

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 17, 2016

Volume 9 Issue 116

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The SPX price pattern the last 2 days suggests a failure by the bears. Bulls have a chance to take charge over the next few days.
- Opex Friday mornings during uptrends have typically seen selling.

## *Short-term Outlook*

### *The Bottom Line*

Bullish evidence continues to mount and the market remains oversold. This bounce should have further to go.

*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 17, 2016	Fed tomorrow. SPX down 3+ days	1-5 days	Bullish			
June 16, 2016	Dn 5 days > 20-low & > 200ma	1-2 days	Bullish			
June 16, 2016	TICK TomOscillator < -200	1-2 days	Bullish			
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 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%
<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%
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			

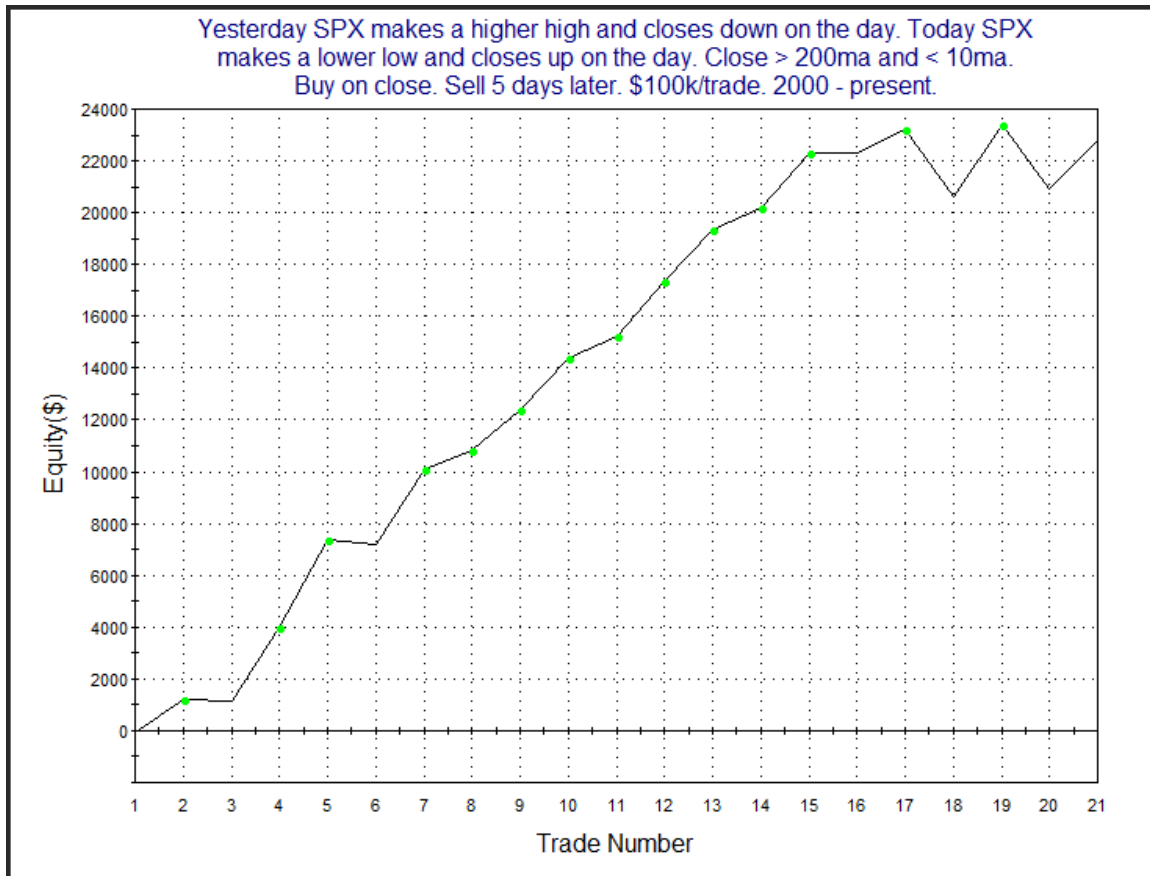
**The Evidence**

Thursday started off poorly but the market put together an afternoon rally and finished mixed. The SPX rose 0.3%, the NASDAQ gained 0.2%, and the Russell 2000 fell 0.1%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 43%. NYSE volume rose some from Wednesday's level.

On Wednesday the bulls tried to make a move higher and failed, making for a higher high and a lower close. On Thursday the opposite happened. The bears failed in their attempt at a move lower. In the 1/20/15 Subscriber Letter I looked at two-day moves like this. I found results to be substantially different based on whether the market is near the top or the bottom of its short-term range. When the pattern occurs in the lower end of the short-term range is has been consistently bullish over the next 4-5 days. This can be seen in the below test, which I have updated.

Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and < 10ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	22,766.17	21	15	6	71.43	1,873.40	3,344.64	-889.14	-2,608.20	2.11	5.27	1,084.10
4	16,983.35	21	17	4	80.95	1,414.96	2,345.07	-1,767.73	-2,618.70	0.80	3.40	808.73
3	6,872.08	21	14	7	66.67	1,214.01	2,224.32	-1,446.29	-3,490.90	0.84	1.68	327.24
2	3,608.46	21	13	8	61.90	1,131.00	2,967.00	-1,386.81	-2,246.00	0.82	1.33	171.83
1	3,562.06	21	12	9	57.14	833.58	1,712.28	-715.66	-1,970.00	1.16	1.55	169.62
<b>19 of 21 instances (90%) closed above the entry price at some point in the next week.</b>												

Odds strongly favor a move higher and the win:loss ratio and profit factors are very impressive. Below is an equity curve using a 5-day exit strategy to see how the edge has played out over time.



There have been a couple of negative instances lately, but the overall edge still appears intact. The failure of the bears to take control when the market pressed downward and made a lower low on Thursday has opened the door for the bulls.

While not applicable to the current situation, I thought I'd also show the results when the pattern occurred and the SPX closed above the 10ma. This table is updated from the 1/20/15 letter as well.

Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and > 10ma.  
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-1,431.23	45	26	19	57.78	943.88	2,143.70	-1,366.95	-3,770.60	0.69	0.94	-31.81
4	-6,790.82	51	29	22	56.86	753.89	1,984.54	-1,302.43	-4,575.48	0.58	0.76	-133.15
3	-6,908.20	51	26	25	50.98	763.80	1,918.21	-1,070.68	-2,726.23	0.71	0.74	-135.45
2	-195.08	52	30	22	57.69	568.56	1,844.90	-784.18	-2,362.36	0.73	0.99	-3.75
1	-468.78	52	26	26	50.00	489.08	1,063.14	-507.11	-1,275.95	0.96	0.96	-9.02

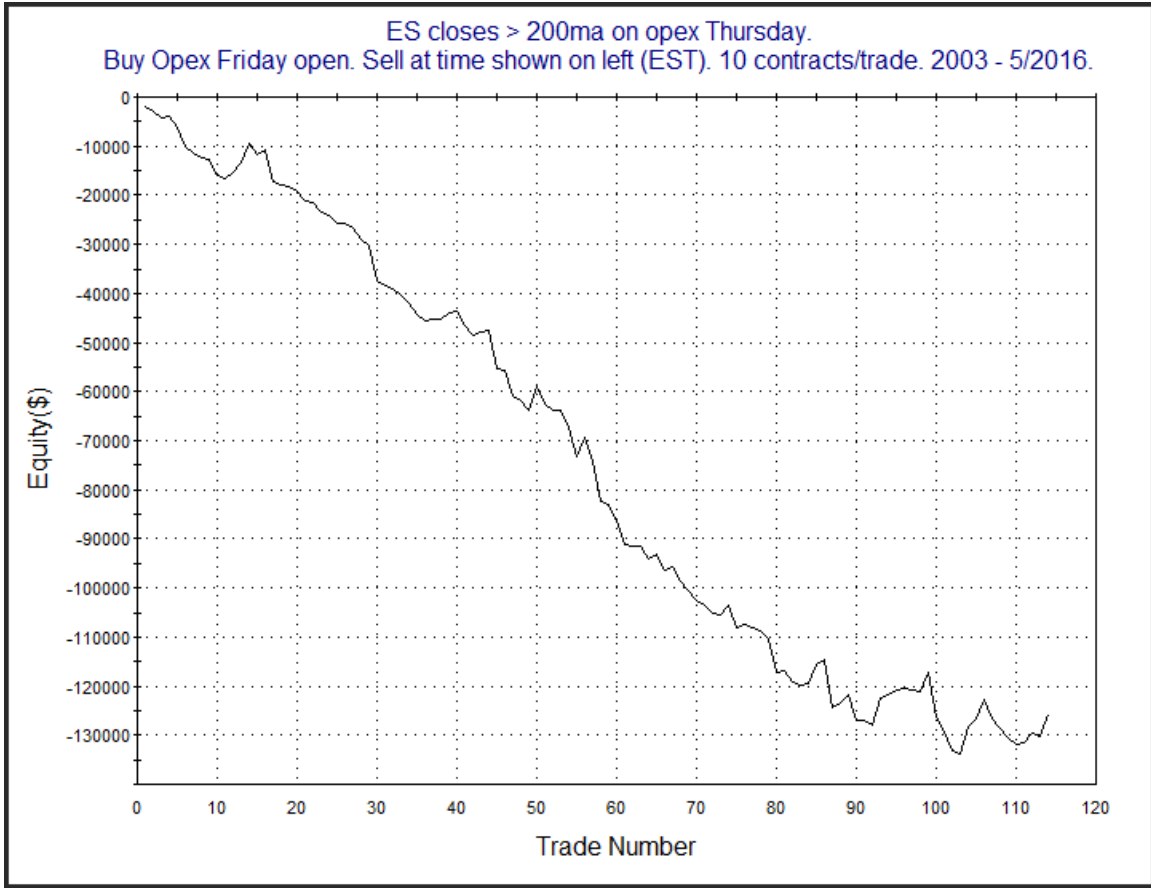
We see here that the winning % is a tossup and the downside risk has outsized the upside reward. In this case implications are not bullish. With the 50% winning % and the fairly mild average decline I'm not sure I'd call it bearish either.

One seasonal factor that could come into play on Friday is that the market has often struggled after the open on opex Friday. Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day.

ES closes > 200ma on opex Thursday.  
Buy Opex Friday open. Sell at time shown on left (EST). 10 contracts/trade. 2003 - 5/2016.

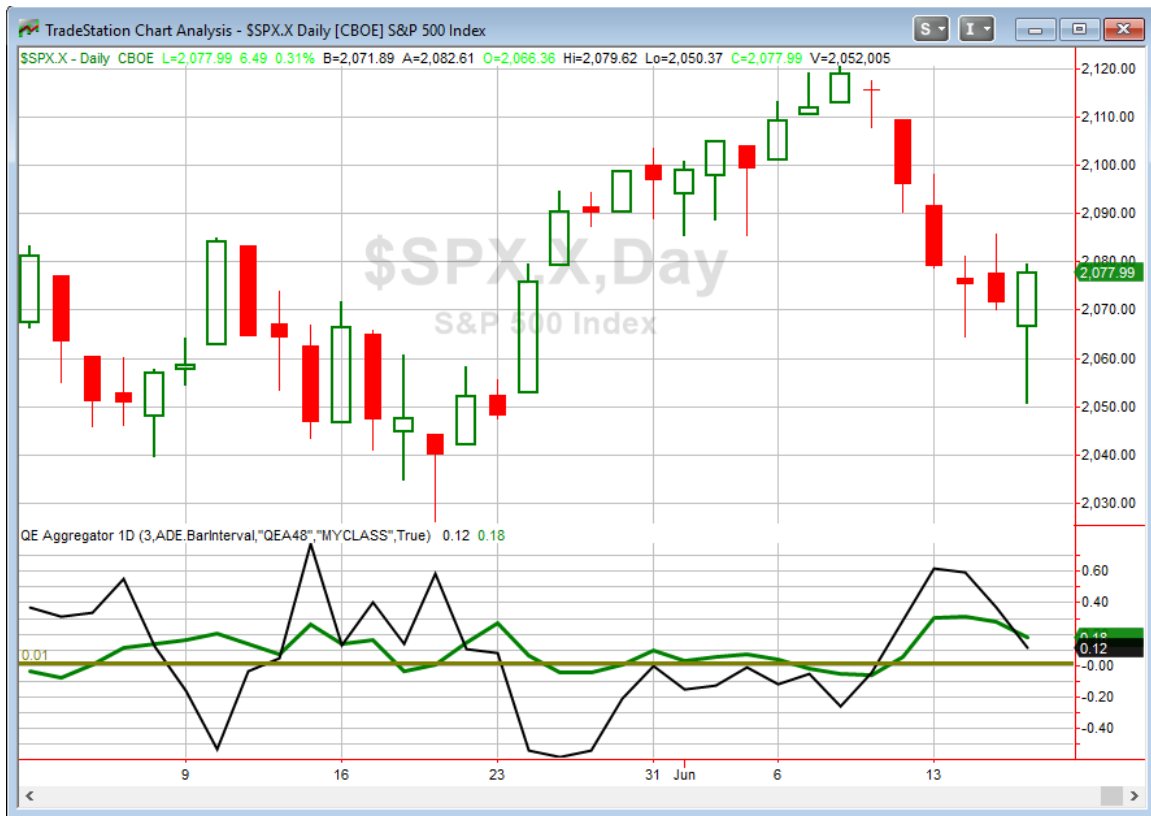
OE Op-Ex Fri Intra Short2: timeofday	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
1,600	-113,875.00	114	49	62	42.98	2,357.14	13,875.00	-3,699.60	-16,125.00	0.64	0.50	-998.90
1,500	-125,375.00	114	38	73	33.33	2,467.11	9,875.00	-3,001.71	-11,625.00	0.82	0.43	-1,099.78
1,400	-131,750.00	114	33	75	28.95	2,200.76	9,875.00	-2,725.00	-10,750.00	0.81	0.36	-1,155.70
1,300	-122,125.00	114	35	78	30.70	2,021.43	9,625.00	-2,472.76	-10,000.00	0.82	0.37	-1,071.27
1,200	-125,625.00	114	34	80	29.82	1,812.50	5,625.00	-2,340.63	-9,750.00	0.77	0.33	-1,101.97
1,100	-85,625.00	114	41	71	35.96	1,500.00	7,250.00	-2,072.18	-7,625.00	0.72	0.42	-751.10
1,000	-70,125.00	114	32	80	28.07	898.44	3,625.00	-1,235.94	-3,625.00	0.73	0.29	-615.13

As you can see, the bearish implications primarily play themselves out during the morning. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) Below is a profit curve that assumes the trade is sold at noon each time.



The downward slope has been in effect and fairly steady for a long time. So caution seems warranted on the long side during the morning on Friday.

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 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 Friday. It would take very strong bearish evidence to change this. The Differential Pivot will be 2089.26 on Friday. That is 0.5% above Thursday's close. So for SPX to move from oversold to overbought on Friday it will need to close up at least 0.5%.

So while Friday morning has negative seasonality, the evidence continues to mount for the bulls. It appears this bounce is just beginning. I have a fair amount of long exposure and I will look to ride it at least one more day.

*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	\$26.67	1.79%		Aggressive VIX
SPY(1/4)	6/13/2016	\$209.36	\$208.37	-0.47%		sell on SPX close > 2089.26
XIV(1/2)	6/14/2016	\$24.70	\$26.67	7.98%		Aggressive VIX
SPY(1/4)	6/15/2016	\$208.00	\$208.37	0.18%		Aggregator
EMC(1/3)	6/15/2016	\$27.61	\$27.68	0.25%		sell on close >= \$27.70

*EMC will hit its exit target on a close  $\geq$  \$27.70, and I will exit it at the close rather than wait for Monday's open if that happens.*

*I will exit 1 lot of SPY if SPX closes above the Differential Pivot.*

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