

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 3, 2016

Volume 9 Issue 42

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- The high price and low volume in SPY suggest a short-term dip is likely.

Short-term Outlook

The Bottom Line

Same as last night. Evidence is mixed but tilted bearish for the next few days. With SPX strongly overbought I am anticipating a dip.

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						
March 3, 2016	SPY 10 high volume 20 low. Close < 200	1-2 days	Bearish			
March 2, 2016	FTD & 20-day high	1-3 days	Bullish			
March 2, 2016	VXO drops 15%-20% in 1 day. SPX < 200	1-2 days	Bearish			
March 2, 2016	SPY closes top 10% 1-day & 10-day rng	1-3 days	Bearish			
Active - Long Term						
March 2, 2016	FTD & 20-day high	int term	Bullish			
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%
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						
March 1, 2016	Turnaround Tuesday	1 day	Bullish			

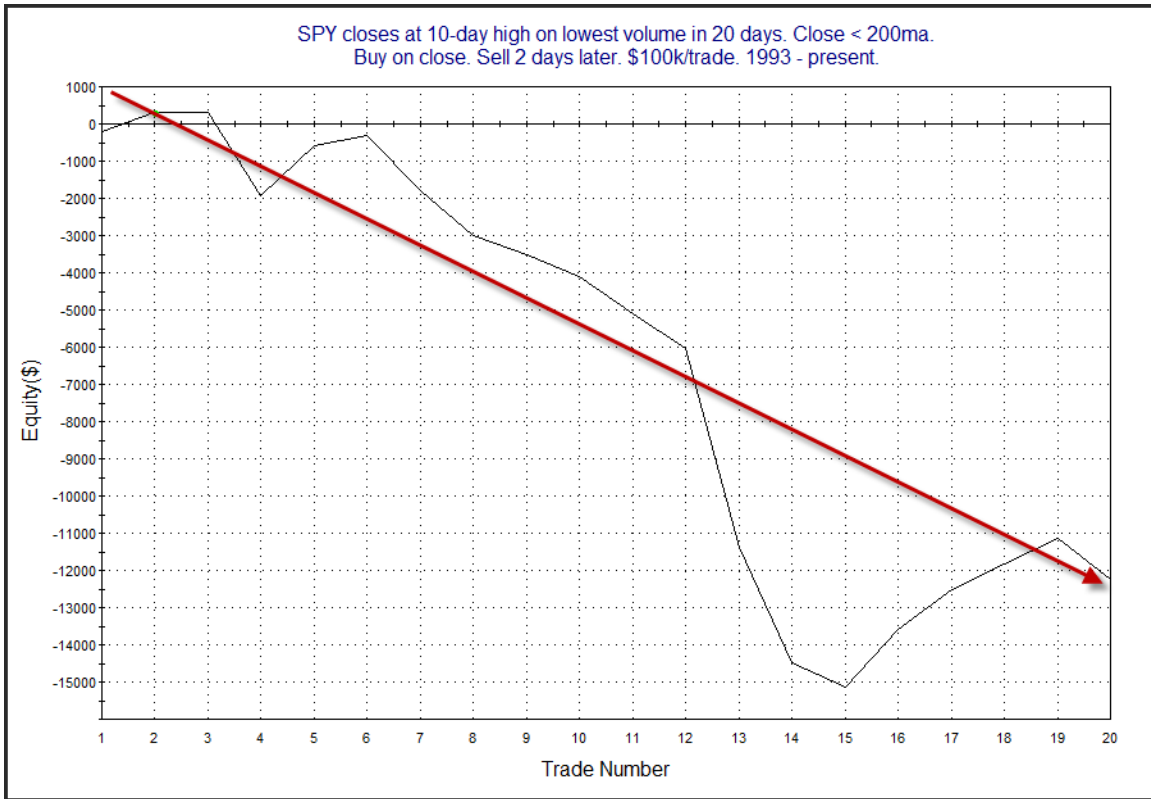
The Evidence

Wednesday was another up day for stocks. The SPX rallied 0.4%, the NASDAQ gained 0.3%, and the Russell 2000 rose 1.1%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 83%. Total NYSE volume declined some from Tuesday's level. But SPY volume came in at the lightest level in over a month.

The action triggered a few studies in the Quantifinder that looked at the low SPY volume in conjunction with it being at a short-term high. The study below is updated from the 3/9/10 letter.

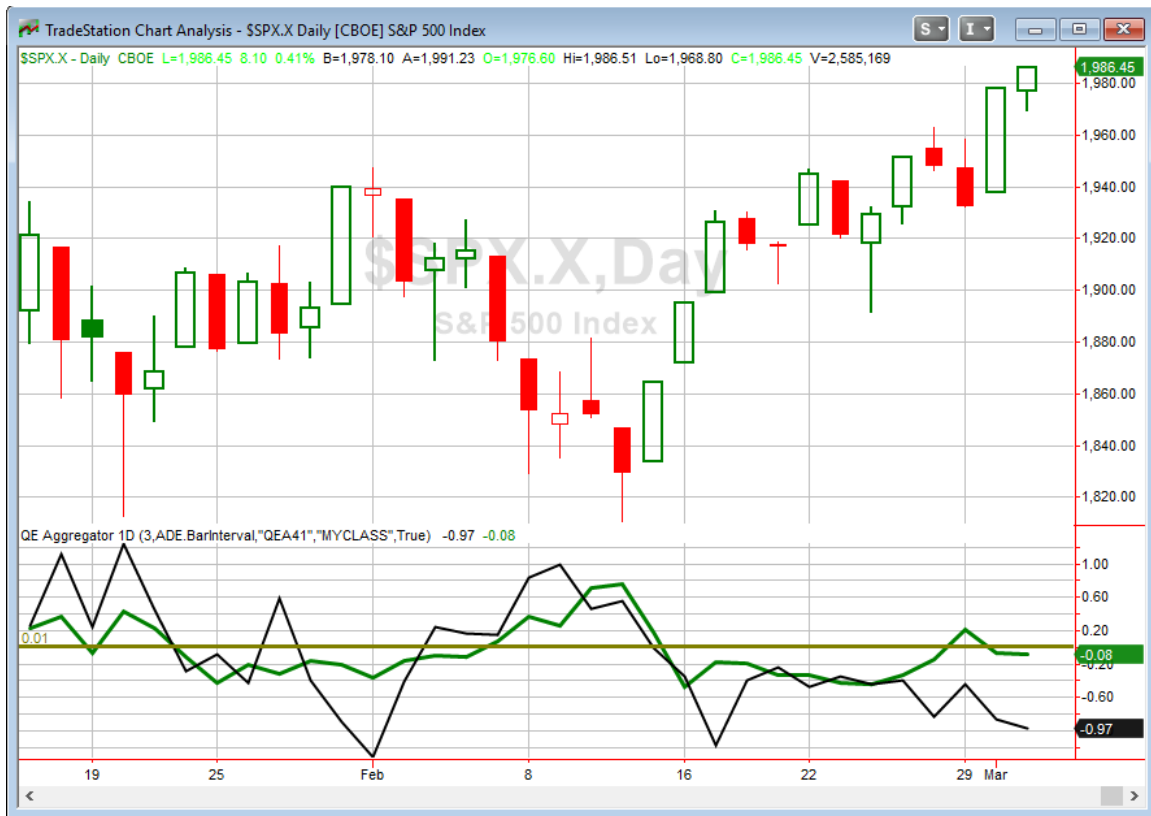
SPY closes at 10-day high on lowest volume in 20 days. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-14,814.87	18	9	9	50.00	1,113.24	2,404.80	-2,759.33	-5,712.90	0.40	0.40	-823.05
4	-8,858.48	19	12	7	63.16	991.13	1,838.30	-2,964.58	-5,316.90	0.33	0.57	-466.24
3	-9,856.73	20	9	11	45.00	921.74	2,396.45	-1,650.21	-6,431.25	0.56	0.46	-492.84
2	-12,253.00	20	7	13	35.00	878.35	1,574.20	-1,415.49	-5,350.20	0.62	0.33	-612.65
1	-3,503.51	22	12	10	54.55	930.04	3,395.70	-1,466.40	-8,857.80	0.63	0.76	-159.25

The stats point to a downside edge over the next few days. Below is a profit curve assuming a 2-day holding period.



Recent instances have not been great, but they took place in 2010-2011 when the Fed was pumping heavily. The last instance, from 2015, closed lower on Day 2. I have added this study to the Active List.

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



With tonight's study being added 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 remained 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 remained short at the close.

Expectations on Thursday are slated to remain bearish. But this could change if new bullish evidence emerges. The Differential Pivot will be 1925.56 on Thursday. That is a whopping 3.1% below Wednesday's close. So for SPX to move from overbought to oversold versus recent expectations it would need to close down at least 3.1% on Thursday. That's improbable for just 1 day. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

My outlook remains much the same as it did last night. I believe there is a downside edge, and I intend to hold onto my short position for the time being to try and take advantage of a dip. I am not looking to add to the position on Thursday, but could on Friday if more bearish evidence emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/29 – 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	\$199.00	-4.10%		Aggregator
SPY(1/4)(s)	2/26/2016	\$196.57	\$199.00	-1.24%		Aggregator

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