

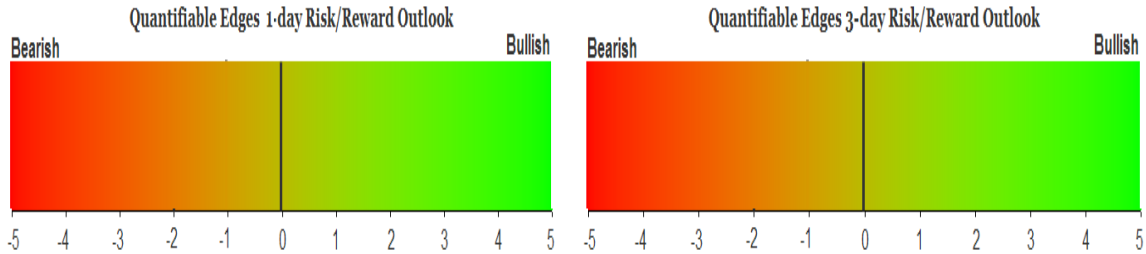
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 17, 2016

Volume 9 Issue 159

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.
- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.
- The unfilled gap pattern over the last couple of days set up a bearish trigger.

## *Short-term Outlook*

### *The Bottom Line*

Expectations are still a little negative but SPX is no longer overbought. This leaves me neutral.

**Summary of Recent Active Studies (see Letters from listed dates for details) – not updated tonight**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
August 16, 2016	SPX 50-high. VIX up. 1st of week.	1-2 days	Bearish	-0.80%	0.40%	0.90%
<b>Active - Long Term</b>						
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			

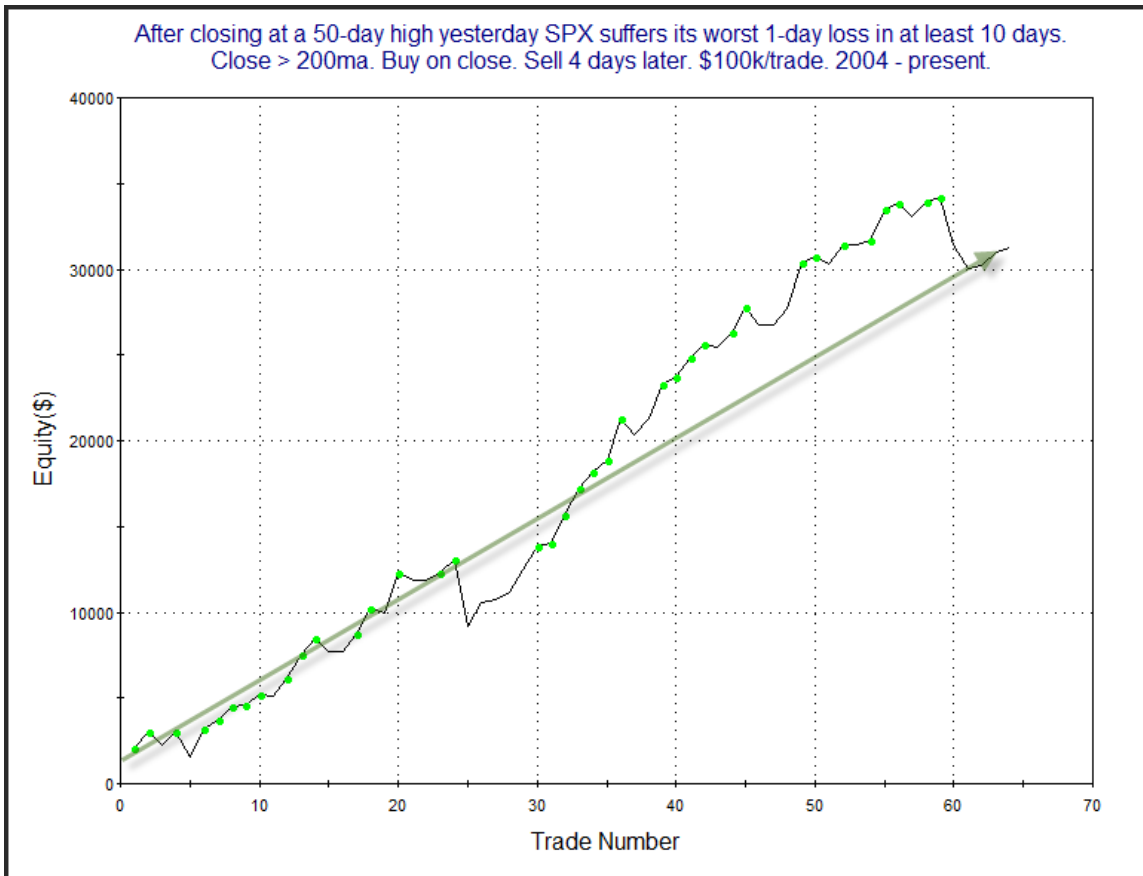
**The Evidence**

The market pulled back some on Monday. The SPX fell 0.6%, the NASDAQ lost 0.7%, and the Russell 2000 declined 0.9%. Breadth was weak as the NYSE Up Issues % was 30% and the Up Volume % came in at 35%. NYSE volume rose a little from Monday's level.

There was a mix of studies that triggered in the Quantifinder tonight. The one below looks at *relatively* large drops from intermediate-term highs. I have updated all the stats.

After closing at a 50-day high yesterday SPX suffers its worst 1-day loss in at least 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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	24,306.68	60	41	19	68.33	1,240.76	3,149.37	-1,398.14	-3,454.00	0.89	1.92	405.11
4	31,226.80	64	46	18	71.88	1,009.01	2,725.38	-843.76	-3,895.76	1.20	3.06	487.92
3	23,902.75	65	47	18	72.31	807.65	2,192.40	-780.95	-1,808.21	1.03	2.70	367.73
2	13,780.95	67	38	29	56.72	773.61	2,437.50	-538.49	-1,777.55	1.44	1.88	205.69
1	6,689.05	67	39	28	58.21	522.90	1,521.72	-489.43	-1,354.59	1.07	1.49	99.84

Over the last 12 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



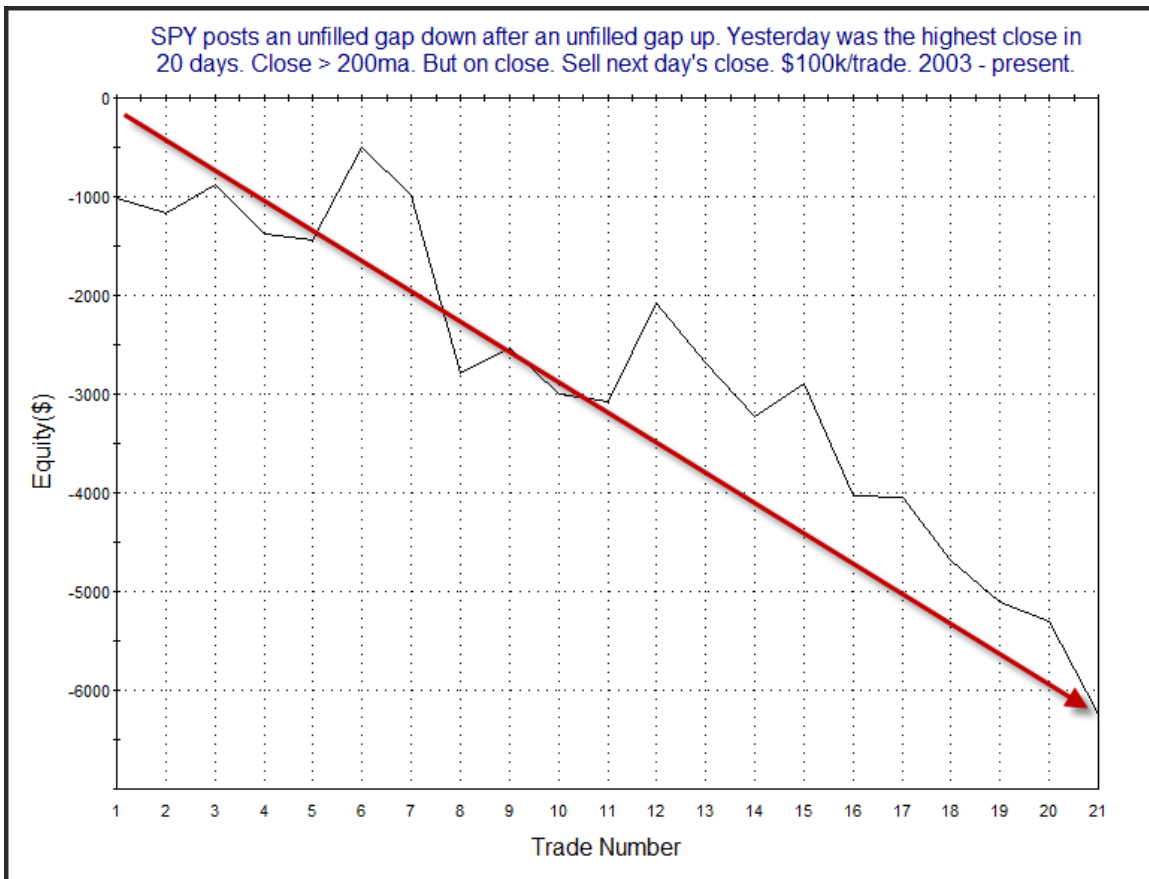
Despite the recent struggles, the steady upslope seems to confirm the bullish inclination. This study is on the Active List tonight.

But there were some bearish studies as well. This first one considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 6/10/16 Subscriber Letter. Below are updated results.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days. Close > 200ma. But on close. Sell next day's close. \$100k/trade. 2003 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$6,248.33)	Profit Factor	0.31
Gross Profit	\$2,825.58	Gross Loss	(\$9,073.91)
Total Number of Trades	21	Percent Profitable	23.81%
Winning Trades	5	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	(\$297.54)	Ratio Avg. Win:Avg. Loss	1.00
Avg. Winning Trade	\$565.12	Avg. Losing Trade	(\$567.12)
Largest Winning Trade	\$1,008.68	Largest Losing Trade	(\$1,807.92)

The numbers here appear to suggest a downside edge. Let's also take a look at the profit curve.



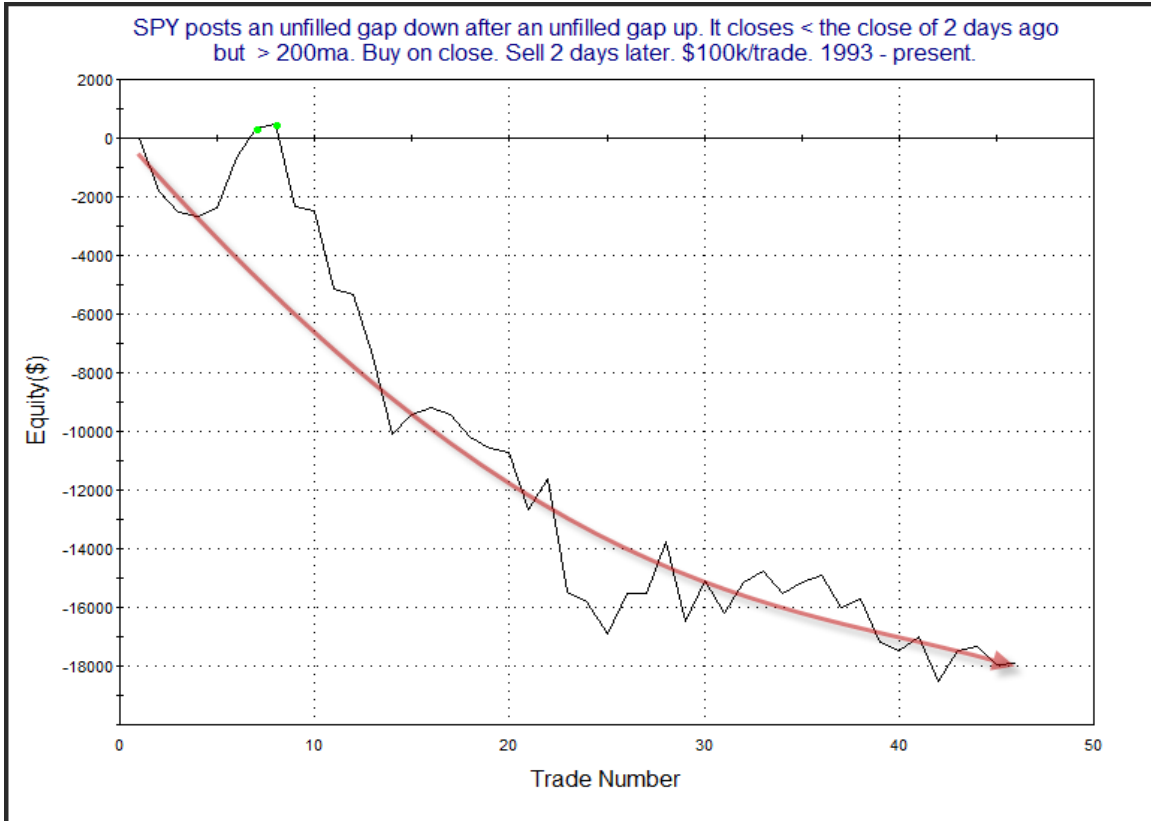
While the curve is choppy, it has persisted downwards and is continuing to make new lows. This serves as confirmation of the downside edge, and suggests we could see further selling on Wednesday.

With the back and forth chop the last few days not much triggered in the Quantifinder. The study below seemed worth looking at. It was last seen in the 5/4/16 letter. It examines 2-day moves like SPY has just encountered.

SPY posts an unfilled gap down after an unfilled gap up. It closes < the close of 2 days ago but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

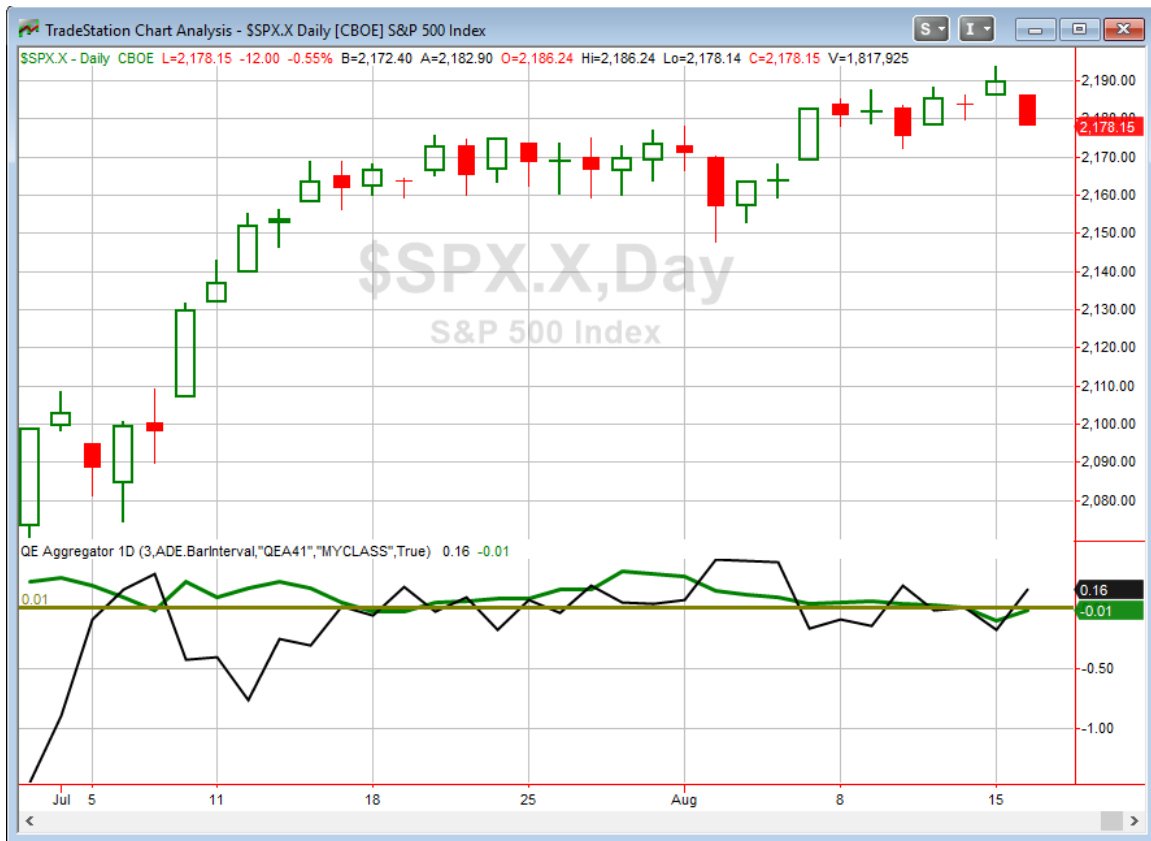
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	3,923.44	43	21	22	48.84	1,523.34	3,949.59	-1,275.76	-3,791.20	1.19	1.14	91.24
4	5,115.91	44	20	24	45.45	1,632.64	3,637.58	-1,147.37	-4,926.08	1.42	1.19	116.27
3	-18,692.50	46	20	26	43.48	873.17	2,463.47	-1,390.61	-5,321.00	0.63	0.48	-406.36
2	-17,899.20	46	20	25	43.48	679.97	1,754.40	-1,259.95	-3,893.00	0.54	0.43	-389.11
1	-4,769.45	46	19	26	41.30	549.84	1,325.15	-585.25	-1,736.76	0.94	0.69	-103.68

The suggestion here is that more downside appears likely over the next few days. Of course I also examined the profit curves. Below is the 2-day.



While the curve has been a bit choppy, it still appears to be trending downwards. I believe this study is worth taking into consideration and have included it in the Aggregator.

I have updated the Aggregator chart below.



With tonight's new studies included the green Aggregator Line held below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line moved above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current active list, expectations are poised to change to positive on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2185.73 on Tuesday. That is 0.35% above Tuesday's close. So for SPX to change from oversold to overbought versus expectations on Wednesday it will need to close up at least 0.35%.

So evidence is quite mixed and the market is now a little oversold. There does not appear to be a strong edge, and I am basically neutral at the moment. I will wait to see how things play out on Wednesday before considering any new entries.

**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	\$36.17	46.44%		Aggressive VIX

I missed my opportunity to exit when things look poor as XIV gapped below my limit price of \$37.00 and never reached there during the day. But things are already looking more promising for XIV. Contango is still strong, the SPX is oversold, and expectations are slated to turn positive on Wednesday. So I will remove my exit order for now and look to ride XIV a bit longer.

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