

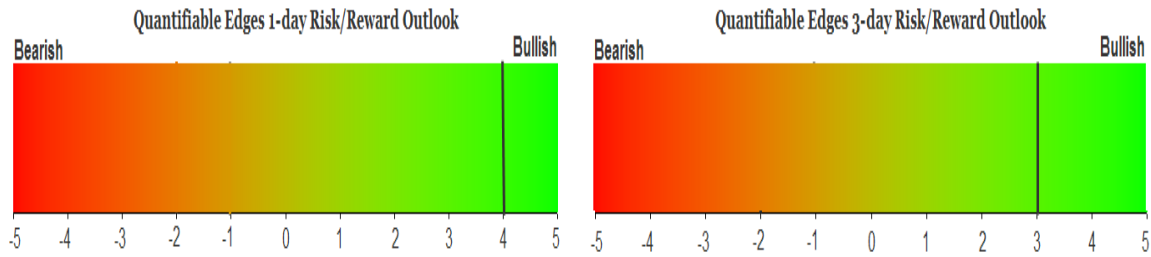
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 2, 2016

Volume 9 Issue 213

Market Overview



Signals Overview

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

Tonight's Research Points

- 4+ day pullbacks that experience the worst day of the pullback are normally primed for a bounce.
- Since 1982, 3+ down days combined with a Fed Day has resulted in consistent gains over the next 3-4 days.
- System 110524 triggered for SPY, which has been a reliable trigger over the years.

Short-term Outlook

The Bottom Line

Evidence is pointing higher and the SPX is oversold. Reward/risk appears favorable for the bulls over the next few days. I am long and looking to get 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						
November 1, 2016	3 down days into month end	1 day	Bullish			
November 1, 2016	20-low close on a Monday > 200ma	1-4 days	Bullish			
November 1, 2016	Day after 4th Fri of October is bearish	1-4 days	Bullish			
October 31, 2016	SPY gpa down close lower after 5-low	1-3 days	Bullish			
October 28, 2016	SPX bottom 10% range. 5-low & > 200	1-5 days	Bullish			
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			

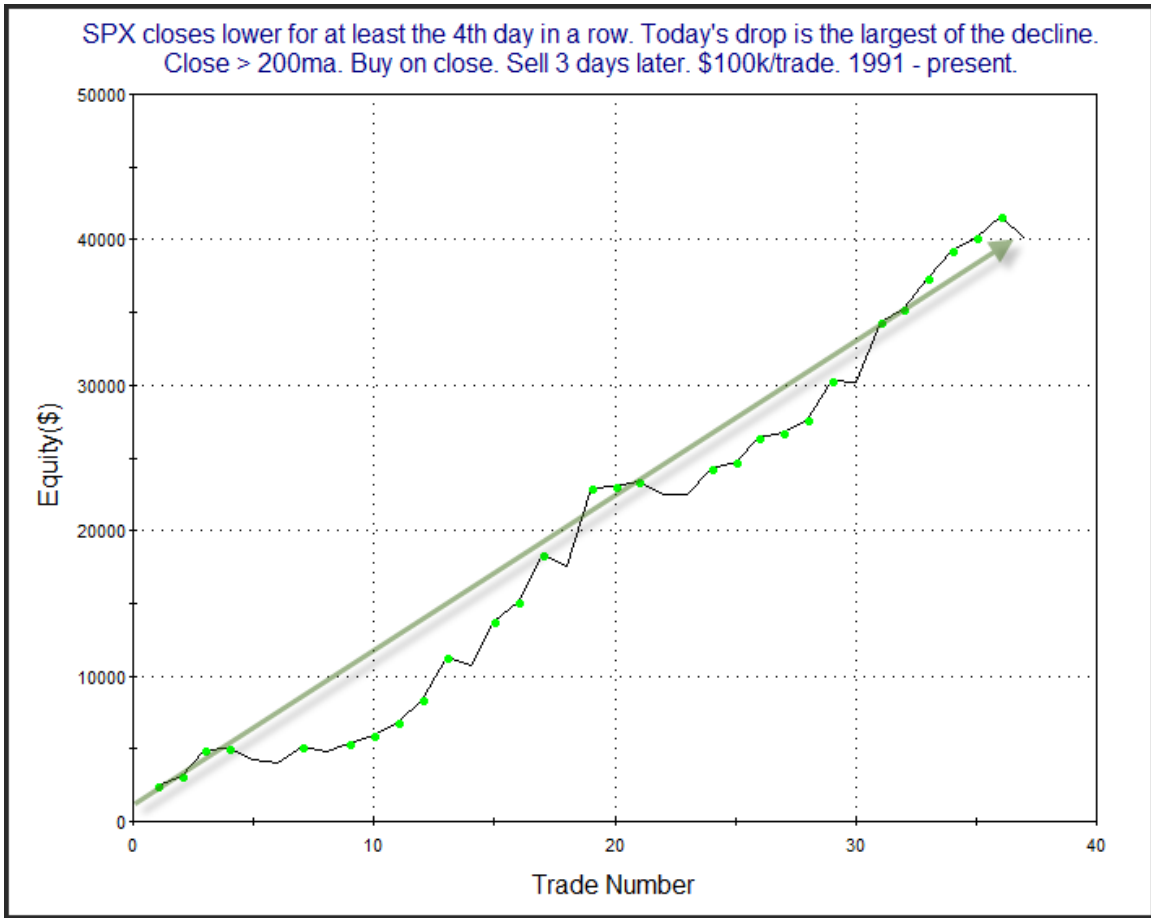
The Evidence

Tuesday was a tough day for the market. The SPX lost 0.7%, the NASDAQ fell 0.7%, and the Russell 2000 declined 1.1%. Breadth was negative as the NYSE Up Issues % was 24% and the Up Volume % came in at 29%. NYSE volume rose from Monday's level.

Several studies appeared in the Quantifinder. I'll discuss the most compelling ones. The study below examined other multi-day selloffs that accelerated after already being down for a number of days. It was last seen in the 11/10/15 Subscriber Letter.

SPX closes lower for at least the 4th day in a row. Today's drop is the largest of the decline. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1991 - 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	45,152.96	37	30	7	81.08	1,618.37	7,070.28	-485.45	-1,218.72	3.33	14.29	1,220.35
4	37,944.95	37	28	9	75.68	1,668.59	5,187.49	-975.07	-2,665.92	1.71	5.32	1,025.54
3	40,021.05	37	29	8	78.38	1,559.49	5,339.18	-650.52	-1,565.28	2.40	8.69	1,081.65
2	34,520.90	38	29	9	76.32	1,378.05	4,809.66	-604.74	-1,343.84	2.28	7.34	908.44
1	19,968.63	41	28	13	68.29	1,003.55	5,117.46	-625.44	-1,699.92	1.60	3.46	487.04
100% of instances closed above the entry price at some point in the next 6 days.												

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of that over the last 9 years. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact, just before the period shown there were 2 trades that were losers. Still, the evidence appears strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



The consistently strong upslope makes this an appealing looking equity curve.

This next study was last seen in the 9/12/16 letter. It was similar in that it looks for a multi-day decline with a big drop on the most recent day. But it also looks for an intermediate-term low. I have updated the study below.

SPX closes at a 20-day low. Close > 200ma. Today's drop is the largest in 10 days.
Buy on close. Sell X days later. \$100k/trade. 1991 - 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	71,269.04	70	49	21	70.00	2,486.37	5,953.20	-2,407.76	-13,993.88	1.03	2.41	1,018.13
9	88,113.46	71	53	18	74.65	2,317.27	5,761.56	-1,927.89	-10,059.36	1.20	3.54	1,241.03
8	75,196.93	72	51	21	70.83	2,361.56	6,960.84	-2,154.40	-14,092.68	1.10	2.66	1,044.40
7	87,965.13	73	54	19	73.97	2,234.35	7,500.06	-1,720.52	-8,018.76	1.30	3.69	1,205.00
6	82,265.54	75	55	20	73.33	2,180.43	7,272.06	-1,882.90	-7,966.32	1.16	3.18	1,096.87
5	71,735.96	75	46	29	61.33	2,258.43	7,070.28	-1,108.68	-3,385.80	2.04	3.23	956.48
4	48,273.82	77	49	28	63.64	1,787.86	4,731.13	-1,404.70	-3,863.84	1.27	2.23	626.93
3	39,960.55	77	51	26	66.23	1,409.91	4,277.94	-1,228.65	-5,331.20	1.15	2.25	518.97
2	39,214.94	78	51	27	65.38	1,232.13	4,809.66	-874.95	-3,863.25	1.41	2.66	502.76
1	14,682.53	80	50	30	62.50	722.54	5,117.46	-714.82	-2,162.04	1.01	1.68	183.53

Results here are quite bullish. Some subscribers may recognize the setup as numbered-system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

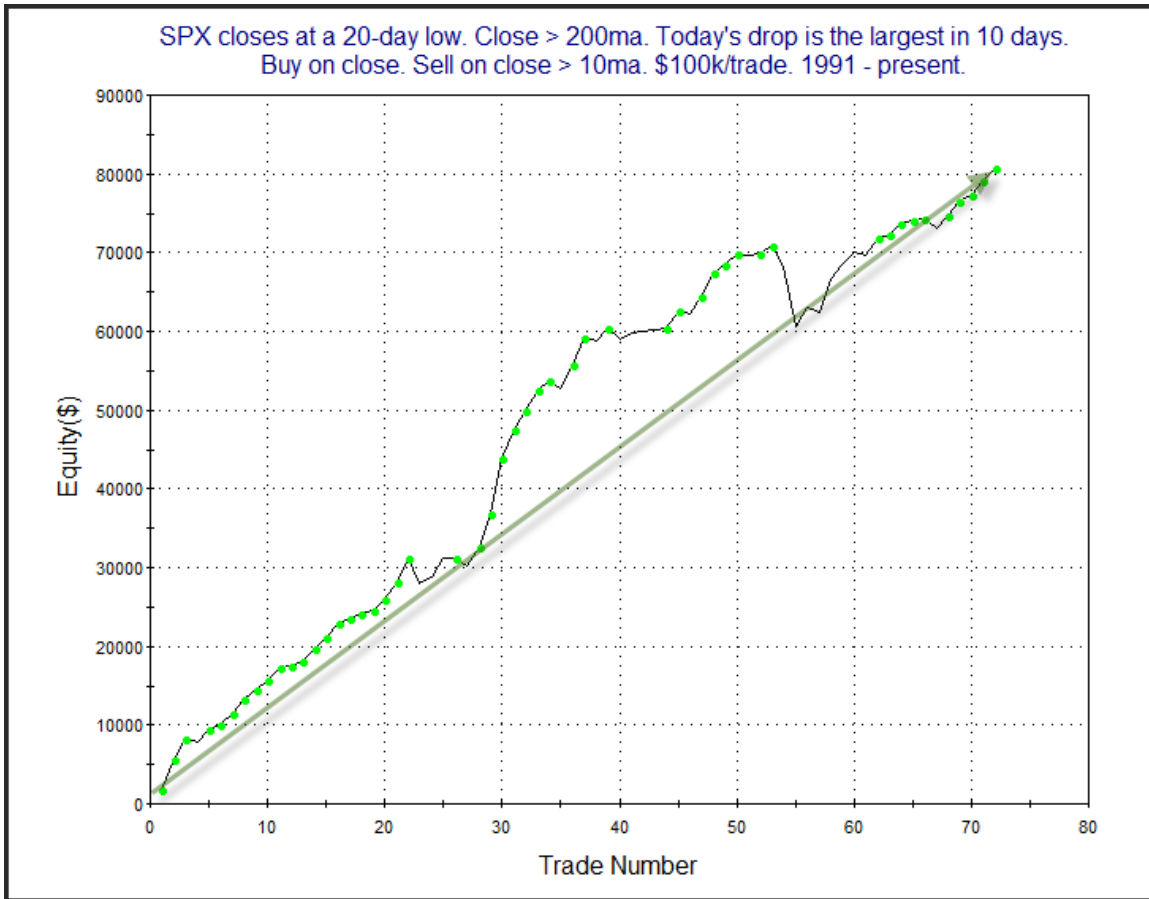
SPX closes at a 20-day low. Close > 200ma. Today's drop is the largest in 10 days.
Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary Expand ▾

All Trades

Total Net Profit	\$80,673.29	Profit Factor	4.91
Gross Profit	\$101,287.77	Gross Loss	(\$20,614.48)
Total Number of Trades	72	Percent Profitable	81.94%
Winning Trades	59	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	\$1,120.46	Ratio Avg. Win:Avg. Loss	1.08
Avg. Winning Trade	\$1,716.74	Avg. Losing Trade	(\$1,585.73)
Largest Winning Trade	\$7,070.28	Largest Losing Trade	(\$7,630.40)

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. Below is a profit curve where it can be seen.



The big drop was made up for fairly quickly and the upward slope is back in place.

Of course Wednesday is a Fed Day. And on Tuesday a very interesting Fed Day-related study emerged. It examined other times that SPX was in a long-term uptrend, but closed down for at least the third day in a row going into the Fed Day. I last showed this study in the 6/15/16 subscriber letter, and have updated the results below.

SPX closes lower for at least the 3rd day in a row. Close > 200ma. Tomorrow is a Fed Day.
Buy on close. Sell X days later. \$100k/trade. 1982 - 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	28,106.01	18	15	3	83.33	2,285.11	5,471.50	-2,056.86	-3,270.96	1.11	5.55	1,561.44
4	28,700.28	18	16	2	88.89	1,938.23	5,290.00	-1,155.67	-1,433.11	1.68	13.42	1,594.46
3	28,543.90	18	17	1	94.44	1,690.63	4,895.50	-196.80	-196.80	8.59	146.04	1,585.77
2	19,474.82	18	14	4	77.78	1,436.16	4,424.50	-157.87	-243.60	9.10	31.84	1,081.93
1	9,980.41	18	14	4	77.78	813.18	2,007.50	-351.02	-462.09	2.32	8.11	554.47

These are some very encouraging numbers for the bulls. Below is the list of instances.

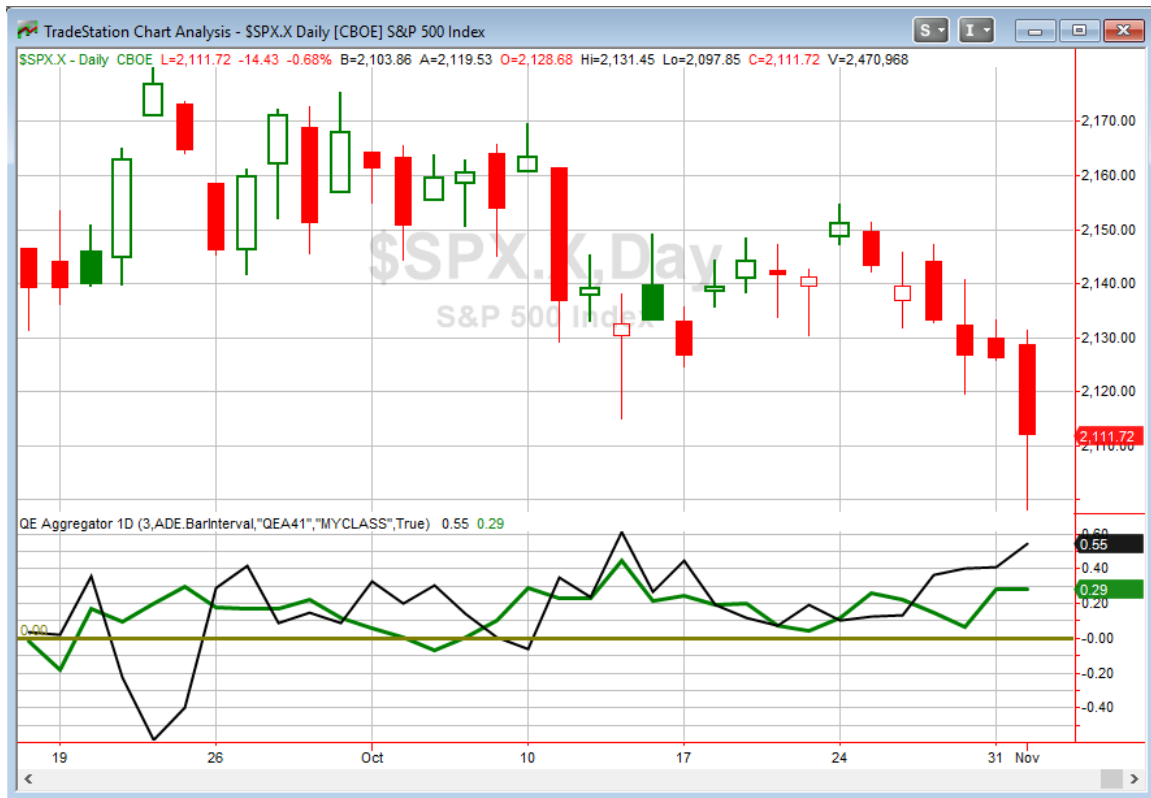
SPX closes lower for at least the 3rd day in a row. Close > 200ma. Tomorrow is a Fed Day. Buy on close. Sell 3 days later. \$100k/trade. 1982 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/16/1982	Buy	\$135.41	1.19%	\$3,217.68
11/19/1982	Sell	\$137.02		\$0.00
10/3/1983	Buy	\$165.80	2.70%	\$3,069.27
10/6/1983	Sell	\$170.27		(\$615.06)
7/8/1986	Buy	\$241.58	0.26%	\$780.57
7/11/1986	Sell	\$242.22		(\$792.96)
2/10/1987	Buy	\$275.07	1.68%	\$2,116.29
2/13/1987	Sell	\$279.69		(\$431.97)
12/18/1989	Buy	\$343.68	0.32%	\$391.50
12/21/1989	Sell	\$344.78		(\$1,177.40)
8/19/1991	Buy	\$376.46	3.95%	\$4,110.15
8/22/1991	Sell	\$391.33		\$0.00
11/4/1991	Buy	\$390.27	0.88%	\$880.64
11/7/1991	Sell	\$393.71		(\$688.64)
7/6/1993	Buy	\$441.43	1.52%	\$1,697.26
7/9/1993	Sell	\$448.13		(\$6.78)
9/20/1993	Buy	\$455.05	0.59%	\$797.16
9/23/1993	Sell	\$457.74		(\$1,186.98)
11/14/1995	Buy	\$589.29	1.83%	\$1,833.65
11/17/1995	Sell	\$600.07		(\$157.17)
12/18/1995	Buy	\$606.82	0.60%	\$1,221.80
12/21/1995	Sell	\$610.49		(\$290.28)
12/16/1996	Buy	\$720.99	3.44%	\$3,459.66
12/19/1996	Sell	\$745.77		(\$593.40)
3/30/1998	Buy	\$1,093.60	2.41%	\$2,494.31
4/2/1998	Sell	\$1,120.01		(\$4.55)
5/18/1998	Buy	\$1,105.82	0.80%	\$1,676.70
5/21/1998	Sell	\$1,114.64		\$0.00
8/8/2005	Buy	\$1,223.13	1.20%	\$1,584.36
8/11/2005	Sell	\$1,237.81		\$0.00
3/19/2013	Buy	\$1,548.34	0.55%	\$846.08
3/22/2013	Sell	\$1,556.89		(\$306.56)
12/16/2014	Buy	\$1,972.74	4.96%	\$5,255.50
12/19/2014	Sell	\$2,070.65		\$0.00
6/14/2016	Buy	\$2,075.32	-0.20%	\$495.84
6/17/2016	Sell	\$2,071.22		(\$1,197.60)

The 6/14/16 instance posted a positive reading on Day 4.

One possible concern is that there have only been 4 instances in the last 18 years. The setup has certainly been potent over a long period of time. But I am a little less enthused than I would be if all these instances would have taken place over the last 10 years. Still, with every instance higher at some point in the next 4 days, it certainly seems worth

consideration. And combined with the other studies we seem to have ample evidence of a bullish inclination.

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 strongly 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.

Based on the current active studies, expectations are primed to remain positive on Wednesday. It would take extremely compelling new bearish evidence in order to change this. The Differential Pivot will be 2135.76 on Wednesday. That is 1.1% above Tuesday's close. So SPX would need to close up 1.1% on Wednesday to flip from oversold to overbought versus expectations.

There is a lot to like about the market on a short-term basis. We have 2 studies shown above that have 100% bounce reliability over the test periods. There is ample room to the upside before the market will be considered overbought as well. I do not like that the CBI is just at 2 (which you will see below). I will hold onto my last ¼ size position until that spikes. But with so much else looking good right now, I will take on a 3rd lot of SPY if I can get a favorable gap down open or close lower on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/24 – bullish

The intermediate-term outlook was last updated in the 10/24 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

SPG @ \$183.23 (bought 1/3@limit)

SPG @ \$182.88 (bought 1/3@limit)

Broad Market Large Cap CBI – 2(SPG-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.

SPY – buy ¼ index position @ \$210.50 LIMIT ON OPEN. If not filled on open, cancel order and look to buy @ \$211.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add more long index exposure if I can get a decent fill on Tuesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
T(1/3)	10/24/2016	\$36.51	\$36.97	1.26%		<i>sold on open</i>
T(1/3)	10/25/2016	\$36.86	\$36.97	0.30%		<i>sold on open</i>
T(1/3)	10/26/2016	\$36.64	\$36.97	0.90%		<i>sold on open</i>
SPG(1/3)	10/28/2016	\$183.23	\$183.25	0.01%		Catapult
SPY(1/4)	10/28/2016	\$213.14	\$211.01	-1.00%		Aggregator
SPG(1/3)	10/31/2016	\$182.88	\$183.25	0.20%		Catapult
SPY(1/4)	11/1/2016	\$212.55	\$211.01	-0.72%		Aggregator

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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