

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 15, 2016

Volume 9 Issue 50

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Short

Tonight's Research Points

- QQQ closing at a 10-day high on low volume below the 200ma has often led to dips the next day.

Short-term Outlook

The Bottom Line

Multi-day expectations have turned bullish. With the SPX still overbought, this leaves me largely neutral.

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 15, 2016	QQQ 10-high < 200 on low volume	1 day	Bearish			
March 2, 2016	March opex week bullish	1-4 days	Bullish			
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	2 90% 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 8, 2016	SPX & VIX up on Monday < 200	1-5 days	Bearish			
March 7, 2016	NASDAQ up 4 days < 200ma	1-6 days	Bearish			
March 14, 2016	1% move up through 200ma	1 day	Bearish			

The Evidence

Monday was a mixed day of moderate changes. The SPX finished down 0.1%, the NASDAQ rose 0.04%, and the Russell 2000 lost 0.3%. Breadth was negative as the NYSE Up Issues % was 42% and the Up Volume % came in at 36%. Total NYSE volume again came in at the lightest level in weeks.

Way back in the 4/28/2009 subscriber letter I looked at times QQQ posted a short-term high on light volume during a long-term downtrend. I looked at that study again tonight and found the 1-day results to be most compelling. Below are updated stats for a 1-day holding period.

QQQ closes at a 10-day high but < 200ma. It posts the lightest volume in 10 days.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

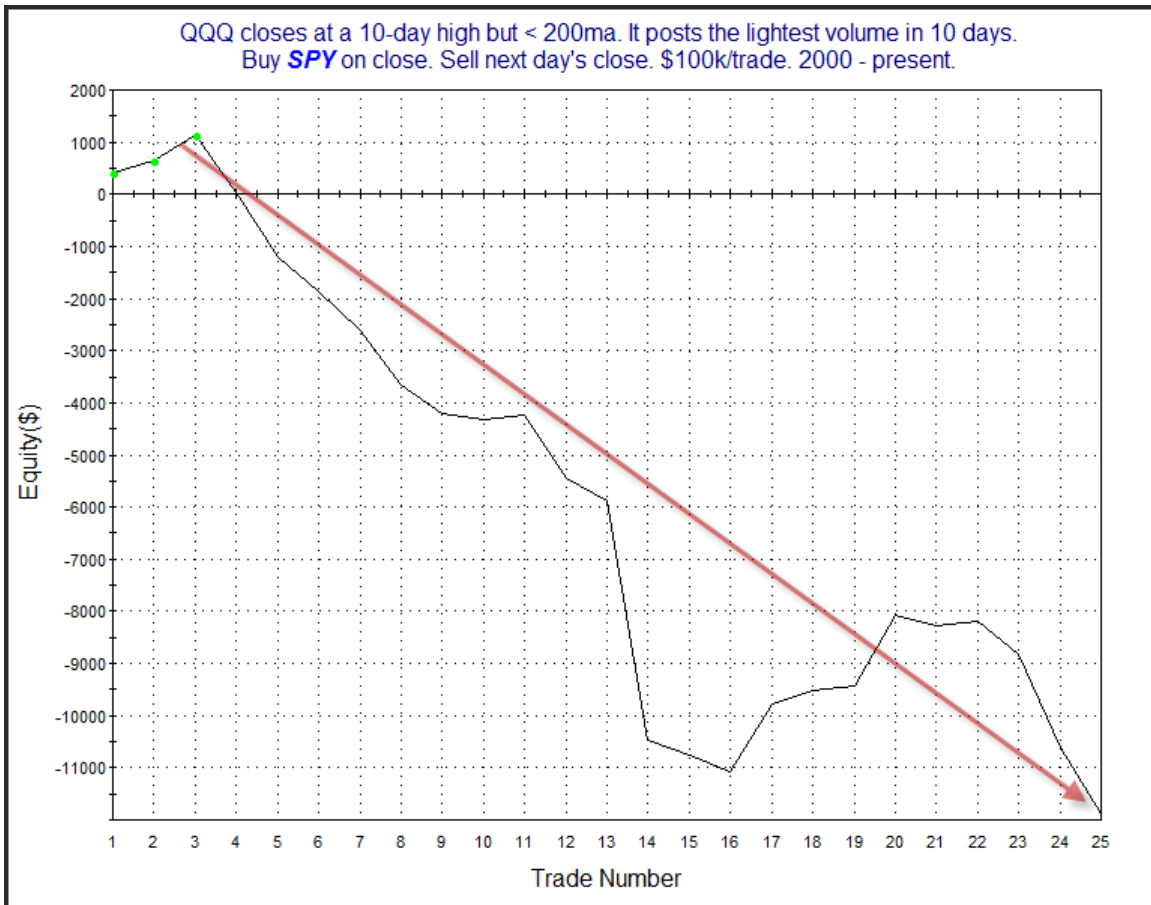
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	(\$14,576.64)	Profit Factor	0.37	
Gross Profit	\$8,654.60	Gross Loss	(\$23,231.24)	
Total Number of Trades	25	Percent Profitable	36.00%	
Winning Trades	9	Losing Trades	16	
Even Trades	0			
Avg. Trade Net Profit	(\$583.07)	Ratio Avg. Win:Avg. Loss	0.66	
Avg. Winning Trade	\$961.62	Avg. Losing Trade	(\$1,451.95)	
Largest Winning Trade	\$2,653.20	Largest Losing Trade	(\$3,725.92)	

Results look quite bearish. Tonight I also decided to see how SPY performed when QQQ acted this way. So here is the 1-day performance of SPY based on the action in QQQ.

QQQ closes at a 10-day high but < 200ma. It posts the lightest volume in 10 days.
Buy **SPY** on close. Sell next day's close. \$100k/trade. 2000 - present.

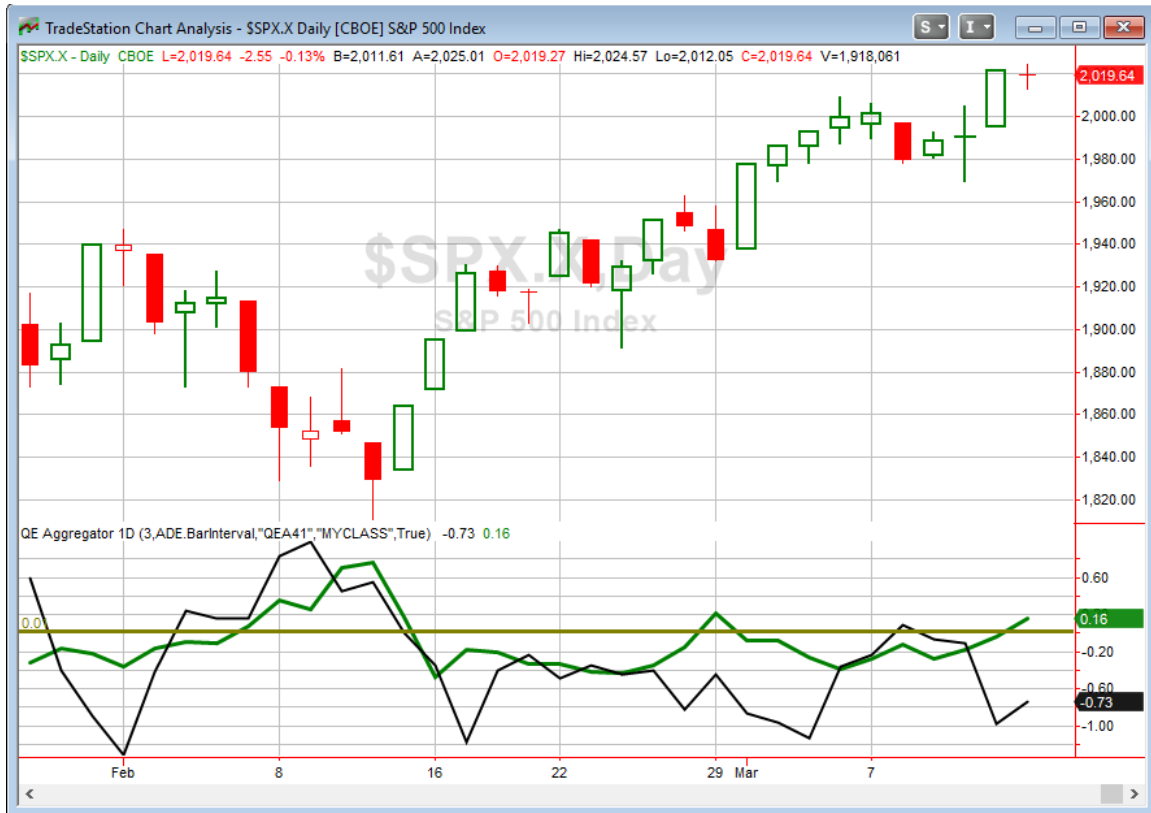
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$11,873.27)	Profit Factor	0.27
Gross Profit	\$4,336.30	Gross Loss	(\$16,209.57)
Total Number of Trades	25	Percent Profitable	36.00%
Winning Trades	9	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	(\$474.93)	Ratio Avg. Win:Avg. Loss	0.48
Avg. Winning Trade	\$481.81	Avg. Losing Trade	(\$1,013.10)
Largest Winning Trade	\$1,362.30	Largest Losing Trade	(\$4,580.52)

Stats here are very similar and suggest that SPY has suffered along with QQQ when QQQ has triggered these signals. Below is a profit curve for SPY.



It has headed from upper left to lower right for a long time. This study appears worthy of some consideration and I have added it to the Active List tonight.

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



Despite the new study tonight the green Aggregator Line moved above zero. Positive readings mean net expectations from the Active List are for upside 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 positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal turned flat at the close.

Expectations on Tuesday are slated to remain bullish. But this could change if new bearish evidence emerges. The Differential Pivot will be 1977.66 on Tuesday. That is a whopping 2.1% below Monday's close. So for SPX to move from overbought to oversold versus

recent expectations it would need to close down a substantial amount on Tuesday. More likely it will take a multi-day decline or consolidation to work off the overbought condition.

While 3-day expectations have moved to positive, 1-day expectations remain negative. So a down day still appears more likely on Tuesday. But my overall short-term outlook is now neutral, and it is time to look to exit my short positions. It turned out to be a bad move against them this time, but when the edge is no longer there it is time to get out, regardless of whether my position is strongly green or strongly red or somewhere in between. With 1-day expectations negative I will not cover everything at the open, but I will hope to be out by the end of the day on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/14 – 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	\$202.50	-5.93%		Aggregator
SPY(1/4)(s)	2/26/2016	\$196.57	\$202.50	-3.02%		Aggregator
SPY(1/4)(s)	3/7/2016	\$200.43	\$202.50	-1.03%		Aggregator

I will look to cover the following ways:

1 lot at the open.

1 lot at a limit price of \$202.50.

1 lot at the close. (Note, if the market consolidates in early trading, I may place a stop order above the high of the 1st 30 minutes or so of trading.)

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