

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 25, 2016

Volume 9 Issue 37

Market Overview



Signals Overview

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

Tonight's Research Points

- The gap down and reverse up action in the SPY suggests a short-term downside edge.

Short-term Outlook

The Bottom Line

Same as last night. 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
Active - Short Term						
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			
Active - Long Term						
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			
Dropped Tonight						
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			

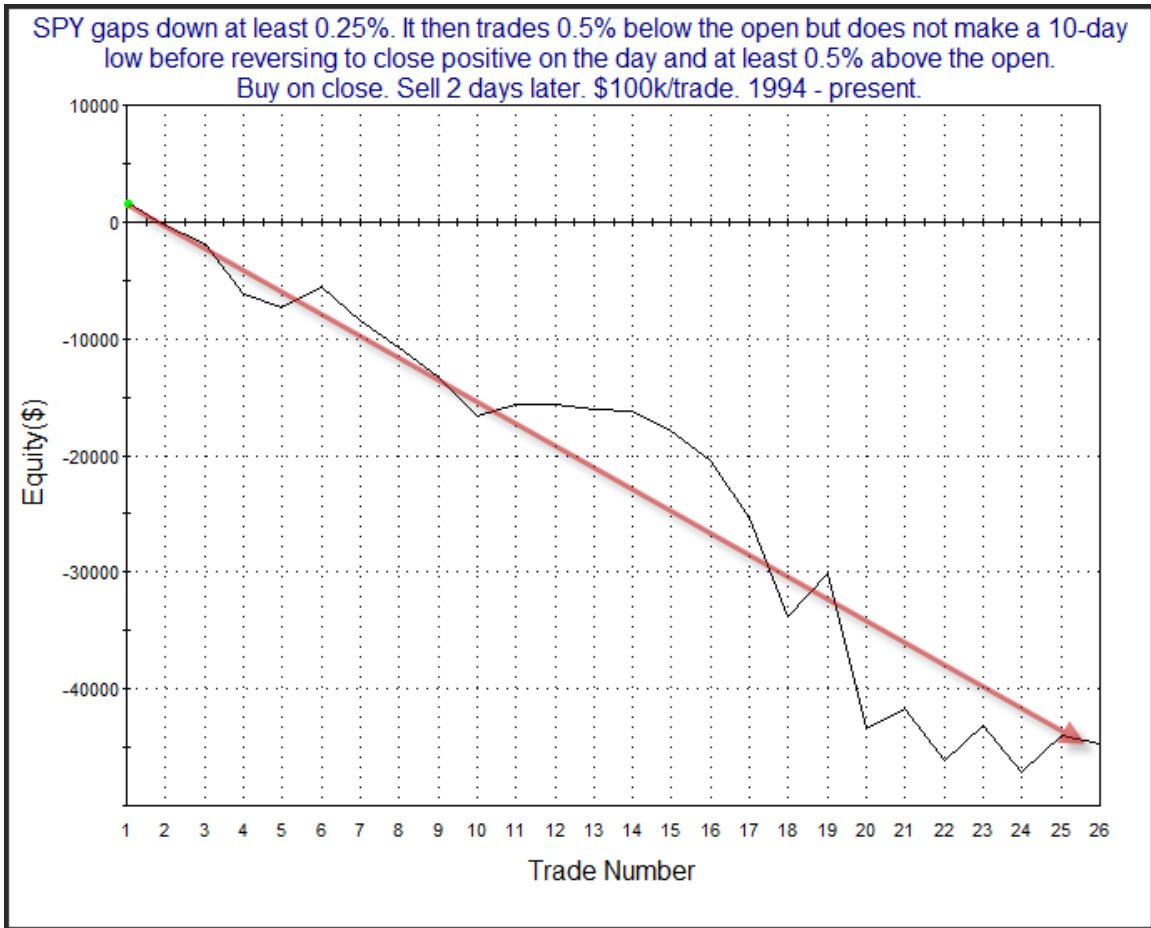
The Evidence

Wednesday started off lower, but the market made a big u-turn and the major indices all closed higher. The SPX finished up 0.4%, the NASDAQ gained 0.9%, and the Russell 2000 rose a mere 0.08 points. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 57%. Total NYSE volume rose a little from Tuesday's level.

The Quantifinder identified a few similar studies that examined the action in the SPY. They required a gap down, a move lower after the open, and then a strong finish. The one below was the most compelling. It was last seen in the 8/31/11 letter. Results are updated.

SPY gaps down at least 0.25%. It then trades 0.5% below the open but does not make a 10-day low before reversing to close positive on the day and at least 0.5% above the open. 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
5	-34,320.44	23	9	14	39.13	1,660.30	5,024.90	-3,518.80	-15,971.55	0.47	0.30	-1,492.19
4	-52,301.67	24	8	16	33.33	1,358.65	2,515.59	-3,948.18	-13,801.83	0.34	0.17	-2,179.24
3	-36,446.27	25	10	15	40.00	1,790.21	3,599.75	-3,623.22	-9,763.74	0.49	0.33	-1,457.85
2	-44,663.74	26	7	18	26.92	2,284.49	3,694.56	-3,369.73	-13,351.24	0.68	0.26	-1,717.84
1	-15,290.41	28	13	15	46.43	1,405.22	3,490.59	-2,237.21	-6,405.84	0.63	0.54	-546.09
88% of instances closed below the entry price at some point in the next week.												

The stats appear to strongly suggest a downside edge, especially over the 1st 2 days. Below I have produced an equity curve to show how the edge has played out over time.



The strong, steady downslope provides confirmation of the bearish edge.

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 Thursday are primed to remain bearish. Of course this could change if strong new bullish evidence emerges. The Differential Pivot will be 1928.72 on Thursday. That is just 0.1% below Wednesday's close. That means that SPX would need to close down only 0.1% on Thursday 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 at the moment. The Differential Pivot is very close by. This somewhat limits downside potential. So while I might otherwise look to add some short exposure here, I will instead wait another day and see how Thursday plays out.

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	\$193.20	-1.07%		Aggregator

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