

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 12, 2016

Volume 9 Issue 133

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 unfilled up gaps and a 50-day high are a short-term positive.
- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

Short-term Outlook

The Bottom Line

Evidence is mostly bullish, but the market remains short-term overbought. This is leaving me short-term neutral.

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
Active - Short Term						
July 12, 2016	2 unfilled up gaps & 50-day high	1-2 days	Bullish			
July 12, 2016	VIX up. SPX 50-high on a Monday	1-2 days	Bearish			
July 11, 2016	SPX 50-low to 50-high in 2 weeks	1-6 days	Bullish			
July 11, 2016	SPX 50-high breakout 90% up volume	1-2 days	Bullish			
July 11, 2016	SPY unfilled gap up breakout	1-5 days	Bullish			
June 30, 2016	VIX 10% 10ma from 10% below	1-8 days	Bullish	1.90%	-1.10%	-2.20%
Active - Long Term						
July 11, 2016	NASDAQ leading	int term	Bullish			
July 11, 2016	SPX 50-low to 50-high in 2 weeks	1-17 days	Bullish			
July 11, 2016	SPX 50-high breakout 90% up volume	1-35 days	Bullish			
July 1, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-4.90%	-11.70%
April 26, 2016	Golden Cross	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			

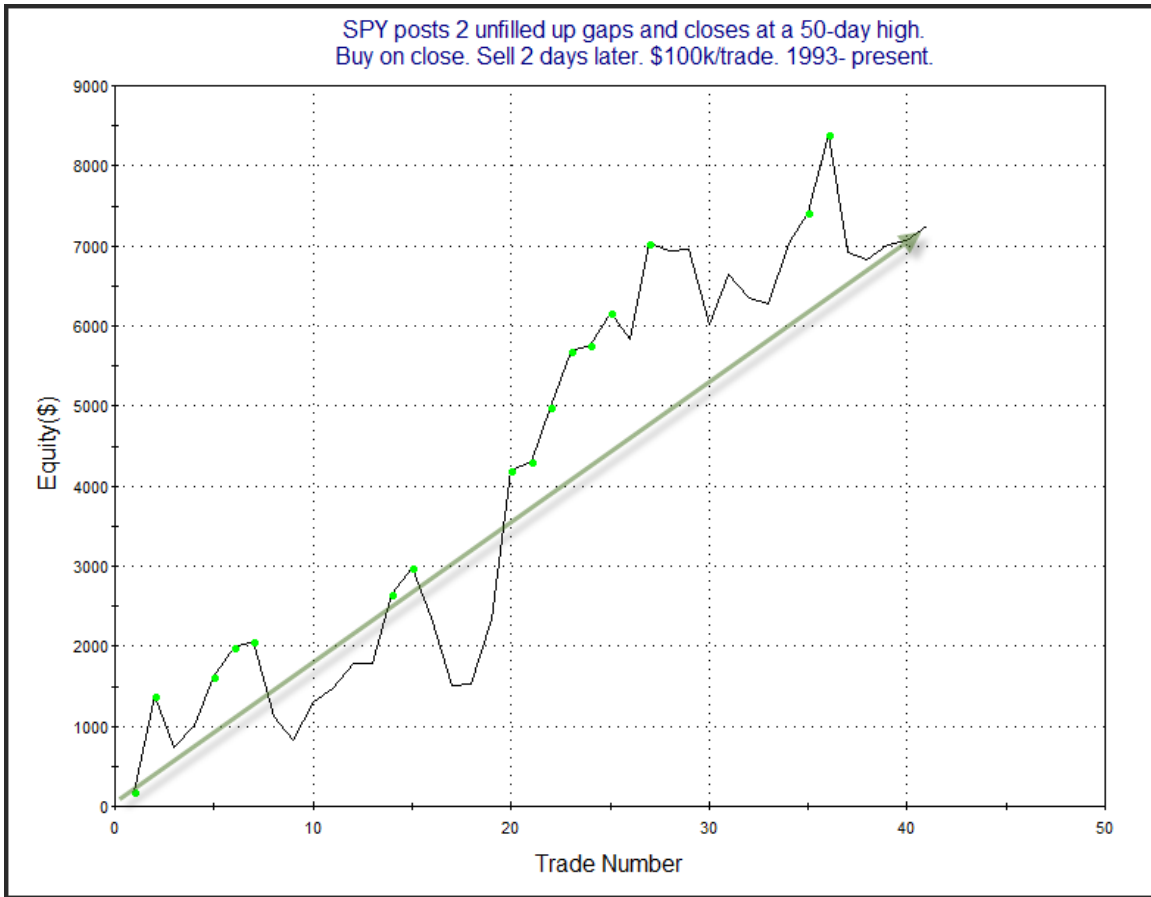
The Evidence

Despite some late afternoon selling, the morning was strong enough that the major indices all posted solid gains on Monday. The SPX finished up 0.3%, the NASDAQ rose 0.6% and Russell 2000 climbed 1.1%. Breadth was extremely positive as the NYSE Up Issues % was 68% and the Up Volume % came in at 74%. NYSE volume declined some from Friday's level.

The move up on Monday generated a few interesting (and mixed) studies. Notable was that Monday was the 2nd day in a row with an unfilled up gap. The study below is one that was seen in the 12/4/14 letter. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

SPY posts 2 unfilled up gaps and closes at a 50-day high. 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	7,202.84	41	27	14	65.85	887.23	2,013.72	-1,196.61	-4,508.40	0.74	1.43	175.68
4	11,508.74	41	28	13	68.29	897.07	2,475.56	-1,046.86	-2,720.25	0.86	1.85	280.70
3	11,066.49	41	28	13	68.29	642.50	2,419.84	-532.59	-1,801.77	1.21	2.60	269.91
2	7,250.81	41	28	12	68.29	497.76	1,858.87	-557.21	-1,476.68	0.89	2.08	176.85
1	-26.72	48	24	24	50.00	342.39	1,156.32	-343.50	-1,942.24	1.00	1.00	-0.56

The size of the follow-through isn't terribly large, but it has been pretty consistent that some follow through was achieved in the next few days. Below is the 2-day profit curve.



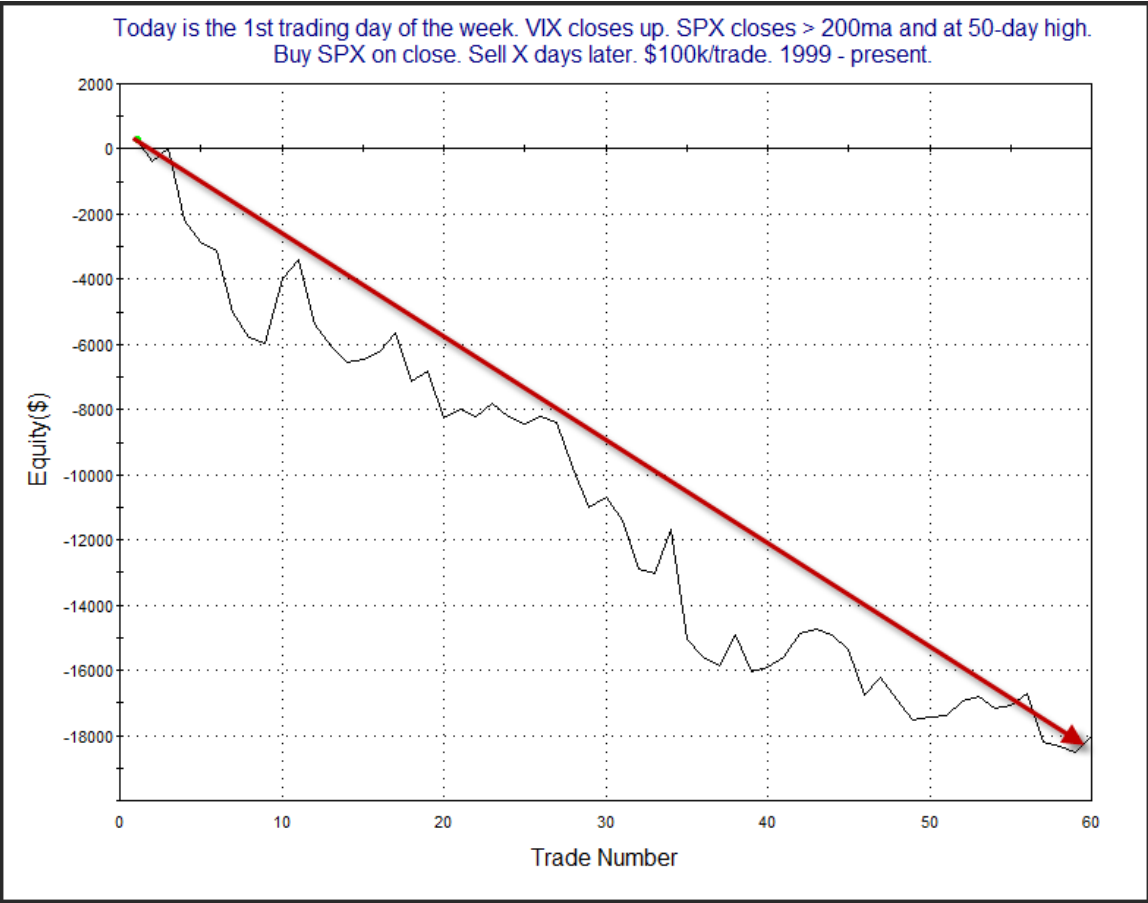
Despite the recent dip the upward inclination appears to be in place. This study seems worth consideration, and I have included on the Active List.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 2/18/15 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at 50-day high.
Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-14,760.36	55	26	29	47.27	1,067.41	3,260.25	-1,465.96	-5,048.68	0.73	0.65	-268.37
4	-8,731.31	60	28	32	46.67	947.81	2,953.65	-1,102.19	-4,271.52	0.86	0.75	-145.52
3	-9,820.92	60	27	33	45.00	736.78	2,641.80	-900.43	-3,887.84	0.82	0.67	-163.68
2	-18,036.72	60	26	34	43.33	443.54	1,981.72	-869.67	-3,372.16	0.51	0.39	-300.61
1	-7,533.51	60	22	38	36.67	319.35	769.70	-383.14	-1,580.04	0.83	0.48	-125.56

Results here appear squarely bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long and fairly steady decline. This study also seems worthy of consideration and I have included it on the Active List.

I have updated the Aggregator chart below.



With tonight's mix of 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 remained below 0. The negative Differential Line reading means SPX is 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 sides of 0. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active list, expectations are poised to remain positive on Tuesday. It will take some very bearish new evidence to change this. The Differential Pivot will be 2103.26 on Tuesday. That is 1.5% below Monday's close. So for SPX to move from overbought to oversold it will need to close down at least 1.5% on Tuesday.

Evidence still favors more upside but I am not a fan of buying at such a high level. I will wait for at least a brief pullback before committing new capital to the long side. Basically, I am neutral and awaiting a more favorable reward/risk setup.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/11 – bullish

The intermediate-term outlook was last updated in the 7/11/16 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$28.21	14.21%		Aggressive VIX

Expectations are positive and 1-2 month futures contango is very big at over 13%. I like my XIV position and will look to ride it a while longer.

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