

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 5, 2016

Volume 9 Issue 86

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.
- When QQQ has been below its 200ma, SPY bounces have not been as reliable.

Short-term Outlook

The Bottom Line

Expectations are now a little positive and the market is solidly oversold on a short-term basis. I like the long side.

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 5, 2016	Unfilled gap 2x. 5-low > 200ma	1-6 days	Bullish	1.90%	-1.30%	-2.40%
May 4, 2016	Unfill gap up. Unfill gap down.	1-2 days	Bearish	-1.30%	0.70%	1.30%
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						
May 5, 2016	Unfilled gap 2x. 5-low > 200ma	1-10 days	Bullish	2.50%	-1.70%	-3.35%
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			

The Evidence

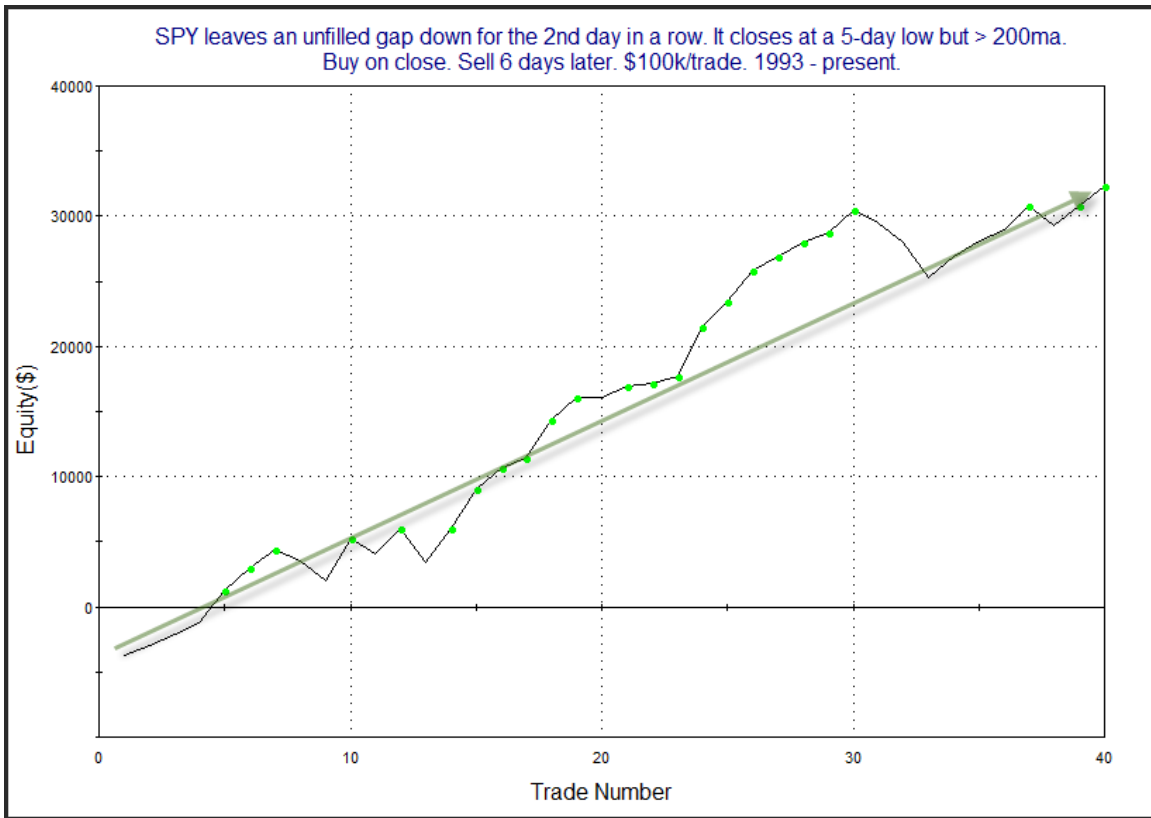
It was another tough day for the market. The SPX fell 0.6%, the NASDAQ lost 0.8%, and the Russell 2000 dropped 0.8%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % came in at 28%. NYSE volume dipped a bit from yesterday's level.

Notable about the price action over the last 2 days is that both Tuesday and Wednesday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 3/28/16 letter. Results are updated.

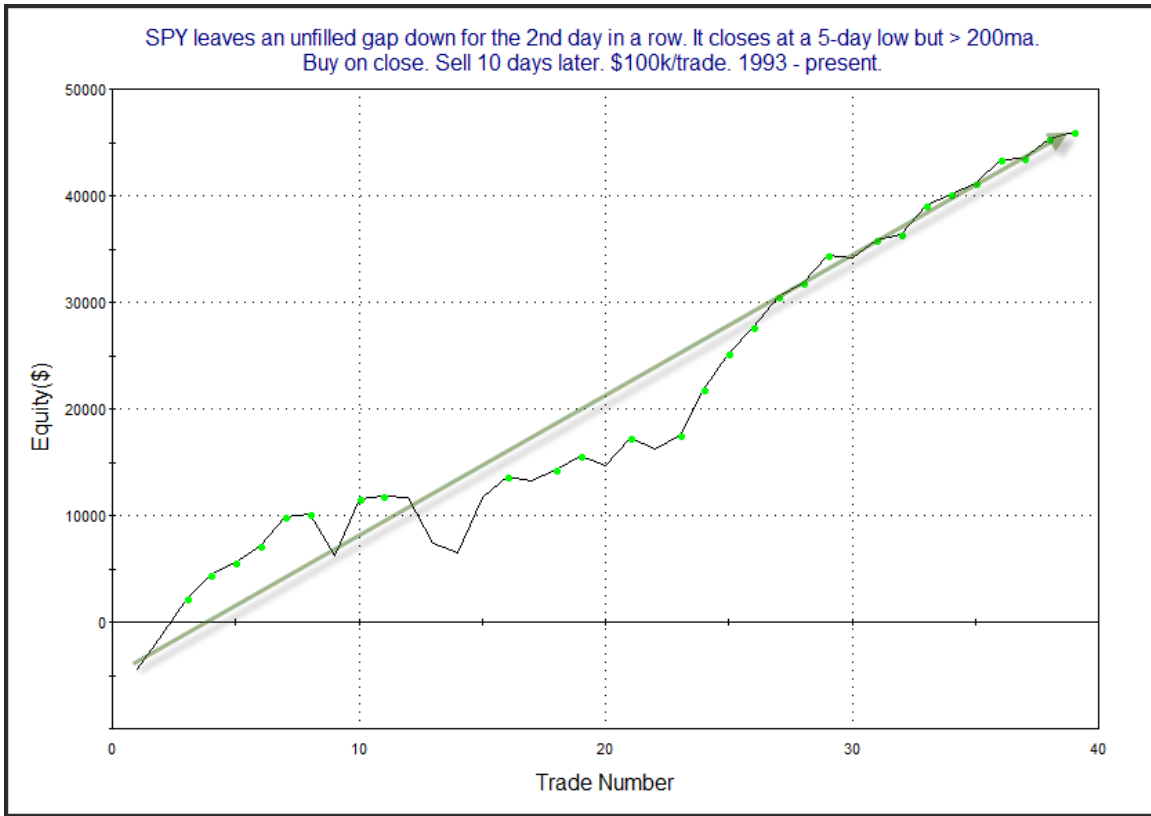
SPY leaves an unfilled gap down for the 2nd day in a row. It closes at a 5-day low but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	45,973.67	39	30	9	76.92	2,074.73	5,325.39	-1,807.58	-4,353.36	1.15	3.83	1,178.81
9	41,868.61	40	32	8	80.00	1,897.65	4,882.41	-2,357.01	-6,273.96	0.81	3.22	1,046.72
8	36,682.93	40	29	10	72.50	1,911.90	4,574.25	-1,876.21	-4,801.50	1.02	2.96	917.07
7	23,157.37	40	27	12	67.50	1,846.57	4,429.74	-2,224.99	-5,057.58	0.83	1.87	578.93
6	32,345.01	40	30	10	75.00	1,628.23	3,828.72	-1,650.20	-3,734.50	0.99	2.96	808.63
5	28,816.36	40	28	12	70.00	1,478.49	3,940.02	-1,048.45	-2,721.75	1.41	3.29	720.41
4	20,544.45	40	29	11	72.50	1,169.67	4,388.28	-1,216.00	-2,583.00	0.96	2.54	513.61
3	11,013.45	40	24	16	60.00	980.98	3,325.14	-783.13	-1,795.80	1.25	1.88	275.34
2	7,437.85	40	24	16	60.00	868.14	2,948.14	-837.34	-2,436.12	1.04	1.56	185.95
1	5,910.59	41	26	15	63.41	646.79	1,974.15	-727.06	-1,849.26	0.89	1.54	144.16

Only 1 instance failed to close above the entry price at some point in the next 6 days. It triggered on 9/14/99.

The numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 6-day holding period.



The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.



This looks even better – especially in recent times.

One issue that could be a concern with the current environment is that while SPY is above its 200ma, QQQ is not. The market is a bit split here and uptrend vs. downtrend is not entirely clear. To see what the impact might be with QQQ failing to keep up I ran a few tests. I did a simple pullback to a 10-day low setup when the SPY was above its 200ma. But I broke the results down to times when QQQ was confirming the long-term trend versus times it was not. You can see the results in the two studies below.

SPY closes at a 10-day low and above the 200ma. QQQ is also > 200ma.
Buy SPY on close. Sell X days later. \$100k/trade. 2000 - 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	61,614.20	97	61	36	62.89	2,093.47	7,347.34	-1,835.76	-9,886.63	1.14	1.93	635.20
9	60,332.49	101	66	35	65.35	1,882.06	7,507.50	-1,825.25	-10,036.80	1.03	1.94	597.35
8	33,739.88	104	66	38	63.46	1,737.50	5,905.90	-2,129.88	-14,030.10	0.82	1.42	324.42
7	55,881.30	110	71	39	64.55	1,770.23	5,465.46	-1,789.87	-8,047.80	0.99	1.80	508.01
6	50,960.39	116	72	44	62.07	1,623.29	4,954.95	-1,498.10	-7,910.10	1.08	1.77	439.31
5	44,208.75	122	68	54	55.74	1,702.02	4,974.97	-1,324.60	-4,229.10	1.28	1.62	362.37
4	56,996.97	134	80	54	59.70	1,518.14	4,827.80	-1,193.60	-3,909.15	1.27	1.88	425.35
3	53,726.20	148	94	54	63.51	1,256.39	5,558.62	-1,192.12	-6,611.52	1.05	1.83	363.01
2	50,060.22	177	111	65	62.71	1,078.66	4,479.35	-1,071.87	-3,893.00	1.01	1.72	282.83
1	38,322.87	239	146	93	61.09	792.83	4,400.20	-832.58	-6,063.75	0.95	1.49	160.35

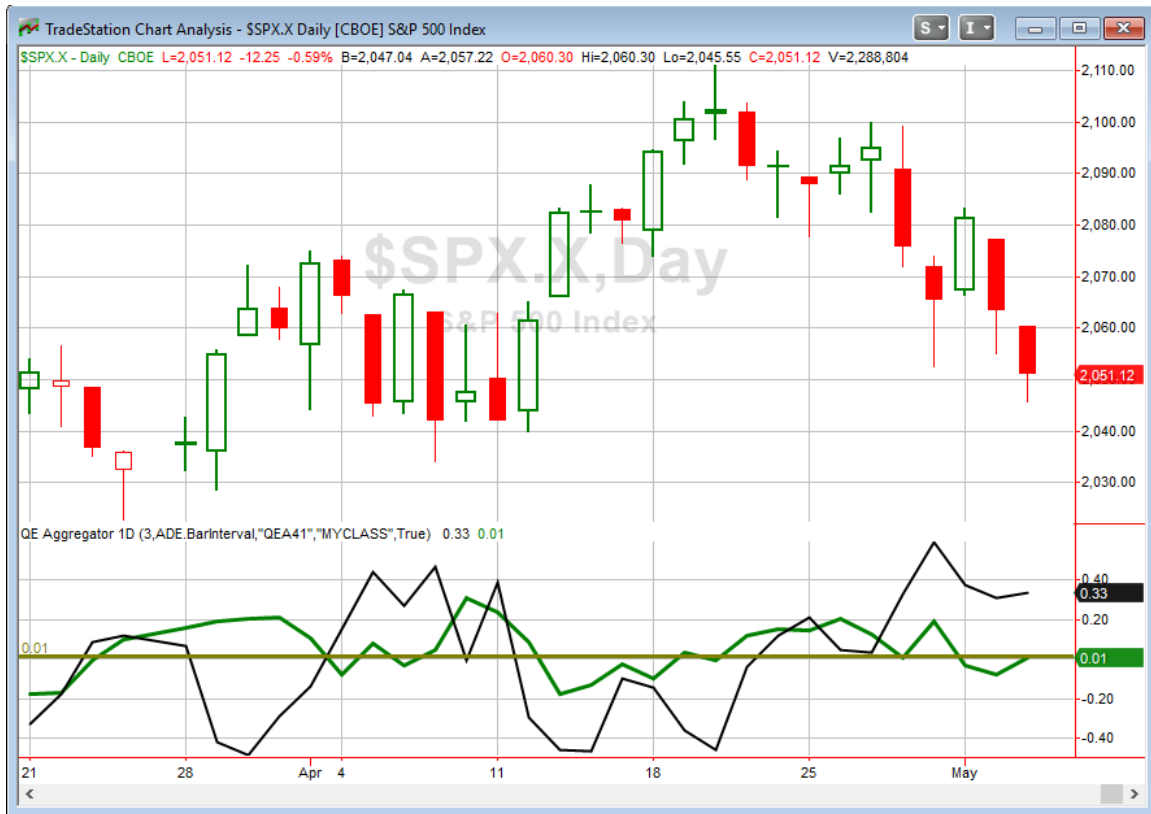
SPY closes at a 10-day low and above the 200ma. QQQ is < 200ma.
Buy SPY on close. Sell X days later. \$100k/trade. 2000 - present.

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	4,173.06	13	5	8	38.46	3,068.12	4,966.72	-1,395.94	-3,492.18	2.20	1.37	321.00
9	1,944.75	13	5	8	38.46	2,659.47	5,304.53	-1,419.07	-2,883.39	1.87	1.17	149.60
8	-1,934.86	14	6	8	42.86	1,734.30	4,729.34	-1,542.58	-4,328.43	1.12	0.84	-138.20
7	253.69	15	5	10	33.33	3,061.30	5,642.08	-1,505.28	-3,146.11	2.03	1.02	16.91
6	3,449.27	17	8	9	47.06	2,249.25	5,516.00	-1,616.08	-2,874.30	1.39	1.24	202.90
5	-1,893.37	18	6	12	33.33	2,466.34	5,602.68	-1,390.95	-3,217.89	1.77	0.89	-105.19
4	-2,138.88	21	8	13	38.10	1,730.26	4,066.08	-1,229.30	-2,342.19	1.41	0.87	-101.85
3	-129.40	22	12	10	54.55	960.70	3,081.08	-1,165.78	-2,385.60	0.82	0.99	-5.88
2	2,542.59	25	14	11	56.00	875.61	4,305.42	-883.27	-2,683.80	0.99	1.26	101.70
1	-3,483.41	33	17	16	51.52	551.38	1,699.32	-803.56	-1,398.06	0.69	0.73	-105.56

This 1st study shows a bit of an upside tendency. The 2nd study does not exhibit this tendency at all. Of course the 2nd study does not have very many instances. But early returns here do seem to suggest that the SPY is more likely to bounce when QQQ is confirming the long-term uptrend than when it is refuting it.

I did look at the “2 unfilled gaps and a 5-day low” study from above with regards to this filter as well. It has only triggered twice when QQQ has been below the 200ma. We can’t really learn anything from just 2 instance but in case you were wondering they both were higher 6 and 10 days later.

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



With tonight's study included the green Aggregator Line inched back above zero. Positive readings mean net expectations from the Active List are for upside 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 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 turned long at the close.

Based on the current active studies, expectations are slated to remain positive on Thursday. This could change if convincing bearish evidence emerges. The Differential Pivot will be 2084.41 on Wednesday. That is 1.6% above Wednesday's close. So for SPX to move from oversold to overbought versus expectations on Wednesday it will need to close up at least 1.6%.

Despite the lack of trend confirmation from QQQ there appears to be a small upside edge hinted at by the studies. I had tried getting out of my small long position the last couple of days but was thwarted by large unfilled down gaps. The setup is now back to where I would be interested in buying some SPY. So for now I will just remain in the 1 lot I already had. Additionally, I will look to take on some XIV. VIX futures contango is very strong between the 1st and 2nd month right now. This is unusual with the VIX at a relatively high short-term level. And the bullish market outlook is another positive for this trade.

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)

ABT @ \$38.85 (bought @ limit) – 3rd lot

AAPL @ \$93.64 (buy 1/3 @ limit) – not filled – cancel for now

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.

XIV – buy ½ @ \$26.20 limit. Based on the Aggressive VIX system principles. The Aggregator is bullish and there is very steep contango in the VIX futures market. This is providing a strong wind at XIV's back. I will look to take on ½ of my total anticipated exposure. If I am unable to buy another ½ in the coming days, then I might scale out of this in 2 pieces. Note that XIV is extremely volatile and traders should position size accordingly.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	4/25/2016	\$208.26	\$205.01	-1.56%		Aggregator
ABT(1/3)	4/29/2016	\$40.37	\$38.10	-5.62%		Catapult
ABT(1/3)	5/2/2016	\$38.85	\$38.10	-1.93%		Catapult
AMGN(1/3)	5/2/2016	\$158.30	\$154.18	-2.60%		Catapult
GILD(1/3)	5/2/2016	\$88.21	\$85.60	-2.96%		Catapult
ABT(1/3)	5/3/2016	\$38.80	\$38.10	-1.80%		Catapult

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2016 Hanna Capital Management, LLC.