

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 19, 2016

Volume 9 Issue 96

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Such negative breadth on an up day has been rare but has normally led to at least a brief pullback in the past.
- Consolidations like we have seen the last 3 days after making new 20-day lows have shown a mild upside edge.

## *Short-term Outlook*

### *The Bottom Line*

Evidence has turned a little bearish, but the SPX is still oversold. This leaves me short-term neutral.

**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>						
May 19, 2016	20-low and 3-day consolidation	1-5 days	Bullish			
May 19, 2016	SPX up. Breadth < 40%.	1-4 days	Bearish	-2.30%	0.55%	0.95%
May 17, 2016	20-low to 4-high	1-8 days	Bullish	2.40%	-1.50%	-3.10%
May 16, 2016	Down 3 going into opex week	1-5 days	Bullish	1.90%	-1.20%	-2.20%
<b>Active - Long Term</b>						
May 17, 2016	20-low to 4-high	1-20 days	Bullish	3.80%	-2.10%	-4.55%
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			

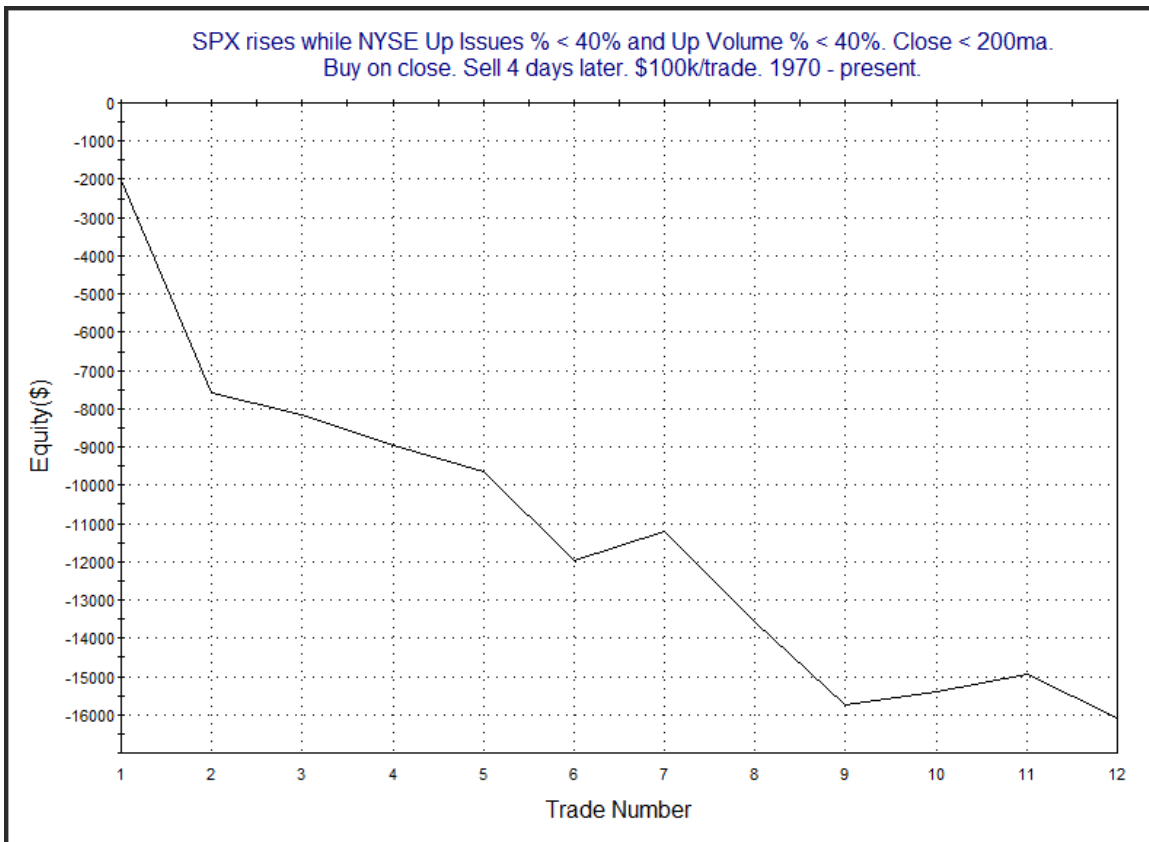
**The Evidence**

A back and forth day ended with mostly higher index readings. The SPX finished up less than ½ point, while the NASDAQ and the Russell 2000 each gained 0.5%. Breadth was negative as the NYSE Up Issues % was 34% and the Up Volume % came in at 34.5%. NYSE volume declined some from Tuesday’s level.

The divergence between breadth and the big-cap indices was the most remarkable thing about Wednesday’s action. It is very rare to see such negative breadth numbers on a day where the SPX rises. This triggered [a plethora](#) of studies related to breadth divergences. The most compelling of these studies was from the 11/14/14 subscriber letter. It looked at times when the SPX was in a long-term uptrend and it closed higher on a day that both the NYSE Up Issues % and Up Volume % closed < 40%. I have updated the results below.

SPX rises while NYSE Up Issues % < 40% and Up Volume % < 40%. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	-13,751.20	12	5	7	41.67	611.15	870.48	-2,400.99	-4,430.00	0.25	0.18	-1,145.93
4	-16,089.80	12	3	9	25.00	520.29	754.80	-1,961.18	-5,555.22	0.27	0.09	-1,340.82
3	-15,205.12	12	2	10	16.67	389.67	611.03	-1,598.45	-5,209.68	0.24	0.05	-1,267.09
2	-13,336.44	12	3	9	25.00	203.45	364.08	-1,549.64	-3,659.18	0.13	0.04	-1,111.37
1	-8,571.13	13	3	10	23.08	275.10	724.20	-939.64	-1,963.59	0.29	0.09	-659.32
<b>All but one instance closed below the entry price on either Day 1 or Day 2.</b>												

Results appear quite bearish. Below is a profit curve assuming a 4-day holding period.



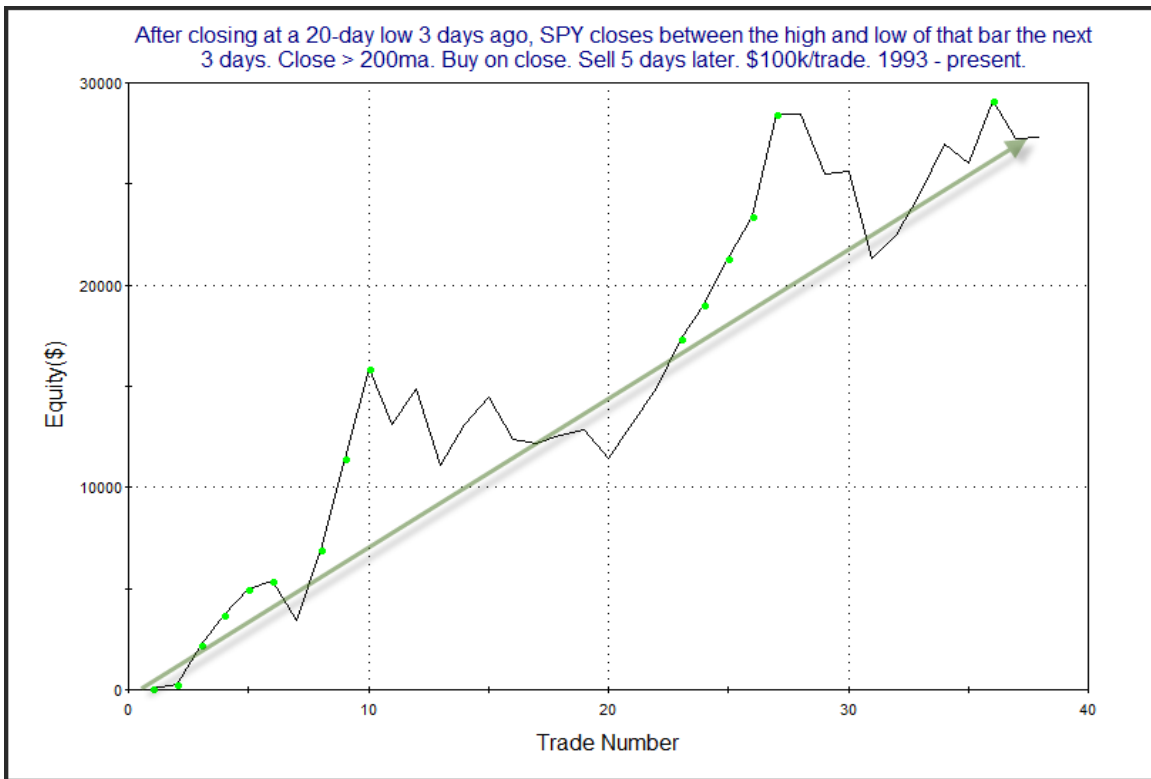
The curve here has headed lower on a pretty persistent basis. And reward/risk stats are especially notable. The Average Drawdown is 4.25x the size of the Avg Run-Up. Also, the Avg Drawdown is about 2.1x the size of the *largest* run-up. So this study certainly seems worthy of consideration.

After Friday's sharp selloff the market has floundered around. Neither bulls nor bears have been able to gain traction. So we have seen a consolidation. It is often said that consolidations resolve in the direction of the trend. Many would say that means down, since we are around 20-day lows. Others could claim that the trend is up, since SPX is still well above its 200ma. I refer back to the study below, which appeared last in the 10/7/14 letter.

After closing at a 20-day low 3 days ago, SPY closes between the high and low of that bar the next 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

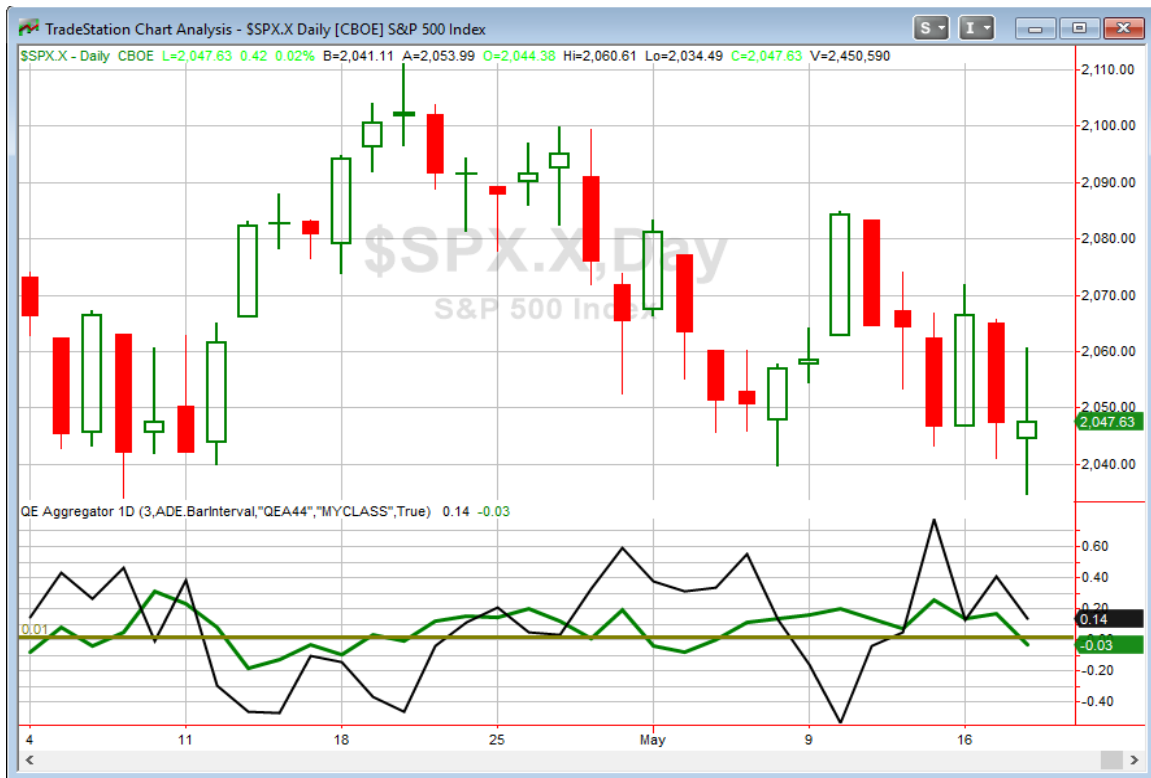
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	27,299.33	38	27	10	71.05	1,835.03	4,984.19	-2,224.65	-4,326.19	0.82	2.23	718.40
4	17,084.34	39	25	14	64.10	1,716.43	4,855.07	-1,844.74	-4,345.88	0.93	1.66	438.06
3	16,863.47	39	22	17	56.41	1,786.32	4,577.32	-1,319.73	-4,248.64	1.35	1.75	432.40
2	13,825.33	40	25	15	62.50	1,298.87	4,932.84	-1,243.09	-2,818.42	1.04	1.74	345.63
1	8,221.61	42	24	16	57.14	889.87	2,355.32	-820.95	-2,101.88	1.08	1.63	195.75

Closing 3x between the high and low of the bar that put us at a 20-day low means 1) the selloff day was probably pretty large, and 2) the market has been moving sideways since. Results here seem to favor the bull case. And even though the size of the gains is not great, the % Profitable appears pretty good. I also examined the profit curves. The 5-day can be found below.



The curve has certainly been choppy. But has continued to move from lower left to upper right. I decided to include this study on the Active List tonight.

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



With tonight's studies under consideration the green Aggregator Line dipped 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 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.

With the current list of active studies, evidence is poised to turn back to bullish on Thursday's close. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2076.13 on Thursday. That is 1.3% above Wednesday's close. So SPX would need to close up at least 1.4% in order to move from oversold to overbought versus expectations on Thursday.

So the Aggregator is flat. But with expectations set to turn bullish and the market not near turning overbought, it seems likely the Aggregator will turn back to bullish on Thursday's close. When the Aggregator turns neutral I generally exit my index positions. I have small profits in SPY, and I will look to take them on Thursday. But if I cannot get a good fill, I see no need to chase price lower, since a bullish Aggregator is likely to be the result anyway.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 5/16 – slightly bullish**

The intermediate-term outlook was last updated in the 12/15 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) – 2<sup>nd</sup> lot

GILD @ \$88.21 (bought @ limit)

ABT @ \$38.85 (bought @ limit) – 3<sup>rd</sup> lot

**Broad Market Large Cap CBI – 4 (ABT-3, GILD)**

**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
ABT(1/3)	4/29/2016	\$40.37	\$37.75	-6.49%		Catapult
ABT(1/3)	5/2/2016	\$38.85	\$37.75	-2.83%		Catapult
GILD(1/3)	5/2/2016	\$88.21	\$82.88	-6.04%		Catapult
ABT(1/3)	5/3/2016	\$38.80	\$37.75	-2.71%		Catapult
XIV(1/2)	5/5/2016	\$26.20	\$27.74	5.88%		Aggressive VIX
SPY(1/4)	5/18/2016	\$204.44	\$204.91	0.23%		Aggregator

***I will look to sell SPY at \$204.91 limit.***

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.