

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 31, 2016

Volume 9 Issue 169

Market Overview



Signals Overview

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

Tonight's Research Points

- Whether Wednesday closes in the upper or lower part of its daily range will have a sizable impact on the odds for Thursday.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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 30, 2016	Volume 20-day low. SPX up 0.5% > 10ma	1-3 days	Bearish	-1.65%	0.60%	1.20%
August 25, 2016	1st 6 low in 10 days	1-4 days	Bullish			
Active - Long Term						
July 11, 2016	NASDAQ leading	int term	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	290% 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 26, 2016	Dn 3 > 200. Not from 20-day low.	1 day	Bullish			

The Evidence

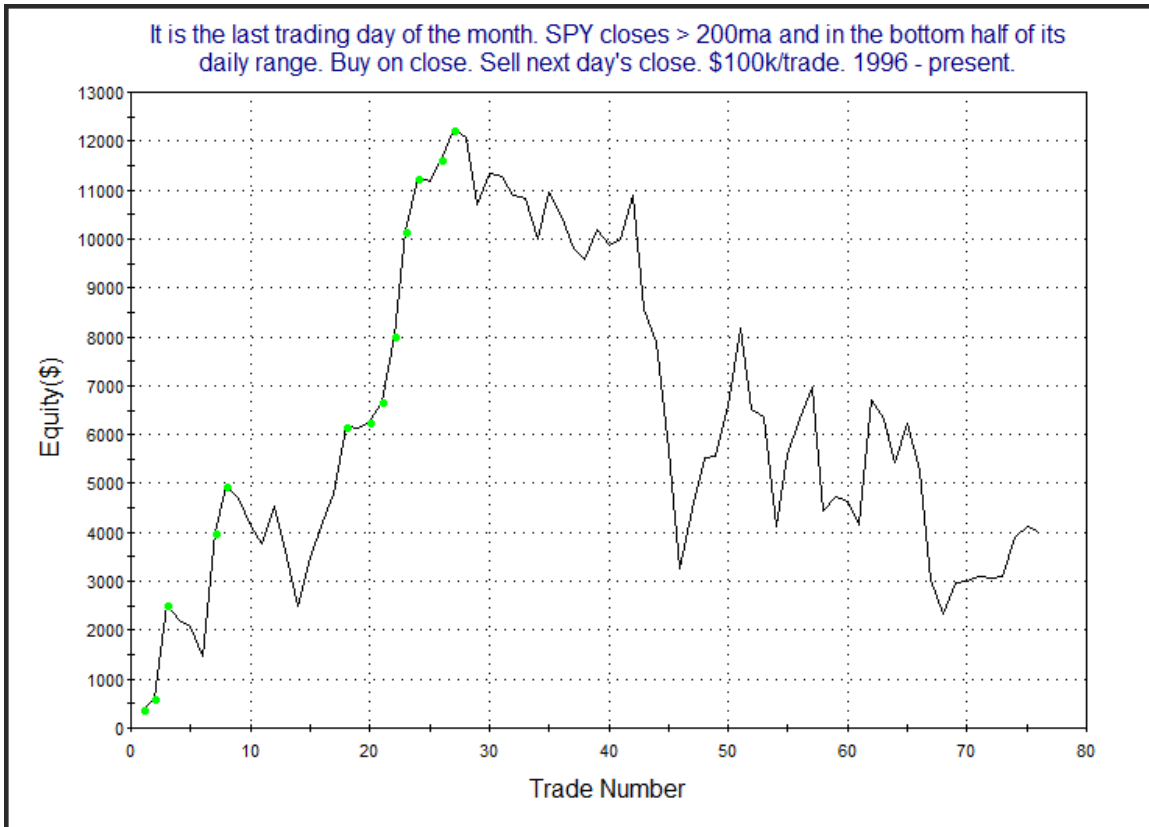
Tuesday was mostly lower. The SPX and NASDAQ each lost 0.2% and the Russell 2000 rose 0.1%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 47%. NYSE volume rose some from Monday's extremely low level.

The back and forth action over the last few days is failing to generate strong new evidence. But Wednesday is the last trading day of August. And turn of the month always brings about some interesting studies. The set of studies below is from the 9/2/14 letter. It looked at all 1st days of the month that occurred during long-term uptrends (above the 200ma). They were broken down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the top half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its daily range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$4,030.08	Profit Factor	1.14	
Gross Profit	\$33,009.15	Gross Loss	(\$28,979.07)	
Total Number of Trades	76	Percent Profitable	51.32%	
Winning Trades	39	Losing Trades	37	
Even Trades	0			
Avg. Trade Net Profit	\$53.03	Ratio Avg. Win:Avg. Loss	1.08	
Avg. Winning Trade	\$846.39	Avg. Losing Trade	(\$783.22)	
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)	

The numbers here do not suggest much of an edge. Here is a look at the profit curve.

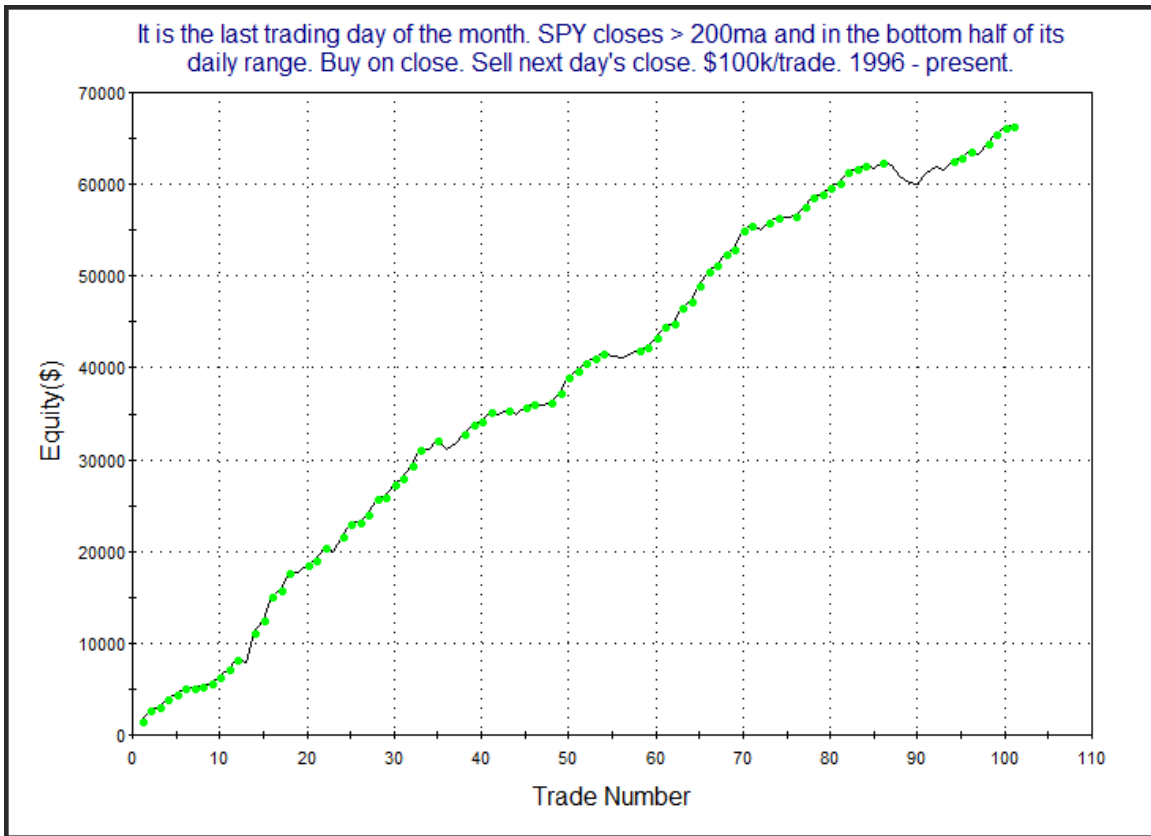


The curve is even worse than the stats. It topped out in 2004, and since then there has been a bit of a downside inclination when the market posted a strong close like this. Now let's look at times that SPY has closed in the bottom half of the daily range.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its daily range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

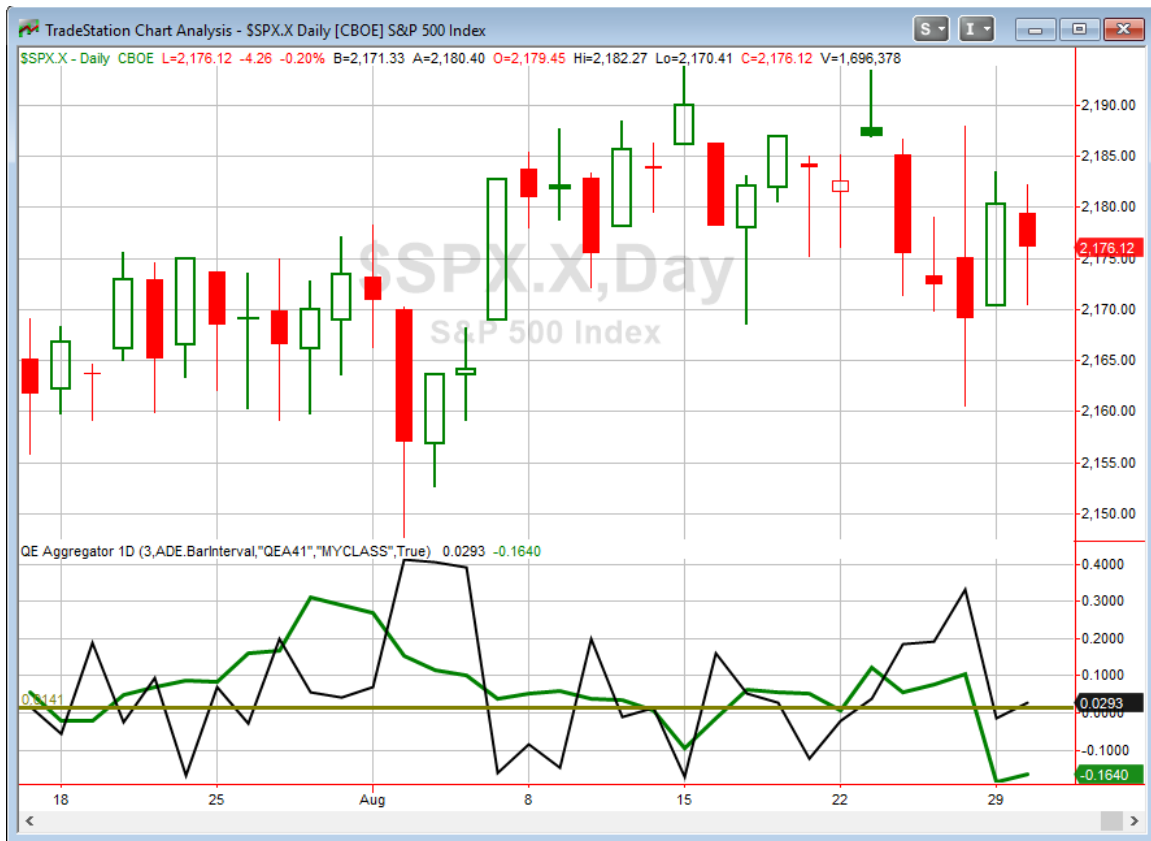
TradeStation Performance Summary			
All Trades			
Total Net Profit	\$66,346.95	Profit Factor	10.25
Gross Profit	\$73,521.56	Gross Loss	(\$7,174.61)
Total Number of Trades	101	Percent Profitable	81.19%
Winning Trades	82	Losing Trades	19
Even Trades	0		
Avg. Trade Net Profit	\$656.90	Ratio Avg. Win:Avg. Loss	2.37
Avg. Winning Trade	\$896.60	Avg. Losing Trade	(\$377.61)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are phenomenal. Gains absolutely blow away losses. Gross gains are over 10x the size of gross losses. That's an incredible stat when you are looking at a sample size of over 100 instances. And here is a profit curve.



You won't see a curve much better than this one. This appears well worth consideration as Wednesday plays out.

I have updated the Aggregator chart below.



Without any new studies for Wednesday 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 also inched back 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 changed from short to flat at the close.

Based on the current active list, expectations are poised to remain negative on Wednesday. Of course this could change if compelling new bullish evidence emerges. The Differential Pivot will be *inverted* at 2178.03 on Tuesday. That is 0.1% below Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 is SPX closes flat. In this case SPX will need to close down at least 0.1% in order to remain oversold. Anything less than that and it will turn overbought as of Wednesday's close.

The quiet market is not showing much in the way of an edge. I have closed out my index exposure. I do not intend to add any more until a more favorable opportunity arises.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

ABT – @ \$43.17 (bought 1/3 @ limit)

ABT – @ \$42.84 (bought 1/3 @ limit)

FOXA – @ \$24.57 (bought 1/3 @ limit)

FOXA – @ \$24.57 (bought 1/3 @ limit) – not filled yet

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

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.

FOXA – buy 1/3 Catapult position at \$24.54 LIMIT ON CLOSE. This is a Catapult trade idea from the Catapult & CBI section above. This is the 2nd of 3 possible lots for FOXA. It was not filled on Monday or Tuesday. I will try again if it closes <= the entry trigger on Wednesday.

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%	\$35.00	Aggressive VIX
SPY(1/4)	8/25/2016	\$217.70	\$218.26	0.26%		<i>sold on open</i>
ABT(1/3)	8/25/2016	\$43.17	\$42.83	-0.79%		Catapult
ABT(1/3)	8/26/2016	\$42.84	\$42.83	-0.02%		Catapult
GOOGL(1/3)	8/26/2016	\$791.30	\$793.66	0.30%		<i>sold on open</i>
FOXA(1/3)	8/26/2016	\$24.57	\$24.55	-0.08%		Catapult

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