

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 8, 2016

Volume 9 Issue 45

## 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

- SPY closing at a 20-day high on low volume while under the 200-day moving average has often been followed by a dip the next day.
- When both the VIX and SPX close higher on a Monday that often suggests a bearish edge.
- SPX and VIX up 2 days in a row is rare, but initial instances have been followed by sharp declines.

### *Short-term Outlook*

#### *The Bottom Line*

Bearish evidence continues to build. With SPX squarely 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
<b>Active - Short Term</b>						
March 7, 2016	3/10 Offset HV < 0.25. RSI>90. C<200	1-2 days	Bearish			
March 7, 2016	NASDAQ up 4 days < 200ma	1-6 days	Bearish			
March 4, 2016	SPY 10 high volume 20 low. Close<200	1-2 days	Bearish			
March 3, 2016	SPY 10 high volume 20 low. Close<200	1-2 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 2, 2016	FTD & 20-day high	1-3 days	Bullish			
March 2, 2016	SPY closes top 10% 1-day & 10-day rng	1-3 days	Bearish			

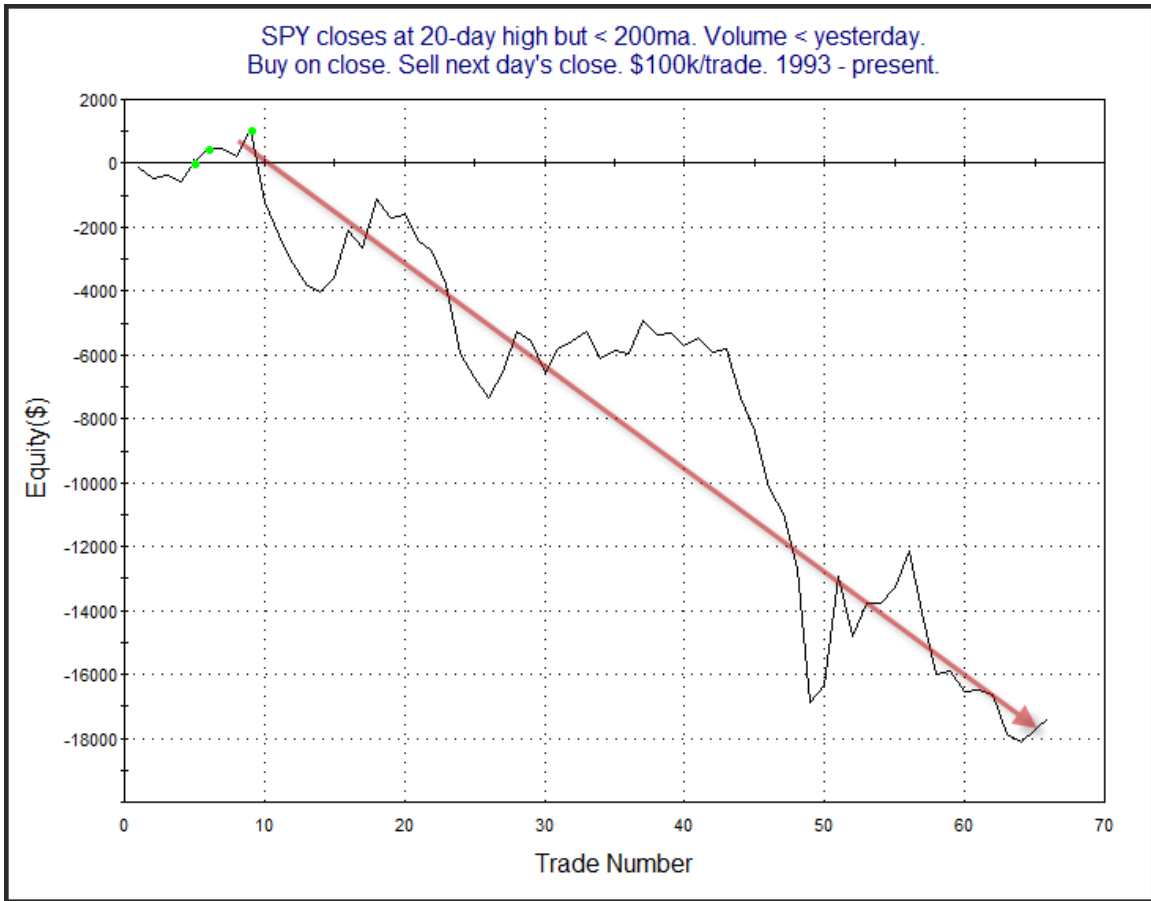
**The Evidence**

Monday was a mixed day for the market. The SPX rose 0.1%, the NASDAQ declined 0.2%, and the Russell 2000 rose 1.1%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 72%. Total NYSE volume declined some from Friday's level.

The market has so far refused to pull back despite the overwhelming short-term bearish evidence we've seen. 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 again below.

SPY closes at 20-day high but < 200ma. Volume < yesterday. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$17,396.80)	Profit Factor	0.51
Gross Profit	\$18,081.09	Gross Loss	(\$35,477.89)
Total Number of Trades	66	Percent Profitable	40.91%
Winning Trades	27	Losing Trades	39
Even Trades	0		
Avg. Trade Net Profit	(\$263.59)	Ratio Avg. Win:Avg. Loss	0.74
Avg. Winning Trade	\$669.67	Avg. Losing Trade	(\$909.69)
Largest Winning Trade	\$3,399.63	Largest Losing Trade	(\$4,190.20)

One-day stats looked compelling for the bears. I also ran a profit curve.



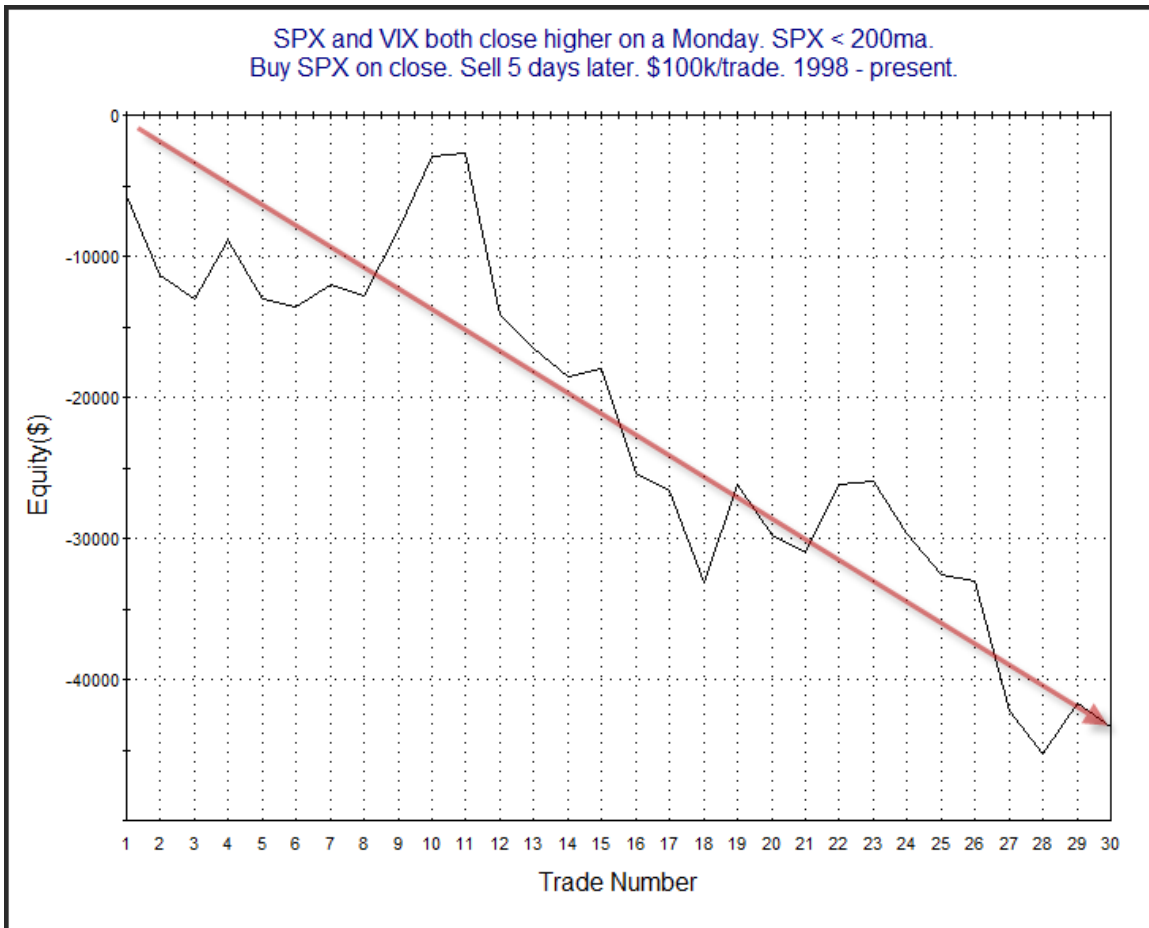
The curve is choppy but has persisted downwards for a long time. This study appears worthy of some consideration.

In addition to the rise in the SPX on Monday we also saw a rise in the VIX. As a reminder, the VIX has a natural tendency to rise on Mondays, so while SPX and VIX will often move in opposite directions, Monday is the most frequent day of the week to see them both close higher. The VIX's tendency to decline Friday afternoons and rise Monday mornings is the reason I typically break out VIX studies by day of week. I will either filter on Mondays, Fridays, or mid-week. Anyway, the action on Monday triggered the following study from the 12/6/11 subscriber letter. I have updated the results.

SPX and VIX both close higher on a Monday. SPX < 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	-43,364.97	30	10	20	33.33	3,192.93	6,877.04	-3,764.71	-11,533.34	0.85	0.42	-1,445.50
4	-26,462.41	31	11	20	35.48	3,025.21	5,607.06	-2,986.99	-9,828.00	1.01	0.56	-853.63
3	-26,700.04	31	12	19	38.71	2,125.13	4,455.68	-2,747.45	-6,956.04	0.77	0.49	-861.29
2	-16,576.29	31	14	17	45.16	1,573.64	3,349.32	-2,271.02	-5,441.80	0.69	0.57	-534.72
1	-10,069.37	31	14	17	45.16	1,191.83	4,699.94	-1,573.83	-4,893.07	0.76	0.62	-324.82

The numbers here all appear to suggest a strong bearish tendency. Below is a profit curve that assumes a 5-day holding period.



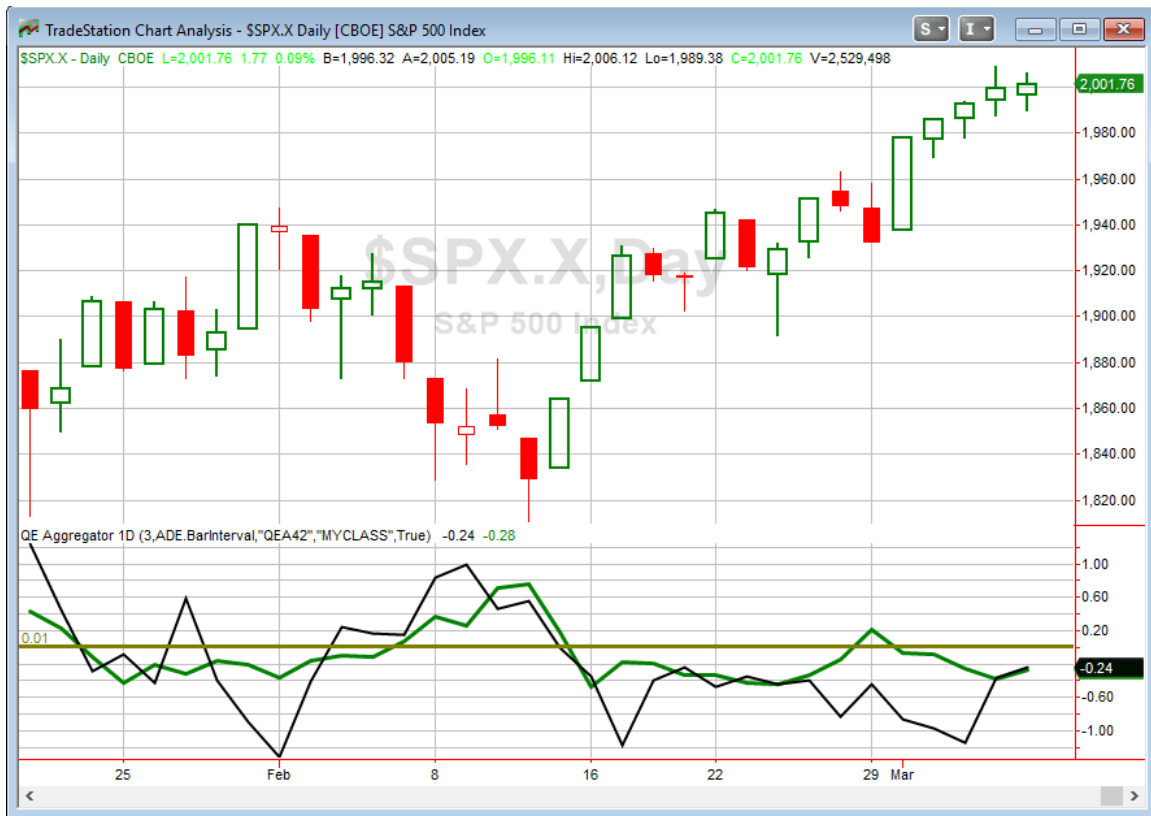
The curve supports the idea of a downside edge.

Also interesting is that Monday was the 2nd day in a row where the SPX and VIX both closed higher. The study below is from the 12/7/11 subscriber letter. It looks at other times this has happened.

SPX and VIX both close higher the last 2 days. SPX < 200ma. Buy SPX on close. Sell 4 days later. \$100k/trade. 1998 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/29/1998	Buy	\$1,049.00	-5.76%	\$0.00
10/5/1998	Sell	\$988.55		(\$8,008.50)
7/31/2002	Buy	\$911.62	-5.71%	\$0.00
8/6/2002	Sell	\$859.57		(\$8,521.62)
11/5/2002	Buy	\$915.39	-4.28%	\$1,120.52
11/11/2002	Sell	\$876.19		(\$4,439.57)
5/19/2008	Buy	\$1,426.63	-3.55%	\$0.00
5/23/2008	Sell	\$1,375.93		(\$3,703.70)
12/6/2011	Buy	\$1,258.47	-1.75%	\$678.61
12/12/2011	Sell	\$1,236.47		(\$2,466.38)

Instances were too rare to make a big fuss over, but the strongly negative numbers were at least noteworthy, so I did show them.

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



With tonight's studies being considered the green Aggregator Line held firmly 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 Tuesday are slated to remain bearish. But this could change if strong new bullish evidence emerges. The Differential Pivot will be 1985.54 on Tuesday. That is 0.8% below Monday's close. So for SPX to move from overbought to oversold versus recent expectations it would need to close down at least 0.8% on Monday.

Bearish evidence continues to mount, despite the SPX refusing to pull back. I upped my short exposure a little further on Monday. I still believe there is a downside edge over the next few days, and I intend to hold onto my short positions a little longer here.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 3/7 – neutral**

The intermediate-term outlook was last updated in the 3/7 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**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	\$200.59	-4.93%		Aggregator
SPY(1/4)(s)	2/26/2016	\$196.57	\$200.59	-2.05%		Aggregator
SPY(1/4)(s)	3/7/2016	\$200.43	\$200.59	-0.08%		Aggregator

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