

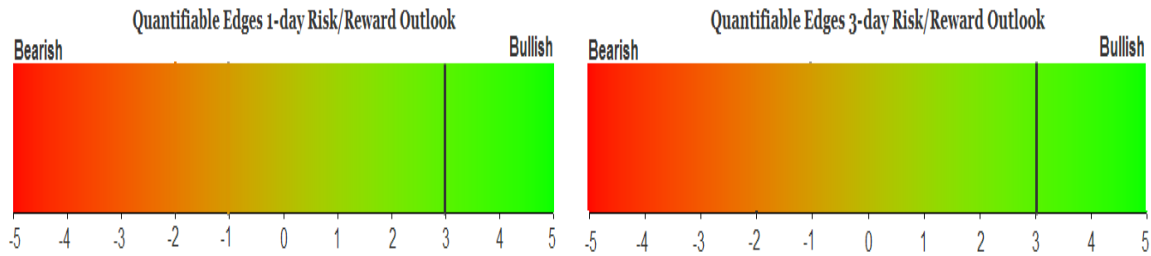
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 28, 2016

Volume 9 Issue 124

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Strong selloffs to new lows on Monday's are often followed by a Turnaround Tuesday.
- The CBI of 0 is a bit discouraging.

## *Short-term Outlook*

### *The Bottom Line*

More selling Monday triggered more bullish evidence. There appears to be an upside edge and I am looking to take advantageous of it.

*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 27, 2016	System 110524	1-7 days	Bullish			
June 27, 2016	SPX dn 1.5x 20-day ATR on Friday	1-6 days	Bullish			
June 27, 2016	VIX > 25% above 10ma.	1-2 days	Bullish			
June 27, 2016	10-high to 10-low in 1 day	1-3 days	Bearish			
<b>Active - Long Term</b>						
June 13, 2016	Bounce from 20-low then inside day dn.	1-10 days	Bullish	5.00%	-2.85%	-6.75%
April 26, 2016	Golden Cross	int term	Bullish			
March 2, 2016	FTD & 20-day high	int term	Bullish			
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***

The market was hit with more selling on Monday. The SPX lost 1.8%, the NASDAQ dropped 2.4%, and the Russell 2000 fell 3.4%. Breadth was strongly negative as the NYSE Up Issues % was 19% and the Up Volume % came in at 13%. NYSE volume declined some from Friday's level.

This 2<sup>nd</sup> day of strong selling brought about several bullish studies. Many of them played off the fact that tomorrow is a potential "Turnaround Tuesday". I have shown numerous times over the years that oversold bounces occur more frequently, reliably, and powerfully on Tuesdays than on any other day of the week

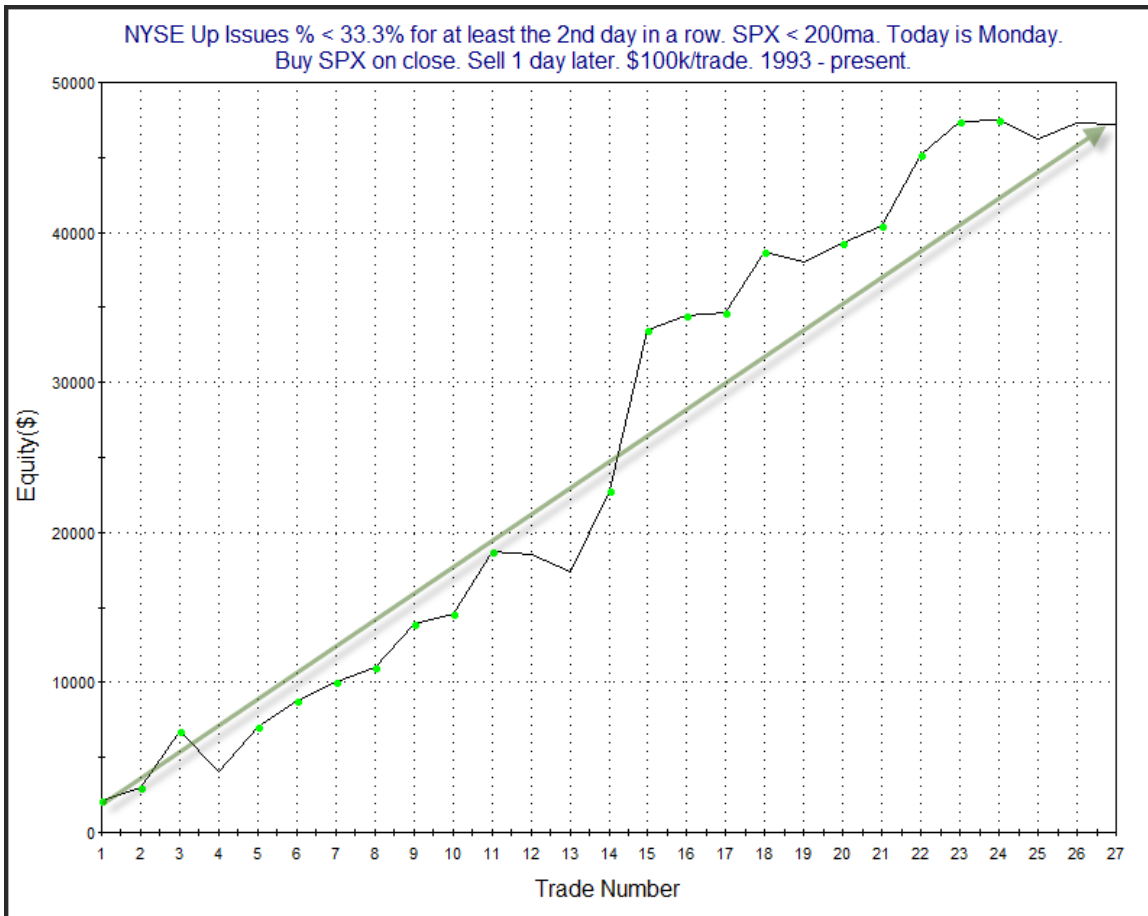
In the 10/14/14 letter I showed a compelling Turnaround Tuesday related study. It required the Up Issues % close below 33.3% for AT LEAST the 2<sup>nd</sup> day in a row. Results are updated.

NYSE Up Issues % < 33.3% for at least the 2nd day in a row. SPX < 200ma. Today is Monday.  
Buy SPX on close. Sell X days later. \$100k/trade. 1993 - present.

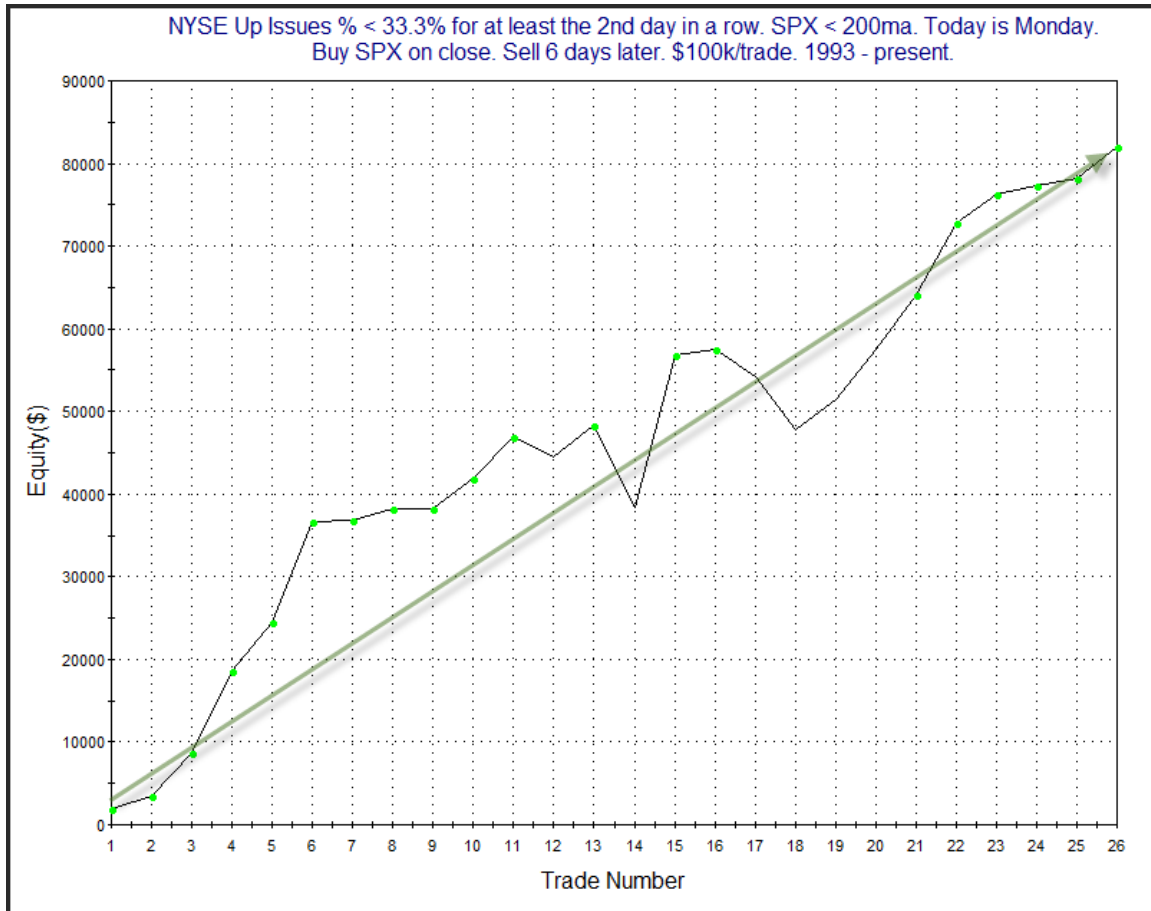
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	66,640.06	26	18	8	69.23	5,280.84	14,533.88	-3,551.88	-9,276.30	1.49	3.35	2,563.08
9	52,437.16	26	18	8	69.23	5,448.18	12,586.97	-5,703.77	-18,648.00	0.96	2.15	2,016.81
8	63,449.18	26	20	6	76.92	4,959.08	11,927.84	-5,955.42	-17,685.00	0.83	2.78	2,440.35
7	77,613.16	26	20	6	76.92	5,187.07	12,150.45	-4,354.72	-10,933.20	1.19	3.97	2,985.12
6	82,056.82	26	22	4	84.62	4,735.30	18,349.11	-5,529.97	-9,917.10	0.86	4.71	3,156.03
5	73,731.24	27	20	7	74.07	4,902.35	13,733.46	-3,473.68	-7,414.56	1.41	4.03	2,730.79
4	63,243.58	27	20	7	74.07	3,973.54	14,020.11	-2,318.18	-5,934.24	1.71	4.90	2,342.35
3	46,903.32	27	20	7	74.07	3,444.75	12,304.89	-3,141.67	-11,502.27	1.10	3.13	1,737.16
2	43,630.34	27	21	6	77.78	2,569.13	9,496.89	-1,720.24	-5,167.89	1.49	5.23	1,615.94
1	47,186.45	27	21	6	77.78	2,536.40	10,716.03	-1,012.99	-2,680.15	2.50	8.76	1,747.65

All 27 instances closed above the entry price at some point in the next 4 days.

This appears to have been a powerful combination. The curve below assumes a 1-day holding period (Turnaround Tuesday.)



The strong, consistent upslope act as some confirmation of the upside tendency. I also ran a 6-day curve.



This is just as impressive. I have added this study to the Active List tonight.

Another Turnaround Tuesday study looked at poor breadth and a 50-day closing low. It was from the 5/15/12 letter and has been updated below.

SPX drops > 1% and NYSE decliners double advancers. SPX posts lowest close in 50 days.  
 Today is Monday. Buy on close. Sell X days later. \$100k/trade. 10/20/87 - 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	87,755.82	44	30	14	68.18	3,931.60	13,733.46	-2,156.58	-5,696.34	1.82	3.91	1,994.45
4	58,292.76	45	34	11	75.56	2,813.16	14,020.11	-3,395.87	-14,820.98	0.83	2.56	1,295.39
3	56,008.10	45	32	13	71.11	2,772.47	12,304.89	-2,516.24	-13,815.18	1.10	2.71	1,244.62
2	50,230.02	45	29	16	64.44	2,452.34	9,496.89	-1,305.49	-6,763.30	1.88	3.40	1,116.22
1	50,260.07	45	31	14	68.89	2,091.30	10,716.03	-1,040.73	-5,702.04	2.01	4.45	1,116.89

Results are very strong across the board. Below is a profit curve using a 5-day exit strategy.



We see here another study that appears worth consideration.

I noted last night that I am not keen on the fact that the Quantifiable Edges Capitulative Breadth Index (CBI) is stuck at zero. Here are some studies that show why.

The first one looks at performance following 50-day low closes when the CBI is 0.

SPX closes at a 50-day low. CBI closes at 0. Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 4/27/16.												
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
20	-5,840.54	17	10	7	58.82	2,899.47	9,253.36	-4,976.46	-8,467.20	0.58	0.83	-343.56
19	-2,007.93	18	11	7	61.11	3,107.21	8,112.56	-5,169.60	-10,277.60	0.60	0.94	-111.55
18	-10,889.08	18	10	8	55.56	3,345.48	8,035.28	-5,542.99	-9,871.20	0.60	0.75	-604.95
17	-12,793.38	18	10	8	55.56	2,783.23	7,502.60	-5,078.21	-9,362.94	0.55	0.69	-710.74
16	-11,269.72	18	8	10	44.44	3,701.29	8,222.04	-4,088.01	-11,305.65	0.91	0.72	-626.10
15	-16,043.04	18	9	9	50.00	3,048.07	7,142.88	-4,830.63	-12,312.24	0.63	0.63	-891.28
14	-24,469.16	18	10	8	55.56	2,716.11	7,388.52	-6,453.78	-11,857.23	0.42	0.53	-1,359.40
13	-18,079.50	19	9	10	47.37	2,964.81	6,388.48	-4,476.28	-12,624.57	0.66	0.60	-951.55
12	-17,871.97	19	8	11	42.11	3,472.25	6,582.60	-4,150.00	-15,900.12	0.84	0.61	-940.63
11	-6,820.11	20	11	9	55.00	2,615.33	5,230.20	-3,954.31	-14,269.74	0.66	0.81	-341.01
10	-10,839.67	20	11	9	55.00	2,250.09	5,656.16	-3,954.52	-11,524.02	0.57	0.70	-541.98
9	-2,789.10	20	12	8	60.00	2,847.16	5,415.45	-4,619.38	-10,076.34	0.62	0.92	-139.46
8	-3,277.96	21	12	9	57.14	2,685.19	6,540.41	-3,944.47	-9,551.73	0.68	0.91	-156.09
7	-4,451.23	23	13	10	56.52	2,141.85	5,140.96	-3,229.53	-7,354.80	0.66	0.86	-193.53
6	-9,199.66	23	10	13	43.48	2,490.75	4,405.04	-2,623.63	-10,529.91	0.95	0.73	-399.99
5	-7,476.73	26	12	14	46.15	2,231.29	5,486.55	-2,446.58	-6,711.66	0.91	0.78	-287.57
4	-908.19	26	15	11	57.69	1,843.81	5,070.22	-2,596.85	-10,632.61	0.71	0.97	-34.93
3	8,842.16	29	18	11	62.07	1,646.70	4,682.36	-1,890.77	-5,403.51	0.87	1.43	304.90
2	7,328.02	33	18	15	54.55	1,562.00	3,615.24	-1,385.86	-4,264.42	1.13	1.35	222.06
1	6,784.76	40	25	15	62.50	932.02	2,348.64	-1,101.05	-4,302.72	0.85	1.41	169.62

Other than perhaps a very quick bounce this has not been a favorable setup for the bulls. From 1-4 weeks out the results have all been net negative.

Now let's look at instances where the 50-day was accompanied by a CBI of between 1-5.

SPX closes at a 50-day low. CBI closes between 1 & 5.  
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 4/27/16.

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
20	58,110.25	44	28	16	63.64	4,705.54	13,866.30	-4,602.80	-15,803.20	1.02	1.79	1,320.69
19	42,086.96	44	29	15	65.91	4,364.18	16,726.50	-5,631.61	-24,445.99	0.77	1.50	956.52
18	46,679.89	45	31	14	68.89	3,972.90	16,682.40	-5,462.86	-23,557.89	0.73	1.61	1,037.33
17	37,059.44	45	32	13	71.11	3,346.32	12,849.30	-5,386.37	-17,331.23	0.62	1.53	823.54
16	18,939.90	45	28	17	62.22	3,462.91	11,683.80	-4,589.51	-16,394.16	0.75	1.24	420.89
15	30,353.29	45	27	18	60.00	3,805.61	13,946.40	-4,022.13	-11,359.38	0.95	1.42	674.52
14	-1,285.77	48	26	22	54.17	3,767.74	12,511.80	-4,511.23	-17,200.80	0.84	0.99	-26.79
13	443.20	51	26	25	50.98	4,184.93	11,849.44	-4,334.60	-18,220.50	0.97	1.00	8.69
12	14,490.52	51	28	23	54.90	3,722.45	12,287.70	-3,901.65	-13,434.12	0.95	1.16	284.13
11	32,091.94	51	28	23	54.90	3,806.75	13,256.10	-3,239.00	-10,244.70	1.18	1.43	629.25
10	9,950.98	51	24	27	47.06	3,989.35	11,861.10	-3,177.53	-11,697.84	1.26	1.12	195.12
9	11,214.31	52	28	24	53.85	3,744.21	11,281.50	-3,900.98	-18,648.00	0.96	1.12	215.66
8	11,037.15	55	32	23	58.18	3,030.92	9,398.70	-3,737.06	-17,685.00	0.81	1.13	200.68
7	38,851.31	56	33	23	58.93	3,214.21	10,005.56	-2,922.51	-12,654.00	1.10	1.58	693.77
6	25,194.36	59	32	27	54.24	2,804.86	8,667.90	-2,391.15	-10,967.40	1.17	1.39	427.02
5	49,473.48	63	34	29	53.97	2,911.04	8,609.40	-1,706.97	-8,127.00	1.71	2.00	785.29
4	-22,899.79	67	38	29	56.72	1,964.60	5,090.39	-3,363.95	-17,037.90	0.58	0.77	-341.79
3	13,100.80	73	42	31	57.53	1,962.87	5,916.60	-2,236.77	-10,286.10	0.88	1.19	179.46
2	6,371.27	84	43	41	51.19	1,817.81	8,484.76	-1,751.09	-9,270.00	1.04	1.09	75.85
1	4,400.22	106	53	53	50.00	1,143.95	5,394.60	-1,060.93	-6,633.36	1.08	1.08	41.51

Still nothing I would want to place a strong wager on, but the results table has turned from mostly red to mostly green. So some improvement is certainly seen. Now let's look at CBI readings between 6-9.

SPX closes at a 50-day low. CBI closes between 6 & 9.  
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 4/27/16.

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
20	97,630.07	33	24	9	72.73	5,444.47	18,816.00	-3,670.81	-8,515.46	1.48	3.96	2,958.49
19	118,917.33	34	26	8	76.47	5,896.16	17,744.64	-4,297.85	-10,655.01	1.37	4.46	3,497.57
18	115,869.39	34	26	8	76.47	5,667.59	16,843.52	-3,936.00	-9,663.20	1.44	4.68	3,407.92
17	89,139.09	36	26	10	72.22	5,086.95	15,897.60	-4,312.17	-11,919.20	1.18	3.07	2,476.09
16	78,337.58	36	26	10	72.22	4,669.56	13,953.28	-4,307.11	-12,897.66	1.08	2.82	2,176.04
15	60,898.95	36	27	9	75.00	4,409.33	14,585.60	-6,461.45	-19,549.18	0.68	2.05	1,691.64
14	68,340.73	37	29	8	78.38	4,235.56	13,489.92	-6,811.31	-16,931.28	0.62	2.25	1,847.05
13	66,369.56	38	29	9	76.32	3,960.14	14,524.16	-5,386.05	-13,985.32	0.74	2.37	1,746.57
12	64,352.93	38	28	10	73.68	3,877.22	15,473.92	-4,420.93	-15,050.34	0.88	2.46	1,693.50
11	69,314.65	39	27	12	69.23	4,166.76	19,082.07	-3,599.00	-12,064.08	1.16	2.60	1,777.30
10	77,468.57	39	26	13	66.67	4,677.12	21,519.33	-3,395.12	-11,180.43	1.38	2.76	1,986.37
9	77,418.78	41	27	14	65.85	4,653.41	14,515.20	-3,444.53	-11,287.50	1.35	2.61	1,888.26
8	74,802.47	41	26	14	63.41	4,428.06	15,803.97	-2,880.50	-10,383.24	1.54	2.85	1,824.45
7	67,067.89	42	29	13	69.05	3,846.72	17,319.54	-3,422.07	-14,010.70	1.12	2.51	1,596.85
6	80,904.17	44	32	12	72.73	3,723.20	14,933.73	-3,186.51	-8,930.67	1.17	3.12	1,838.73
5	48,585.07	46	27	19	58.70	3,425.14	11,371.92	-2,310.20	-7,032.56	1.48	2.11	1,056.20
4	40,687.62	48	31	17	64.58	3,013.73	13,377.28	-3,102.24	-14,820.98	0.97	1.77	847.66
3	36,458.70	53	34	19	64.15	2,542.12	10,908.87	-2,630.17	-13,815.18	0.97	1.73	687.90
2	40,189.02	56	37	19	66.07	2,181.06	7,495.68	-2,132.11	-8,077.85	1.02	1.99	717.66
1	15,581.75	65	43	22	66.15	1,347.68	6,331.29	-1,925.85	-6,659.22	0.70	1.37	239.72

These are some solid bullish numbers. And the edge seems to persist from Day 1 and throughout the next 4 weeks. Lastly, let's look at high CBI readings of 10 or above.

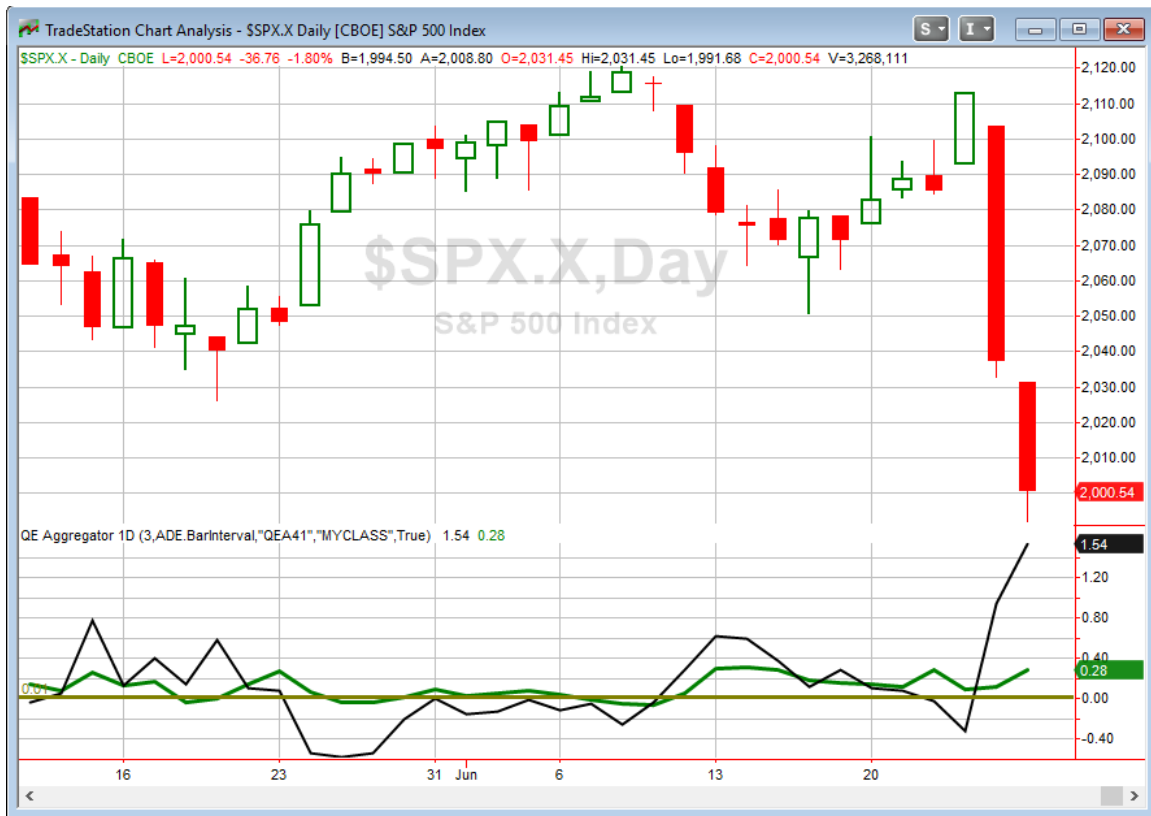
SPX closes at a 50-day low. Quantifiable Edges Capitulative Breadth Index (CBI) closes  $\geq 10$ .  
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - present.

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
20	94,498.66	18	17	1	94.44	5,570.27	17,878.08	-196.00	-196.00	28.42	483.14	5,249.93
19	91,414.84	18	16	2	88.89	5,940.52	17,534.88	-1,816.75	-2,993.00	3.27	26.16	5,078.60
18	94,152.11	18	17	1	94.44	5,700.01	20,061.36	-2,748.00	-2,748.00	2.07	35.26	5,230.67
17	92,059.85	18	16	2	88.89	6,151.17	21,217.68	-3,179.43	-4,214.00	1.93	15.48	5,114.44
16	78,690.41	18	16	2	88.89	5,350.09	15,329.16	-3,455.52	-6,614.00	1.55	12.39	4,371.69
15	72,864.52	18	14	4	77.78	5,740.17	17,338.20	-1,874.45	-5,572.00	3.06	10.72	4,048.03
14	51,363.29	19	15	4	78.95	4,521.41	15,991.80	-4,114.46	-14,731.00	1.10	4.12	2,703.33
13	56,611.15	19	14	5	73.68	5,304.68	19,377.60	-3,530.87	-11,946.00	1.50	4.21	2,979.53
12	55,464.38	19	14	5	73.68	5,145.58	17,982.36	-3,314.74	-8,812.00	1.55	4.35	2,919.18
11	61,399.38	19	13	6	68.42	5,858.22	20,758.32	-2,459.58	-9,945.00	2.38	5.16	3,231.55
10	54,609.93	19	14	5	73.68	4,517.76	16,319.16	-1,727.75	-4,118.00	2.61	7.32	2,874.21
9	58,251.27	19	14	5	73.68	4,620.68	12,246.96	-1,287.65	-1,765.40	3.59	10.05	3,065.88
8	45,169.59	20	15	4	75.00	4,005.78	15,615.60	-3,729.28	-5,568.00	1.07	4.03	2,258.48
7	49,139.77	20	14	6	70.00	4,505.56	12,720.84	-2,323.02	-4,980.00	1.94	4.53	2,456.99
6	45,939.81	20	14	6	70.00	4,563.58	18,349.11	-2,991.71	-8,839.00	1.53	3.56	2,296.99
5	50,631.99	20	14	6	70.00	4,793.64	18,981.60	-2,746.48	-5,174.95	1.75	4.07	2,531.60
4	41,827.89	21	13	7	61.90	4,517.30	17,851.68	-2,413.85	-4,365.00	1.87	3.48	1,991.80
3	9,452.50	26	13	8	50.00	3,473.87	13,853.40	-4,463.48	-9,701.00	0.78	1.26	363.56
2	31,734.89	33	18	10	54.55	3,588.31	13,116.84	-3,285.48	-8,631.00	1.09	1.97	961.66
1	15,441.14	41	20	12	48.78	2,101.19	10,716.03	-2,215.22	-6,760.90	0.95	1.58	376.61

These are by far the most appealing results, from Day 1 right through day 20. And 20 days out there was just one loser and it only lost 0.2%.

So obviously you would rather have a spiking CBI accompany a new low. While the current reading of zero is not outright bearish, it could be looked at as somewhat discouraging for the bulls.

I have updated the Aggregator chart below.



With tonight's studies included the green Aggregator Line moved farther above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line shot up extremely high. The large Differential Line reading means SPX is extremely 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.

Based on the current active list, expectations are poised to remain positive on Tuesday. This is highly unlikely to change. The Differential Pivot will be 2118.60 on Tuesday. That is a whopping 5.9% above Monday's close. So SPX would need to close up at least 5.9% on Tuesday in order to move from oversold to overbought. That is highly unlikely. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So despite the low CBI, there does appear to be an upside edge. And there is tons of room to the upside before the market would get overbought, meaning high potential reward. I already have some long exposure. I will look to add to it on Tuesday if I can get a good fill.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 6/27 – neutral**

The intermediate-term outlook was last updated in the 6/27/16 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**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.

**SPY – buy ¼ index position @ \$199.60 limit.** Based on the short-term outlook above, I will start scaling in to an index position if I can get filled at or below Monday’s closing price.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$21.46	-13.12%		Aggressive VIX
SPY(1/4)	6/27/2016	\$201.59	\$199.60	-0.99%		Aggreagator

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