

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 1, 2016

Volume 9 Issue 170

Market Overview



Signals Overview

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

Tonight's Research Points

- Closing below the 10-day moving average on the last day of the month has typically meant a boost for the next day.

Short-term Outlook

The Bottom Line

The market could be set for a beginning of month rally on Thursday. Beyond that my studies are not providing much visibility.

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						
September 1, 2016	Last day of month < 10ma > 200ma	1 day	Bullish			
August 30, 2016	Volume 20-day low. SPX up 0.5% > 10ma	1-3 days	Bearish	-1.65%	0.60%	1.20%
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	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			

The Evidence

Despite an afternoon rally the market could not claw all the way back from morning losses. The SPX and NASDAQ each lost 0.2% and the Russell 2000 fell 0.5%. Breadth was negative as the NYSE Up Issues % was 37% and the Up Volume % came in at 32%. NYSE volume rose some from the levels of the last few days.

In last night's letter I showed that the first day of the month has done very well during uptrends when SPY closed weakly the day before. But it did not do nearly as well following a strong close. Unfortunately, SPY closed in the upper part of its daily range, qualifying it for the results below.

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

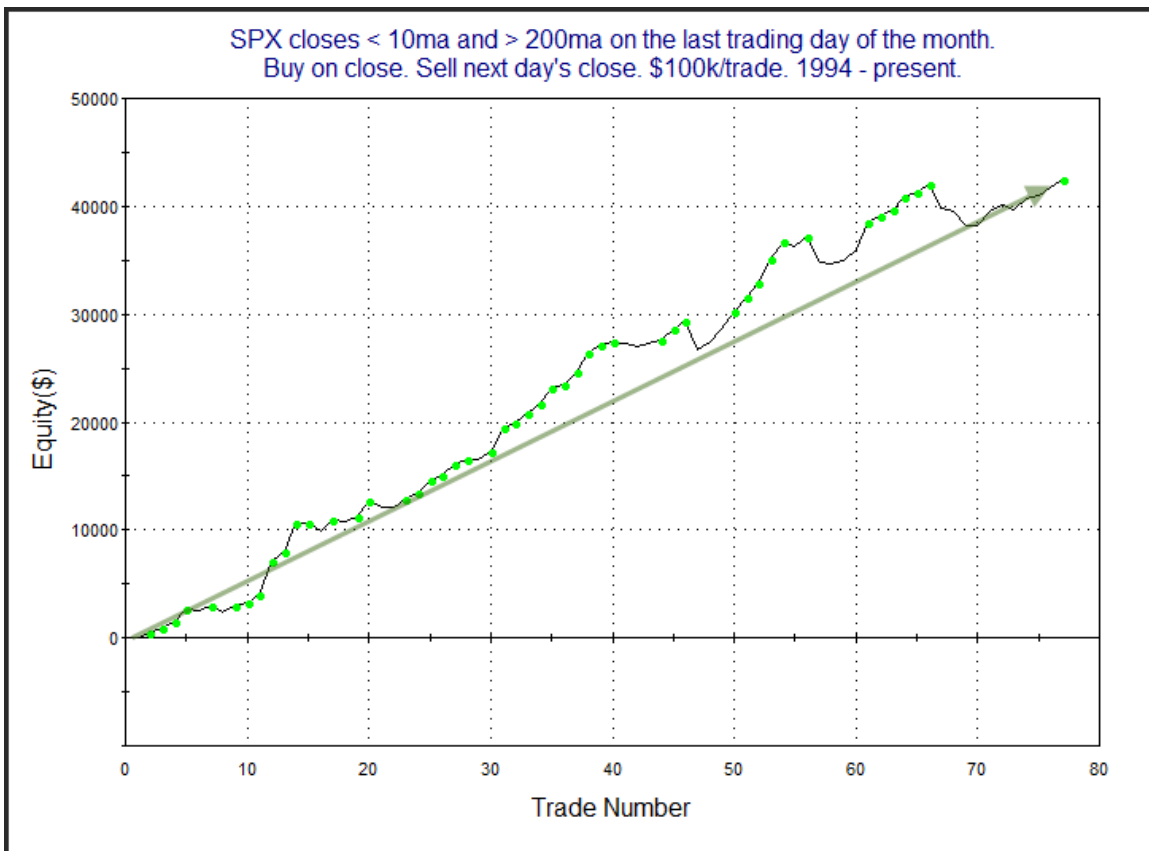
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$4,030.08	Profit Factor	1.14	
Gross Profit	\$33,009.15	Gross Loss	(\$28,979.07)	
Total Number of Trades	76	Percent Profitable	51.32%	
Winning Trades	39	Losing Trades	37	
Even Trades	0			
Avg. Trade Net Profit	\$53.03	Ratio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

But the good news is that it closed below the 10ma and above the 200ma. And that is something I have shown to be a positive in the past. Below is an updated study from the 4/1/15 letter.

SPX closes < 10ma and > 200ma on the last trading day of the month.
Buy on close. Sell X days later. \$100k/trade. 1994 - present.

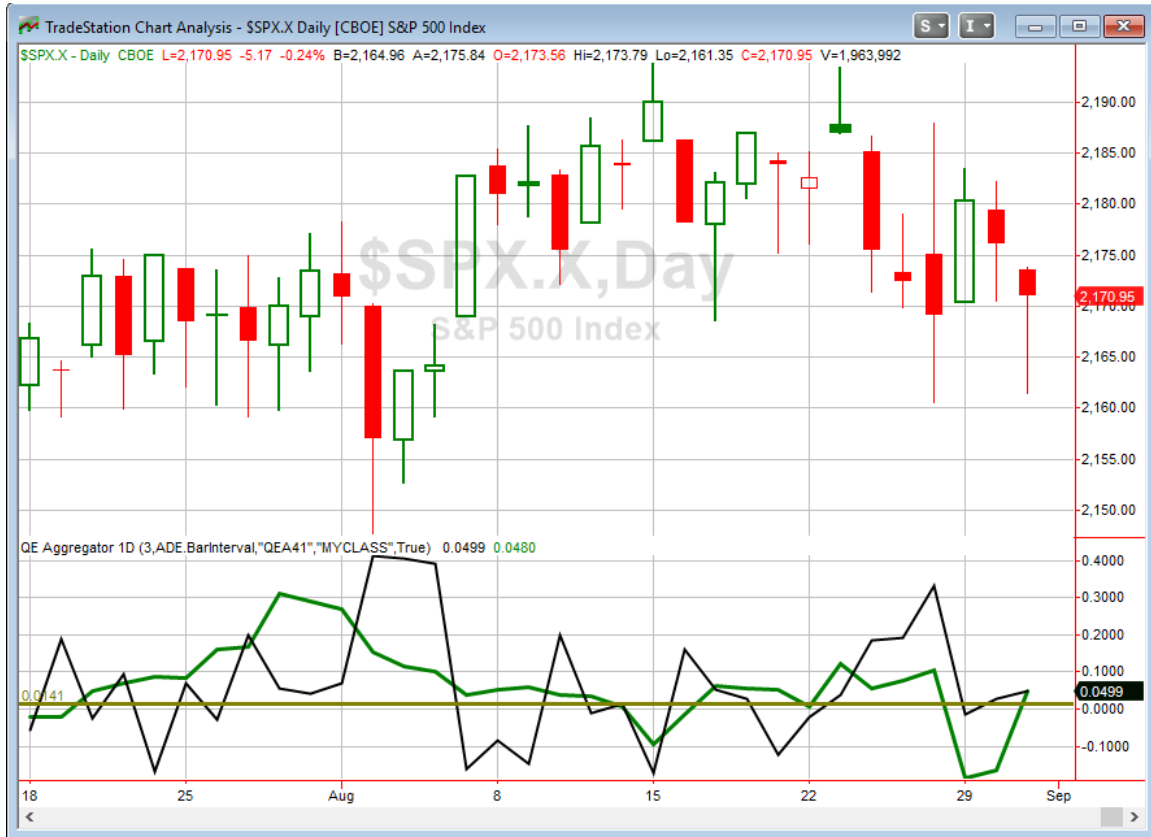
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	71,603.61	77	58	19	75.32	1,786.84	4,435.97	-1,685.94	-7,153.30	1.06	3.24	929.92
4	66,502.97	77	56	21	72.73	1,651.03	3,838.00	-1,235.94	-7,100.17	1.34	3.56	863.67
3	45,852.55	77	51	26	66.23	1,540.48	3,709.44	-1,258.15	-3,492.36	1.22	2.40	595.49
2	41,065.46	77	56	21	72.73	1,185.72	3,442.32	-1,206.43	-4,320.06	0.98	2.62	533.32
1	42,446.68	77	58	19	75.32	948.67	3,119.10	-661.91	-2,559.62	1.43	4.38	551.26

Stats here appear bullish, with a big chunk of the gains occurring day 1. Below is a look at the profit curve assuming a 1-day hold.



That is a nice strong upslope and it is again hitting new highs, confirming the bullish inclination. I did examine times that this occurred while SPX closed strong during this period. There was a potential negative impact on the results, but it was not strong nor consistent enough to concern me greatly. I have included this study on the Active List tonight.

I have updated the Aggregator chart below.



With Thursday being the 1st of the month the green Aggregator Line inched above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held a little 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 changed from flat to long at the close.

Based on the current active list, expectations are poised to remain positive on Thursday. But with both short-term studies expiring, any new studies would have a significant influence. The Differential Pivot will be 2180.30 on Thursday. That is 0.4% above Wednesday's close. So for SPX to move from oversold to overbought versus expectations on Thursday it will need to close up at least 0.4%.

There appears to be a moderate upside edge. Not so big that I am terribly excited by it, but big enough that I think it is worth taking on some index exposure. If things go right with

this one, it may only be a 1-day trade. Both the oversold condition and the bullish expectations appear somewhat tenuous. But if I can get a decent fill, I will take on some SPY on Thursday. More conservative traders could give it another day to see if more compelling evidence emerges.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 8/29 – bullish***

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 – @ \$24.54 (bought 1/3 @ limit)

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.

SPY – buy ¼ index position @ \$217.38 limit on close. Based on the short-term outlook above, I will look to take on some long exposure in SPY.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$37.44	51.58%	\$35.00	Aggressive VIX
ABT(1/3)	8/25/2016	\$43.17	\$42.02	-2.66%		Catapult
ABT(1/3)	8/26/2016	\$42.84	\$42.02	-1.91%		Catapult
FOXA(1/3)	8/26/2016	\$24.57	\$24.54	-0.12%		Catapult
FOXA(1/3)	8/31/2016	\$24.54	\$24.54	0.00%		Catapult

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