

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 13, 2016

Volume 9 Issue 177

Market Overview



Signals Overview

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

Tonight's Research Points

- Monday's bounce was right in the "sweet spot" based on past rebounds.
- The reversal off the 20-day low appears to be a positive for the next couple of weeks.
- Big VXO drops often spell trouble for the market the next day.

Short-term Outlook

The Bottom Line

The bounce looks solid so far and evidence is emerging that suggests it should have farther to go. I am looking to ride my long positions a little longer.

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 13, 2016	1.75% drop then Sweet Spot bounce	1-5 days	Bullish	3.00%	-0.95%	-1.90%
September 13, 2016	Reversal from 20-day low	1-4 days	Bullish	1.80%	-1.30%	-2.30%
September 13, 2016	VXO 20% drop	1 day	Bearish			
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 13, 2016	Reversal from 20-day low	1-10 days	Bullish	2.90%	-1.80%	-3.30%
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	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			

The Evidence

Bounce day. Big bounce day. A gap down Monday morning was quickly overcome and much of Friday's losses were recovered. The SPX rose 1.5%, the NASDAQ gained 1.7% and the Russell 2000 rallied 1.4%. Breadth was strongly positive as the NYSE Up Issues % was 70% and the Up Volume % came in at 85%. NYSE volume declined some from Friday's level.

One positive identified by the Quantifinder was that the bounce was the "right size". After a sizable drop, if the market puts in a very weak bounce that makes up for less than 1/4 of the previous day's large loss, then that is often a bad sign. Stronger initial bounces tend to fare much better. In the 2/5/14 Subscriber Letter I broke down the following days' performance based on the relative size of the day one bounce. Let's review those findings.

This first table below shows results for very weak bounces. It has been updated.

SPX falls at least 1.75% yesterday. Today it rises but makes up < 25% of yesterday's loss. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	-7,492.63	36	16	20	44.44	1,905.30	6,168.78	-1,898.87	-5,506.23	1.00	0.80	-208.13
4	-13,148.02	36	16	20	44.44	1,727.06	5,665.68	-2,039.05	-4,284.75	0.85	0.68	-365.22
3	-19,328.66	36	13	23	36.11	1,586.62	4,187.34	-1,737.16	-5,685.45	0.91	0.52	-536.91
2	-17,996.45	37	16	21	43.24	740.42	2,794.56	-1,421.10	-3,844.10	0.52	0.40	-486.39
1	-14,569.64	37	15	22	40.54	547.75	1,669.20	-1,035.72	-2,302.95	0.53	0.36	-393.77

As you can see these weak bounces don't often get very far before a new leg down ensues.

This next table examines very strong bounces after big drops.

SPX falls at least 1.75% yesterday. Today it rises and makes up > 75% of yesterday's loss.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	24,101.66	14	10	4	71.43	2,730.00	7,700.66	-799.58	-1,003.00	3.41	8.54	1,721.55
4	17,701.82	14	9	5	64.29	2,682.91	7,217.86	-1,288.88	-1,823.73	2.08	3.75	1,264.42
3	14,602.59	14	8	6	57.14	2,508.45	4,581.63	-910.83	-1,925.10	2.75	3.67	1,043.04
2	11,583.47	14	9	5	64.29	2,006.02	5,134.01	-1,294.15	-2,160.39	1.55	2.79	827.39
1	2,692.90	14	7	7	50.00	1,505.57	4,708.01	-1,120.87	-2,782.56	1.34	1.34	192.35

13 of 14 instances closed above the entry price at some point in the next week. All of them did so within 6 days.

Instances are a bit low here but the results are a sharp contrast to the results from the “weak-bounce” test.

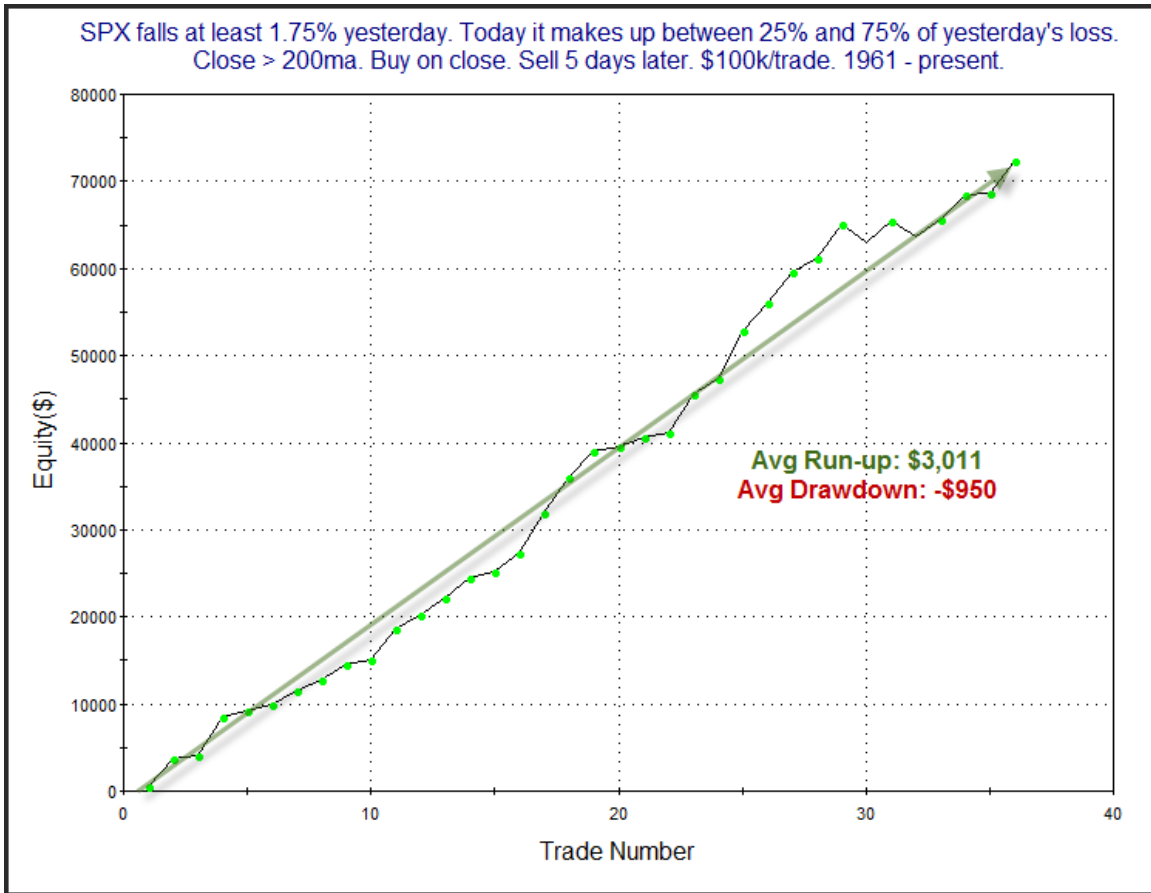
Previous findings revealed the real sweet spot for the day 1 bounce is right between these two. That is where we fell on Monday and that study I updated below. Though rather than just go back to 1988 as those others did, I went all the way back to 1961.

SPX falls at least 1.75% yesterday. Today it makes up between 25% and 75% of yesterday's loss.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1961 - 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	72,346.54	36	34	2	94.44	2,246.10	5,396.71	-2,010.49	-2,115.67	1.12	18.99	2,009.63
4	56,318.98	37	31	6	83.78	2,002.24	4,989.22	-958.41	-2,322.56	2.09	10.79	1,522.13
3	50,702.08	37	33	4	89.19	1,713.28	3,876.62	-1,459.02	-3,602.40	1.17	9.69	1,370.33
2	34,557.17	37	26	11	70.27	1,753.37	4,001.40	-1,002.76	-2,136.90	1.75	4.13	933.98
1	25,955.23	37	26	11	70.27	1,220.52	2,937.71	-525.31	-1,576.20	2.32	5.49	701.49

36 of 37 instances (97%) closed above the entry price at some point in the next week. The lone failure triggered on 3/11/11.

Study results don't often get more lopsided than this. Implications over the next week appear to be strongly bullish. Below is a profit curve for a 5-day holding period.



Both the curve and the stats are impressive. The Avg Winning Trade is larger than the LARGEST losing trade. And the with the average run-up over 3x the size of the average drawdown, risk/reward undoubtedly has favored the bulls. This study has been added to the Active List tonight.

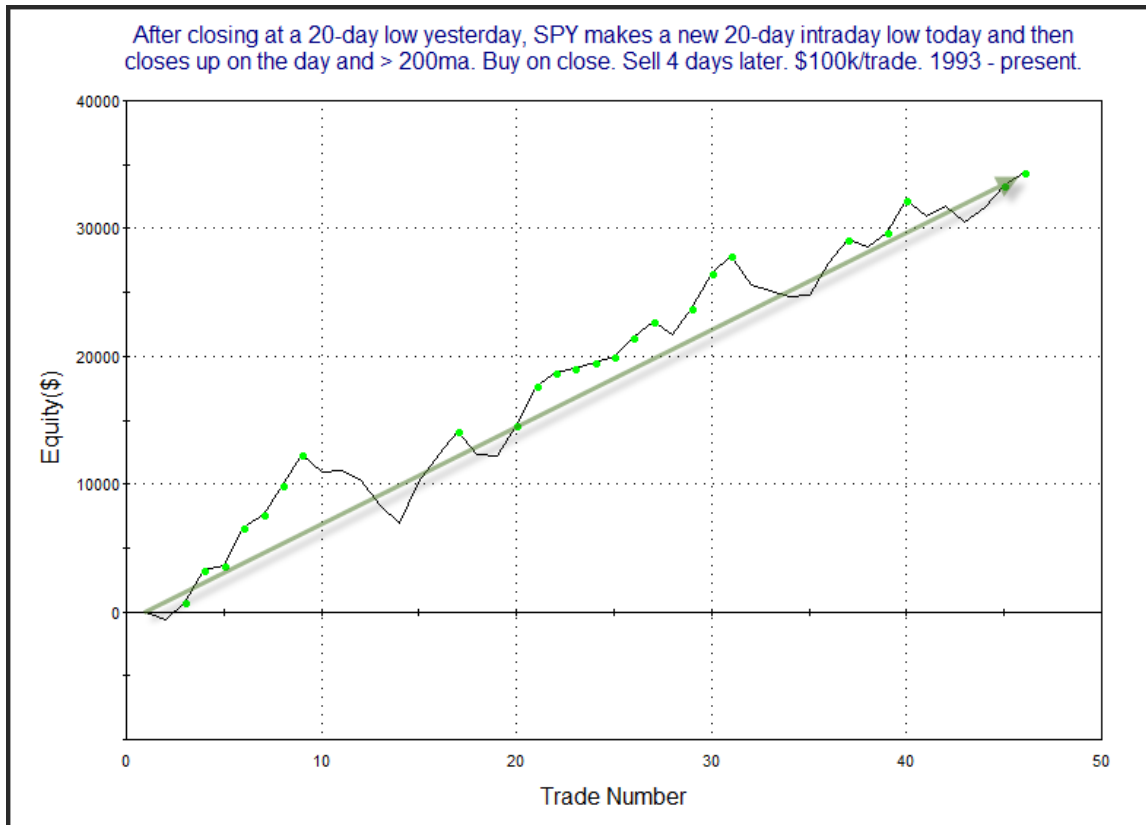
Another aspect of the bounce that appears to be favorable is the fact that it originated from a 20-day low. The study below was last seen in the 7/1/15 Letter. I have updated the results.

After closing at a 20-day low yesterday, SPY makes a new 20-day intraday low today and then closes up on the day and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

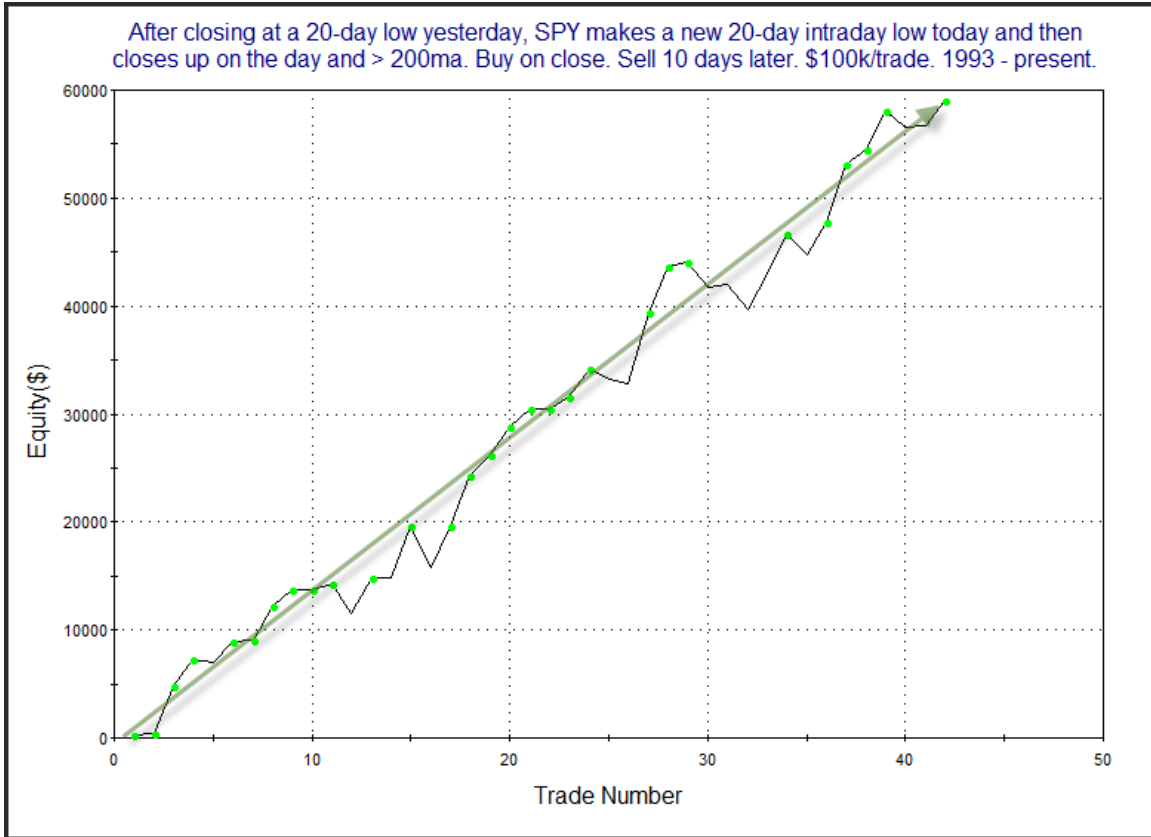
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	59,005.27	42	32	10	76.19	2,356.05	6,600.62	-1,638.83	-3,844.83	1.44	4.60	1,404.89
9	53,168.09	43	30	13	69.77	2,589.66	5,915.43	-1,886.28	-4,258.20	1.37	3.17	1,236.47
8	46,582.44	44	31	13	70.45	2,410.39	5,306.40	-2,164.58	-4,268.86	1.11	2.66	1,058.69
7	49,985.79	45	31	14	68.89	2,339.02	5,585.14	-1,608.85	-3,531.11	1.45	3.22	1,110.80
6	44,541.69	46	33	13	71.74	2,073.57	5,411.67	-1,837.40	-3,952.19	1.13	2.86	968.30
5	41,371.52	46	32	13	69.57	1,854.21	5,029.50	-1,381.79	-3,450.35	1.34	3.30	899.38
4	34,362.26	46	31	15	67.39	1,606.59	3,213.00	-1,029.47	-2,284.36	1.56	3.23	747.01
3	21,149.56	49	30	19	61.22	1,361.07	4,462.50	-1,035.93	-3,560.24	1.31	2.07	431.62
2	22,899.58	51	33	18	64.71	1,295.04	4,105.50	-1,102.04	-2,471.52	1.18	2.15	449.01
1	15,279.50	51	32	19	62.75	939.60	2,562.30	-778.30	-1,792.48	1.21	2.03	299.60

89% of instances closed above the entry price at some point in the next week.

Results here seem to suggest a solid upside edge. The 4 and 10-day results were both compelling. Below is a profit curve using a 4-day exit strategy.



The strong steady upslope serves as some confirmation of the bullish edge. Next is a look at the 10-day curve.



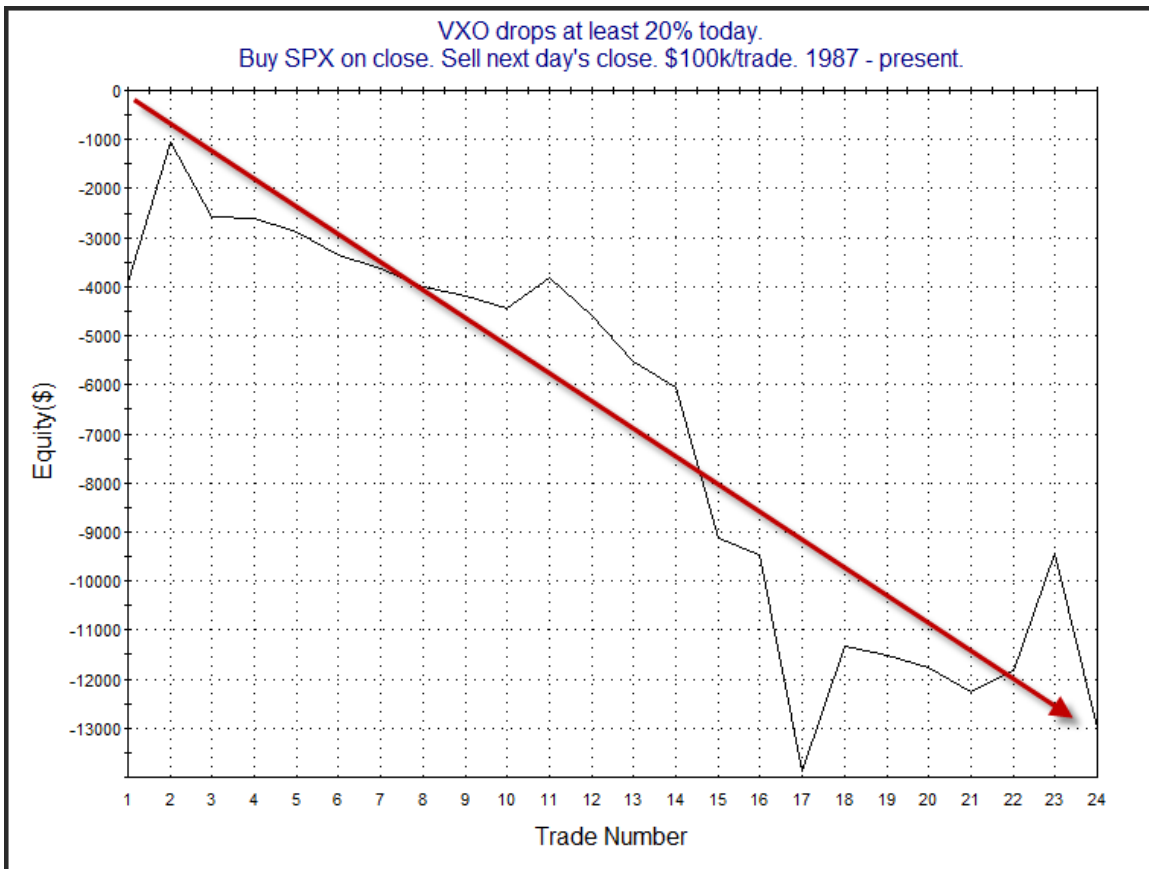
This curve is just as impressive. I have added this study to both the short and intermediate-term active lists.

But not everything tonight had bullish implications. The VIX, which is a measure of options pricing and is often referred to as a “fear index” saw a 13% drop on Monday. Meanwhile, the VXO, which is the old calculation of the VIX declined nearly 23%. Such big declines often suggest short-term over-optimism on the part of traders and are followed by a dip the next day. This can be seen in the study below, which was from the 5/11/15 letter. All stats are updated.

VXO drops at least 20% today.
Buy SPX on close. Sell next day's close. \$100k/trade. 1987 - present.

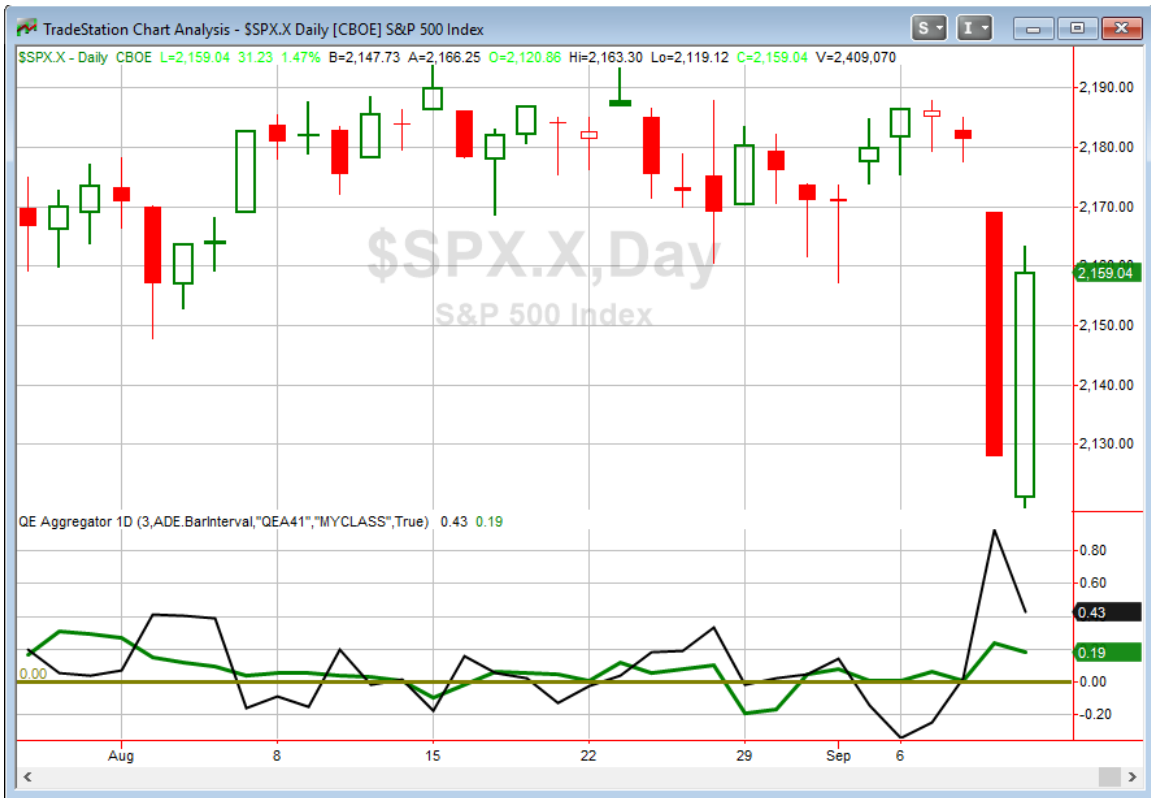
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$12,996.36)	Profit Factor	0.40
Gross Profit	\$8,841.53	Gross Loss	(\$21,837.89)
Total Number of Trades	24	Percent Profitable	20.83%
Winning Trades	5	Losing Trades	19
Even Trades	0		
Avg. Trade Net Profit	(\$541.51)	Ratio Avg. Win:Avg. Loss	1.54
Avg. Winning Trade	\$1,768.31	Avg. Losing Trade	(\$1,149.36)
Largest Winning Trade	\$2,860.08	Largest Losing Trade	(\$4,400.45)

Numbers here suggest a downside edge. Below is a profit curve to see how it has played out over time.



Quite choppy but it certainly appears the big VXO drops don't often bode well for the next day. This study has been added to the Short-Term Active List.

I have updated the Aggregator chart below.



With tonight's studies included the green Aggregator Line held 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 is also high above 0. 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 stayed long at the close.

Based on the current list of active studies, expectations are poised to remain positive on Tuesday. It is highly unlikely that enough short-term bearish evidence would emerge to change this. The Differential Pivot will be 2181.92 on Tuesday. That is 1.1% above Monday's close. So SPX will need to close up at least 1.1% in order to move from oversold to overbought on Tuesday.

So at this point the bounce looks promising. Evidence suggests it should have more to go in the next few days. Of course Tuesday looks a little sketchy thanks to Monday's big VXO drop. Still, I continue to like the long side. I am not inclined to take on any new exposure right here. But I will look to hold onto my current positions for another day to see how things play out Tuesday before reevaluating Tuesday night

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

The intermediate-term outlook was last updated in the 9/12 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

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)

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
ABT(1/3)	8/25/2016	\$43.17	\$41.42	-4.05%		Catapult
ABT(1/3)	8/26/2016	\$42.84	\$41.42	-3.31%		Catapult
ABT(1/3)	9/12/2016	\$40.85	\$41.42	1.40%		Catapult
SPY(1/4)	9/12/2016	\$212.39	\$216.34	1.86%		Aggregator

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