

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 2, 2016

Volume 9 Issue 148

Market Overview



Signals Overview

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

Tonight's Research Points

- No substantial new evidence emerged on Monday.

Short-term Outlook

The Bottom Line

Evidence is suggesting a solid bullish edge. I will look to take advantage of this edge if SPY fails to rally on Tuesday and closes down much.

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 28, 2016	3-High 3-Low Close 3-low	1-5 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						
August 1, 2016	Highest volume 20 on up day. Not opex.	1-10 days	Bullish	2.40%	-1.60%	-3.10%
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 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			

The Evidence

Dog days. More sideways action. The SPX lost 0.1%, the NASDAQ rose 0.5% and the Russell 2000 declined 0.1%. Breadth was negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 31%. NYSE volume dropped quite a bit from Friday's level.

Neither bulls nor bears seem to have enough energy to get this market going in either direction right now. That won't last forever but it is a reality for the moment. And until the market makes another move it is unlikely we will see strong evidence emerge.

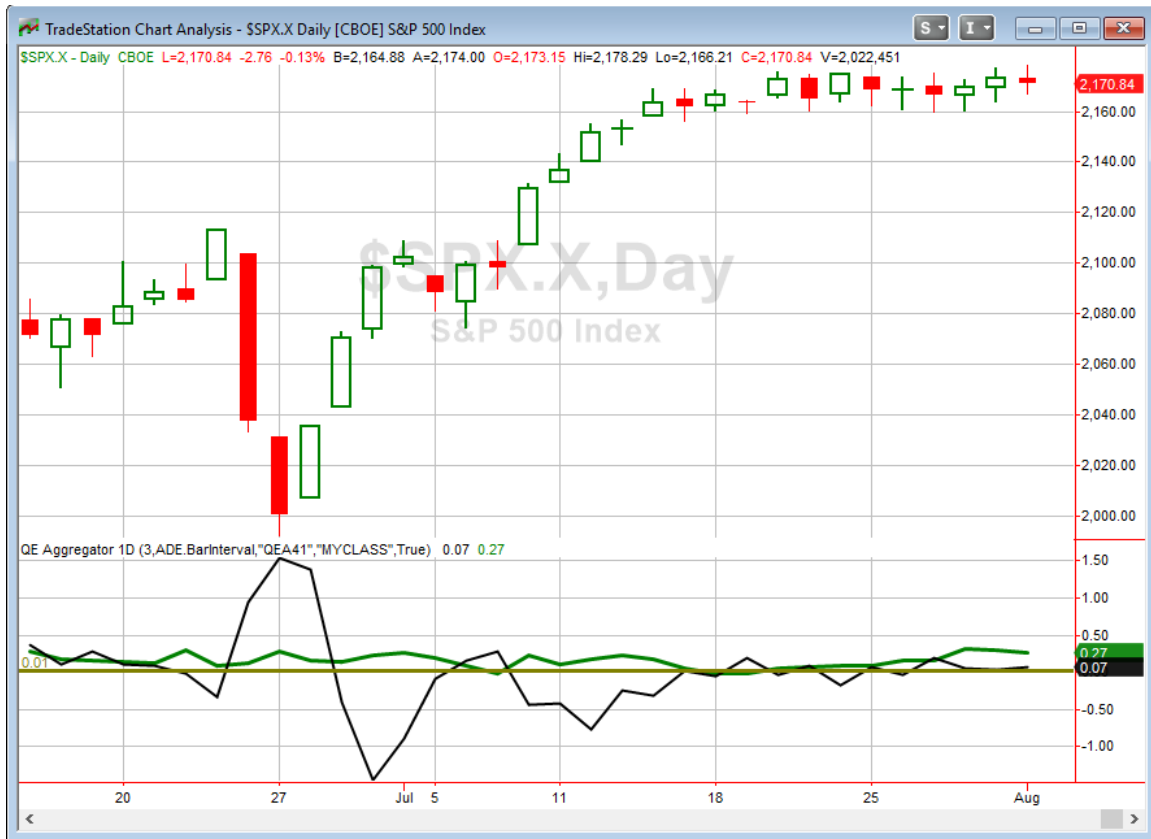
I have found it interesting that the Dow 30 has been declining every day while the NASDAQ is making all-time highs. Below is a study that considers this divergence and looks out 2 weeks.

NASDAQ closes at a 50-day high while the Dow closes at a 10-day low.
Buy NASDAQ on close. Sell 10 days later. \$100k/trade. 1971 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/1/1977	Buy	\$99.90	2.48%	\$2,482.48
7/19/1977	Sell	\$102.38		\$0.00
3/23/1978	Buy	\$105.39	2.69%	\$2,692.32
4/7/1978	Sell	\$108.23		(\$85.32)
5/4/1989	Buy	\$429.23	2.46%	\$2,466.16
5/18/1989	Sell	\$439.81		(\$341.04)
1/20/1993	Buy	\$697.44	1.61%	\$1,980.55
2/3/1993	Sell	\$708.67		(\$657.80)
8/18/1995	Buy	\$1,031.28	-1.15%	\$390.72
9/1/1995	Sell	\$1,019.47		(\$4,027.20)
1/21/2000	Buy	\$4,235.40	0.21%	\$1,558.25
2/4/2000	Sell	\$4,244.14		(\$11,209.51)
2/10/2000	Buy	\$4,480.63	2.45%	\$4,010.60
2/25/2000	Sell	\$4,590.50		(\$4,171.64)
3/30/2006	Buy	\$2,340.82	-0.63%	\$1,454.46
4/13/2006	Sell	\$2,326.11		(\$1,622.46)
7/31/2013	Buy	\$3,626.37	1.18%	\$1,831.14
8/14/2013	Sell	\$3,669.27		\$0.00

So “up” has been more common than “down” over the following 10 days. But instances are too low and results not compelling enough for me to consider this a strong edge.

I have updated the Aggregator chart below.



The green Aggregator Line tonight again 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 (slightly) 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 Tuesday. This could change if strong new bearish evidence emerges. The Differential Pivot will be 2183.96 on Tuesday. That is 0.6% above Monday's close. So SPX will need to close up at least 0.6% in order to move from oversold to overbought at Tuesday's close.

While no strong new evidence emerged tonight, the existing studies we have are saying there is a good chance the market will continue higher. The market is now oversold with some room to the upside. I'm still not sure I want to get too aggressive here, but I will look to buy some SPY if it closes down substantially on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/1 – bullish

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 @ \$216.00 LIMIT ON CLOSE. Based on the short-term outlook above. I will look to take on some long exposure on Tuesday if SPY closes down much.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$34.24	38.62%		Aggressive VIX
MO(1/3)	7/28/2016	\$66.75	\$67.65	1.35%		Catapult

Market expectations are bullish and contango is again extremely high at over 18%. Those things continue to favor XIV. I'll look to ride it until the outlook worsens.

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