

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 24, 2016

Volume 9 Issue 36

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>	<b>QE Buy Pwr Swing</b>
<b>Short</b>	<b>100% Long VXX</b>	<b>Short</b>

## Tonight's Research Points

- Unfilled gap down after unfilled gap up with SPY < 200ma has been followed by more short-term selling.
- Low volume drops from an overbought reading during a long-term downtrend will often be followed by further downside.

### *Short-term Outlook*

#### *The Bottom Line*

Evidence continues to point lower, and the market is still overbought versus expectations. I believe the market is likely to pull back in the next few days.

*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 24, 2016	Unfilled up. Unfilled down. Close < 200	1-3 days	Bearish			
February 24, 2016	RSI>70 then light volume close dn	1 day	Bearish			
February 23, 2016	1% gain on lowest volume in 20 days	1-3 days	Bearish			
February 18, 2016	QE Buying Power Short Signal	1-6 days	Bearish			
<b>Active - Long Term</b>						
February 18, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-5.10%	-12.10%
February 1, 2016	290% 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 of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
February 22, 2016	VXO 15%-20% stretch	1-2 days	Bearish			
February 18, 2016	1% up day 2 days in a row. 10 high<200	1-4 days	Bearish			

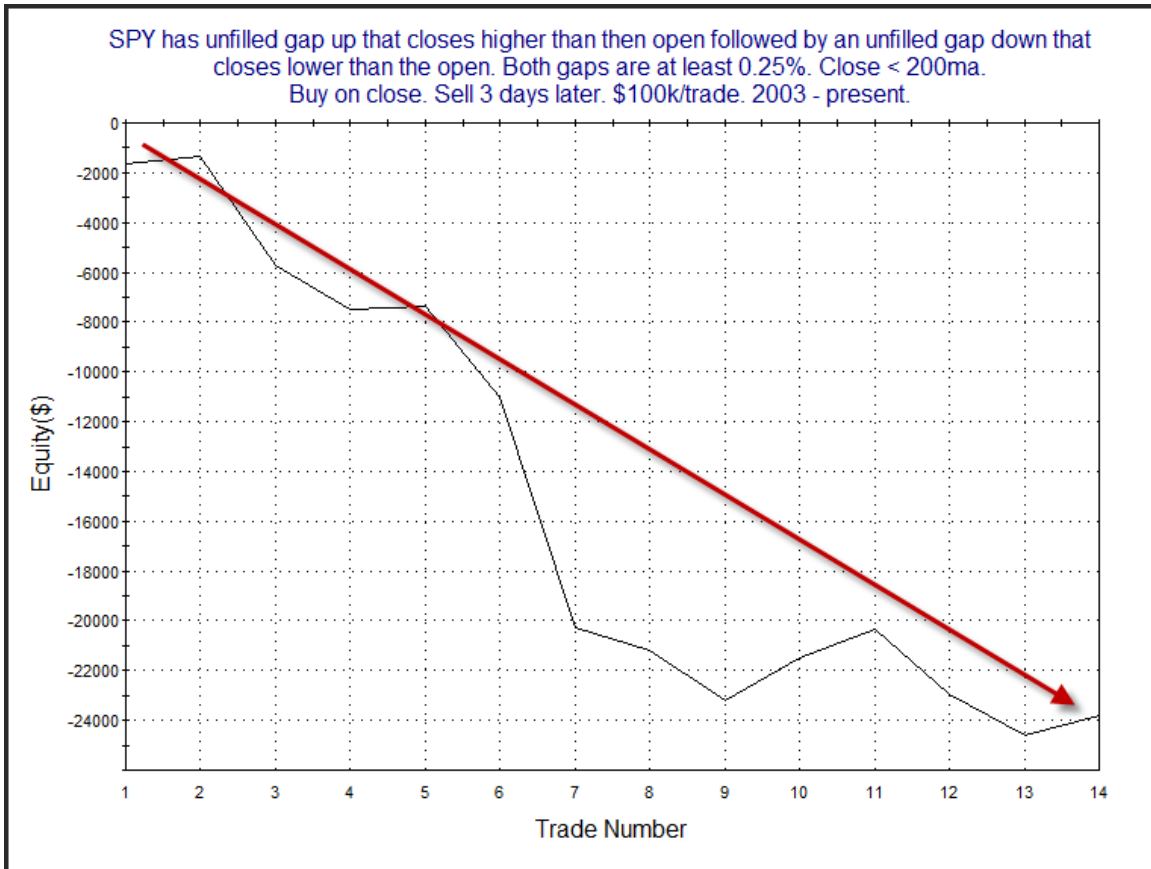
**The Evidence**

Tuesday reversed much of Monday's gains. The SPX finished down 1.25%, the NASDAQ fell 1.5%, and the Russell 2000 declined 0.9%. Breadth was negative as the NYSE Up Issues % was 33% and the Up Volume % came in at 20%. Total NYSE volume came in at the lightest level in over a month.

The most compelling study to appear in the Quantifinder this evening was the one below, which looked at the 2-day action in SPY. It was last recently in the 1/26/16 letter and has been updated.

SPY has unfilled gap up that closes higher than then open followed by an unfilled gap down that closes lower than the open. Both gaps are at least 0.25%. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2003 - 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	-8,197.59	14	4	10	28.57	2,584.28	4,371.06	-1,853.47	-4,622.60	1.39	0.56	-585.54
4	-25,076.60	14	3	11	21.43	3,050.49	3,234.56	-3,111.64	-12,422.13	0.98	0.27	-1,791.19
3	-23,832.14	14	5	9	35.71	810.80	1,678.08	-3,098.46	-9,199.26	0.26	0.15	-1,702.30
2	-15,429.48	14	4	10	28.57	543.98	1,167.36	-1,760.54	-4,349.31	0.31	0.12	-1,102.11
1	-7,763.66	14	5	9	35.71	950.61	1,952.85	-1,390.74	-5,444.46	0.68	0.38	-554.55

Potential downside here appears to be sizable. Possibly the unfilled gap up with the higher close saw a good number of people chase the market higher (on Monday). The unfilled gap down immediately after (Tuesday) causes many of those same people to be trapped long. Those trapped longs could continue to exert selling pressure over the next few days. Below is a profit curve assuming a 3-day holding period.



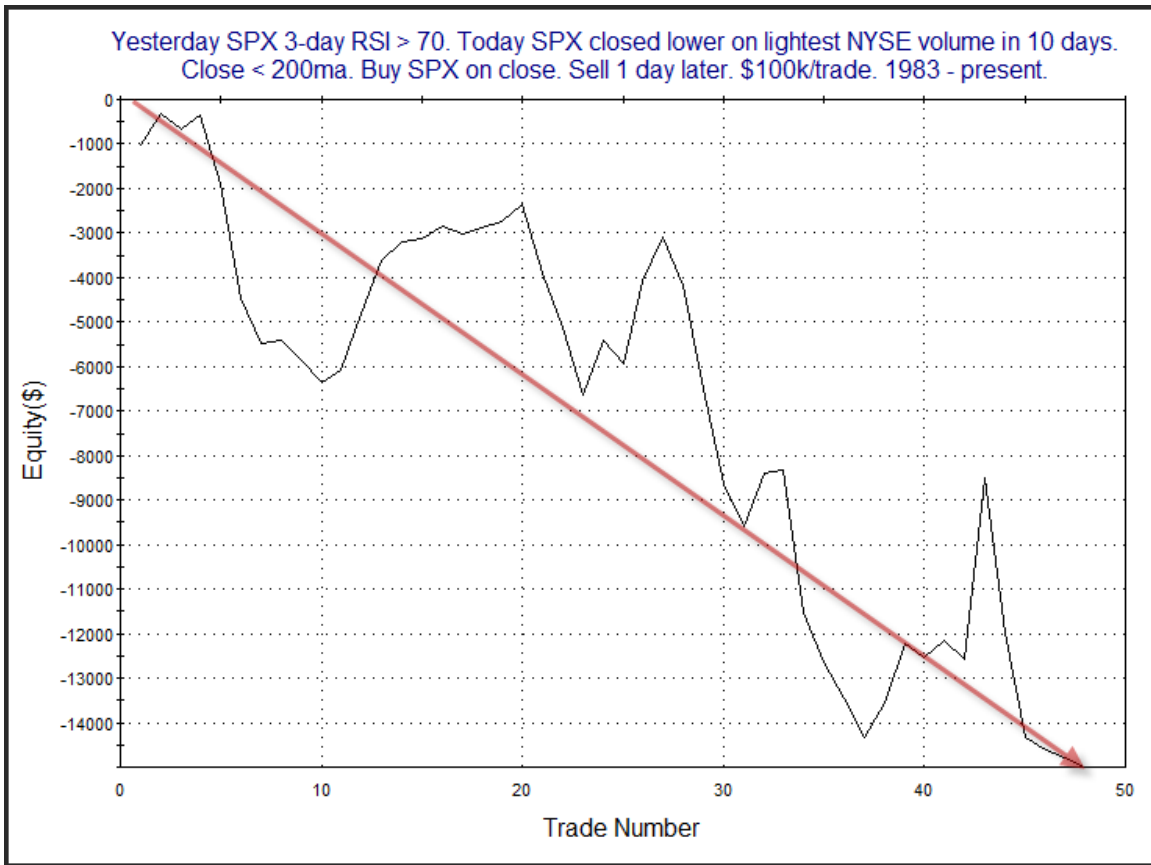
Results here appear strong enough to merit some consideration. I have added this study to the Active List tonight.

In the 9/20/11 Subscriber Letter I showed a study that suggested that very-low volume pullbacks from overbought conditions during long-term downtrends have a tendency to pull back for more than one day. I have updated the study below.

Yesterday SPX 3-day RSI > 70. Today SPX closed lower on lightest NYSE volume in 10 days.  
Close < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1983 - present.

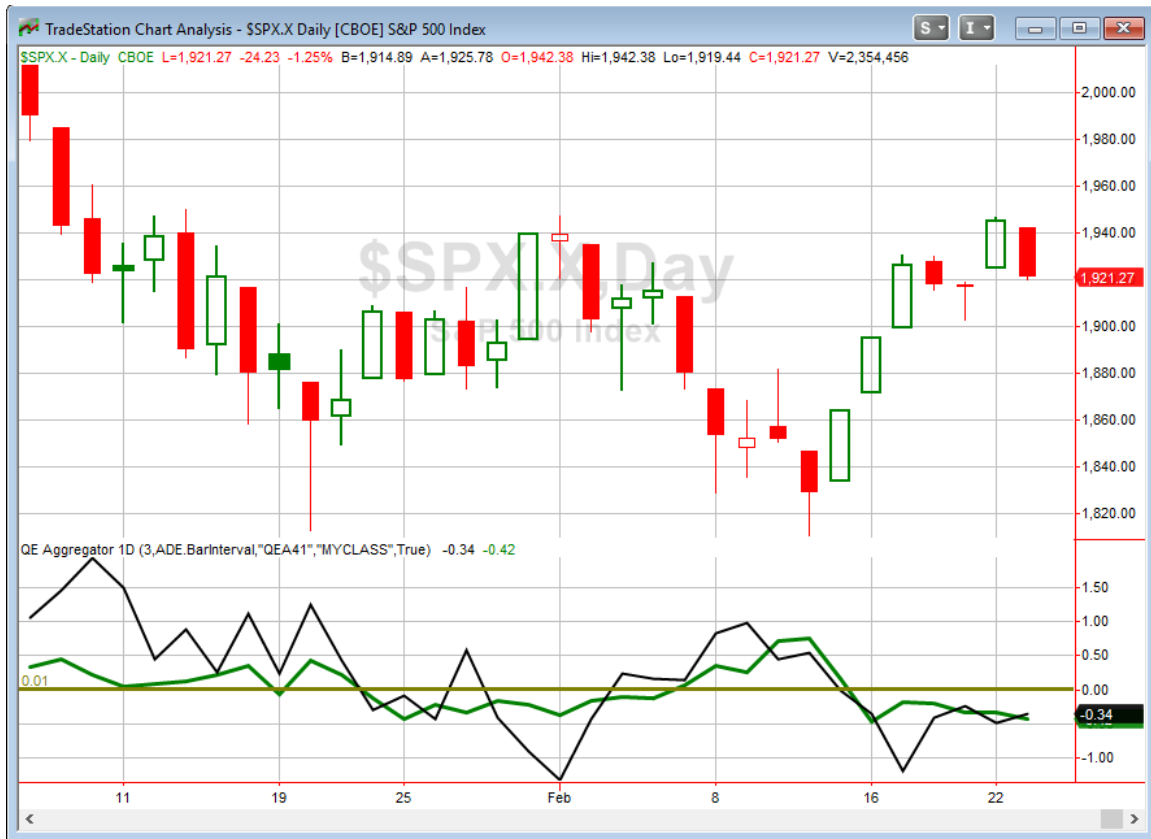
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-15,641.61	45	20	25	44.44	2,375.89	8,252.65	-2,526.38	-7,726.01	0.94	0.75	-347.59
4	-18,310.48	46	19	27	41.30	2,124.11	8,086.40	-2,172.91	-5,615.78	0.98	0.69	-398.05
3	-22,685.46	46	21	25	45.65	1,592.35	5,187.00	-2,244.99	-6,326.26	0.71	0.60	-493.16
2	-21,327.94	48	25	23	52.08	1,060.90	3,238.08	-2,080.45	-5,656.78	0.51	0.55	-444.33
1	-14,990.80	49	21	28	42.86	813.65	4,063.35	-1,145.63	-3,466.02	0.71	0.53	-305.93

Based on the statistics table there appears to be a bit of a downside. In looking at the curves it appeared Day 1 was the most compelling. To see how this apparent edge has played out over time I have produced the equity curve below.



While there are several gyrations both above and below the line, this setup appears to suggest a bearish inclination. The study certainly appears worthy of inclusion on the active list.

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 Wednesday are primed to remain bearish. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1904.01 on Wednesday. That is 0.9% below Tuesday's close. That means that SPX would need to close down at least 0.9% on Wednesday in order to move from overbought to oversold versus recent expectations.

Evidence continues to point to the downside and it appears the pullback could have further to go. I have some short exposure and missed out on getting more on Tuesday when my order was not filled. I am not inclined to chase the price down for the 2<sup>nd</sup> lot and will instead just look to benefit from further downside with my current position.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 2/23 – neutral*

**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
SPY(1/4)(s)	2/17/2016	\$191.16	\$192.32	-0.61%		cover on SPX close <= 1904.01

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.