

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 16, 2016

Volume 9 Issue 115

Market Overview



Signals Overview

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

Tonight's Research Points

- The strongly negative closing TICK values of late have triggered bullish setups for our TICK Tomoscillator.
- Down 2+ days on a Fed Day has often been followed by a rally.
- 5-day drops under similar market conditions, while rare, have often led to a bounce.

Short-term Outlook

The Bottom Line

Bullish evidence continues to mount and the market is solidly oversold. There appears to be a sizable upside edge over the next few days.

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 15, 2016	Fed tomorrow. SPX down 3+ days	1-3 days	Bullish	2.10%	-0.40%	-0.80%
June 15, 2016	SPX down 4. Tuesday.	1-8 days	Bullish	3.00%	-1.25%	-2.35%
June 14, 2016	SPY gap down & close < open 3 days	1-2 days	Bullish			
June 14, 2016	3 lower highs, lows, closes. Monday	1-3 days	Bullish			
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%
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			

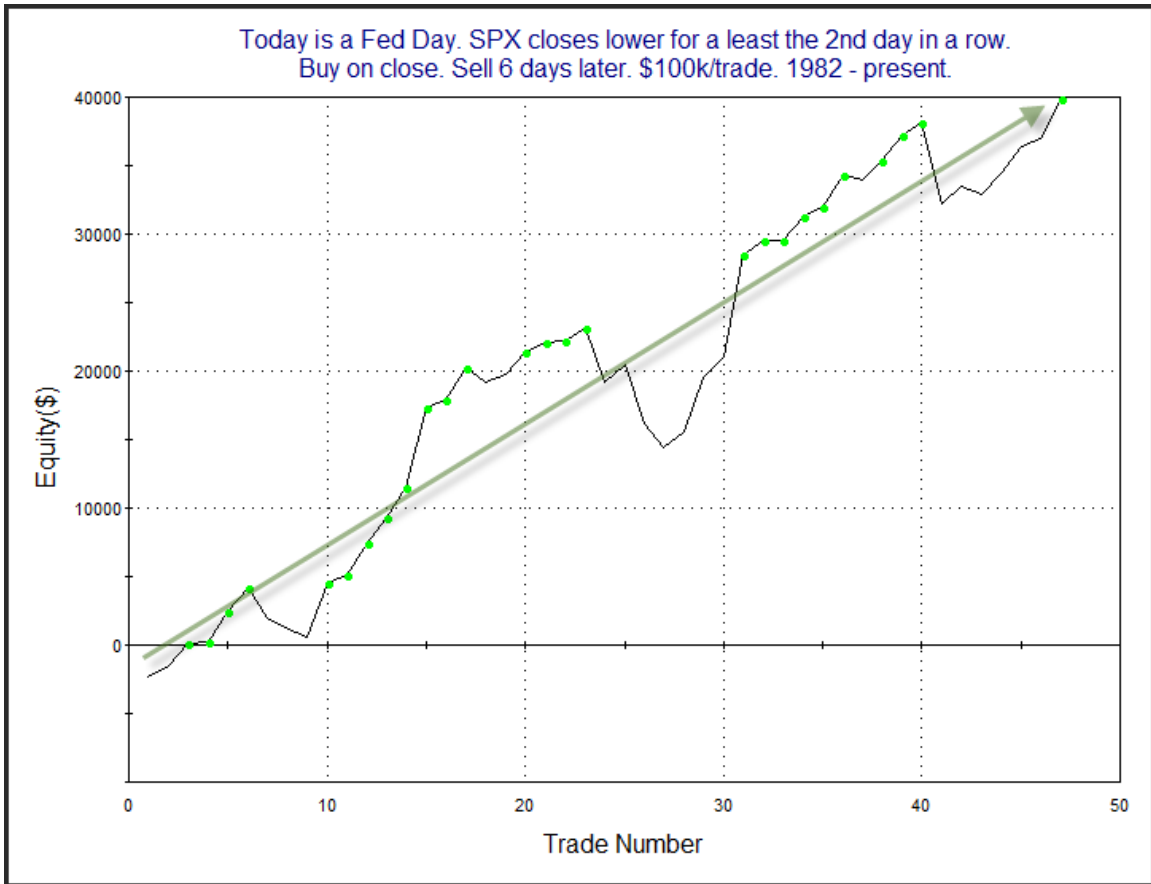
The Evidence

Wednesday looked like it was going to close positive, but a late selloff turned the market mixed. The SPX and NASDAQ each dropped 0.2%, while the Russell 2000 gained 0.1%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 63%. NYSE volume declined some from Tuesday's level.

It is unusual that a Fed Day would continue a string of down days. I looked at this in the study below. It was last seen in the 1/29/15 and results have been updated.

Today is a Fed Day. SPX closes lower for a least the 2nd day in a row. Buy on close. Sell X days later. \$100k/trade. 1982 - 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
10	47,032.14	47	32	15	68.09	2,534.23	9,012.33	-2,270.88	-5,334.70	1.12	2.38	1,000.68
9	39,304.14	47	34	13	72.34	2,258.35	8,967.96	-2,883.07	-5,671.36	0.78	2.05	836.26
8	32,780.47	47	35	12	74.47	2,007.96	8,456.40	-3,124.84	-6,514.96	0.64	1.87	697.46
7	38,896.29	47	37	10	78.72	1,813.56	8,869.37	-2,820.55	-6,757.80	0.64	2.38	827.58
6	39,920.58	47	36	11	76.60	1,767.17	7,361.95	-2,154.31	-5,884.97	0.82	2.68	849.37
5	33,001.70	47	34	13	72.34	1,629.60	6,013.86	-1,723.45	-5,581.03	0.95	2.47	702.16
4	21,873.82	47	29	18	61.70	1,582.39	7,513.37	-1,334.19	-4,622.80	1.19	1.91	465.40
3	13,661.17	47	28	19	59.57	1,146.50	5,035.28	-970.57	-2,737.00	1.18	1.74	290.66
2	16,292.89	47	30	17	63.83	1,120.98	5,202.52	-1,019.79	-2,942.24	1.10	1.94	346.66
1	10,259.09	47	30	17	63.83	915.92	4,001.33	-1,012.85	-3,162.00	0.90	1.60	218.28

When Fed Days fail to produce a bounce, you normally see a rally shortly after. And below is a profit curve assuming a 6-day exit strategy.



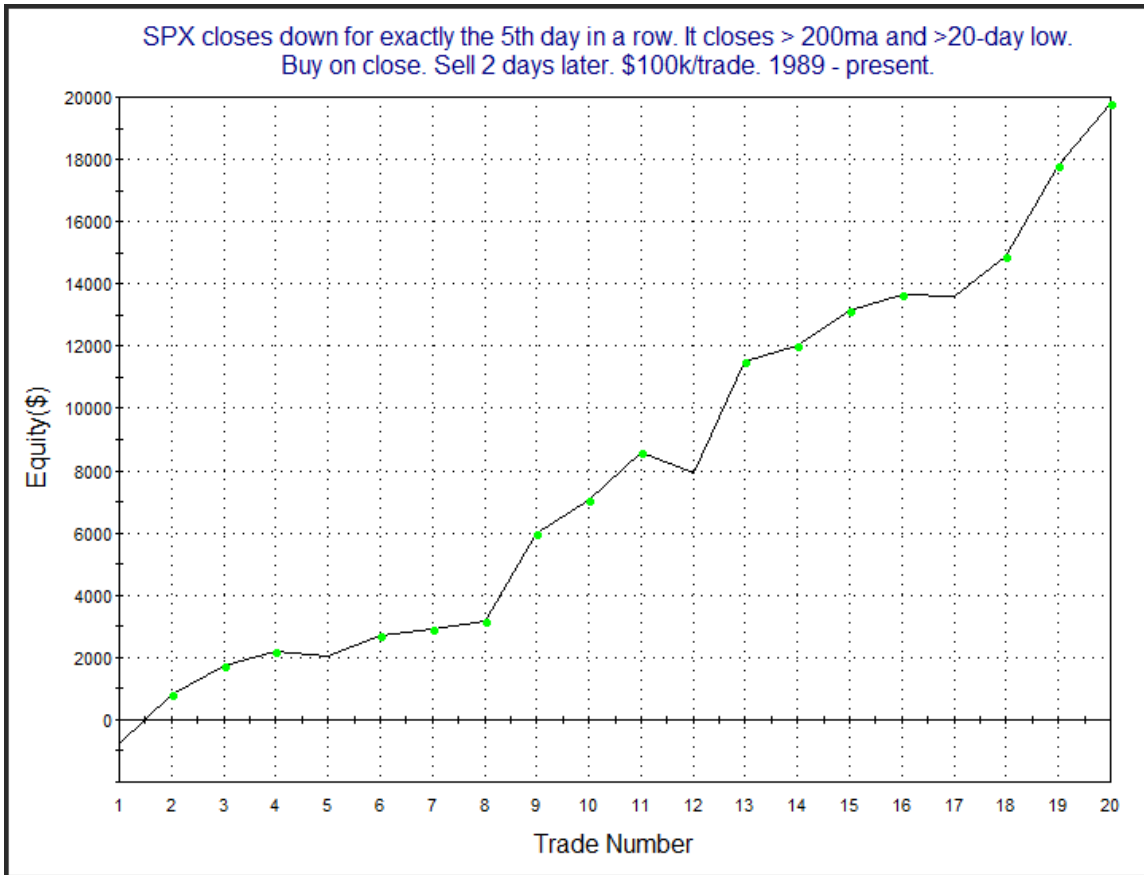
The strong upslope appears to confirm the bullish edge.

There were a few other compelling studies that emerged tonight. The study below required 5 lower closes above the 200ma and also above a 20-day low. I last showed it in the 1/7/15 Letter and have updated the results.

SPX closes down for exactly the 5th day in a row. It closes > 200ma and >20-day low.
Buy on close. Sell X days later. \$100k/trade. 1989 - present.

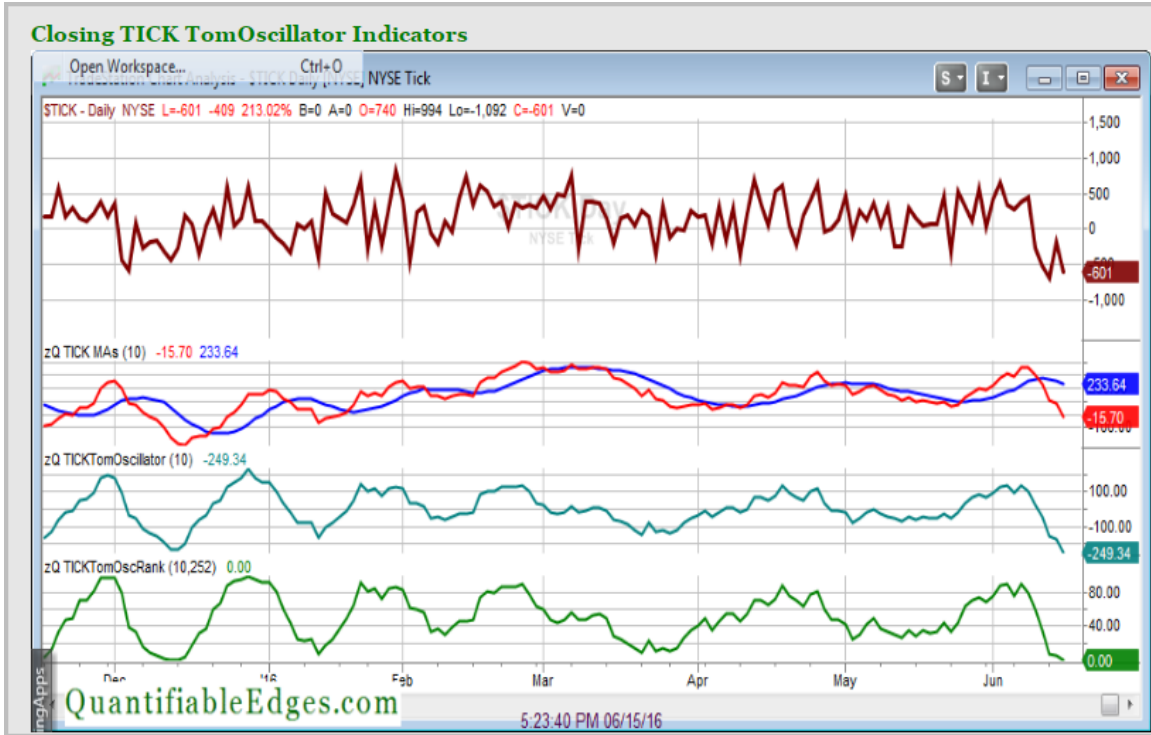
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	15,715.10	20	13	7	65.00	1,620.84	5,460.84	-765.12	-1,479.60	2.12	3.93	785.75
4	17,889.50	20	15	5	75.00	1,449.22	5,187.49	-769.76	-1,389.15	1.88	5.65	894.47
3	19,885.93	20	16	4	80.00	1,440.60	5,339.18	-790.91	-1,169.92	1.82	7.29	994.30
2	19,773.02	20	16	4	80.00	1,338.58	3,591.28	-411.05	-763.84	3.26	13.03	988.65
1	8,535.94	20	14	6	70.00	822.33	1,367.55	-496.11	-1,155.00	1.66	3.87	426.80

Based on the stats table there appears to be a bullish inclination, especially over the first 2-3 days. Below is a profit curve to see how the edge has evolved.



The profit curve supports the idea of a bullish edge.

There was also a couple of studies that used the TICK TomOscillator. The TICK Tomoscillator is the brain child of my friend and fellow market analyst, Tom McClellan of [McClellan Financial Publications](#) ([click for Tom's article on the indicator](#)). It uses the NYSE closing TICK readings to measure recent end-of-day sentiment. I first introduced the TICK Tomoscillator in the 4/19/11 subscriber letter. For those that are not familiar with the TICK Tomoscillator, you may find a detailed description in the [May 13, 2011 blog](#). The Tomoscillator % Rank Thursday came in below 1%, meaning Thursday's reading is among the lowest 1% in the last year. Subscribers may find Tomoscillator readings on the charts page every night. Below you can see the Oscillator reading from tonight's chart page:



The study below uses the Tomoscillator % Rank reading rather than just the raw reading.

**TICK TomOscillator 1-yr % Rank < 1% and SPX closes at a 10-day low. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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
10	16,247.43	15	9	6	60.00	2,756.04	5,308.60	-1,426.16	-4,360.44	1.93	2.90	1,083.16
9	21,004.31	15	12	3	80.00	2,214.09	4,786.10	-1,854.93	-5,073.84	1.19	4.77	1,400.29
8	18,991.24	16	11	5	68.75	2,654.55	4,792.75	-2,041.77	-5,882.94	1.30	2.86	1,186.95
7	18,963.84	16	11	5	68.75	2,156.60	4,205.84	-951.75	-2,375.10	2.27	4.99	1,185.24
6	15,004.71	16	12	4	75.00	1,623.41	3,839.52	-1,119.06	-1,781.60	1.45	4.35	937.79
5	9,685.12	16	11	5	68.75	1,387.95	3,199.60	-1,116.46	-2,274.60	1.24	2.73	605.32
4	6,111.28	17	11	6	64.71	1,265.72	2,288.36	-1,301.93	-3,019.20	0.97	1.78	359.49
3	9,410.32	18	12	6	66.67	1,161.15	2,450.24	-753.92	-1,332.24	1.54	3.08	522.80
2	12,623.42	18	14	4	77.78	1,037.19	1,963.50	-474.30	-806.48	2.19	7.65	701.30
1	13,914.48	19	18	1	94.74	825.23	2,230.60	-939.60	-939.60	0.88	15.81	732.34

All 19 instances closed above the entry price on either Day 1 or Day 2.

There appears to be a strong inclination for the market to bounce immediately, and then eventually follow through with more upside. Below is a list of all instances with a 1-day exit.

TICK TomOscillator 1-yr % Rank < 1% and SPX closes at a 10-day low.
 SPX > 200ma. Buy SPX on close. Sell 1 day later. \$100k/trade. 1998 - present.

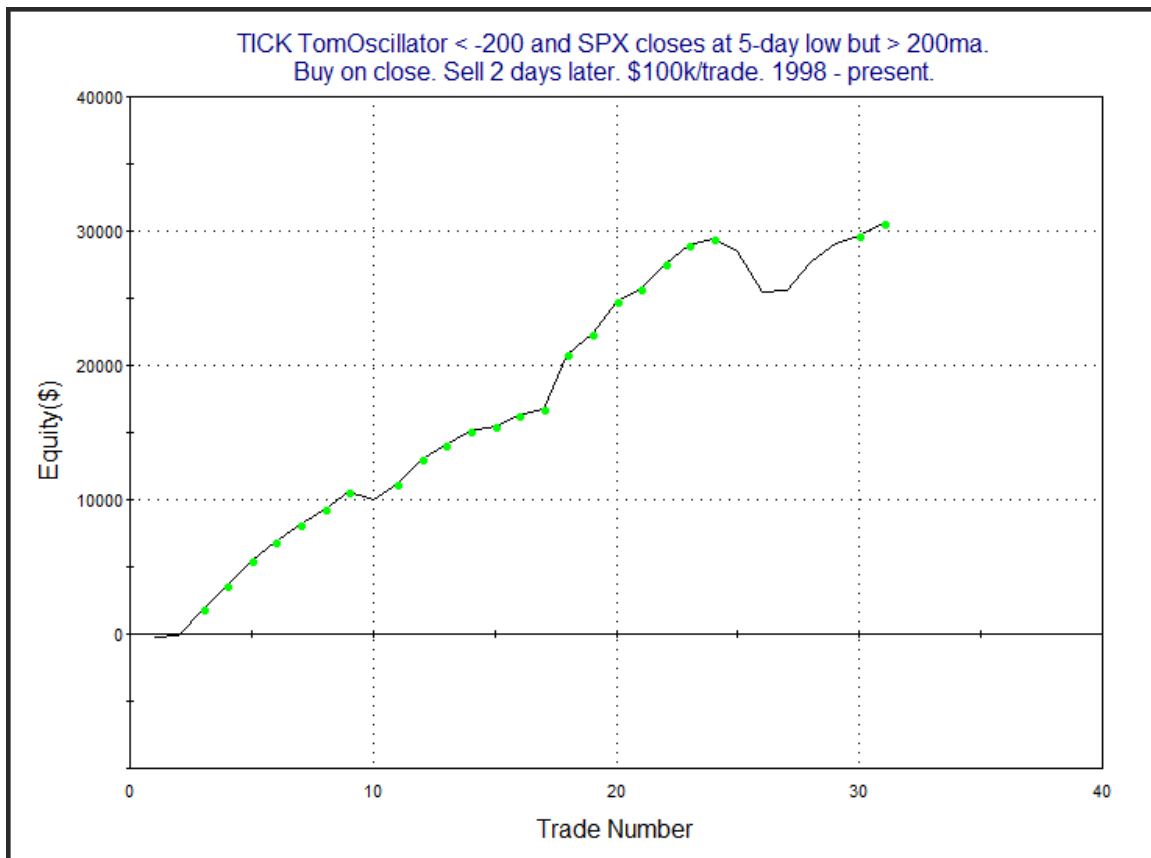
Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/23/1998	Buy	\$1,139.74	0.09%	\$904.80
7/24/1998	Sell	\$1,140.80		(\$925.68)
8/4/1998	Buy	\$1,072.12	0.87%	\$1,179.24
8/5/1998	Sell	\$1,081.42		(\$1,374.54)
5/25/1999	Buy	\$1,284.38	1.59%	\$1,574.65
5/26/1999	Sell	\$1,304.76		(\$450.45)
7/24/2000	Buy	\$1,464.29	0.70%	\$811.92
7/25/2000	Sell	\$1,474.47		\$0.00
6/25/2003	Buy	\$975.32	1.08%	\$1,143.42
6/26/2003	Sell	\$985.82		(\$155.04)
6/30/2003	Buy	\$974.50	0.80%	\$893.52
7/1/2003	Sell	\$982.32		(\$1,264.80)
10/24/2003	Buy	\$1,028.91	0.22%	\$857.48
10/27/2003	Sell	\$1,031.13		\$0.00
2/22/2005	Buy	\$1,184.17	0.56%	\$785.40
2/23/2005	Sell	\$1,190.80		\$0.00
2/27/2007	Buy	\$1,399.14	0.55%	\$1,189.25
2/28/2007	Sell	\$1,406.82		(\$176.79)
3/2/2007	Buy	\$1,387.17	-0.94%	\$337.68
3/5/2007	Sell	\$1,374.12		(\$950.40)
3/5/2007	Buy	\$1,374.12	1.55%	\$1,712.16
3/6/2007	Sell	\$1,395.41		\$0.00
7/27/2007	Buy	\$1,458.95	1.03%	\$1,287.24
7/30/2007	Sell	\$1,473.91		(\$314.84)
10/28/2009	Buy	\$1,042.63	2.25%	\$2,299.00
10/29/2009	Sell	\$1,066.11		\$0.00
4/18/2011	Buy	\$1,305.14	0.57%	\$574.56
4/19/2011	Sell	\$1,312.62		(\$88.92)
6/10/2011	Buy	\$1,270.98	0.07%	\$472.68
6/13/2011	Sell	\$1,271.83		(\$416.52)
5/31/2013	Buy	\$1,630.74	0.59%	\$590.48
6/3/2013	Sell	\$1,640.42		(\$489.22)
11/7/2013	Buy	\$1,747.15	1.34%	\$1,346.91
11/8/2013	Sell	\$1,770.61		\$0.00
9/25/2014	Buy	\$1,965.99	0.86%	\$1,019.00
9/26/2014	Sell	\$1,982.85		\$0.00
6/29/2015	Buy	\$2,057.64	0.27%	\$798.72
6/30/2015	Sell	\$2,063.12		(\$63.36)

I see no red flags here.

The study below looks for an extremely low reading in conjunction with a short-term oversold price condition during a long-term uptrend. It last appeared in the 11/8/13 letter. I have updated it below.

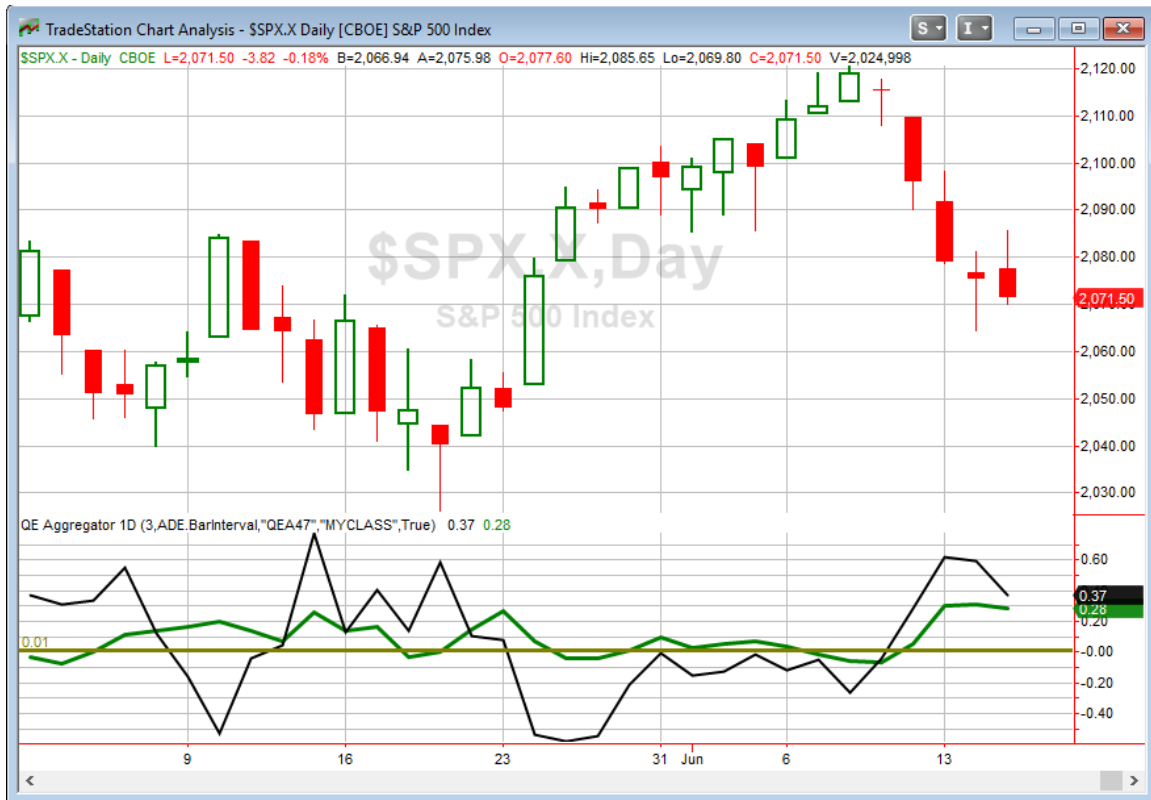
TICK TomOscillator < -200 and SPX closes at 5-day low but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - present.													
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade	
5	20,202.98	26	18	8	69.23	1,803.58	3,456.11	-1,532.69	-3,385.80	1.18	2.65	777.04	
4	16,586.52	26	17	9	65.38	1,676.76	4,190.40	-1,324.27	-3,863.84	1.27	2.39	637.94	
3	29,416.37	30	23	7	76.67	1,693.48	5,471.10	-1,361.94	-2,558.68	1.24	4.09	980.55	
2	30,613.57	31	27	4	87.10	1,308.54	4,041.90	-1,179.25	-2,943.71	1.11	7.49	987.53	
1	24,288.10	37	28	9	75.68	1,113.62	4,396.50	-765.92	-1,953.32	1.45	4.52	656.44	

There has been a strong propensity for the market to bounce over the next 2 days. Below is an equity curve that shows how the edge has played out over time.



The strong, steady upslope is impressive. This study also appears to be worth consideration.

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



With tonight's studies included the green Aggregator Line remained well 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 held 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 all of the current short-term studies bullish, expectations are poised to remain positive on Thursday. It would take very strong bearish evidence to change this. The Differential Pivot will be 2085.22 on Thursday. That is 0.7% above Wednesday's close. So for SPX to move from oversold to overbought on Thursday it will need to close up at least 0.9%.

More and more evidence is pointing up, and nothing is suggesting a bearish inclination. The market is overdue for a bounce, and I am betting it comes in the next few days. With a fair amount of long exposure and prices near the same as last night, I am not going to look to add more tonight. I will maintain my current long positions for the time being.

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

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

EMC @ \$27.61 (bought 1/3 @ limit)

Broad Market Large Cap CBI – 1(EMC)

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	\$25.95	-0.95%		Aggressive VIX
SPY(1/4)	6/13/2016	\$209.36	\$207.75	-0.77%		Aggregator
XIV(1/2)	6/14/2016	\$24.70	\$25.95	5.06%		Aggressive VIX
SPY(1/4)	6/15/2016	\$208.00	\$207.75	-0.12%		Aggregator
EMC(1/3)	6/15/2016	\$67.21	\$67.22	0.01%		Catapult

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