

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 11, 2016

Volume 9 Issue 90

Market Overview



Signals Overview

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

Tonight's Research Points

- The combination of a 2-day rally, low volume, and a close below a short-term high has historically leaned short-term bullish.

Short-term Outlook

The Bottom Line

Evidence remains bullish, but the SPX is strongly overbought. This leaves me neutral on the indices.

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 9, 2016	CBI >= 7. SPX < 200.	1-5 days	Bullish			
May 6, 2016	3 day pullback	1-5 days	Bullish			
May 5, 2016	Unfilled gap 2x. 5-low > 200ma	1-6 days	Bullish	1.90%	-1.30%	-2.40%
Active - Long Term						
May 9, 2016	CBI >= 7. SPX < 200.	1-15 days	Bullish			
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			

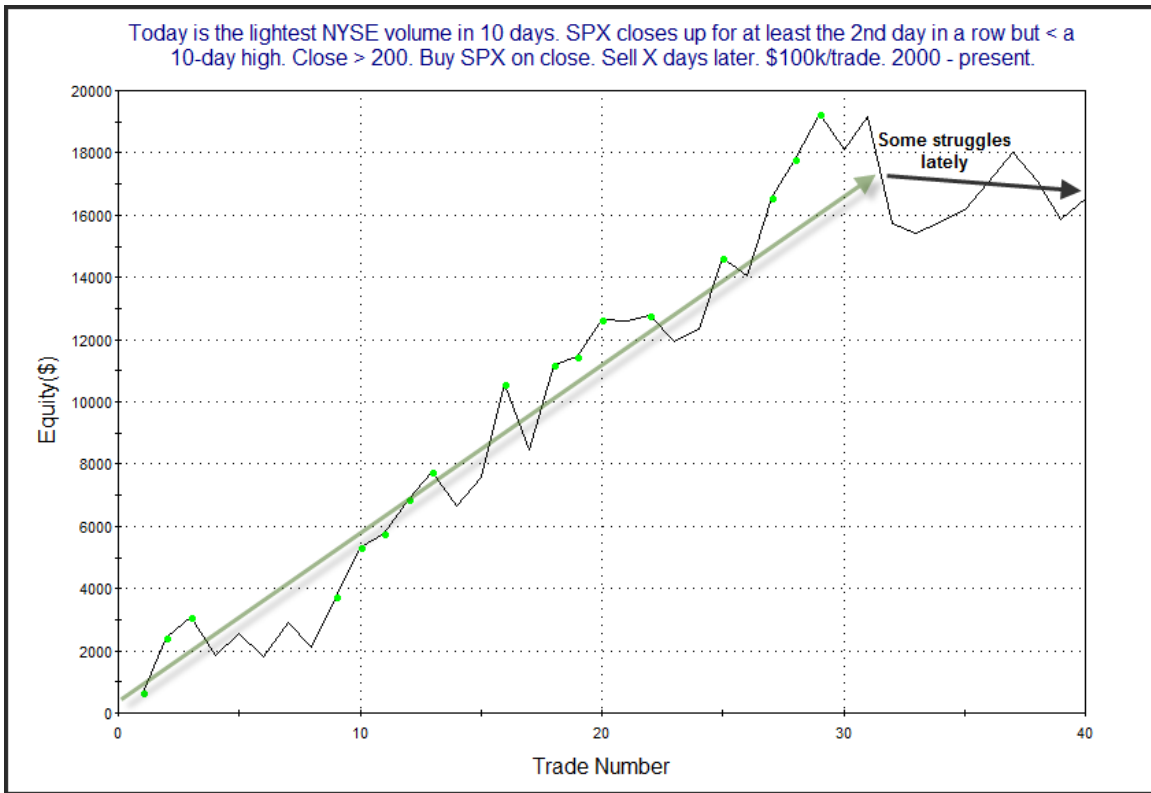
The Evidence

The market gapped up on Tuesday and never looked back. In the end the SPX finished up 1.25%, the NASDAQ gained 1.26%, and the Russell 2000 rose 0.95%. Breadth was strongly positive as the NYSE Up Issues % was 76% and the Up Volume % came in at 83%. NYSE volume declined for the 5th day in a row.

The low volume and mild gains did not generate much action of interest. There was one study in the Quantifinder tonight that is worth discussion. It was last seen in the 5/5/15 letter and it examined the fact that volume came in very light while SPX posted a multi-day rise that has failed to close at a new short-term high. An updated stats table is below.

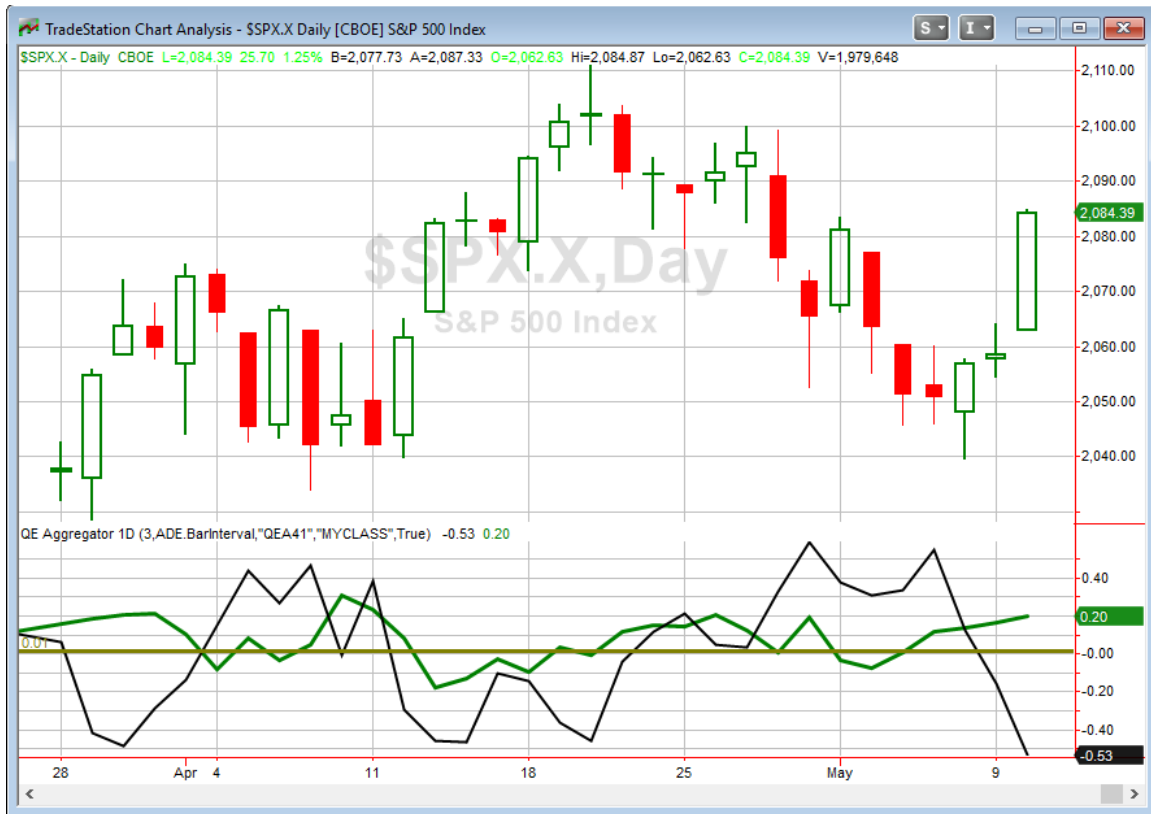
Today is the lightest NYSE volume in 10 days. SPX closes up for at least the 2nd day in a row but < a 10-day high. Close > 200. Buy SPX on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	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
5	9,768.77	39	22	17	56.41	1,543.89	3,614.46	-1,423.34	-4,134.88	1.08	1.40	250.48
4	16,434.12	39	24	15	61.54	1,362.64	3,249.59	-1,084.62	-2,827.44	1.26	2.01	421.39
3	16,525.55	40	27	13	67.50	1,146.95	3,000.26	-1,110.94	-3,418.20	1.03	2.14	413.14
2	12,393.36	40	27	13	67.50	948.24	2,380.51	-1,016.09	-2,946.78	0.93	1.94	309.83
1	2,296.32	43	21	22	48.84	737.47	1,953.82	-599.57	-1,611.60	1.23	1.17	53.40

These results may appear a little surprising. The weak volume and the fact that the market has already risen in the short-term may seem like it would suggest a downside edge. But the numbers are solidly bullish. A good portion of the early gains occur in the first 3 days. Below is a profit curve using a 3-day exit strategy.



We saw a strong upslope for an extended period, but there have been some struggles lately. I am not inclined to throw this study out because of some recent chop, but I am also not inclined to include it on the Active List tonight. I'll instead continue to watch it and see if the line starts moving higher again.

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



Without anything new being added tonight the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dove much further below 0. The negative Differential Line reading means SPX is strongly overbought versus recent expectations. So expectations are positive but SPX is overbought. 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 stayed flat at the close.

With all the short-term studies currently bullish, expectations are slated to remain positive on Wednesday. This could change if convincing bearish evidence emerges. The Differential Pivot will be 2062.25 on Wednesday. That is 1.1% below Tuesday's close. So for SPX to move from overbought to oversold versus expectations on Wednesday it is going to need to close down at least 1.1%.

The rally helped a couple of Catapults hit their exit triggers. I will exit the AMGN trade idea at the open. And AGN, which never filled, also reached its exit trigger.

Tonight's study was not great from the standpoint of offering compelling bullish evidence. But it was strong enough that it should discourage some short-term bears. The other studies we still have active suggest more upside, but the market is more overbought now than it has been in quite a while. The current setup does not appear compelling for taking on new

positions. Right now I intend to hold the Catapults to completion. And even with the market very overbought, the strong contango in XIV has me looking to continue to ride that holding.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/9 – slightly bullish

The intermediate-term outlook was last updated in the 5/9 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

GILD @ \$88.21 (bought @ limit)

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

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

Broad Market Large Cap CBI – 5 (ABT-3, 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)</i>	<i>4/25/2016</i>	<i>\$208.26</i>	<i>\$206.72</i>	<i>-0.74%</i>		<i>sold on open</i>
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	\$157.24	-0.67%		<i>sell on open</i>
GILD(1/3)	5/2/2016	\$88.21	\$86.18	-2.30%		<i>sell on close >= \$86.46</i>
ABT(1/3)	5/3/2016	\$38.80	\$38.10	-1.80%		Catapult
XIV(1/2)	5/5/2016	\$26.20	\$29.46	12.44%		Aggressive VIX
AAPL(1/3)	5/6/2016	\$93.21	\$93.42	0.23%		<i>sell on close >= \$93.59</i>

GILD and AAPL are fairly near hitting their closing exit triggers. If they manage to close their triggers them on Wednesday I will exit them at the close. (I do this by using a "Limit on Close" order.)

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