

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 26, 2016

Volume 9 Issue 143

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Short

## Tonight's Research Points

- Unfilled gap patterns from high levels like we saw on Monday will often be followed by another day of selling.

### *Short-term Outlook*

#### *The Bottom Line*

There appears to be a bullish edge, but it appears small and reward/risk is not great. So I am not inclined to take on new long 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
<b>Active - Short Term</b>						
July 26, 2016	Unfilled gap down from 50-day high	1 day	Bearish			
July 22, 2016	Big drop from 50-high	1-4 days	Bullish			-2.20%
July 18, 2016	5 up to 50-high then 1 down day	1-10 days	Bullish	2.00%	-1.10%	-2.20%
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
July 25, 2016	20 high close on 20-low volume	1 day	Bearish			

**The Evidence**

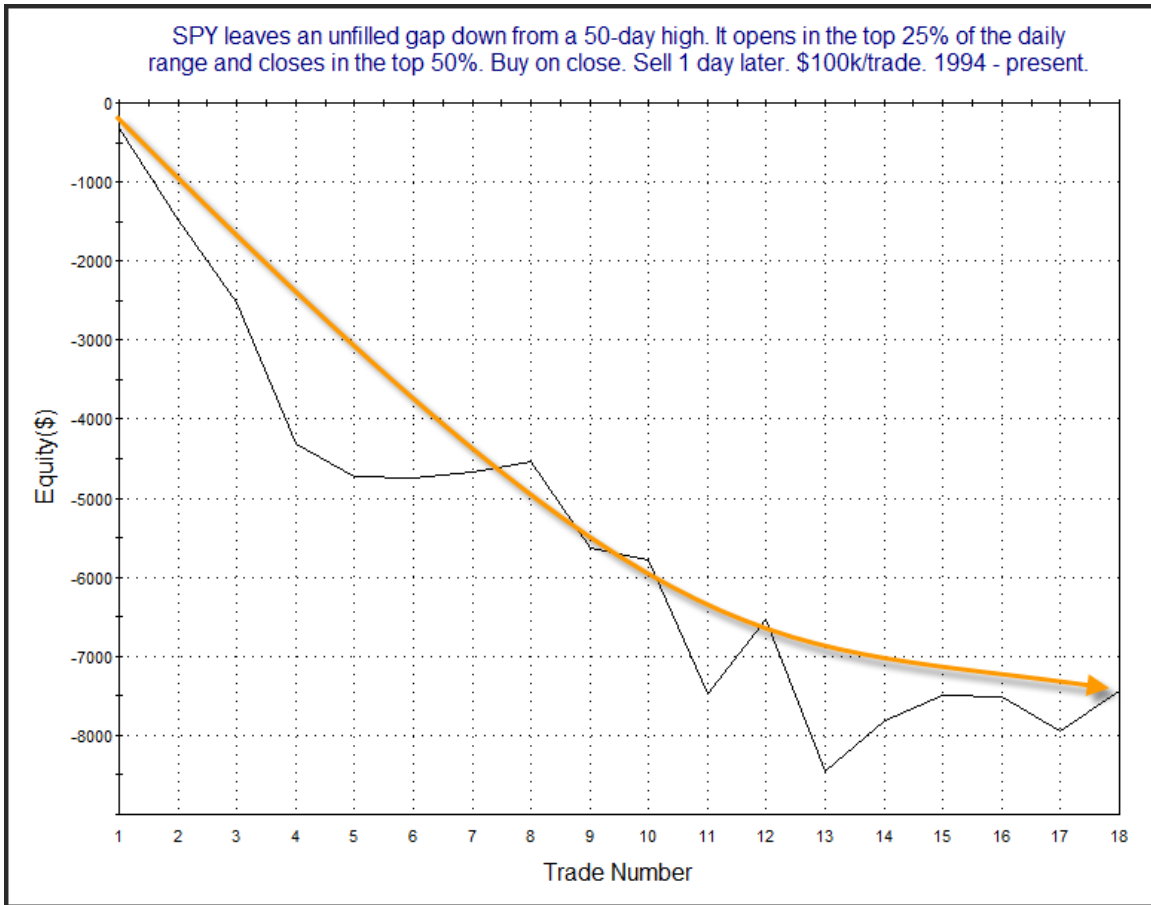
Monday saw was basically a mild pullback. The SPX lost 0.3%, the NASDAQ fell 0.1% and the Russell 2000 dropped 0.25%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % came in at 35%. NYSE volume rose a little from Friday's level.

The mild action did not generate much in the way of compelling new edges. But the study below was somewhat interesting. It looked at unfilled gaps down from high levels that both open and close in the upper part of the day's range. It was last seen in the 6/6/16 Letter and has been updated.

SPY leaves an unfilled gap down from a 50-day high. It opens in the top 25% of the daily range and closes in the top 50%. Buy on close. Sell 1 day later. \$100k/trade. 1994 - present.

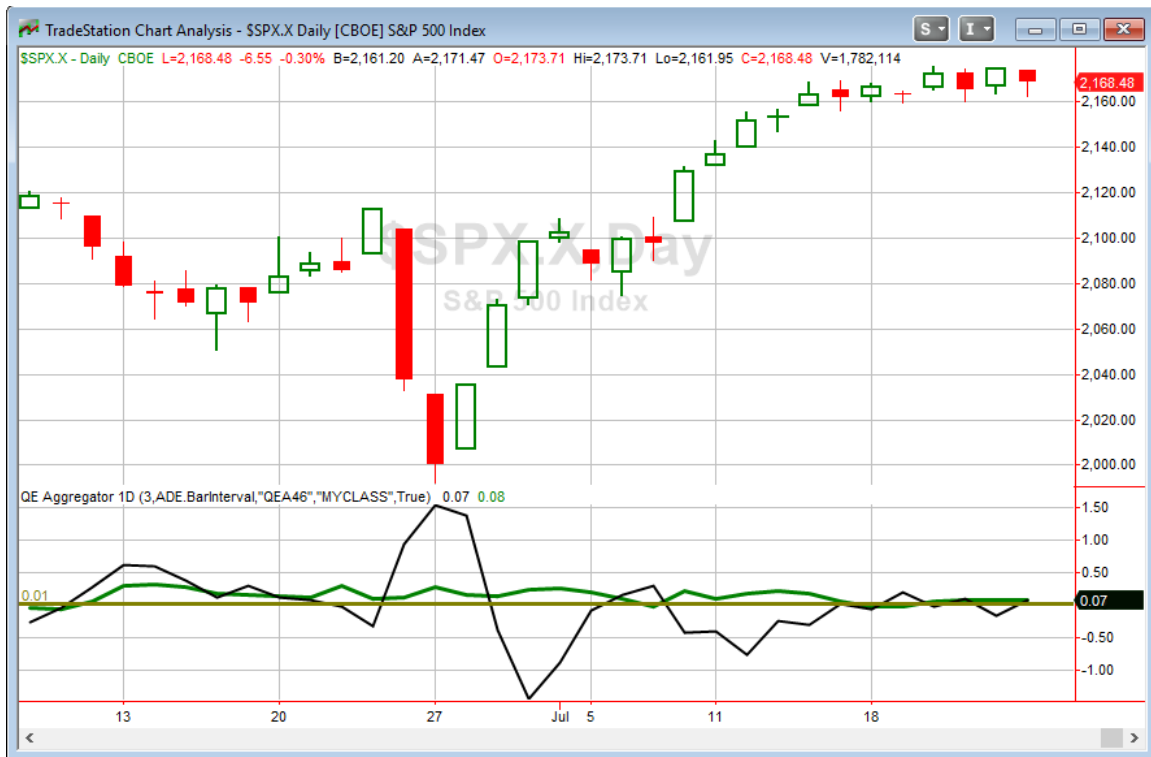
TradeStation Performance Summary				Expand
<b>All Trades</b>				
Total Net Profit	(\$7,433.88)	Profit Factor		0.26
Gross Profit	\$2,600.95	Gross Loss		(\$10,034.83)
Total Number of Trades	18	Percent Profitable		33.33%
Winning Trades	6	Losing Trades		12
Even Trades	0			
Avg. Trade Net Profit	(\$412.99)	Ratio Avg. Win:Avg. Loss		0.52
Avg. Winning Trade	\$433.49	Avg. Losing Trade		(\$836.24)
Largest Winning Trade	\$938.96	Largest Losing Trade		(\$1,922.82)

The numbers look bearish. Let's also examine the profit curve.



There has been some wiggling lately. I will be putting this one under close watch, but for the time being I will include it on the 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 rose back above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal turned long at the close.

Based on the current active list, expectations are poised remain positive on Tuesday. This could change if strong new bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2167.28 on Tuesday. That is just over 1 point below Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down a little over a point in order to remain oversold. Anything other than that and it will be considered overbought versus expectations on Tuesday.

As I have discussed many times in the past, I do not view times with inverted pivots to be high reward/risk setups. This is because the edge only has one day to work out. If the trade goes in my direction, then it will be done as of Tuesday's close. That does not leave much time for gains to accrue. And while expectations over the next 3 days are leaning bullish, 1-day expectations are actually slightly negative. So while there may be a mild upside edge, I won't be looking to add any positions on Tuesday.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 7/25 – bullish*

**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	\$30.90	25.10%		Aggressive VIX

The expectations are bullish and contango is strong. Those things continue to favor XIV.

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