

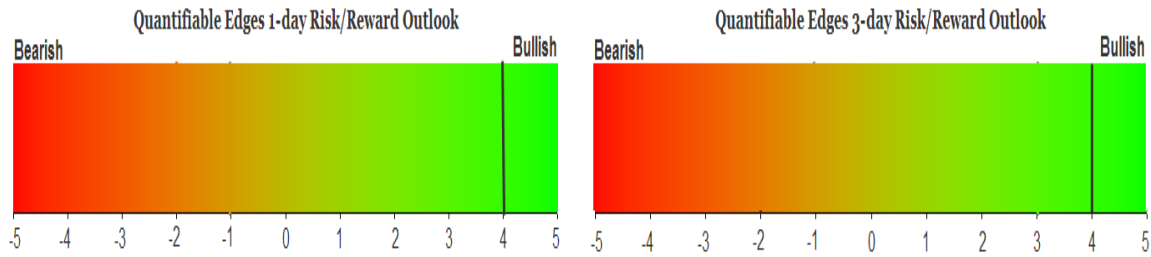
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 3, 2016

Volume 9 Issue 214

Market Overview



Signals Overview

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

Tonight's Research Points

- 20-day lows on Fed Days have historically been followed by a rally in the next week.
- 7 days up for VIX has been rare but bullish.
- 50-day lows and extremely oversold short-term RSI the last 2 days are setting up for a bounce.

Short-term Outlook

The Bottom Line

Similar to last night. 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) – not updated tonight

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

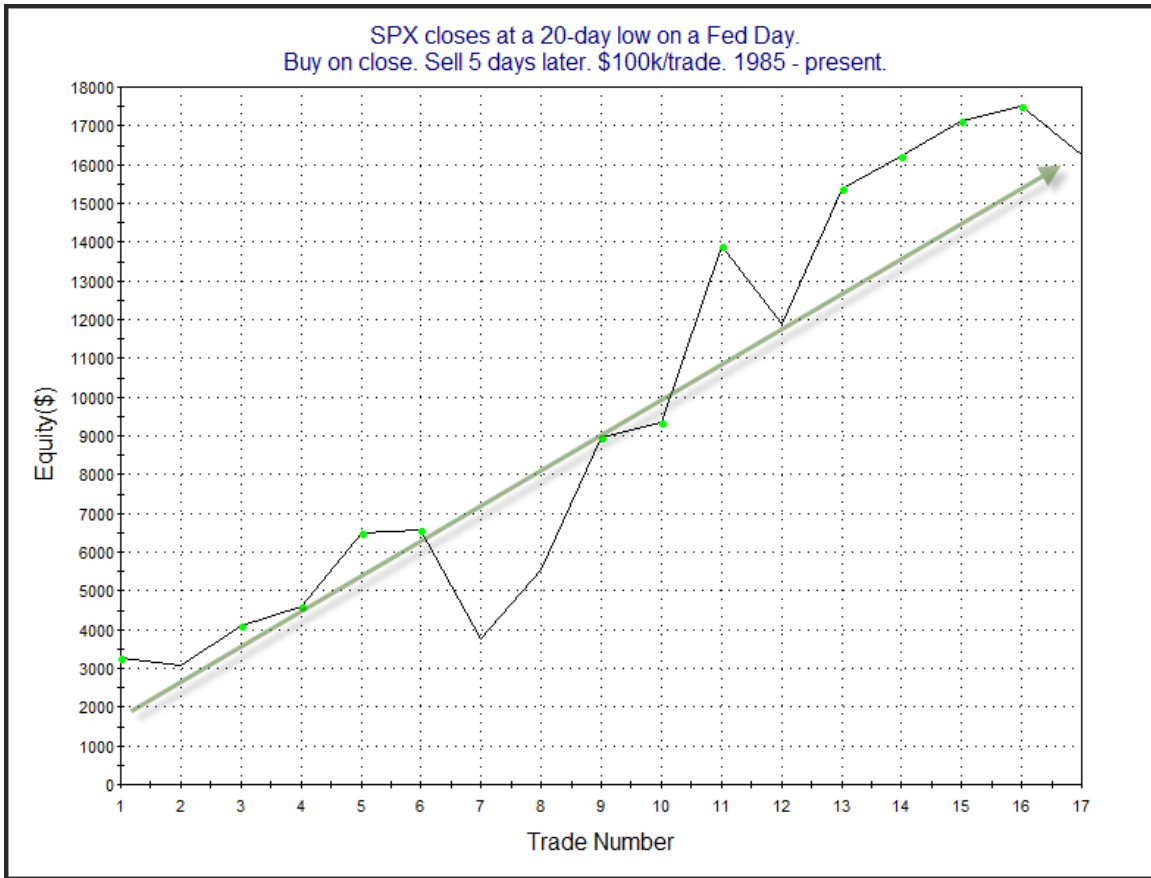
Wednesday was yet another down day. The SPX lost 0.65%, the NASDAQ fell 0.9%, and the Russell 2000 declined 1.3%. Breadth was negative as the NYSE Up Issues % was 24% and the Up Volume % came in at 19%. NYSE volume fell from Tuesday’s level.

Several studies appeared in the Quantifinder. I’ll discuss the most compelling ones.

One potential positive about the intermediate-term low today is that it came on a Fed Day. I looked back at other times SPX made an intermediate-term low on a Fed Day.

SPX closes at a 20-day low on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1985 - 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	16,255.43	17	13	4	76.47	1,729.99	4,540.05	-1,558.61	-2,816.80	1.11	3.61	956.20
4	7,367.43	17	10	7	58.82	1,406.56	3,387.93	-956.89	-2,594.88	1.47	2.10	433.38
3	-1,151.53	17	10	7	58.82	714.24	2,379.62	-1,184.85	-3,208.50	0.60	0.86	-67.74
2	2,052.55	17	12	5	70.59	988.46	4,350.52	-1,961.79	-4,588.00	0.50	1.21	120.74
1	1,318.63	17	10	7	58.82	1,184.68	3,739.20	-1,504.02	-3,103.08	0.79	1.13	77.57
The only instance NOT to close above the entry price at some point in the next week triggered on 8/21/90.												

Results over the first few days are underwhelming, but once you get out 1 week they look quite impressive. Below is a profit curve for the 1-week holding period.



The strong upslope serves as nice confirmation of the possible bullish edge.

The extremely oversold market also triggered the study below, which was last seen in the 5/18/12 subscriber letter. Results are updated.

SPX 2-day RSI < 2 and SPX closes at a 50-day low. The combination occurs for the 2nd day in a row.
Buy SPX on close. Sell X days later. \$100k/trade. 1985 - 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	30,793.96	12	8	4	66.67	5,034.98	13,135.00	-2,371.47	-5,696.34	2.12	4.25	2,566.16
4	24,612.58	12	8	4	66.67	3,871.38	12,657.50	-1,589.61	-4,574.36	2.44	4.87	2,051.05
3	32,824.71	12	11	1	91.67	3,264.98	9,601.81	-3,090.08	-3,090.08	1.06	11.62	2,735.39
2	27,526.75	13	10	3	76.92	3,278.63	10,183.87	-1,753.20	-3,135.65	1.87	6.23	2,117.44
1	28,782.95	19	12	7	63.16	3,039.21	11,558.43	-1,098.22	-1,631.84	2.77	4.74	1,514.89

Instances are a little lower than I typically like, but the numbers are incredibly bullish and seem worthy of consideration. Below I have listed all 12 instances assuming a 3-day holding period.

SPX 2-day RSI < 2 and SPX closes at 50-day low. The combination occurs for 2nd day in a row. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
9/16/1985	Buy	\$182.88	0.27%	\$278.46
9/19/1985	Sell	\$183.38		(\$1,152.06)
3/28/1994	Buy	\$460.00	-3.10%	\$69.44
3/31/1994	Sell	\$445.76		(\$5,173.28)
11/23/1994	Buy	\$449.19	1.33%	\$1,327.56
11/29/1994	Sell	\$455.17		\$0.00
10/12/2000	Buy	\$1,329.64	1.53%	\$3,851.25
10/17/2000	Sell	\$1,349.97		(\$212.25)
9/21/2001	Buy	\$965.80	4.27%	\$5,612.47
9/26/2001	Sell	\$1,007.04		\$0.00
4/29/2002	Buy	\$1,065.45	1.79%	\$2,415.21
5/2/2002	Sell	\$1,084.56		(\$185.07)
7/23/2002	Buy	\$797.70	6.91%	\$7,016.25
7/26/2002	Sell	\$852.84		(\$2,752.50)
10/9/2008	Buy	\$909.92	9.68%	\$14,648.51
10/14/2008	Sell	\$998.01		(\$7,643.08)
2/23/2009	Buy	\$743.33	1.28%	\$4,929.86
2/26/2009	Sell	\$752.83		\$0.00
7/1/2010	Buy	\$1,027.37	3.20%	\$3,251.44
7/7/2010	Sell	\$1,060.27		(\$1,109.68)
5/17/2012	Buy	\$1,304.86	0.90%	\$1,795.88
5/22/2012	Sell	\$1,316.63		(\$978.88)
8/24/2015	Buy	\$1,893.21	4.99%	\$5,012.28
8/27/2015	Sell	\$1,987.66		(\$1,358.76)

No red flags here.

One notable bit of action is that Wednesday marked the 7th day in a row that the VIX has risen. That is a very unusual streak. I decided to look back at all other times the VIX had risen for 7 days in a row while SPY was above its 200ma. Below are results of SPY over the following days – updated from a 12/5/13 study.

VIX closes up for the 7th day in a row. SPY > 200ma.
Buy SPY on close. Sell X days later. \$100k/trade. 1993 - 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	13,317.51	8	6	2	75.00	2,454.16	4,455.11	-703.73	-845.91	3.49	10.46	1,664.69
4	13,035.43	8	6	2	75.00	2,309.06	4,855.07	-409.45	-780.84	5.64	16.92	1,629.43
3	13,282.94	8	8	0	100.00	1,660.37	4,577.32	0.00	0.00	100.00	100.00	1,660.37
2	9,420.88	8	6	2	75.00	1,789.07	4,932.84	-656.76	-882.06	2.72	8.17	1,177.61
1	1,638.00	8	5	3	62.50	852.44	2,355.32	-874.73	-1,677.36	0.97	1.62	204.75

Instances are low, but so far the returns are overwhelmingly bullish. Below is the list of instances assuming a 3-day holding period.

VIX closes up for the 7th day in a row. SPY > 200ma.
Buy SPY on close. Sell 3 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/3/1994	Buy	\$46.48	0.58%	\$795.87
1/6/1994	Sell	\$46.75		(\$21.51)
2/6/1996	Buy	\$64.77	1.65%	\$2,484.23
2/9/1996	Sell	\$65.84		(\$108.01)
3/19/1997	Buy	\$78.78	0.95%	\$1,015.20
3/24/1997	Sell	\$79.53		(\$1,142.10)
10/30/1997	Buy	\$89.94	4.58%	\$4,999.50
11/4/1997	Sell	\$94.06		\$0.00
3/30/1998	Buy	\$109.56	2.25%	\$2,453.28
4/2/1998	Sell	\$112.03		(\$136.80)
8/5/2003	Buy	\$96.42	1.93%	\$2,208.81
8/8/2003	Sell	\$98.28		\$0.00
4/9/2012	Buy	\$138.22	0.41%	\$491.64
4/12/2012	Sell	\$138.79		(\$1,778.58)
12/4/2013	Buy	\$179.73	0.93%	\$1,078.64
12/9/2013	Sell	\$181.40		(\$533.76)

Very little drawdown compared to both the run-up and the average trade. This appears to be worth some consideration. I also looked to see how the VIX did over this 3-day time period.

VIX closes up for the 7th day in a row. SPY > 200ma.
 "Buy" VIX on close. Sell 3 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/3/1994	Buy	\$12.57	-10.34%	\$0.00
1/6/1994	Sell	\$11.27		(\$12,966.65)
2/6/1996	Buy	\$14.59	0.27%	\$274.16
2/9/1996	Sell	\$14.63		(\$4,797.80)
3/19/1997	Buy	\$21.74	-7.73%	\$0.00
3/24/1997	Sell	\$20.06		(\$9,427.95)
10/30/1997	Buy	\$38.20	-15.60%	\$0.00
11/4/1997	Sell	\$32.24		(\$15,989.87)
3/30/1998	Buy	\$24.66	-10.87%	\$0.00
4/2/1998	Sell	\$21.98		(\$10,867.40)
8/5/2003	Buy	\$22.68	-13.62%	\$0.00
8/8/2003	Sell	\$19.59		(\$13,623.81)
4/9/2012	Buy	\$18.81	-8.56%	\$11,961.00
4/12/2012	Sell	\$17.20		(\$8,558.76)
12/4/2013	Buy	\$14.70	-8.23%	\$4,625.36
12/9/2013	Sell	\$13.49		(\$8,230.42)

Except for the 1996 instance, there was a decline of at least 7% every time.

I have updated the Aggregator chart below.



With even more bullish evidence tonight the green Aggregator Line is now far above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also elevated 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 Thursday. It would take extremely compelling new bearish evidence in order to change this. The Differential Pivot will be 2136.50 on Thursday. That is 1.8% above Wednesday's close. So SPX would need to close up 1.8% on Thursday to flip from oversold to overbought versus expectations. That would be a sizable jump for 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Seasonality (Fed Day), sentiment (VIX) and price action in SPY are all pointing towards a likely strong bounce in the next few days. I added some more index exposure near the close and I am happy with my index positions at the moment. As you will see below, the CBI rose from 2 to 4, and I will look to add those Catapult positions. If the CBI continues to spike over the next few days, then there is a decent chance I will look to add the 4th lot of SPY as well.

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)

New

PFE @ \$30.63 (buy 1/3 @ limit)

LLY @ \$72.65 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 4(SPG-2, PFE, LLY)

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 @ \$30.63 LIMIT. From the Catapult section above. This is the 1st of 3 possible lots for PFE.

LLY – buy 1/3 Catapult position @ \$72.65 LIMIT. From the Catapult section above. This is the 1st of 3 possible lots for LLY.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPG(1/3)	10/28/2016	\$183.23	\$179.68	-1.94%		Catapult
SPY(1/4)	10/28/2016	\$213.14	\$209.74	-1.60%		Aggregator
SPG(1/3)	10/31/2016	\$182.88	\$179.68	-1.75%		Catapult
SPY(1/4)	11/1/2016	\$212.55	\$209.74	-1.32%		Aggregator
SPY(1/4)	11/2/2016	\$209.74	\$209.74	0.00%		bought on close

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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