

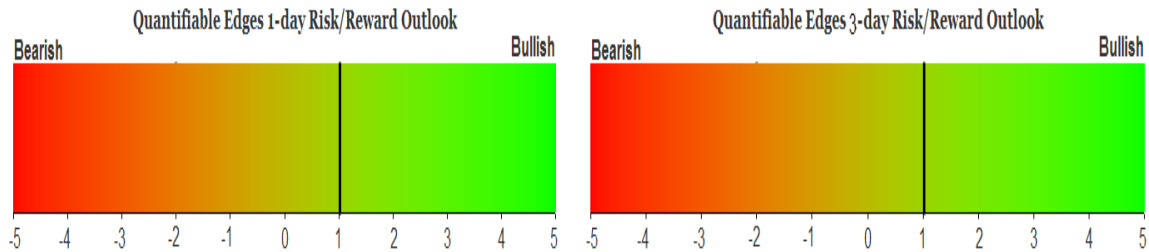
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 19, 2016

Volume 9 Issue 161

Market Overview



Signals Overview

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

Tonight's Research Points

- Thursday's mild up close near the top of its range suggests a bearish 1-day edge.
- 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.
- Opex Friday mornings during uptrends have typically seen selling.

Short-term Outlook

The Bottom Line

Expectations are slightly positive and the market is a little oversold still. But oversold will only last one more day unless SPX declines a decent amount. So there appears to be a mild and potentially brief upside edge.

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 19, 2016	SPY up 2 < 3 ago	1-2 days	Bullish			
August 19, 2016	SPY top 10% range < 0.25% gain	1 day	Bearish			
August 17, 2016	Big drop from 50-day high	1-4 days	Bullish			
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			
Dropped Tonight						
August 17, 2016	Unfill gap up...unfilled gap dn < 2 ago.	1-2 days	Bearish			

The Evidence

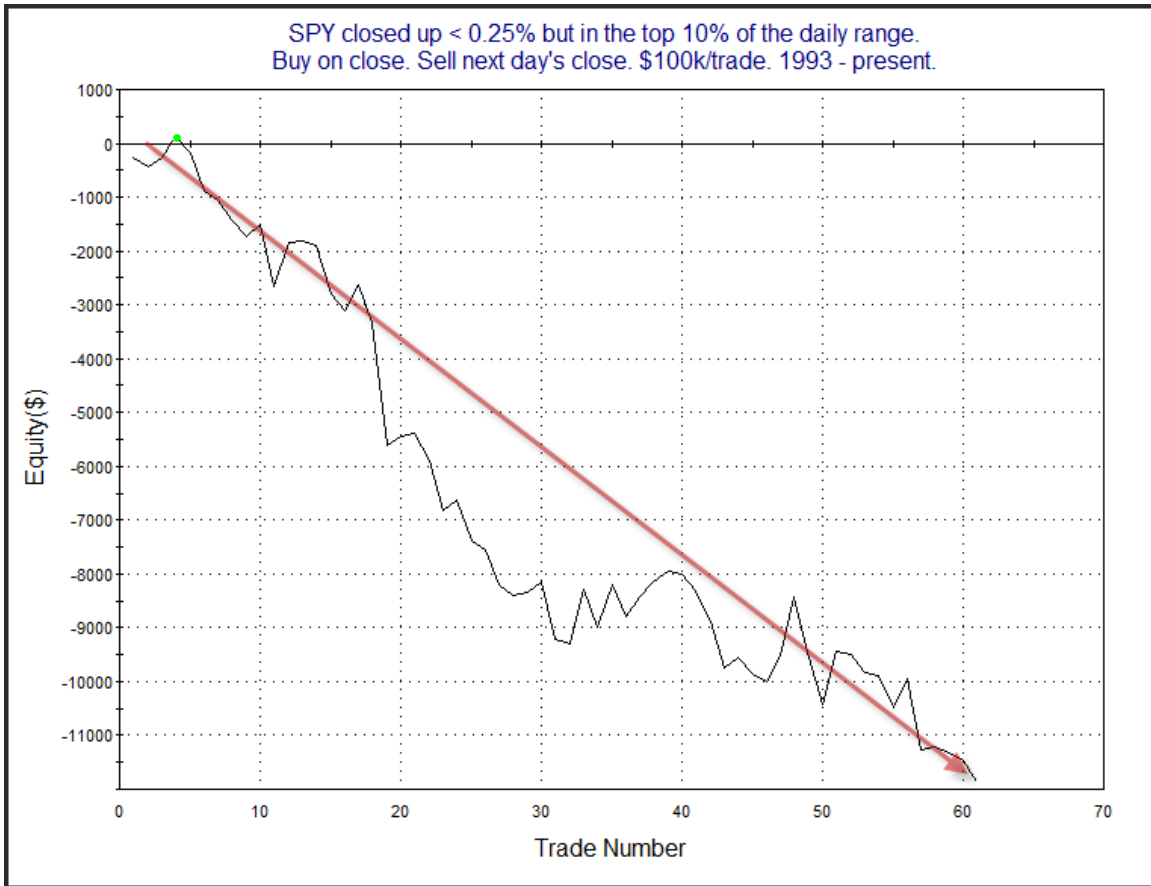
Thursday saw mostly mild gains for the indices. The SPX rose 0.2%, the NASDAQ also closed up 0.2%, and the Russell 2000 rallied 0.75%. Breadth was positive as the NYSE Up Issues % was 70% and the Up Volume % came in at 66%. NYSE volume declined a little from Wednesday's level.

Though the action was fairly mild, we did see a few interesting studies appear in the Quantifinder. The first study was last seen in the 6/30/14 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closed up < 0.25% but in the top 10% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$11,864.75)	Profit Factor	0.43
Gross Profit	\$8,782.24	Gross Loss	(\$20,646.99)
Total Number of Trades	61	Percent Profitable	36.07%
Winning Trades	22	Losing Trades	39
Even Trades	0		
Avg. Trade Net Profit	(\$194.50)	Ratio Avg. Win:Avg. Loss	0.75
Avg. Winning Trade	\$399.19	Avg. Losing Trade	(\$529.41)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



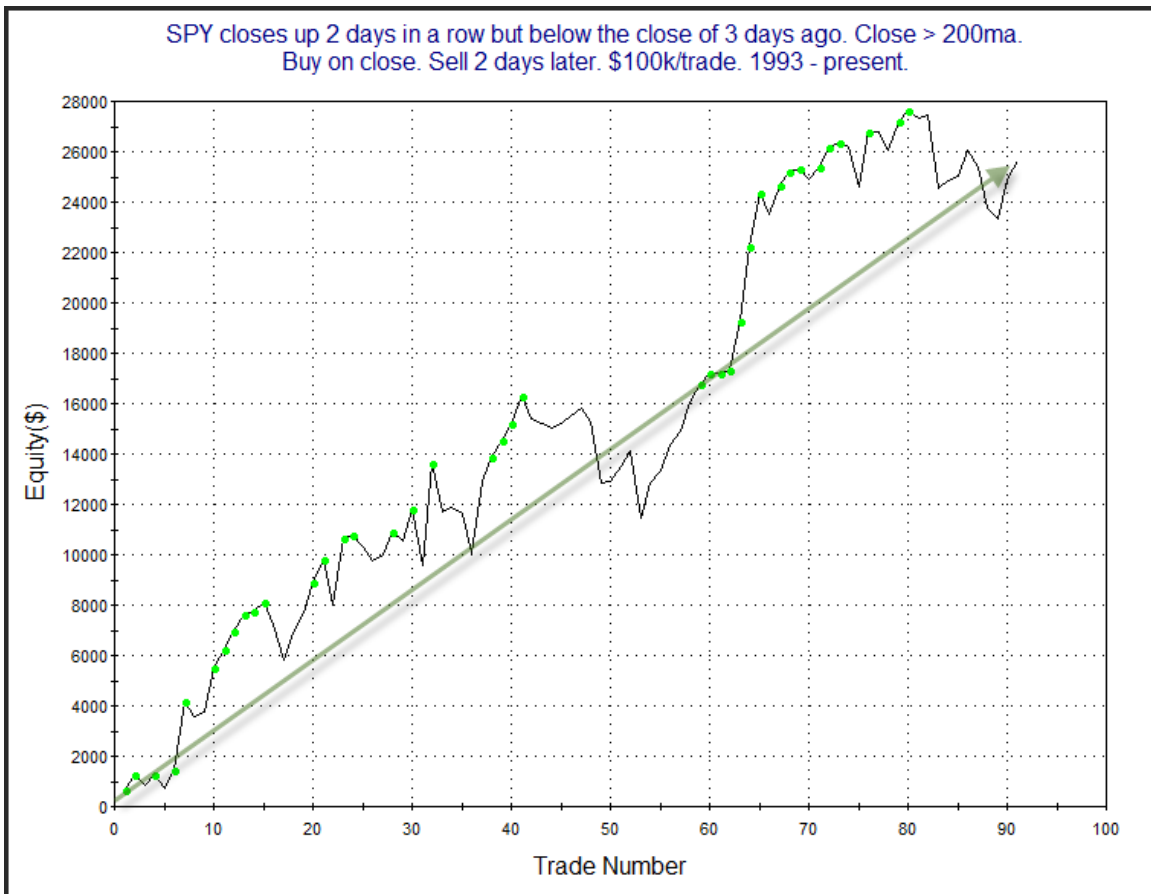
It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. I have included this study on the Active List for tonight.

There was also a bullish price action-based study. It was last seen in the 8/5/16 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. I have updated the study below.

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	18,011.23	89	53	35	59.55	1,471.63	4,717.70	-1,713.85	-6,549.84	0.86	1.30	202.37
4	22,427.21	90	58	32	64.44	1,322.08	4,698.60	-1,695.41	-4,384.89	0.78	1.41	249.19
3	19,546.43	91	58	33	63.74	1,170.76	3,000.00	-1,465.39	-4,092.24	0.80	1.40	214.80
2	25,649.19	91	61	30	67.03	908.90	4,088.25	-993.12	-2,932.22	0.92	1.86	281.86
1	8,404.84	91	51	37	56.04	641.09	3,732.75	-656.51	-1,777.90	0.98	1.35	92.36

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.

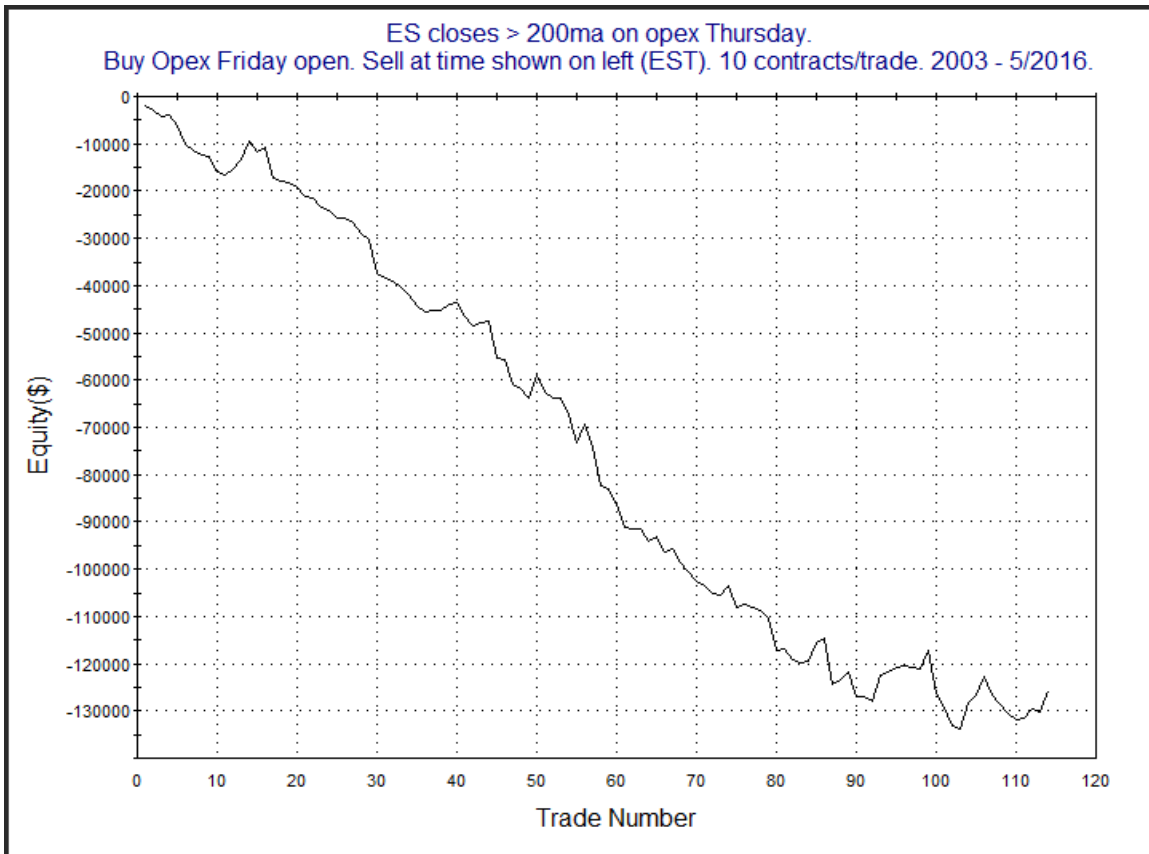


There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

One seasonal factor that could come into play on Friday is that the market has often struggled after the open on opex Friday. Below is a study from the 6/17/16 letter (not updated tonight) showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day.

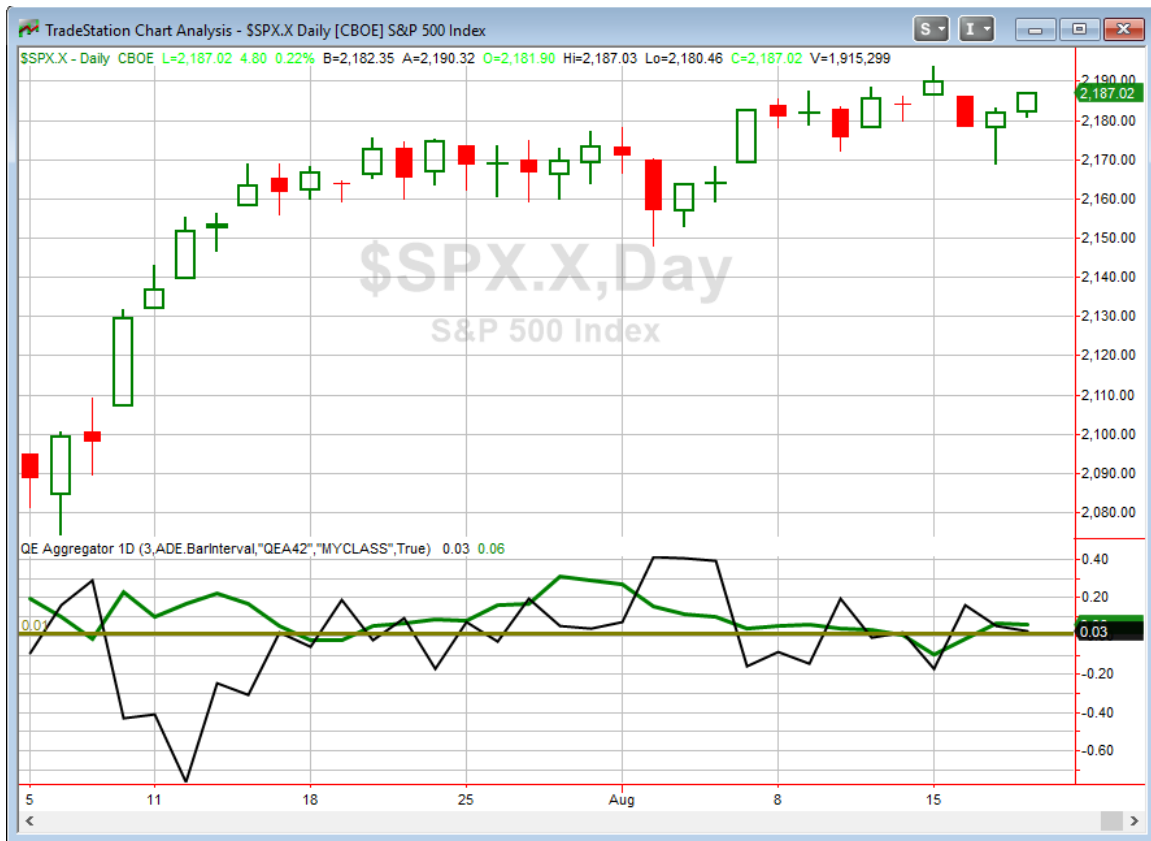
ES closes > 200ma on opex Thursday. Buy Opex Friday open. Sell at time shown on left (EST). 10 contracts/trade. 2003 - 5/2016.												
OE Op-Ex Fri Intra Short2: timeofday	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
1,600	-113,875.00	114	49	62	42.98	2,357.14	13,875.00	-3,699.60	-16,125.00	0.64	0.50	-998.90
1,500	-125,375.00	114	38	73	33.33	2,467.11	9,875.00	-3,001.71	-11,625.00	0.82	0.43	-1,099.78
1,400	-131,750.00	114	33	75	28.95	2,200.76	9,875.00	-2,725.00	-10,750.00	0.81	0.36	-1,155.70
1,300	-122,125.00	114	35	78	30.70	2,021.43	9,625.00	-2,472.76	-10,000.00	0.82	0.37	-1,071.27
1,200	-125,625.00	114	34	80	29.82	1,812.50	5,625.00	-2,340.63	-9,750.00	0.77	0.33	-1,101.97
1,100	-85,625.00	114	41	71	35.96	1,500.00	7,250.00	-2,072.18	-7,625.00	0.72	0.42	-751.10
1,000	-70,125.00	114	32	80	28.07	898.44	3,625.00	-1,235.94	-3,625.00	0.73	0.29	-615.13

As you can see, the bearish implications primarily play themselves out during the morning. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) Below is a profit curve that assumes the trade is sold at noon each time.



The downward slope has been in effect and fairly steady for a long time. So caution seems warranted on the long side during the morning on Friday.

I have updated the Aggregator chart below.



With tonight's mix of studies 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 (slightly) 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 turned long at the close.

Based on the current active list, expectations are poised to remain positive on Friday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 2175.91 on Friday. That is 0.5% below Thursday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close down at least 0.5% in order to remain oversold. Anything short of that and it will be considered overbought versus expectations.

Again evidence is pointing higher but it is mixed and not all that compelling. I rarely look to enter new trades when there is an inverted pivot. That is because potential reward is limited to one day, while risk is higher. So while there may be a moderate upside edge on Friday (but perhaps not between the open and noon). I am not inclined to get involved with new trades. I will continue to hold my XIV position.

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	\$37.55	52.02%		Aggressive VIX

Contango is still strong, the SPX is oversold, and expectations are currently positive. So I will look to ride XIV a bit longer.

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