

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 11, 2016

Volume 9 Issue 220

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Flat	50% Long XIV	Flat

Tonight's Research Points

- Back to back outside days for QQQ has often been followed by short-term market gains.
- SPX new high on a day the NDX suffers a relatively large decline is unusual – but has led to positive intermediate-term results in the past.

Short-term Outlook

The Bottom Line

Evidence is still pointing higher but the market is now strongly overbought. I am sidelined awaiting a better risk/reward setup.

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 11, 2016	Back to back outside days for QQQ	1 day	Bullish			
November 10, 2016	20-high breakout on 20-high volume	1-5 days	Bullish			
November 8, 2016	20 low yesterday. 4 high today.	1-8 days	Bullish			
November 7, 2016	SPX bottom 10% range. 5-low & > 200	1-5 days	Bullish			
Active - Long Term						
November 11, 2016	Back to back outside days for QQQ	1 day	Bullish			
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			

The Evidence

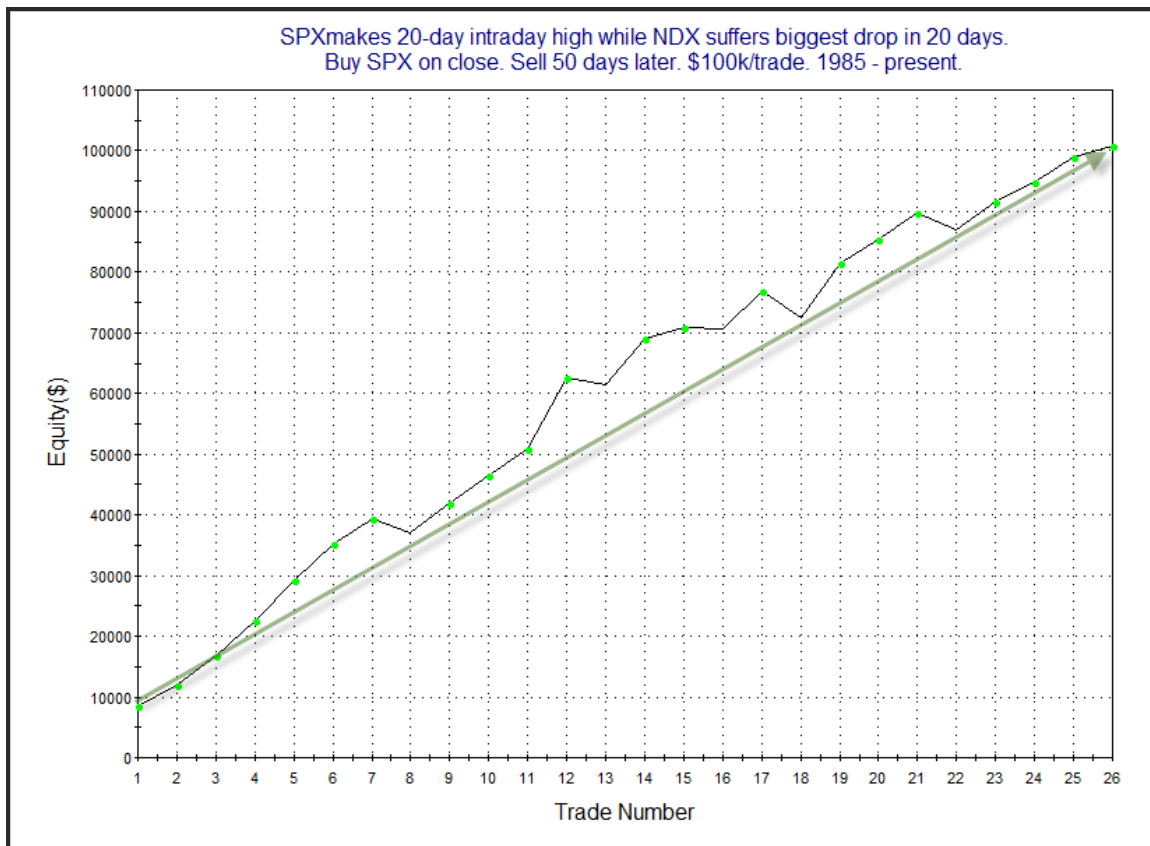
Thursday saw mixed market action. The SPX finished up 0.2%, the NASDAQ declined 0.8%, and the Russell 2000 rallied 1.6%. Breadth was also mixed as the NYSE Up Issues % was 46% and the Up Volume % came in at 59%. NYSE volume pulled back some from Wednesday's level.

The most notable action was in the NASDAQ, which bucked the rest of the market as sold off fairly hard. One interesting aspect of Wednesday's action is that the NDX suffered its worst decline in at least 20 days while SPX made a 20-day intraday high. This is something I last looked at in the 9/4/14 Letter. When I examined other instances of this back then I found little in terms of short-term implications, but the intermediate-term implications appeared strong. Below I have updated results for a 50-day holding period.

SPX makes 20-day intraday high while NDX suffers biggest drop in 20 days.
Buy SPX on close. Sell 50 days later. \$100k/trade. 1985 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$100,778.94	Profit Factor		10.36
Gross Profit	\$111,543.81	Gross Loss		(\$10,764.87)
Total Number of Trades	26	Percent Profitable		80.77%
Winning Trades	21	Losing Trades		5
Even Trades	0			
Avg. Trade Net Profit	\$3,876.11	Ratio Avg. Win:Avg. Loss		2.47
Avg. Winning Trade	\$5,311.61	Avg. Losing Trade		(\$2,152.97)
Largest Winning Trade	\$11,736.48	Largest Losing Trade		(\$4,474.24)

As you can see, the numbers all look solidly bullish. The big NDX drop during an intermediate-term move higher for SPX has rarely derailed the rally. Most of the time it has been followed by additional gains. Below is the profit curve.



The strong, steady upslope is quite impressive, and serves as confirmation of the apparent upside edge. I have added this study to the intermediate-term Active List.

Another interesting study that triggered tonight considered the fact that QQQ made an outside day for the second day in a row. When QQQ has made back-to-back outside days in the past, it has often led to a short-term rally. I last showed this in the 4/20/16 subscriber letter, and have updated the study below.

QQQ posts 2 outside days in a row.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

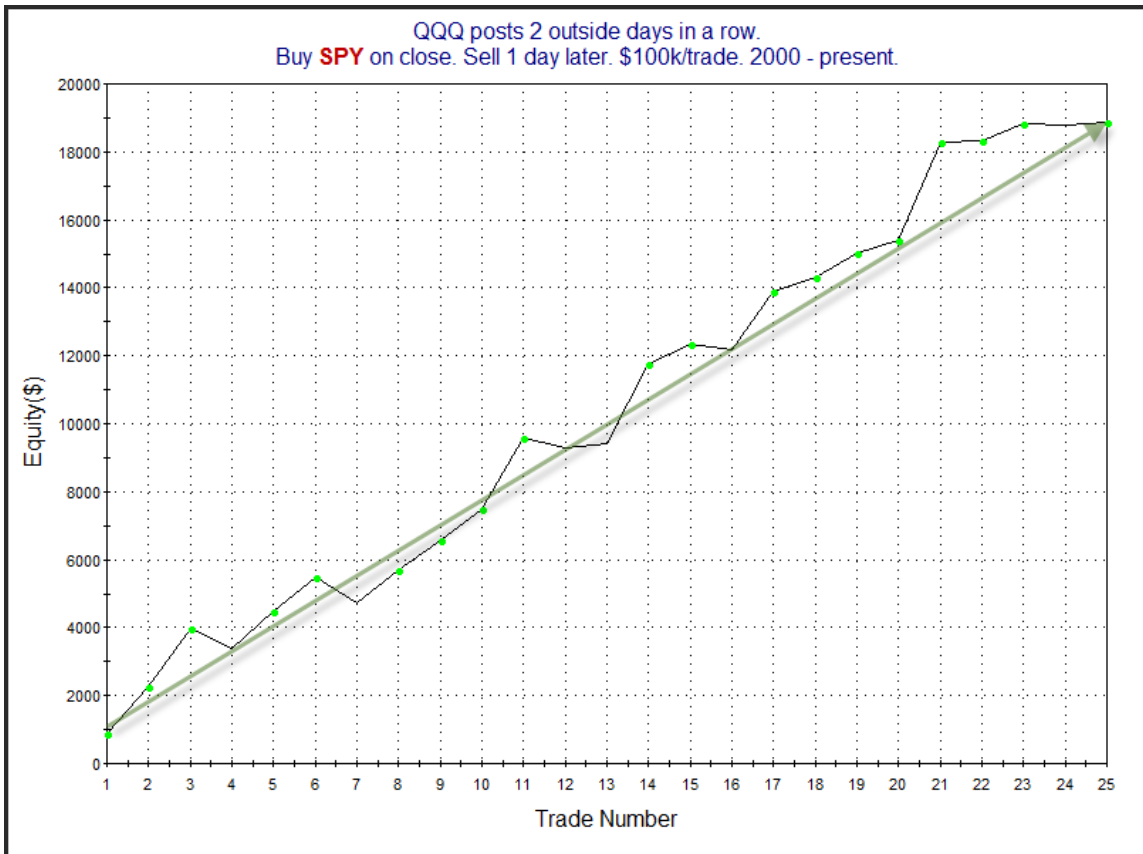
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	27,174.04	24	16	8	66.67	2,539.29	8,554.64	-1,681.83	-3,766.00	1.51	3.02	1,132.25
4	31,190.40	24	17	7	70.83	2,452.89	7,467.78	-1,501.25	-2,994.30	1.63	3.97	1,299.60
3	34,005.65	25	17	8	68.00	2,515.71	7,502.84	-1,095.17	-2,461.98	2.30	4.88	1,360.23
2	20,524.71	25	18	7	72.00	1,593.00	3,775.87	-1,164.18	-2,875.08	1.37	3.52	820.99
1	19,583.87	25	20	5	80.00	1,099.42	3,179.66	-480.92	-1,134.42	2.29	9.14	783.35

Results here appear strongly positive. I also looked at how SPY performed when QQQ had back to back outside days.

QQQ posts 2 outside days in a row.
Buy **SPY** on close. Sell X days later. \$100k/trade. 2000 - 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	21,739.86	24	15	9	62.50	2,061.74	7,544.00	-1,020.70	-2,835.90	2.02	3.37	905.83
4	22,888.73	24	14	10	58.33	2,268.61	6,831.00	-887.17	-2,487.51	2.56	3.58	953.70
3	28,750.79	25	18	7	72.00	1,897.39	6,957.50	-771.75	-1,498.50	2.46	6.32	1,150.03
2	15,872.90	25	16	9	64.00	1,506.68	3,829.50	-914.88	-1,655.64	1.65	2.93	634.92
1	18,865.99	25	20	5	80.00	1,032.16	2,871.33	-355.44	-733.92	2.90	11.62	754.64

The positive results seem to translate to SPY as well. Using the 1-day exit criteria, I generated the profit curve below.



The strong upslope again acts as confirmation of the upside edge.

I have updated the Aggregator chart below.



With tonight's new 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 remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is strongly 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 remained flat at the close.

Based on the current active studies, expectations are primed to remain positive on Friday. Of course this could change if strong new bearish evidence emerges. The Differential Pivot will be 2153.25 on Friday. That is 0.7% below Thursday's close. So SPX would need to close down at least 0.7% on Friday to flip from overbought to oversold versus expectations.

My outlook is largely unchanged from last night. The Aggregator remains neutral and with the market so overbought I don't love reward/risk here. I have taken profits and flattened out on the last of my positions. I am now just waiting for the next strongly favorable trading opportunity to arrive.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

None

Broad Market Large Cap CBI – 0

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
<i>PFE(1/3)</i>	<i>11/3/2016</i>	<i>\$30.63</i>	<i>\$33.32</i>	<i>8.78%</i>		<i>sold on open</i>
<i>AMGN(1/3)</i>	<i>11/4/2016</i>	<i>\$133.71</i>	<i>\$150.40</i>	<i>12.48%</i>		<i>sold on open</i>

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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