

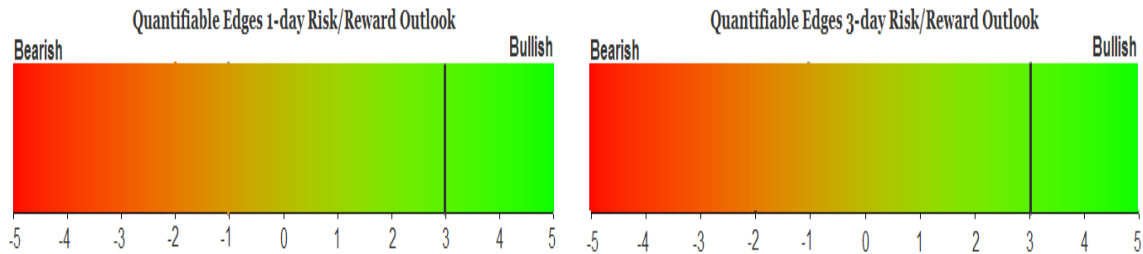
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 6, 2016

Volume 9 Issue 87

Market Overview



Signals Overview

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

Tonight's Research Points

- 3-day pullbacks like SPX has experienced have often bounced in the coming days.
- Employment days generally do not exhibit a consistent edge.

Short-term Outlook

The Bottom Line

Expectations are turning more positive and the market remains oversold. I am long and looking to get longer.

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 6, 2016	3-day pullback. No 20-high. HV > 0.25.	1-5 days	Bullish	1.80%	-1.10%	-2.20%
May 5, 2016	Unfilled gap 2x. 5-low > 200ma	1-6 days	Bullish	1.90%	-1.30%	-2.40%
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			
Dropped Tonight						
May 4, 2016	Unfill gap up. Unfill gap down.	1-2 days	Bearish	-1.30%	0.70%	1.30%

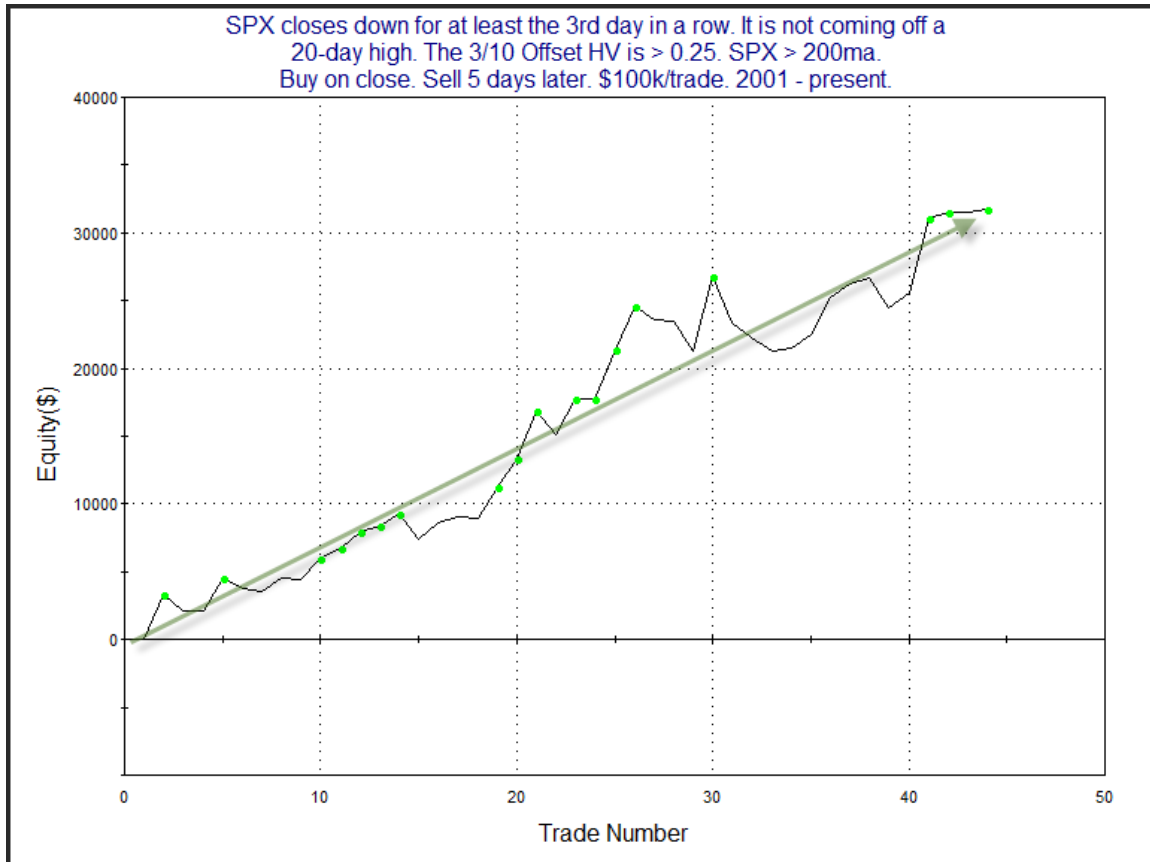
The Evidence

The market began the day with a gap higher but could not hold on to its gains. The SPX fell 0.02%, the NASDAQ lost 0.18%, and the Russell 2000 dropped 0.5%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 41%. NYSE volume dipped a bit for the 2nd day in a row.

There were a decent number of studies that triggered in the Quantifinder this evening, and they mostly centered around the fact that the SPX has made a 3-day pullback. Three-day pullbacks will often suggest an upside edge. But like most things, they are not all created equal. A few delineators I have found useful are 1) the long-term trend, 2) how volatile the pullback is, and 3) whether it is coming directly after an intermediate-term high. The study below was last seen in the 6/13/13 letter. It utilizes the above delineators, all of which are lined up in a similar manner right now. I have updated the results below.

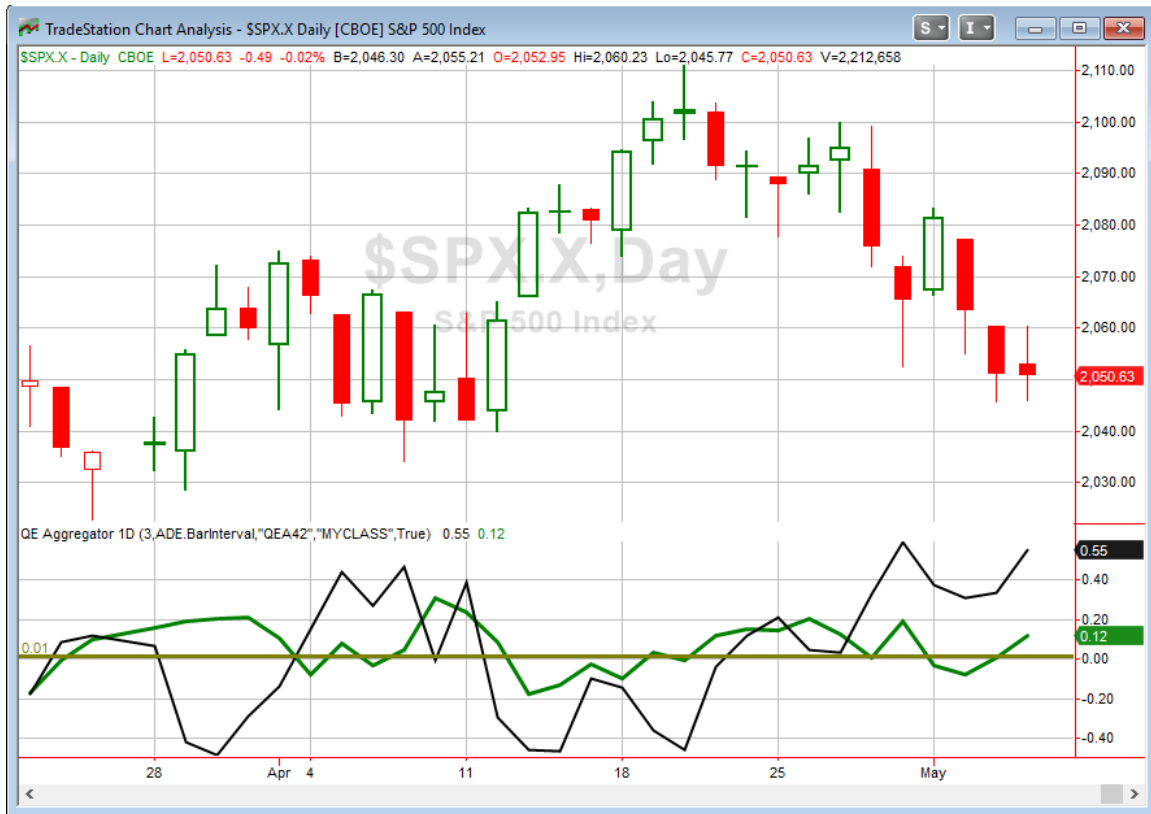
SPX closes down for at least the 3rd day in a row. It is not coming off a 20-day high. The 3/10 Offset HV is > 0.25. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 2001 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	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	31,720.84	44	27	17	61.36	1,811.67	5,555.16	-1,011.43	-3,385.80	1.79	2.84	720.93
4	28,893.52	46	29	17	63.04	1,543.90	5,290.00	-934.09	-3,863.84	1.65	2.82	628.12
3	25,974.58	48	30	18	62.50	1,450.12	4,895.50	-973.83	-2,658.00	1.49	2.48	541.14
2	25,073.23	52	32	20	61.54	1,258.61	4,424.50	-760.11	-2,943.71	1.66	2.65	482.18
1	23,343.29	68	44	24	64.71	912.73	4,396.50	-700.70	-1,953.32	1.30	2.39	343.28

Results here are actually pretty good. The results have improved in the last few years. Below is an equity curve that assumes a 5-day holding period.



The strong move higher supports the idea of a short-term bullish edge.

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



With tonight's study included the green Aggregator Line moved further 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 again very far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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.

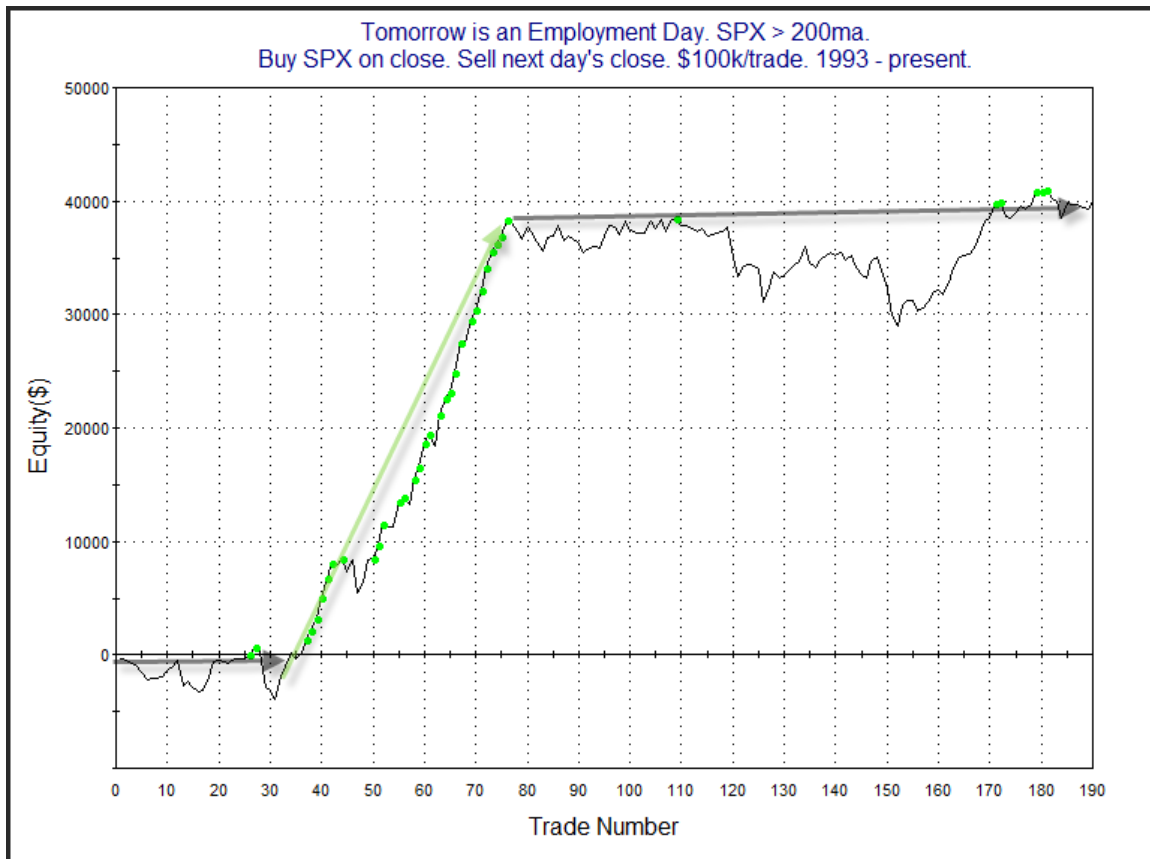
Based on the current active studies, expectations are slated to remain positive on Friday. This could change if convincing bearish evidence emerges. The Differential Pivot will be 2064.90 on Friday. That is 0.7% above Thursday's close. So for SPX to move from oversold to overbought versus expectations on Friday it will need to close up at least 0.7%.

The CBI is stalled out at 6, as we did not see any further Catapults trigger again today. There are some securities that are not too far off, so much more selling without a bounce and we could certainly see the CBI spike. But for now it is still just at a mildly bullish 6.

Short-term evidence has turned in favor of the bulls and we are also starting to see short-term bearish studies expire. One was lost at Thursday's close, and the other one will expire on Friday's close. So hints continue to point to a bounce. I have some long exposure and am looking to benefit from this bounce. I will look to increase that exposure on Friday if

I can get a good fill price. I will note that the BLS Employment Report is going to be released around 8:30am EST on Friday. This often causes sharp reactions. If it provides a gap down open I will view that as a potential buying opportunity. If it gaps up I will wait until the end of the day before I would take on any more SPY exposure.

In case you were wondering, I am not a big fan of trading Employment Days. Historically, they have not provided a consistent edge. But they have generated higher volatility on a fairly consistent basis. Extra risk and inconsistent reward is not normally a great combo. The chart below shows employment day performance when the SPX had close above its 200-day moving average the day before.



It looked pretty good for a while, but that was a long time ago. And while there was a bit of a hot streak more recently, my overall take on this curve is “no thanks”.

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 – trying again 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.

AAPL – buy 1/3 Catapult position @ \$93.21 LIMIT. This is a Catapult from a few days ago that did not fill originally. I will again look to enter it, and I will use Thursday's closing price as my limit price. It is the 1st of 3 possible lots.

SPY – buy ¼ index position @ \$204.75 LIMIT ON OPEN. If not filled on a gap-down open, cancel the order and buy @ \$204.97 LIMIT ON CLOSE. Based on the short-term overview above, I will be looking to add a 2nd lot of SPY if I can get a favorable entry price. But I will not buy into an intraday selloff. Selloffs on Fridays can sometimes get ugly and I would rather wait for the end of the day unless the market offers a cheap price right at the open.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	4/25/2016	\$208.26	\$204.97	-1.58%		Aggregator
ABT(1/3)	4/29/2016	\$40.37	\$38.50	-4.63%		Catapult
ABT(1/3)	5/2/2016	\$38.85	\$38.50	-0.90%		Catapult
AMGN(1/3)	5/2/2016	\$158.30	\$154.25	-2.56%		Catapult
GILD(1/3)	5/2/2016	\$88.21	\$85.86	-2.66%		Catapult
ABT(1/3)	5/3/2016	\$38.80	\$38.50	-0.77%		Catapult
XIV(1/2)	5/5/2016	\$26.20	\$26.25	0.19%		Aggressive VIX

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