

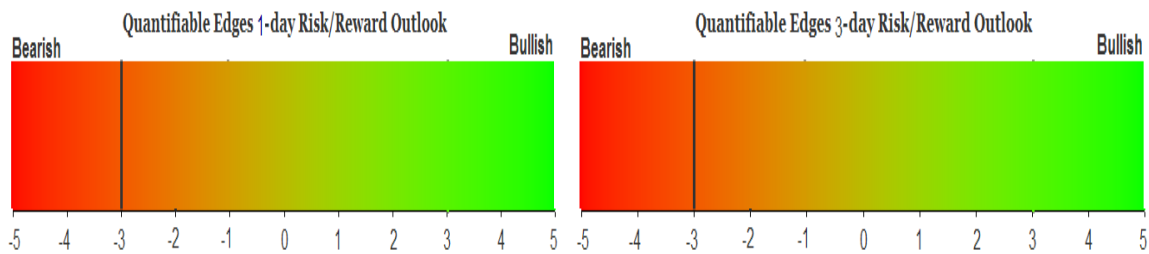
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 22, 2016

Volume 9 Issue 55

Market Overview



Signals Overview

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

Tonight's Research Points

- When the Nasdaq has closed higher 4 days in a row and under its 200ma it has consistently been followed by a pullback – both in the Nasdaq and in the SPX.
- A 50-day high, an inside day, and then another 50-day high have often been followed by a pullback.

Short-term Outlook

The Bottom Line

Expectations are negative and the market is overbought. This suggests a bearish short-term edge.

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 22, 2016	50-high. Inside Day. Another 50 high.	1 day	Bearish			
March 22, 2016	NASDAQ up 4 < 200ma	1-6 days	Bearish			
March 21, 2016	Opex week 1%-2% gain	1-5 days	Bearish			
March 18, 2016	Top 10% 10-day range before Opex	1-4 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			

The Evidence

The market was mixed on Monday. The SPX rose 0.1%, and the NASDAQ gained 0.3%, but the Russell 2000 declined 0.3%. Breadth was also mixed as the NYSE Up Issues % was 49% and the Up Volume % came in at 56%. NYSE volume declined substantially from Friday's opex level.

One study provided some compelling results is the one below. It was also seen just recently in the 3/7/16 subscriber letter. It looks at other instances in which the Nasdaq rose exactly 4 days in a row and closed under the 200ma. All results have been updated.

NASDAQ closes higher for exactly 4th day in a row. It did NOT close at a 50-day low 4 days ago. Buy on close. Sell X days later. \$100k/trade. 2002 - 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
10	-43,208.65	20	6	14	30.00	2,253.96	4,498.82	-4,052.32	-9,279.70	0.56	0.24	-2,160.43
9	-38,033.51	20	7	13	35.00	1,604.38	3,123.20	-3,789.55	-7,688.92	0.42	0.23	-1,901.68
8	-30,900.27	21	9	12	42.86	1,572.14	3,823.79	-3,754.13	-7,746.48	0.42	0.31	-1,471.44
7	-34,335.12	21	7	14	33.33	1,342.08	3,529.97	-3,123.55	-5,934.18	0.43	0.21	-1,635.01
6	-37,759.81	21	6	15	28.57	1,080.08	4,086.93	-2,949.35	-6,362.65	0.37	0.15	-1,798.09
5	-24,998.20	22	7	15	31.82	1,266.03	2,029.98	-2,257.36	-5,753.20	0.56	0.26	-1,136.28
4	-17,145.22	22	9	13	40.91	952.58	1,870.87	-1,978.34	-4,907.27	0.48	0.33	-779.33
3	-16,350.35	22	9	13	40.91	1,252.04	2,032.68	-2,124.52	-4,090.24	0.59	0.41	-743.20
2	-19,995.90	22	9	13	40.91	798.02	2,042.04	-2,090.62	-5,242.88	0.38	0.26	-908.90
1	-14,791.73	22	7	15	31.82	681.54	1,809.18	-1,304.17	-3,232.00	0.52	0.24	-672.35
All 22 instances closed below the entry price at some point in the next week.												

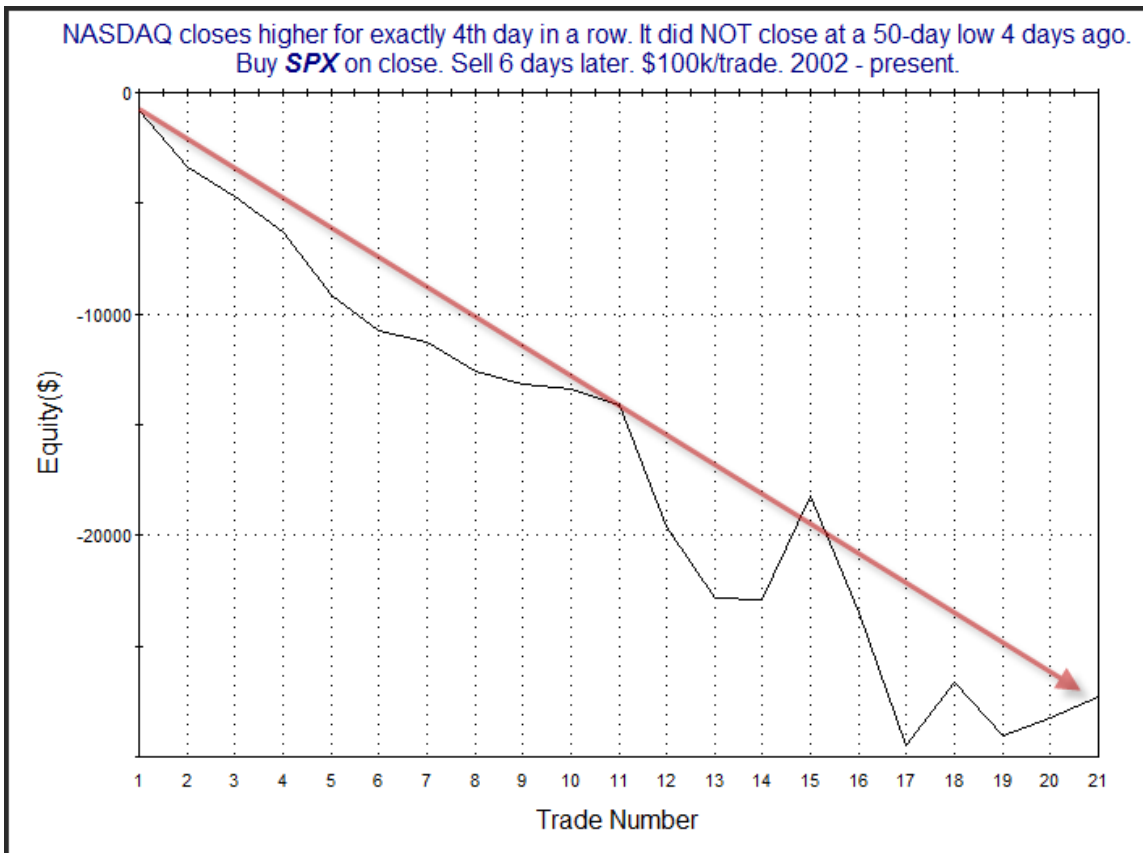
Results here appears to be strongly bearish. And the edge persists for up to 2 weeks. I also examined how the SPX might have performed when the Nasdaq had set up this way. The updated results below show this.

NASDAQ closes higher for exactly 4th day in a row. It did NOT close at a 50-day low 4 days ago.
Buy **SPX** on close. Sell X days later. \$100k/trade. 2002 - 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
10	-28,163.35	20	5	15	25.00	3,851.87	7,245.00	-3,161.51	-7,631.40	1.22	0.41	-1,408.17
9	-25,666.31	20	8	12	40.00	2,097.35	4,733.40	-3,537.09	-5,350.02	0.59	0.40	-1,283.32
8	-21,507.57	21	7	14	33.33	2,127.42	6,129.50	-2,599.97	-7,676.64	0.82	0.41	-1,024.17
7	-24,006.27	21	7	14	33.33	1,631.68	4,320.55	-2,530.57	-6,238.08	0.64	0.32	-1,143.16
6	-27,265.98	21	4	17	19.05	2,350.41	4,716.15	-2,156.92	-5,959.76	1.09	0.26	-1,298.38
5	-19,364.53	22	8	14	36.36	1,080.17	1,915.14	-2,000.42	-6,523.10	0.54	0.31	-880.21
4	-13,816.62	22	9	13	40.91	727.83	1,659.08	-1,566.70	-4,056.12	0.46	0.32	-628.03
3	-14,007.00	22	12	10	54.55	704.33	1,802.76	-2,245.90	-5,547.24	0.31	0.38	-636.68
2	-19,034.20	22	8	14	36.36	498.05	1,695.10	-1,644.18	-5,495.94	0.30	0.17	-865.19
1	-10,398.00	22	8	14	36.36	591.22	1,736.36	-1,080.55	-3,300.30	0.55	0.31	-472.64

All 22 instances closed below the entry price at some point in the next week.

Though not quite as powerful, these results appear just as consistently bearish as the NASDAQ results. Below is an equity curve that assumes a 6-day holding period.



The last couple instances went against the grain but the results appear to be strong nonetheless. This serves as some confirmation of the downside edge.

After Thursday's move to a new high, SPY put in an inside day on Friday. With Monday closing at another new high the study below triggered. It was last seen in the 2/25/15 subscriber letter. I have updated all statistics.

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and then closes at a 50-day high again today. Buy on close. Sell 1 day later. \$100k/trade. 1999 - 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	-16,016.23	21	6	15	28.57	746.87	1,413.21	-1,366.50	-3,754.10	0.55	0.22	-762.68
4	-10,409.91	21	8	13	38.10	725.65	1,245.97	-1,247.32	-5,106.46	0.58	0.36	-495.71
3	-10,215.10	21	8	13	38.10	583.02	1,367.56	-1,144.56	-3,417.34	0.51	0.31	-486.43
2	-9,827.45	21	6	15	28.57	654.76	1,132.23	-917.07	-2,737.00	0.71	0.29	-467.97
1	-4,542.26	21	4	17	19.05	451.88	651.42	-373.52	-1,405.62	1.21	0.28	-216.30

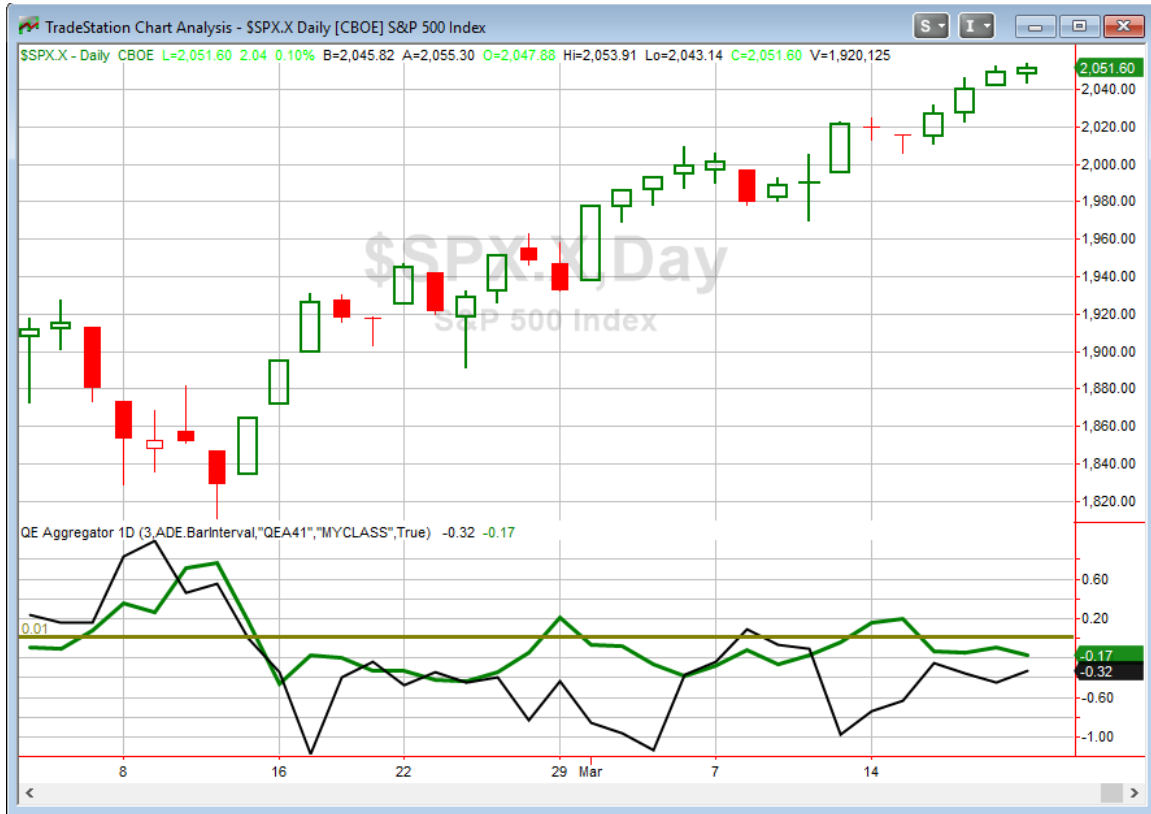
Stats here suggest a bearish inclination following action similar to the last 3 days. One day later the market has declined 17 of 21 times. Below I have listed all 21 instances

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and then closes at a 50-day high today. Buy on close. Sell 1 day later. \$100k/trade. 1999 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/8/1999	Buy	\$127.75	-0.95%	\$0.00
1/11/1999	Sell	\$126.53		(\$1,978.46)
3/15/1999	Buy	\$131.22	-0.38%	\$335.28
3/16/1999	Sell	\$130.72		(\$571.50)
11/18/1999	Buy	\$142.63	-0.09%	\$238.34
11/19/1999	Sell	\$142.50		(\$441.63)
8/28/2000	Buy	\$151.77	-0.12%	\$72.38
8/29/2000	Sell	\$151.59		(\$565.88)
6/22/2005	Buy	\$121.57	-1.41%	\$24.66
6/23/2005	Sell	\$119.86		(\$1,430.28)
7/14/2005	Buy	\$122.91	-0.06%	\$105.69
7/15/2005	Sell	\$122.84		(\$447.15)
7/22/2005	Buy	\$123.54	-0.28%	\$331.69
7/25/2005	Sell	\$123.19		(\$558.21)
5/9/2006	Buy	\$132.62	-0.05%	\$98.02
5/10/2006	Sell	\$132.55		(\$550.42)
11/22/2006	Buy	\$140.92	-0.40%	\$0.00
11/24/2006	Sell	\$140.35		(\$510.48)
10/9/2007	Buy	\$156.48	-0.17%	\$0.00
10/10/2007	Sell	\$156.22		(\$683.73)
5/6/2009	Buy	\$92.14	-1.39%	\$1,095.85
5/7/2009	Sell	\$90.86		(\$2,018.10)
8/4/2010	Buy	\$112.97	-0.11%	\$0.00
8/5/2010	Sell	\$112.85		(\$787.65)
2/3/2011	Buy	\$130.78	0.28%	\$320.88
2/4/2011	Sell	\$131.15		(\$420.20)
2/7/2012	Buy	\$134.79	0.30%	\$318.63
2/8/2012	Sell	\$135.19		(\$355.68)
3/19/2012	Buy	\$140.85	-0.29%	\$0.00
3/20/2012	Sell	\$140.44		(\$857.89)
5/17/2013	Buy	\$166.94	-0.01%	\$383.36
5/20/2013	Sell	\$166.93		(\$197.67)
7/22/2013	Buy	\$169.50	-0.21%	\$194.37
7/23/2013	Sell	\$169.14		(\$265.05)
6/4/2014	Buy	\$193.19	0.65%	\$754.82
6/5/2014	Sell	\$194.45		(\$253.33)
7/3/2014	Buy	\$198.20	-0.35%	\$0.00
7/7/2014	Sell	\$197.51		(\$493.92)
11/17/2014	Buy	\$204.37	0.58%	\$757.95
11/18/2014	Sell	\$205.55		\$0.00
2/24/2015	Buy	\$211.81	-0.08%	\$202.96
2/25/2015	Sell	\$211.63		(\$278.48)

Risk/reward here heavily favors the short side. The average drawdown is 2.6 times the size of the average run-up. Also notable is that the only instances where intraday run-up exceeded drawdown were 5/17/13, 6/4/14, and 11/17/14. While the numbers in the original table looked like 2-5 days provided an even larger edge, their profit curves have flattened out greatly. So I am only concerning myself with the 1-day returns at this point.

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 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.

With all the short-term studies bearish, expectations on Tuesday are set to remain negative. But this could change if new bullish evidence emerges. The Differential Pivot will be 2038.97 on Tuesday. That is 0.6% below Monday's close. So for SPX to move from overbought to oversold versus recent expectations it will need to close down at least 0.6% on Tuesday.

Nothing really changed on Monday. As I said last night...*Despite evidence to the contrary the market continues to push forward. But it remains overbought and triggering studies*

that have led to pullbacks in the past. So I continue to believe the short-term edge is to the bears. I have a small short position and am hoping to benefit some from the anticipated pullback.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 3/21 – 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)	3/17/2016	\$204.63	\$205.72	-0.53%		price dividend adjusted

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