

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 27, 2016

Volume 9 Issue 80

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Short

## Tonight's Research Points

- NDX pullback with SPX strength has led to a bounce in the past.
- Fed Days have historically been strong market days.

### *Short-term Outlook*

#### *The Bottom Line*

Evidence continues to point higher SPX is again a little oversold. The leaves me somewhat bullish and looking to profit from a move upwards.

*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>						
April 27, 2016	SPX 3-day high. NDX down 3 days.	1-2 days	Bullish			
April 27, 2016	Fed Day	1 day	Bullish			
April 25, 2016	1st 5 low in 10 days. Close > 10ma	1-4 days	Bullish	1.40%	-1.00%	-2.10%
April 22, 2016	Big drop from 50-high	1-4 days	Bullish			
<b>Active - Long Term</b>						
April 26, 2016	Golden Cross	int term	Bullish			
April 25, 2016	1st 5 low in 10 days. Close > 10ma	1-10 days	Bullish	2.20%	-1.30%	-2.70%
March 28, 2016	1st close < 10ma in 25 days	1-19 days	Bullish	4.10%	-0.90%	-2.25%
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			

**The Evidence**

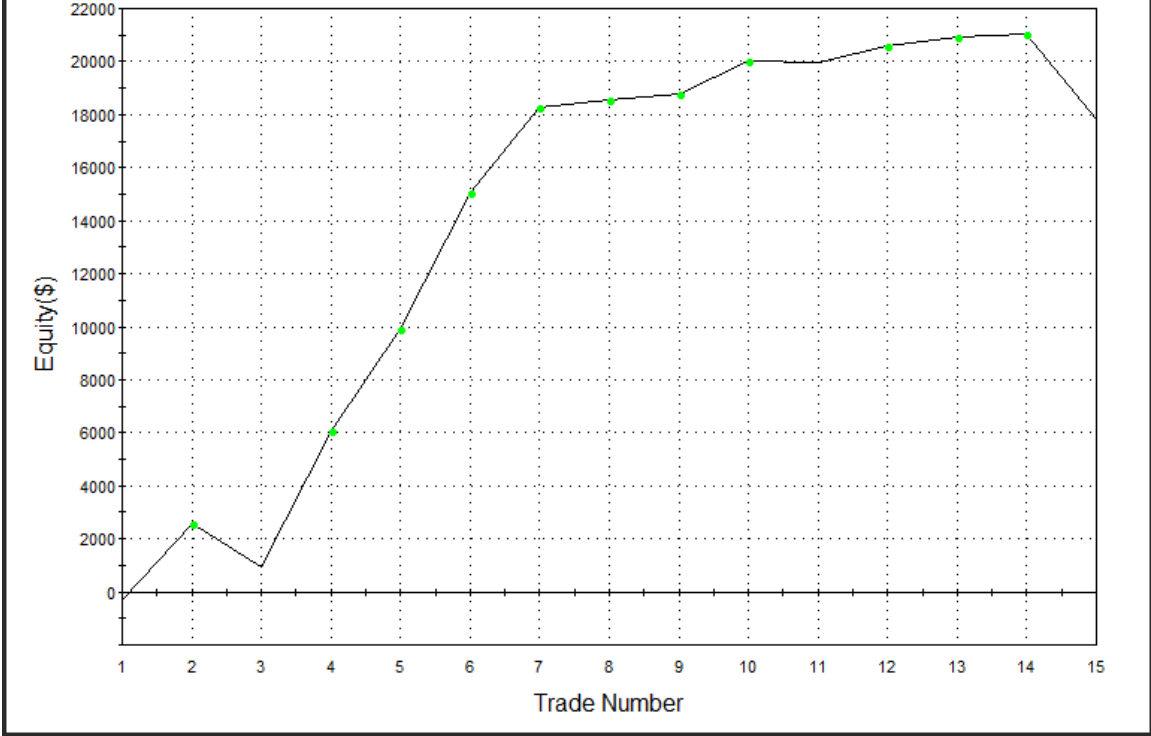
Results were mixed on Tuesday. The SPX rose 0.2%, the NASDAQ sold off 0.2%, and the Russell 2000 rallied 1.1%. Breadth was positive as the NYSE Up Issues % was 77% and the Up Volume % came in at 78%. NYSE volume rose some from Tuesday's level.

One aspect of recent market action that is interesting and suggestive of an upside edge is the fact that despite the rise in the SPX to a new 3-day high, the NASDAQ 100 closed lower for at least the third day in a row. I last looked at this in the 2/5/16 letter, and have updated the study below.

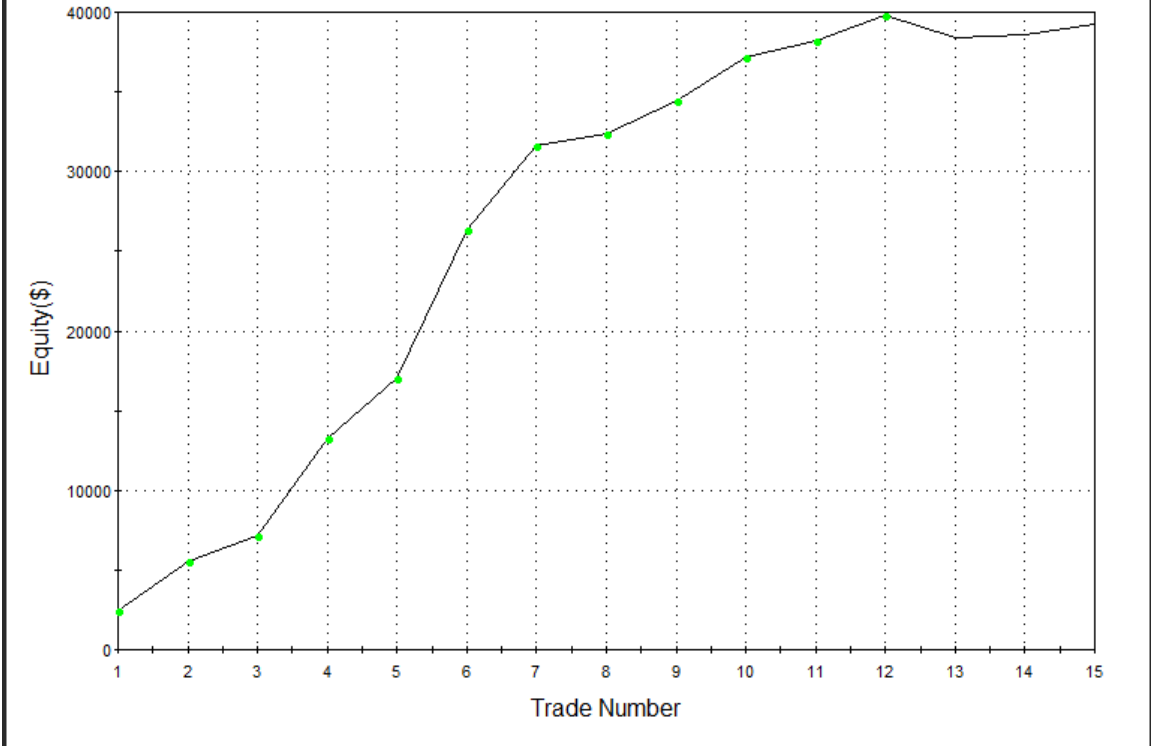
NDX closes down for at least the 3rd day in a row (but not at a 50-day low) while SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1997 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	41,187.65	15	13	2	86.67	3,380.37	8,261.56	-1,378.60	-2,723.00	2.45	15.94	2,745.84
9	38,095.83	15	14	1	93.33	2,912.18	8,209.02	-2,674.70	-2,674.70	1.09	15.24	2,539.72
8	39,216.69	15	14	1	93.33	2,905.69	9,347.15	-1,463.00	-1,463.00	1.99	27.81	2,614.45
7	33,014.33	15	11	4	73.33	3,479.36	9,614.11	-1,314.65	-2,783.20	2.65	7.28	2,200.96
6	26,951.95	15	11	4	73.33	3,242.52	9,598.49	-2,178.94	-3,491.60	1.49	4.09	1,796.80
5	18,820.26	15	11	4	73.33	2,521.97	7,700.66	-2,230.35	-4,491.24	1.13	3.11	1,254.68
4	19,316.64	15	11	4	73.33	2,427.74	7,217.86	-1,847.12	-3,306.68	1.31	3.61	1,287.78
3	17,007.62	15	10	5	66.67	2,253.15	5,558.47	-1,104.77	-3,288.48	2.04	4.08	1,133.84
2	17,796.11	15	11	4	73.33	2,091.75	5,134.01	-1,303.27	-3,224.52	1.60	4.41	1,186.41
1	13,078.91	15	9	6	60.00	1,987.14	4,708.01	-800.89	-1,842.36	2.48	3.72	871.93

Strong numbers all around here. Below are both the 2-day and 8-day curves.

NDX closes down for at least the 3rd day in a row (but not at a 50-day low) while SPX closes at a 3-day high. Buy SPX on close. Sell 2 days later. \$100k/trade. 1997 - present.



NDX closes down for at least the 3rd day in a row (but not at a 50-day low) while SPX closes at a 3-day high. Buy SPX on close. Sell 8 days later. \$100k/trade. 1997 - present.



The curves are not perfect, but they are both still suggesting an upside edge. The 2-day took a hit on the last instance but I am not overly concerned about that 1 bad trade – and it did recover in time to post a gain on the 8-day chart. Of course you may be thinking, "Would we better off buying NDX, rather than the SPX?". I ran that analysis as well, and have updated it below.

NDX closes down for at least the 3rd day in a row (but not at a 50-day low) while SPX closes at a 3-day high. Buy <b>SPX</b> on close. Sell X days later. \$100k/trade. 1997 - 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	70,970.73	15	11	4	73.33	6,855.33	15,598.96	-1,109.48	-3,066.12	6.18	16.99	4,731.38
9	69,171.50	15	12	3	80.00	6,041.04	14,526.97	-1,106.97	-2,026.08	5.46	21.83	4,611.43
8	70,479.60	15	12	3	80.00	6,049.24	13,793.28	-703.77	-1,024.40	8.60	34.38	4,698.64
7	56,078.67	15	9	6	60.00	6,981.18	13,478.40	-1,125.33	-1,837.68	6.20	9.31	3,738.58
6	43,978.56	15	9	6	60.00	5,932.31	12,734.64	-1,568.70	-3,417.34	3.78	5.67	2,931.90
5	35,573.80	15	10	5	66.67	4,559.22	11,203.20	-2,003.69	-4,727.65	2.28	4.55	2,371.59
4	27,101.99	15	11	4	73.33	3,684.01	8,835.48	-3,355.53	-4,634.27	1.10	3.02	1,806.80
3	19,842.63	15	9	6	60.00	3,443.81	7,788.11	-1,858.61	-5,059.31	1.85	2.78	1,322.84
2	26,663.35	15	10	5	66.67	3,940.45	10,921.40	-2,548.22	-4,763.30	1.55	3.09	1,777.56
1	19,382.71	15	10	5	66.67	2,573.56	5,474.91	-1,270.57	-3,295.90	2.03	4.05	1,292.18

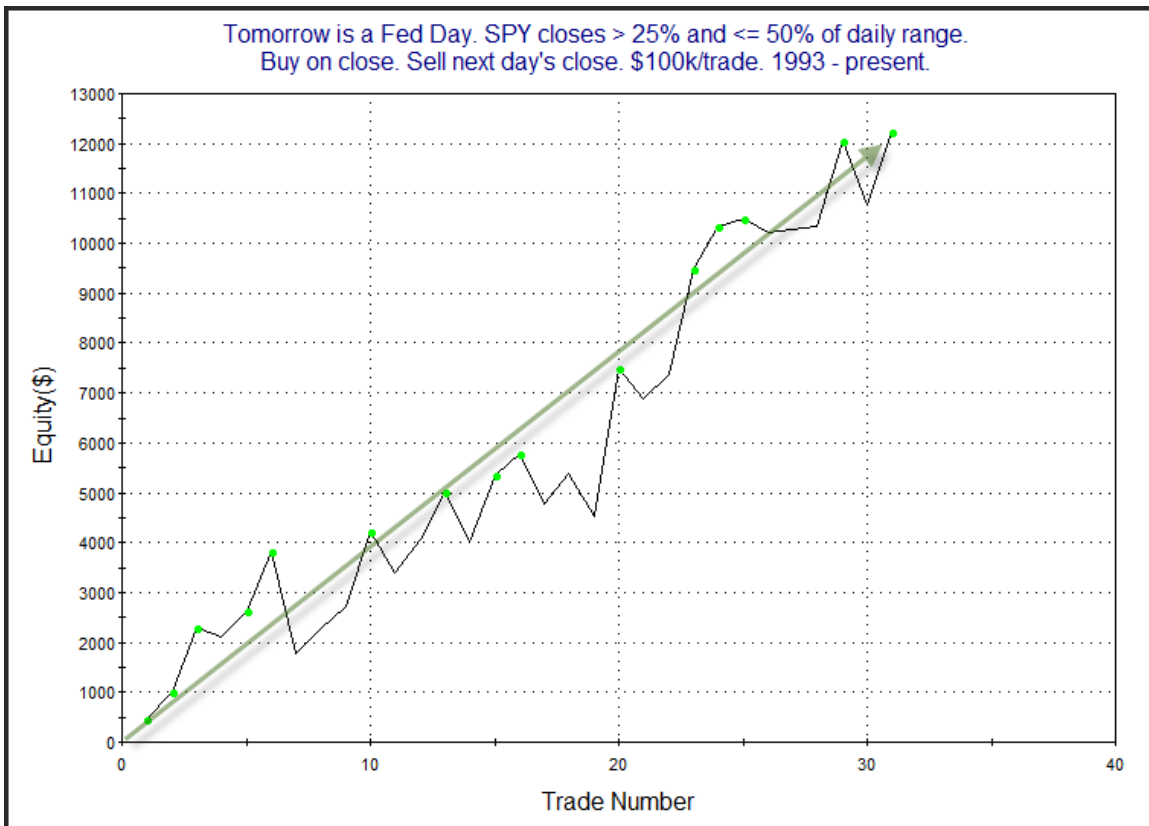
We see here a similar winning %, but more powerful results as the oversold index has enjoyed the bigger bounce.

It is notable that Wednesday is a Fed Day. Over the years the market has exhibited bullish tendencies on Fed Days. This is something I have discussed many times. Numerous studies may be found [on the blog](#) and in the [Quantifiable Edges Guide to Fed Days](#). One filter I have found very useful in examining Fed Day is where SPY closed in its daily range the day before. In the past I have broken it down by quartiles. I found the weaker the close the better the Fed Day has performed. On Tuesday SPY closed down between the 25<sup>th</sup> and 50<sup>th</sup> percentile of its daily range. Below are updated results when this has happened.

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of daily range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

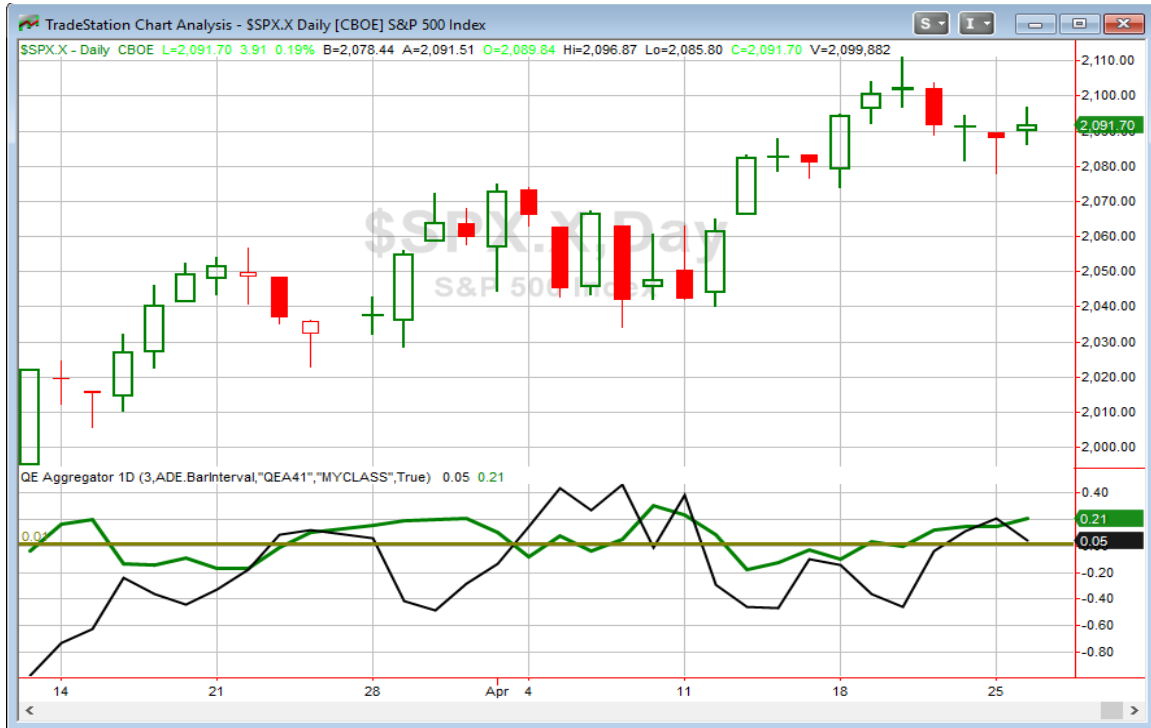
TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$12,223.10	Profit Factor	2.50
Gross Profit	\$20,356.86	Gross Loss	(\$8,133.76)
Total Number of Trades	31	Percent Profitable	70.97%
Winning Trades	22	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$394.29	Ratio Avg. Win:Avg. Loss	1.02
Avg. Winning Trade	\$925.31	Avg. Losing Trade	(\$903.75)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

The numbers here are all impressive. Below is the profit curve.



Wednesday's Fed Day appears to be another potential positive.

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



Tonight's studies helped the green Aggregator Line hold 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 slightly above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are slated to remain positive on Wednesday. This could change if more bearish evidence emerges. The Differential Pivot will be 2097.17 on Wednesday. That is 0.3% above Tuesday's close. So for SPX to move from oversold to overbought versus expectations on Wednesday it is going to have to close up at least 0.3%.

The Aggregator is again bullish and I am too. The Fed Day could very well help out. I have a small long position from Monday and I will look to ride that a little higher. If SPX does rally as expected on Wednesday and finishes above the Differential Pivot, then I will look to take profits on my position at the close.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 4/25 – slightly bullish**

The intermediate-term outlook was last updated in the 4/25 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)	4/25/2016	\$208.26	\$208.92	0.32%		bought on open

*I will look to sell my SPY position at the close if SPX closes  $\geq$  the Differential Pivot of 2097.17 on Wednesday.*

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