

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 24, 2016

Volume 9 Issue 164

Market Overview



Signals Overview

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

Tonight's Research Points

- Tuesday's action in SPY suggests higher prices over the next few days.
- Very small gains after multiple down days have often been followed by more selling.

Short-term Outlook

The Bottom Line

There may be a mild upside edge based on the evidence, but with the market near new highs it is not compelling enough for me.

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 24, 2016	Unfilled gap 20-high, close > open	1-3 days	Bullish			
August 24, 2016	SPX down 2 days then up < 0.2%	1 day	Bearish			
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	≥ 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

Tuesday saw the market posts gains. The SPX rose 0.2%, the NASDAQ closed up 0.3%, and the Russell 2000 rose 0.7%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 68%. NYSE volume rose a little from Monday’s level.

The 1-day SPY pattern hinted at a bullish edge. In the 11/24/14 Letter I ran a test of performance following unfilled upside gaps that make a 20-day high. I broke out the results by times the SPY closed above the open versus times where it closed below the open. I updated those studies below.

First let’s look at times (unlike Tuesday and not updated from last month) where the finish was relatively strong:

SPY posts a 20-day intraday high and an unfilled gap up. Close < open and > 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
10	12,628.22	144	84	59	58.33	1,546.54	6,056.96	-1,987.81	-6,391.84	0.78	1.11	87.70
9	9,833.47	152	88	62	57.89	1,435.03	5,404.74	-1,878.22	-4,800.38	0.76	1.08	64.69
8	1,197.32	158	90	67	56.96	1,288.08	5,456.48	-1,712.39	-6,071.52	0.75	1.01	7.58
7	-886.67	164	93	68	56.71	1,203.87	5,145.60	-1,659.51	-5,839.16	0.73	0.99	-5.41
6	5,848.60	173	92	79	53.18	1,031.69	4,931.26	-1,127.43	-4,876.48	0.92	1.07	33.81
5	7,390.88	181	99	80	54.70	948.24	4,539.48	-1,081.06	-3,561.24	0.88	1.09	40.83
4	13,248.68	195	106	88	54.36	938.97	4,627.26	-980.48	-3,532.12	0.96	1.15	67.94
3	-8,457.46	208	119	87	57.21	642.57	2,659.03	-976.14	-5,080.34	0.66	0.90	-40.66
2	-6,396.47	228	123	104	53.95	512.58	2,545.92	-667.73	-3,016.48	0.77	0.91	-28.05
1	1,209.30	243	124	117	51.03	372.91	2,380.38	-384.88	-2,817.32	0.97	1.03	4.98

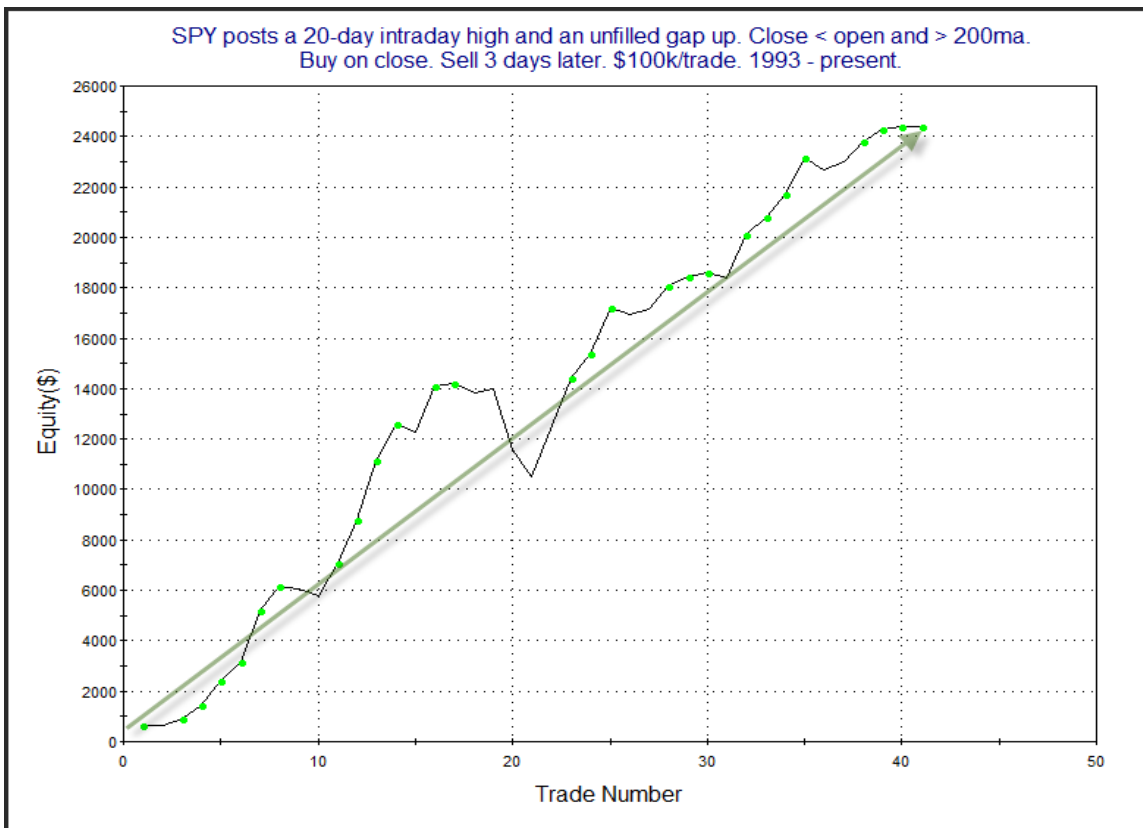
There doesn’t appear to be any edge in either direction here. Now let’s examine times like the present where SPY closed below the open.

SPY posts a 20-day intraday high and an unfilled gap up. Close < open and > 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
10	31,354.56	36	22	14	61.11	2,174.28	4,838.35	-1,177.11	-4,810.68	1.85	2.90	870.96
9	24,887.31	37	26	11	70.27	1,578.74	3,741.10	-1,469.09	-5,564.16	1.07	2.54	672.63
8	22,371.95	37	25	11	67.57	1,568.41	3,352.48	-1,530.74	-6,021.40	1.02	2.33	604.65
7	21,062.40	37	23	14	62.16	1,669.82	3,751.55	-1,238.82	-4,952.36	1.35	2.21	569.25
6	21,168.08	37	24	13	64.86	1,611.47	4,159.10	-1,346.71	-6,414.24	1.20	2.21	572.11
5	17,166.29	37	22	15	59.46	1,354.53	3,754.17	-842.23	-4,540.20	1.61	2.36	463.95
4	19,281.50	38	28	10	73.68	964.32	3,436.02	-771.95	-2,228.24	1.25	3.50	507.41
3	24,413.56	41	31	9	75.61	967.73	2,362.10	-620.68	-2,427.88	1.56	5.37	595.45
2	18,072.32	42	28	14	66.67	884.75	1,998.70	-478.63	-926.12	1.85	3.70	430.29
1	7,873.65	43	29	14	67.44	466.72	1,708.92	-404.37	-1,015.84	1.15	2.39	183.11

39 of 43 instances (91%) closed above the entry price at some point in the next week

These results are substantially better than earlier where the finish was above the open. The weak finish should not concern bulls, in fact it appears they should be excited by it. Below is an equity curve that shows how the edge has played out over time.



The upslope here is persistent and rather impressive. I have included this study on the Short-Term Active List.

But the SPX bounce was so weak that it could be a concern. In the 10/10/13 letter I looked to see whether there was a substantial difference in performance following a small move down after two down days versus a small move up after two down days. Below I have updated that study.

First let's consider what happens after two down days are followed by a third lower close, but that third close is a drop of less than 0.2%.

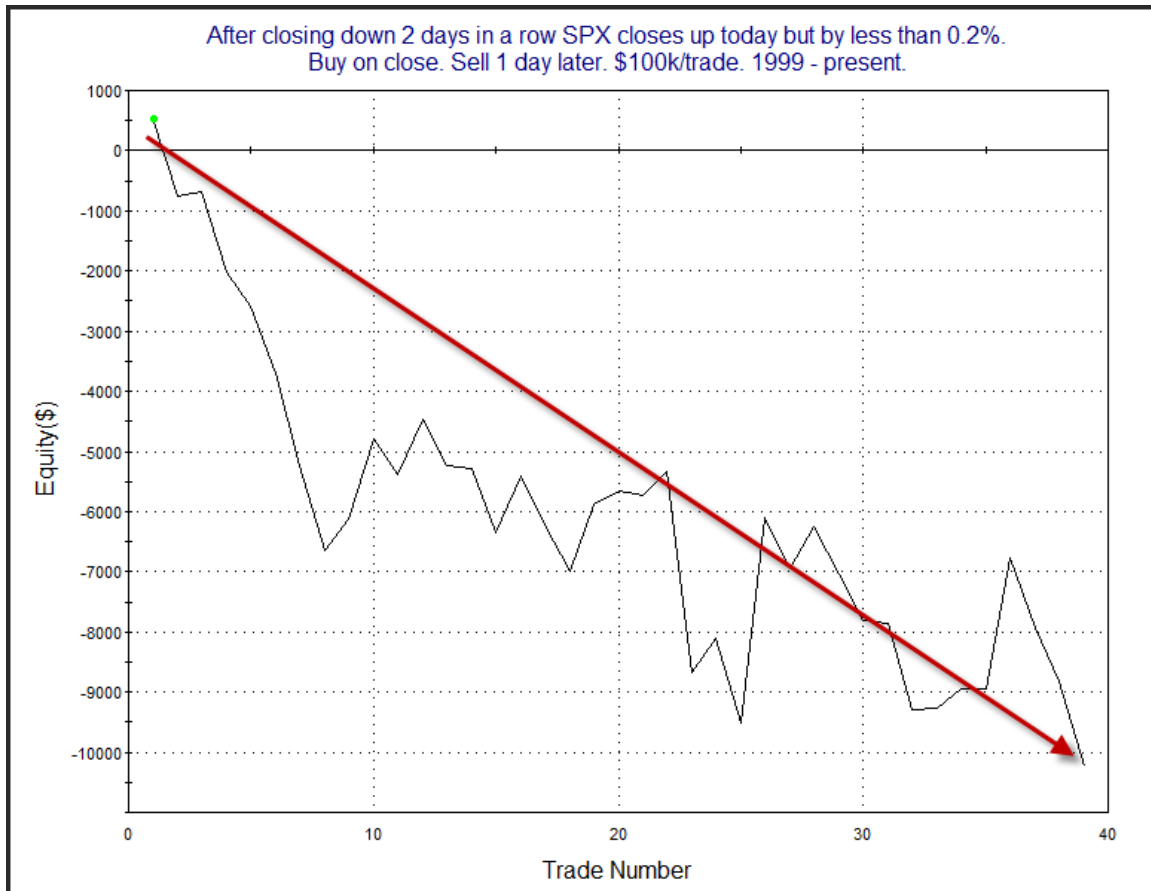
SPX declines for the 3rd day in a row. Today's decline is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	14,463.51	43	20	23	46.51	2,257.88	5,379.66	-1,334.52	-3,579.52	1.69	1.47	336.36
4	11,517.48	43	23	20	53.49	1,813.99	5,553.52	-1,510.21	-4,672.36	1.20	1.38	267.85
3	-3,036.32	43	24	19	55.81	1,445.83	4,047.64	-1,986.11	-6,686.40	0.73	0.92	-70.61
2	7,878.36	43	26	17	60.47	1,382.78	4,123.60	-1,651.40	-4,296.24	0.84	1.28	183.22
1	8,030.47	43	29	14	67.44	817.19	2,286.08	-1,119.15	-2,452.26	0.73	1.51	186.76

Results here are a bit mixed, but at least day one appears to suggest a bit of an upside edge.

Now let's look at times like the present where two down days were followed by an up day, but that up day rose less than 0.2%.

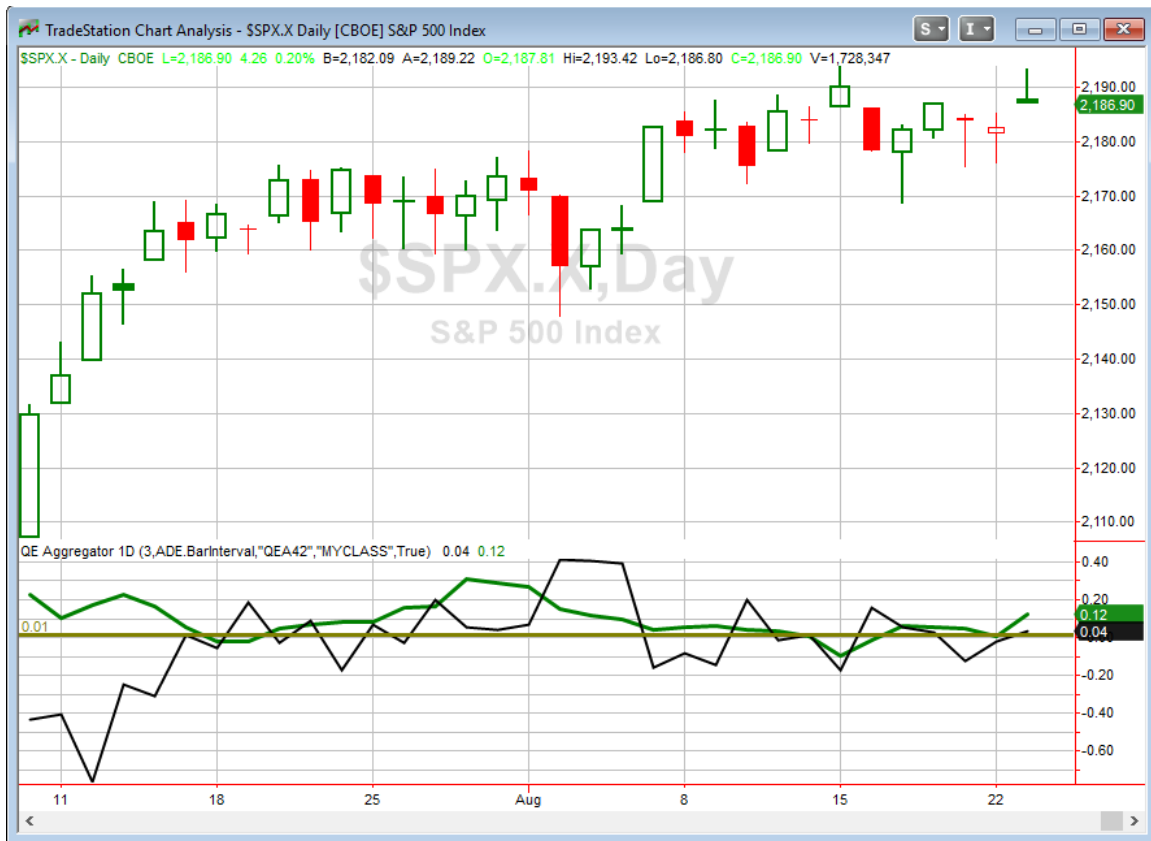
After closing down 2 days in a row SPX closes up today but by less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	9,724.92	39	20	19	51.28	2,173.46	7,590.88	-1,776.01	-5,506.23	1.22	1.29	249.36
4	-10,035.88	39	18	21	46.15	1,633.77	4,662.24	-1,878.27	-7,588.98	0.87	0.75	-257.33
3	-10,845.69	39	16	23	41.03	1,574.71	3,939.79	-1,567.00	-5,685.45	1.00	0.70	-278.09
2	-4,207.49	39	16	23	41.03	1,406.41	4,732.64	-1,161.31	-3,197.70	1.21	0.84	-107.88
1	-10,220.69	39	16	23	41.03	828.81	3,390.64	-1,020.94	-3,325.38	0.81	0.56	-262.07

As you can see, results here suggest a small down day is substantially different than a small up day. While not overwhelming, the edge in this case would appear to be for more downside, most of which is realized on day one. Lastly, I decided to show a profit curve assuming a 1-day holding period.



The curve continues to make new lows and appears to confirm the downside inclination suggested by the numbers.

I have updated the Aggregator chart below.



With tonight's studies included the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line moved just barely above 0. The positive Differential Line reading means SPX is a little 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 Wednesday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2187.63 on Wednesday. That is less than 1 point above Tuesday's close. So it will only take a small move up for SPX to move from oversold to overbought versus expectations.

While 3-day expectations are positive, the 1-day expectations are actually slightly negative. So timing may not be quite right. And with the Differential Pivot so close by there is not much upside potential before the bullish Aggregator signal would expire. So while there may be a small bullish edge over the next few days, I am not inclined to get involved in new positions just yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/22 – 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	\$37.58	52.15%		Aggressive VIX

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

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