

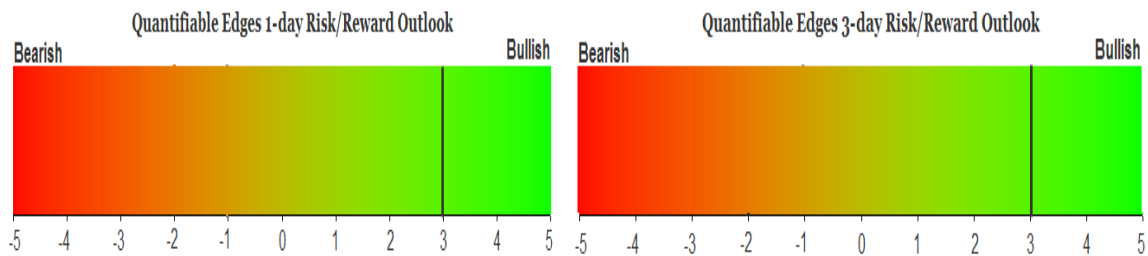
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 12, 2016

Volume 9 Issue 29

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>	<b>QE Buy Pwr Swing</b>
<b>Long</b>	<b>100% Long XIV</b>	<b>Flat</b>

## Tonight's Research Points

- The gap down and partial reversal is typically a bullish pattern.
- The CBI jumped from 0 to 5, and the SPY ETF posted its own Catapult-like trigger.

## *Short-term Outlook*

### *The Bottom Line*

Evidence favors the bulls and the market remains oversold. There is plenty of room to the upside before it would turn “overbought”, suggesting favorable reward/risk. The CBI spike also increases the chances of a bounce. I am short-term bullish and positioning to take advantage of a bounce.

*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
<b>Active - Short Term</b>						
February 12, 2016	Catapult for ETFs trigger	1-5 days	Bullish			
February 12, 2016	Gap Down & Partial Reversal	1-2 days	Bullish			
February 11, 2016	Gap up. Rise more, then reverse to low	1-2 days	Bullish			
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
February 11, 2016	Dn 3. 20-low. Small decline. < 200	1 day	Bullish			

**The Evidence**

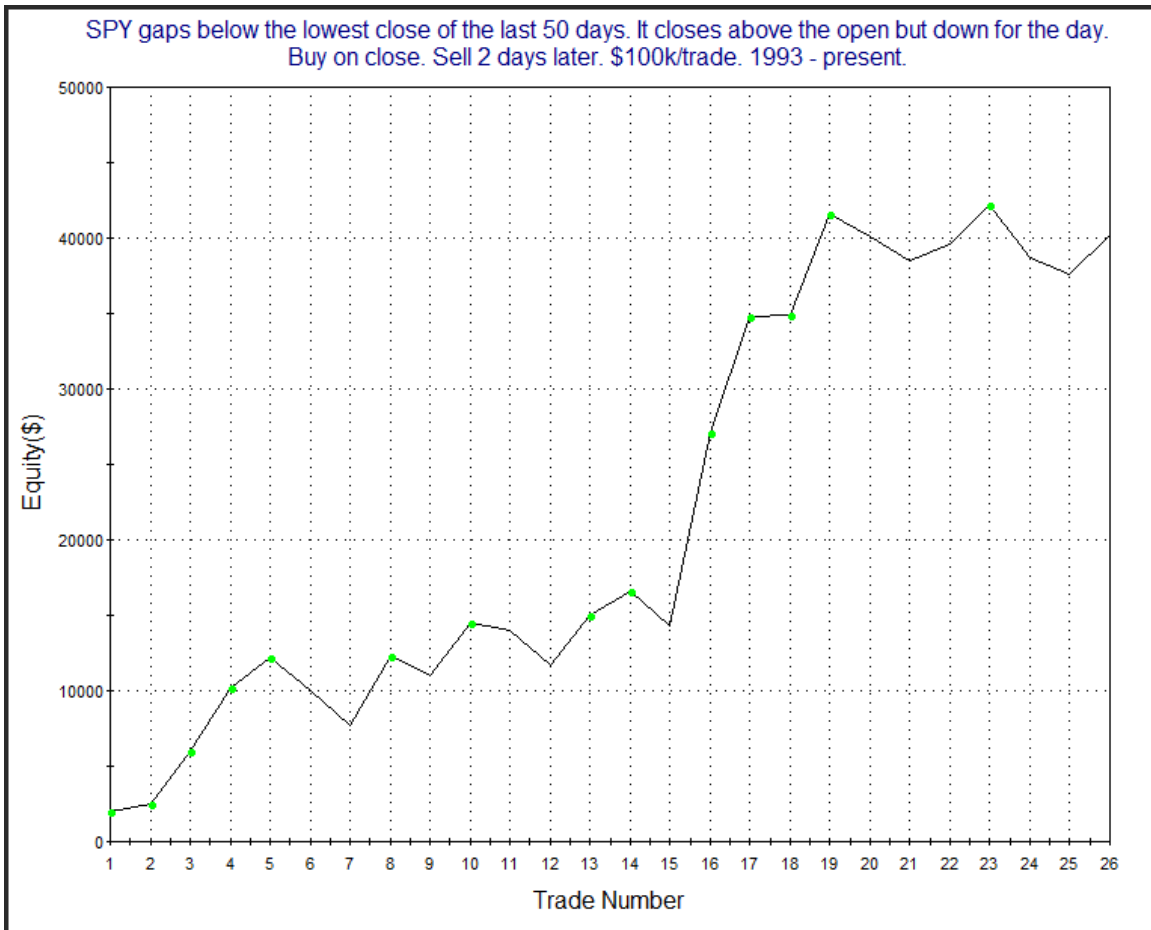
Thursday saw most indices suffer sizable losses. The SPX closed down 1.2%, the NASDAQ fell 0.4%, and the Russell 2000 dropped 1.0%. Breadth was weak as the NYSE Up Issues % was 17% and the Up Volume % came in at 19%. Total NYSE volume spiked higher from Wednesday's level.

There were several studies that triggered in the Quantifinder. I have chosen a couple of the most comparable and compelling ones to discuss tonight.

SPY gapped down big at the open. It closed above the open but still never got positive on the day. The gap down and partial reversal from a 50-day low is something that I have looked at in the past. This study is from the 1/21/16 letter. Results are all updated.

SPY gaps below the lowest close of the last 50 days. It closes above the open but down for the day. 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	36,946.04	24	14	10	58.33	4,526.99	11,377.00	-2,643.18	-5,014.98	1.71	2.40	1,539.42
4	44,823.49	25	15	10	60.00	4,507.11	11,714.64	-2,278.32	-6,725.16	1.98	2.97	1,792.94
3	30,818.57	25	13	12	52.00	3,833.05	10,848.52	-1,584.25	-5,355.22	2.42	2.62	1,232.74
2	40,176.42	26	16	10	61.54	3,670.36	12,814.15	-1,854.93	-3,463.80	1.98	3.17	1,545.25
1	29,226.06	27	17	10	62.96	2,729.22	14,507.65	-1,717.06	-3,576.07	1.59	2.70	1,082.45
<b>88% of instances closed above the entry price at some point in the next week.</b>												

I referred to this as a "partial reversal" because it closed above the open, but not high enough to actually close positive. Results appear to favor the long side, especially over the first two days. Below is a profit curve assuming a 2-day holding period.



There were a few outsized gains which skewed the curve a bit, but the slope has been upwards throughout the entire time. I have therefore included this study on the Short Term Active List.

As you'll see in the Catapult section below, the CBI jumped from 0 to 5 on Thursday. It is also notable that a Catapult for ETF signal triggered in SPY. Below is a performance report showing how Catapult for ETF triggers have done for SPY over the years.

SPY Catapult for ETFs signals.  
\$100k/trade. 1993 - present.

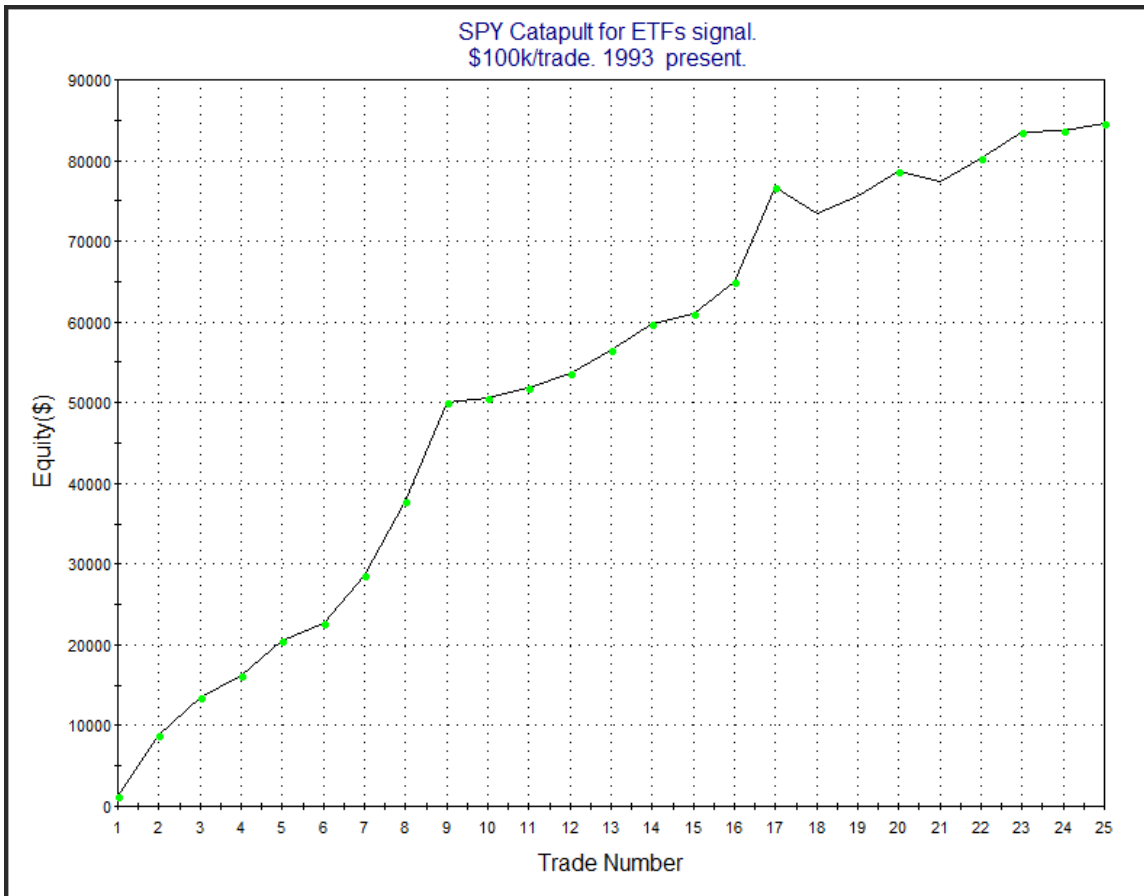
TradeStation Performance Summary

Expand ▾

All Trades

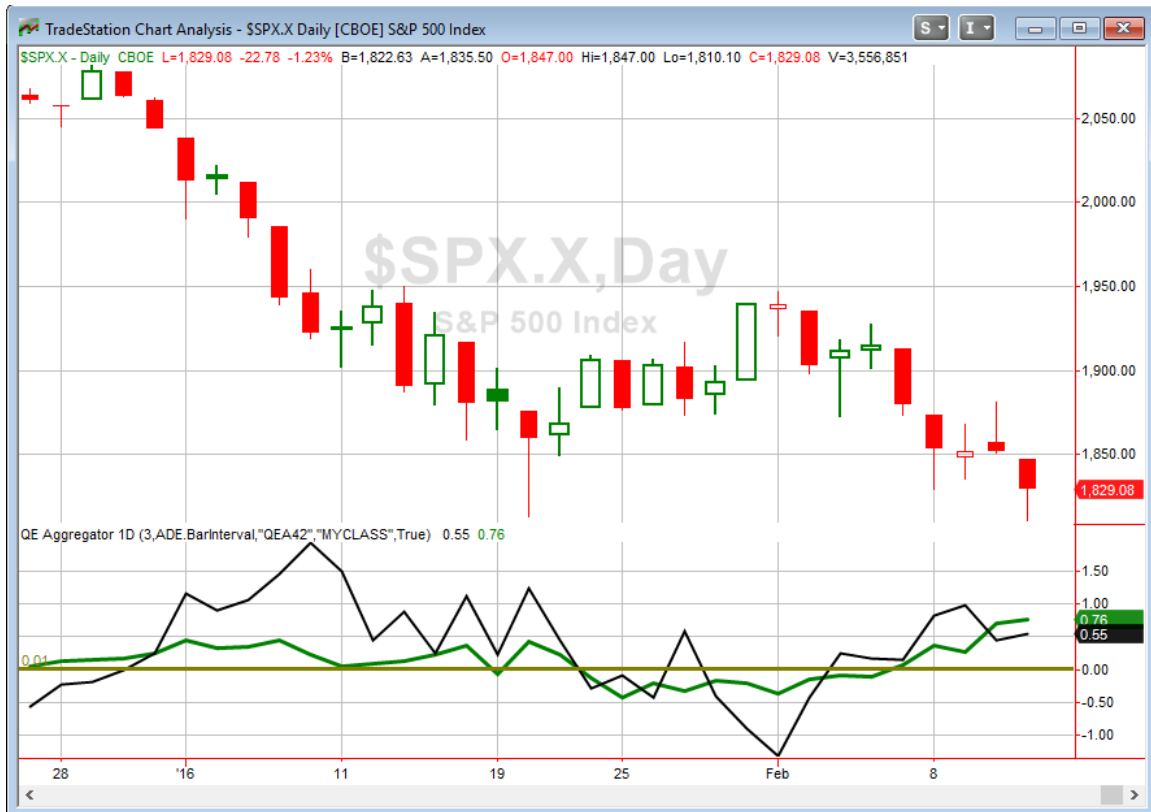
Total Net Profit	\$84,599.15	Profit Factor	19.64
Gross Profit	\$89,138.17	Gross Loss	(\$4,539.02)
Total Number of Trades	25	Percent Profitable	92.00%
Winning Trades	23	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	\$3,383.97	Ratio Avg. Win:Avg. Loss	1.71
Avg. Winning Trade	\$3,875.57	Avg. Losing Trade	(\$2,269.51)
Largest Winning Trade	\$12,275.00	Largest Losing Trade	(\$3,320.72)

The numbers are very strong. Below is a profit curve.



The curve here is just as impressive as the numbers. So the evidence for a bounce is starting to pile up.

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 Friday are primed to remain bullish. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1864.79 on Friday. That is nearly 2.0% above Thursday's close. So for SPX to move from oversold to overbought on Thursday it will need to close up at least 2.0%. That would be a very strong 1-day move. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Tonight's evidence appears a bit more compelling than some of the other studies we have had the last few days. I also like the fact that the CBI rose from 0 to 5. Further strong market selling on Friday could mean a quick trip to 10 or higher, which has historically been a very bullish number. I took some long exposure at the open on Thursday. I'll be looking to take more via the individual Catapults on Friday. And if we close down strongly on Friday, then I will add a 2<sup>nd</sup> lot to my SPY index position. The long side has quickly become more compelling, so I will quickly be ramping up my long exposure.

***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***

*NEW*

BA – 1/3 @ \$108.44 (buy @ limit)

BAC – 1/3 @ \$11.16 (buy @ limit)

C – 1/3 @ \$34.98 (buy @ limit)

GS – 1/3 @ \$140.69 (buy @ limit)

WFC – 1/3 @ \$45.16 (buy @ limit)

***Broad Market Large Cap CBI – 5(BA, BAC, C, GS, WFC)***

**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 \$181.25 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to get long if SPY closes down strongly again on Friday.

**BA – buy 1/3 Catapult position @ \$108.44 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of 3 possible lots for BA.

**BAC – buy 1/3 Catapult position @ \$11.16 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of 3 possible lots for BAC.

**C – buy 1/3 Catapult position @ \$34.98 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of 3 possible lots for C.

**GS – buy 1/3 Catapult position @ \$140.69 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of 3 possible lots for GS.

**WFC – buy 1/3 Catapult position @ \$45.16 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of 3 possible lots for WFC.

**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
SPY(1/4)	2/11/2016	\$182.34	\$182.86	0.29%		bought on open

*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.*

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2016 Hanna Capital Management, LLC.