

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 27, 2016

Volume 9 Issue 144

Market Overview



Signals Overview

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

Tonight's Research Points

- The close in the upper part of Tuesday's range reduces the Fed Day potential.

Short-term Outlook

The Bottom Line

Wednesday could get a boost from it being a Fed Day, but with the market somewhat overbought the 1-3 day short-term outlook is basically 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 27, 2016	Fed Day	1 day	Bullish			
July 22, 2016	Big drop from 50-high	1-4 days	Bullish			
July 18, 2016	5 up to 50-high then 1 down day	1-10 days	Bullish	2.00%	-1.10%	-2.20%
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 26, 2016	Unfilled gap down from 50-day high	1 day	Bearish			

The Evidence

Tuesday was back and forth and finished mostly higher. The SPX gained 0.03%, the NASDAQ rose 0.2% and the Russell 2000 rallied 0.6%. Breadth was positive as the NYSE Up Issues % was 60% and the Up Volume % came in at 67%. NYSE volume rose a little from Monday's level.

Most notable in the Quantifinder is that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 1/27/15 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated. (Note that Tuesday finished in the 50% - 75% quartile.)

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$7,609.77	Profit Factor	1.32	
Gross Profit	\$31,632.42	Gross Loss	(\$24,022.65)	
Total Number of Trades	77	Percent Profitable	48.05%	
Winning Trades	37	Losing Trades	38	
Even Trades	2			
Avg. Trade Net Profit	\$98.83	Ratio Avg. Win:Avg. Loss	1.35	
Avg. Winning Trade	\$854.93	Avg. Losing Trade	(\$632.18)	
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)	

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$16,086.70	Profit Factor	2.24	
Gross Profit	\$29,047.89	Gross Loss	(\$12,961.19)	
Total Number of Trades	41	Percent Profitable	58.54%	
Winning Trades	24	Losing Trades	16	
Even Trades	1			
Avg. Trade Net Profit	\$392.36	Ratio Avg. Win:Avg. Loss	1.49	
Avg. Winning Trade	\$1,210.33	Avg. Losing Trade	(\$810.07)	
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)	

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

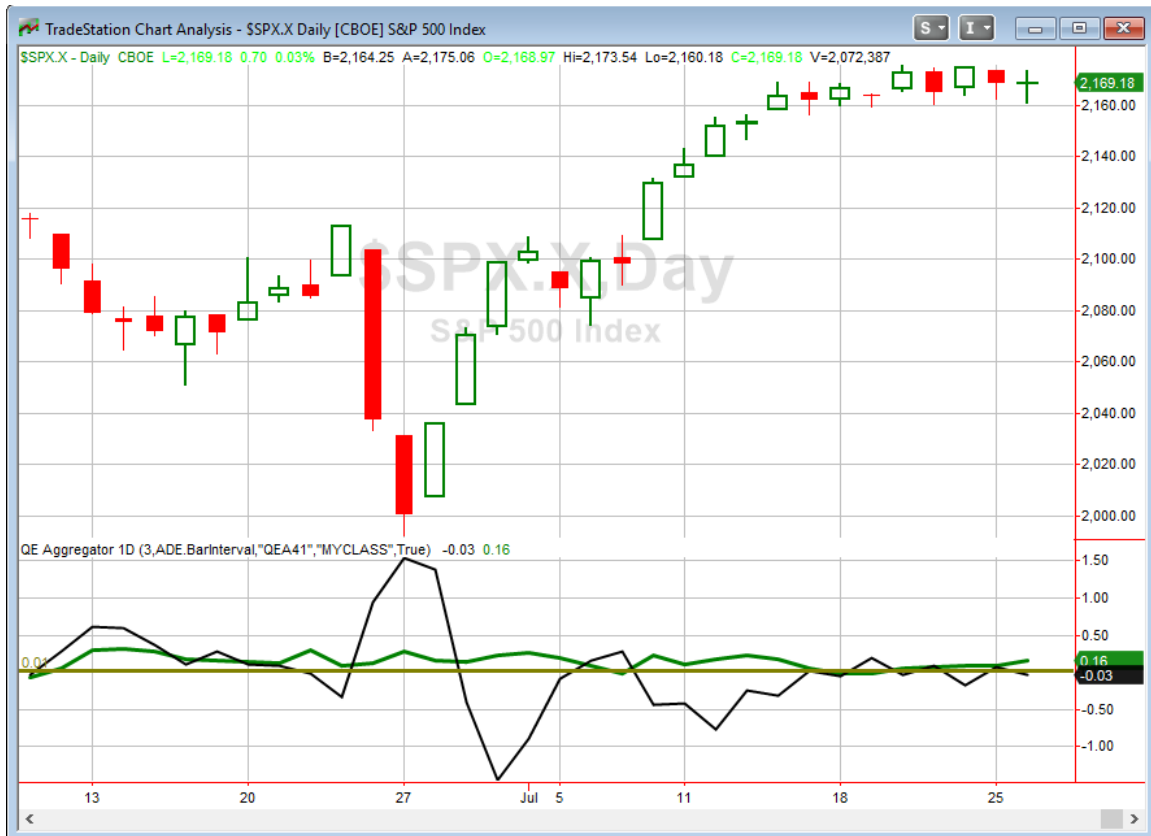
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$12,428.64	Profit Factor	2.53	
Gross Profit	\$20,562.40	Gross Loss	(\$8,133.76)	
Total Number of Trades	32	Percent Profitable	71.88%	
Winning Trades	23	Losing Trades	9	
Even Trades	0			
Avg. Trade Net Profit	\$388.39	Ratio Avg. Win:Avg. Loss	0.99	
Avg. Winning Trade	\$894.02	Avg. Losing Trade	(\$903.75)	
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)	

SPY closes in the bottom 25% of the day's range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present

TradeStation Performance Summary				Collapse ▲
All Trades				
Total Net Profit	\$22,526.88	Profit Factor	4.37	
Gross Profit	\$29,209.57	Gross Loss	(\$6,682.69)	
Total Number of Trades	37	Percent Profitable	75.68%	
Winning Trades	28	Losing Trades	9	
Even Trades	0			
Avg. Trade Net Profit	\$608.83	Ratio Avg. Win:Avg. Loss	1.40	
Avg. Winning Trade	\$1,043.20	Avg. Losing Trade	(\$742.52)	
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)	

What was true 5 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk. Traders that look to trade the Fed Day edge could consider removing some exposure ahead of the Wednesday afternoon announcement. Of course the somewhat strong close Tuesday (between 50% and 75% of the daily range) suggests the edge may be somewhat weak compared to if SPY closed in the lower portion of its range.

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 dipped back down 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 turned flat at the close.

Based on the current active list, expectations are poised remain positive on Wednesday. This could change if strong new bearish evidence emerges. The Differential Pivot will be *inverted at 2179.48* on Wednesday. That is 0.5% *above* Tuesday'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 up over 0.5% in order to remain overbought. Anything other than that and it will be considered oversold versus expectations on Wednesday.

So Fed Days normally give the market a nice little boost. And this one might, too. But reward/risk is reduced with the market overbought and with Tuesday's close being high in the daily range. A neutral Aggregator and a potentially volatile afternoon in an overbought market are not a compelling combination for me. I will wait until we see Fed reaction and consider what evidence emerges from that before committing to additional positions.

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

The intermediate-term outlook was last updated in the 7/25 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	\$31.19	26.28%		Aggressive VIX

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

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