

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 25, 2016

Volume 9 Issue 165

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY has closed at a 5-day low for the 1st time in over 2 weeks. This suggests a short-term upside edge.
- The unfilled gap pattern over the last couple of days set up a bearish trigger.

Short-term Outlook

The Bottom Line

Evidence is mixed but leaning bullish. And Wednesday's selloff left the market a bit oversold. There appears to be an 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 25, 2016	1st 6 low in 10 days	1-4 days	Bullish			
August 25, 2016	Unfill up then unfilled down < 2 ago	1-2 days	Bearish			
August 24, 2016	Unfilled gap 20-high, close > open	1-3 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 24, 2016	SPX down 2 days then up < 0.2%	1 day	Bearish			

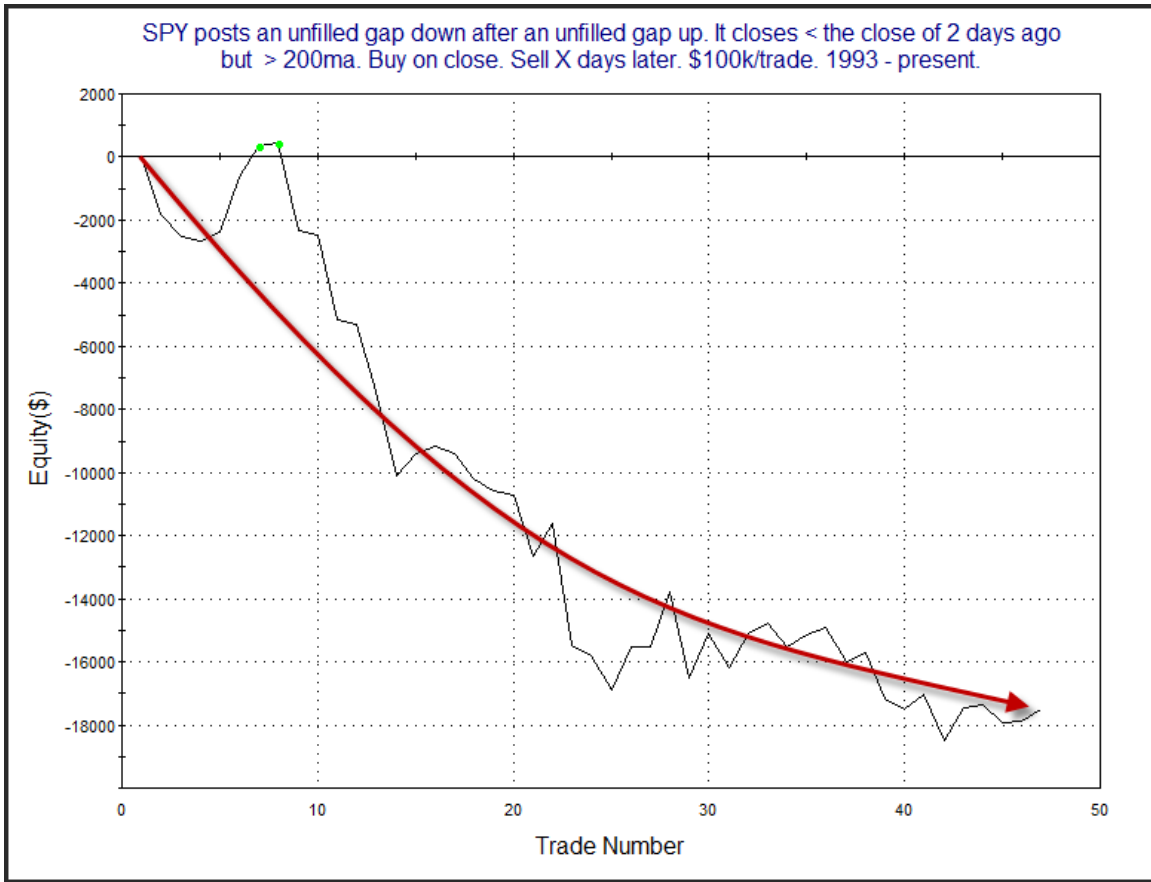
The Evidence

Wednesday was a tough day for the market. The SPX lost 0.5%, the NASDAQ closed down 0.8%, and the Russell 2000 dropped 0.9%. Breadth was negative as the NYSE Up Issues % was 31% and the Up Volume % came in at 22%. NYSE volume rose a little from Tuesday's level.

The study below was last seen recently in the 8/17/16 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	4,386.02	44	22	22	50.00	1,475.12	3,949.59	-1,275.76	-3,791.20	1.16	1.16	99.68
4	5,376.97	45	21	24	46.67	1,567.33	3,637.58	-1,147.37	-4,926.08	1.37	1.20	119.49
3	-18,426.86	47	21	26	44.68	844.24	2,463.47	-1,390.61	-5,321.00	0.61	0.49	-392.06
2	-17,487.00	47	21	25	44.68	667.22	1,754.40	-1,259.95	-3,893.00	0.53	0.44	-372.06
1	-4,581.67	47	20	26	42.55	531.74	1,325.15	-585.25	-1,736.76	0.91	0.70	-97.48

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.



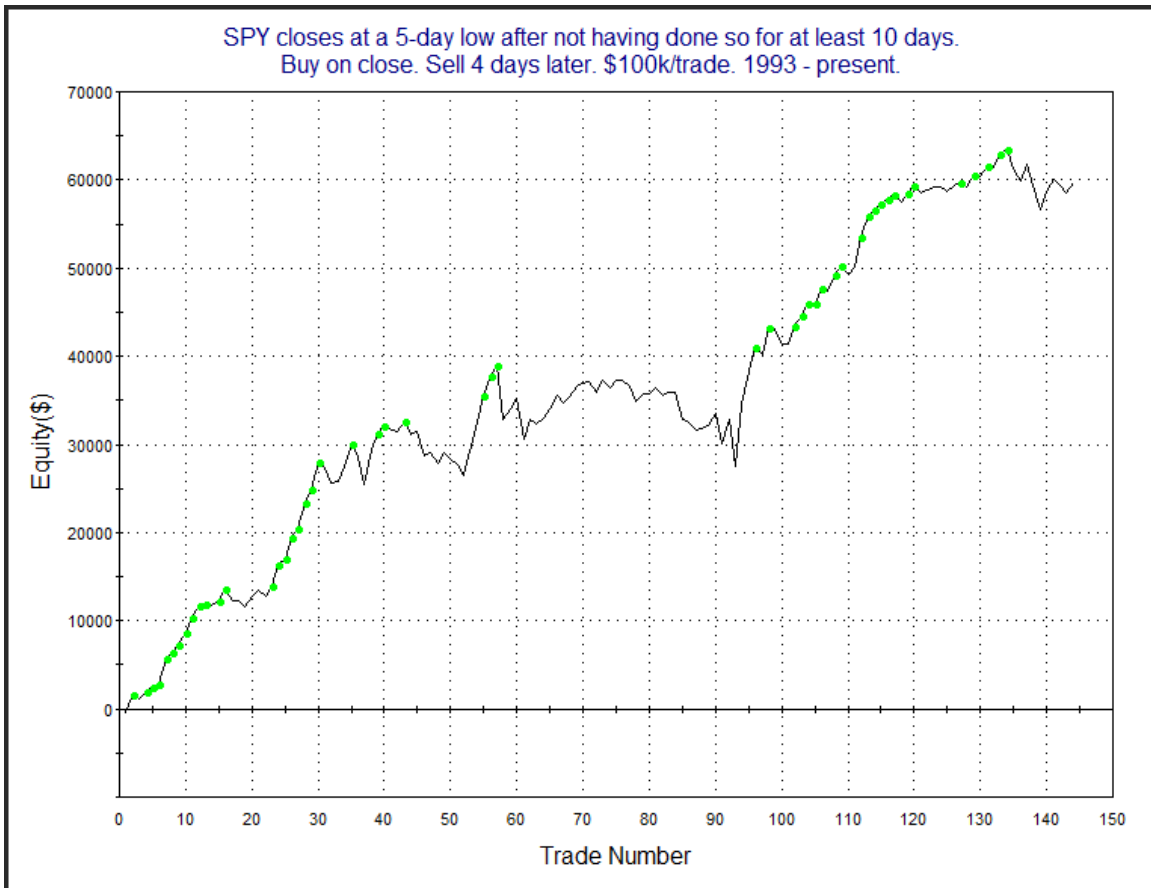
While the curve has been a bit choppy, it still appears to be trending downwards. I believe this study is worth taking into consideration and have included it in the Aggregator.

Wednesday was the 1st time SPY has closed at even a 5-day low since 8/2. In the 4/20/15 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

SPY closes at a 5-day low after not having done so for at least 10 days.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

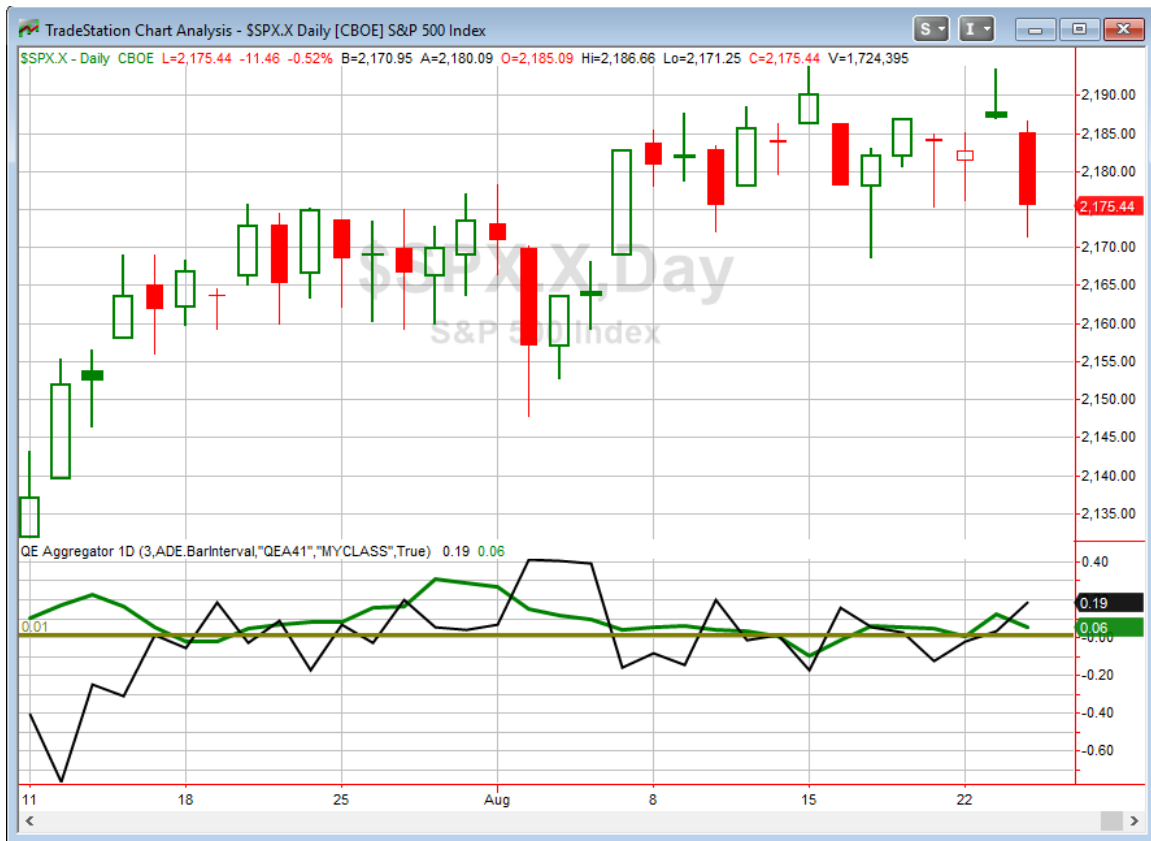
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	43,725.11	144	87	56	60.42	1,494.67	6,103.89	-1,541.28	-4,906.44	0.97	1.51	303.65
4	59,711.01	144	93	51	64.58	1,364.28	6,941.43	-1,317.00	-6,244.56	1.04	1.89	414.66
3	38,255.75	144	86	58	59.72	1,238.75	5,888.16	-1,177.18	-5,295.84	1.05	1.56	265.66
2	23,709.43	144	81	62	56.25	1,025.87	3,809.72	-957.84	-3,737.28	1.07	1.40	164.65
1	16,192.07	144	80	64	55.56	797.41	2,812.20	-743.77	-3,909.03	1.07	1.34	112.44

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit before getting back on track. The lesson with this study seems to be that persistent uptrends normally wither before they die, rather than turn on a dime.

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 a bit further above 0. The positive Differential Line reading means SPX is 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 stayed long at the close.

Based on the current active list, expectations are poised to remain positive on Thursday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2185.08 on Thursday. That is 0.4% above Wednesday's close. So SPX will need to close up at least 0.4% in order to move from oversold to overbought on Thursday's close.

There seems to be a bit of an upside edge. But with mixed evidence the expectations are quite mild. So I am not going to jump in with both feet right away. I would like to take advantage of the apparent upside edge, though. There was one Catapult that triggered. And in addition to that I will look to take on some index exposure if SPX closes down again on Thursday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/22 – bullish

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

ABT – @ \$43.17 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 1 (ABT)

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.

ABT – buy 1/3 Catapult position at \$43.17 limit. This is a Catapult trade idea from the Catapult & CBI section above. This is the 1st of 3 possible lots for ABT.

SPY – buy 1/4 index position @ \$217.85 LIMIT ON CLOSE. Based on the short-term section above I will look to start a long index position if SPY closes down again on Thursday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$36.77	48.87%		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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