

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 13, 2016

Volume 9 Issue 134

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX and VIX up 2 days in a row with SPX at a 50-day high suggests a pullback.
- 3 unfilled up gaps has often been followed by losses the next day.

Short-term Outlook

The Bottom Line

The very short-term (1-day) appears to have a bit of a downside edge. But looking out 2-3 days the outlook is 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 13, 2016 | 3 unfilled up gaps | 1 day | Bearish | | | |
| July 13, 2016 | VIX up. SPX up 2x | 1 day | Bearish | | | |
| 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 | SPY unfilled gap up breakout | 1-5 days | Bullish | | | |
| 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 | | | |
| Dropped Tonight | | | | | | |
| July 11, 2016 | SPX 50-high breakout 90% up volume | 1-2 days | Bullish | | | |
| June 30, 2016 | VIX 10% 10ma from 10% below | 1-8 days | Bullish | 1.90% | -1.10% | -2.20% |

The Evidence

Tuesday was another day of gains. The SPX finished up 0.7%, the NASDAQ rose 0.7% and Russell 2000 climbed 1.3%. Breadth was strongly positive as the NYSE Up Issues % was 70% and the Up Volume % came in at 79%. NYSE volume rose some from Monday's level.

Tuesday's action triggered a couple of notable studies that were last seen in the 6/9/16 letter. The first one noted that Tuesday marked the 3rd day in a row that the SPY posted an unfilled up gap. This has rarely happened since the SPY began trading in 1993. Results below are updated.

| SPY leaves an unfilled up gap for the 3rd day in a row. Buy on close. Sell next day's close. \$100k/trade. 1993 - present. | | | |
|---|--------------|--------------------------|--------------|
| TradeStation Performance Summary | | | Expand ▾ |
| All Trades | | | |
| Total Net Profit | (\$3,673.88) | Profit Factor | 0.24 |
| Gross Profit | \$1,149.04 | Gross Loss | (\$4,822.92) |
| Total Number of Trades | 17 | Percent Profitable | 29.41% |
| Winning Trades | 5 | Losing Trades | 12 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | (\$216.11) | Ratio Avg. Win:Avg. Loss | 0.57 |
| Avg. Winning Trade | \$229.81 | Avg. Losing Trade | (\$401.91) |
| Largest Winning Trade | \$500.58 | Largest Losing Trade | (\$1,126.25) |

On average we've only seen this occur about once every 1.5 years. Statistics favor the downside. I listed below all 17 instances along with their day 1 returns.

| SPY leaves an unfilled up gap for the 3rd day in a row. Buy on close. Sell next day's close. \$100k/trade. 1993 - present. | | | | |
|---|--------|----------|----------|--------------------|
| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
| 1/31/1994 | Buy | \$48.22 | -0.52% | \$0.00 |
| 2/1/1994 | Sell | \$47.97 | | (\$642.63) |
| 4/6/1995 | Buy | \$50.75 | -0.08% | \$236.40 |
| 4/7/1995 | Sell | \$50.71 | | (\$551.60) |
| 5/14/1996 | Buy | \$66.77 | -0.12% | \$808.38 |
| 5/15/1996 | Sell | \$66.69 | | (\$179.64) |
| 9/16/1996 | Buy | \$68.80 | -0.23% | \$261.54 |
| 9/17/1996 | Sell | \$68.64 | | (\$828.21) |
| 12/1/1997 | Buy | \$98.09 | -0.60% | \$0.00 |
| 12/2/1997 | Sell | \$97.50 | | (\$1,559.07) |
| 10/29/1999 | Buy | \$137.00 | -1.05% | \$0.00 |
| 11/1/1999 | Sell | \$135.56 | | (\$1,049.76) |
| 11/5/1999 | Buy | \$137.88 | 0.09% | \$362.50 |
| 11/8/1999 | Sell | \$138.00 | | (\$819.25) |
| 7/2/2001 | Buy | \$124.13 | -0.02% | \$0.00 |
| 7/3/2001 | Sell | \$124.10 | | (\$869.40) |
| 6/15/2007 | Buy | \$153.07 | -0.12% | \$208.96 |
| 6/18/2007 | Sell | \$152.89 | | (\$267.73) |
| 9/3/2010 | Buy | \$110.89 | -1.13% | \$0.00 |
| 9/7/2010 | Sell | \$109.64 | | (\$1,207.34) |
| 3/9/2012 | Buy | \$137.57 | 0.01% | \$137.94 |
| 3/12/2012 | Sell | \$137.58 | | (\$348.48) |
| 8/7/2012 | Buy | \$140.32 | 0.12% | \$234.96 |
| 8/8/2012 | Sell | \$140.49 | | (\$363.12) |
| 5/6/2013 | Buy | \$161.79 | 0.50% | \$531.48 |
| 5/7/2013 | Sell | \$162.60 | | (\$74.16) |
| 6/27/2013 | Buy | \$161.08 | -0.41% | \$198.40 |
| 6/28/2013 | Sell | \$160.42 | | (\$756.40) |
| 7/13/2015 | Buy | \$209.77 | 0.43% | \$609.28 |
| 7/14/2015 | Sell | \$210.68 | | (\$57.12) |
| 2/17/2016 | Buy | \$192.88 | -0.41% | \$202.02 |
| 2/18/2016 | Sell | \$192.09 | | (\$600.88) |
| 6/8/2016 | Buy | \$212.37 | -0.14% | \$0.00 |
| 6/9/2016 | Sell | \$212.08 | | (\$554.60) |

6 of 17 instances posted unfilled gaps down the next day.

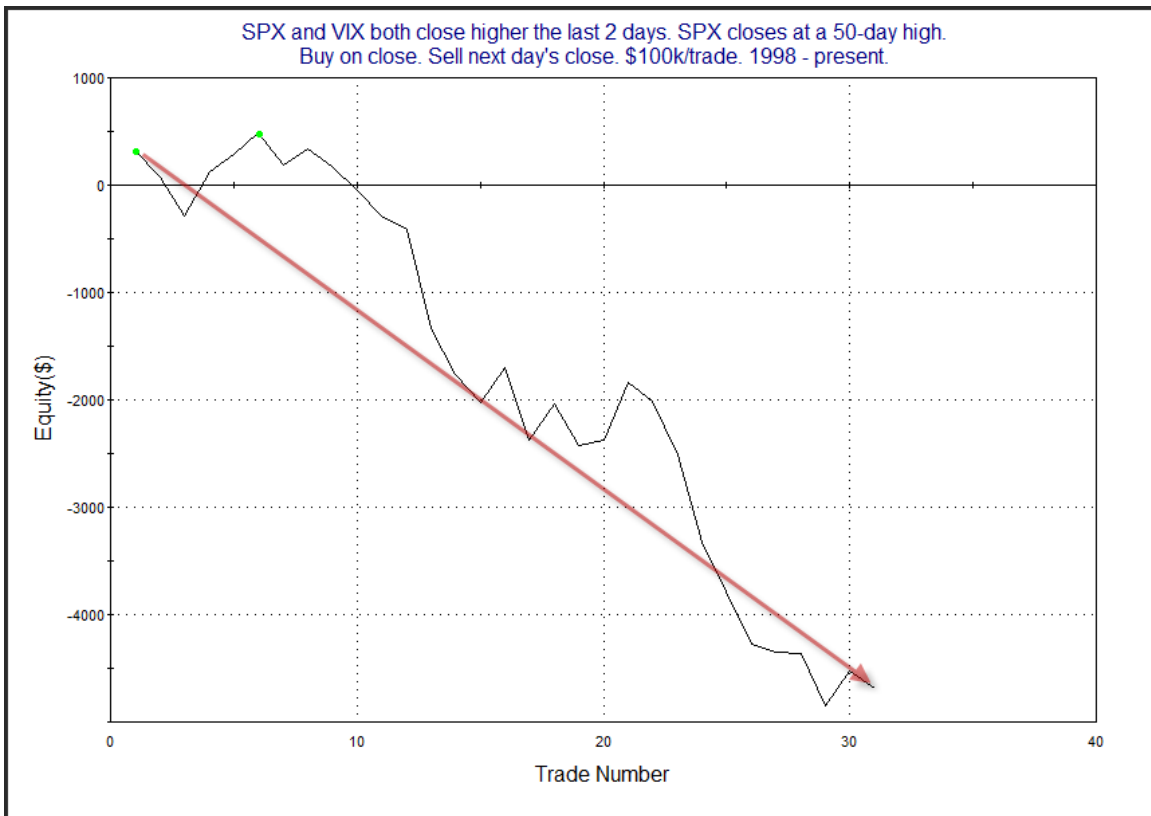
These numbers are pretty compelling. The only instances where the intraday run-up was larger than the drawdown were 5/7/13 and 7/14/15.

This was also the 2nd day in a row that the SPX and the VIX posted gains. This triggered the study below, also from the 6/9/16 letter.

SPX and VIX both close higher the last 2 days. SPX closes at a 50-day high.
Buy on close. Sell next day's close. \$100k/trade. 1998 - present.

| TradeStation Performance Summary Expand ▾ | | | |
|--|--------------|--------------------------|--------------|
| All Trades | | | |
| Total Net Profit | (\$4,691.09) | Profit Factor | 0.38 |
| Gross Profit | \$2,852.89 | Gross Loss | (\$7,543.98) |
| Total Number of Trades | 31 | Percent Profitable | 32.26% |
| Winning Trades | 10 | Losing Trades | 21 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | (\$151.33) | Ratio Avg. Win:Avg. Loss | 0.79 |
| Avg. Winning Trade | \$285.29 | Avg. Losing Trade | (\$359.24) |
| Largest Winning Trade | \$537.24 | Largest Losing Trade | (\$924.70) |

The stats appear somewhat bearish. Below is the profit curve.



This study appears worthy of consideration as well.

In June these studies marked the top and the market underwent a substantial selloff. I don't expect that to happen again this time, but we are seeing some solid evidence that we could see a pause in the rally here for a day or two.

I have updated the Aggregator chart below.



Despite tonight's bearish studies 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 Wednesday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2136.41 on Wednesday. That is 0.7% below Tuesday's close. So for SPX to move from overbought to oversold it will need to close down at least 0.7% on Wednesday.

While 3-day expectations remain bullish, tonight's studies did turn 1-day expectations to slightly bearish. Combined with the overbought market this suggests a downside edge for Wednesday. Nimble traders could try and take advantage of this. For purposes of the subscriber letter, I generally like to see a more pronounced setup. A 1-day counter-trend trade is generally not a big reward play. Rather than bet on the pullback, I would rather wait for it to occur, and then perhaps look to take advantage of the next swing with a long position. So I remain in "wait and observe" mode.

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 | \$28.89 | 16.96% | | 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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