

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 3, 2016

Volume 9 Issue 84

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through.
- May 1st rallies have commonly been followed by dips.
- The CBI is now 6.

Short-term Outlook

The Bottom Line

Expectations have shifted to slightly negative and the market remains oversold. This does not suggest a strong edge. I am fairly neutral, there do appear to be opportunities in some Catapult trades.

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						
May 3, 2016	SPY gap and bounce just right	1-4 days	Bullish	1.80%	-1.15%	-2.20%
May 3, 2016	1st of May closes higher	1-4 days	Bearish	-2.25%	1.00%	2.30%
Active - Long Term						
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 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 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
May 2, 2016	10-day low > 200ma at end of month	1 day	Bullish			
May 2, 2016	1st of May bullish	1 day	Bullish			

The Evidence

Monday closed higher as our studies last night suggested it would. The SPX rose 0.8%, the NASDAQ gained 0.9%, and the Russell 2000 also rallied 0.9%. Breadth was modestly negative as the NYSE Up Issues % was 63% and the Up Volume % came in at 55%. NYSE volume declined some from Friday's level.

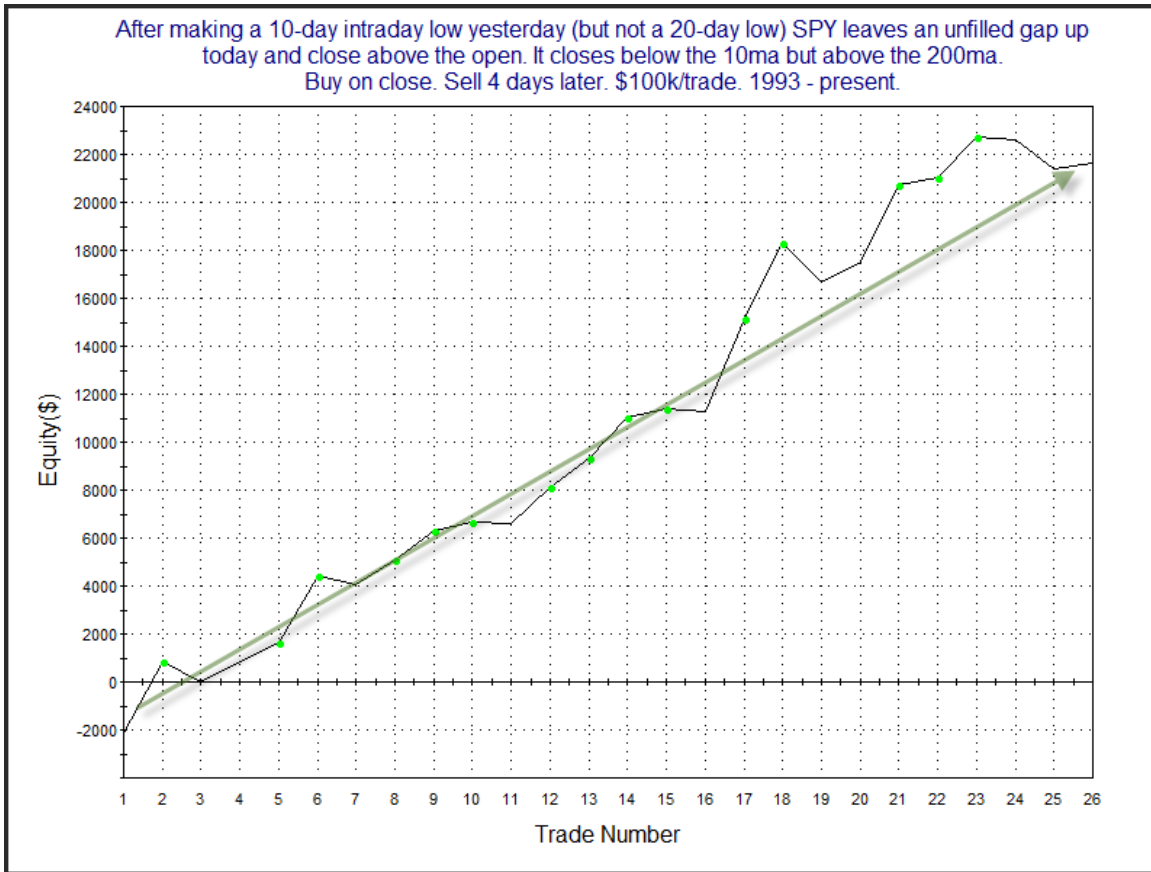
Monday's rally was marked by the fact that it featured an unfilled gap up and a further rise between the open and the close. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up from a low appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 7/29/15 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and close above the open. It closes below the 10ma but above the 200ma.
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	18,395.15	26	16	10	61.54	2,201.88	5,666.72	-1,683.49	-4,060.20	1.31	2.09	707.51
9	22,651.81	26	14	12	53.85	2,640.23	6,522.72	-1,192.61	-3,329.90	2.21	2.58	871.22
8	23,451.46	26	16	10	61.54	2,334.47	5,468.09	-1,390.01	-5,654.80	1.68	2.69	901.98
7	23,371.91	26	17	8	65.38	2,264.22	5,136.00	-1,889.98	-9,172.30	1.20	2.55	898.92
6	19,977.85	26	16	10	61.54	1,965.90	5,589.68	-1,147.65	-3,309.80	1.71	2.74	768.38
5	21,470.89	26	20	6	76.92	1,330.61	4,106.63	-856.89	-1,949.70	1.55	5.18	825.80
4	21,641.89	26	18	8	69.23	1,558.58	3,904.83	-801.57	-2,096.99	1.94	4.37	832.38
3	15,015.04	27	17	10	62.96	1,315.35	3,914.92	-734.60	-1,874.00	1.79	3.04	556.11
2	10,589.29	27	17	10	62.96	1,205.67	2,828.00	-990.70	-2,183.21	1.22	2.07	392.20
1	1,999.25	27	14	12	51.85	866.82	1,773.46	-844.68	-2,895.33	1.03	1.20	74.05

All 27 instances closed above the entry price at some point in the next week.

Indications here are bullish across the board. It is especially impressive that all 26 instances saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 4-day holding period.



The strong, steady upslope is impressive. This appears to confirm the upside edge suggested by the results table.

Also in the 7/29/15 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
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5	-4,695.74	29	13	16	44.83	1,726.48	3,073.60	-1,696.25	-3,739.32	1.02	0.83	-161.92
4	-889.35	31	17	14	54.84	1,296.82	2,950.20	-1,638.23	-2,744.82	0.79	0.96	-28.69
3	-8,242.29	33	16	17	48.48	844.90	2,811.60	-1,280.04	-3,070.92	0.66	0.62	-249.77
2	-8,070.55	35	17	18	48.57	830.72	2,341.35	-1,232.94	-2,818.42	0.67	0.64	-230.59
1	-2,592.64	35	13	22	37.14	951.55	2,470.05	-680.12	-1,777.90	1.40	0.83	-74.08

In the 7/29/15 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below.

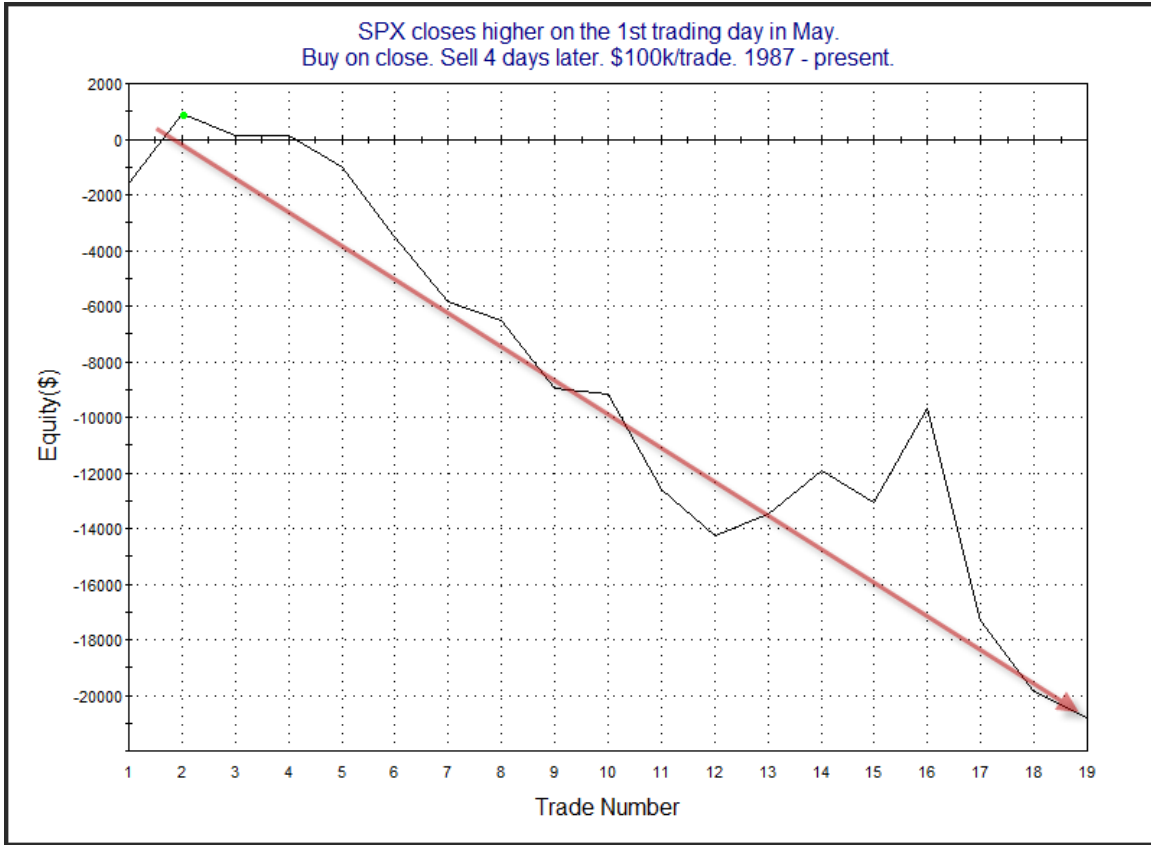
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5	-6,262.63	15	7	8	46.67	777.28	1,647.78	-1,462.95	-3,691.98	0.53	0.46	-417.51
4	-2,790.09	15	7	8	46.67	679.37	1,903.47	-943.21	-1,788.75	0.72	0.63	-186.01
3	-4,944.59	15	7	8	46.67	583.23	1,393.05	-1,128.40	-2,475.20	0.52	0.45	-329.64
2	-2,071.60	15	8	7	53.33	579.64	1,325.28	-958.39	-2,293.20	0.60	0.69	-138.11
1	-3,534.86	15	7	8	46.67	478.47	949.00	-860.52	-2,591.68	0.56	0.49	-235.66

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Monday.

Last night I showed the strong seasonal tendency of the SPX on the 1st trading day of May. In the May 2, 2012 letter I looked at what has happened after a positive start to May. Updated results may be found in the table below.

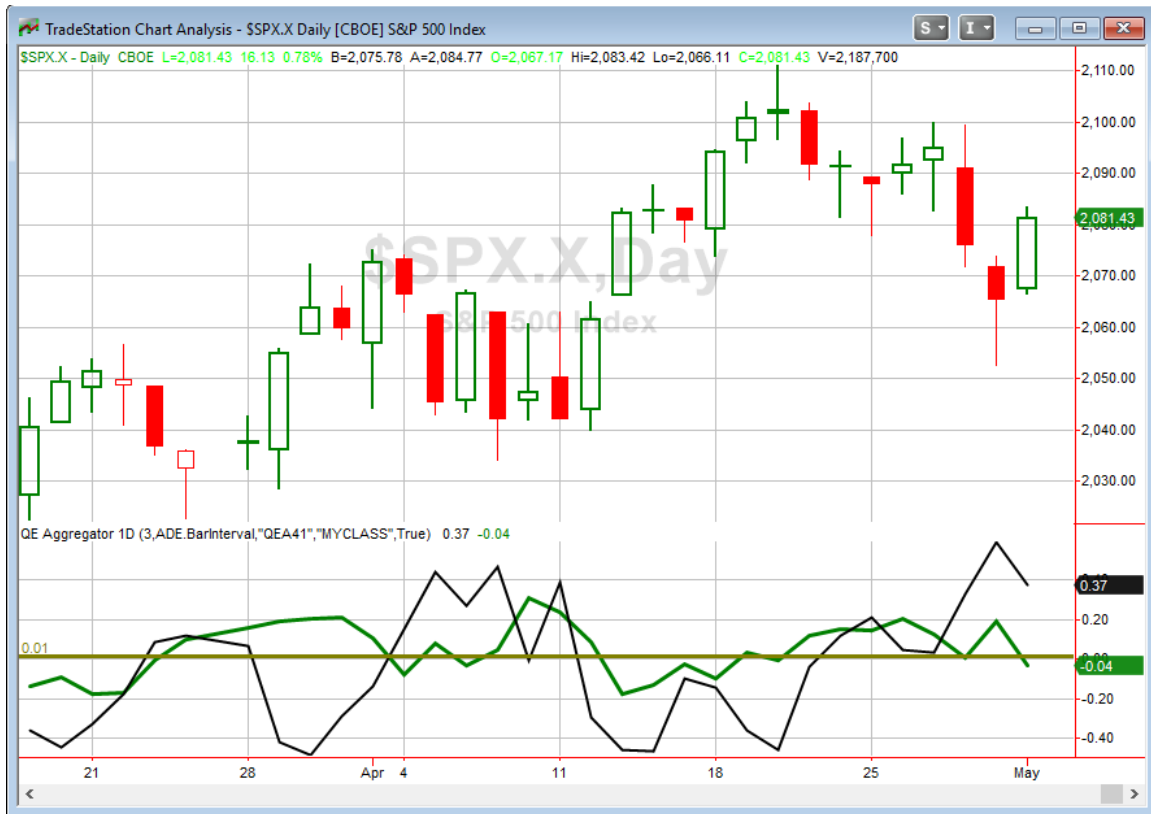
SPX closes higher on the 1st trading day in May. Buy on close. Sell X days later. \$100k/trade. 1987 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-9,573.78	19	7	12	36.84	1,757.81	5,843.23	-1,823.20	-3,529.99	0.96	0.56	-503.88
4	-20,825.42	19	4	15	21.05	2,050.46	3,375.31	-1,935.15	-7,584.54	1.06	0.28	-1,096.07
3	-14,560.75	19	7	12	36.84	1,371.02	4,747.13	-2,013.15	-6,151.13	0.68	0.40	-766.36
2	-9,935.68	19	7	12	36.84	1,022.97	2,969.64	-1,424.70	-3,614.20	0.72	0.42	-522.93
1	-1,144.61	19	12	7	63.16	549.31	3,358.36	-1,105.18	-2,378.78	0.50	0.85	-60.24

Of the 19 instances that rose on the first day in May since 1987, 15 of them closed lower 4 days later. Below is an equity curve that shows how it has played out over time.



The big drop in instance 17 was the 2010 Flash Crash. Even without that instance there appears to be a solid downside inclination. This leaves us with a mix of studies to consider for tonight.

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



With tonight's mix of studies included the green Aggregator Line dipped a little below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still well above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is 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 active studies, expectations are slated to remain a little negative on Tuesday. This could easily change if new bullish evidence emerges. The Differential Pivot will be 2082.72 on Tuesday. That is less than 0.1% above Monday's close. So for SPX to move from oversold to overbought versus expectations on Monday it will only need to close up 0.1%.

With evidence pointing south and the market only marginally overbought there does not seem to be a good reason to maintain my long SPY position. Like the Aggregator, I am neutral. I will look to flatten out my SPY position, but will add some more long exposure via a couple of new Catapult triggers. I will also note that any further increase in the CBI will generate some bullish studies and could turn expectations positive.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/2 – neutral

The intermediate-term outlook was last updated in the 5/2 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

ABT @ \$40.42 (bought 1/3)

ABT @ \$38.90 (bought @ limit) – 2nd lot

AMGN @ \$158.30 (bought @ limit)

GILD @ \$88.21 (bought @ limit)

NEW

ABT @ \$38.85 (buy 1/3 @ limit) – 3rd lot

AAPL @ \$93.64 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 6 (ABT-3, AMGN, GILD, AAPL)

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.

ABT – Buy 1/3 Catapult position @ \$38.85 LIMIT. This is from the Catapult section above. It will be the 3rd of 3 possible lots of ABT.

AAPL – Buy 1/3 Catapult position @ \$93.64 LIMIT. This is from the Catapult section above. It will be the 1st of 3 possible lots of AAPL.

Though they have done well over time, Catapults tend to be quite volatile and are traded without initial stops. Those new to Catapults should examine the information on the [Catapult System page](#).

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	4/25/2016	\$208.26	\$207.97	-0.14%		sell @ \$207.75 limit
ABT(1/3)	4/29/2016	\$40.37	\$38.85	-3.77%		Catapult
ABT(1/3)	5/2/2016	\$38.85	\$38.85	0.00%		Catapult
AMGN(1/3)	5/2/2016	\$158.30	\$158.99	0.44%		Catapult
GILD(1/3)	5/2/2016	\$88.21	\$89.00	0.90%		Catapult

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