

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 19, 2016

Volume 9 Issue 138

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- SPX posting a 20-day high while NYSE volume posts a 20-day low has often been followed by selling the next day.

Short-term Outlook

The Bottom Line

There appears to be a bit of a bearish edge. But with the intermediate-term so strong and the bearish edge rather weak, I have no interest in taking on new short exposure.

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 19, 2016	SPX 20-high. Volume 20-low	1 day	Bearish			
July 18, 2016	5 up to 50-high then 1 down day	1-10 days	Bullish	2.00%	-1.10%	-2.20%
July 18, 2016	Opex week rises 1%-2%	1-5 days	Bearish	-1.35%	0.80%	1.60%
July 15, 2016	Top 10% 10-day range pre-opex	1-4 days	Bearish	-1.20%	0.80%	1.50%
July 15, 2016	Unfill gap up. 20-high. C<O	1-3 days	Bullish			
July 14, 2016	3 higher highs, lows, close. Dn close	1-4 days	Bullish	1.40%	-0.70%	-1.50%
Active - Long Term						
July 18, 2016	5 up to 50-high then 1 down day	1-10 days	Bullish	2.00%	-1.10%	-2.20%
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 18, 2016	3 higher highs, lows, close. Dn close	1 day	Bullish			
July 11, 2016	SPX 50-low to 50-high in 2 weeks	1-6 days	Bullish			

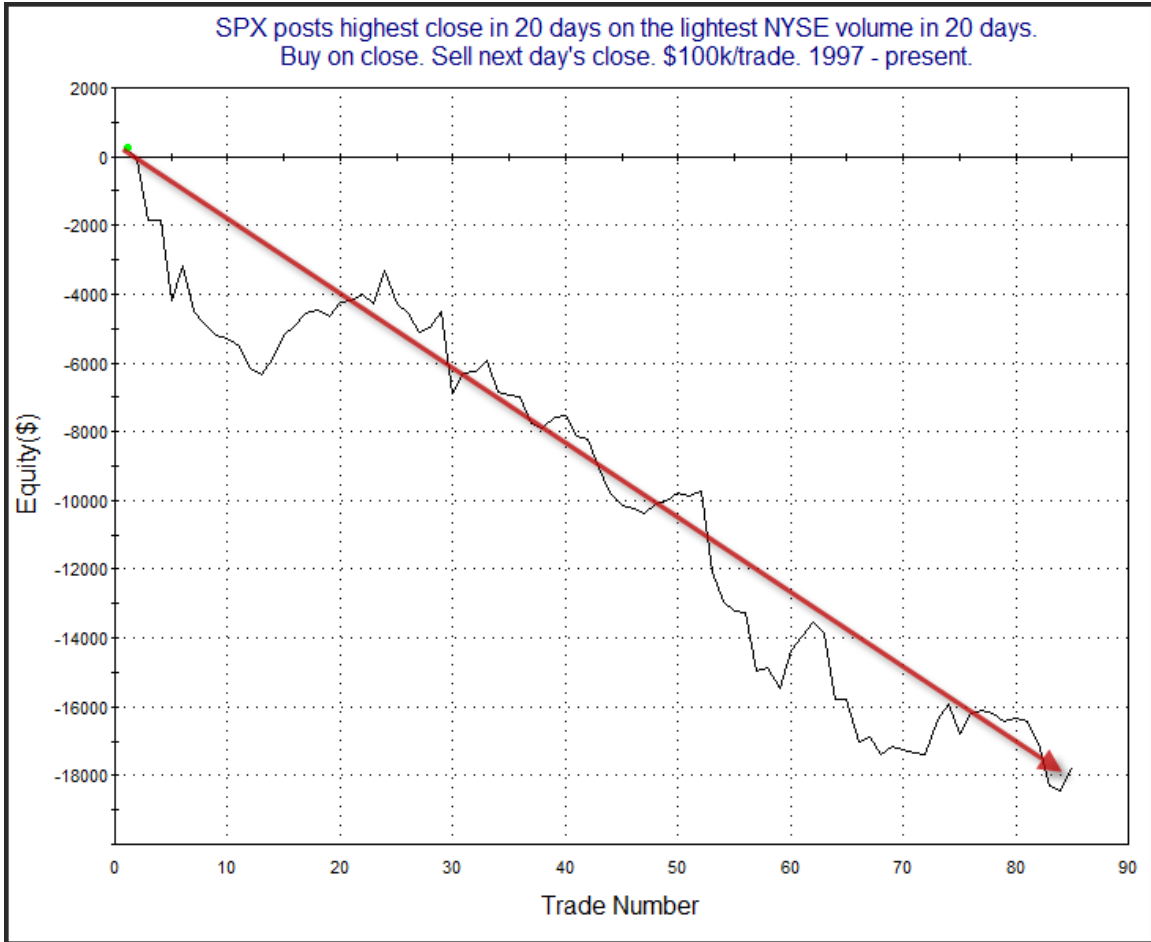
The Evidence

Monday saw more gains for the market. The SPX rose 0.2%, the NASDAQ gained 0.5% and the Russell 2000 closed up 0.2%. Breadth was positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 70%. NYSE volume declined for the 2nd day in a row.

Most of the studies that appeared in the Quantifinder were pretty tame – not suggesting strong edges. The one I found the most compelling was the one below, which was from the 7/16/13 letter.

SPX posts highest close in 20 days on the lightest NYSE volume in 20 days. Buy on close. Sell next day's close. \$100k/trade. 1997 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$17,732.84)	Profit Factor	0.42
Gross Profit	\$12,807.60	Gross Loss	(\$30,540.44)
Total Number of Trades	85	Percent Profitable	41.18%
Winning Trades	35	Losing Trades	49
Even Trades	1		
Avg. Trade Net Profit	(\$208.62)	Ratio Avg. Win:Avg. Loss	0.59
Avg. Winning Trade	\$365.93	Avg. Losing Trade	(\$623.27)
Largest Winning Trade	\$1,111.50	Largest Losing Trade	(\$2,378.78)

Previously I had shown results for this study a few days out. But periods of longer than 1 day have not seen the edge persist in recent years. The 1-day profit curve was still appealing, and can be seen below.



The downslope has persisted for a long time. I have added this study to the Active List tonight.

I have updated the Aggregator chart below.



With tonight's study included the green Aggregator Line dipped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also closed just below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal turned short at the close.

Based on the current active list, expectations are poised to remain negative on Tuesday. This could change if new bullish evidence emerges. The Differential Pivot will be *inverted* at 2175.99 on Tuesday. That is 0.4% *above* Monday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close up at least 0.4% in order to remain overbought versus expectations. Anything less than that and it will be considered oversold.

So there appears to be a mild bearish edge. In a less-bullish intermediate-term environment I might look to take advantage of this with some short exposure (although probably not due to the inverted pivot). But with a bullish intermediate-term outlook and a market continuing to make new highs, I am not inclined to try and scratch out gains on marginal short opportunities. I'll continue to wait for a more favorable trading opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/18 – bullish

The intermediate-term outlook was last updated in the 7/18/16 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	\$30.08	21.78%		Aggressive VIX

While short-term expectations are slightly negative, contango is extremely strong at over 20%! So with the intermediate-term still bullish, and me not excited about shorting, I will continue to hold my XIV for the time being.

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