

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 28, 2016

Volume 9 Issue 145

Market Overview



Signals Overview

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

Tonight's Research Points

- The first drop below the 10ma in quite a while will often be followed by another leg up.
- SPY's big outside day reversal pattern suggests a short-term upside edge.
- Back to back outside days in SPY have almost always been followed by short-term gains.
- The tight consolidation near a 50-day high suggests an upside edge.

Short-term Outlook

The Bottom Line

Evidence is bullish and the market is no longer overbought. This suggests an upside edge. I am somewhat bullish and will look to take on new long exposure if I can get a favorable fill.

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			

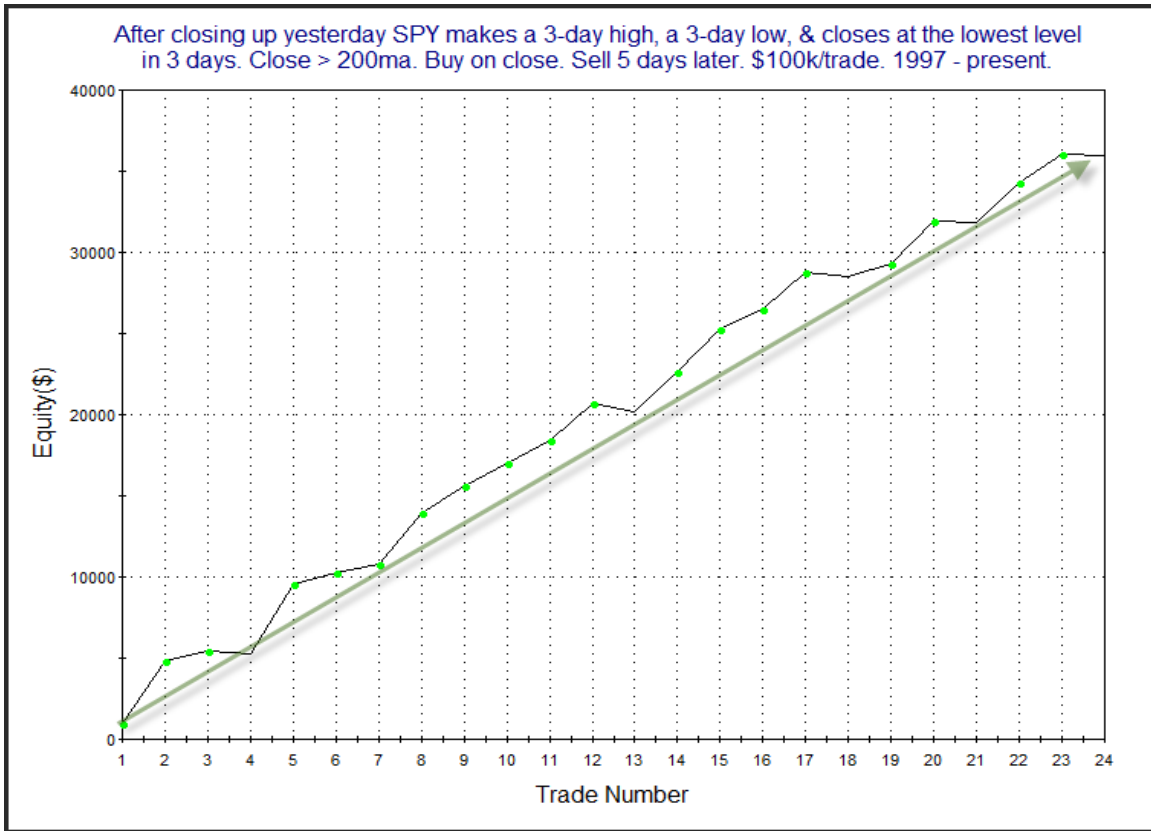
The Evidence

Wednesday saw mixed results. The SPX lost 0.1%, the NASDAQ rose 0.6% and the Russell 2000 rallied 0.2%. Breadth was negative as the NYSE Up Issues % was 46% and the Up Volume % came in at 38%. NYSE volume rose for the 2nd day in a row.

There were a good number of compelling studies that appeared in the Quantifinder. The study below was last shown in the 4/11/14 subscriber letter. It looks for a reversal day to engulf both of the last two days, close at a three-day low, and still be above the 200ma. All results are updated.

After closing up yesterday SPY makes a 3-day high, a 3-day low, & closes at the lowest level in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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
15	50,480.28	23	19	4	82.61	3,080.74	5,325.42	-2,013.46	-3,362.58	1.53	7.27	2,194.79
14	45,411.94	23	19	4	82.61	2,973.31	5,803.82	-2,770.24	-4,152.93	1.07	5.10	1,974.43
13	42,092.90	23	17	6	73.91	3,016.66	5,600.32	-1,531.73	-2,418.71	1.97	5.58	1,830.13
12	45,891.88	23	18	5	78.26	2,835.73	7,684.16	-1,030.26	-2,350.04	2.75	9.91	1,995.30
11	43,629.03	23	19	4	82.61	2,709.68	5,982.90	-1,963.74	-3,624.25	1.38	6.55	1,896.91
10	38,847.86	23	17	6	73.91	2,769.01	6,438.74	-1,370.89	-2,773.41	2.02	5.72	1,689.04
9	36,917.27	24	18	6	75.00	2,652.34	6,845.74	-1,804.14	-3,430.00	1.47	4.41	1,538.22
8	31,579.16	24	16	7	66.67	2,699.10	5,456.88	-1,658.07	-7,031.50	1.63	3.72	1,315.80
7	37,209.47	24	16	8	66.67	2,863.86	6,365.48	-1,076.53	-1,635.06	2.66	5.32	1,550.39
6	38,402.94	24	18	6	75.00	2,357.23	5,193.32	-671.19	-1,492.96	3.51	10.54	1,600.12
5	35,922.98	24	19	5	79.17	1,947.18	4,273.50	-214.70	-489.14	9.07	34.46	1,496.79
4	22,355.35	24	17	7	70.83	1,658.40	4,533.98	-833.92	-2,123.52	1.99	4.83	931.47
3	7,530.74	24	15	9	62.50	1,506.69	3,903.34	-1,674.40	-3,393.78	0.90	1.50	313.78
2	5,900.80	25	14	11	56.00	1,365.88	3,244.78	-1,201.96	-3,737.28	1.14	1.45	236.03
1	132.45	25	15	10	60.00	695.65	2,359.84	-1,030.22	-3,909.03	0.68	1.01	5.30

After the first three days or so, there appears to be a strong and consistent upside edge. Below is a profit curve that assumes a 5-day holding period.



Equity curves don't get much straighter than this. It appears to be a nice confirmation of the bullish suggestion by the stats table.

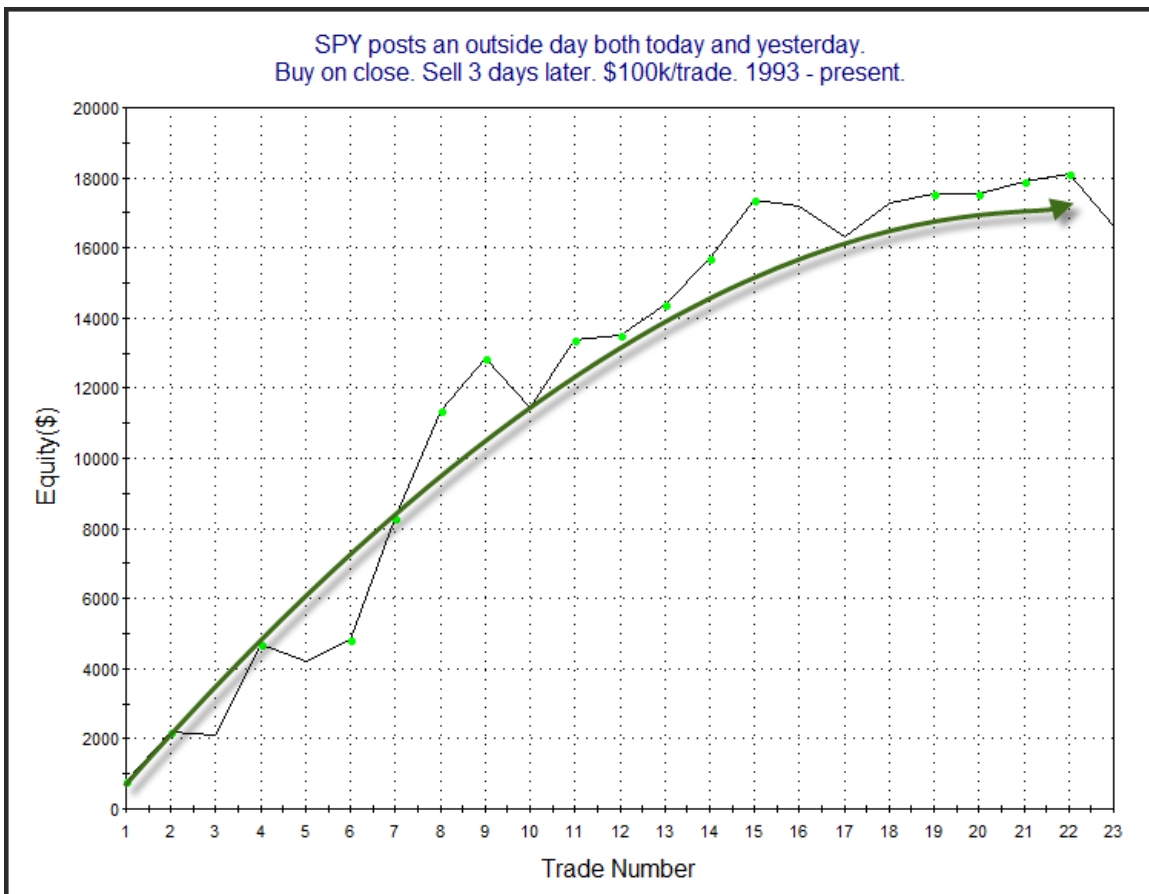
Also notable about Friday's action is that it marked the 2nd day in a row that SPY posted an outside day. (An outside day is a day where the security or index makes a higher high and a lower low than the day before.) I last discussed back-to-back outside days in the 2/23/15 letter. I have updated those results below.

SPY posts an outside day both today and yesterday.
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
5	19,986.24	23	17	6	73.91	1,463.02	3,826.52	-814.18	-2,621.04	1.80	5.09	868.97
4	17,529.42	23	19	4	82.61	1,135.66	2,617.44	-1,012.02	-1,742.00	1.12	5.33	762.15
3	16,617.54	23	17	6	73.91	1,244.76	3,447.12	-757.23	-1,475.32	1.64	4.66	722.50
2	5,967.00	23	12	11	52.17	1,037.26	1,779.33	-589.10	-1,902.99	1.76	1.92	259.43
1	5,074.13	23	13	10	56.52	740.80	1,585.08	-455.62	-1,221.57	1.63	2.11	220.61

The only instance NOT to post a higher close at some point in the next week triggered on 1/3/5.

The numbers look very impressive. Most of the upside edge has been realized in the 1st 3 days. Below is a profit curve using a 3-day holding period.



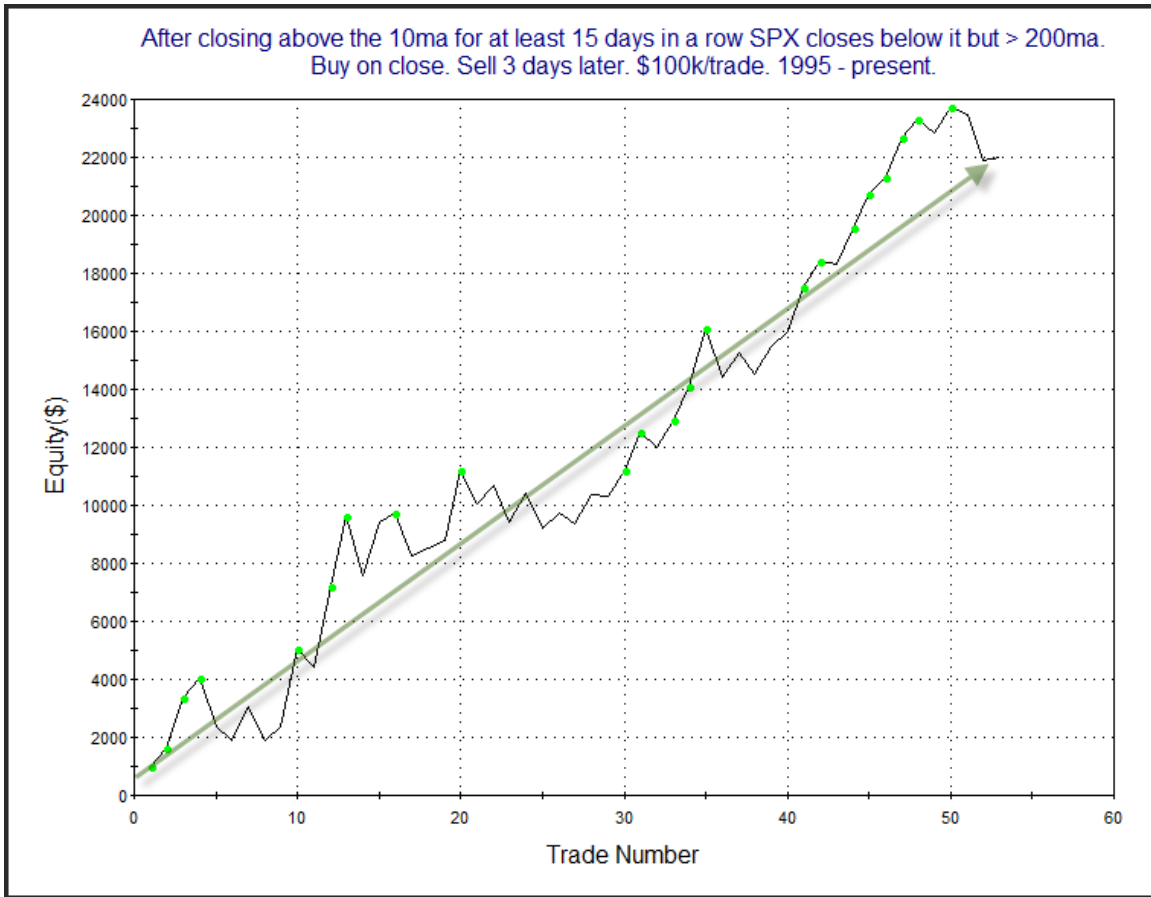
The move up is impressive and encouraging for the bullish case.

The persistent uptrend of late has kept SPX above its short-term moving averages for an extended period. Tuesday, after 19 consecutive closes above the 10ma, SPX dipped down

and closed below it. In the 4/6/16 letter I looked at performance following other instances where SPX closed below its 10ma for the first time over 15 days. Results are updated below.

After closing above the 10ma for at least 15 days in a row SPX closes below it but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	28,667.36	53	32	21	60.38	1,508.49	3,505.74	-933.54	-2,959.70	1.62	2.46	540.89
4	27,271.59	53	34	19	64.15	1,402.98	3,206.40	-1,075.25	-3,078.40	1.30	2.33	514.56
3	22,002.37	53	35	18	66.04	1,111.60	2,805.12	-939.09	-2,062.10	1.18	2.30	415.14
2	14,309.29	53	32	21	60.38	1,041.97	2,682.72	-906.36	-2,185.60	1.15	1.75	269.99
1	15,254.61	53	33	20	62.26	741.70	2,097.92	-461.07	-1,542.24	1.61	2.65	287.82
47 of 53 instances (89%) closed above the entry price at some point in the next week.												

The numbers here all look solidly bullish over the next week. I highlighted the 3-day holding period because it had a more appealing equity curve than the four or five-day. You can see its profit curve below.



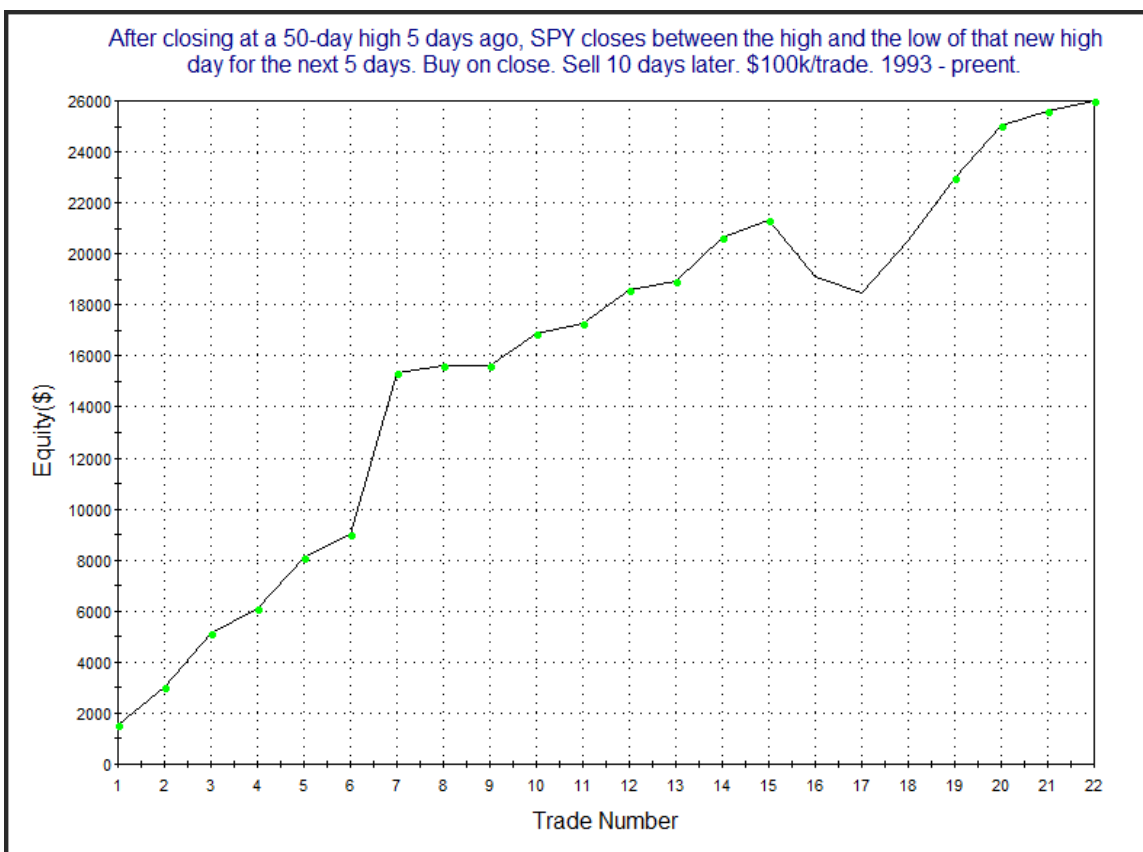
The strong upslope serves as some confirmation of the bullish edge.

The range over the last week has been extremely tight. Every SPY close in the 5 days since 7/20 has been within the daily range of that 7/20/16 bar. It is said that consolidations are often resolved in the direction of the trend. This guideline suggests that we're more likely to see another leg up from here than a breakdown. The study below tests this concept. It was last seen in the 8/15/12 letter and has been updated.

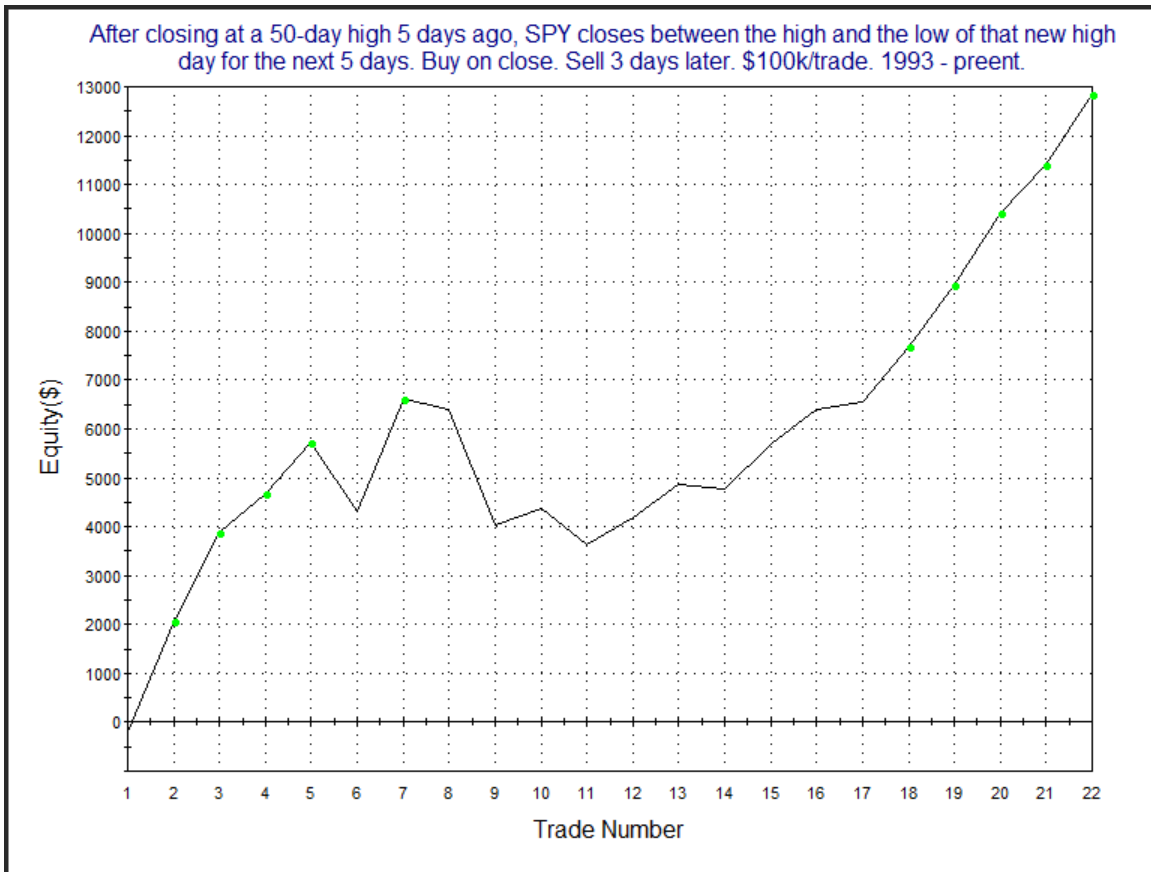
After closing at a 50-day high 5 days ago, SPY closes between the high and the low of that new high day for the next 5 days. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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	28,626.00	22	19	3	86.36	1,816.85	6,287.04	-1,964.71	-5,182.56	0.92	5.86	1,301.18
9	25,991.80	22	20	2	90.91	1,443.69	6,322.56	-1,440.95	-2,251.44	1.00	10.02	1,181.45
8	25,200.45	22	19	3	86.36	1,560.06	6,287.04	-1,480.21	-2,060.28	1.05	6.67	1,145.48
7	16,920.40	22	17	5	77.27	1,433.85	5,339.84	-1,491.00	-3,472.29	0.96	3.27	769.11
6	9,577.43	22	15	7	68.18	1,255.98	3,362.56	-1,323.18	-2,992.38	0.95	2.03	435.34
5	11,554.71	22	13	9	59.09	1,455.13	3,031.04	-818.00	-2,425.20	1.78	2.57	525.21
4	13,786.26	22	15	7	68.18	1,224.38	2,806.08	-654.21	-1,541.60	1.87	4.01	626.65
3	12,843.13	22	16	6	72.73	1,116.09	2,296.96	-835.71	-2,368.80	1.34	3.56	583.78
2	6,643.50	22	15	6	68.18	802.55	1,817.10	-899.12	-1,627.93	0.89	2.23	301.98
1	8.49	22	12	10	54.55	494.28	1,433.49	-592.29	-1,100.97	0.83	1.00	0.39

It certainly appears to confirm the old technical adage. Results favor the long side over the immediate 3-day period and they are even more impressive when looking out 8 to 10 days. Below are some equity curves to see how the edge has played out over time. First, the 10-day.

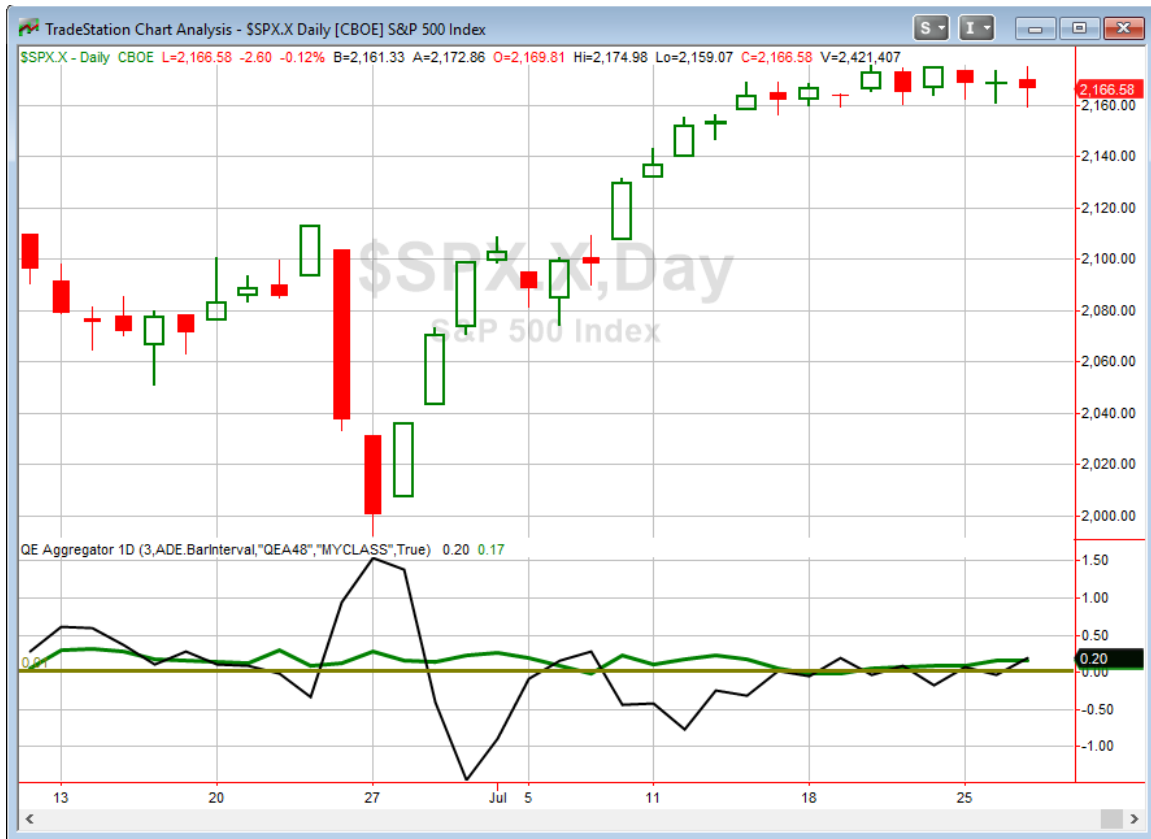


The persistent move from lower left to upper right serves as some confirmation of the upside edge. Next is the 3-day curve.



While mostly up the curve is a bit choppy. Of the 5 losses, two of them were fairly large. This suggests perhaps a little more risk in this setup than in some others we examine. Over the 3-day period the average run-up was 1.2% and the average drawdown was 0.7%. That is a comparatively large drawdown. It isn't very surprising though. Risks tend to be higher when you are trading near the upper end of a range. And a tight consolidation near a 50-day high seems to qualify. All considered, I still find this study appealing and believe it is worth considering over both very short and intermediate-term timeframes.

I have updated the Aggregator chart below.



With tonight's studies 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 moved 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 Thursday. This could change if strong new bearish evidence emerges. The Differential Pivot will be 2173.64 on Thursday. That is 0.3% above Wednesday's close. So if SPX closes up 0.3% or more then it will turn from oversold to overbought versus recent expectations.

I like the case for a little rally here. There appears to be ample evidence suggesting it is likely. Still, I would prefer to have a bit more of a pullback to buy into. So on Thursday I will look to start scaling into a long position, but only if I can get a favorable entry either in the form of a gap down open, or a close lower. Additionally, there was a Catapult setup that triggered on Wednesday, and I will look to take advantage of that.

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

New

MO @ \$66.76 (buy 1/3 at limit)

Broad Market Large Cap CBI – 1(MO)

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.

SPY – buy ¼ index position @ \$216.00 LIMIT ON OPEN. IF NOT FILLED, CANCEL ORDER AND LOOK TO BUY @ \$216.50 LIMIT ON CLOSE. I don't want any part of an intraday selloff, but I will start scaling long if I can get a favorable entry at the open or the close.

MO – buy 1/3 Catapult position @ \$66.75 LIMIT. This is from the Catapult section above. It is the 1st of 3 possible lots for MO.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$31.90	29.15%		Aggressive VIX

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

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