

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 8, 2016

Volume 9 Issue 217

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Flat	Flat	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.
- A 20% drop in VXO is often followed by a SPX decline the next day.
- A 50-day low followed by a 90% up day has almost always been followed by a down day the next day.

Short-term Outlook

The Bottom Line

A strong bounce arrived on Monday, and it could be overdone already. I am neutral and looking to take profits.

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 8, 2016	20 low yesterday. 4 high today.	1-8 days	Bullish			
November 8, 2016	90% Up Volume after 50-day low	1 day	Bearish			
November 8, 2016	VXO 20% drop	1 day	Bearish			
November 7, 2016	Fed Day down and next 2 days	1-3 days	Bullish			
November 7, 2016	SPX bottom 10% range. 5-low & > 200	1-5 days	Bullish			
November 4, 2016	VIX spike to 50-day high	1-4 days	Bullish			
November 3, 2016	20-day low on a Fed Day	1-5 days	Bullish			
November 2, 2016	System 110524	1-7 days	Bullish			
Active - Long Term						
October 19, 2016	20 low yesterday. 4 high today.	1-20 days	Bullish	3.80%	-2.10%	-4.50%
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
November 3, 2016	RSI 2 < 2, 50-low 2x	1-3 days	Bullish			
November 3, 2016	VIX up 7 days in a row	1-3 days	Bullish			

The Evidence

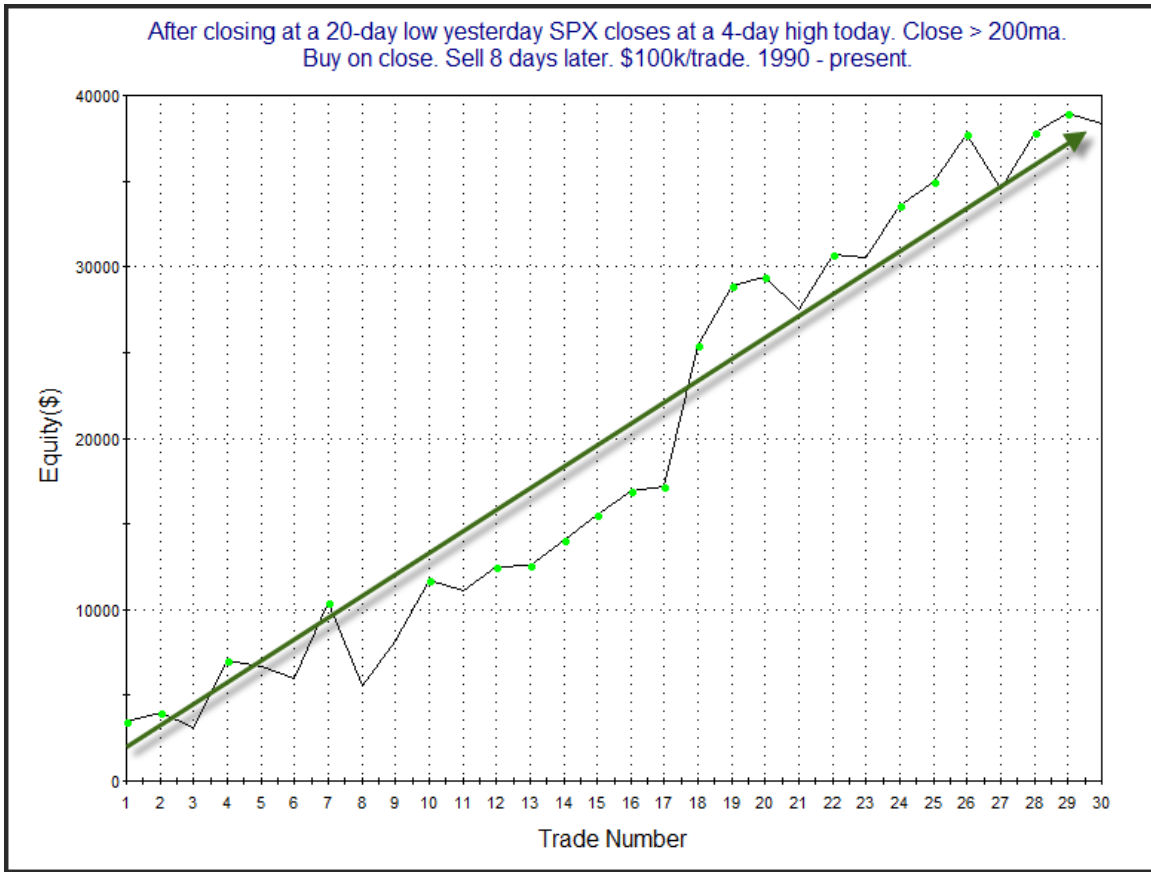
The FBI gave us a bounce Sunday night and the bears did some short covering on Monday and the market put in solid gains. The SPX rose 2.2%, the NASDAQ climbed 2.4%, and the Russell 2000 rallied %. Breadth was extremely positive as the NYSE Up Issues % was 82% and the Up Volume % came in at 91%. NYSE volume declined some from Friday's level.

Monday was a strong enough move that we saw SPX go from closing at a 20-day low on Friday to closing at a 4-day high on Monday. In the 10/19/16 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.

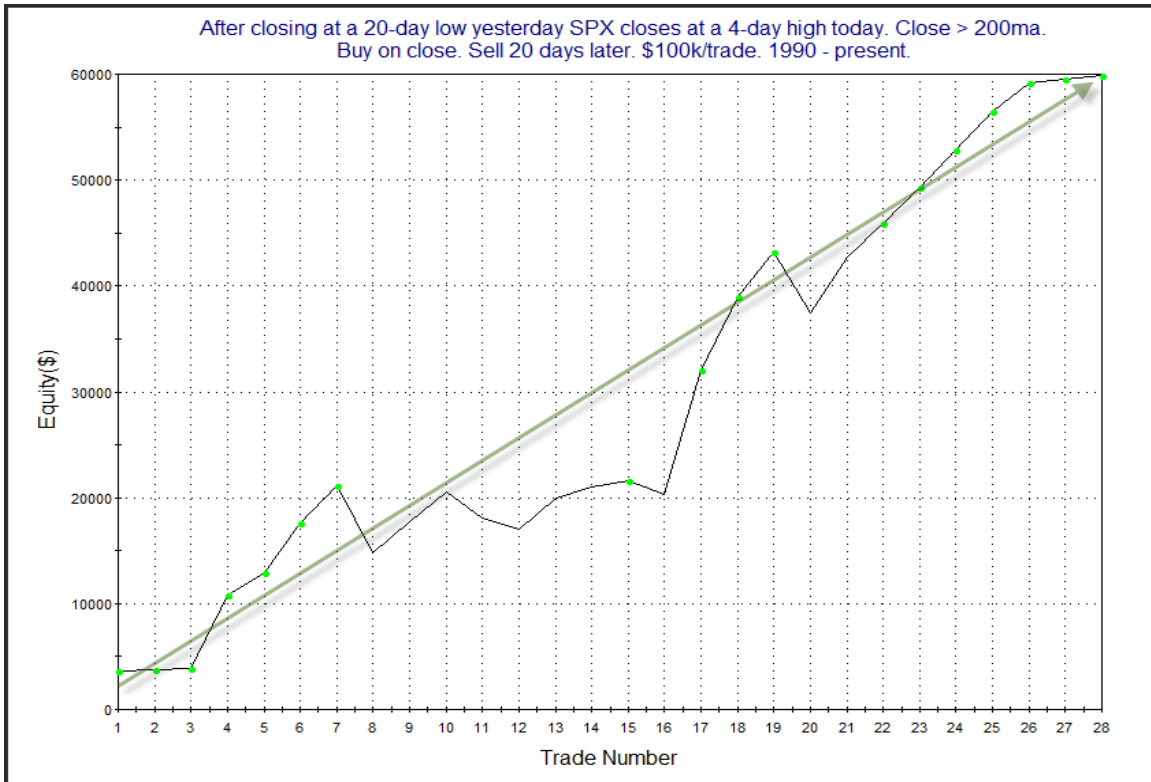
After closing at a 20-day low yesterday SPX closes at a 4-day high today. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

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	47,270.90	30	23	7	76.67	2,786.69	9,507.30	-2,403.30	-7,897.52	1.16	3.81	1,575.70
13	37,655.68	30	22	8	73.33	2,544.33	9,427.00	-2,289.95	-7,363.04	1.11	3.06	1,255.19
12	36,917.88	30	20	10	66.67	2,666.97	8,151.00	-1,642.14	-5,686.84	1.62	3.25	1,230.60
11	43,267.16	30	23	7	76.67	2,454.04	8,642.70	-1,882.25	-5,722.20	1.30	4.28	1,442.24
10	39,950.92	30	22	8	73.33	2,548.76	8,924.30	-2,015.22	-8,745.48	1.26	3.48	1,331.70
9	39,851.90	30	21	9	70.00	2,458.57	8,603.10	-1,308.67	-6,371.60	1.88	4.38	1,328.40
8	38,326.40	30	21	9	70.00	2,463.00	8,276.40	-1,488.52	-4,917.08	1.65	3.86	1,277.55
7	27,873.66	30	20	10	66.67	2,262.21	5,832.20	-1,737.06	-4,106.50	1.30	2.60	929.12
6	23,201.24	30	18	12	60.00	2,196.70	5,888.30	-1,361.62	-5,306.50	1.61	2.42	773.37
5	18,818.88	30	18	12	60.00	1,921.51	5,508.80	-1,314.02	-5,320.00	1.46	2.19	627.30
4	20,286.57	31	21	10	67.74	1,702.52	4,326.30	-1,546.65	-4,559.50	1.10	2.31	654.41
3	15,915.53	31	21	10	67.74	1,497.22	4,365.90	-1,552.60	-4,707.50	0.96	2.03	513.40
2	12,974.79	32	23	9	71.88	1,102.63	3,479.30	-1,376.19	-3,138.00	0.80	2.05	405.46
1	580.01	32	15	17	46.88	767.32	2,536.10	-642.93	-2,034.00	1.19	1.05	18.13

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 decent chance that Monday'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 choppier, but it sure has been strong lately, with 11 of the last 12 instances all closing higher. In the 10/19/16 letter I also looked at bounces that did *not* reach 4-day highs the 1st day. I have copied that table below.

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

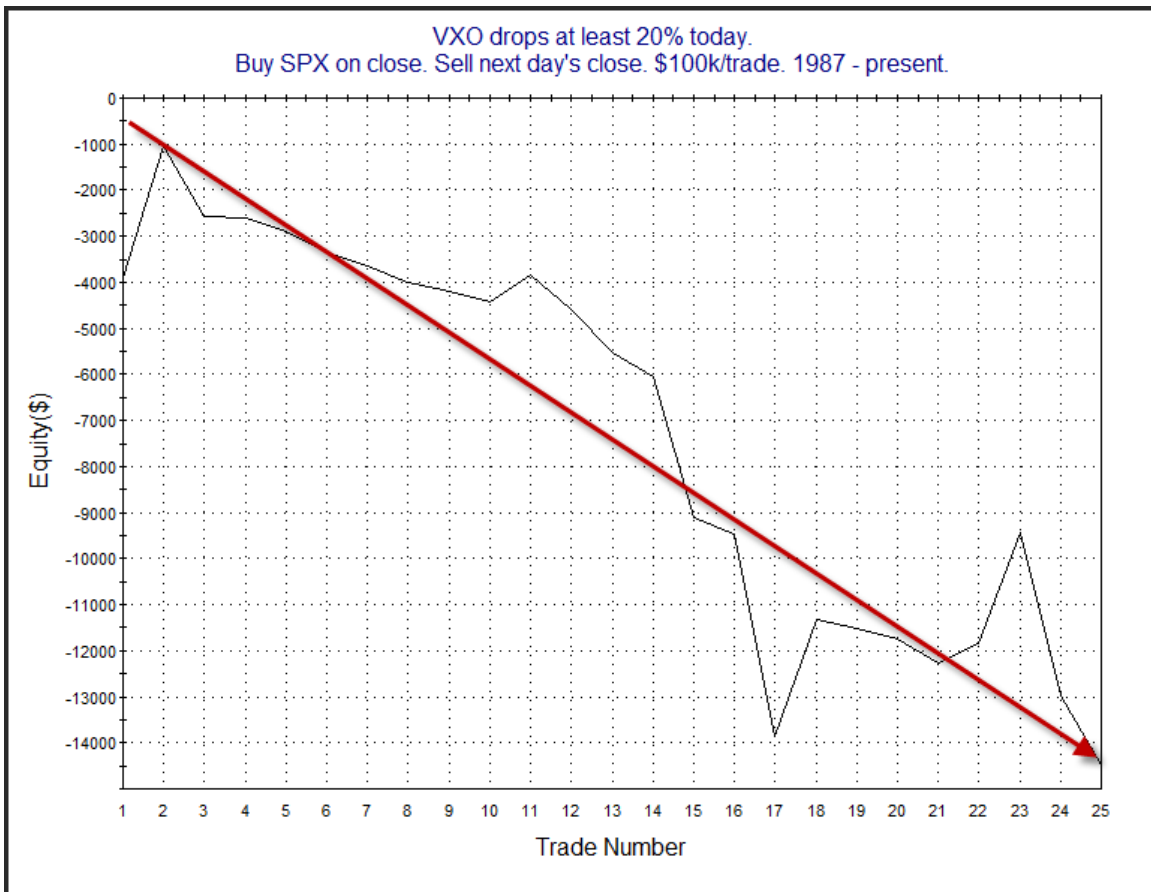
Results here are pretty good and also seem to favor more upside. But if you compare the “Avg Trade” column on the far right you’ll find that from Day 2 – Day 19 the Avg Trade here was about *one-half to two-thirds* the Avg Trade when the 1st day jumped SPX up to a 4-day high. Overall, the 1st study above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

While Day 1 looked “iffy” in this study, there were aspects of the bounce which make Day 1 actually look bearish. The VIX, which is a measure of options pricing and is often referred to as a “fear index” saw a 17% drop on Monday. Meanwhile, the VXO, which is the old calculation of the VIX declined nearly 21%. Such big declines often suggest short-term over-optimism on the part of traders and are followed by a dip the next day. This can be seen in the study below, which was from the 9/13/16 letter. All stats are updated.

VXO drops at least 20% today.
Buy SPX on close. Sell next day's close. \$100k/trade. 1987 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	(\$14,469.28)	Profit Factor	0.38	
Gross Profit	\$8,841.53	Gross Loss	(\$23,310.81)	
Total Number of Trades	25	Percent Profitable	20.00%	
Winning Trades	5	Losing Trades	20	
Even Trades	0			
Avg. Trade Net Profit	(\$578.77)	Ratio Avg. Win:Avg. Loss	1.52	
Avg. Winning Trade	\$1,768.31	Avg. Losing Trade	(\$1,165.54)	
Largest Winning Trade	\$2,860.08	Largest Losing Trade	(\$4,400.45)	

Numbers here suggest a downside edge. Below is a profit curve to see how it has played out over time.



Quite choppy but it certainly appears the big VXO drops don't often bode well for the next day. This study has been added to the Short-Term Active List.

Another hint the bounce may have been overdone was the extremely strong breadth coming off the 50-day low. The NYSE Up Volume % came in at 91%. The study below examines performance following this combination.

SPX closed at a 50-day low yesterday. Today the NYSE Up Volume % > 90%.
Buy on close. Sell 1 day later. \$100k/trade. 1970 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$14,018.62)	Profit Factor	0.02
Gross Profit	\$242.88	Gross Loss	(\$14,261.50)
Total Number of Trades	12	Percent Profitable	8.33%
Winning Trades	1	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	(\$1,168.22)	Ratio Avg. Win:Avg. Loss	0.19
Avg. Winning Trade	\$242.88	Avg. Losing Trade	(\$1,296.50)
Largest Winning Trade	\$242.88	Largest Losing Trade	(\$4,400.45)

Instances are a little light, but the numbers appear compelling. Here is the full list of individual instances.

SPX closed at a 50-day low yesterday. Today the NYSE Up Volume % > 90%.
Buy on close. Sell 1 day later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/1/1978	Buy	\$96.85	-1.28%	\$464.40
11/2/1978	Sell	\$95.61		(\$2,084.64)
4/5/1994	Buy	\$448.29	-0.05%	\$298.82
4/6/1994	Sell	\$448.05		(\$738.13)
3/6/2007	Buy	\$1,395.41	-0.25%	\$408.25
3/7/2007	Sell	\$1,391.97		(\$338.67)
11/13/2007	Buy	\$1,481.01	-0.78%	\$745.71
11/14/2007	Sell	\$1,469.52		(\$974.18)
11/23/2007	Buy	\$1,440.70	-2.33%	\$371.91
11/26/2007	Sell	\$1,407.20		(\$2,387.40)
10/13/2008	Buy	\$1,003.35	-0.53%	\$4,055.04
10/14/2008	Sell	\$998.01		(\$3,096.72)
10/28/2008	Buy	\$940.51	-1.11%	\$3,105.80
10/29/2008	Sell	\$930.09		(\$1,934.50)
2/24/2009	Buy	\$773.14	-1.07%	\$900.42
2/25/2009	Sell	\$764.90		(\$2,612.25)
3/10/2009	Buy	\$719.60	0.24%	\$1,700.16
3/11/2009	Sell	\$721.36		(\$793.50)
5/21/2010	Buy	\$1,087.69	-1.29%	\$205.66
5/24/2010	Sell	\$1,073.65		(\$1,364.09)
5/27/2010	Buy	\$1,103.06	-1.24%	\$0.00
5/28/2010	Sell	\$1,089.41		(\$1,645.20)
8/9/2011	Buy	\$1,172.53	-4.42%	\$0.00
8/10/2011	Sell	\$1,120.76		(\$4,634.20)

I don't see any red flags here. This certainly seems to suggest caution is warranted on Tuesday.

I have updated the Aggregator chart below.



With tonight's mix of evidence, 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 dropped below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal changed from long to flat at the close.

Based on the current active studies, expectations are primed to remain positive on Tuesday. It would take compelling new bearish evidence in order to change this. The Differential Pivot will be 2107.37 on Tuesday. That is 1.1% below Monday's close. So SPX would need to close down 1.1% on Tuesday to flip from overbought to oversold versus expectations.

So the Aggregator is neutral. And while 3-day expectations are still positive, the studies tonight turned 1-day expectations negative. This is reflected in the 1-day risk/reward outlook at the top of the letter. I currently have a sizable amount of long exposure, and this seems like an opportune time to exit most of it and await the next favorable trading opportunity. So I will look to take profits on all my index trades Tuesday morning, and some Catapults that reached their exit triggers as well. Details are in the trade ideas section down below.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 11/7 – slightly bullish***

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

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

PFE @ \$29.89 (buy 1/3 @ limit) – not yet filled – cancel for now

AGN @ \$188.82 (buy 1/3 @ limit) – not filled – cancel for now

AMGN @ \$135.22 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 4 (PFE-2, AGN, AMGN)

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
SPG(1/3)	10/28/2016	\$183.23	\$181.93	-0.71%		sell on open
SPY(1/4)	10/28/2016	\$213.14	\$213.15	0.00%		sell on open
SPG(1/3)	10/31/2016	\$182.88	\$181.93	-0.52%		sell on open
SPY(1/4)	11/1/2016	\$212.55	\$213.15	0.28%		sell on open
SPY(1/4)	11/2/2016	\$209.74	\$213.15	1.63%		sell on open
PFE(1/3)	11/3/2016	\$30.63	\$30.38	-0.82%		Catapult
LLY(1/3)	11/3/2016	\$72.65	\$73.88	1.69%		sell on open
LLY(1/3)	11/4/2016	\$72.11	\$73.88	2.45%		sell on open
AMGN(1/3)	11/4/2016	\$133.71	\$139.21	4.11%		Catapult
SPY(1/4)	11/4/2016	\$208.55	\$211.45	1.39%		sold on open

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.