

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 19, 2016

Volume 9 Issue 33

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Long VXX	Flat

Tonight's Research Points

- Narrow range inside days below the 200ma are typically bearish. But situations with low volume and down closes have been exceptions in the past.

Short-term Outlook

The Bottom Line

The Aggregator remains bearish and I believe the pullback has further to go.

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 18, 2016	1% up day 2 days ina row. 10 high<200	1-4 days	Bearish			
February 18, 2016	OffsetHV < 0.25. RSI(2) > 90	1-2 days	Bearish			
February 18, 2016	Up Issue % > 70% 3x	1-2 days	Bullish			
February 18, 2016	Up 3 days from 50-day low	1-2 days	Bullish			
February 17, 2016	Gap up. Low vol. < 200ma	1-3 days	Bearish			
Active - Long Term						
February 18, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-5.10%	-12.10%
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%
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 ofTops)	int term	Bearish			

The Evidence

Thursday saw the market pull back a little after 3 strong days of gains. The SPX lost 0.5%, the NASDAQ fell 1.0%, and the Russell 2000 declined 0.6%. Breadth was a little negative as the NYSE Up Issues % was 50% and the Up Volume % came in at 40%. Total NYSE volume came in very light.

There were several studies that appeared in the Quantifinder that looked at the fact that Thursday was an inside day with a low range. The series of studies below was last seen in the 6/29/10 letter. I have updated them all tonight.

SPY posts an inside day under the 200ma. Range is lowest in 5 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	21,324.73	56	33	23	58.93	2,913.88	6,816.15	-3,253.62	-22,420.44	0.90	1.28	380.80
9	-289.79	57	35	21	61.40	2,378.21	6,953.00	-3,977.49	-13,956.81	0.60	1.00	-5.08
8	-7,233.97	61	35	26	57.38	2,102.09	8,479.60	-3,107.96	-12,665.31	0.68	0.91	-118.59
7	-31,266.96	63	32	30	50.79	1,981.00	7,760.40	-3,155.30	-23,729.16	0.63	0.67	-496.30
6	-37,286.43	66	30	36	45.45	1,845.84	7,888.00	-2,573.94	-21,834.96	0.72	0.60	-564.95
5	-28,871.20	67	32	34	47.76	1,756.40	6,568.20	-2,502.24	-15,971.55	0.70	0.66	-430.91
4	-24,537.49	70	35	35	50.00	1,784.45	6,497.00	-2,485.52	-13,801.83	0.72	0.72	-350.54
3	-29,735.12	74	34	40	45.95	1,897.02	7,413.70	-2,355.84	-9,763.74	0.81	0.68	-401.83
2	-20,707.95	80	39	40	48.75	1,225.73	5,440.00	-1,712.79	-5,131.74	0.72	0.70	-258.85
1	-20,627.09	81	37	44	45.68	978.18	4,485.60	-1,291.36	-5,444.46	0.76	0.64	-254.66

This study would suggest that low range inside days below the 200ma have struggled in the past. But I also looked at the day's low volume. For the SPY it was the lowest volume in over 20 days. I therefore re-ran the above test and segregated it by times it was accompanied by the lowest volume in a month and times it wasn't.

First let's look at times where SPY did NOT post the lowest volume in a month.

SPY posts an inside day under the 200ma. Range is lowest in 5 days. SPY volume is NOT lowest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-13,433.25	45	23	22	51.11	2,558.92	6,523.20	-3,285.84	-22,420.44	0.78	0.81	-298.52
9	-17,474.89	46	26	19	56.52	2,072.37	6,293.68	-3,755.61	-13,956.81	0.55	0.76	-379.89
8	-22,181.10	50	26	24	52.00	1,824.58	8,479.60	-2,900.85	-12,665.31	0.63	0.68	-443.62
7	-44,927.56	52	24	27	46.15	1,778.77	7,760.40	-3,245.12	-23,729.16	0.55	0.49	-863.99
6	-45,170.97	53	22	31	41.51	1,611.61	7,888.00	-2,600.85	-21,834.96	0.62	0.44	-852.28
5	-26,728.48	54	24	29	44.44	1,729.42	6,568.20	-2,352.92	-15,971.55	0.74	0.61	-494.97
4	-30,811.21	55	26	29	47.27	1,582.79	6,497.00	-2,481.51	-13,801.83	0.64	0.57	-560.20
3	-36,830.02	59	26	33	44.07	1,615.60	7,413.70	-2,388.96	-9,763.74	0.68	0.53	-624.24
2	-20,343.67	63	31	31	49.21	1,043.38	5,188.70	-1,699.63	-5,131.74	0.61	0.61	-322.92
1	-18,121.11	63	30	33	47.62	829.91	4,485.60	-1,303.59	-5,444.46	0.64	0.58	-287.64

These stats are even more compelling for the bears. So what does that mean for times like Thursday when the volume did come in very low?

SPY posts an inside day under the 200ma. Range is lowest in 5 days. SPY volume is lowest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	21,439.01	18	14	4	77.78	3,113.21	6,816.15	-5,536.48	-11,977.56	0.56	1.97	1,191.06
9	19,222.86	18	14	4	77.78	2,834.53	6,953.00	-5,115.13	-10,794.21	0.55	1.94	1,067.94
8	23,673.83	18	14	4	77.78	2,882.39	6,684.18	-4,169.91	-6,112.26	0.69	2.42	1,315.21
7	17,510.50	18	13	5	72.22	2,965.50	7,851.93	-4,208.21	-11,617.41	0.70	1.83	972.81
6	16,315.19	18	12	6	66.67	2,991.94	7,137.07	-3,264.68	-7,552.86	0.92	1.83	906.40
5	10,297.76	18	12	6	66.67	2,645.77	7,263.90	-3,575.24	-4,858.65	0.74	1.48	572.10
4	8,849.21	18	11	7	61.11	2,474.80	5,865.00	-2,624.80	-4,951.57	0.94	1.48	491.62
3	5,151.09	18	10	8	55.56	2,698.03	6,842.50	-2,728.65	-6,431.25	0.99	1.24	286.17
2	-76.03	18	9	9	50.00	1,749.67	5,440.00	-1,758.11	-4,065.25	1.00	1.00	-4.22
1	-2,505.98	18	7	11	38.89	1,613.62	3,512.48	-1,254.67	-3,084.28	1.29	0.82	-139.22

Instances are a bit low here, but there certainly doesn't appear to be a downside edge. In fact these statistics look fairly bullish. I didn't stop there, though. I also filtered on just those times that the close was down from the day before.

SPY closes down and posts an inside day under the 200ma. Range is lowest in 5 days.
SPY volume is lowest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	28,422.29	9	8	1	88.89	3,863.72	6,816.15	-2,487.45	-2,487.45	1.55	12.43	3,158.03
9	24,355.41	9	8	1	88.89	3,271.84	6,953.00	-1,819.30	-1,819.30	1.80	14.39	2,706.16
8	22,809.85	9	8	1	88.89	3,192.35	6,684.18	-2,728.95	-2,728.95	1.17	9.36	2,534.43
7	20,710.03	9	7	2	77.78	3,221.58	5,658.39	-920.52	-1,497.30	3.50	12.25	2,301.11
6	15,479.07	9	6	3	66.67	3,255.14	4,712.40	-1,350.59	-2,342.55	2.41	4.82	1,719.90
5	6,915.14	9	6	3	66.67	2,667.88	5,272.34	-3,030.71	-4,604.60	0.88	1.76	768.35
4	4,351.15	9	5	4	55.56	2,999.24	5,865.00	-2,661.26	-4,951.57	1.13	1.41	483.46
3	7,990.83	9	5	4	55.56	3,361.59	6,842.50	-2,204.28	-4,431.33	1.53	1.91	887.87
2	2,632.69	9	6	3	66.67	1,804.77	5,440.00	-2,731.99	-4,065.25	0.66	1.32	292.52
1	-6,573.01	9	3	6	33.33	899.46	1,411.00	-1,545.23	-3,084.28	0.58	0.29	-730.33

So now we are really getting a bit low on instances but the stats keep getting more and more bullish the more I compare action to Thursday's. For those who might want to dig further, I've listed all the instances below assuming a 10-day exit.

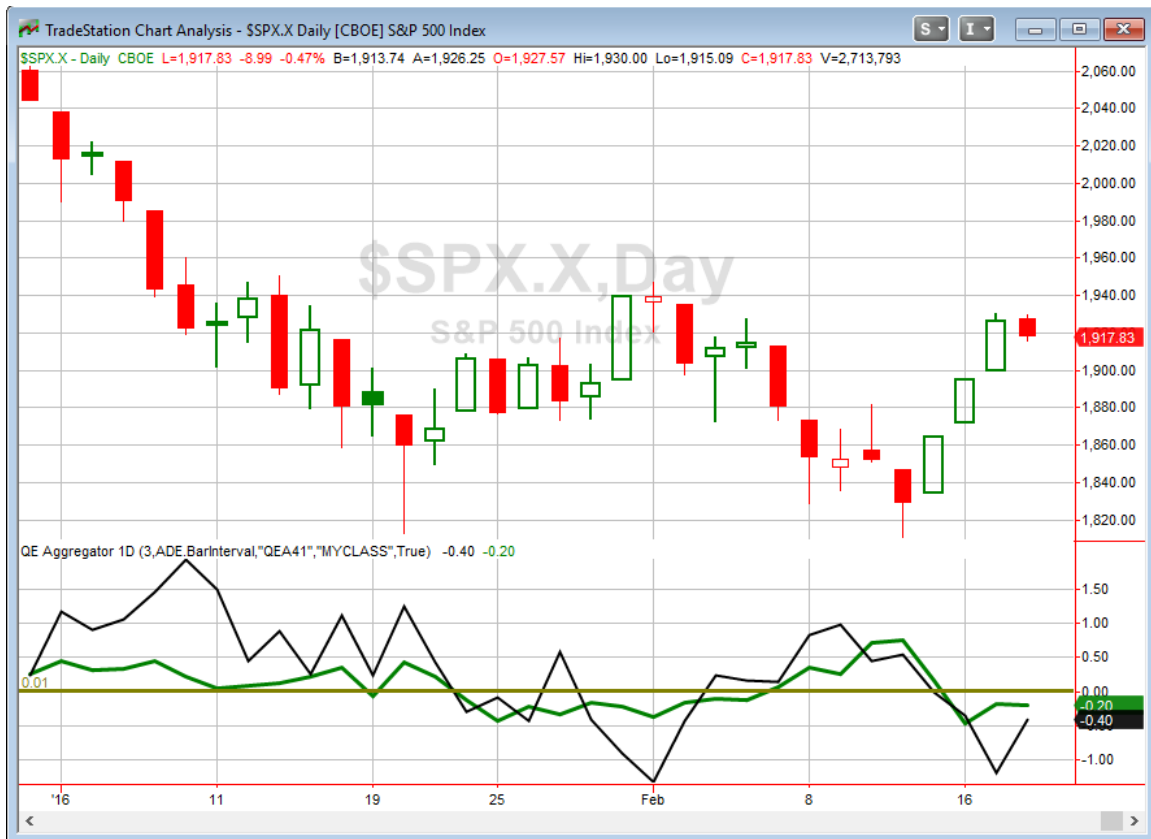
SPY closes down and posts an inside day under the 200ma.
Range is lowest in 5 days. SPY volume is lowest in 20 days.
Buy on close. Sell X days later. \$100k/trade. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/23/1998	Buy	\$106.84	6.82%	\$7,218.20
11/6/1998	Sell	\$114.13		(\$757.35)
4/16/2001	Buy	\$117.60	6.22%	\$8,551.00
4/30/2001	Sell	\$124.91		(\$493.00)
5/8/2001	Buy	\$126.18	4.20%	\$4,680.72
5/22/2001	Sell	\$131.48		(\$1,409.76)
7/3/2001	Buy	\$124.10	-2.49%	\$0.00
7/18/2001	Sell	\$121.01		(\$5,643.05)
10/8/2001	Buy	\$106.53	2.76%	\$4,333.56
10/22/2001	Sell	\$109.47		(\$947.38)
12/24/2001	Buy	\$114.73	0.73%	\$2,839.46
1/9/2002	Sell	\$115.57		(\$801.32)
8/12/2002	Buy	\$90.62	5.12%	\$7,202.59
8/26/2002	Sell	\$95.26		(\$2,867.80)
7/25/2008	Buy	\$125.48	3.10%	\$3,542.20
8/8/2008	Sell	\$129.37		(\$1,639.76)
6/28/2010	Buy	\$107.53	1.98%	\$2,378.24
7/13/2010	Sell	\$109.66		(\$5,945.60)

As with any series of tests, these are open to interpretation. The general pattern of low range, inside day below the 200ma appears to have bearish connotations. Days like Thursday, though appear to be the kind that are the exception to the rule. And while the

stats are very positive in the last test, with the larger pattern being negative and the instances low I'm more inclined to treat it as the exception than as a separate rule. So I won't be adding results from this series of tests to the Active Studies list. Instead I'll wait to see what tomorrow's action suggests and then take it from there.

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



With tonight's studies being considered the green Aggregator Line held below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is also 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 Friday are primed to remain bearish. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 1904.25 on Friday. That is 0.7%

below Thursday's close. So for SPX to move from overbought to oversold on Friday it will need to close down at least 0.7%.

So the Aggregator is still suggesting a downside edge. Though evidence is mixed rather than unanimous. I am leaning bearish and currently have a small amount of short exposure. For the time being that is enough for me. I'll consider adding to the position if the signal remains and bearish evidence builds further.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/16 – neutral

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

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>BA(1/3)</i>	<i>2/12/2016</i>	<i>\$105.12</i>	<i>\$116.91</i>	<i>11.22%</i>		<i>sold on open</i>
SPY(1/4)(s)	2/17/2016	\$191.16	\$192.09	-0.49%		Aggregator

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