

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 19, 2016

Volume 9 Issue 203

Market Overview



Signals Overview

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

Tonight's Research Points

- A bounce from a 20-day low to a 4-day high has often been an initiation of further gains.

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
Active - Short Term						
October 19, 2016	20 low yesterday. 4 high today.	1-8 days	Bullish	2.30%	-1.50%	-3.10%
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%
Active - Long Term						
October 19, 2016	20 low yesterday. 4 high today.	1-20 days	Bullish	3.80%	-2.10%	-4.50%
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			
Dropped Tonight						
October 18, 2016	20-low. Up 1 day. New 20-low.	1 day	Bullish			

The Evidence

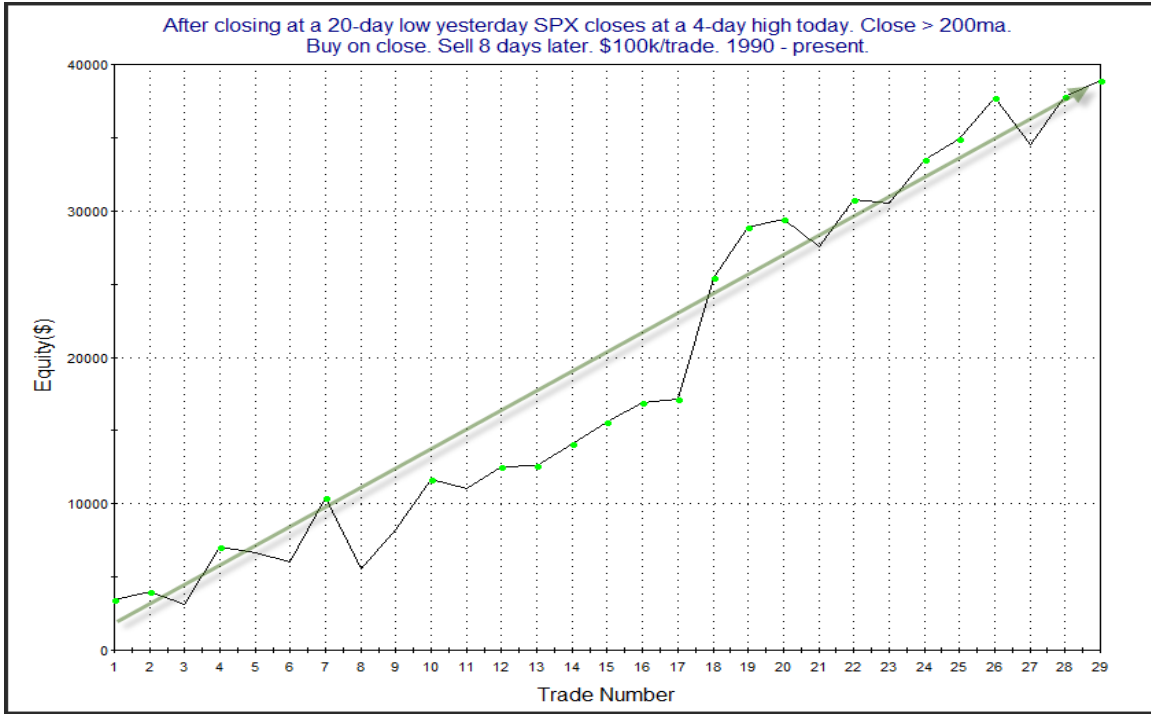
Tuesday was a bounce day, but the bounce primarily occurred before the open. The SPX finished the day up 0.6%, the NASDAQ gained 0.9%, and the Russell 2000 rose 0.6%. Breadth was strongly positive as the NYSE Up Issues % was 76% and the Up Volume % came in at 78%. NYSE volume rose from Monday's level.

Tuesday was a strong enough move that we saw SPX go from closing at a 20-day low on Monday to closing at a 4-day high on Tuesday. In the 5/17/16 letter I looked at other times in which the market put in a strong thrust off a 20-day low. There I required a close of at least a 4-day high. I have updated the results below.

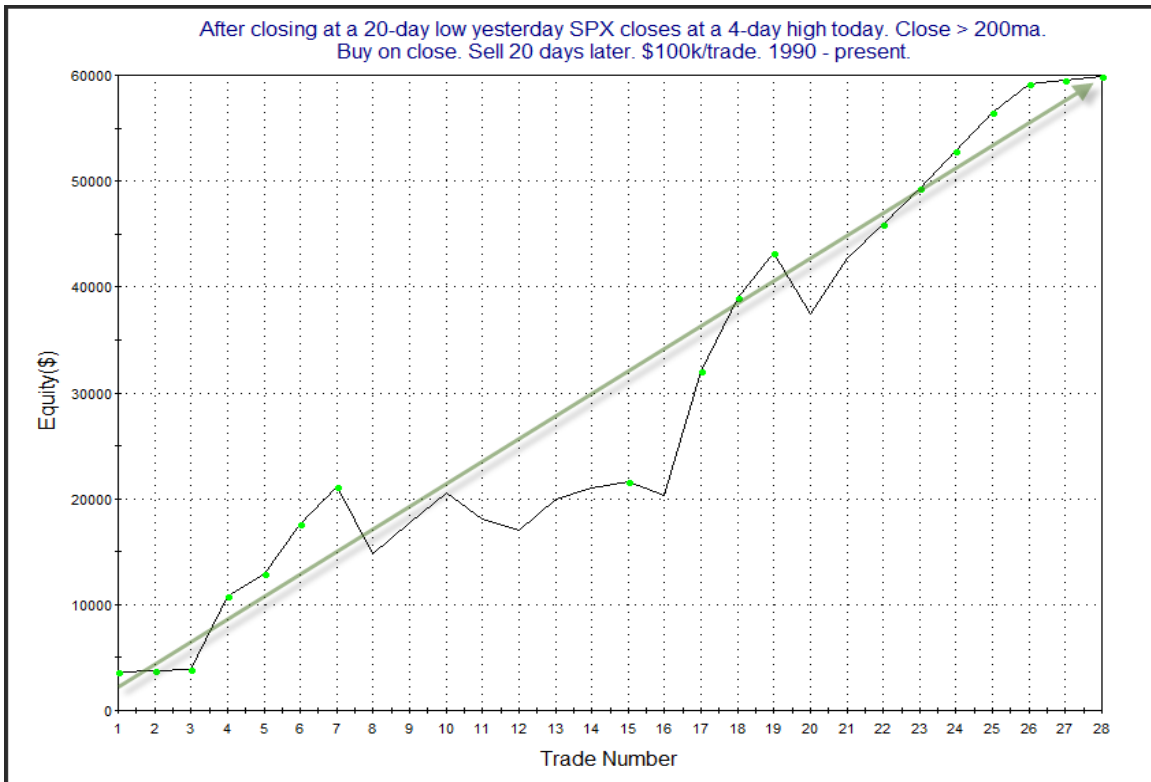
After closing at a 20-day low yesterday SPX closes at a 4-day high today. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

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
20	59,908.44	28	23	5	82.14	3,337.94	11,665.50	-3,372.85	-6,379.08	0.99	4.55	2,139.59
19	58,955.86	28	21	7	75.00	3,657.85	12,037.30	-2,551.29	-6,347.80	1.43	4.30	2,105.57
18	53,917.52	29	23	6	79.31	2,984.68	10,563.30	-2,455.00	-4,148.97	1.22	4.66	1,859.22
17	54,026.31	29	23	6	79.31	3,036.60	11,183.70	-2,635.90	-4,247.96	1.15	4.42	1,862.98
16	51,627.88	29	22	7	75.86	3,005.47	11,506.00	-2,070.35	-4,320.78	1.45	4.56	1,780.27
15	49,212.83	29	21	8	72.41	3,027.88	11,173.80	-1,796.58	-4,723.96	1.69	4.42	1,696.99
14	47,642.58	29	23	6	79.31	2,786.69	9,507.30	-2,741.90	-7,897.52	1.02	3.90	1,642.85
13	40,159.00	29	22	7	75.86	2,544.33	9,427.00	-2,259.47	-7,363.04	1.13	3.54	1,384.79
12	39,261.12	29	20	9	68.97	2,666.97	8,151.00	-1,564.24	-5,686.84	1.70	3.79	1,353.83
11	45,183.52	29	23	6	79.31	2,454.04	8,642.70	-1,876.57	-5,722.20	1.31	5.01	1,558.05
10	41,233.40	29	22	7	75.86	2,548.76	8,924.30	-2,119.89	-8,745.48	1.20	3.78	1,421.84
9	40,470.60	29	21	8	72.41	2,458.57	8,603.10	-1,394.91	-6,371.60	1.76	4.63	1,395.54
8	38,933.14	29	21	8	72.41	2,463.00	8,276.40	-1,598.74	-4,917.08	1.54	4.04	1,342.52
7	28,175.42	29	20	9	68.97	2,262.21	5,832.20	-1,896.53	-4,106.50	1.19	2.65	971.57
6	23,209.06	29	18	11	62.07	2,196.70	5,888.30	-1,484.69	-5,306.50	1.48	2.42	800.31
5	18,655.11	29	17	12	58.62	2,024.90	5,508.80	-1,314.02	-5,320.00	1.54	2.18	643.28
4	19,747.00	30	20	10	66.67	1,760.67	4,326.30	-1,546.65	-4,559.50	1.14	2.28	658.23
3	15,843.77	30	20	10	66.67	1,568.49	4,365.90	-1,552.60	-4,707.50	1.01	2.02	528.13
2	12,894.75	31	22	9	70.97	1,149.11	3,479.30	-1,376.19	-3,138.00	0.83	2.04	415.96
1	364.27	31	14	17	45.16	806.72	2,536.10	-642.93	-2,034.00	1.25	1.03	11.75

Day 1 is a bit iffy, but after that there appears to be a strong and consistent edge over the next 4 weeks. This suggests a good chance that Tuesday's rally was the beginning of a continued move higher. I produced profit curves for the 8-day and 20-day holding periods highlighted above. First, the 8 day...



The strong, steady upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 20-day curve.



This one is a little choppy, but it sure has been strong lately, with 11 of the last 12 instances all closing higher. In the 5/17/16 letter I also looked at bounces that did *not* reach 4-day highs the 1st day. I have updated that table below as well.

After closing at a 20-day low yesterday SPX up but < 4-day high today. Close > 200ma. Buy 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
20	98,679.41	81	57	24	70.37	3,086.91	12,927.20	-3,219.78	-9,587.72	0.96	2.28	1,218.26
19	90,223.25	81	57	24	70.37	2,856.93	13,564.52	-3,025.90	-12,375.24	0.94	2.24	1,113.87
18	97,662.29	83	57	26	68.67	2,998.46	13,895.61	-2,817.31	-13,625.69	1.06	2.33	1,176.65
17	87,679.80	84	57	27	67.86	2,916.34	13,554.35	-2,909.31	-10,959.00	1.00	2.12	1,043.81
16	84,288.88	84	54	30	64.29	3,055.21	11,842.40	-2,689.75	-9,466.89	1.14	2.04	1,003.44
15	84,025.77	87	57	30	65.52	2,830.87	11,759.91	-2,577.80	-7,655.72	1.10	2.09	965.81
14	82,029.17	87	59	28	67.82	2,580.23	10,449.11	-2,507.29	-7,789.32	1.03	2.17	942.86
13	88,034.30	88	59	29	67.05	2,580.22	10,954.22	-2,213.74	-6,510.77	1.17	2.37	1,000.39
12	55,309.90	91	56	35	61.54	2,473.99	11,243.50	-2,378.10	-8,570.72	1.04	1.66	607.80
11	64,376.68	94	59	35	62.77	2,451.06	10,913.54	-2,292.46	-8,225.72	1.07	1.80	684.86
10	53,837.91	96	59	37	61.46	2,344.81	10,577.93	-2,283.95	-11,602.12	1.03	1.64	560.81
9	69,963.51	98	63	35	64.29	2,212.16	8,067.07	-1,982.94	-6,195.44	1.12	2.01	713.91
8	77,974.15	101	71	30	70.30	2,014.04	8,124.70	-2,167.42	-7,580.04	0.93	2.20	772.02
7	100,751.69	103	74	29	71.84	2,056.10	7,734.85	-1,772.42	-5,195.64	1.16	2.96	978.17
6	84,654.10	107	75	32	70.09	1,908.65	6,520.10	-1,827.95	-5,822.32	1.04	2.45	791.16
5	69,451.38	111	72	39	64.86	1,896.10	6,560.78	-1,719.69	-5,937.53	1.10	2.04	625.69
4	56,432.27	118	78	40	66.10	1,467.14	5,650.00	-1,450.12	-5,345.28	1.01	1.97	478.24
3	44,596.07	125	80	45	64.00	1,171.24	3,939.79	-1,091.18	-6,154.38	1.07	1.91	356.77
2	41,254.89	139	86	53	61.87	1,029.09	3,644.28	-891.46	-2,742.74	1.15	1.87	296.80
1	22,535.05	139	83	56	59.71	771.99	2,937.71	-741.79	-2,525.60	1.04	1.54	162.12

Results here are pretty good and also seem to favor more upside. But if you compare the “Avg Trade” column on the far right you’ll find that from Day 2 – Day 19 the Avg Trade here was about *one-half to two-thirds* the Avg Trade when the 1st day jumped SPX up to a 4-day high. Overall, the 1st study above appears worthy of both the short and intermediate-term Active Lists.

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 Wednesday, net expectations will remain positive. It would take some strong bearish evidence on Wednesday to change this. The Differential Pivot will be 2152.13 on Wednesday. That is 0.6% above Tuesday's close. Therefore, SPX would need to close up at least 0.6% on Wednesday in order to move from oversold to overbought versus recent expectations.

Bullish evidence still rules and the market is still oversold versus expectations. At this point it appears Tuesday's bounce was strong and it is likely to continue in the coming days and weeks. I have some long index exposure and I will continue to hold it in anticipation of further gains.

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

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

PFE @ \$32.50 (buy 1/3 at limit) – not filled, cancel for now

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GE(1/3)	10/11/2016	\$28.75	\$28.98	0.80%		sell on open
SPY(1/4)	10/14/2016	\$212.16	\$213.71	0.73%		Aggregator
PFE(1/3)	10/17/2016	\$32.58	\$32.69	0.34%		Catapult

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

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2016 Hanna Capital Management, LLC.