

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 16, 2016

Volume 9 Issue 158

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Short	100% Short SPY	Flat

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

Short-term Outlook

The Bottom Line

Short-term expectations have turned negative and the market is slightly overbought. This is leaving the Aggregator bearish. But it appears to be a weak short signal and is not one that I am looking to take advantage of.

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 16, 2016	SPX 50-high. VIX up. 1st of week.	1-2 days	Bearish	-0.80%	0.40%	0.90%
Active - Long Term						
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			

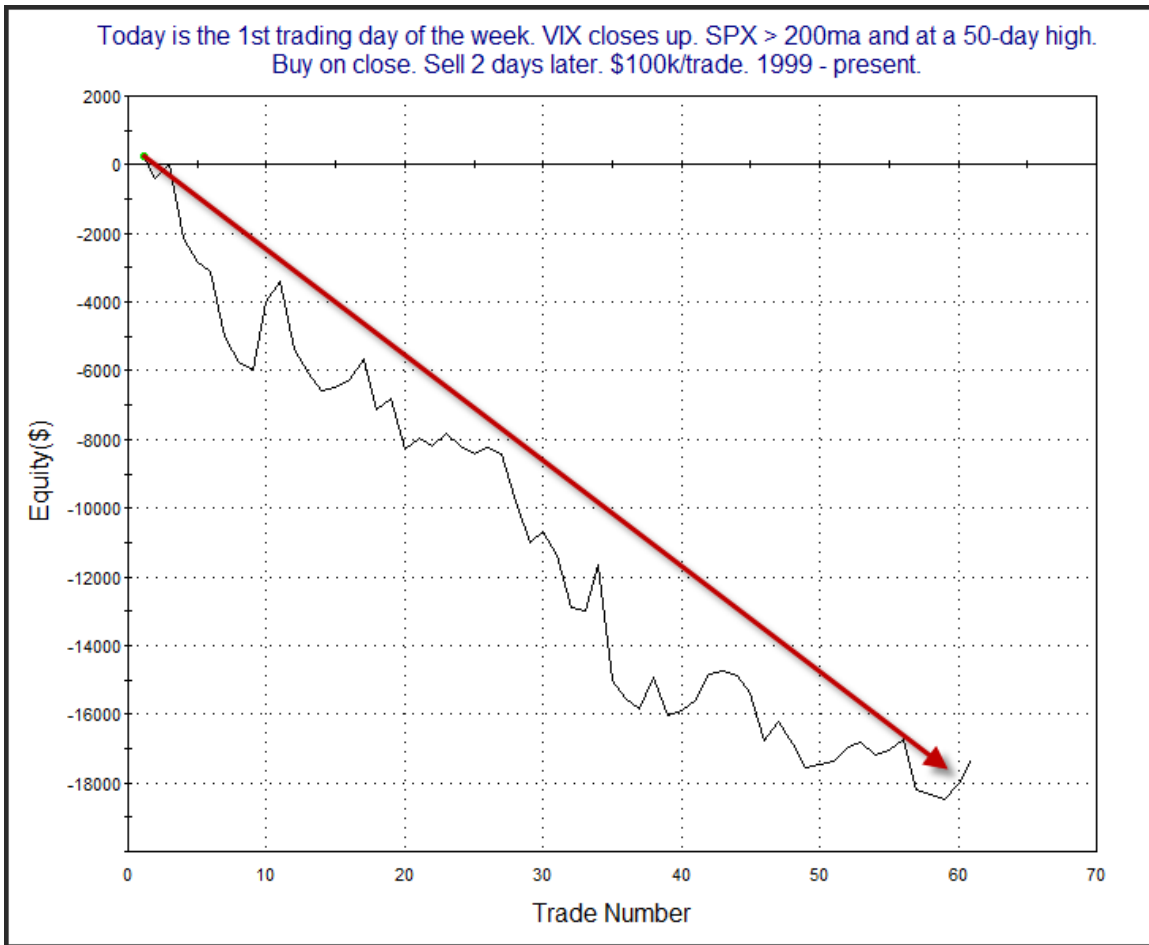
The Evidence

Monday was a day of new highs. The SPX rose 0.3%, the NASDAQ gained 0.6%, and the Russell 2000 rallied 1.0%. Breadth was weak as the NYSE Up Issues % was 64% and the Up Volume % came in at 74%. NYSE volume rose from Friday's level.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 7/12/16 letter. Results are all updated.

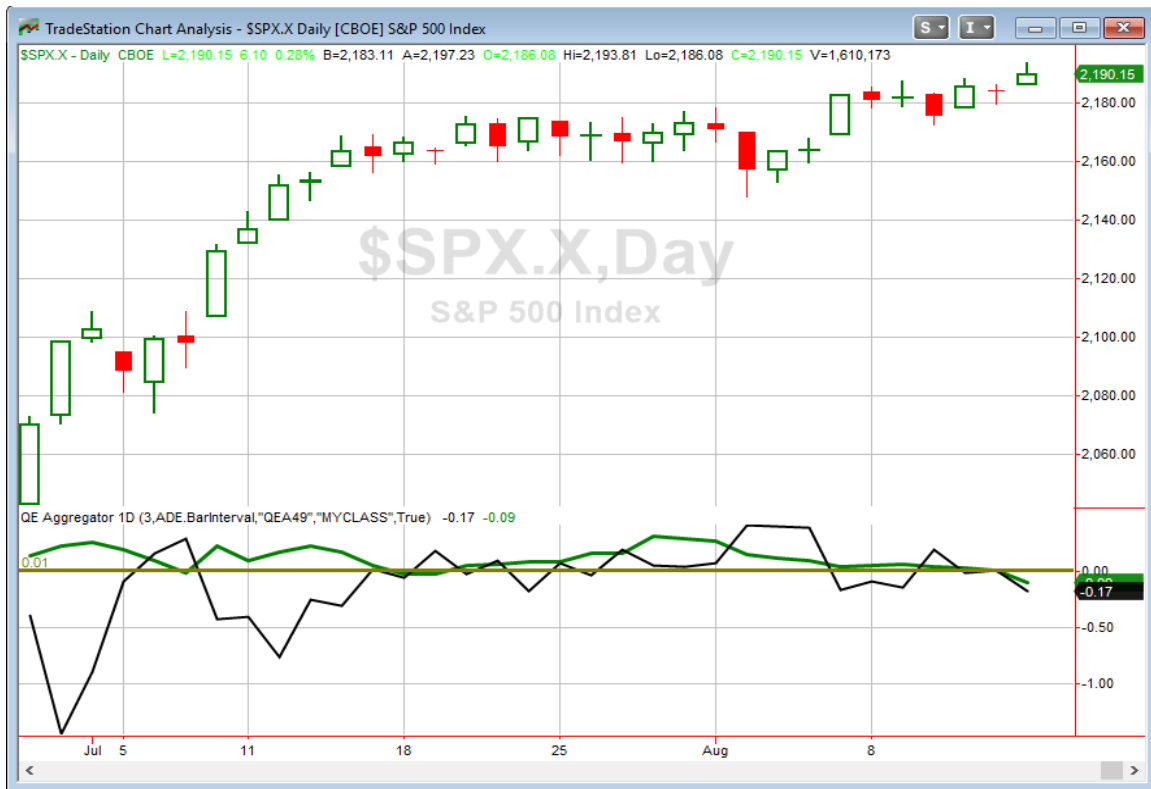
Today is the 1st trading day of the week. VIX closes up. SPX > 200ma and at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: Profit Factor	All: Avg Trade
5	-13,392.78	56	27	29	48.21	1,078.52	3,260.25	-1,465.96	-5,048.68	0.74	0.68	-239.16
4	-7,600.63	61	29	32	47.54	954.12	2,953.65	-1,102.19	-4,271.52	0.87	0.78	-124.60
3	-8,597.78	61	28	33	45.90	754.15	2,641.80	-900.43	-3,887.84	0.84	0.71	-140.95
2	-17,334.30	61	27	34	44.26	453.13	1,981.72	-869.67	-3,372.16	0.52	0.41	-284.17
1	-6,844.43	61	23	38	37.70	335.42	769.70	-383.14	-1,580.04	0.88	0.53	-112.20

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long and fairly steady decline. This study seems worthy of consideration and I have included it on the Active List.

I have updated the Aggregator chart below.



With tonight's new study included the green Aggregator Line dipped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also fell below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is a little overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal turned short at the close.

Based on the current active list, expectations are poised to remain negative on Tuesday. Of course this could easily change if new bullish evidence emerges. The Differential Pivot will be 2188.70 on Tuesday. That is less than 0.1% below Monday's close. So for SPX to change from overbought to oversold versus expectations on Tuesday it will only need to close down about 2 points.

With my intermediate-term outlook bullish I would need to see especially compelling evidence in order to consider a short trade. This ain't it. And the market is so marginally short-term overbought that any move down would mean the end of the Aggregator short signal anyway. Reward/risk just is not here for me. But it is also looking a little less promising for my XIV position. With the Aggregator bearish the standard "Aggressive VIX System" signal is "100% Short SPY". In addition to the evidence headwind, the front month VIX futures are about to expire. This is going to cause front month contango from

about 21% to about 12%. While 12% is still quite strong, the same edge is just no longer there. So I will be looking to take profits there after riding it now for over two months. If SPX pulls back and evidence flips while contango remains fairly strong, then there is an excellent chance I could re-enter an XIV position. But for now reward/risk is getting lower and that is often an opportune time to take profits.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/15 – bullish

The intermediate-term outlook was last updated in the 8/15 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	\$37.40	51.42%		<i>sell @ \$37.00 limit</i>

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