

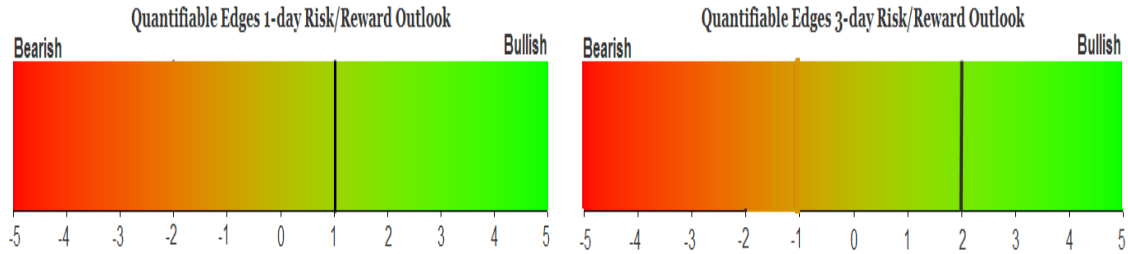
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 29, 2016

Volume 9 Issue 146

Market Overview



Signals Overview

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

Tonight's Research Points

- The gap and reverse pattern the last 2 days suggests weakness for Friday.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a bullish edge. But we do have some new evidence suggesting Friday could struggle, and the market is trading near a new high. So I am not inclined to be aggressive. I'll give it another day and see if I can get a lower entry point.

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 29, 2016	Gap and reverse 2x	1 day	Bearish			
July 28, 2016	3-High 3-Low Close 3-low	1-5 days	Bullish			
July 28, 2016	Back to back outside days	1-3 days	Bullish			
July 28, 2016	1st close < 10ma in 15 days	1-3 days	Bullish			
July 28, 2016	50-high, then 5 days sideways	1-3 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			

The Evidence

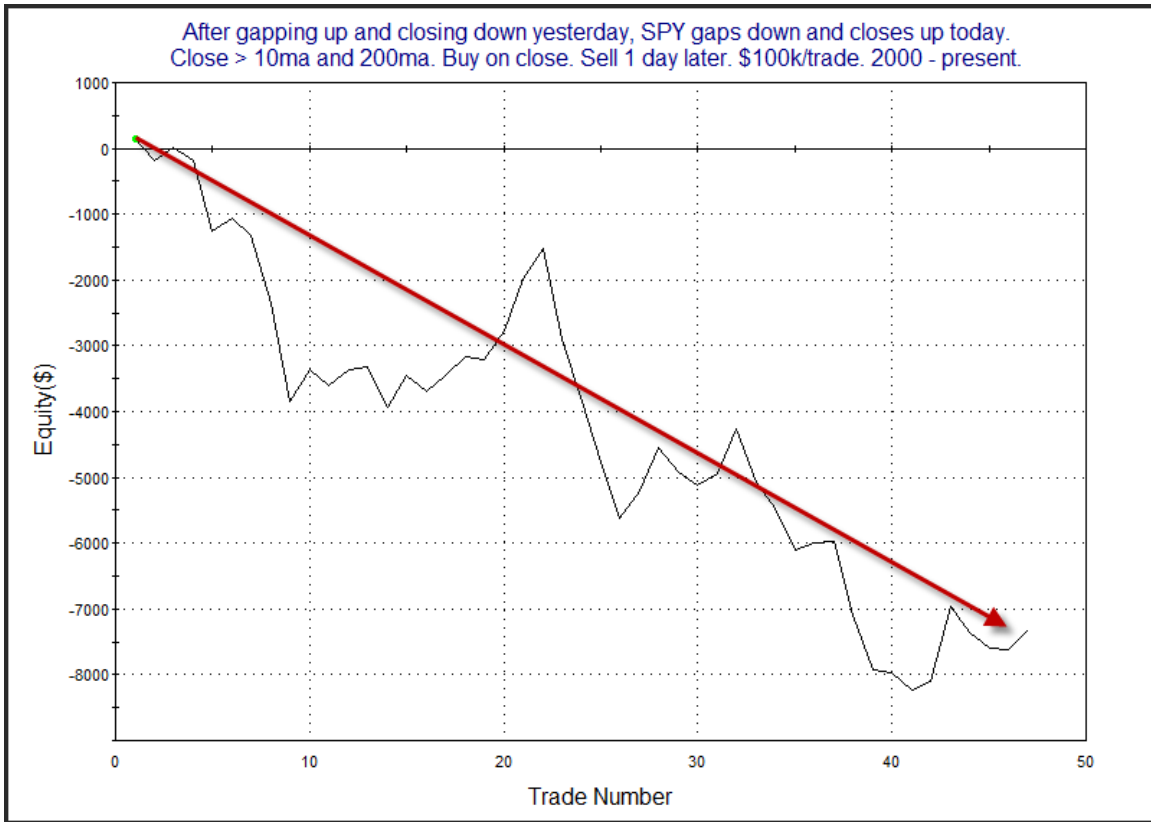
Thursday was another day of mixed results. The SPX gained 0.2%, the NASDAQ rose 0.6% and the Russell 2000 declined 0.1%. Breadth was mixed as the NYSE Up Issues % was 50.1% and the Up Volume % came in at 49.1%. NYSE volume declined from Wednesday's level.

The way SPY has gapped and reversed the last couple of days is reminiscent of a study I showed in the 9/17/14 letter. I re-ran the stats for that gap and reverse study and posted them below.

After gapping up and closing down yesterday, SPY gaps down and closes up today. Close > 10ma and 200ma. Buy on close. Sell 1 day later. \$100k/trade. 2000 - present.

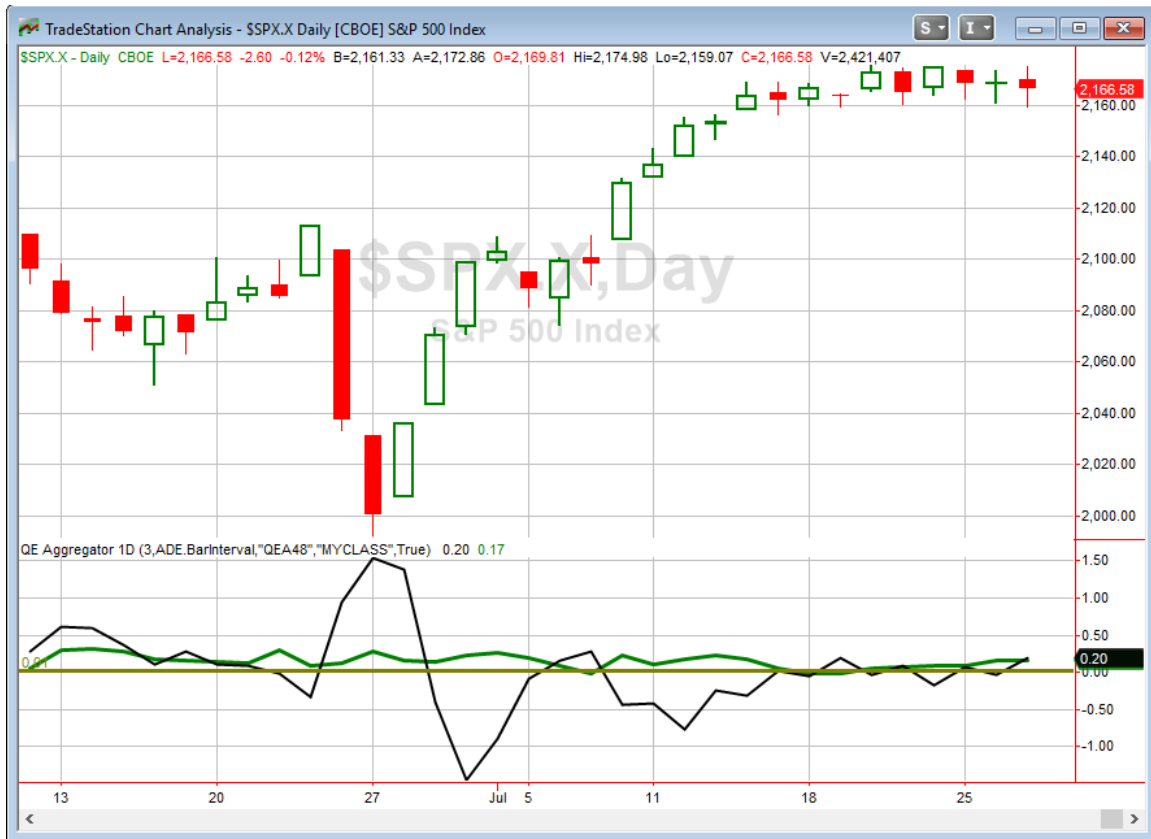
TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	(\$7,310.39)	Profit Factor	0.51	
Gross Profit	\$7,680.51	Gross Loss	(\$14,990.90)	
Total Number of Trades	47	Percent Profitable	44.68%	
Winning Trades	21	Losing Trades	26	
Even Trades	0			
Avg. Trade Net Profit	(\$155.54)	Ratio Avg. Win:Avg. Loss	0.63	
Avg. Winning Trade	\$365.74	Avg. Losing Trade	(\$576.57)	
Largest Winning Trade	\$1,142.28	Largest Losing Trade	(\$1,485.70)	

The edge isn't huge but risk/reward has seemed to favor the bears under these circumstances. Below is a profit curve to see how the edge has played out over time.



No one would call this a smooth curve, but it does seem to be working its way lower. I decided to include it on the Active List tonight.

I have updated the Aggregator chart below.



With tonight's bearish study included the green Aggregator Line still 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 also remained 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 stayed long at the close.

Based on the current active list, expectations are poised to remain positive on Friday. This could change if strong new bearish evidence emerges. The Differential Pivot will be 2176.31 on Friday. That is 0.3% above Thursday's close. So if SPX closes up 0.3% or more then it will turn from oversold to overbought versus recent expectations.

The mixed and mild action did little to change the general outlook. Tonight's study suggests the market could struggle on Friday. And while it is "oversold" that is only on a relative basis. SPX is very near a new high. So rather than jump in right here, I think I would rather wait another day. Perhaps the bearish inclinations shown by tonight's study will play out on Friday. If they do that should offer a lower entry point and a more favorable reward/risk setup. And I might buy into 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

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 @ \$216.50 LIMIT ON CLOSE. Based on the short-term outlook above. I'll look to start scaling long if SPX struggles Friday. I expect to see some bullish “1st day of month” studies emerge if Friday does sell off. I will look to get in near Friday’s close rather than waiting for Monday and potentially missing out with a gap higher.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$32.48	31.50%		Aggressive VIX
MO(1/3)	7/28/2016	\$66.75	\$67.11	0.54%		Catapult

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

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