

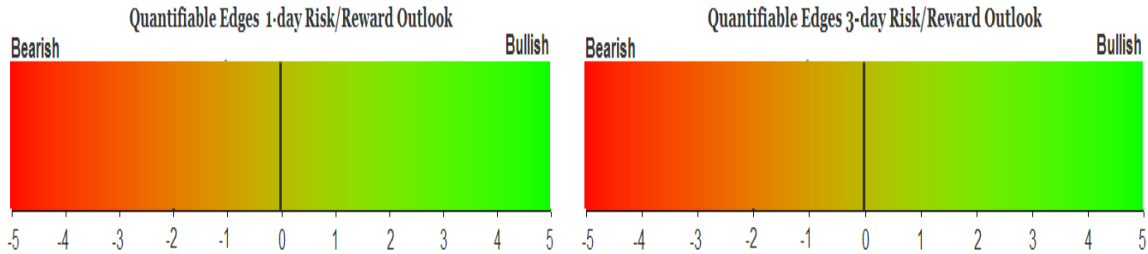
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 1, 2016

Volume 9 Issue 127

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Short

## Tonight's Research Points

- 3 days of strong breadth suggest more upside for both the short and long-term.
- 1<sup>st</sup> of the month does not appear very strong under current circumstances
- The QE Buying Power Swing System triggered short.

### *Short-term Outlook*

#### *The Bottom Line*


While most evidence is still pointing higher the market is strongly overbought. This leaves me short-term neutral.

*Summary of Recent Active Studies (see Letters from listed dates for details)* - not updated tonight. Will be updated this weekend

***The Evidence***

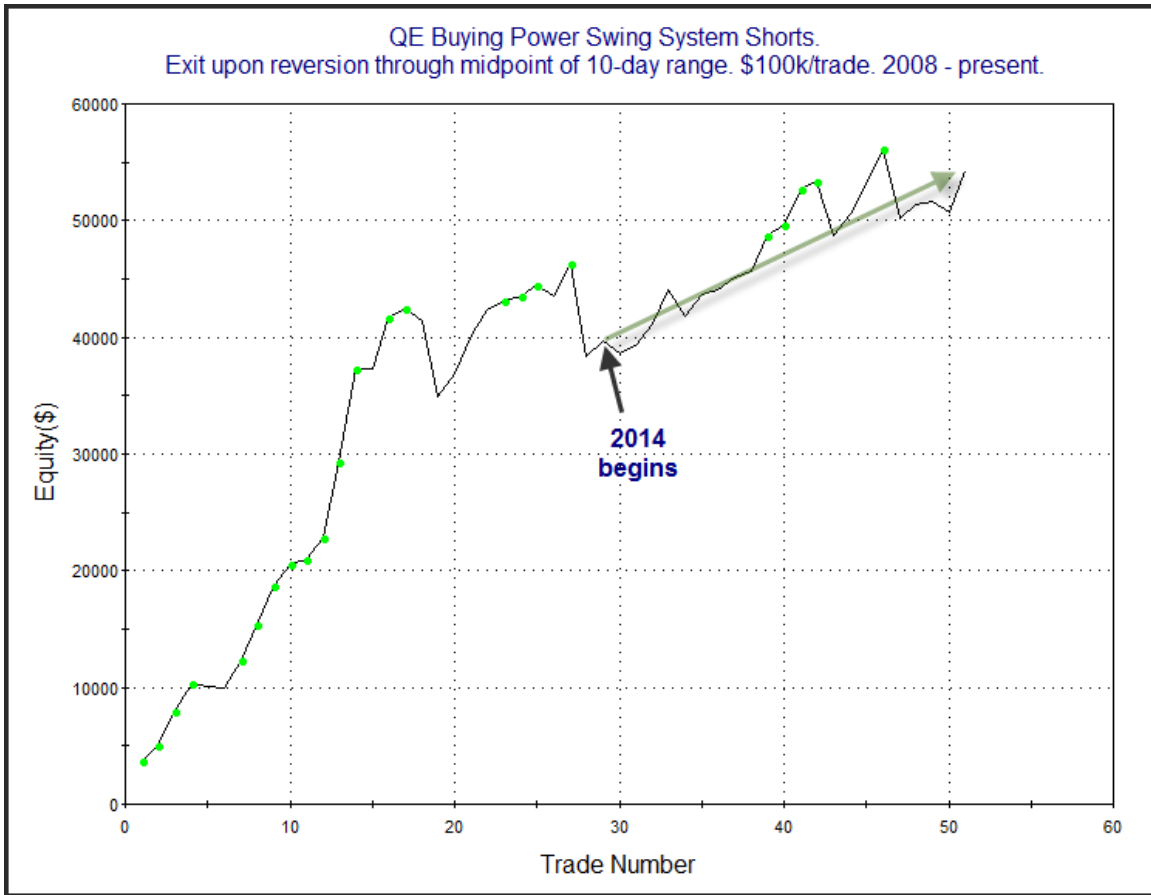
Thursday was another strong day for the market. The SPX rose 1.4%, the NASDAQ gained 1.3%, and the Russell 2000 rallied 1.8%. Breadth was strongly positive as the NYSE Up Issues % was 80% and the Up Volume % came in at 80%. NYSE volume rose some from Wednesday’s level.

I am seeing a mix of evidence emerge tonight based on action over the last few days. Thursday’s close in the upper part of the 10-day range triggered a new short signal in the QE Buying Power System. The performance table below shows updated hypothetical results of having taken all short signals since 2008, and then exiting upon a reversion to the lower half of the recent range. (A short signal simply requires the QE Buying Power Index  $\leq 0$  and the SPX closes in the top 20% of its 10-day range.) With no active Fed QE purchase plans currently the Buying Power Index has been locked at 0 since early November 2014.

QE Buying Power Swing System Shorts. Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2008 - present.			
TradeStation Performance Summary			Expand 
All Trades			
Total Net Profit	\$54,236.84	Profit Factor	2.70
Gross Profit	\$86,178.07	Gross Loss	(\$31,941.23)
Total Number of Trades	51	Percent Profitable	76.47%
Winning Trades	39	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$1,063.47	Ratio Avg. Win:Avg. Loss	0.83
Avg. Winning Trade	\$2,209.69	Avg. Losing Trade	(\$2,661.77)
Largest Winning Trade	\$8,004.64	Largest Losing Trade	(\$8,003.49)

Results here are strong.

Below is a look at the profit curve, with a demarcation where QE3 ended and the 2014 - 2016 trades began.



Not as steep as it was during bear market environments, but still nice results for the shorts. We have seen a couple of instances since October that went very strongly against the short position. The trades overall have done quite well. I still believe the system signals deserve some consideration within the Active List. Of course I will keep an eye on this to see if these runaway up moves continue to happen, and perhaps whether the system signals should be reconsidered.

On the bullish side, Thursday was the 3<sup>rd</sup> day in a row that provided strong breadth readings. In the past, 3 days of strong breadth has led to further short-term upside. This is something I discussed in the 2/18/16 Letter. I have updated that study below.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.  
Buy SPX on close. Sell X days later. \$100k/trade. 1967 - 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	32,987.73	22	17	5	77.27	3,127.90	8,961.33	-4,037.30	-8,739.76	0.77	2.63	1,499.44
9	30,254.07	22	17	5	77.27	2,991.82	10,112.58	-4,121.38	-9,422.42	0.73	2.47	1,375.18
8	24,920.94	22	15	7	68.18	2,776.50	8,417.94	-2,389.52	-9,542.26	1.16	2.49	1,132.77
7	29,882.18	22	17	5	77.27	2,539.84	7,911.39	-2,659.01	-6,421.07	0.96	3.25	1,358.28
6	29,334.25	22	16	6	72.73	2,821.85	9,237.63	-2,635.90	-6,584.78	1.07	2.85	1,333.38
5	21,021.69	22	16	6	72.73	2,249.67	8,344.26	-2,495.50	-6,523.10	0.90	2.40	955.53
4	16,869.92	22	14	8	63.64	1,867.77	6,272.01	-1,159.87	-3,472.70	1.61	2.82	766.81
3	14,843.57	22	13	9	59.09	1,985.64	6,990.39	-1,218.86	-2,691.05	1.63	2.35	674.71
2	17,533.22	22	18	4	81.82	1,070.05	4,144.50	-431.92	-790.32	2.48	11.15	796.96
1	9,558.35	22	14	7	63.64	837.90	2,609.46	-310.33	-465.45	2.70	5.40	434.47

**All 22 instances posted a close > open  
at some point in the next 5 days.**

Not only are the net results strong but the consistency has been outstanding with all 21 instances posting gains at some point during the next week. Below I have listed all 21 instances and assumed a 2-day exit.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.  
Buy SPX on close. Sell X days later. \$100k/trade. 1967 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/9/1967	Buy	\$82.81	0.80%	\$1,339.77
1/11/1967	Sell	\$83.47		(\$1,738.08)
5/29/1970	Buy	\$76.55	1.69%	\$2,847.08
6/2/1970	Sell	\$77.84		(\$927.26)
10/11/1974	Buy	\$71.14	0.42%	\$4,622.45
10/15/1974	Sell	\$71.44		(\$744.65)
1/3/1975	Buy	\$70.71	0.44%	\$2,163.42
1/7/1975	Sell	\$71.02		(\$1,117.06)
1/5/1976	Buy	\$92.58	1.48%	\$2,775.60
1/7/1976	Sell	\$93.95		(\$226.80)
1/5/1979	Buy	\$99.13	0.20%	\$836.64
1/9/1979	Sell	\$99.33		(\$1,310.40)
8/18/1982	Buy	\$108.52	4.15%	\$4,577.37
8/20/1982	Sell	\$113.02		(\$1,077.57)
10/8/1982	Buy	\$131.05	2.59%	\$4,555.11
10/12/1982	Sell	\$134.44		\$0.00
3/3/1983	Buy	\$153.47	0.12%	\$956.97
3/7/1983	Sell	\$153.66		(\$1,269.45)
8/3/1984	Buy	\$162.35	0.22%	\$1,795.80
8/7/1984	Sell	\$162.71		(\$953.25)
12/26/1991	Buy	\$404.84	2.54%	\$2,541.63
12/30/1991	Sell	\$415.13		(\$61.75)
3/21/2007	Buy	\$1,435.04	0.07%	\$265.65
3/23/2007	Sell	\$1,436.11		(\$356.04)
1/2/2009	Buy	\$931.80	0.31%	\$1,289.35
1/6/2009	Sell	\$934.70		(\$1,312.89)
4/2/2009	Buy	\$834.38	0.13%	\$966.28
4/6/2009	Sell	\$835.48		(\$1,379.21)
9/8/2009	Buy	\$1,025.39	1.83%	\$1,818.75
9/10/2009	Sell	\$1,044.14		(\$137.74)
7/9/2010	Buy	\$1,077.95	1.61%	\$1,978.92
7/13/2010	Sell	\$1,095.34		(\$690.00)
7/26/2010	Buy	\$1,115.01	-0.80%	\$528.66
7/28/2010	Sell	\$1,106.13		(\$1,059.10)
3/21/2011	Buy	\$1,298.38	-0.06%	\$164.01
3/23/2011	Sell	\$1,297.54		(\$1,103.41)
9/15/2011	Buy	\$1,209.11	-0.42%	\$897.90
9/19/2011	Sell	\$1,204.09		(\$1,701.50)
6/27/2013	Buy	\$1,613.20	0.11%	\$818.01
7/1/2013	Sell	\$1,614.96		(\$740.54)
10/18/2013	Buy	\$1,744.50	0.58%	\$845.31
10/22/2013	Sell	\$1,754.67		(\$218.31)
2/17/2016	Buy	\$1,926.82	-0.47%	\$162.18
2/19/2016	Sell	\$1,917.78		(\$1,257.15)

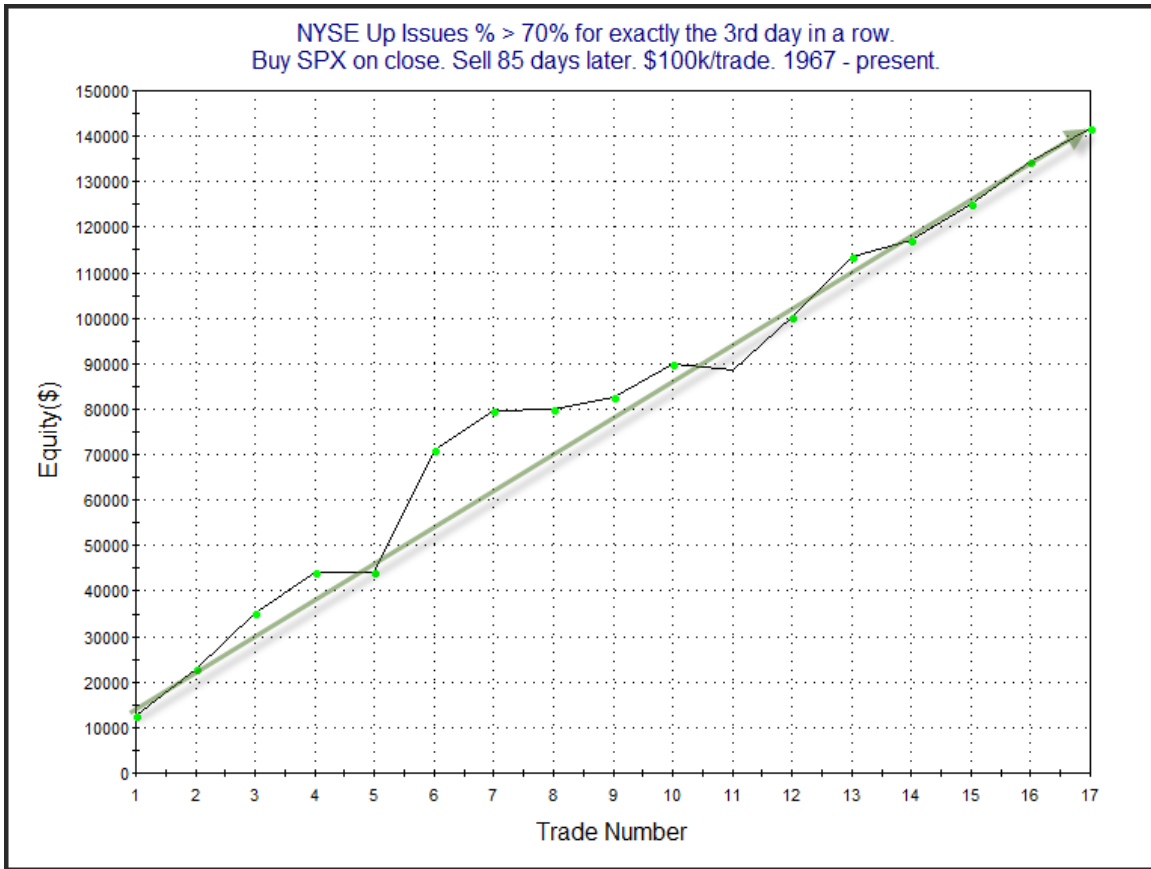
A few recent instances did not do as well, but every instance has still managed to close higher at some point in the next week. So I believe this study is worth taking into consideration.

Intermediate-term implications of this study are also very compelling. I have included them below as well.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.  
Buy SPX on close. Sell X days later. \$100k/trade. 1967 - present.

QE Finder Tester: daysin	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
100	120,732.10	16	13	3	81.25	10,238.93	35,228.25	-4,124.64	-9,681.98	2.48	10.76	7,545.76
95	112,055.80	16	14	2	87.50	8,761.21	27,455.01	-5,300.59	-7,569.87	1.65	11.57	7,003.49
90	137,186.39	17	15	2	88.24	9,554.50	30,991.65	-3,065.58	-5,123.16	3.12	23.38	8,069.79
85	141,671.97	17	16	1	94.12	8,936.55	26,681.37	-1,312.89	-1,312.89	6.81	108.91	8,333.65
80	131,053.65	17	16	1	94.12	8,579.80	28,597.05	-6,223.12	-6,223.12	1.38	22.06	7,709.04
75	125,606.08	18	17	1	94.44	7,944.05	27,786.57	-9,442.75	-9,442.75	0.84	14.30	6,978.12
70	98,247.26	18	16	2	88.89	6,833.34	24,277.56	-5,543.08	-8,532.18	1.23	9.86	5,458.18
65	90,863.01	18	15	3	83.33	6,954.69	27,455.01	-4,485.79	-12,438.75	1.55	7.75	5,047.95
60	101,157.16	19	16	3	84.21	7,473.19	30,604.83	-6,137.98	-14,330.51	1.22	6.49	5,324.06
55	102,727.11	20	16	4	80.00	7,678.80	30,696.93	-5,033.43	-13,424.22	1.53	6.10	5,136.36
50	95,508.18	20	15	5	75.00	8,268.21	23,080.26	-5,702.98	-16,443.76	1.45	4.35	4,775.41
45	89,029.28	20	17	3	85.00	6,967.38	28,118.13	-9,805.37	-22,705.40	0.71	4.03	4,451.46
40	75,927.65	20	17	3	85.00	6,470.31	23,992.05	-11,355.88	-25,195.29	0.57	3.23	3,796.38
35	70,824.33	21	17	4	80.95	5,574.65	18,677.88	-5,986.16	-16,976.62	0.93	3.96	3,372.59
30	73,092.09	21	16	5	76.19	5,947.65	15,257.06	-4,414.06	-15,261.41	1.35	4.31	3,480.58
25	73,295.87	21	17	4	80.95	5,166.68	14,072.88	-3,634.44	-6,624.37	1.42	6.04	3,490.28
20	68,210.85	21	17	4	80.95	4,964.34	14,045.25	-4,045.75	-11,381.59	1.23	5.21	3,248.14
15	51,701.67	21	18	3	85.71	3,643.47	12,387.45	-4,626.90	-10,189.61	0.79	4.72	2,461.98
10	32,987.73	22	17	5	77.27	3,127.90	8,961.33	-4,037.30	-8,739.76	0.77	2.63	1,499.44
5	21,021.69	22	16	6	72.73	2,249.67	8,344.26	-2,495.50	-6,523.10	0.90	2.40	955.53

The results table suggests a strong consistent edge has followed this setup. Below is a performance graph showing performance assuming an 85-day holding period.



The curve appears to serve as further confirmation of the upside edge. The strong, steady upslope is very impressive. The steadiness is fairly amazing considering it looks out 85 days.

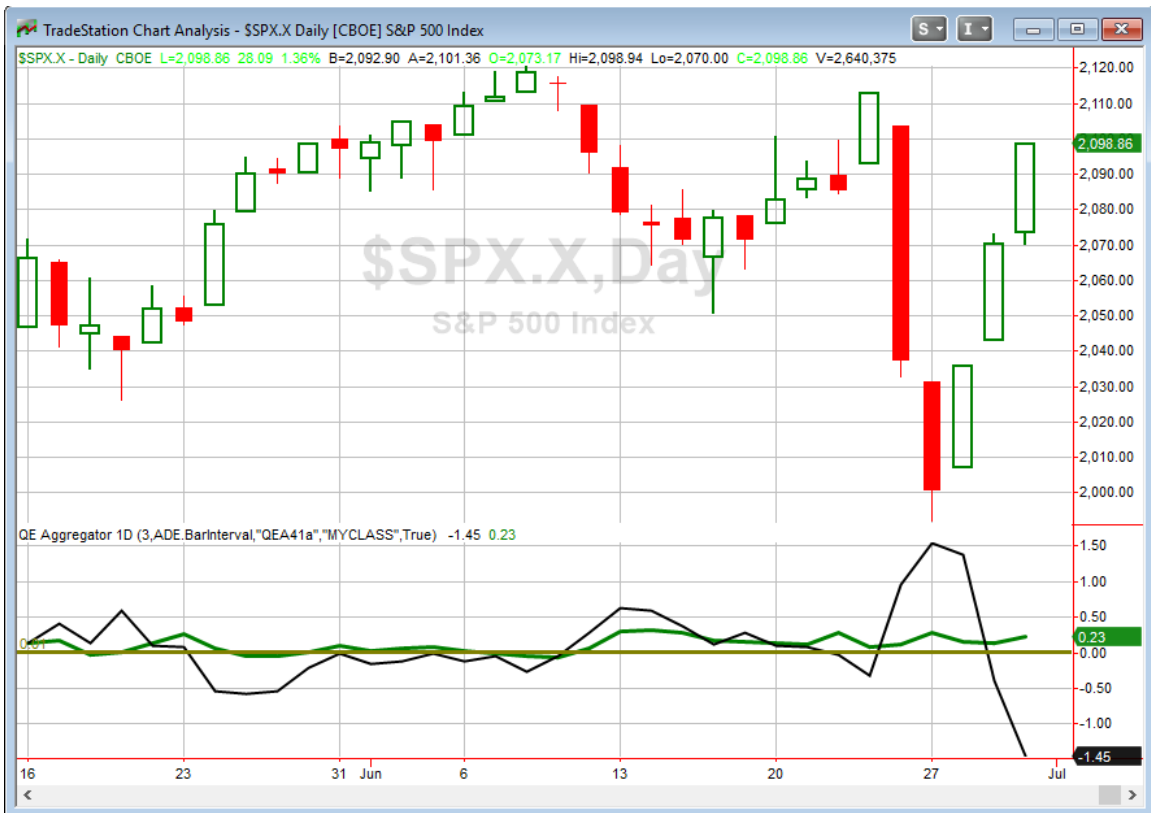
Lastly, I will note that Friday is the first trading day of the month. The first of the month is often a bullish day for the market, especially when it is above its 200ma. But there are a couple of things going against it. For one, SPY has now closed up 3 days in a row. And secondly, SPY closed high in its intraday range. Knowing that those things have often dampened the 1<sup>st</sup> of month returns I combined them in a study tonight. Results are below.

It's the last trading day of the month. SPY closes up for at least the 3rd day in a row, in the top half of intraday range and > 200ma. Buy on close. Sell next day close. \$100k/trade. '93 - now.

TradeStation Performance Summary			
Expand ▾			
All Trades			
Total Net Profit	(\$1,085.21)	Profit Factor	0.85
Gross Profit	\$6,054.98	Gross Loss	(\$7,140.19)
Total Number of Trades	20	Percent Profitable	40.00%
Winning Trades	8	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	(\$54.26)	Ratio Avg. Win:Avg. Loss	1.27
Avg. Winning Trade	\$756.87	Avg. Losing Trade	(\$595.02)
Largest Winning Trade	\$1,476.15	Largest Losing Trade	(\$2,245.23)

As you can see, the bullish edge is completely wiped away under these circumstances.

I have updated the Aggregator chart below.



With tonight's studies included the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is now very far below 0. The negative Differential Line reading means SPX is strongly overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite side of 0. Therefore, the Aggregator remained flat at the close.

Based on the current active list, expectations are poised to remain positive on Friday. This is highly unlikely to change. The Differential Pivot will be 2046.64 on Friday. That is a whopping 2.4% below Thursday's close. So for SPX to move from oversold to overbought versus expectations on Friday it will need to close down at least 2.4%. That's highly unlikely to happen in 1 day. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

The bounce has been strong. And evidence suggests it could still have further to go. But the market is just way-too overdone in the short-term for me to consider taking on new long positions. I will wait for a bit of a pullback or for the evidence to turn bearish before I will take on new trades.

***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.*

**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)	6/14/2016	\$24.70	\$24.99	1.17%		Aggressive VIX
<b>SPY(1/4)</b>	<b>6/27/2016</b>	<b>\$201.59</b>	<b>\$207.21</b>	<b>2.79%</b>		<b><i>sold on open</i></b>

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