

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 6, 2016

Volume 9 Issue 194

Market Overview



Signals Overview

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

Tonight's Research Points

- Wednesday's unfilled gap up along with it being an inside day suggests a 1-day bearish edge for Thursday.

Short-term Outlook

The Bottom Line

Evidence is now pointing slightly south but the SPX is oversold. This leaves the Aggregator neutral. I am also.

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						
October 6, 2016	Unfilled gap up inside day > 200	1 day	Bearish			
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			

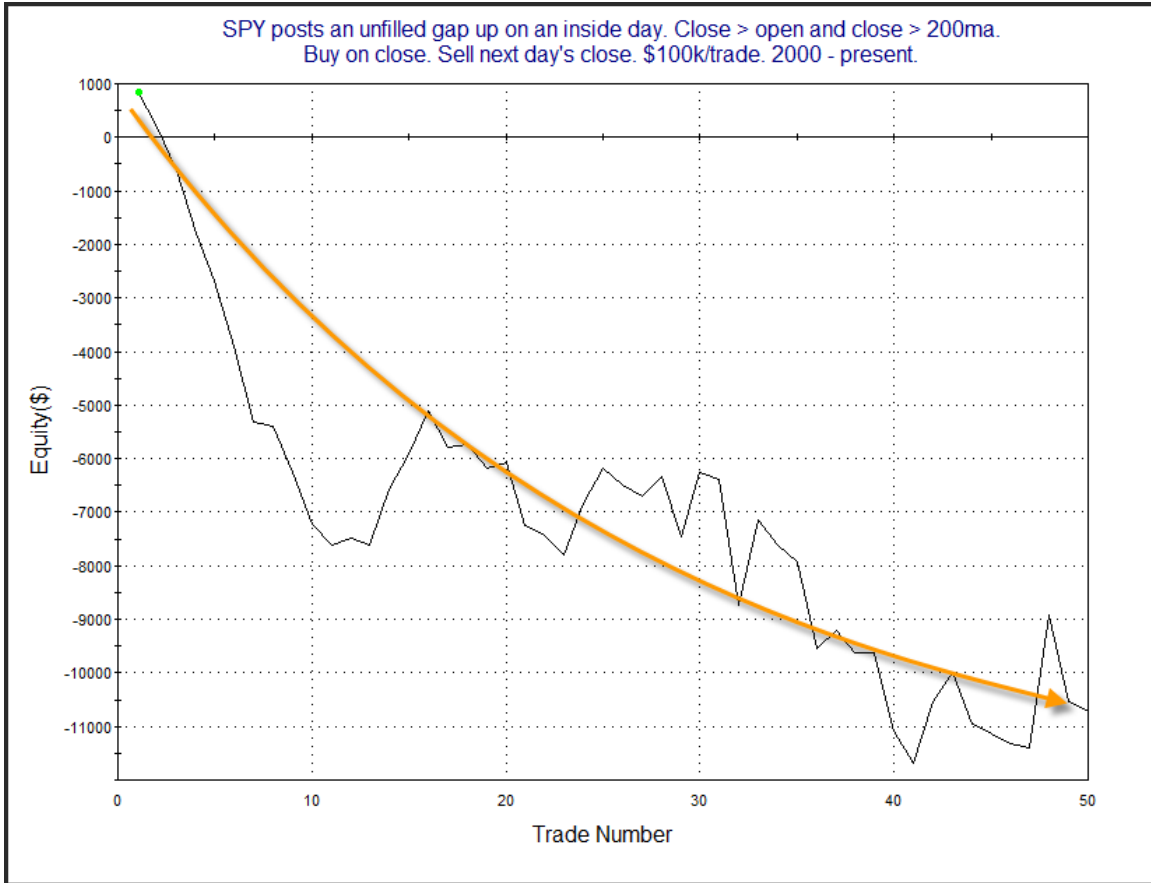
The Evidence

Wednesday saw the market move a bit higher. The SPX gained 0.4%, the NASDAQ increased 0.5%, and the Russell 2000 rallied 0.7%. Breadth was strong as the NYSE Up Issues % was 61% and the Up Volume % came in at 69%. NYSE volume rose for the 2nd day in a row.

The study below was last seen in the 11/25/14 Letter. It looks at days like Monday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results below.

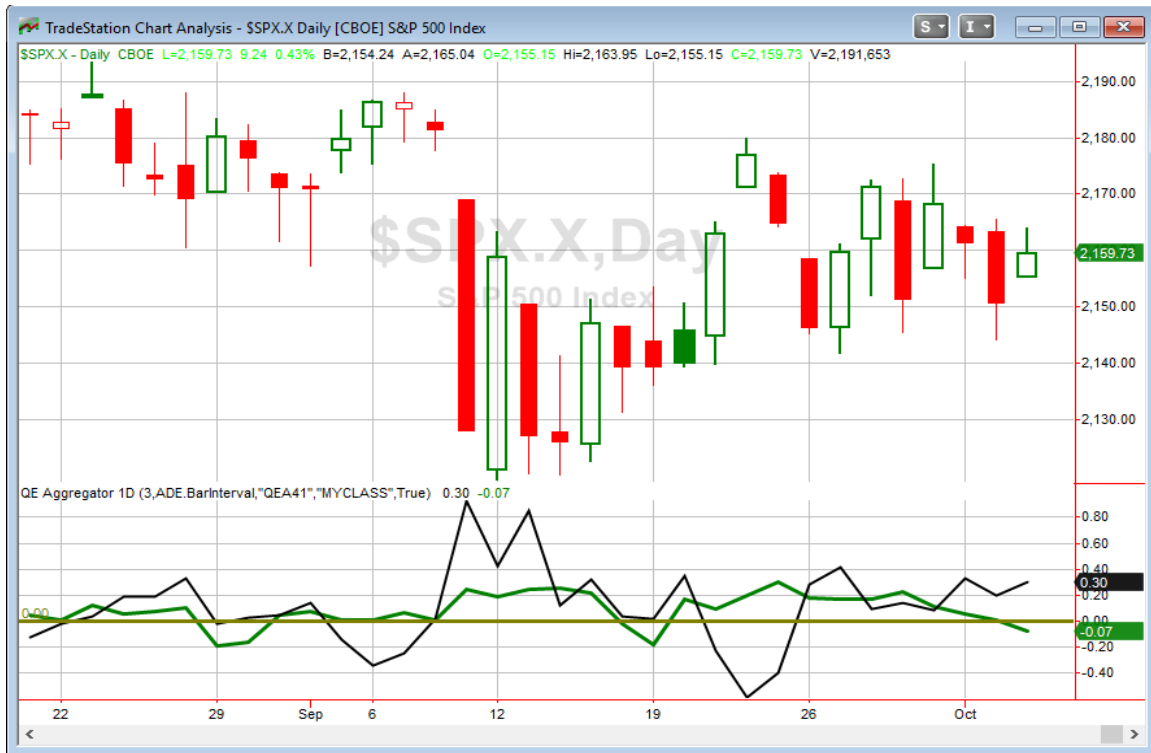
SPY posts an unfilled gap up on an inside day. Close > open and close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.			
TradeStation Performance Summary			Expand
All Trades			
Total Net Profit	(\$10,713.33)	Profit Factor	0.55
Gross Profit	\$12,957.30	Gross Loss	(\$23,670.63)
Total Number of Trades	50	Percent Profitable	32.00%
Winning Trades	16	Losing Trades	33
Even Trades	1		
Avg. Trade Net Profit	(\$214.27)	Ratio Avg. Win:Avg. Loss	1.13
Avg. Winning Trade	\$809.83	Avg. Losing Trade	(\$717.29)
Largest Winning Trade	\$2,470.05	Largest Losing Trade	(\$2,348.90)

Implications here appear somewhat bearish. I'd also note that 44 of 50 instances (88%) closed below the entry price at some point in the next week. Below is a profit curve that shows how the downside edge has played out over time.



This is not an ideal profit curve but it still appears to suggest a downside edge.

I have updated the Aggregator chart below.



With tonight's study considered the green Aggregator Line dipped a little below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are bearish 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 to flat at the close.

With tonight's study only exhibiting a 1-day influence, expectations are set to turn back to positive as of Thursday's close. Of course any new short-term studies that emerge in the next few days will have a strong influence on expectations. The Differential Pivot will be 2169.80 on Thursday. That is 0.5% above Wednesday's close. So SPX would need to close up 0.5% or more to flip from oversold to overbought.

The study says there is a decent chance of a dip on Thursday. But with the market oversold the Aggregator is neutral and so am I. I will continue to wait for a more favorable reward/risk set to emerge before trading more aggressively.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/3 – bullish

The intermediate-term outlook was last updated in the 10/3 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

CVS @ \$86.22 (bought 1/3 at limit)

New

CVS @ \$86.20 (buy 1/3 at limit)

Broad Market Large Cap CBI – 2(CVS-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.

CVS – buy 1/3 Catapult position @ \$86.20 LIMIT. This is from the Catapult section above. It is the 2nd of 3 possible lots for CVS.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CVS(1/3)	10/5/2016	\$86.22	\$86.20	-0.02%		Catapult

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).

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