

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 9, 2016

Volume 9 Issue 153

Market Overview



Signals Overview

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

Tonight's Research Points

- The SPY gap and reversal on Monday after an unfilled gap up on Friday suggests an upside edge for Tuesday.
- The very light NYSE volume on the pullback Monday could suggest more selling soon.

Short-term Outlook

The Bottom Line

Evidence is suggesting a bullish edge but the market is now short-term overbought. This leaves me 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						
August 9, 2016	SPY up 2 < 3 days ago	1 day	Bullish			
August 8, 2016	SOMA Swing Short	1-3 days	Bearish			
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-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						
August 5, 2016	SPY up 2 < 3 days 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%

The Evidence

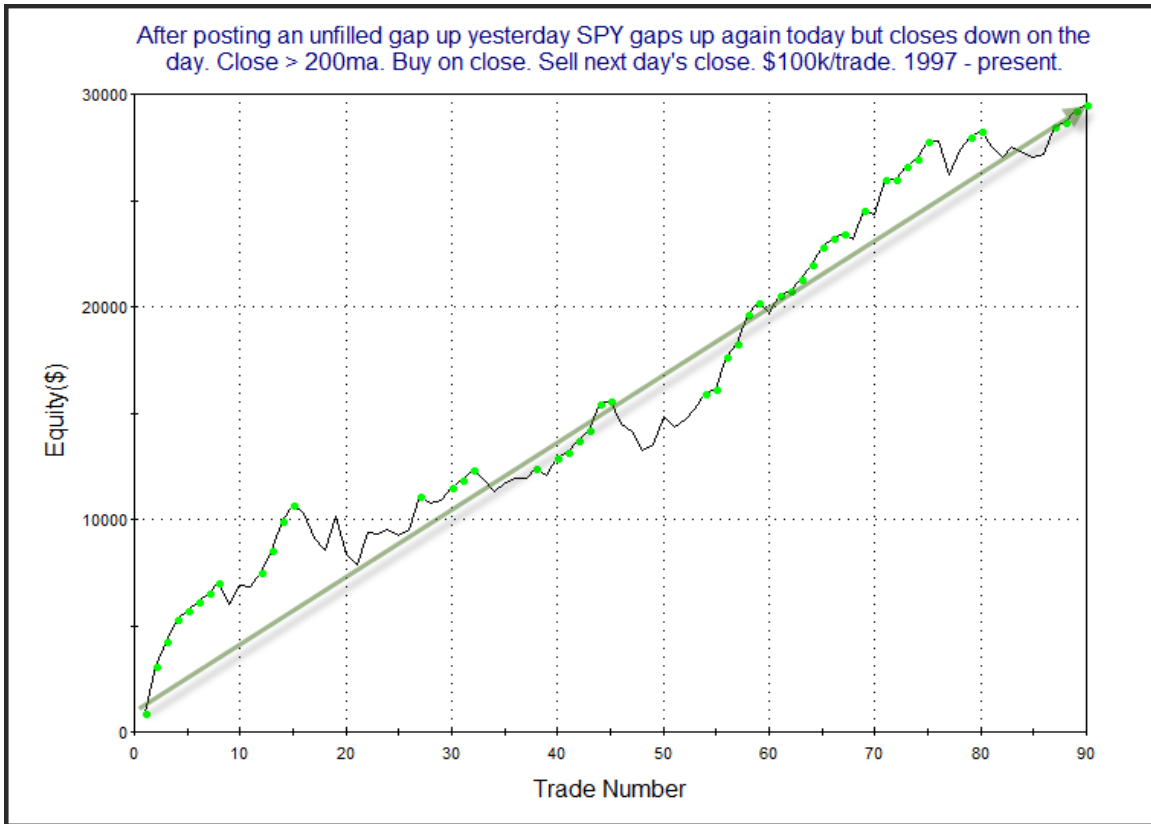
The market pulled back a little on Monday. The SPX lost 0.1%, the NASDAQ dipped 0.15% and the Russell 2000 also closed down 0.1%. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 61%. NYSE declined a bit from Friday's level.

The study below was last seen a few weeks ago in the 7/18/16 letter. It examined action similar to the last 2 days with regards to how SPY gapped and finished. Results showed that gains had been pretty consistent the next day after similar action. Stats are updated.

After posting an unfilled gap up yesterday SPY gaps up again today but closes down on the day. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1997 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$29,526.32	Profit Factor		3.00
Gross Profit	\$44,281.33	Gross Loss		(\$14,755.01)
Total Number of Trades	90	Percent Profitable		71.11%
Winning Trades	64	Losing Trades		26
Even Trades	0			
Avg. Trade Net Profit	\$328.07	Ratio Avg. Win:Avg. Loss		1.22
Avg. Winning Trade	\$691.90	Avg. Losing Trade		(\$567.50)
Largest Winning Trade	\$2,194.38	Largest Losing Trade		(\$1,764.00)

The numbers here all look solidly bullish. Below is a look at profit curve.



The strong, steady upslope is encouraging. Based on the action of the last 2 days, it appears an up day on Tuesday is fairly likely. I have included this study on the Active List tonight.

But not everything was bullish. The study below is one that was last seen in the 7/28/14 letter. It looks at light volume occurring on down days after a 50-day high. Stats have all been updated.

After closing at a 50-day high yesterday, SPX declines today. NYSE volume is the lightest in 10 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.

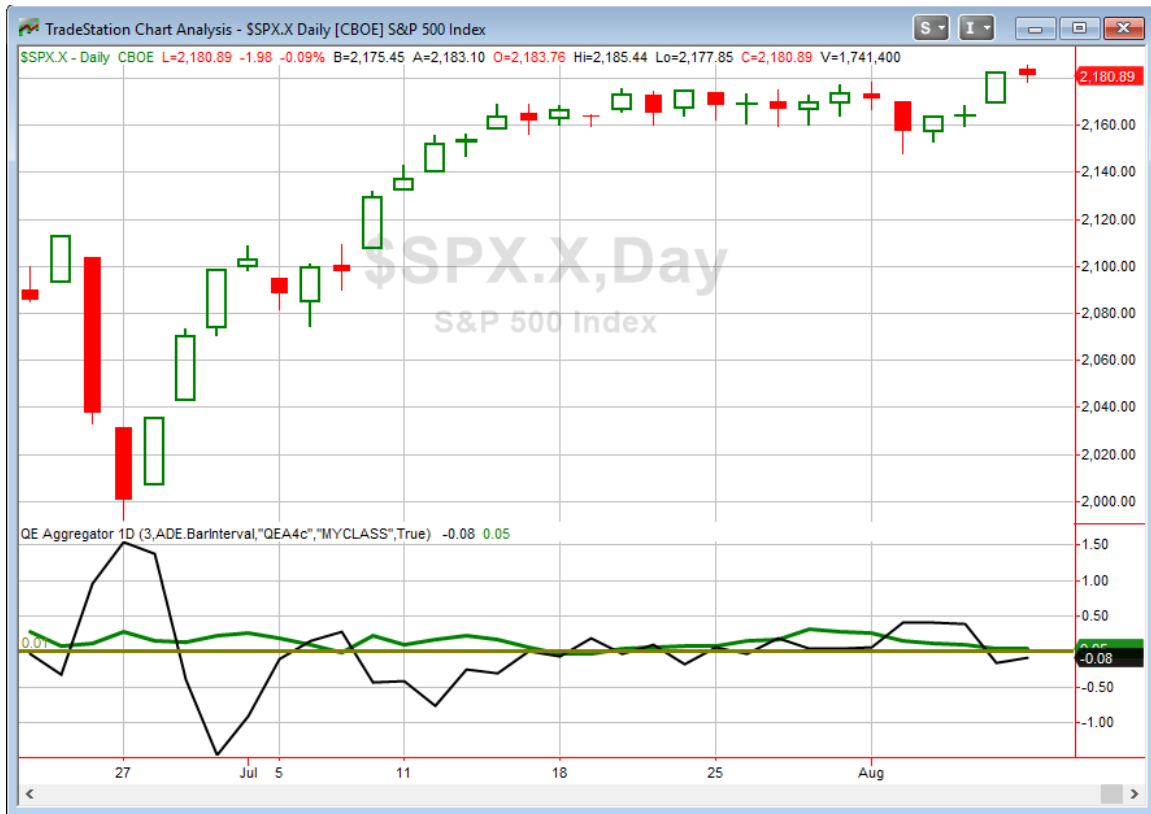
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-29,249.89	72	36	36	50.00	1,675.63	5,104.00	-2,488.12	-6,121.74	0.67	0.67	-406.25
9	-24,206.14	73	37	36	50.68	1,630.32	3,955.23	-2,348.00	-6,236.87	0.69	0.71	-331.59
8	-33,732.66	73	35	38	47.95	1,414.45	3,521.07	-2,190.49	-6,661.66	0.65	0.59	-462.09
7	-43,063.34	73	34	39	46.58	1,228.03	3,732.48	-2,174.78	-7,193.64	0.56	0.49	-589.91
6	-40,656.38	74	35	39	47.30	1,012.03	2,563.47	-1,950.70	-5,426.99	0.52	0.47	-549.41
5	-26,172.47	75	36	39	48.00	912.29	2,273.04	-1,513.21	-4,288.68	0.60	0.56	-348.97
4	-23,832.18	78	39	39	50.00	800.39	2,457.84	-1,411.47	-4,263.60	0.57	0.57	-305.54
3	-5,950.16	81	44	37	54.32	788.75	2,169.48	-1,098.79	-3,726.24	0.72	0.85	-73.46
2	-2,188.80	81	43	38	53.09	666.19	2,328.05	-811.44	-4,049.40	0.82	0.93	-27.02
1	-4,913.70	81	42	39	51.85	485.88	2,235.13	-649.25	-3,068.81	0.75	0.81	-60.66

The first few days don't show much of an edge, but once you get out 6-7 days there appears to be a possible downside inclination. To confirm this I took a look at the equity curve. In this case I decided to show time on the x-axis rather than instances to demonstrate how consistent the edge has been over the years.



For a study without strongly lopsided statistics, the steadiness is impressive. But with no real edge appearing for the first several days, I again decided not to include this study on the active list. Still, it may be worth keeping in mind.

I have updated the Aggregator chart below.



With tonight's new evidence considered the green Aggregator Line held a little above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still slightly below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are moderately positive but SPX is slightly overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. And with both lines so close to zero, it does not get any more neutral. Therefore, the Aggregator signal stayed flat 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 2172.21 on Tuesday. That is 0.4% below Monday's close. So SPX would need to close down at least 0.4% on Tuesday in order to move from overbought to oversold versus recent expectations.

So tonight's evidence suggests we could see a bump up on Tuesday. But this does not really change my short-term outlook from last night. With the SPX still overbought and the Aggregator formation neutral, I am not enthused about taking on new positions. I will wait for a more favorable reward/risk scenario to emerge.

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

The intermediate-term outlook was last updated in the 8/8 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	\$36.64	48.34%		Aggressive VIX

Market expectations are bullish and contango is again extremely high at over 20%. Those things continue to favor XIV. I'll look to ride it until the outlook worsens.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2016 Hanna Capital Management, LLC.