayed long at the close.

Expectations on Wednesday are primed to come in just slightly negative if nothing new emerges. This would be based on the intermediate-term entirely since the lone active study is set to quickly expire. Of course this could change if new evidence emerges. The Differential Pivot will be 1877.28 on Wednesday. That is 1.35% above Tuesday's close. So for SPX to move from oversold to overbought on Wednesday it will need to close up at least 1.35%.

My outlook remains much the same as last night. Evidence is bullish, but it is also all very short term. We are going to need to see more bullish evidence emerge on Wednesday in order for the short-term outlook to remain bullish. With this in mind, I am not inclined to jump in right here. I again would rather wait and see what new evidence arises.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/8 – neutral

The intermediate-term outlook was last updated in the 2/8 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

None

Broad Market Large Cap CBI – 0

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

None.

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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