

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 18, 2016

Volume 9 Issue 202

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 20-day lows have often been followed by bounces – especially if the low occurs on Monday.
- Friday's bounce failed. Historically such failed bounces have quickly been followed by another bounce attempt.

## *Short-term Outlook*

### *The Bottom Line*

Upside evidence continues to mount. SPX still appears oversold. This suggests a decent upside edge.

*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
<b>Active - Short Term</b>						
October 18, 2016	20-low. Up 1 day. New 20-low.	1 day	Bullish			
October 18, 2016	20-low on a Monday	1-4 days	Bullish			
October 17, 2016	SPY closes up but in bottom of range	1-3 days	Bullish	1.30%	-0.40%	-0.80%
October 17, 2016	October op-ex seasonally bullish	1-4 days	Bullish	1.80%	-1.30%	-2.80%
<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	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			
<b>Dropped Tonight</b>						
October 14, 2016	Gap < 50-low. Partial reversal.	1-2 days	Bullish	3.40%	-1.60%	-3.20%

**The Evidence**

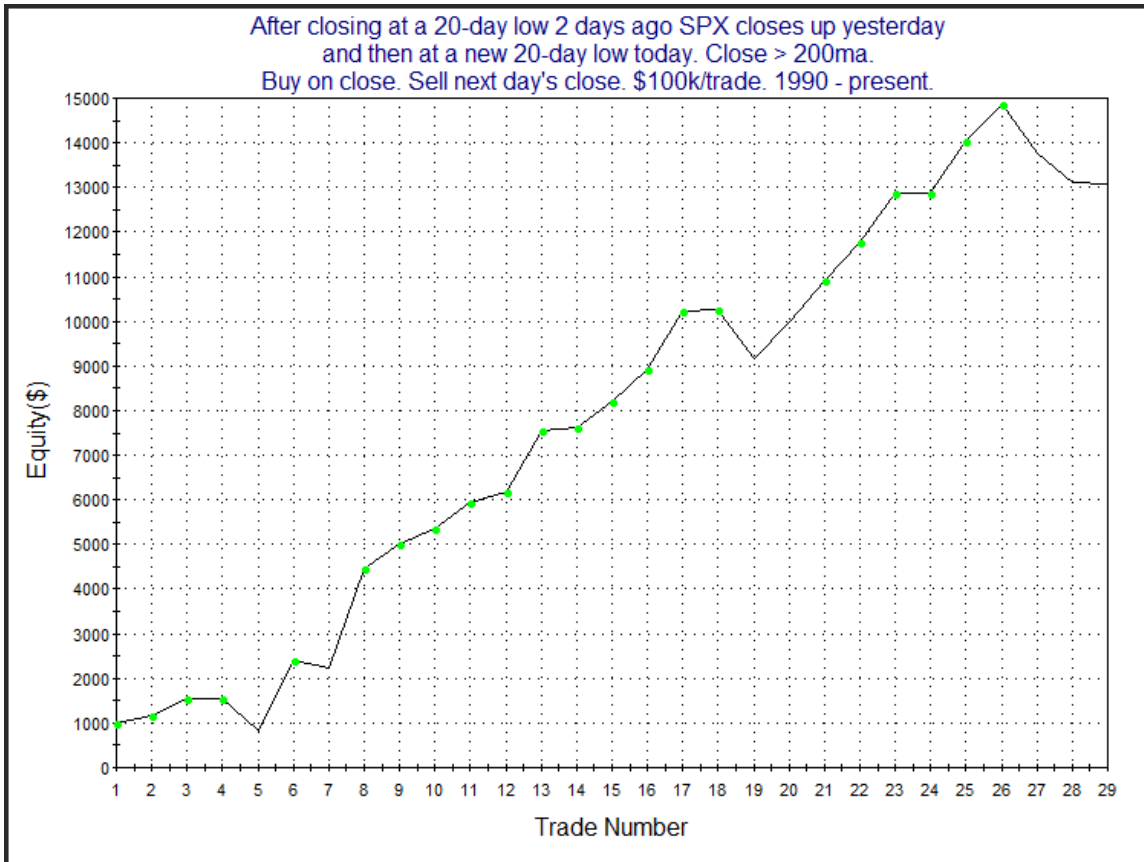
Monday was a day of moderate selling. The SPX finished the day down 0.30%, the NASDAQ lost 0.28%, and the Russell 2000 declined 0.19%. Breadth was also negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 38%. NYSE volume declined from Friday's level.

Monday undercut the closing low established on Thursday and put an end to Friday's bounce attempt. How has the market responded under similar circumstances in the past? For the study below, I look at times when a 20-day low was followed by a 1-day bounce and then another 20-day low (when above the 200ma). It was last seen in the 12/15/14 Letter. Results are all updated.

After closing at a 20-day low 2 days ago SPX closes up yesterday and then at a new 20-day low today. Close > 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 1990 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$13,069.84	Profit Factor	4.42
Gross Profit	\$16,895.71	Gross Loss	(\$3,825.87)
Total Number of Trades	29	Percent Profitable	79.31%
Winning Trades	23	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$450.68	Ratio Avg. Win:Avg. Loss	1.15
Avg. Winning Trade	\$734.60	Avg. Losing Trade	(\$637.64)
Largest Winning Trade	\$2,225.00	Largest Losing Trade	(\$1,126.08)

The numbers here look very solid and suggest a bullish edge for Tuesday. Below is a profit curve to see how the edge has played out over time.



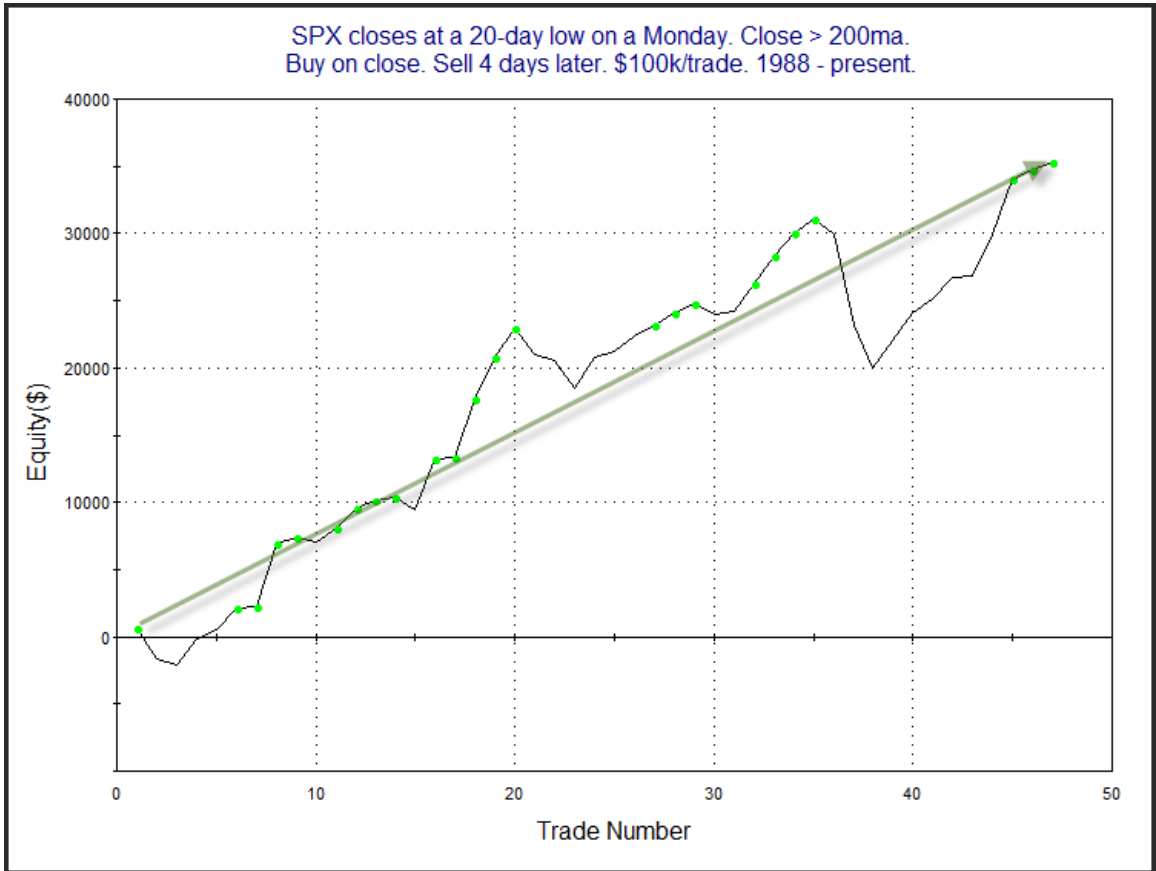
The last 3 instances have struggled but the upslope still appears to be intact. This seems worth including on the Active List tonight. I will also note that the stats have been substantially less impressive when SPX has been below its 200ma. This edge has only been prevalent during long-term uptrends.

On another note, [Tuesday's have a well-earned reputation for being days where bounces tend to begin.](#) The study below is from the 12/16/14 letter. It examined other times that the SPX closed at a 20-day low on a Monday. Results have been updated.

SPX closes at a 20-day low on a Monday. 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	35,103.55	47	32	15	68.09	2,198.67	7,070.28	-2,350.25	-12,895.96	0.94	2.00	746.88
4	35,264.53	47	36	11	76.60	1,545.83	4,690.50	-1,853.22	-6,742.12	0.83	2.73	750.31
3	30,032.62	47	35	12	74.47	1,415.42	3,940.55	-1,625.58	-6,688.99	0.87	2.54	638.99
2	22,066.26	47	31	16	65.96	1,197.16	4,809.66	-940.36	-2,760.78	1.27	2.47	469.49
1	9,915.05	47	30	17	63.83	820.06	5,117.46	-863.93	-3,588.48	0.95	1.68	210.96

Stats here appear strongly bullish. Below is a profit curve using a 4-day exit strategy.



There were 3 trades that failed miserably in 2011-2012. But since that time there have been 9 winning trades in a row, which got the curve right back on track. So the study seems worth taking into consideration, and I have done so.

I have updated the Aggregator chart below.



With tonight's bullish 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 stayed long at the close.

If nothing new emerges on Tuesday, net expectations will remain positive. It would take some strong bearish evidence on Tuesday to change this. The Differential Pivot will be 2151.91 on Tuesday. That is 1.2% above Monday's close. Therefore, SPX would need to close up at least 1.2% on Tuesday in order to move from oversold to overbought versus recent expectations.

Bullish evidence is mounting a bit. And there appears to be some room to the upside to profit before the market becomes overbought. This sets up a favorable reward/risk opportunity. I like the long exposure I already have. I will continue to hold that. Additionally, if the market continues to sell off on Tuesday, I will look to add more

exposure. In addition to the current evidence, we are reaching a point where continued selling could cause the Quantifiable Edges Capitulative Breadth Indicator (CBI) to spike. It currently stands at 3 and could reach as high as 7 on Tuesday fairly easily. So I will be looking to add to my Catapult positions on Tuesday and I may also add to my SPY position if it closes down much.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 10/17 – 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)

PFE @ \$32.66 (bought 1/3 at limit)

*New*

PFE @ \$32.66 (buy 1/3 at limit)

***Broad Market Large Cap CBI – 3(GE, PFE-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.*

**PFE – buy 1/3 Catapult position @ \$32.50 LIMIT.** This is from the Catapult section above. It is the 2<sup>nd</sup> of 3 possible lots for PFE.

**SPY – buy ¼ index position @ \$212.00 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to add another lot of SPY if it closes down much on Tuesday.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GE(1/3)	10/11/2016	\$28.75	\$28.85	0.35%		Catapult
SPY(1/4)	10/14/2016	\$212.16	\$212.38	0.10%		Aggregator
PFE(1/3)	10/17/2016	\$32.58	\$32.50	-0.25%		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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