

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 13, 2016

Volume 9 Issue 199

Market Overview



Signals Overview

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

Tonight's Research Points

- VIX up / SPX up is a bearish setup during long-term downtrends, but during uptrends it is not terribly predictive.

Short-term Outlook

The Bottom Line

The Aggregator is now bullish, but the bullish evidence is not terribly strong.

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 12, 2016	Unfilled up then unfilled down < 2 ago	1-2 days	Bearish			
October 10, 2016	3 high. 3 low. 3 low close > 200ma	1-5 days	Bullish	2.00%	-1.30%	-2.60%
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

The market put in mixed results on Wednesday. The SPX finished the day up 0.11%, the NASDAQ fell 0.15%, and the Russell 2000 declined a very small 0.03%. Breadth was just above breakeven as the NYSE Up Issues % was 51% and the Up Volume % came in at 52%. NYSE volume came in even lighter than Monday's holiday levels.

Another index that closed up today was the VIX. As many readers are likely aware, VIX is a volatility index. Typically VIX will trade counter to the SPX. So if SPX rises, VIX will sink and if SPX falls, VIX will most often rise. There are some calculation-induced tendencies around the weekend, so often when I show studies on VIX I will break them down by day of the week. In the 9/27/13 Subscriber Letter I studied other mid-week occurrences of SPX and VIX both closing higher. I found that the long-term trend played a big part in the short-term reaction to this setup. First I'll show VIX up & SPX up when the market is below the 200ma.

SPX and VIX both close higher on a Tues, Wed, or Thurs. Close < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	-33,422.08	32	11	21	34.38	1,963.44	5,674.40	-2,620.00	-7,204.80	0.75	0.39	-1,044.44
4	-54,340.20	33	9	24	27.27	1,485.96	3,696.70	-2,821.41	-7,745.95	0.53	0.20	-1,646.67
3	-38,619.49	33	10	23	30.30	1,389.71	2,766.72	-2,283.33	-5,299.32	0.61	0.26	-1,170.29
2	-30,178.76	34	11	23	32.35	1,649.21	3,181.60	-2,100.87	-6,672.34	0.79	0.38	-887.61
1	-11,888.41	36	17	19	47.22	1,036.55	3,644.16	-1,553.14	-3,035.25	0.67	0.60	-330.23

This obviously seems to suggest a downside edge.

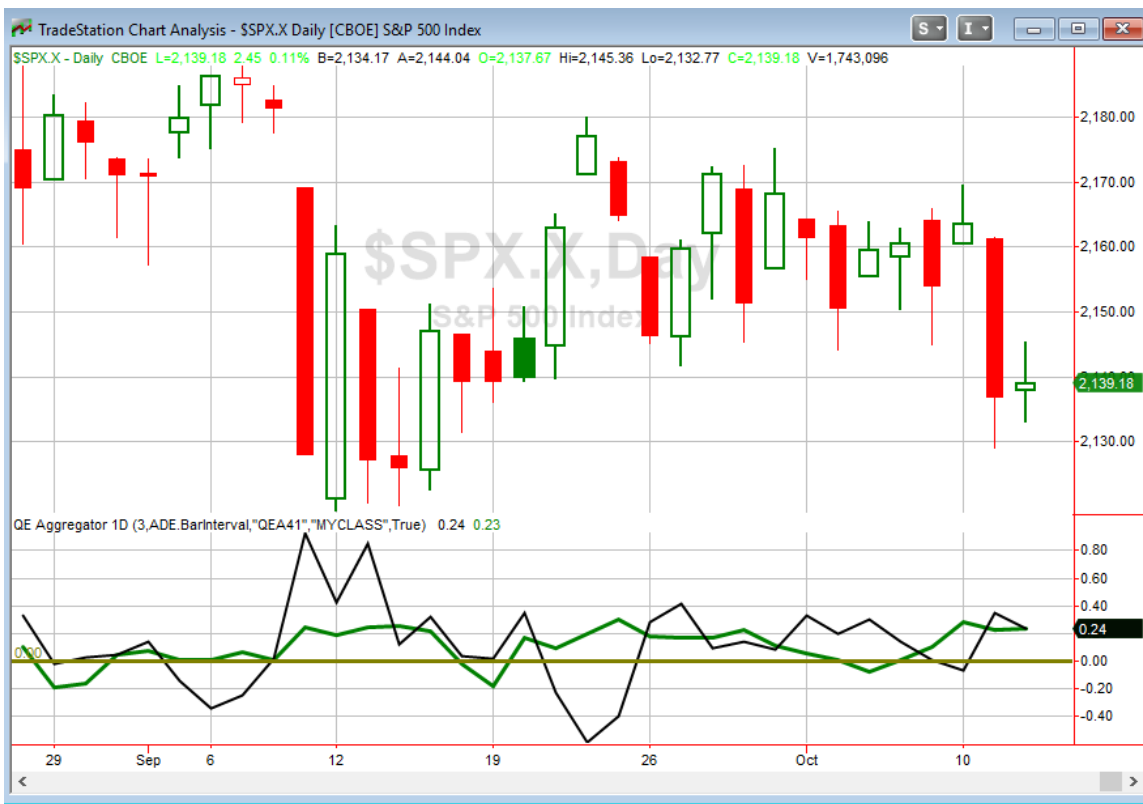
Now let's look at occurrences above the 200ma.

SPX and VIX both close higher on a Tues, Wed, or Thurs. Close > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	924.74	148	81	67	54.73	1,052.73	3,549.70	-1,258.90	-4,171.80	0.84	1.01	6.25
4	-6,682.99	156	83	73	53.21	948.96	3,154.00	-1,170.51	-4,354.72	0.81	0.92	-42.84
3	-15,770.54	161	85	76	52.80	777.42	3,288.60	-1,076.99	-3,671.32	0.72	0.81	-97.95
2	-4,329.08	168	85	83	50.60	666.14	3,962.70	-734.34	-2,848.17	0.91	0.93	-25.77
1	-12,866.46	183	88	95	48.09	455.86	1,970.50	-557.71	-2,079.70	0.82	0.76	-70.31

No strong edge here. This is the kind of situation the market is currently dealing with. So while this is all interesting to me, it isn't terribly predictive today. And nothing else emerged with compelling odds, so I will not be adding any studies to the Active List tonight.

I have updated the Aggregator chart below.



Without any new evidence to consider 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 also remained 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. Therefore, the Aggregator signal changed stayed long at the close.

If nothing new emerges on Thursday, net expectations will remain positive. Of course this could change if new bearish studies emerge. The Differential Pivot will be 2171.86 on Thursday. That is 1.5% above Wednesday's close. Therefore, SPX would need to close up at least 1.5% on Thursday in order to move from oversold to overbought versus recent expectations. A move that large is unlikely. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

With the Differential Pivot so far away potential reward looks good. But evidence remains a little weak. I am still not inclined to rush into an index position. But once again tonight I will consider scaling into a SPY position if I can get a favorable fill on Thursday.

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

GE @ \$28.86 (bought 1/3 at limit)

Broad Market Large Cap CBI – 1(GE)

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 @ \$213.25 LIMIT ON OPEN. If not filled on open, I will cancel the order, and then look to get it at \$213.25 LIMIT ON CLOSE. Based on the short-term section above. I will look to start building a SPY position if I can get a favorable entry. I do not have any interest in trying to enter during an intraday selloff. So I am only looking to buy into a sizable gap down or close lower. This is the same limit price I listed last night.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GE(1/3)	10/11/2016	\$28.75	\$28.90	0.52%		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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