

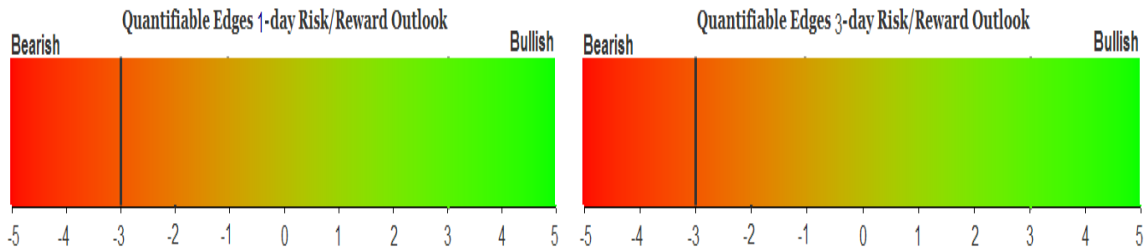
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 26, 2016

Volume 9 Issue 38

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Declining SPY volume as it makes a 20-day high under the 200ma has been followed by a downside tendency in the past.
- The 1-day gap up and strong move higher to a short-term high in a downtrend also suggests a downside edge.

### *Short-term Outlook*

#### *The Bottom Line*

Bearish evidence continues to build and SPX is now strongly overbought. I believe a short-term pullback is likely. I am short and looking to get shorter.

**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 26, 2016	Unfilled up. Unfilled down. Close < 200	1-3 days	Bearish			
February 26, 2016	RSI>70 then light volume close dn	1 day	Bearish			
February 25, 2016	Gap Dn Reverse up	1-2 days	Bearish			
February 24, 2016	Unfilled up. Unfilled down. Close < 200	1-3 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	≥ 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 of Tops)	int term	Bearish			

**The Evidence**

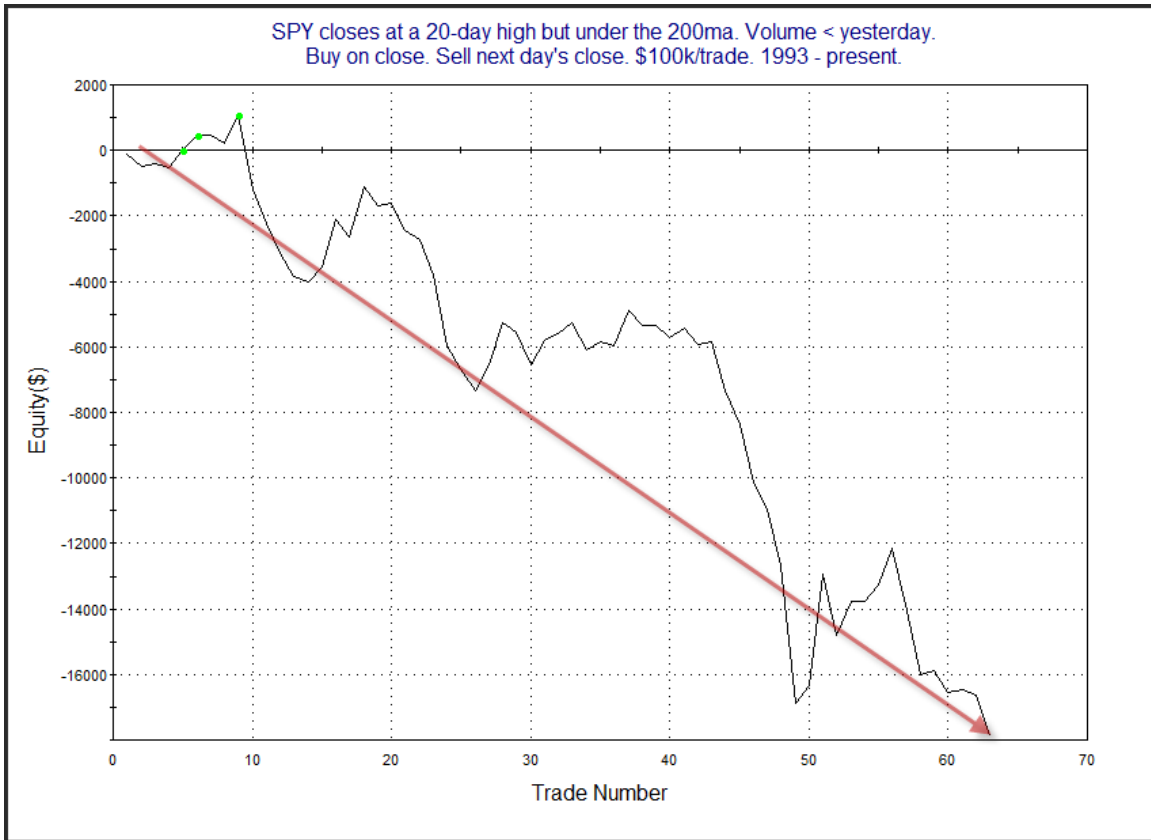
Thursday was a rally day for the market. The SPX finished up 1.1%, the NASDAQ gained 0.9%, and the Russell 2000 also rose 0.9%. Breadth was positive as the NYSE Up Issues % was 70% and the Up Volume % came in at 73%. Total NYSE volume declined some from Wednesday’s level.

Tonight the studies I’m examining are again all coming out bearish. In the 9/10/10 Letter I showed what happened when SPY closed at a 20-day high on lighter volume while under the 200ma. I’ve updated that study below.

SPY closes at a 20-day high but under the 200ma. Volume < yesterday.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$17,883.39)	Profit Factor	0.49
Gross Profit	\$17,364.55	Gross Loss	(\$35,247.94)
Total Number of Trades	63	Percent Profitable	39.68%
Winning Trades	25	Losing Trades	38
Even Trades	0		
Avg. Trade Net Profit	(\$283.86)	Ratio Avg. Win:Avg. Loss	0.75
Avg. Winning Trade	\$694.58	Avg. Losing Trade	(\$927.58)
Largest Winning Trade	\$3,399.63	Largest Losing Trade	(\$4,190.20)

Numbers here seem to favor the bearish case. Below is a look at the profit curve.



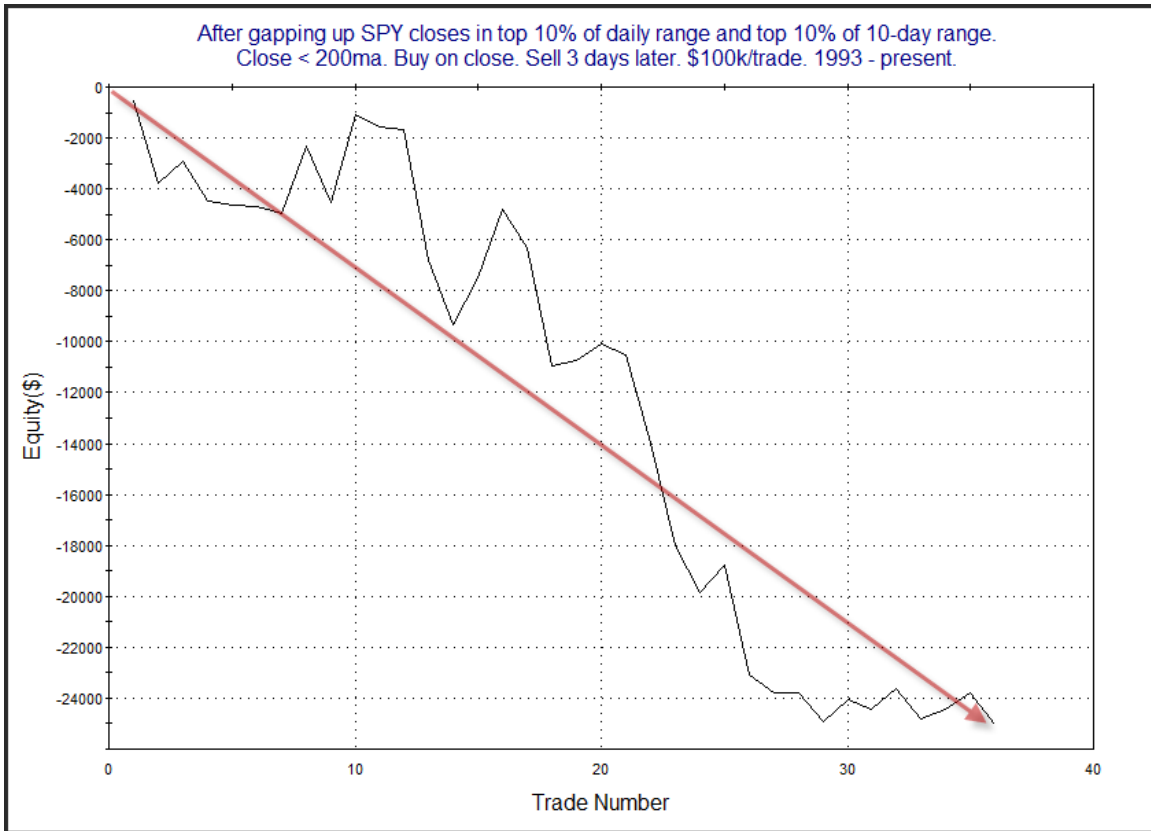
Definitely choppy, but it keeps making new lows, suggesting a bearish edge.

Another study worth discussion is one from the 8/30/11 letter, which looks at SPY closing in the upper part of its 1 and 10-day ranges. I have updated it below.

After gapping up SPY closes in top 10% of daily range and top 10% of 10-day range.  
Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

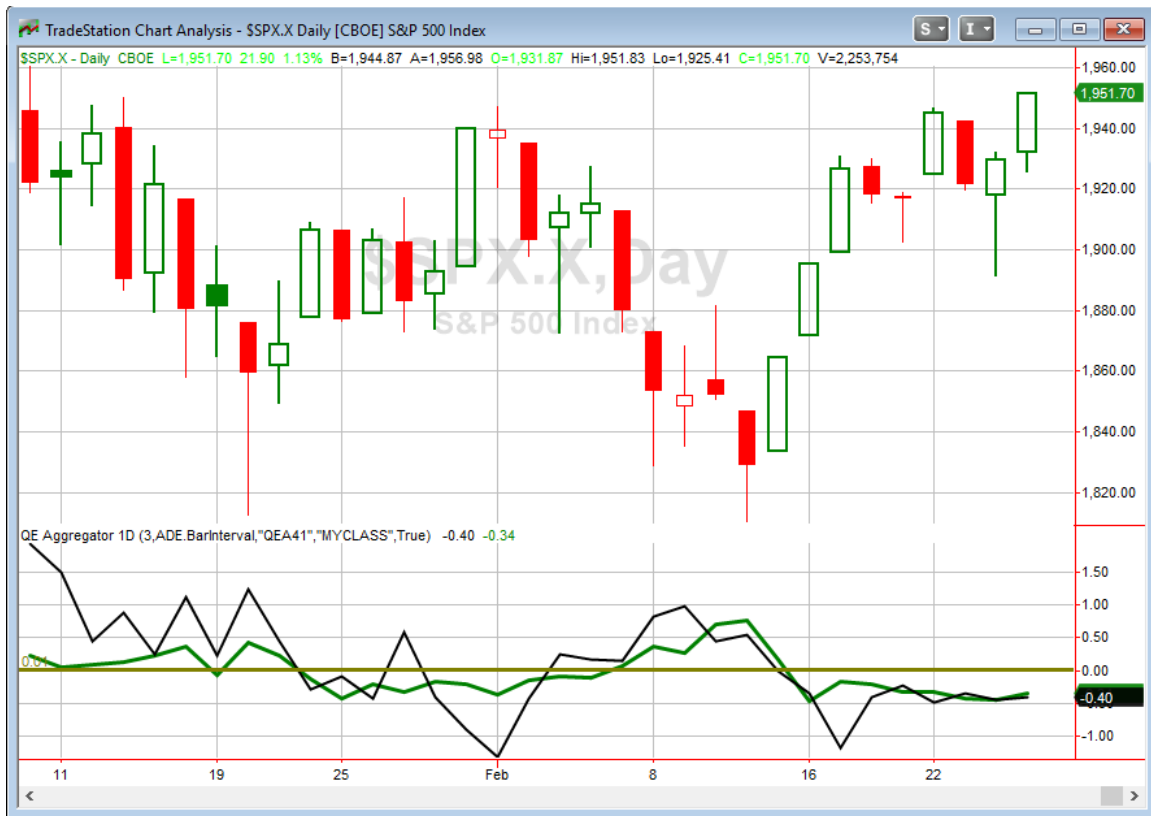
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-16,783.56	32	18	13	56.25	1,249.79	3,095.18	-3,021.53	-6,223.36	0.41	0.57	-524.49
4	-13,449.12	35	16	19	45.71	1,490.86	5,167.16	-1,963.31	-5,244.16	0.76	0.64	-384.26
3	-25,036.21	36	12	24	33.33	1,338.91	3,447.12	-1,712.63	-5,133.72	0.78	0.39	-695.45
2	-21,298.51	38	17	21	44.74	824.91	2,075.22	-1,682.00	-5,196.96	0.49	0.40	-560.49
1	-10,355.16	40	19	21	47.50	646.87	2,238.25	-1,078.36	-3,187.90	0.60	0.54	-258.88

Numbers over the 1<sup>st</sup> 3 days appear squarely bearish. Below is a look at a 3-day profit curve.



The strong downslope confirms the bearish inclination. I have included this study on the active list as well.

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



With tonight's studies included 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 strong new bullish evidence emerges. The Differential Pivot will be 1899.81 on Friday. That is a whopping 2.7% below Thursday's close. That means that SPX would need to close down 2.7% on Friday in order to move from overbought to oversold versus recent expectations. A much more likely scenario for working off the overbought condition would be a multi-day pullback for consolidation.

The rally has been resilient so far, but we continue to see nothing but bearish short-term evidence. And with the big rally on Thursday, the market is overbought and primed for a pullback. Reward/risk seems skewed in favor of the bears. I already have some short exposure. I will look to add to it on Friday if I can get a decent entry price.

*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.*

**SPY – sell short ¼ index position @ \$195.54 LIMIT.** Based on the short-term outlook above, I will attempt to add a 2<sup>nd</sup> lot of short exposure on Friday.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	2/17/2016	\$191.16	\$195.54	-2.29%		Aggregator

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.