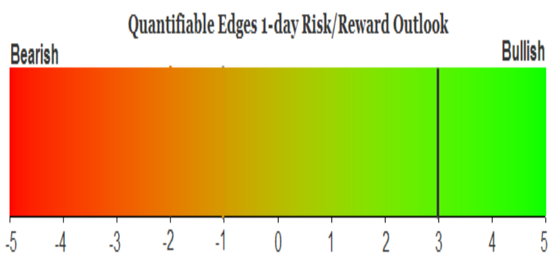
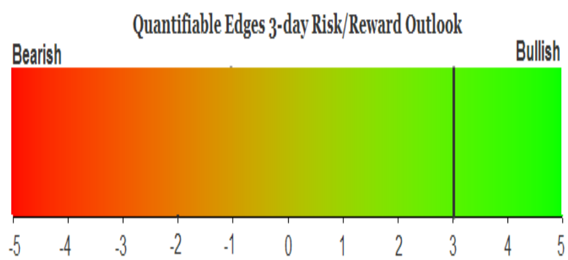
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 14, 2016 Volume 9 Issue 113

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- 3 Lower highs, lows & closes have consistently led to a bounce going into Turnaround Tuesday.
- 3 gaps down and closes below the open for SPY, while unusual, have led to sizable bounces in the next few days.
- The sharp VIX spike suggests a bounce in the next few days.

Short-term Outlook
The Bottom Line

Monday's selloff caused more bullish evidence to emerge. With the market now solidly oversold there appears to be a short-term upside edge.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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
Active - Short Term						
June 13, 2016	2 unfilled gaps down. 5-day low	1-6 days	Bullish	1.90%	-1.20%	-2.30%
June 13, 2016	50-high to 8-low	1-5 days	Bullish	1.80%	-1.20%	-2.20%
June 8, 2016	VIX up 2.5%. SPX 50-high.	1-4 days	Bearish			
Active - Long Term						
June 13, 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			
Dropped Tonight						
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%
June 10, 2016	Unfilled gap down after unfilled up 20 hi	1 day	Bearish			
June 8, 2016	Unfilled gap up 2x. 50-high	1-3 days	Bullish			

The Evidence

Monday was another tough day for the market. The SPX dropped 0.8%, the NASDAQ fell 0.9%, and the Russell 2000 declined 1.1%. Breadth was negative as the NYSE Up Issues % was 22% and the Up Volume % came in at 18%. NYSE volume declined some from Friday's level.

While the major indices saw somewhat moderate selling, the VIX spiked hard for the 2nd day in a row. It rose over 20% on Monday. Over the last 2 days is has closed up over 40%. That is a very steep rise, and one that has never been done before now when SPX has not even closed down as much as 2% over the same period. The VIX spike also trigger the study below, from the 10/16/14 letter.

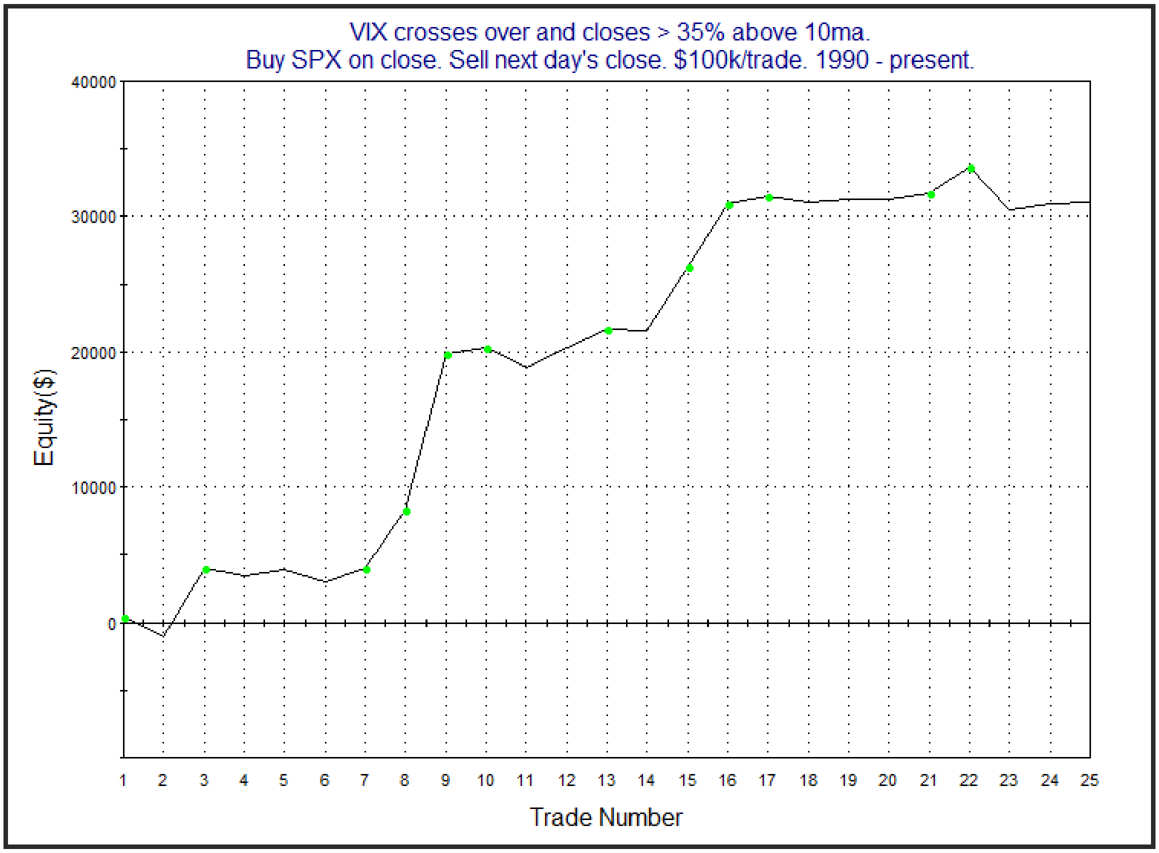
VIX crosses over and closes > 35% above 10ma.
Buy SPX on close. Sell next day's close. $100k/trade. 1990 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$31,091.88	Profit Factor	4.75
Gross Profit	$39,376.86	Gross Loss	($8,284.98)
Total Number of Trades	25	Percent Profitable	72.00%
Winning Trades	18	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	$1,243.68	Ratio Avg. Win:Avg. Loss	1.85
Avg. Winning Trade	$2,187.60	Avg. Losing Trade	($1,183.57)
Largest Winning Trade	$11,558.43	Largest Losing Trade	($3,177.16)

A close this far above the 10ma is rare. It has frequently meant a market bounce the next day. Follow through after the initial bounce has been unreliable, though. Below is a profit curve.



The curve has continues to stutter-step its way higher. I have included this study on the Active List tonight.

In the 11/10/15 letter I noted that there was a strong bullish edge when ES had made at least three consecutive lower highs, lows, and closes. I also noted that this edge was even more substantial when it occurred on a Monday. This isn't surprising since Tuesdays are known for their turnaround capabilities. I have updated the 11/10/15 studies below.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday.
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	49,276.76	43	28	15	65.12	2,951.34	9,205.12	-2,224.04	-4,985.90	1.33	2.48	1,145.97
4	47,779.08	43	30	13	69.77	2,377.08	8,971.36	-1,810.25	-4,522.70	1.31	3.03	1,111.14
3	49,181.37	43	34	9	79.07	1,912.72	8,565.74	-1,761.23	-3,464.09	1.09	4.10	1,143.75
2	37,011.39	43	30	13	69.77	1,568.94	5,165.69	-773.59	-1,899.52	2.03	4.68	860.73
1	24,416.15	43	28	15	65.12	1,335.85	4,645.80	-865.85	-2,736.00	1.54	2.88	567.82

These suggest a strong upside edge. I further broke them out based on the long-term trend. When I did so, I found there to be a substantial difference in expectations. Let's first look at instances below the 200ma.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday.
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	34,688.42	20	12	8	60.00	4,726.43	9,205.12	-2,753.60	-4,985.90	1.72	2.57	1,734.42
4	33,639.35	20	13	7	65.00	3,786.84	8,971.36	-2,227.08	-4,522.70	1.70	3.16	1,681.97
3	30,227.21	20	15	5	75.00	2,782.73	8,565.74	-2,302.73	-3,464.09	1.21	3.63	1,511.36
2	24,209.13	20	14	6	70.00	2,177.34	5,165.69	-1,045.61	-1,899.52	2.08	4.86	1,210.46
1	19,723.96	20	13	7	65.00	2,178.05	4,645.80	-1,227.25	-2,736.00	1.77	3.30	986.20

19 of 20 instances (95%) closed above the entry price
at some point in the next 3 days.

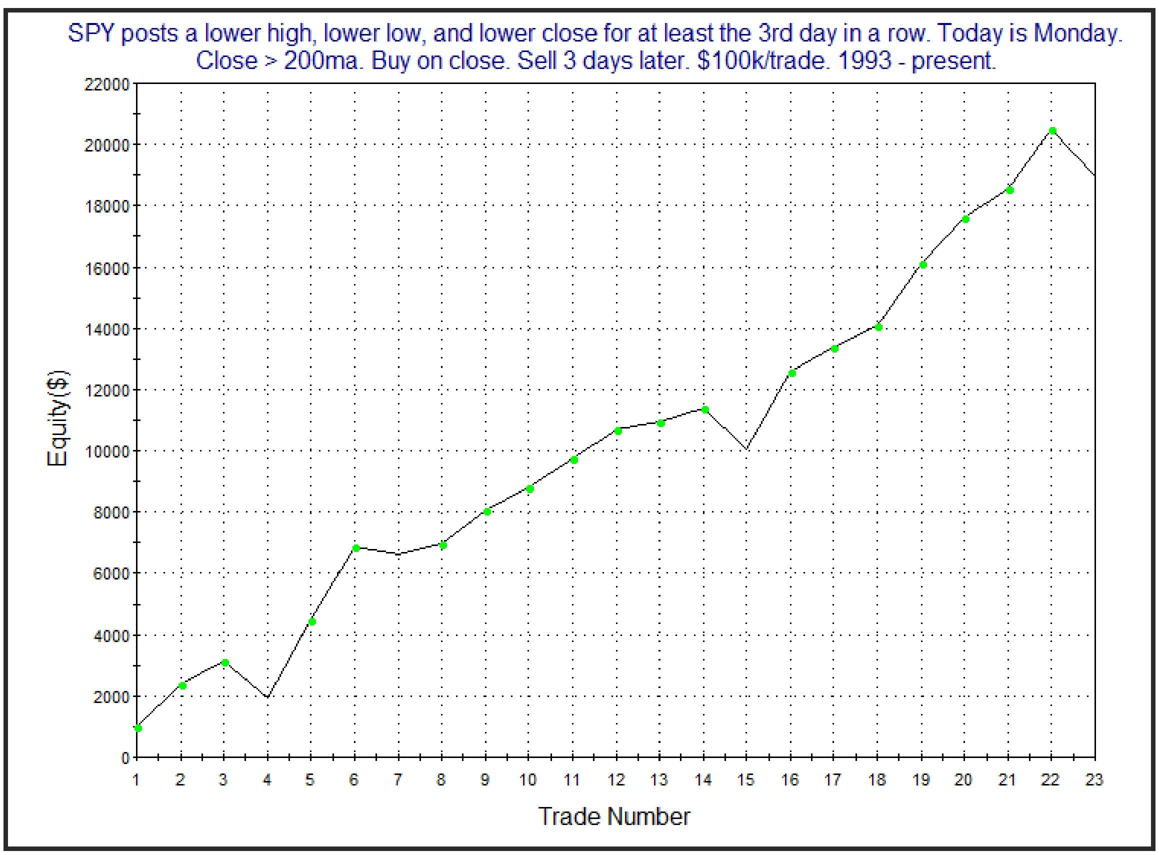
The numbers here are incredibly strong from an average trade standpoint. This is likely due in large part to the increased volatility often seen during long-term downtrends. So let's take a look and see how the setup has fared when SPY has been above its 200ma.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday. 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	14,588.34	23	16	7	69.57	1,620.01	4,541.40	-1,618.84	-4,057.15	1.00	2.29	634.28
4	14,139.72	23	17	6	73.91	1,299.02	3,363.54	-1,323.95	-2,659.20	0.98	2.78	614.77
3	18,954.16	23	19	4	82.61	1,225.87	2,556.72	-1,084.36	-1,555.20	1.13	5.37	824.09
2	12,802.27	23	16	7	69.57	1,036.58	2,025.36	-540.43	-904.24	1.92	4.38	556.62
1	4,692.19	23	15	8	65.22	605.95	1,226.82	-549.63	-1,677.36	1.10	2.07	204.01

All 23 instances closed abov the entry price at some point in the next 4 days.

The size of the bounces is not nearly as large as during long-term downtrends, but they couldn't get any more reliable. There has yet to be an instance where SPY has failed to bounce at some point in the next four days. And much of the edge has played out in the first 3 days. Below is the profit curve for a 3-day holding strategy.



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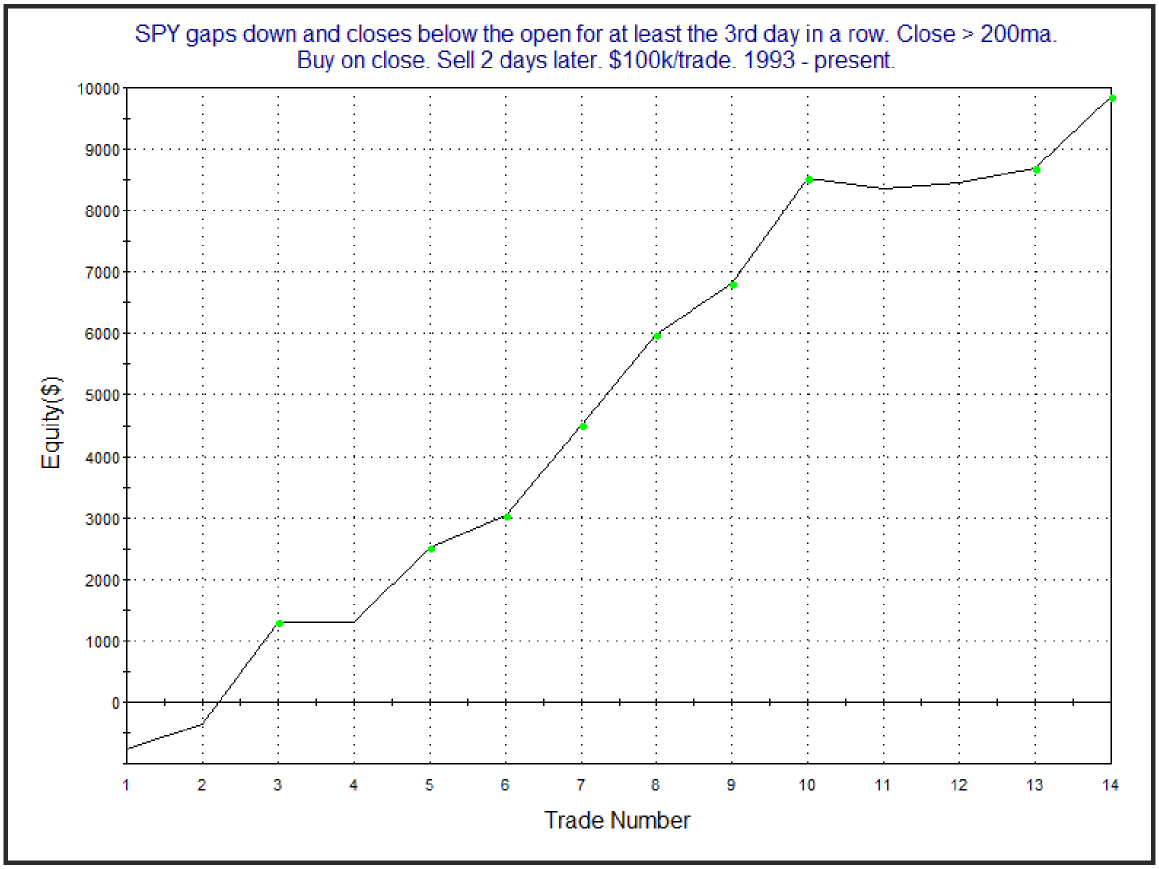
The fairly consistent movement from lower left to upper right is an encouraging sign for the bulls. I have therefore included the study on the short-term Active List.

Not only has SPY closed lower the last 3 days, but it also gapped down to open each day and then closed below the open. In other words, it started weak and finished weak each day. There has not been a reprieve of the selling. This is fairly unusual to see, but when it has happened in the past, it has commonly been followed by a bounce. This can be seen in the study below, from the 8/19/13 subscriber letter.

SPY gaps down and closes below the open for at least the 3rd day in a row. 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	12,383.50	14	11	3	78.57	1,412.04	3,940.02	-1,049.66	-1,539.24	1.35	4.93	884.54
4	11,784.52	14	11	3	78.57	1,306.80	3,363.54	-863.43	-1,600.20	1.51	5.55	841.75
3	11,131.80	14	9	5	64.29	1,469.69	2,389.40	-419.08	-765.81	3.51	6.31	795.13
2	9,867.56	14	11	2	78.57	980.82	1,699.18	-460.76	-770.76	2.13	11.71	704.83
1	3,905.48	15	9	6	60.00	636.12	1,299.80	-303.26	-639.18	2.10	3.15	260.37

While the instances are low, the numbers are strong enough that I find it compelling. Below is a profit curve assuming a 2-day exit.



I see no red flag's here (other than the low number of instances), and feel this study is worth consideration.

I have updated the Aggregator chart below.

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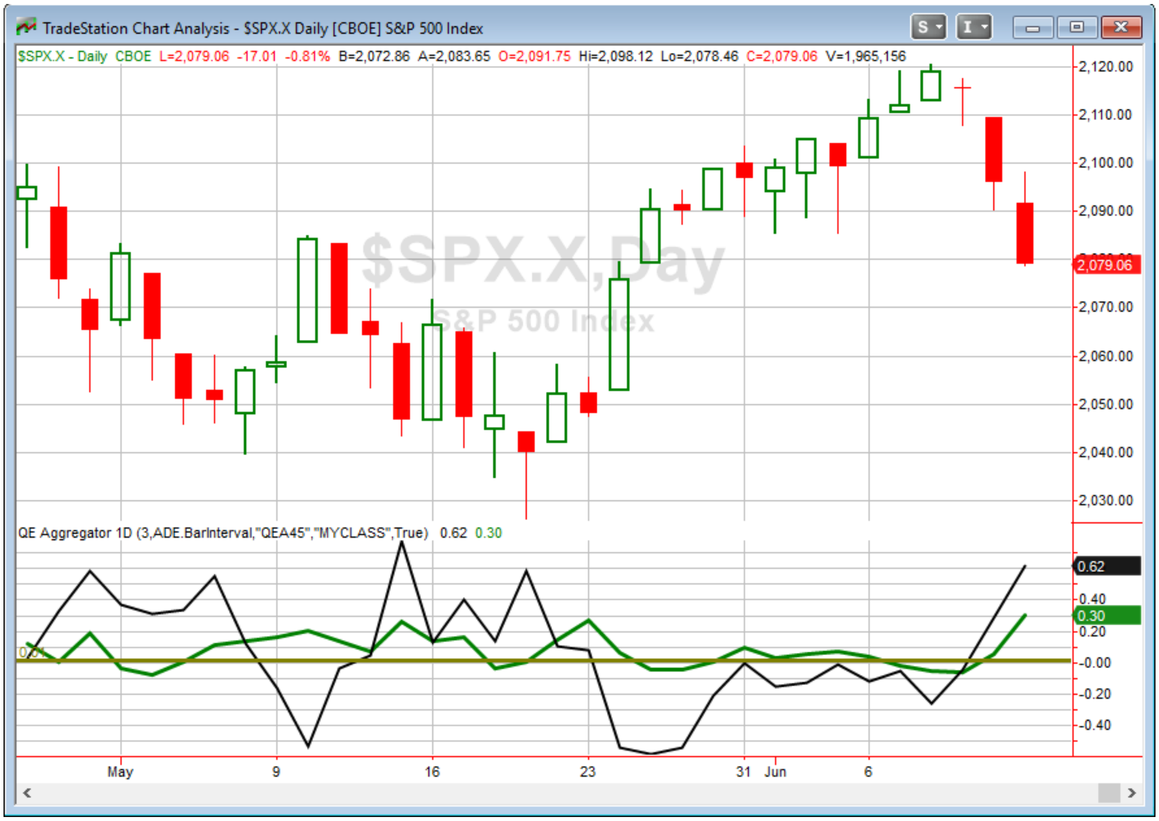

With tonight's studies included the green Aggregator Line shot higher above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also moved far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

With the current list of active studies, expectations are poised to remain positive on Tuesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2112.28 on Tuesday. That is 1.6% above Monday's close. So for SPX to move from oversold to overbought on Tuesday it will need to close up a very strong 1.6%.

Evidence is now mounting strongly in favor of a bounce. And there is plenty of room to the upside before the market would be considered overbought. So reward/risk appears strong. I have added some index exposure already, and I may look to take on some more long exposure on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/13 – slightly 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.

XIV – buy ½ position @ $25.00 limit. While I like SPY here, XIV is extremely oversold and appears even more likely to bounce. I admittedly did a poor job protecting the unrealized profits I had in the original position. A VIX spike sharper than has ever been done before in a quiet market seems to have set XIV up for a nice reversion in the next few days. So I will look to add a 2nd (and final) lot of XIV to try and take advantage of this anticipated reversion. More conservative traders could consider some SPY instead of XIV.

Current Open Trade Ideas

Symbol	Entry Date	Entry Pric	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	5/5/2016	$26.20	$25.15	-4.01%		Aggressive VIX
SPY(1/4)	6/13/2016	$209.36	$208.45	-0.43%		Aggregator

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