

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 9, 2016

Volume 9 Issue 110

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- SPX and VIX up 2 days in a row with SPX at a 50-day high suggests a pullback.
- 3 unfilled up gaps has often been followed by losses the next day.

Short-term Outlook

The Bottom Line

Evidence is bearish and with the market a little overbought, there appears to be a bit of a downside edge. But it is still not quite strong enough to compel me to take a counter-trend position.

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

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
June 7, 2016	VIX up SPX 50-high. Monday	1-2 days	Bearish			
June 6, 2016	Big drop from 50-high	1-4 days	Bullish	1.10%	-0.80%	-1.60%
Active - Long Term						
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	≥ 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						
June 6, 2016	Unfilled gap from 50-high	1 day	Bearish			
May 31, 2016	SPY breakaway gap	1-5 days	Bullish	1.50%	-1.00%	-2.00%

The Evidence

Wednesday was an up day for the market. The SPX gained 0.3%, the NASDAQ rose 0.3%, and the Russell 2000 rallied 0.8%. Breadth was positive as the NYSE Up Issues % was 66% and the Up Volume % came in at 67%. NYSE volume rose a little from Tuesday’s level.

One notable about Wednesday was that it marked the 3rd day in a row that the SPY posted an unfilled up gap. This has rarely happened since the SPY began trading in 1993. The study below examined other instances and was last seen in the 5/7/13 letter. Results are updated.

SPY leaves an unfilled up gap for the 3rd day in a row. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$3,537.58)	Profit Factor	0.25
Gross Profit	\$1,149.04	Gross Loss	(\$4,686.62)
Total Number of Trades	16	Percent Profitable	31.25%
Winning Trades	5	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	(\$221.10)	Ratio Avg. Win:Avg. Loss	0.54
Avg. Winning Trade	\$229.81	Avg. Losing Trade	(\$426.06)
Largest Winning Trade	\$500.58	Largest Losing Trade	(\$1,126.25)

On average we've only seen this occur about once every 1.5 years. Statistics favor the downside. I listed below all 16 instances along with their day 1 returns.

SPY leaves an unfilled up gap for the 3rd day in a row. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/31/1994	Buy	\$48.22	-0.52%	\$0.00
2/1/1994	Sell	\$47.97		(\$642.63)
4/6/1995	Buy	\$50.75	-0.08%	\$236.40
4/7/1995	Sell	\$50.71		(\$551.60)
5/14/1996	Buy	\$66.77	-0.12%	\$808.38
5/15/1996	Sell	\$66.69		(\$179.64)
9/16/1996	Buy	\$68.80	-0.23%	\$261.54
9/17/1996	Sell	\$68.64		(\$828.21)
12/1/1997	Buy	\$98.09	-0.60%	\$0.00
12/2/1997	Sell	\$97.50		(\$1,559.07)
10/29/1999	Buy	\$137.00	-1.05%	\$0.00
11/1/1999	Sell	\$135.56		(\$1,049.76)
11/5/1999	Buy	\$137.88	0.09%	\$362.50
11/8/1999	Sell	\$138.00		(\$819.25)
7/2/2001	Buy	\$124.13	-0.02%	\$0.00
7/3/2001	Sell	\$124.10		(\$869.40)
6/15/2007	Buy	\$153.07	-0.12%	\$208.96
6/18/2007	Sell	\$152.89		(\$267.73)
9/3/2010	Buy	\$110.89	-1.13%	\$0.00
9/7/2010	Sell	\$109.64		(\$1,207.34)
3/9/2012	Buy	\$137.57	0.01%	\$137.94
3/12/2012	Sell	\$137.58		(\$348.48)
8/7/2012	Buy	\$140.32	0.12%	\$234.96
8/8/2012	Sell	\$140.49		(\$363.12)
5/6/2013	Buy	\$161.79	0.50%	\$531.48
5/7/2013	Sell	\$162.60		(\$74.16)
6/27/2013	Buy	\$161.08	-0.41%	\$198.40
6/28/2013	Sell	\$160.42		(\$756.40)
7/13/2015	Buy	\$209.77	0.43%	\$609.28
7/14/2015	Sell	\$210.68		(\$57.12)
2/17/2016	Buy	\$192.88	-0.41%	\$202.02
2/18/2016	Sell	\$192.09		(\$600.88)

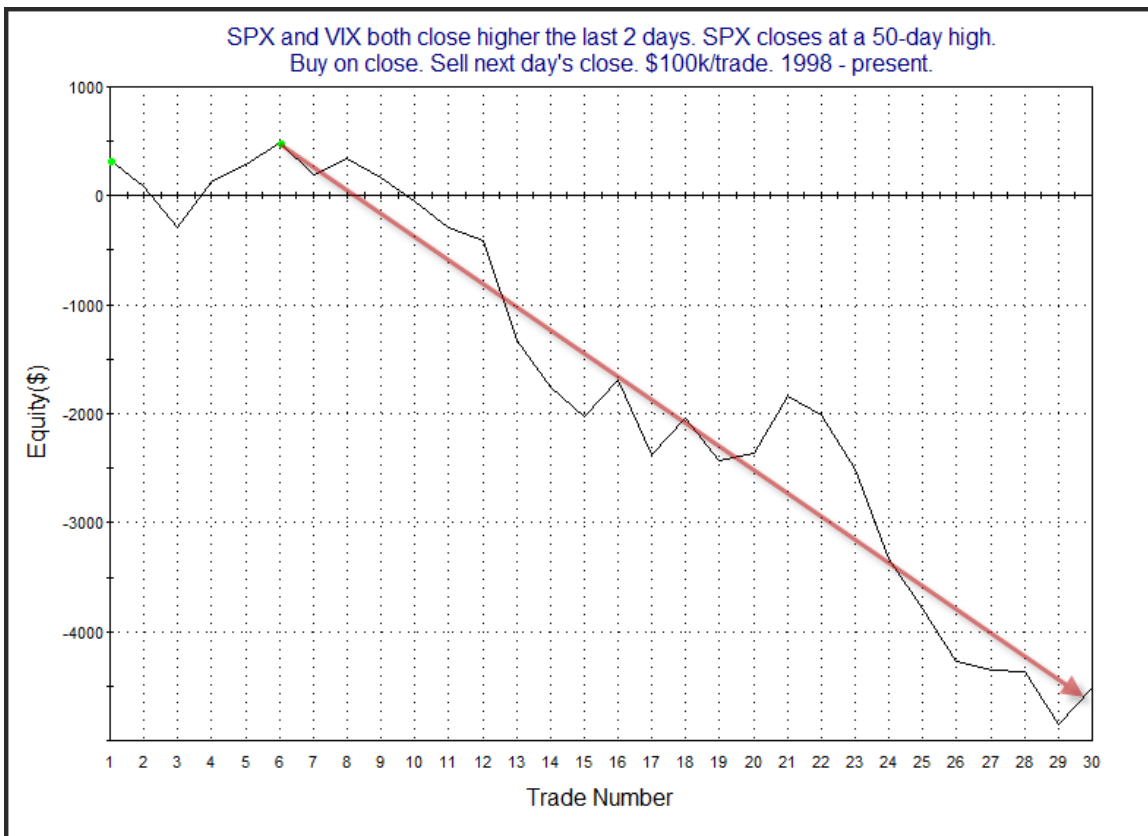
The only instances where the intraday run-up was larger than the drawdown were 5/7/13 and 7/14/15.

This was also the 3rd day in a row that the SPX and the VIX posted gains. This triggered the study below, which was a repeat from last night's 6/8/16 letter.

SPX and VIX both close higher the last 2 days. SPX closes at a 50-day high.
Buy on close. Sell next day's close. \$100k/trade. 1998 - present.

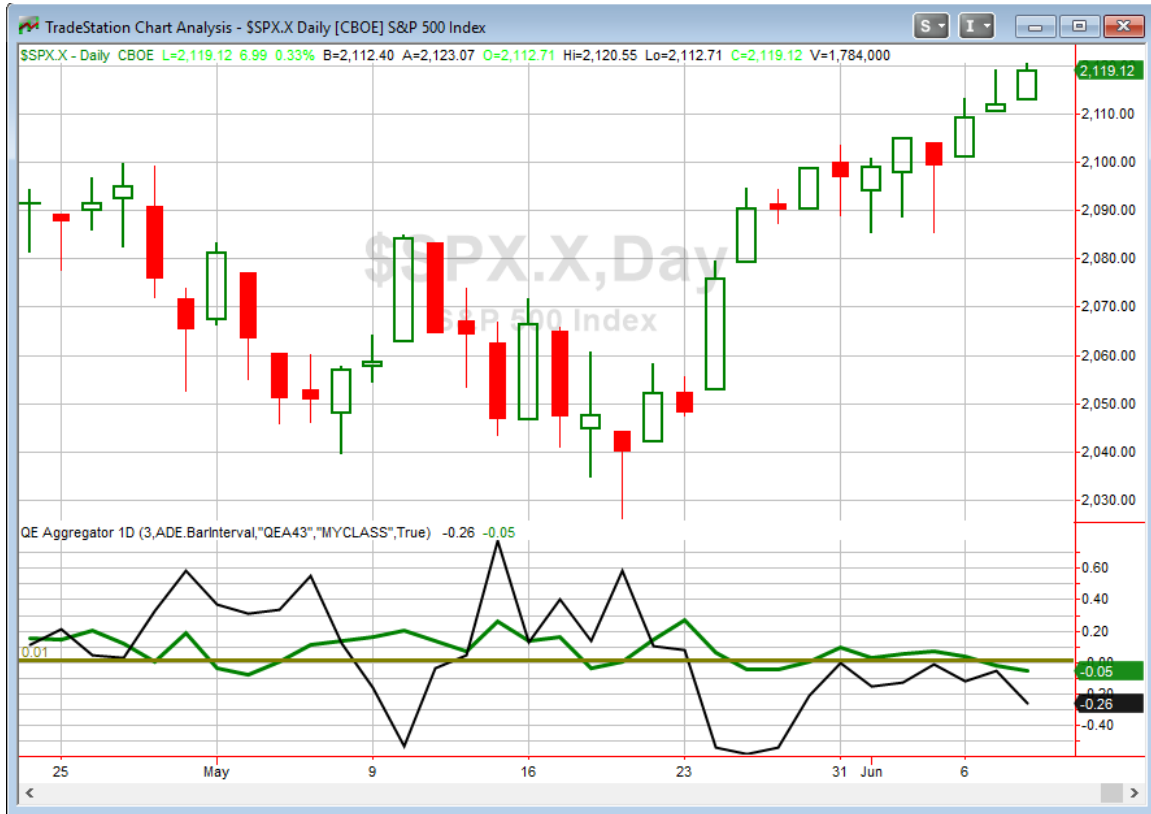
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$4,520.01)	Profit Factor	0.39
Gross Profit	\$2,852.89	Gross Loss	(\$7,372.90)
Total Number of Trades	30	Percent Profitable	33.33%
Winning Trades	10	Losing Trades	20
Even Trades	0		
Avg. Trade Net Profit	(\$150.67)	Ratio Avg. Win:Avg. Loss	0.77
Avg. Winning Trade	\$285.29	Avg. Losing Trade	(\$368.65)
Largest Winning Trade	\$537.24	Largest Losing Trade	(\$924.70)

The stats appear somewhat bearish. Below is the profit curve.



This study appears worthy of consideration as well.

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



With tonight's studies included the green Aggregator Line dropped a little further below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal stayed short at the close.

With the current list of active studies, expectations are poised to remain a little negative on Thursday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2113.00 on Thursday. That is 0.3% below Wednesday's close. So SPX will need to close down at least 0.3% to move from overbought to oversold on Thursday.

There appears to be a downside edge. But tonight's evidence is very short-term. More aggressive traders could look to take advantage of the edge on Thursday – especially if the

market gaps up to start the day. But I do not see a big opportunity here, and so I am not inclined to take on a counter-trend position. I will continue to wait on the sideline.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/6 – 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	5/5/2016	\$26.20	\$33.16	26.56%		Aggressive VIX

VIX futures contango remains strong (over 12% between 1st and 2nd month). So while the Aggregator is modestly bearish, I will stick in the XIV position for the time being. That contango is just too strong for me to fiddle with jumping in and out based on mixed evidence.

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