

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 5, 2016

Volume 9 Issue 151

Market Overview



Signals Overview

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

Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.

Short-term Outlook

The Bottom Line

Evidence is suggesting a bullish edge. I have some long exposure and am looking to take advantage of the bullish outlook.

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						
August 5, 2016	SPY up 2 close < 3 ago	1-2 days	Bullish	0.95%	-0.80%	-1.60%
August 3, 2016	1st 5 low in over 10 days	1-4 days	Bullish	1.40%	-1.30%	-2.60%
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			

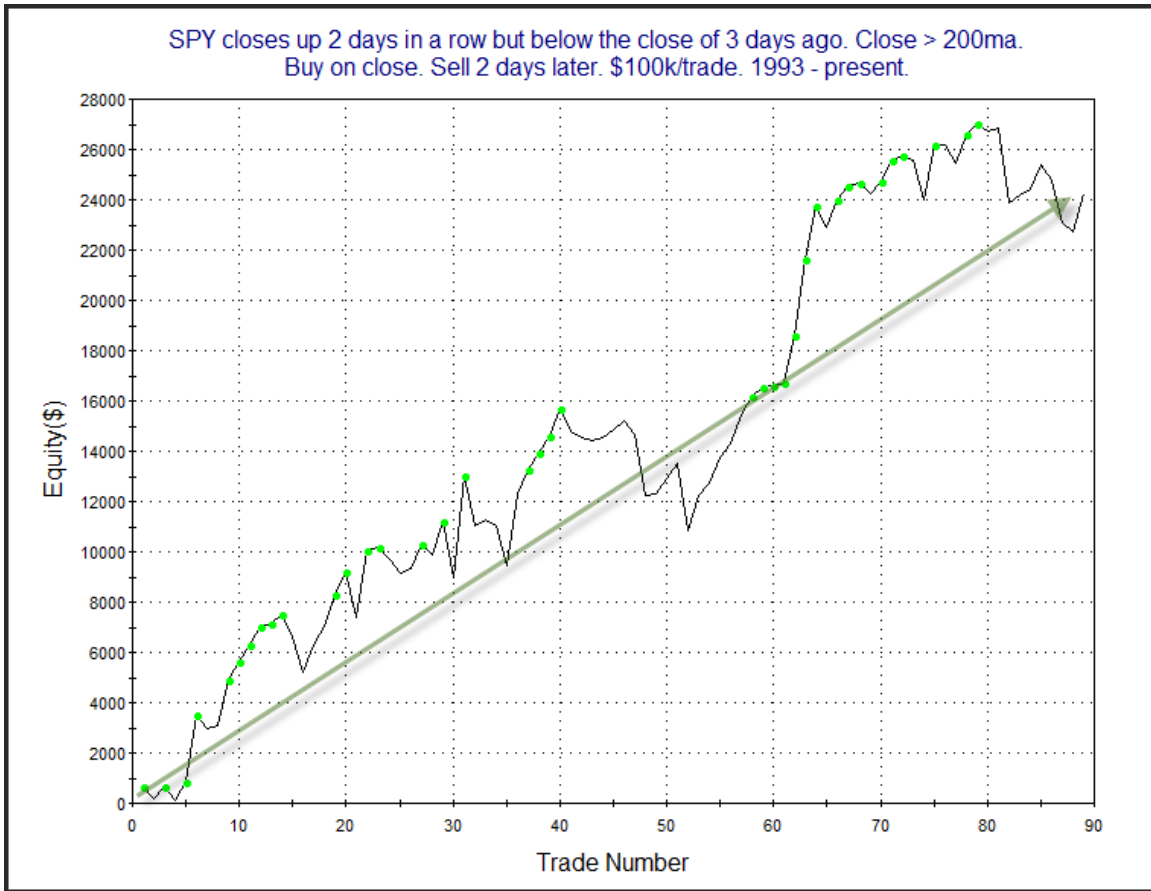
The Evidence

The market did not move much on Thursday. The SPX rose 0.02%, the NASDAQ gained 0.1% and the Russell 2000 also closed up 0.1%. Breadth was positive as the NYSE Up Issues % was 57% and the Up Volume % came in at 55%. NYSE volume declined some from Wednesday's level.

The mild action did not trigger much in the Quantifinder. The study below was interesting. It was last seen in the 9/12/14 Letter. It looked at times that SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. The results table is updated.

SPY closes up 2 days in a row but below the close of 3 days ago. Close > 200ma. 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	15,692.95	87	51	35	58.62	1,483.88	4,717.70	-1,713.85	-6,549.84	0.87	1.26	180.38
4	20,254.70	88	56	32	63.64	1,330.50	4,698.60	-1,695.41	-4,384.89	0.78	1.37	230.17
3	16,931.93	89	56	33	62.92	1,165.89	3,000.00	-1,465.39	-4,092.24	0.80	1.35	190.25
2	24,271.20	89	59	30	66.29	916.35	4,088.25	-993.12	-2,932.22	0.92	1.81	272.71
1	7,587.10	89	50	37	56.18	637.56	3,732.75	-656.51	-1,777.90	0.97	1.31	85.25

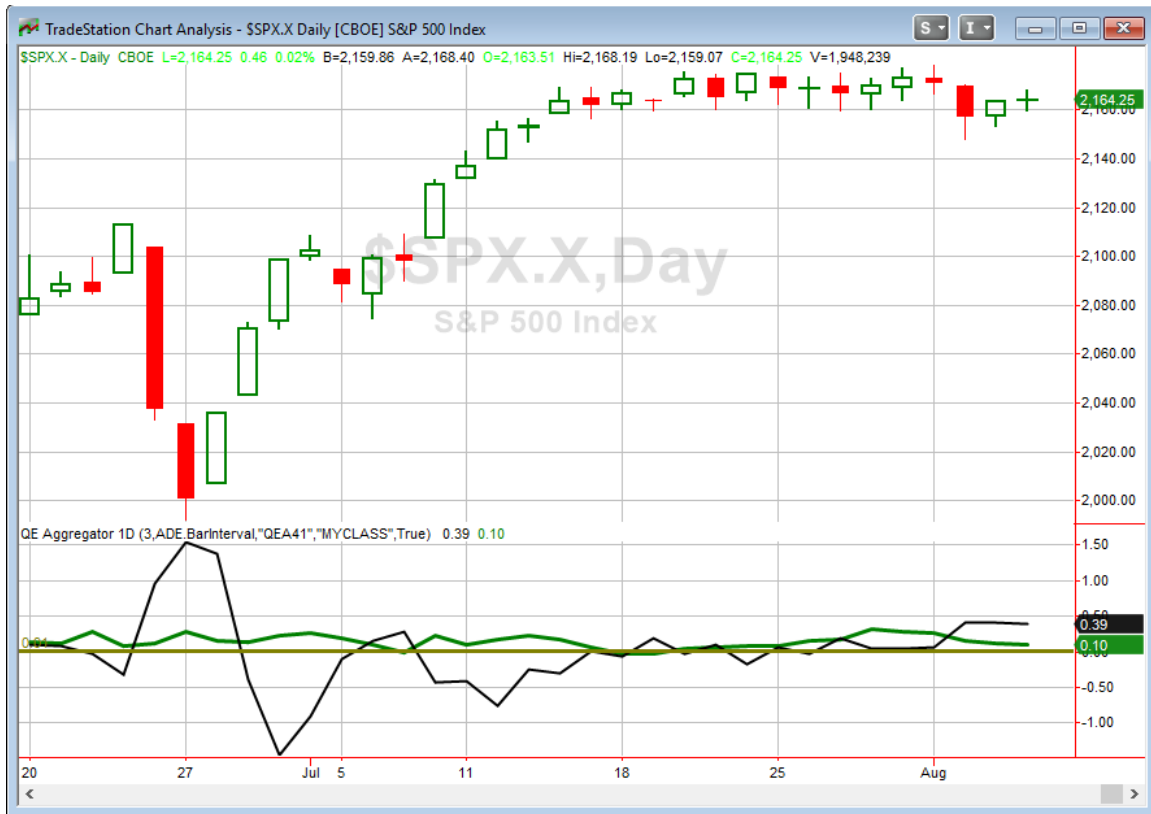
The stats appear to suggest a bit of an upside edge over the 1st 2 days. Below is an equity curve using a 2-day exit strategy.



There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

While the bullish evidence is somewhat weak, what is standing out to me is the lack of bearish evidence. I am still not seeing anything suggesting a strong downside edge. Of course that does not mean the market is incapable of taking a hit. And with the jobs report due out Friday morning the sideways quiet we have been seeing could see a sharp move. But I'll deal with things as they come. And to this point there is not much that is overly concerning from a short-term perspective.

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 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 2172.47 on Friday. That is 0.4% above Thursday's close. So SPX would need to close up at least 0.4% on Friday in order to move from oversold to overbought versus recent expectations.

The nothing day on Thursday did nothing to change my outlook. I still believe there is a short-term upside edge – but not a very strong one. I have long exposure, and I intend to hang onto it at least through Friday, but I do not intend to add to it at this point.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/1 – 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	\$34.58	40.00%		Aggressive VIX
SPY(1/4)	8/2/2016	\$215.55	\$216.41	0.40%		sell on SPX close >= 2172.47

Market expectations are bullish and contango is again extremely high at over 17%. Those things continue to favor XIV. I'll look to ride it until the outlook worsens.

I will look to exit SPY if SPX closes >= 2172.47 on Friday. This is the Differential Pivot, which would leave SPX overbought and mean the end to the bullish Aggregator formation.

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