

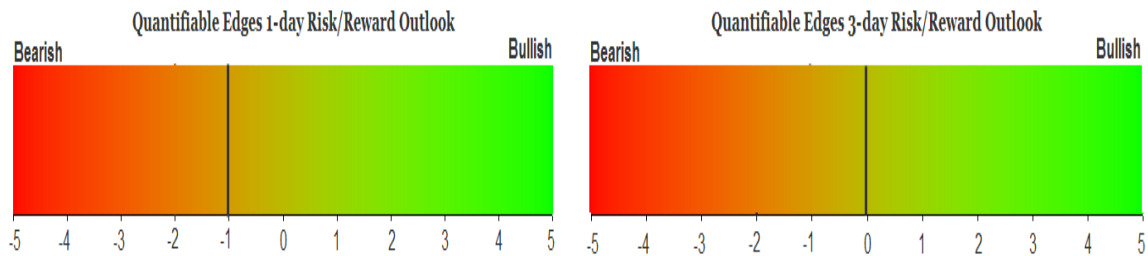
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 2, 2016

Volume 9 Issue 105

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>	<b>QE Buy Pwr Swing</b>
<b>Flat</b>	<b>50% Long XIV</b>	<b>Short</b>

## Tonight's Research Points

- SPX hitting a 10-day high while the VIX also rises tends to lead to weakness the next day.
- Thursday of Memorial Week has been strong.
- The gap and reverse pattern the last 2 days suggests weakness over the next couple of days.

## *Short-term Outlook*

### *The Bottom Line*

Like yesterday, evidence is slightly bullish but the market is a little overbought. This leaves me short-term neutral.

**Summary of Recent Active Studies (see Letters from listed dates for details) – not updated tonight**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
June 1, 2016	Month closes weakly	1 day	Bullish			
May 31, 2016	SPY breakaway gap	1-5 days	Bullish	1.50%	-1.00%	-2.00%
May 25, 2016	QE Buying Power Short Signal	1-6 days	Bearish			
<b>Active - Long Term</b>						
May 31, 2016	NASDAQ Leading	int term	Bullish			
May 24, 2016	Bounce from 20-low then inside day dn.	1-10 days	Bullish	5.00%	-2.85%	-6.75%
May 17, 2016	20-low to 4-high	1-20 days	Bullish	3.80%	-2.10%	-4.55%
April 26, 2016	Golden Cross	int term	Bullish			
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			
<b>Dropped Tonight</b>						
May 27, 2016	Down today. RSI2 > 90/	1-2 days	Bullish			

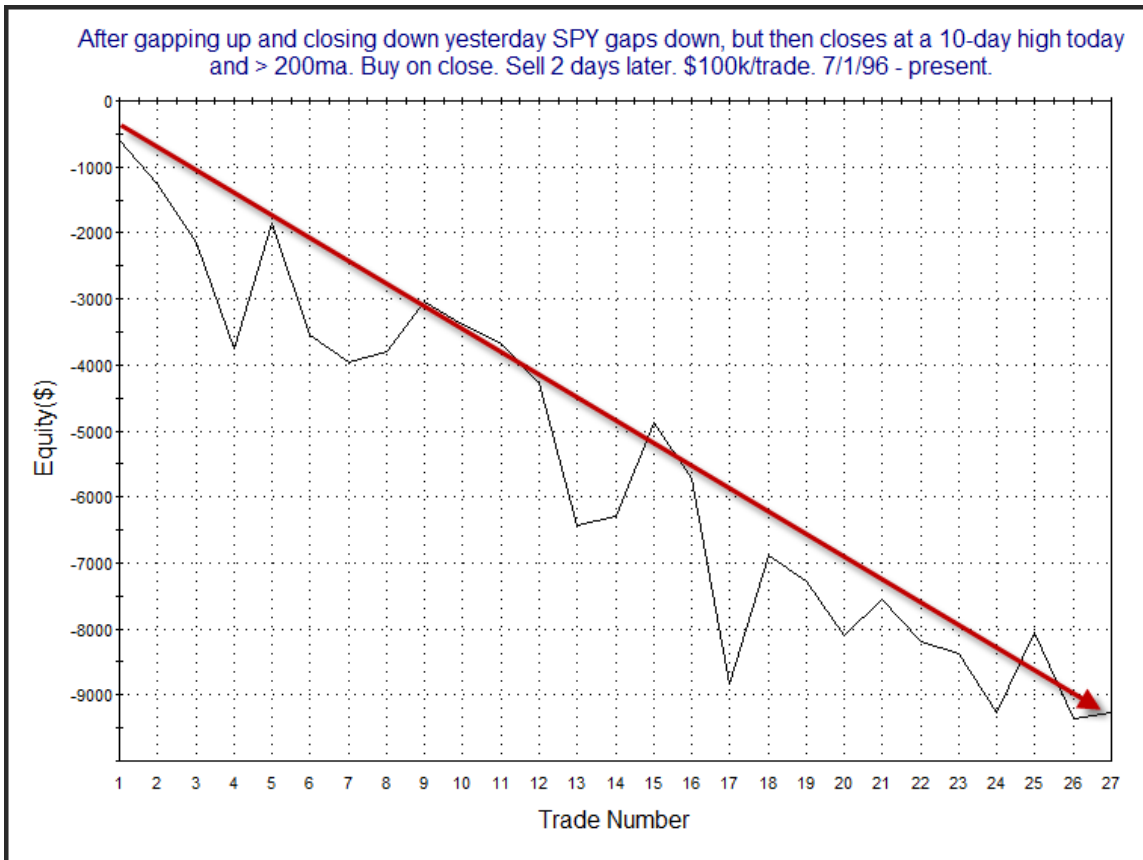
**The Evidence**

Wednesday started poorly but finished with mild gains. The SPX rose 0.1%, the NASDAQ gained 0.1%, and the Russell 2000 rallied 0.7%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 61%. NYSE volume declined from Tuesday’s level.

While the market managing to recover from a gap down and closing at a new high may seem like a positive, the study below saw Wednesday’s “gap and reverse” as a potential negative. The study was last seen in the 11/25/15 Subscriber Letter. I have updated the results.

After gapping up and closing down yesterday SPY gaps down, but then closes at a 10-day high today and > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/96 - 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	-14,115.42	26	11	15	42.31	1,080.06	1,888.77	-1,733.07	-6,714.00	0.62	0.46	-542.90
4	-13,539.01	26	11	15	42.31	936.39	1,803.51	-1,589.29	-4,267.12	0.59	0.43	-520.73
3	-8,984.01	27	12	15	44.44	905.83	2,657.93	-1,323.60	-4,244.74	0.68	0.55	-332.74
2	-9,270.04	27	9	18	33.33	906.16	1,935.96	-968.08	-3,107.14	0.94	0.47	-343.33
1	-1,974.29	27	11	16	40.74	575.78	2,409.00	-519.24	-1,388.76	1.11	0.76	-73.12

The numbers here look somewhat bearish, with much of the damage being done by day 2. I also produced a profit curve assuming a 2-day holding period.



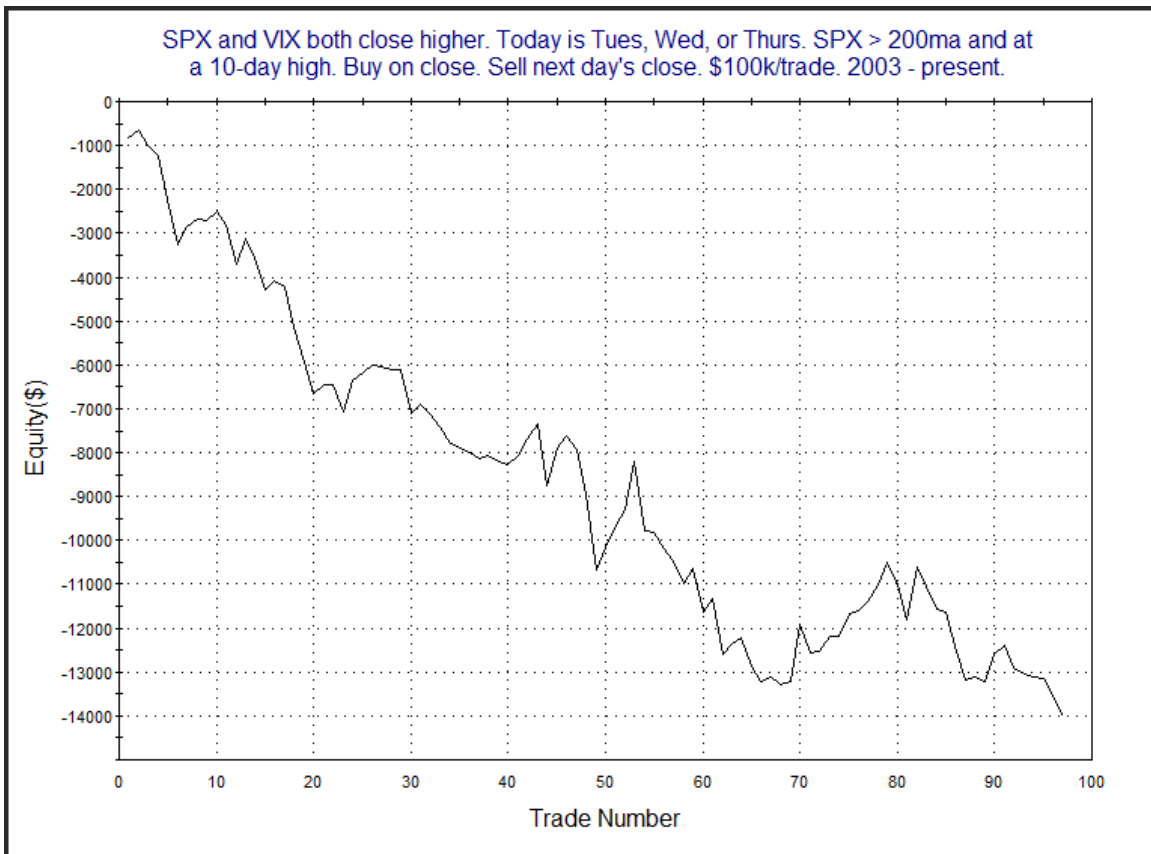
There is a bit of chop in this curve but the overall slope seems good enough to warrant consideration. I included this study on the Short-Term Active List.

As most subscribers are no doubt aware, the VIX and the SPX will most often move opposite each other. But on Wednesday they both closed up. In the 11/23/12 Letter I showed one study that suggested a possible downside edge for the next day. Below I have updated the stats.

SPX and VIX both close higher. Today is Tues, Wed, or Thurs. SPX > 200ma and at a 10-day high. Buy on close. Sell next day's close. \$100k/trade. 2003 - present.

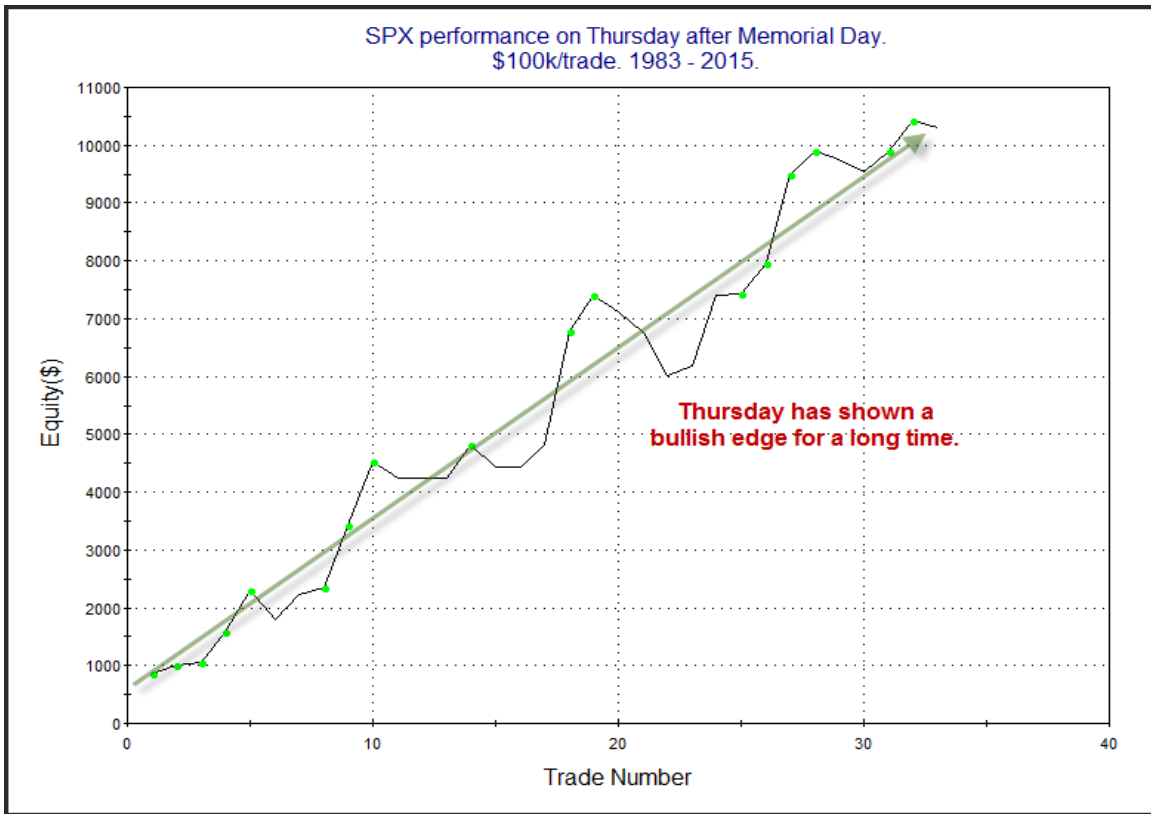
TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$14,020.81)	Profit Factor	0.51
Gross Profit	\$14,392.41	Gross Loss	(\$28,413.22)
Total Number of Trades	97	Percent Profitable	42.27%
Winning Trades	41	Losing Trades	56
Even Trades	0		
Avg. Trade Net Profit	(\$144.54)	Ratio Avg. Win:Avg. Loss	0.69
Avg. Winning Trade	\$351.03	Avg. Losing Trade	(\$507.38)
Largest Winning Trade	\$1,286.52	Largest Losing Trade	(\$1,721.70)

Numbers here suggest a mild downside inclination. They are good enough to take a look at the profit curve.



The steady downslope here is impressive. I have therefore elected to include this study on the Active List.

In the 5/31/16 letter this past weekend I examined Memorial Day week seasonality. After exhibiting a positive bias for many years, the last six years have struggled. But that has not appeared the case on the Thursday after Memorial Day. Thursday has maintained a steady upward bias. The chart below is the same one I showed in the letter a few days ago. It illustrates Thursday's historical strength.



And here are the stats to go along with it.

SPX performance on Thursday after Memorial Day.  
\$100k/trade. 1983 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$10,306.72	Profit Factor	4.39
Gross Profit	\$13,343.19	Gross Loss	(\$3,036.47)
Total Number of Trades	33	Percent Profitable	69.70%
Winning Trades	23	Losing Trades	9
Even Trades	1		
Avg. Trade Net Profit	\$312.32	Ratio Avg. Win:Avg. Loss	1.72
Avg. Winning Trade	\$580.14	Avg. Losing Trade	(\$337.39)
Largest Winning Trade	\$1,970.50	Largest Losing Trade	(\$735.68)

Nothing alarming here. I will be incorporating these results into the Aggregator for Thursday.

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



With tonight's evidence included the green Aggregator Line held just barely above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held just a little below 0. The negative Differential Line reading means SPX is 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 the current list of active studies, expectations are poised to remain positive on Thursday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2097.54 on Thursday. That is 0.1% below Wednesday's close. So for SPX to move from overbought to oversold versus expectations it will need to close down just 0.1%.

While 3-day expectations are bullish, tonight's studies do suggest Thursday could close lower. So there may be a 1-day downside edge. But overall with the current Aggregator configuration, the mix of evidence, and the chop the last few days, there simply does not appear to be a strong edge. So I will remain patiently awaiting the next strong edge to arise before committing new capital.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 5/31 – bullish***

### **Catapult and Capitulative Breadth Statistics**

*[Catapult & CBI Presentation Link](#)*

#### ***Open Catapult Triggers***

*None .*

***Broad Market Large Cap CBI – 0***

### **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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
XIV(1/2)	5/5/2016	\$26.20	\$31.95	21.95%		Aggressive VIX

VIX futures contango remains strong (just under 14% between 1<sup>st</sup> and 2<sup>nd</sup> month). That is helping our XIV position. I will look to ride it a bit further.

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