

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 2, 2016

Volume 9 Issue 171

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The 3-day pullback is suggesting a mild upside edge..

## *Short-term Outlook*

### *The Bottom Line*

There appears to be just a mild upside edge.

**Summary of Recent Active Studies (see Letters from listed dates for details) – not updated tonight**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
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%
<b>Active - Long Term</b>						
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			

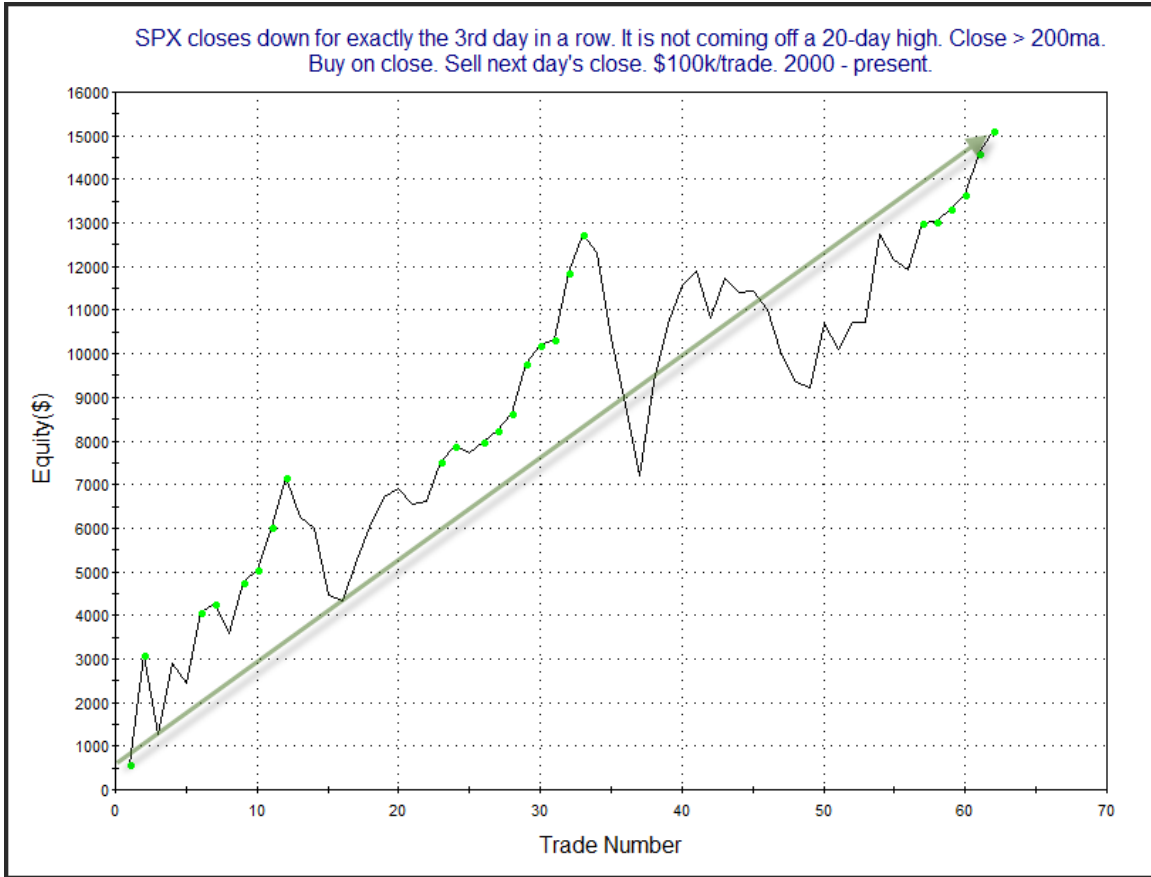
**The Evidence**

The market finished mostly unchanged on Thursday. The SPX and Russell barely budged while the NASDAQ rose 0.3%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 45%. NYSE volume fell some from Wednesday’s level.

There were a number of studies that triggered in the Quantifinder related to 3-day pullbacks. In general, 3-day pullbacks will often suggest an upside edge. There tend to be certain circumstances where such pullbacks provide a strong edge than others. If the market is in a long-term uptrend that is a positive. Other things that can impact the edge are if it is coming off a long-term high, or how volatile the pullback is. I ran several studies and they all suggested a similar edge based on the current situation. That is that there is likely a 1-day edge, but not much more than that. The study below is from the just a few days ago in the 8/29/16 letter. It does a good job of defining the current setup.

SPX closes down for exactly the 3rd day in a row. It is not coming off a 20-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	24,772.07	58	32	26	55.17	1,657.18	5,555.16	-1,086.84	-3,385.80	1.52	1.88	427.10
4	23,924.13	62	37	25	59.68	1,468.04	5,290.00	-1,215.73	-3,863.84	1.21	1.79	385.87
3	24,300.17	62	37	25	59.68	1,377.09	4,895.50	-1,066.09	-4,464.88	1.29	1.91	391.94
2	12,438.13	62	35	27	56.45	1,125.56	4,424.50	-998.38	-7,559.56	1.13	1.46	200.61
1	15,134.79	62	40	22	64.52	798.56	2,503.90	-763.99	-1,953.32	1.05	1.90	244.11

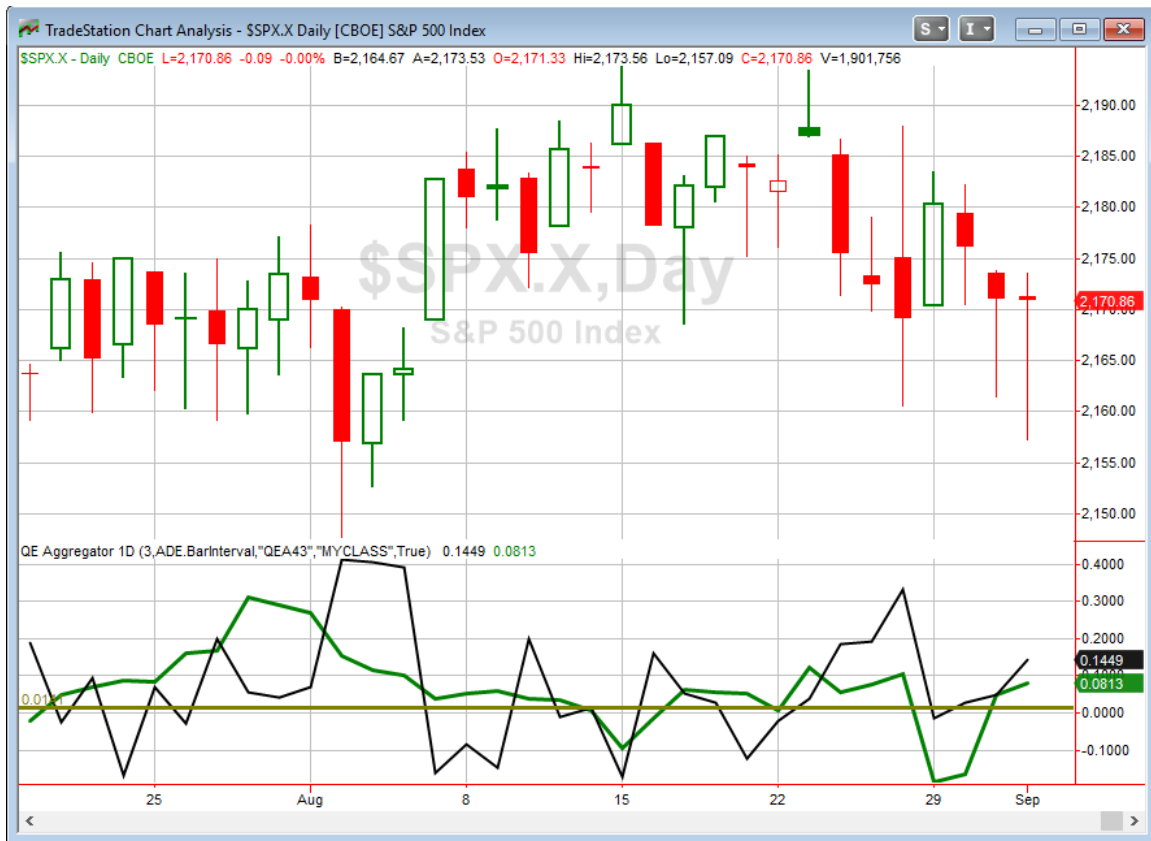
The pullback suggests a bounce, but most of the bounce is realized on day one. Below is a profit curve assuming a 1-day holding period.



The move from lower left to upper right serves as some confirmation of the edge suggested by the numbers.

There was a Quantifinder study that showed the Friday before Labor has typically been bullish. But that has not played out well in recent years, so I decided to leave it off the Active List tonight. One other consideration for Friday is that the employment report will be released. This could cause a sharp move in either direction as traders absorb the news.

I have updated the Aggregator chart below.



With tonight's 3-day pullback study included the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also 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. But with both short-term studies expiring, any new studies would have a significant influence. The Differential Pivot will be *slightly inverted* at 2170.83 on Friday. That is 0.03 points below Thursday's close. An inverted pivot means that a flat close would see the Differential Line cross through zero. In this case any up day will turn SPX overbought, while almost any down day will leave it oversold.

Expectations could go either way on Friday. And I am generally not a big fan of taking on new exposure with an inverted pivot. That is because inverted pivots negatively impact the reward/risk ratio for a trade. I just missed getting filled on last night's SPY trade idea. I won't chase it on Friday. Instead I will wait to see how things unfold on Friday before considering a new index position.

*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.*

**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	\$37.59	52.19%	\$35.00	Aggressive VIX
ABT(1/3)	8/25/2016	\$43.17	\$42.30	-2.02%		Catapult
ABT(1/3)	8/26/2016	\$42.84	\$42.30	-1.26%		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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