

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 12, 2016

Volume 9 Issue 176

Market Overview



Signals Overview

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

Tonight's Research Points

- Very strong selling that put the SPX at a 20-day low while $> 200ma$ suggests an upside edge.
- Strong moves down on Fridays have led to reliable bounces over the next several days.
- The stretched VIX is suggesting a bounce.
- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.
- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.

Short-term Outlook

The Bottom Line

Friday's big selloff turned the SPX strongly oversold for the short-term. It also generated a large number of bullish studies. There now appears to be a solid upside edge for the bulls.

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 12, 2016	System 110524	1-7 days	Bullish			
September 12, 2016	Drop 1.5x 20-day ATR on a Friday	1-6 days	Bullish			
September 12, 2016	VIX crosses 25% above 10ma	1-2 days	Bullish			
September 12, 2016	Unfill Gap Dn. 3 down. 10-low > 200ma	1-2 days	Bullish			
September 12, 2016	2 unfilled dn gaps, 5-low > 200ma.	1-6 days	Bullish			
Active - Long Term						
September 12, 2016	2 unfilled dn gaps, 5-low > 200ma.	1-10 days	Bullish			
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

Friday saw a massive move lower. In fact, the “true range” for SPY on Friday exceeded the entire range between 7/14 and 9/8. True range takes into account the gap from the previous day’s close for the range. The SPX lost 2.5%, the NASDAQ fell 2.5% and the Russell 200 dropped 3.1%. Breadth was extremely negative as the NYSE Up Issues % was 6% and the Up Volume % came in at 3%. NYSE volume hit the highest level in weeks.

The extreme selling triggered a number of studies. They were all bullish, and suggested the selling could be an overreaction. I have featured the most interesting and compelling ones below.

The 1st 3 studies were all last seen in the 6/27/16 letter when the Brexit selloff occurred. This first one examined large losses that closed at intermediate-term lows. I have updated that study below.

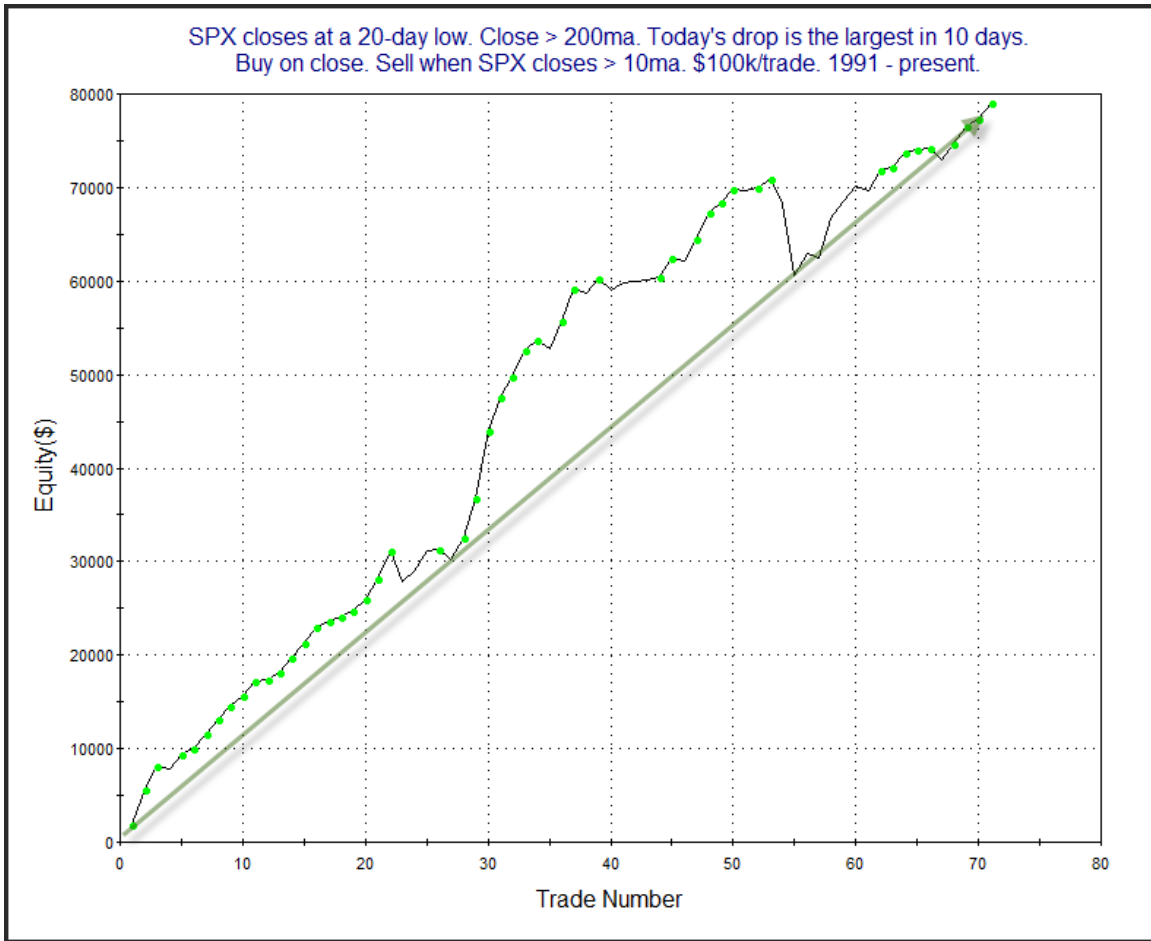
SPX closes at a 20-day low. Close > 200ma. Today's drop is the largest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	69,572.56	69	48	21	69.57	2,502.82	5,953.20	-2,407.76	-13,993.88	1.04	2.38	1,008.30
9	85,842.44	70	52	18	74.29	2,318.16	5,761.56	-1,927.89	-10,059.36	1.20	3.47	1,226.32
8	73,572.67	71	50	21	70.42	2,376.30	6,960.84	-2,154.40	-14,092.68	1.10	2.63	1,036.23
7	87,415.43	72	53	19	73.61	2,266.14	7,500.06	-1,720.52	-8,018.76	1.32	3.67	1,214.10
6	81,745.29	74	54	20	72.97	2,211.17	7,272.06	-1,882.90	-7,966.32	1.17	3.17	1,104.67
5	71,213.85	74	45	29	60.81	2,297.02	7,070.28	-1,108.68	-3,385.80	2.07	3.21	962.35
4	47,379.12	76	48	28	63.16	1,806.47	4,731.13	-1,404.70	-3,863.84	1.29	2.20	623.41
3	40,054.39	76	51	25	67.11	1,409.91	4,277.94	-1,274.05	-5,331.20	1.11	2.26	527.03
2	39,251.28	77	51	26	66.23	1,232.13	4,809.66	-907.20	-3,863.25	1.36	2.66	509.76
1	13,245.95	79	49	30	62.03	707.97	5,117.46	-714.82	-2,162.04	0.99	1.62	167.67

Results here are quite bullish. Some subscribers may recognize the setup as numbered-system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

SPX closes at a 20-day low. Close > 200ma. Today's drop is the largest in 10 days.
Buy on close. Sell when SPX closes > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$79,049.03	Profit Factor	4.83
Gross Profit	\$99,663.51	Gross Loss	(\$20,614.48)
Total Number of Trades	71	Percent Profitable	81.69%
Winning Trades	58	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	\$1,113.37	Ratio Avg. Win:Avg. Loss	1.08
Avg. Winning Trade	\$1,718.34	Avg. Losing Trade	(\$1,585.73)
Largest Winning Trade	\$7,070.28	Largest Losing Trade	(\$7,630.40)

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. Below is a profit curve where it can be seen.



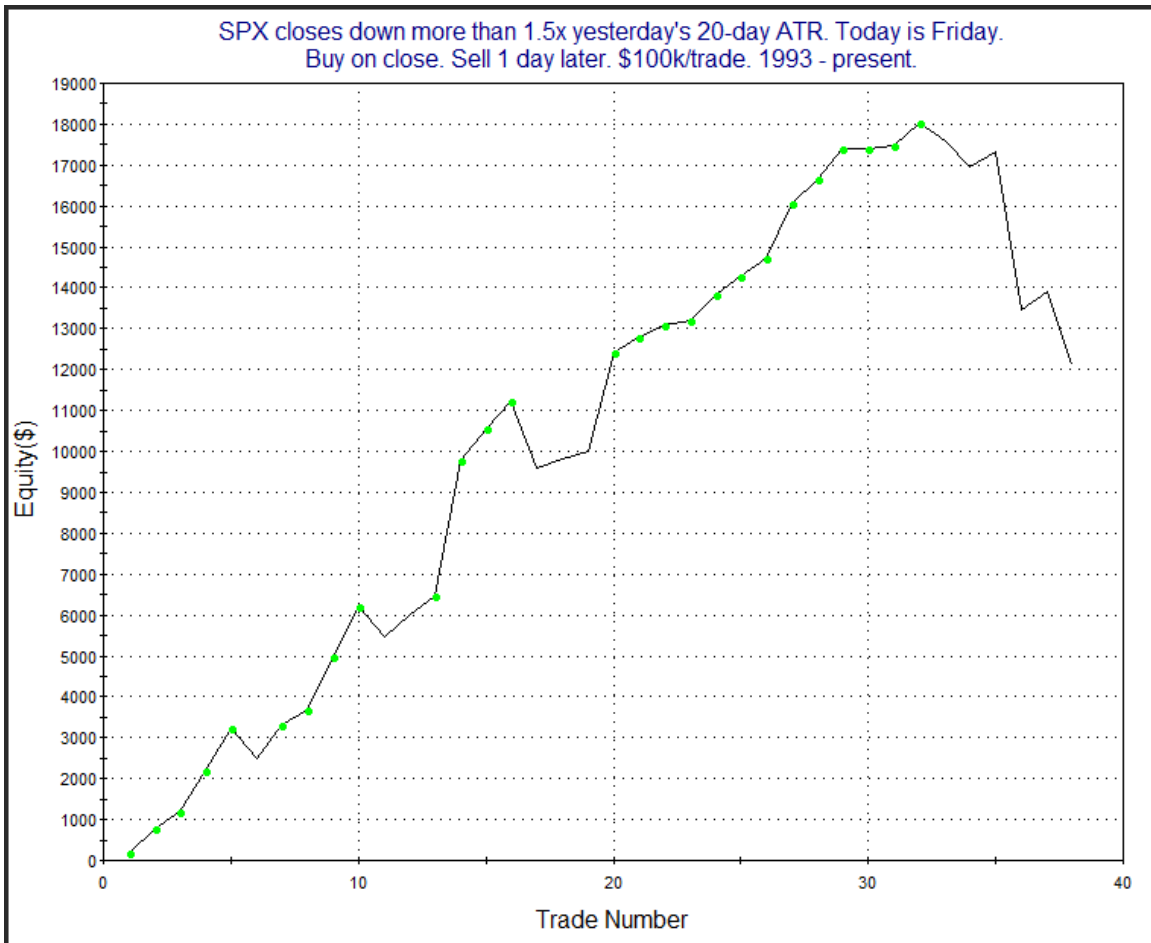
The big drop was made up for fairly quickly and the upward slope appears to be back in place.

Another very compelling study that appeared in the Quantifinder examined large drops on Fridays. Both the Crash of '29 and the Crash of '87 happened on Monday. The Crash of '87 is still remembered by some traders that are active today. There was a strong selloff on Friday and then all hell broke loose on Monday. But since then strong Friday selloffs have commonly been followed by bounces on Mondays. Perhaps this is due to the fact that fear of a crash causes what might otherwise be an ordinary selloff to become exaggerated and overdone on Fridays. Or perhaps it is just that people don't want to hold over the weekend. Whatever the reason, the tendency to bounce has been very strong. The study below is also from the 6/27/16 letter.

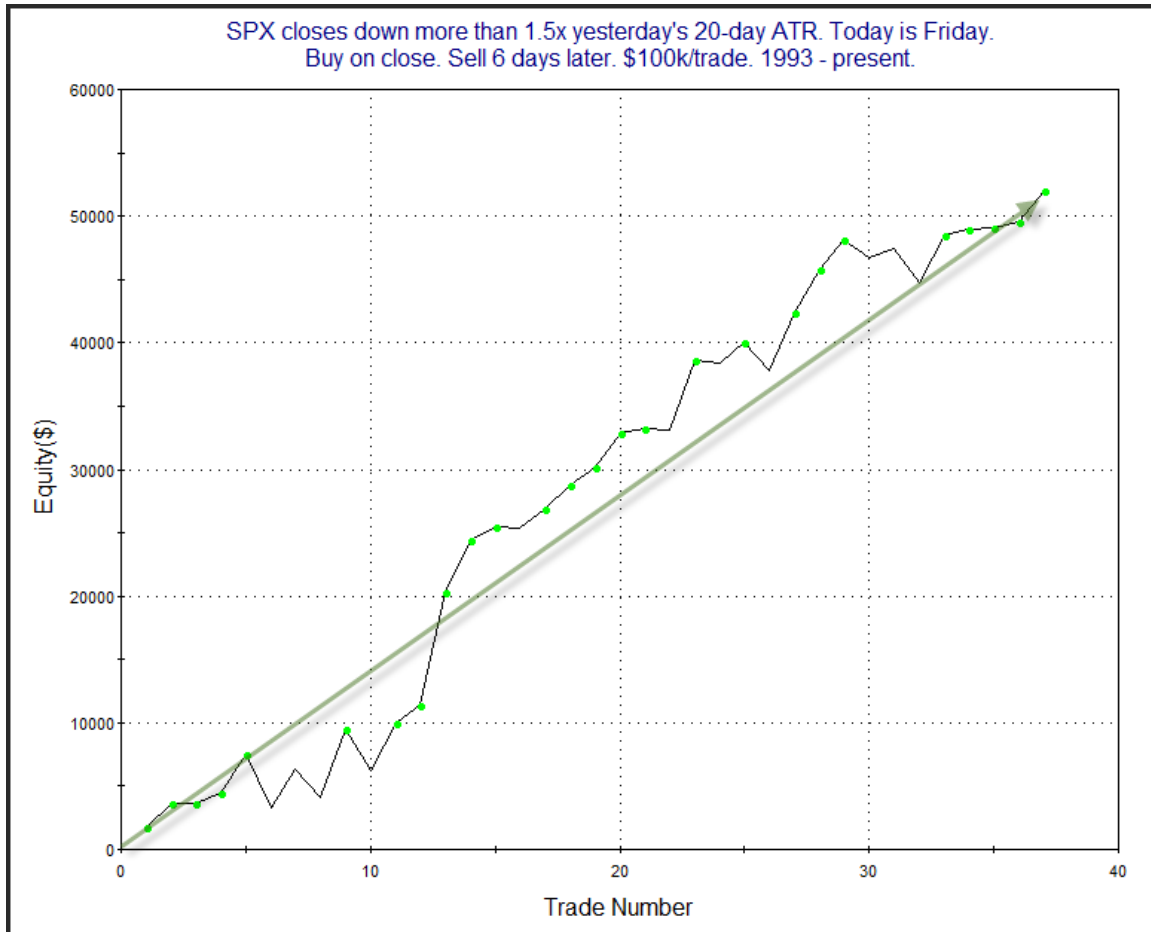
SPX closes down more than 1.5x yesterday's 20-day ATR. Today is Friday.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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
10	40,673.96	37	24	13	64.86	3,048.01	9,241.60	-2,498.34	-6,049.40	1.22	2.25	1,099.30
9	43,184.55	37	24	13	64.86	2,889.25	7,602.40	-2,012.11	-5,483.80	1.44	2.65	1,167.15
8	47,993.68	37	25	12	67.57	2,799.50	7,949.70	-1,832.82	-3,550.72	1.53	3.18	1,297.13
7	43,902.56	37	24	13	64.86	2,803.83	7,662.81	-1,799.17	-4,599.52	1.56	2.88	1,186.56
6	52,009.40	37	28	9	75.68	2,448.66	8,870.96	-1,839.24	-4,202.80	1.33	4.14	1,405.66
5	38,673.69	38	26	12	68.42	2,276.01	5,393.97	-1,708.55	-6,368.04	1.33	2.89	1,017.73
4	31,207.57	38	26	12	68.42	1,884.60	5,731.96	-1,482.68	-4,917.36	1.27	2.75	821.25
3	26,496.20	38	24	14	63.16	1,815.77	5,215.85	-1,220.17	-3,492.36	1.49	2.55	697.27
2	14,877.80	38	24	14	63.16	1,399.95	6,245.15	-1,337.21	-5,163.50	1.05	1.79	391.52
1	12,122.99	38	31	7	81.58	709.83	3,322.23	-1,411.69	-3,884.00	0.50	2.23	319.03

The numbers here are all very impressive and suggest a strong bullish bias. I decided to look at the 1-day and 6-day returns in a little more detail. First, below is the profit curve for a 1-day holding period.



The Monday inclination had been strong, but a few recent instances got smacked. Let's also look at the 6-day curve though.



The results here are impressive. And that giant 1-day loser from August 2015 turned into yet another win for the 6-day holding period. This certainly seems to be a study worth taking under consideration.

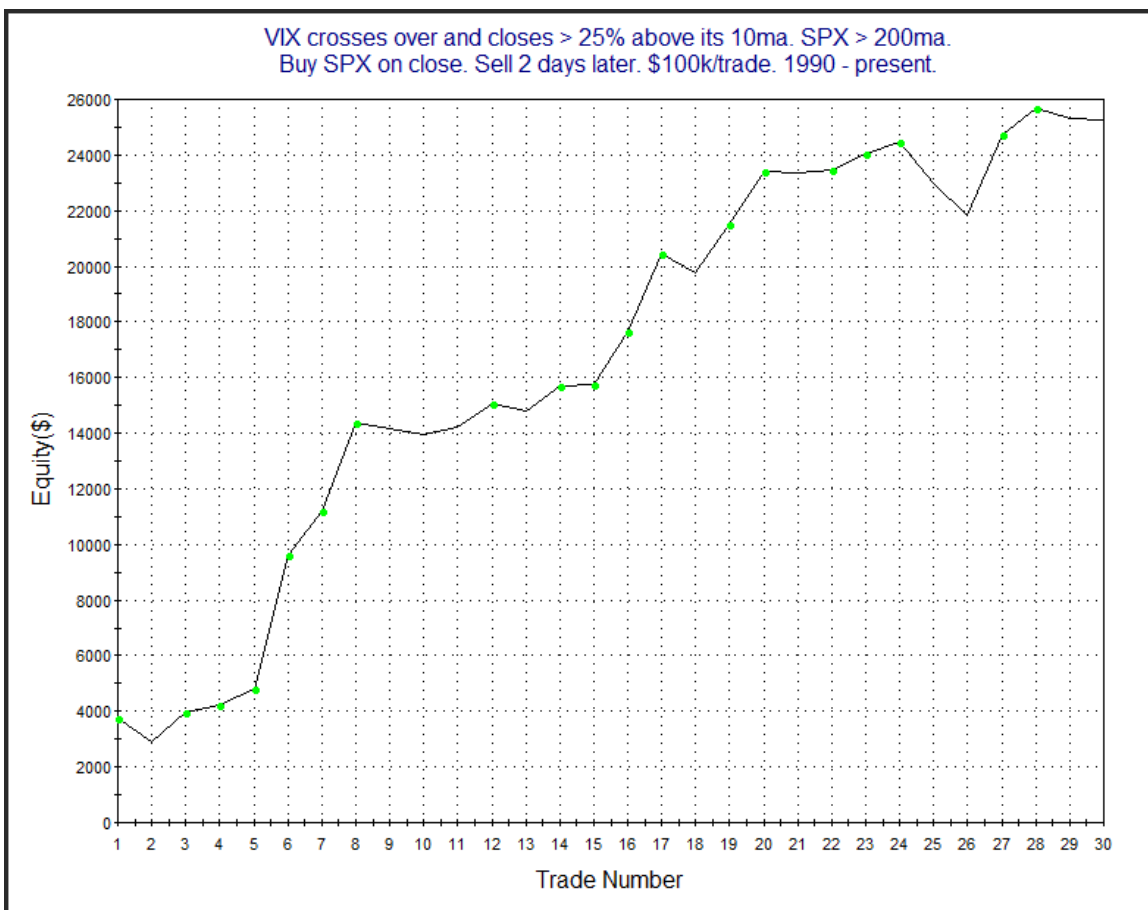
While the SPX declined sharply, the VIX index rose sharply. In fact, it closed 32% above its 10-day moving average. The last study from the 6/27/16 letter examined stretches of 25% or more.

VIX crosses over and closes > 25% above its 10ma. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 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	29,576.44	30	18	12	60.00	2,268.29	7,070.28	-937.73	-1,759.84	2.42	3.63	985.88
4	31,702.53	30	21	9	70.00	1,992.54	4,690.50	-1,126.76	-2,616.60	1.77	4.13	1,056.75
3	24,327.75	30	21	9	70.00	1,576.41	3,940.55	-975.21	-2,269.28	1.62	3.77	810.92
2	25,268.50	30	20	10	66.67	1,531.12	4,809.66	-535.39	-1,478.36	2.86	5.72	842.28
1	16,072.31	30	22	8	73.33	1,056.44	5,117.46	-896.16	-1,801.24	1.18	3.24	535.74

28 of 30 instances (93%) have closed above the entry price at some point in the next week.

Very impressive consistency. Sizable bounces seem to have been the norm under these circumstances. Below is a profit curve that assumes a 2-day exit strategy.



Impressive move from lower left to upper right on the chart. I have included this study on the Active List today.

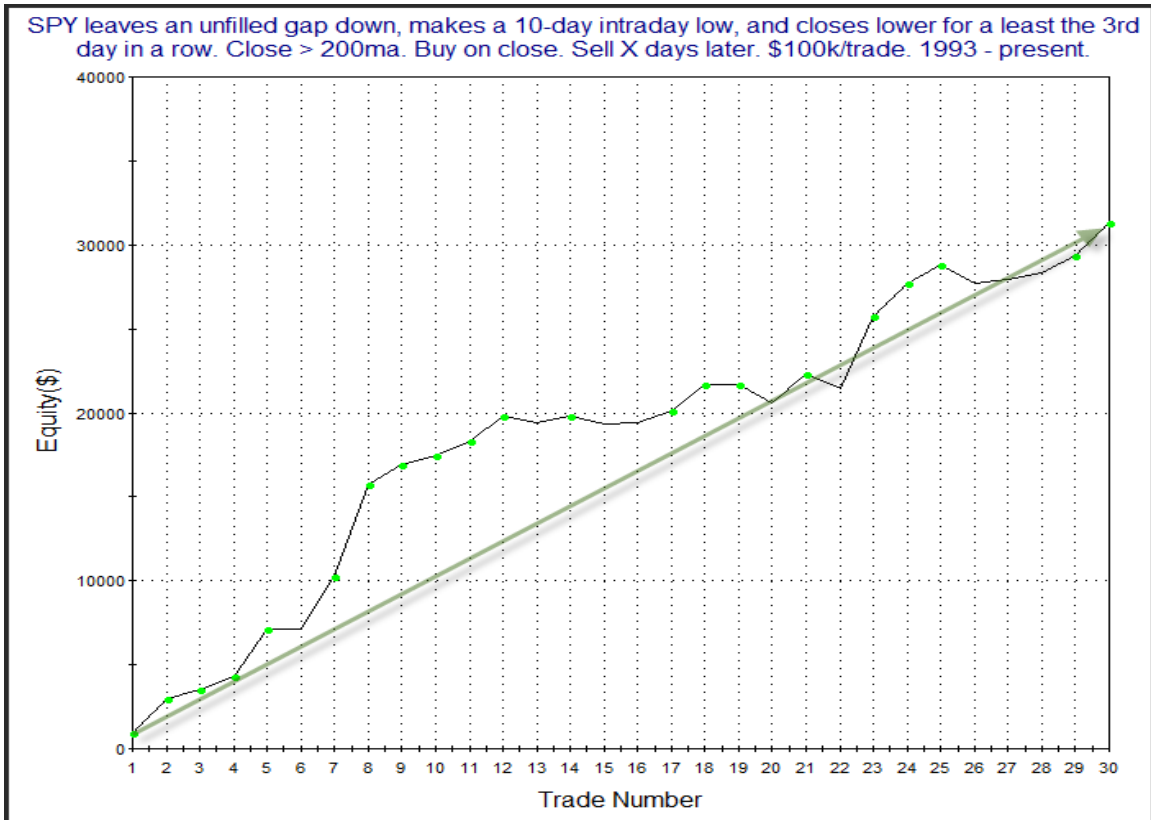
This next study was also interesting. It looked for multiple down days, short-term lows, and an unfilled gap down. It was last seen in the 1/6/15 letter. I have updated the results.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for a least the 3rd day in a row. 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	28,959.92	30	22	8	73.33	1,852.39	8,239.74	-1,474.09	-4,770.78	1.26	3.46	965.33
4	21,072.02	30	20	10	66.67	1,823.95	5,581.02	-1,540.70	-4,430.01	1.18	2.37	702.40
3	31,873.84	30	24	6	80.00	1,586.49	4,249.44	-1,033.66	-1,847.47	1.53	6.14	1,062.46
2	31,290.71	30	24	5	80.00	1,470.35	5,477.88	-799.55	-1,118.36	1.84	8.83	1,043.02
1	15,583.48	31	23	8	74.19	907.98	5,764.38	-662.52	-1,677.36	1.37	3.94	502.69

29 of 31 instances (94%) have closed above the entry price at some point in the next 3 days.

The stats suggest a high probability of an almost immediate bounce. Below is a profit curve assuming a 2-day holding period.



The curve is a little choppy, but the study certainly seems strong enough to include on the Active List tonight.

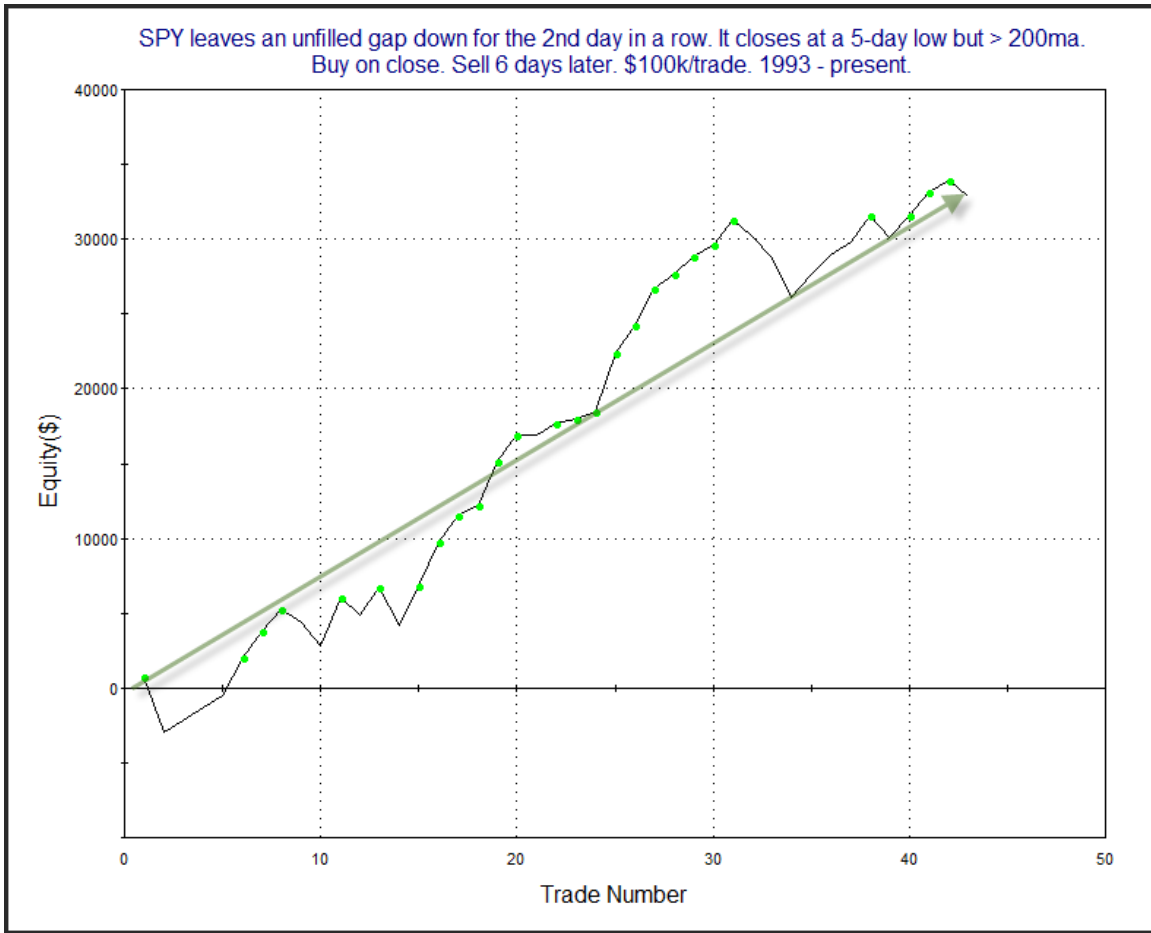
But Friday was actually the 2nd unfilled gap down in a row. This helped trigger the study below, which I last featured in the 6/13/16 letter. Results are updated.

**SPY leaves an unfilled gap down for the 2nd day in a row. It closes at a 5-day low but > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.**

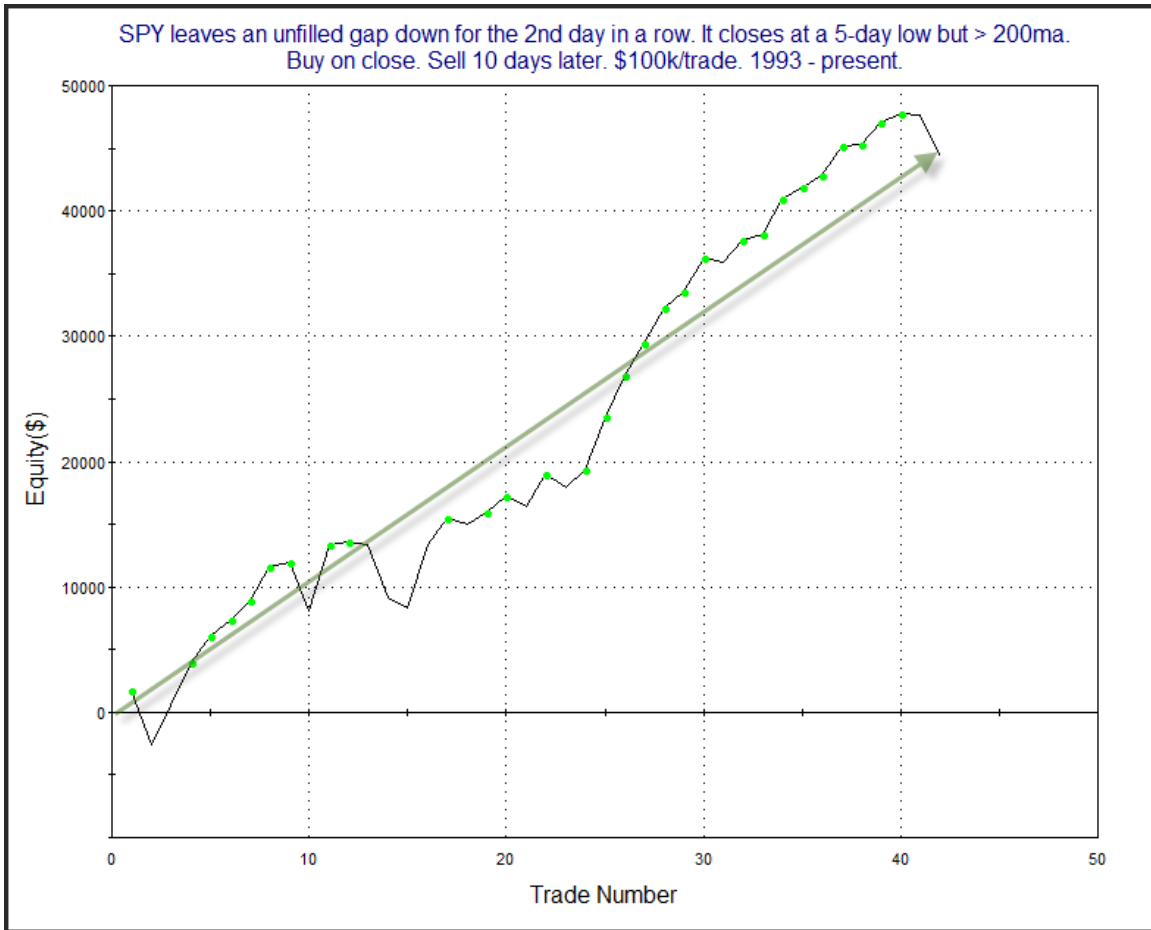
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	44,380.85	42	31	11	73.81	2,064.56	5,325.39	-1,783.67	-4,353.36	1.16	3.26	1,056.69
9	43,967.41	43	34	9	79.07	1,850.04	4,882.41	-2,103.78	-6,273.96	0.88	3.32	1,022.50
8	38,084.16	43	31	11	72.09	1,864.00	4,574.25	-1,790.89	-4,801.50	1.04	2.93	885.68
7	23,324.02	43	28	14	65.12	1,818.63	4,429.74	-1,971.25	-5,057.58	0.92	1.85	542.42
6	32,846.79	43	32	11	74.42	1,575.17	3,828.72	-1,596.24	-3,734.50	0.99	2.87	763.88
5	28,503.79	43	30	13	69.77	1,425.83	3,940.02	-1,097.79	-2,721.75	1.30	3.00	662.88
4	22,018.68	43	31	12	72.09	1,167.87	4,388.28	-1,182.10	-2,583.00	0.99	2.55	512.06
3	11,336.81	43	26	17	60.47	960.43	3,325.14	-802.02	-1,795.80	1.20	1.83	263.65
2	7,773.02	43	26	17	60.47	851.41	2,948.14	-844.93	-2,436.12	1.01	1.54	180.77
1	5,641.27	44	27	17	61.36	642.14	1,974.15	-688.03	-1,849.26	0.93	1.48	128.21

Only 2 instances failed to close above the entry price at some point in the next 6 days. They triggered on 9/14/99 & 6/10/16.

The numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 6-day holding period.

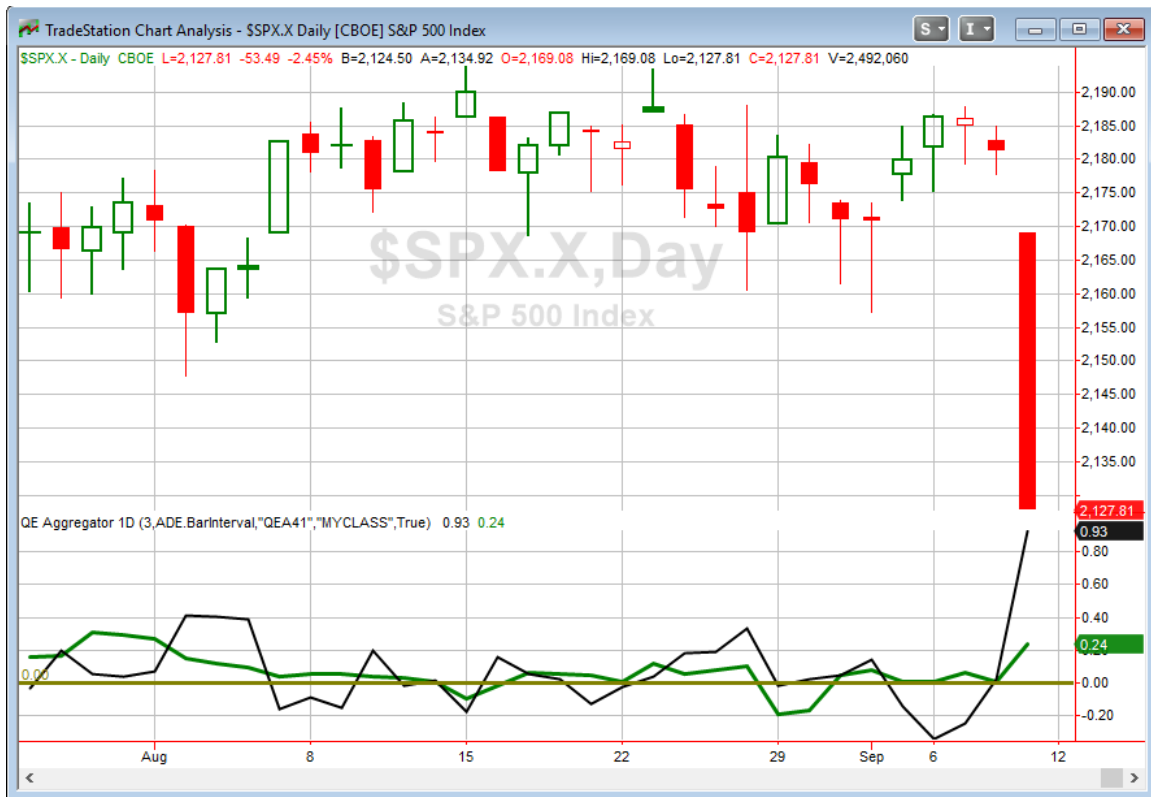


The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.



Aside from the last instance, which was hammered thanks to the Brexit selloff, this curve looks very strong. I have added this study to both the short and intermediate-term active lists.

I have updated the Aggregator chart below.



With all of the short-term bullish evidence we are seeing the green Aggregator Line moved far above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also had a big jump higher thanks to the large selloff on Friday. The positive Differential Line reading means SPX is strongly oversold versus recent expectations. So expectations are very positive and SPX is strongly oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines above 0. Therefore, the Aggregator signal read long at the close.

Based on the current list of active studies, expectations are poised to remain positive on Monday. It is highly unlikely that enough short-term bearish evidence would emerge to change this. The Differential Pivot will be 2186.32 Monday. That is 2.75% above Friday's close. It is highly unlikely we will see a rally of this magnitude on Monday. A more likely scenario for working off the oversold condition would be a multi-day rally of consolidation.

Going into Friday I was not seeing much compelling directional evidence. Friday's huge move certainly changed that. While there is no assurance that this selloff can't worsen further, it appears there is a solid probability of a bounce in the next few days. And reward/risk appears very favorable for the bulls. I will therefore look to begin scaling into an index position on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/12 – bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *We again see all 3 combo signals are “Long”.*

Friday’s big drop certainly changed the look of the charts, and it left SPX with a 2.4% decline on the week. The S&P is now below its 50ma but still well above its 200ma. So the trend is no longer clearly upwards, but most of the long-term trend indicators we use are still up. Friday’s big drop did trigger the 2x unfilled gap down study from the short-term section above to trigger, and it was also added to the intermediate-term list.

Each week I typically update the Fed SOMA charts. Unfortunately, the Fed data export utility has been down most of the weekend, so I have not been able update that information. We are currently in a week (ending Wednesday) where positive flows are expected. After Wednesday we are likely to see the SOMA decline the following reporting week. So if bulls are going to get a decent bounce going, they will have a better chance over the next few days with Fed liquidity on their side. I will provide full SOMA commentary as usual next week.

Despite the big drop on Friday intermediate-term outlook is still fairly positive. Most of the evidence we are seeing from an intermediate-term perspective continues to point north, including the double-gap down study that is new tonight. There are some past breadth related studies that suggest that the market is likely to continue higher. Additionally, 3 of our 4 Market Timing Course indicators are bullish, which has historically been quite promising. There is still some bearish evidence though, including overall weak Fed support and the long-term new-high breadth divergence. With all this to consider and the market again near new highs I am keeping my intermediate-term outlook bullish. I will be looking to trade the long side more aggressively and will be extra-selective with possible short trades.

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)

New

ABT – @ \$41.01 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 3 (ABT-3)

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 at market on open. Based on the short-term outlook above I will begin scaling into an index position on Monday. With evidence strong, and me taking only a small position, I will be aggressive with the entry.

ABT – buy 1/3 Catapult position @ \$41.01 LIMIT. This is from the Catapult section above. It is the 3rd of 3 possible lots for ABT.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	6/14/2016	\$24.70	\$35.00	41.70%	\$35.00	stopped out
ABT(1/3)	8/25/2016	\$43.17	\$41.01	-5.00%		Catapult
ABT(1/3)	8/26/2016	\$42.84	\$41.01	-4.27%		Catapult

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