

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 26, 2016

Volume 9 Issue 166

Market Overview



Signals Overview

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

Tonight's Research Points

- The mild action on Thursday did not help to trigger new compelling studies.

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

Thursday was another quiet August day. The SPX finished down 0.1%, the NASDAQ lost 0.1%, and the Russell 2000 gained 0.2%. Breadth was positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 57%. NYSE volume declined from Wednesday's level and was summer-light.

There were no studies that emerged with strongly compelling evidence, but there was one that is worth discussion. It was last seen in the 3/27/15 letter. It looked at other instances where the SPY gapped down from a 5-day low and just partially recovered. This left it closing above the open but still down on the day. Interestingly, the partial recovery has negatively impacted the stats over the next several days. Below is an updated stats table for this study.

| Yesterday SPY closed at a 5-day low. Today it gapped down and closed above the open but below yesterday's close. 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 | 6,408.11 | 41 | 24 | 17 | 58.54 | 1,509.39 | 4,974.97 | -1,753.95 | -7,150.25 | 0.86 | 1.21 | 156.30 |
| 4 | 5,006.00 | 41 | 24 | 17 | 58.54 | 1,349.12 | 4,017.00 | -1,610.17 | -7,011.11 | 0.84 | 1.18 | 122.10 |
| 3 | 10,334.64 | 41 | 28 | 13 | 68.29 | 1,001.66 | 3,227.25 | -1,362.44 | -2,700.72 | 0.74 | 1.58 | 252.06 |
| 2 | 10,393.79 | 41 | 28 | 13 | 68.29 | 1,055.54 | 2,944.50 | -1,473.94 | -4,759.36 | 0.72 | 1.54 | 253.51 |
| 1 | -46.47 | 44 | 26 | 18 | 59.09 | 715.99 | 2,920.00 | -1,036.80 | -3,321.28 | 0.69 | 1.00 | -1.06 |

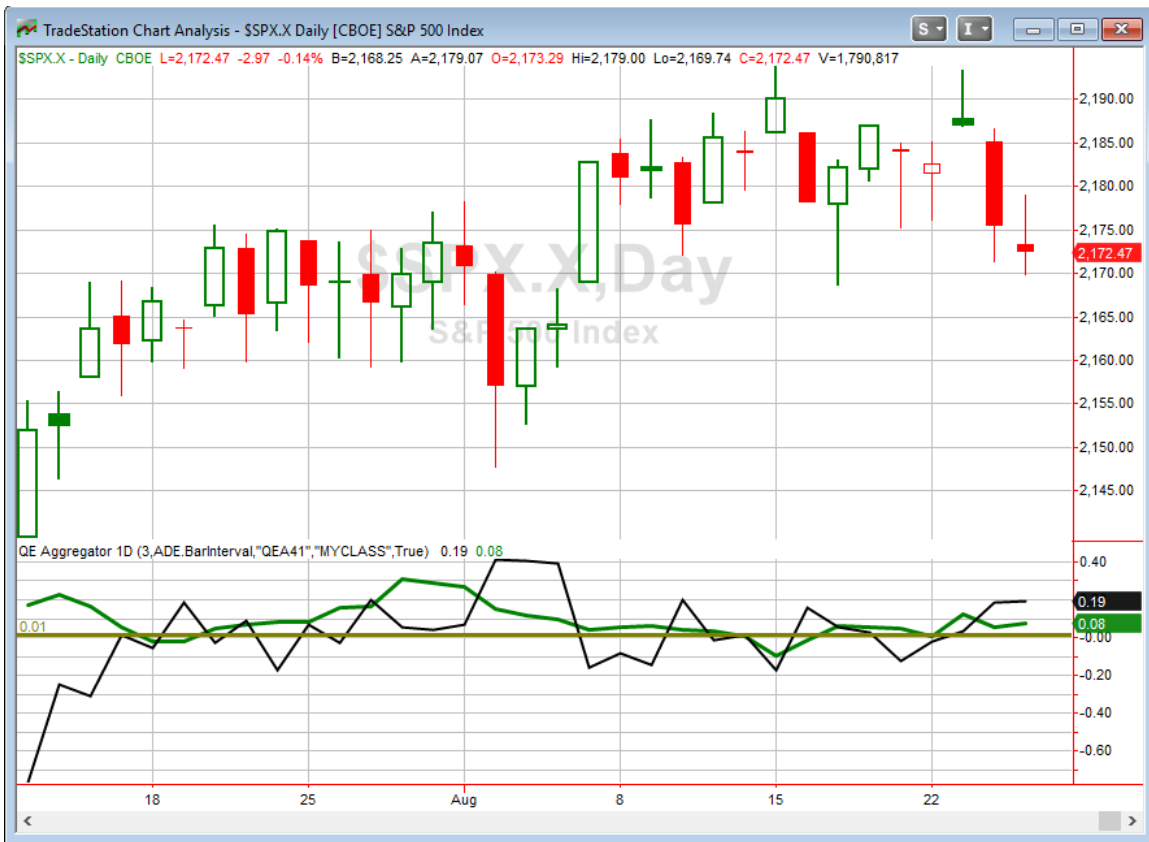
Any edge here is quite small. But now let's look at times that SPY gapped down and closed below the open.

Yesterday SPY closed at a 5-day low. Today it gapped down and closed below the open.
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 | 101,978.35 | 102 | 74 | 27 | 72.55 | 1,751.44 | 8,239.74 | -1,023.26 | -4,103.46 | 1.71 | 4.69 | 999.79 |
| 4 | 83,438.66 | 105 | 74 | 31 | 70.48 | 1,655.04 | 5,581.02 | -1,259.18 | -3,522.36 | 1.31 | 3.14 | 794.65 |
| 3 | 83,466.02 | 107 | 73 | 33 | 68.22 | 1,599.47 | 4,348.05 | -1,008.94 | -3,620.70 | 1.59 | 3.51 | 780.06 |
| 2 | 68,309.00 | 110 | 76 | 34 | 69.09 | 1,212.36 | 5,477.88 | -700.90 | -2,561.20 | 1.73 | 3.87 | 620.99 |
| 1 | 47,299.17 | 118 | 82 | 36 | 69.49 | 871.01 | 5,764.38 | -670.09 | -3,772.68 | 1.30 | 2.96 | 400.84 |

Numbers here are much better and would suggest a decent upside edge. Unfortunately, the partial recovery on Wednesday meant the market setup matched the first scenario, and suggested no strong edge.

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 Friday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2190.76 on Friday. That is 0.8% above Thursday's close. So SPX will need to close up at least 0.8% in order to move from oversold to overbought on Friday's close.

Evidence is not any more compelling than it was last night. In fact, the 1-day expectations are slightly negative, so you could make a case that the overall expectations are not as bullish. But there is now a substantial amount of room before the market will turn from oversold to overbought. So that does improve reward/risk potential. I took some long index exposure at the close on Thursday. With Friday looking a little sketchy, I will not add to that position just yet. But there were a few more Catapults that triggered that I will look to take.

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 (bought 1/3 @ limit)

New

ABT – @ \$42.84 (buy 1/3 @ limit)

FOXA – @ \$24.57 (buy 1/3 @ limit)

GOOGL – @ \$791.30 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 4 (ABT-2, FOXA, GOOGL)

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 \$42.84 limit. This is a Catapult trade idea from the Catapult & CBI section above. This is the 2nd of 3 possible lots for ABT.

FOXA – buy 1/3 Catapult position at \$24.57 limit. This is a Catapult trade idea from the Catapult & CBI section above. This is the 1st of 3 possible lots for FOXA.

GOOGL – buy 1/3 Catapult position at \$791.30 limit. This is a Catapult trade idea from the Catapult & CBI section above. This is the 1st of 3 possible lots for GOOGL.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------------------|
| XIV(1/2) | 6/14/2016 | \$24.70 | \$36.62 | 48.26% | | Aggressive VIX |
| SPY(1/4) | 8/25/2016 | \$217.70 | \$217.70 | 0.00% | | <i>bought on close</i> |
| ABT(1/3) | 8/25/2016 | \$43.17 | \$42.84 | -0.76% | | Catapult |

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

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