

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 15, 2016

Volume 9 Issue 136

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.

## *Short-term Outlook*

### *The Bottom Line*

Evidence continues to point higher, but the market remains overbought. There does not appear to be a strong edge.

*Summary of Recent Active Studies (see Letters from listed dates for details) - will return this weekend*

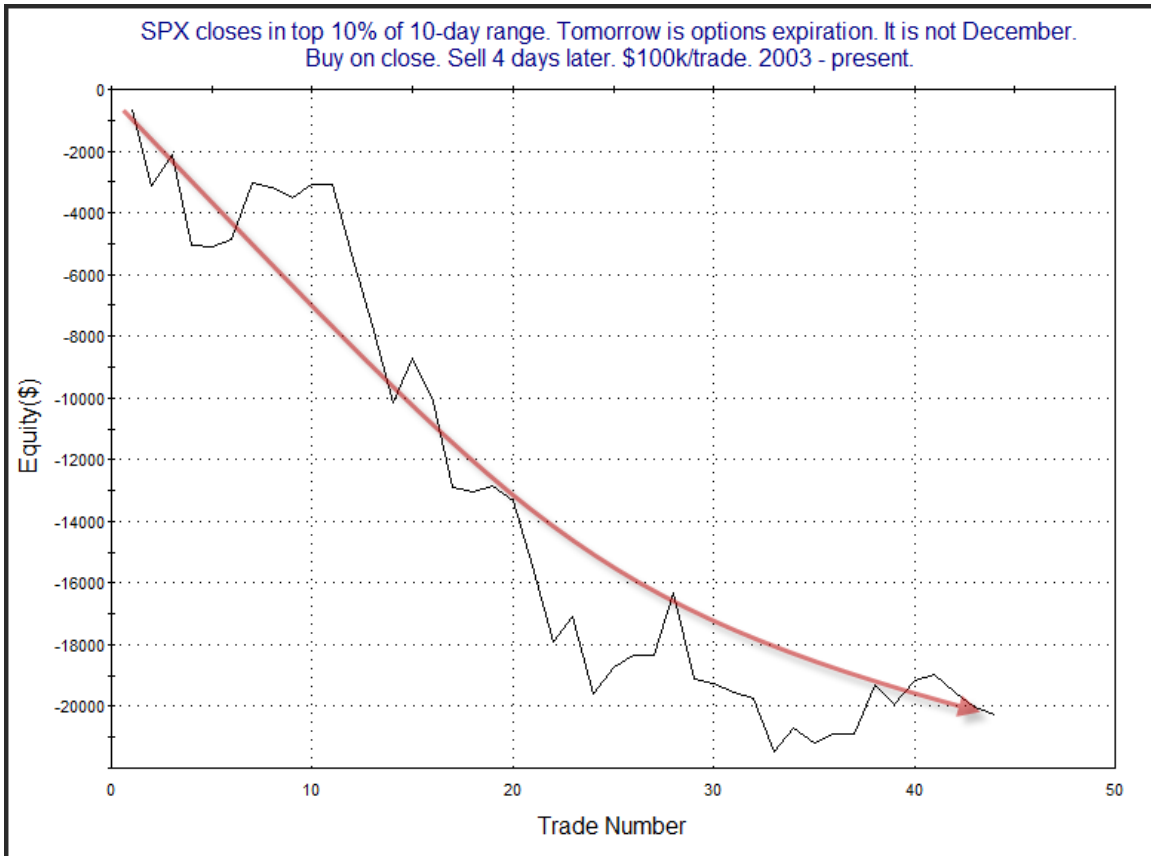
**The Evidence**

Thursday was another up day. The SPX rose 0.5%, the NASDAQ gained 0.6% and Russell 2000 closed up 0.1%. Breadth was positive as the NYSE Up Issues % was 58% and the Up Volume % came in at 70%. NYSE volume rose some from Wednesday’s level.

Opex week this week has been a good one. But it is nearly over. The study below most recently appeared in the 3/18/16 Letter. It looks at times the market closed at a high level just before options expiration. (It also excludes December since the 2<sup>nd</sup> half of December is a seasonally strong period.) Opex Friday and the days that follow have generally been a bad time for an overbought market. The results below are all updated.

SPX closes in top 10% of 10-day range. Tomorrow is options expiration. It is not December. Buy on close Sell X days later. \$100k/trade. 2003 - 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	-21,171.78	46	18	28	39.13	866.15	3,768.30	-1,312.95	-4,932.90	0.66	0.42	-460.26
4	-19,519.17	46	18	28	39.13	765.91	1,994.25	-1,189.49	-2,899.20	0.64	0.41	-424.33
3	-9,417.65	46	24	22	52.17	651.80	2,166.00	-1,139.13	-2,828.70	0.57	0.62	-204.73
2	-7,158.28	46	31	15	67.39	440.70	1,588.40	-1,388.01	-3,784.65	0.32	0.66	-155.61
1	-2,191.84	46	26	20	56.52	371.38	2,286.84	-592.39	-2,875.60	0.63	0.82	-47.65

Numbers here appear squarely bearish. Below is a profit curve that assumes a 4-day holding period.



The curve has turned somewhat sideways recently. This warrants watching, but I still believe the long-term bearish inclination is worth consideration.

Just looking at price action, the 1-day SPY pattern hinted at a bullish edge. In the 11/24/14 Letter I ran a test of performance following unfilled upside gaps that make a 20-day high. I broke out the results by times the SPY closed above the open versus times where it closed below the open. I updated those studies below.

First let's look at times (unlike Thursday) where the finish was relatively strong:

SPY posts a 20-day intraday high and an unfilled gap up. Close < open and > 200ma.  
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
10	12,628.22	144	84	59	58.33	1,546.54	6,056.96	-1,987.81	-6,391.84	0.78	1.11	87.70
9	9,833.47	152	88	62	57.89	1,435.03	5,404.74	-1,878.22	-4,800.38	0.76	1.08	64.69
8	1,197.32	158	90	67	56.96	1,288.08	5,456.48	-1,712.39	-6,071.52	0.75	1.01	7.58
7	-886.67	164	93	68	56.71	1,203.87	5,145.60	-1,659.51	-5,839.16	0.73	0.99	-5.41
6	5,848.60	173	92	79	53.18	1,031.69	4,931.26	-1,127.43	-4,876.48	0.92	1.07	33.81
5	7,390.88	181	99	80	54.70	948.24	4,539.48	-1,081.06	-3,561.24	0.88	1.09	40.83
4	13,248.68	195	106	88	54.36	938.97	4,627.26	-980.48	-3,532.12	0.96	1.15	67.94
3	-8,457.46	208	119	87	57.21	642.57	2,659.03	-976.14	-5,080.34	0.66	0.90	-40.66
2	-6,396.47	228	123	104	53.95	512.58	2,545.92	-667.73	-3,016.48	0.77	0.91	-28.05
1	1,209.30	243	124	117	51.03	372.91	2,380.38	-384.88	-2,817.32	0.97	1.03	4.98

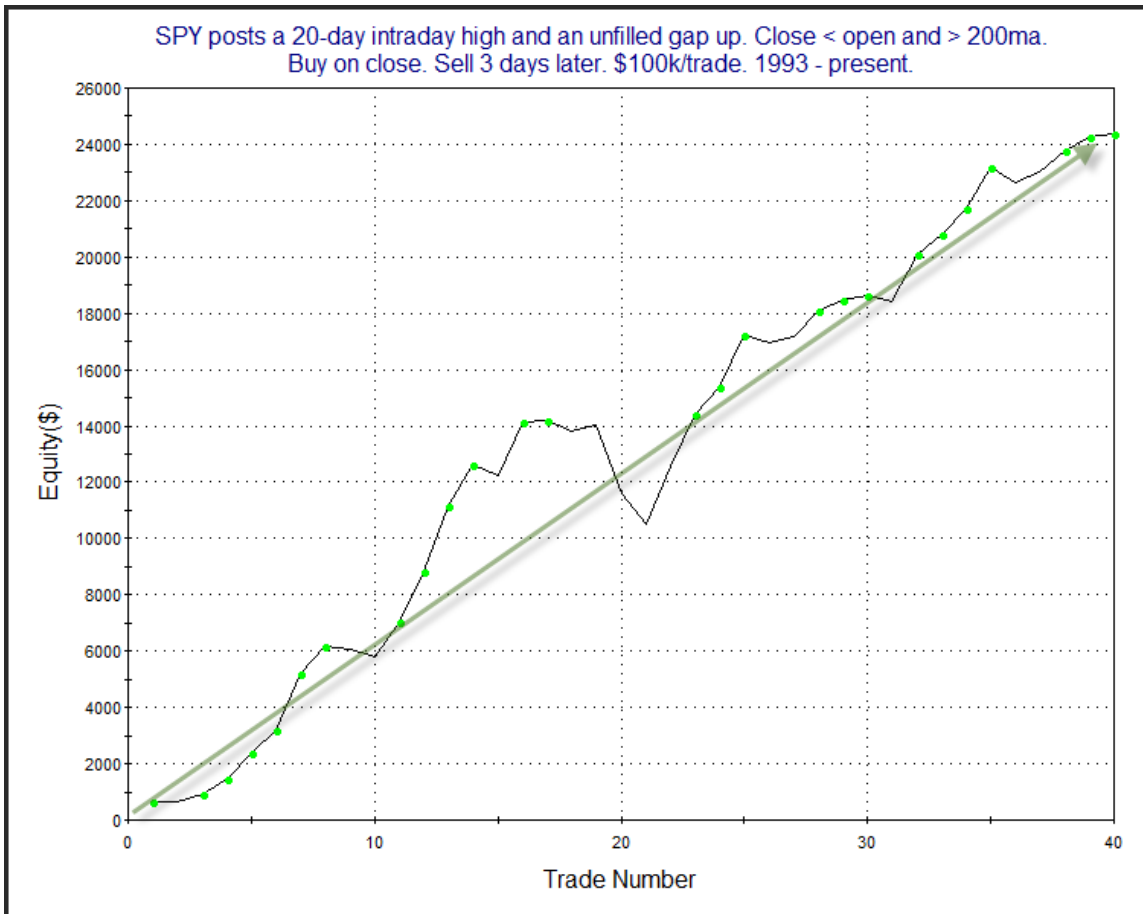
There doesn't appear to be any edge in either direction here. Now let's examine times like the present where SPY closed below the open.

SPY posts a 20-day intraday high and an unfilled gap up. Close < open and > 200ma.  
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
10	31,054.26	35	21	14	60.00	2,263.51	4,838.35	-1,177.11	-4,810.68	1.92	2.88	887.26
9	24,702.50	36	25	11	69.44	1,634.50	3,741.10	-1,469.09	-5,564.16	1.11	2.53	686.18
8	22,080.89	36	24	11	66.67	1,621.63	3,352.48	-1,530.74	-6,021.40	1.06	2.31	613.36
7	20,817.54	36	22	14	61.11	1,734.59	3,751.55	-1,238.82	-4,952.36	1.40	2.20	578.27
6	20,650.64	36	23	13	63.89	1,659.04	4,159.10	-1,346.71	-6,414.24	1.23	2.18	573.63
5	17,101.61	36	21	15	58.33	1,415.96	3,754.17	-842.23	-4,540.20	1.68	2.35	475.04
4	18,833.36	37	27	10	72.97	983.44	3,436.02	-771.95	-2,228.24	1.27	3.44	509.01
3	24,381.22	40	30	9	75.00	998.91	2,362.10	-620.68	-2,427.88	1.61	5.36	609.53
2	17,938.34	41	27	14	65.85	912.56	1,998.70	-478.63	-926.12	1.91	3.68	437.52
1	8,007.63	42	29	13	69.05	466.72	1,708.92	-425.17	-1,015.84	1.10	2.45	190.66

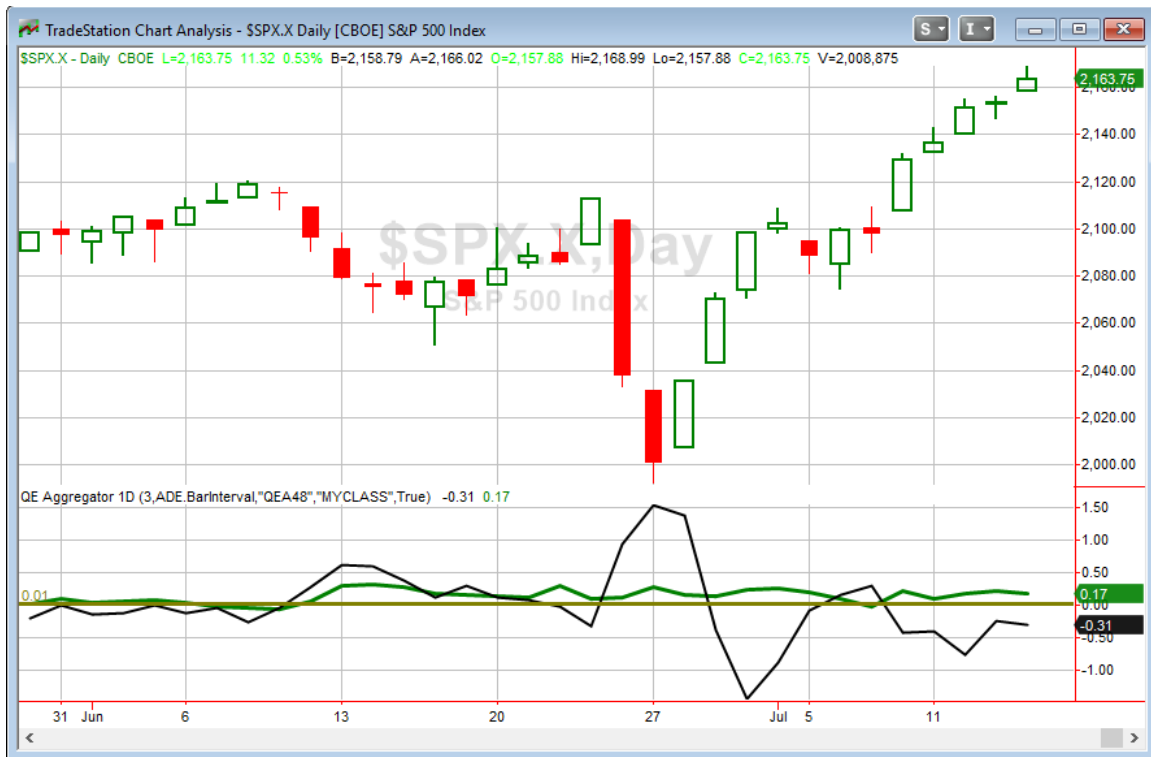
**38 of 42 instances (90%) closed above the entry price at some point in the next week**

These results are substantially better than earlier where the finish was above the open. The weak finish should not concern bulls, in fact it appears they should be excited by it. Below is an equity curve that shows how the edge has played out over time.



The upslope here is persistent and rather impressive. I have included this study on the Short-Term Active List.

I have updated the Aggregator chart below.



With tonight's study 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 Friday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2162.90 on Friday. That is less than 1 point below Thursday's close. So for SPX to move from overbought to oversold versus expectations it will only need to close down a small amount on Friday.

Nothing has changed the last few days. Evidence is still pointing higher and the market is still overbought. The leaves reward/risk undesirable. I will remain patient and await a pullback or some very compelling short evidence before looking to take on new positions.

**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	\$29.39	18.99%		Aggressive VIX

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

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