

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 10, 2016

Volume 9 Issue 111

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.

### *Short-term Outlook*

#### *The Bottom Line*

Same as last night...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)*

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
June 10, 2016	Unfilled gap down after unfilled up 20 hi	1 day	Bearish			
June 8, 2016	VIX up 2.5%. SPX 50-high.	1-4 days	Bearish			
June 8, 2016	Unfilled gap up 2x. 50-high	1-3 days	Bullish			
<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			

**The Evidence**

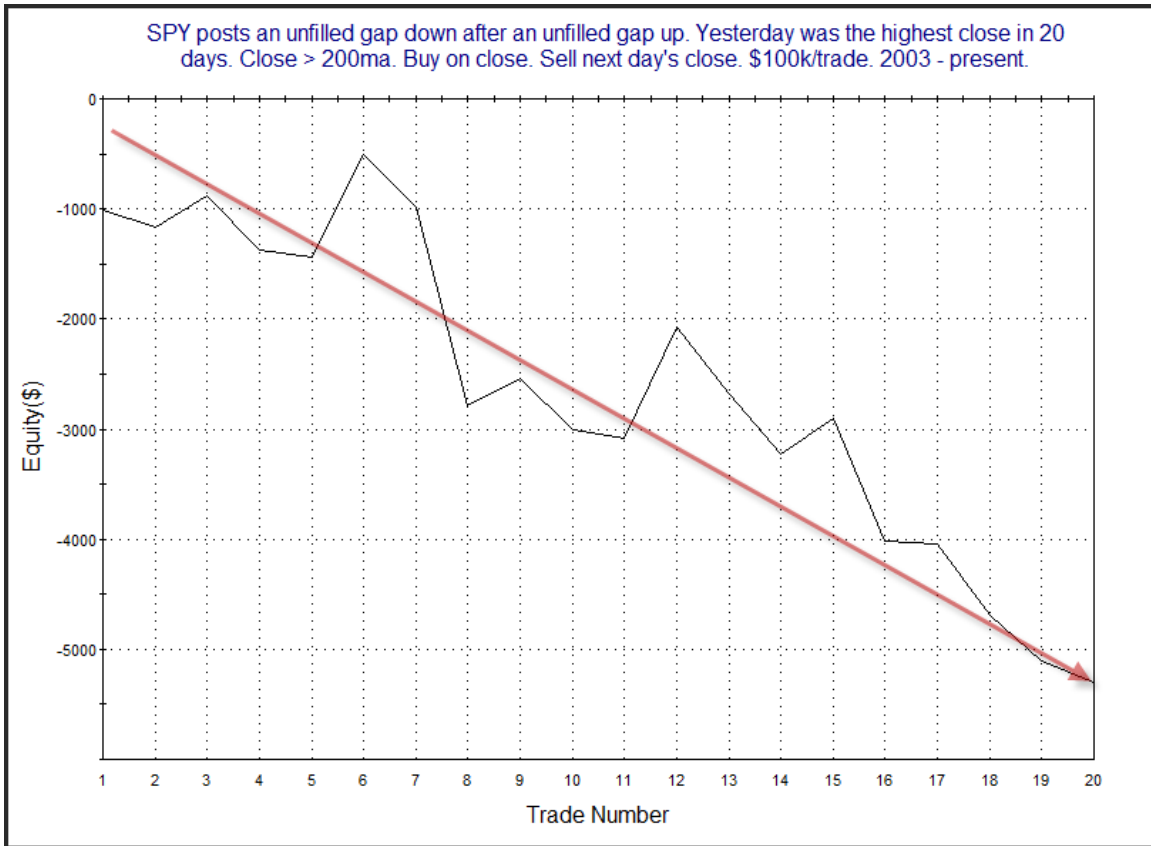
Thursday saw the market pull back some. The SPX dropped 0.2%, the NASDAQ fell 0.3%, and the Russell 2000 declined 0.65%. Breadth was negative as the NYSE Up Issues % was 37% and the Up Volume % came in at 32%. NYSE volume declined a little from Wednesday's level.

There was just one study tonight that appeared worth discussion. It considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 7/8/14 Subscriber Letter. Below are updated results.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 2003 - present.

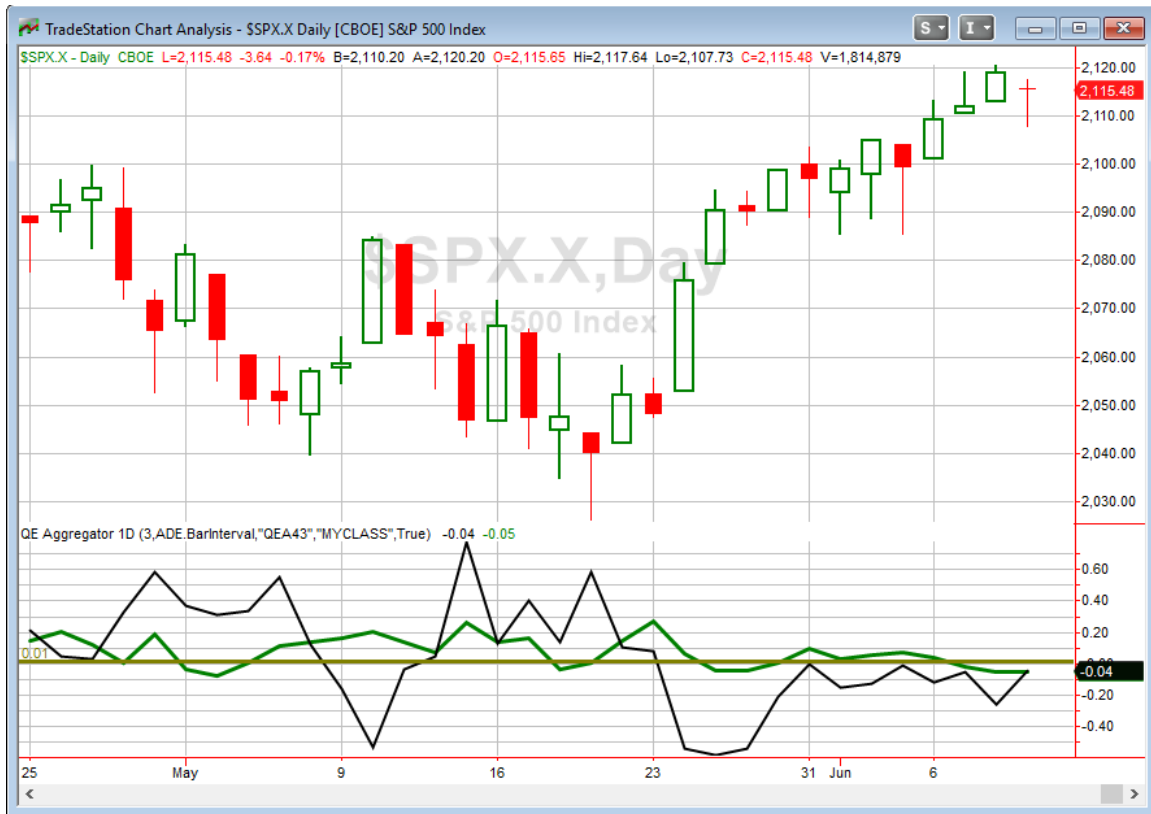
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	(\$5,301.62)	Profit Factor		0.35
Gross Profit	\$2,825.58	Gross Loss		(\$8,127.20)
Total Number of Trades	20	Percent Profitable		25.00%
Winning Trades	5	Losing Trades		15
Even Trades	0			
Avg. Trade Net Profit	(\$265.08)	Ratio Avg. Win:Avg. Loss		1.04
Avg. Winning Trade	\$565.12	Avg. Losing Trade		(\$541.81)
Largest Winning Trade	\$1,008.68	Largest Losing Trade		(\$1,807.92)

The numbers here appear to suggest a downside edge. Let's also take a look at the profit curve.



While the curve is choppy, it has persisted downwards and is continuing to make new lows. This serves as confirmation of the downside edge, and suggests we could see further selling on Friday.

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



With tonight's studies included the green Aggregator Line remained 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 Friday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2114.16 on Friday. That is a little less than 0.1% below Thursday's close. So SPX will only need to close down about 0.1% to move from overbought to oversold on Friday.

My outlook tonight is very similar to the last few nights. There appears to be a downside edge. But evidence is very short-term and not overly compelling. Additionally, with the Differential Pivot so close by, potential reward is limited. With reward/risk for a possible short seemingly moderate I am not inclined to take a counter-trend position. I will continue to wait for a better opportunity to emerge.

*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**

<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	\$32.56	24.27%		Aggressive VIX

Despite a bit of a contraction the last couple of days, VIX futures contango remains strong (over 10% between 1<sup>st</sup> and 2<sup>nd</sup> month). So again while the Aggregator is modestly bearish, I will stick in the XIV position for the time being. The contango is just too strong for me to fiddle with jumping in and out due to a mild bearish Aggregator during an uptrend.

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