

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 24, 2016

Volume 9 Issue 57

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>	<b>QE Buy Pwr Swing</b>
Flat	50% Long XIV	Short

## Tonight's Research Points

- The 1<sup>st</sup> low 5-day in over 2 weeks is often followed by a bounce, especially when SPY is still above its 10ma.
- Holy Thursday has been a bullish day for the market in the past.

## *Short-term Outlook*

### *The Bottom Line*

Expectations are barely negative and the market is has flipped to slightly oversold. There is not a strong edge suggested either way.

**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 24, 2016	1st 5-low in 10 days, but > 10ma	1-4 days	Bullish			
March 24, 2016	Holy Thursday Bullish	1 day	Bullish			
March 22, 2016	NASDAQ up 4 < 200ma	1-6 days	Bearish			
March 21, 2016	Opex week 1%-2% gain	1-5 days	Bearish			
<b>Active - Long Term</b>						
March 24, 2016	1st 5-low in 10 days, but > 10ma	1-10 days	Bullish	2.20%	-1.35%	-2.70%
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			
<b>Dropped Tonight</b>						
March 18, 2016	Top 10% 10-day range before Opex	1-4 days	Bearish			

**The Evidence**

The market had a down day on Wednesday. The SPX fell 0.6%, the NASDAQ dropped 1.1%, and the Russell 2000 declined 2.0%. Breadth was negative as the NYSE Up Issues % was 27% and the Up Volume % came in at 15%. NYSE volume rose just a little from Tuesday's very light level.

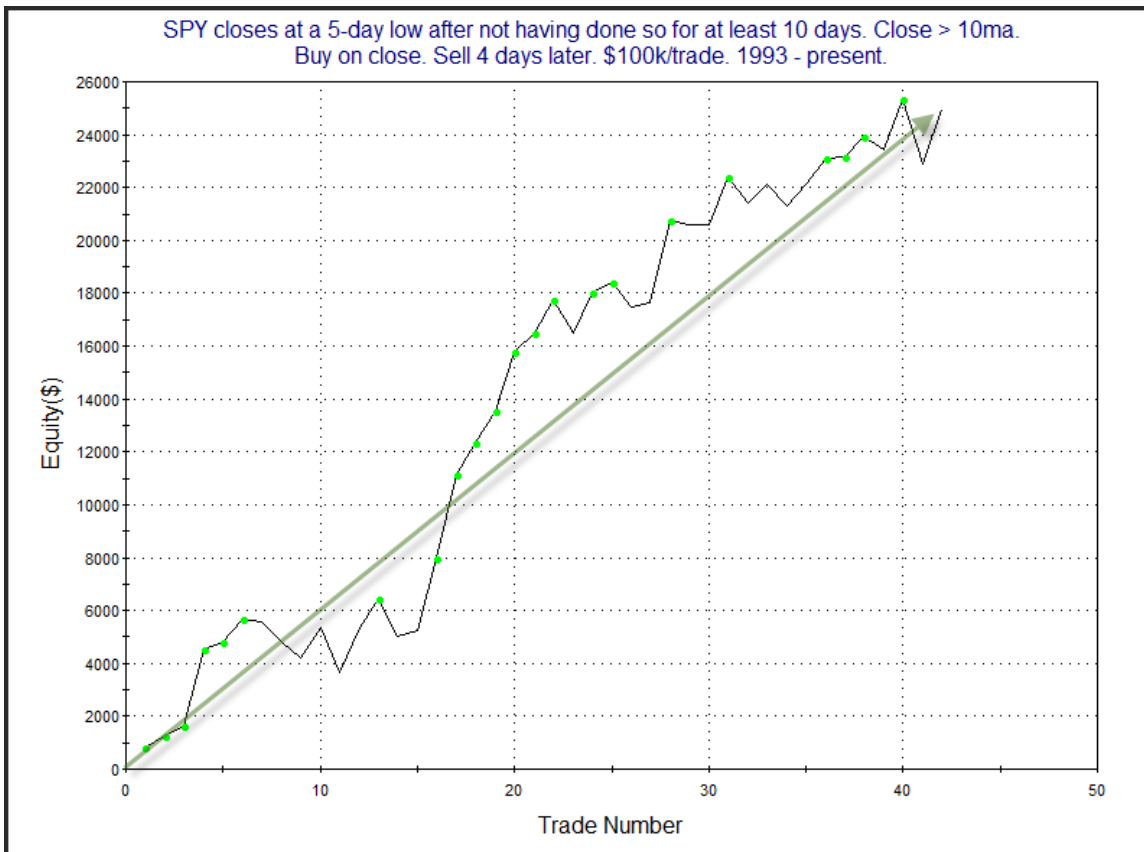
Wednesday marked the 1<sup>st</sup> time SPY has closed at a 5-day low in a while. In the past I showed a study that examined results when the SPY closed at a 5-day low for the 1<sup>st</sup> time in over 2 weeks. It suggested fairly bullish results. But what struck me tonight is that despite closing at a 5-day low, SPY is still above its 10ma. So I added that as a filter and created the study below.

SPY closes at a 5-day low after not having done so for at least 10 days. Close > 10ma.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

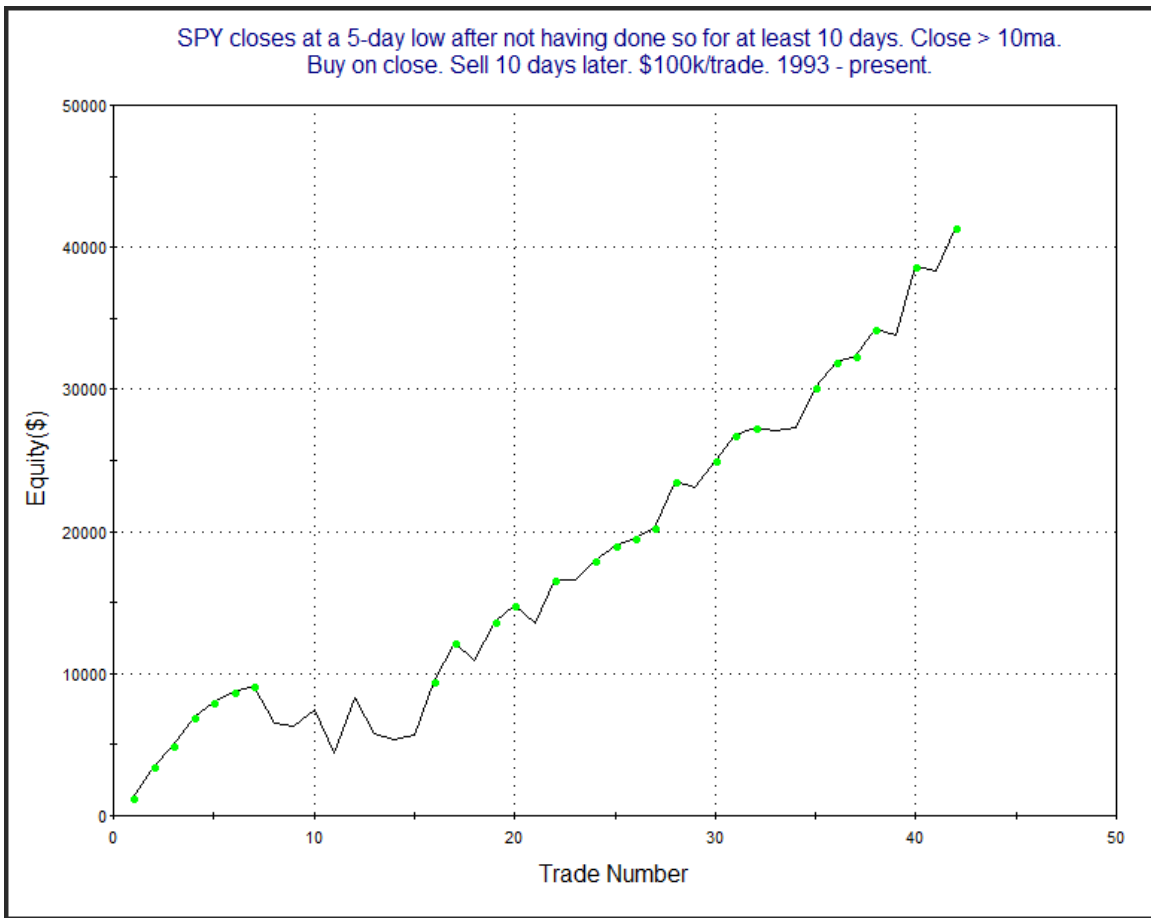
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	41,394.53	42	30	12	71.43	1,803.96	4,839.66	-1,060.35	-2,972.16	1.70	4.25	985.58
9	39,363.33	42	32	10	76.19	1,629.88	5,293.08	-1,279.28	-3,319.71	1.27	4.08	937.22
8	37,532.22	42	31	11	73.81	1,608.82	4,734.72	-1,121.92	-2,602.71	1.43	4.04	893.62
7	31,913.46	42	31	11	73.81	1,593.13	4,118.22	-1,588.51	-3,472.29	1.00	2.83	759.84
6	29,182.86	42	30	12	71.43	1,405.68	4,307.28	-1,082.29	-2,992.38	1.30	3.25	694.83
5	27,230.92	42	29	13	69.05	1,360.15	4,496.34	-939.49	-3,570.00	1.45	3.23	648.36
4	24,953.29	42	30	12	71.43	1,220.47	3,149.62	-971.72	-2,475.20	1.26	3.14	594.13
3	20,938.05	42	30	12	71.43	1,174.38	3,452.40	-1,191.11	-3,393.78	0.99	2.46	498.52
2	12,048.63	42	26	16	61.90	1,059.42	3,809.72	-968.52	-3,737.28	1.09	1.78	286.87
1	5,537.33	42	26	16	61.90	726.53	2,225.48	-834.53	-3,909.03	0.87	1.41	131.84

39 of 42 instances (93%) closed above the entry price at some point in the next 5 days.

Results here suggest a solid edge over the next 1-10 days. Much of the gains have been realized in the 1<sup>st</sup> 4 days. Below is a profit curve for a 4-day holding period.



The strong steady upslope is impressive. I also ran a 10-day curve.



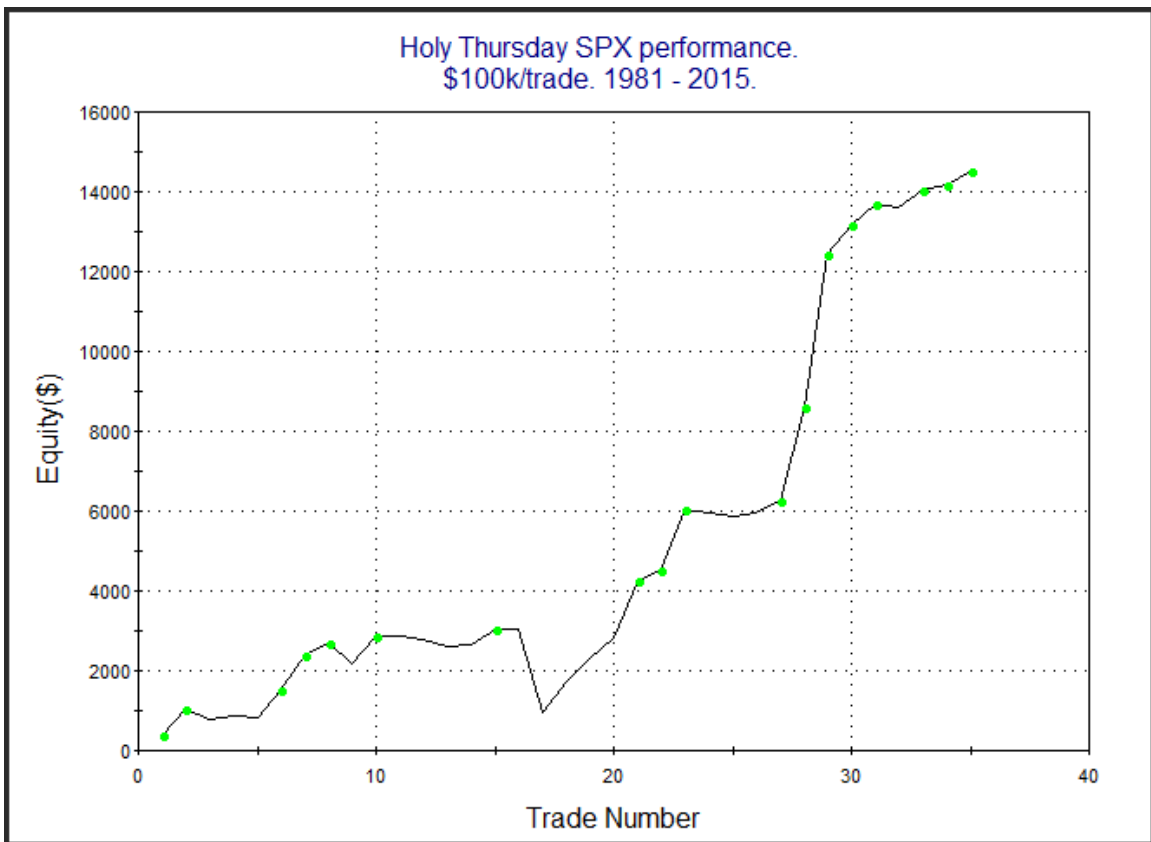
This curve is also impressive and helps to confirm the upside edge. I have added this study to both the short and intermediate-term active lists tonight.

In in the 4/14/14 Letter I showed that Holy Thursday has been a seasonally strong day going back to 1981. Below I have updated those study results.

Holy Thursday SPX performance.  
\$100k/trade. 1981 - 2015.

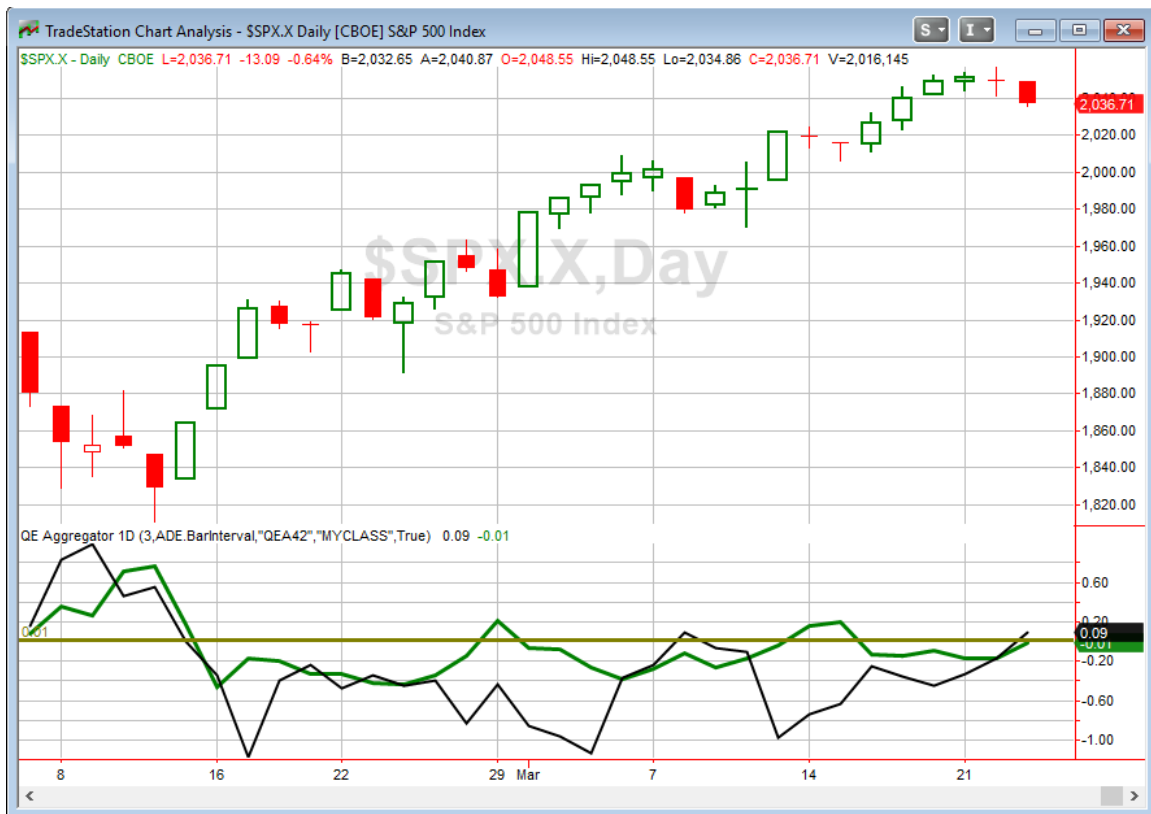
TradeStation Performance Summary			Expand ▾
<b>All Trades</b>			
Total Net Profit	\$14,513.35	Profit Factor	5.15
Gross Profit	\$18,008.46	Gross Loss	(\$3,495.11)
Total Number of Trades	35	Percent Profitable	68.57%
Winning Trades	24	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	\$414.67	Ratio Avg. Win:Avg. Loss	2.36
Avg. Winning Trade	\$750.35	Avg. Losing Trade	(\$317.74)
Largest Winning Trade	\$3,799.40	Largest Losing Trade	(\$2,097.90)

The numbers are compelling, and it is especially impressive to see how much the winners have outsized the losers. Below is the profit curve.



The curve isn't exactly straight, but you can't complain about the last 18 years. This seems worth consideration.

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



With tonight's new studies considered the green Aggregator Line moved up but still 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 inched above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are a little negative but SPX is slightly oversold. 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.

Based on the current list of studies, expectations on Thursday are set to remain negative. But this could change if new bullish evidence emerges. The Differential Pivot will be 2043.36 on Thursday. That is 0.3% above Wednesday's close. So for SPX to move from oversold to overbought versus recent expectations it will need to close up at least 0.3% on Thursday.

So evidence is now mixed. The Aggregator is neutral, and with both lines so close to 0, that is really as neutral as you can get. Thursday seems to have a decent chance to see the market move higher, but the 3-day outlook is very unclear. With the SPX closing below its Differential Pivot I covered my short position on Wednesday. I am not inclined to take on a new position until I get more clarity. So, like the Aggregator, I am neutral for the time being.

*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	\$204.26	0.18%		div adj cover on close

*SPY was covered at the close as was discussed in last night's letter.*

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