

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 4, 2016

Volume 9 Issue 43

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 3 up days are often followed by a pullback in similar market conditions.

### *Short-term Outlook*

#### *The Bottom Line*

Same as last night. Evidence continues to tilt bearish. With SPX strongly overbought I am anticipating a dip, and am partially positioned to try and take advantage of it.

*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>						
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			
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
March 1, 2016	Turnaround Tuesday	1 day	Bullish			

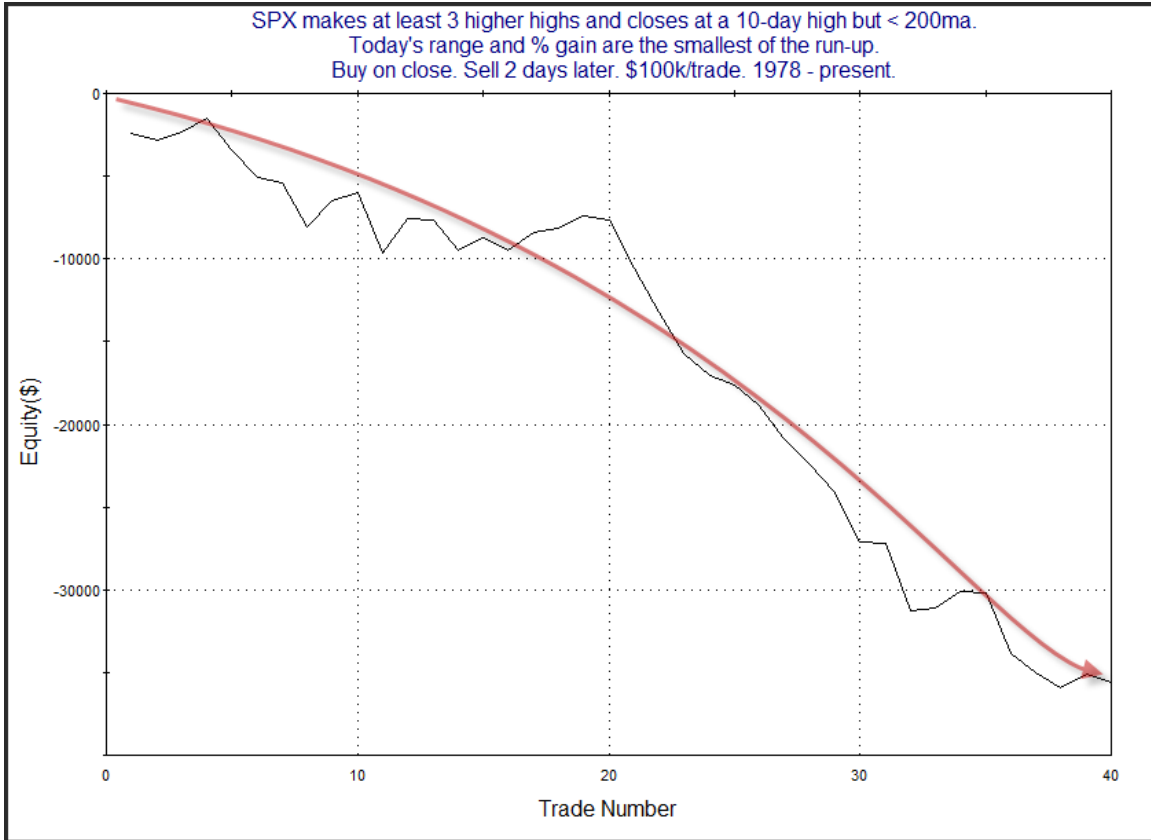
**The Evidence**

The move higher persisted on Thursday. The SPX rallied 0.4%, the NASDAQ gained 0.1%, and the Russell 2000 rose 1.0%. Breadth was positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 81%. Total NYSE volume rose some from Wednesday's level.

In the 9/19/11 subscriber letter I combined a few conditions that are apt to suggest a downside edge. These include the fact that the bounce has not originated from an intermediate-term low, a long-term downtrend is in place, and that Thursday was an NR7 day. An NR7 day is a day that shows the narrowest range of the last 7 days. I have updated all results.

SPX closes higher for at least the 3rd day in a row. It is NOT coming off a 50-day low. Today's range is the smallest of the last 7 days. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1978 - 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	-33,591.59	39	20	19	51.28	1,114.05	3,468.36	-2,940.66	-9,202.08	0.38	0.40	-861.32
4	-25,345.42	39	20	19	51.28	989.01	2,966.88	-2,375.03	-7,088.90	0.42	0.44	-649.88
3	-32,031.56	39	14	25	35.90	1,262.80	2,728.32	-1,988.43	-7,527.12	0.64	0.36	-821.32
2	-35,601.35	40	12	28	30.00	851.60	2,060.80	-1,636.45	-4,121.10	0.52	0.22	-890.03
1	-12,590.43	42	19	23	45.24	810.44	3,348.84	-1,216.91	-4,871.22	0.67	0.55	-299.77

As you can see the results table suggests a substantial downside edge over the next 1-2 days. Below is an equity curve using a 2-day exit strategy that shows how the edge has played out over time.



The downward slope seems to confirm the bearish edge suggested by the results table.

Of course with the follow-through day (FTD) a few days ago and the recent rise there is a chance that the market is still in the early stages of a burgeoning rally. In the 10/25/11 letter I looked at 3-day rallies that occurred in possible burgeoning uptrends. I did this to see if the short-term bearish studies I was seeing still held up. I have updated the results below.

SPX closes higher for at least the 3rd day in a row. It did not close at a 50-day low 3 days ago.  
 There was an FTD within the previous 5 days. Close < 200ma.  
 Buy on close. Sell X days later. \$100k/trade. 1990 - present.

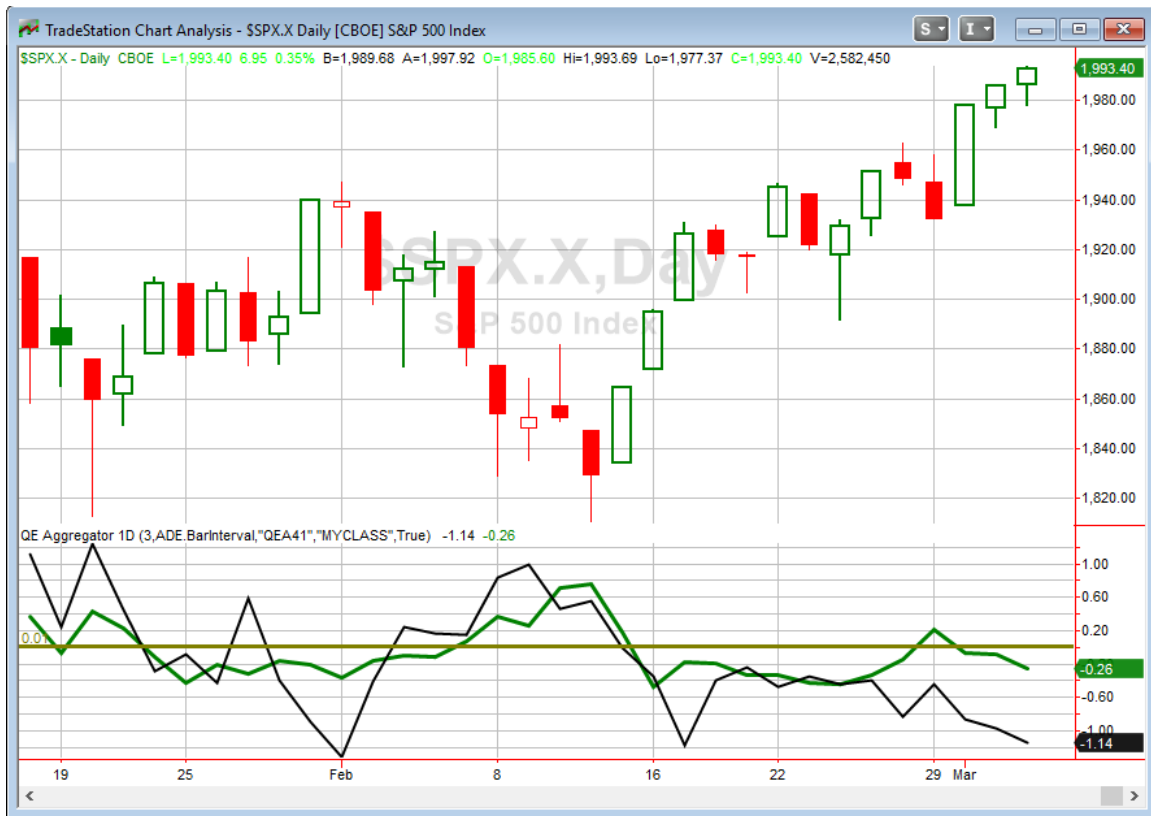
X Days	All: Net Profit	All: Total Trades	All: /Winning Trades	All: /Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-269.38	10	5	5	50.00	1,779.27	3,468.36	-1,833.15	-4,086.13	0.97	0.97	-26.94
4	-2,201.66	11	6	5	54.55	1,551.68	2,966.88	-2,302.35	-3,909.76	0.67	0.81	-200.15
3	-5,317.78	11	3	8	27.27	2,132.97	2,728.32	-1,464.59	-3,193.90	1.46	0.55	-483.43
2	-5,999.12	11	1	10	9.09	709.70	709.70	-670.88	-1,809.60	1.06	0.11	-545.37
1	-4,021.41	11	5	6	45.45	478.67	748.80	-1,069.13	-1,986.06	0.45	0.37	-365.58

Even if there is a bull move emerging here, it does not seem to matter to the short-term bearish tendency. Below is a list of all instances assuming a 2-day exit strategy.

SPX closes higher for at least the 3rd day in a row. It did not close at a 50-day low 3 days ago. There was an FTD within the previous 5 days. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1990 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/22/1990	Buy	\$314.76	-0.69%	\$95.10
10/24/1990	Sell	\$312.60		(\$1,280.68)
9/15/1998	Buy	\$1,037.70	-1.82%	\$801.60
9/17/1998	Sell	\$1,018.85		(\$2,078.40)
10/16/1998	Buy	\$1,056.40	0.71%	\$2,599.10
10/20/1998	Sell	\$1,063.95		(\$202.10)
10/31/2000	Buy	\$1,429.39	-0.07%	\$267.72
11/2/2000	Sell	\$1,428.32		(\$1,306.86)
8/8/2002	Buy	\$905.46	-0.18%	\$933.90
8/12/2002	Sell	\$903.80		(\$1,615.90)
10/21/2002	Buy	\$899.72	-0.40%	\$0.00
10/23/2002	Sell	\$896.14		(\$2,867.13)
8/26/2004	Buy	\$1,105.09	-0.54%	\$413.10
8/30/2004	Sell	\$1,099.15		(\$534.60)
4/7/2008	Buy	\$1,372.53	-1.31%	\$0.00
4/9/2008	Sell	\$1,354.49		(\$1,624.32)
8/24/2011	Buy	\$1,177.60	-0.07%	\$1,098.72
8/26/2011	Sell	\$1,176.80		(\$3,501.96)
8/30/2011	Buy	\$1,212.92	-0.70%	\$1,458.78
9/1/2011	Sell	\$1,204.42		(\$743.74)
10/24/2011	Buy	\$1,254.19	-0.97%	\$0.00
10/26/2011	Sell	\$1,242.00		(\$2,617.27)

This all points to a downside edge over the next few days.

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 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 stayed short at the close.

Expectations on Friday are slated to remain bearish. But this could change if new bullish evidence emerges. The Differential Pivot will be 1978.24 on Friday. That is 0.8% below Thursday's close. So for SPX to move from overbought to oversold versus recent expectations it would need to close down at least 0.7% on Friday.

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 Friday, but could on Monday 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	\$199.77	-4.50%		Aggregator
SPY(1/4)(s)	2/26/2016	\$196.57	\$199.77	-1.63%		Aggregator

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