

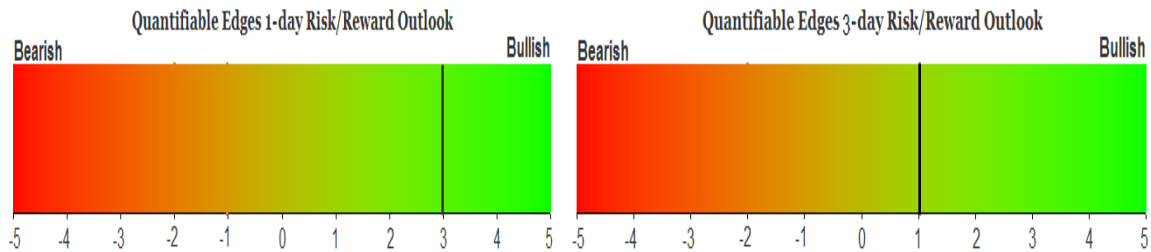
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 11, 2016

Volume 9 Issue 28

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.
- The gap up, rally, and then reverse down to a new low suggest a short-term bullish edge.

Short-term Outlook

The Bottom Line

Evidence favors the bulls and the market remains oversold. This has the Aggregator long. I believe there is a mild bullish edge.

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 11, 2016	Gap up. Rise more, then reverse to low	1-2 days	Bullish			
February 11, 2016	Dn 3. 20-low. Small decline. < 200	1 day	Bullish			
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

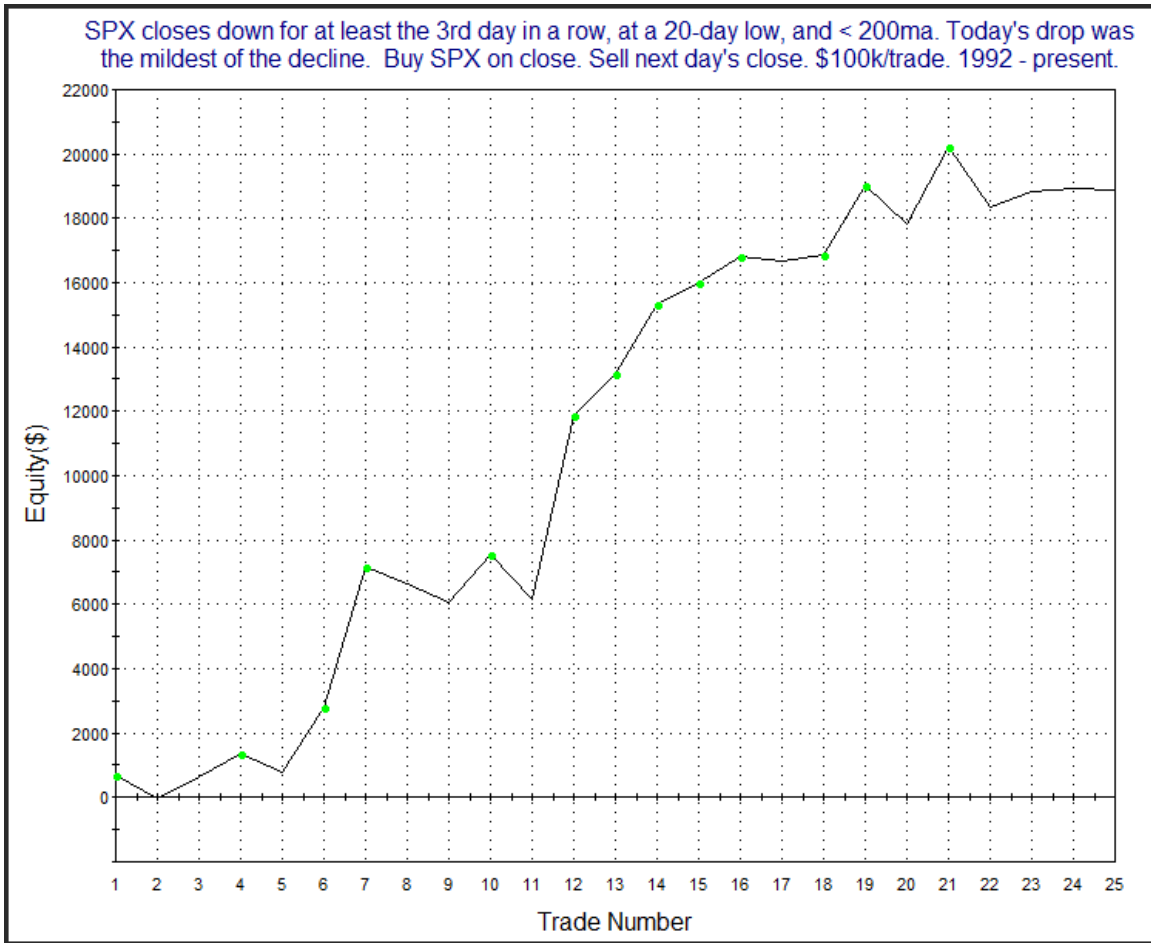
Wednesday was a mixed day for the market. The SPX and Russell 2000 each closed down less than 1 point while the NASDAQ rose 0.35%. Breadth was mixed as the NYSE Up Issues % was 53% and the Up Volume % came in at 46%. Total NYSE volume declined some from Tuesday's level.

In last night's Letter we saw a study that looked at 3+ day pullbacks to 20-day lows. It suggested a solid 1-day upside edge. While that bullish edge did not quite play out on Wednesday, the study did trigger again. Below are updated 1-day stats.

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 next day's close. \$100k/trade. 1992 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$18,888.90	Profit Factor		3.71
Gross Profit	\$25,848.00	Gross Loss		(\$6,959.10)
Total Number of Trades	25	Percent Profitable		64.00%
Winning Trades	16	Losing Trades		9
Even Trades	0			
Avg. Trade Net Profit	\$755.56	Ratio Avg. Win:Avg. Loss		2.09
Avg. Winning Trade	\$1,615.50	Avg. Losing Trade		(\$773.23)
Largest Winning Trade	\$5,716.25	Largest Losing Trade		(\$1,858.94)

And the profit curve is also updated.



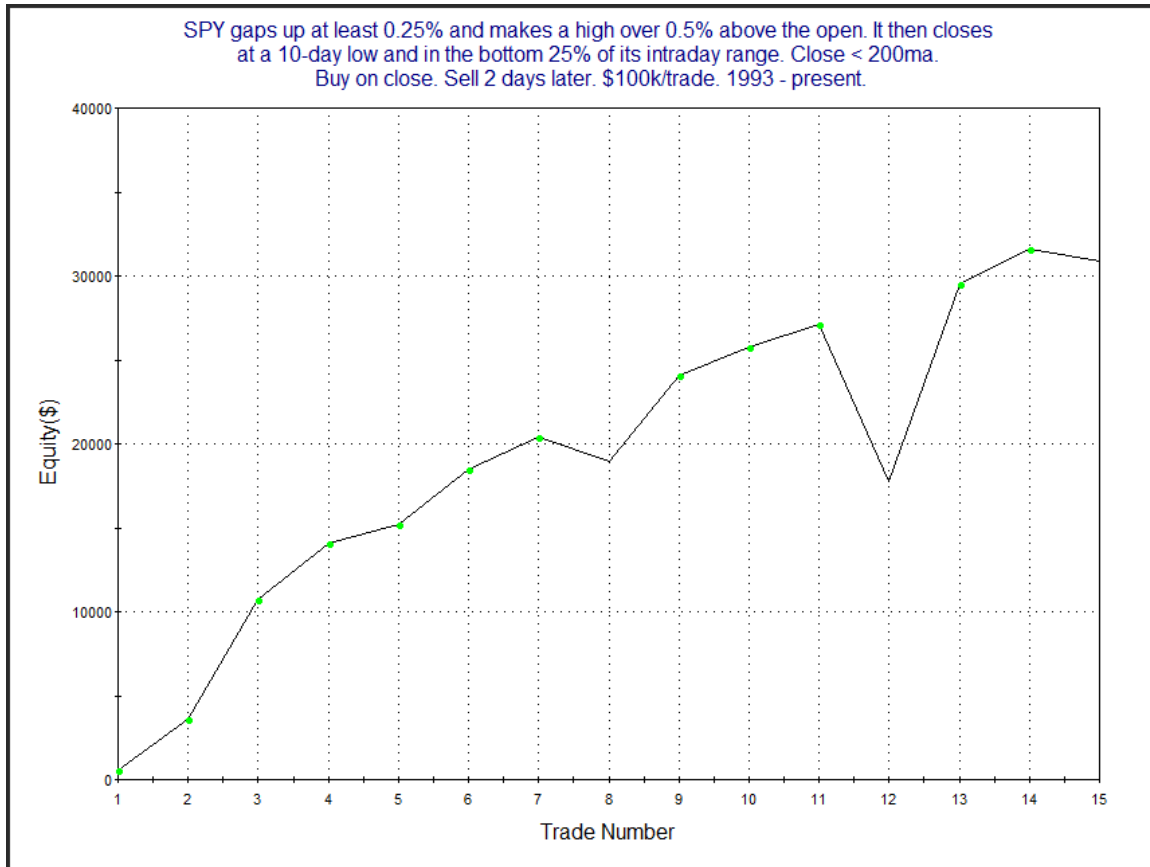
I have again decided to include this on the Active List as a 1-day study.

Another study that triggered tonight was from way back in the 8/26/11 letter. It considered SPY's gap up and intraday action, which saw it run higher before reversing and closing at a new low. Stats are updated.

SPY gaps up at least 0.25% and makes a high over 0.5% above the open. It then closes at a 10-day low and in the bottom 25% of its intraday range. Close < 200ma. 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	15,847.30	14	9	5	64.29	5,468.69	13,737.50	-6,674.18	-19,787.04	0.82	1.47	1,131.95
4	11,797.01	15	8	7	53.33	5,026.29	12,275.00	-4,059.04	-17,793.84	1.24	1.42	786.47
3	26,823.68	15	11	4	73.33	3,815.41	10,083.30	-3,786.45	-11,623.98	1.01	2.77	1,788.25
2	30,858.48	15	12	3	80.00	3,525.78	11,736.30	-3,816.94	-9,340.86	0.92	3.69	2,057.23
1	9,207.67	15	10	5	66.67	1,890.34	5,962.50	-1,939.15	-5,091.72	0.97	1.95	613.84

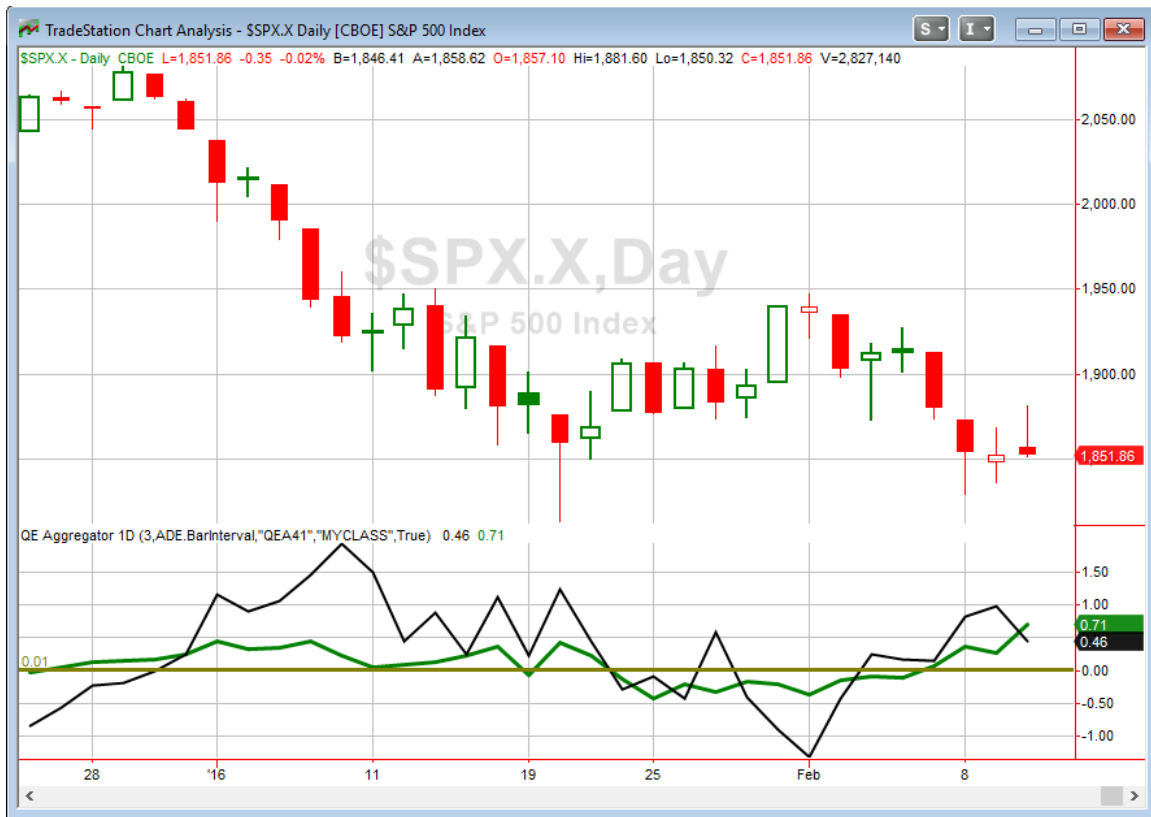
Stats here appear to strongly favor the bulls over the next 1-2 days. Here is a profit curve that assumes a 2-day holding period.



There are some sizable moves on this chart, but the overall upslope seems to offer some confirmation of the upside edge suggested by the stats table. I have also included this study on the Active List.

The CBI at 0 remains a concern for me. I studied other times SPX closed at a 50-day low for at least the 3rd day in a row and the CBI closed at 0. Looking back to 1995, Wednesday is only the 3rd instance. The other 2 occurred on 2/23/2001 and 2/7/2002. While we can't draw any real conclusions from just 2 instances I will note they were both followed by short-term bounces and then substantial long-term selloffs.

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



With tonight's studies being considered the green Aggregator Line moved further 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 Thursday are primed to remain bullish. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1859.56 on Thursday. That is 0.4% above Wednesday's close. So for SPX to move from oversold to overbought on Thursday it will need to close up at least 0.4%.

Evidence is again bullish, but it is also all going to expire in the next two days. I think we could get a bounce, but the upside edge is not so strong that I would want to bet big – especially with the CBI still at 0. So I will look to dip a toe in the long side, but only if I can get a favorable fill on Thursday.

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.

SPY – buy ¼ index position at \$184.25 LIMIT ON OPEN. If not filled on open, cancel order and look to enter at the same price ON CLOSE. Based on the short-term outlook above, I will look to get long if I can get a favorable fill.

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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