

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 15, 2016

Volume 9 Issue 222

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The Russell 2000 rising > 1% while SPX closes lower also suggests a short-term upside edge.
- Turnaround Tuesday has not shown its typical bullish edge under similar circumstances.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is suggesting a bullish edge, but I would prefer to see a bit more of a pullback before committing to new positions.

*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
<b>Active - Short Term</b>						
November 14, 2016	SPX down. RUT up > 1%.	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			
<b>Active - Long Term</b>						
November 11, 2016	SPX 20-high. NDX biggest drop in 20.	1-50 days	Bullish			
November 8, 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			
<b>Dropped Tonight</b>						
November 11, 2016	Back to back outside days for QQQ	1 day	Bullish			
November 7, 2016	SPX bottom 10% range. 5-low & > 200	1-5 days	Bullish			

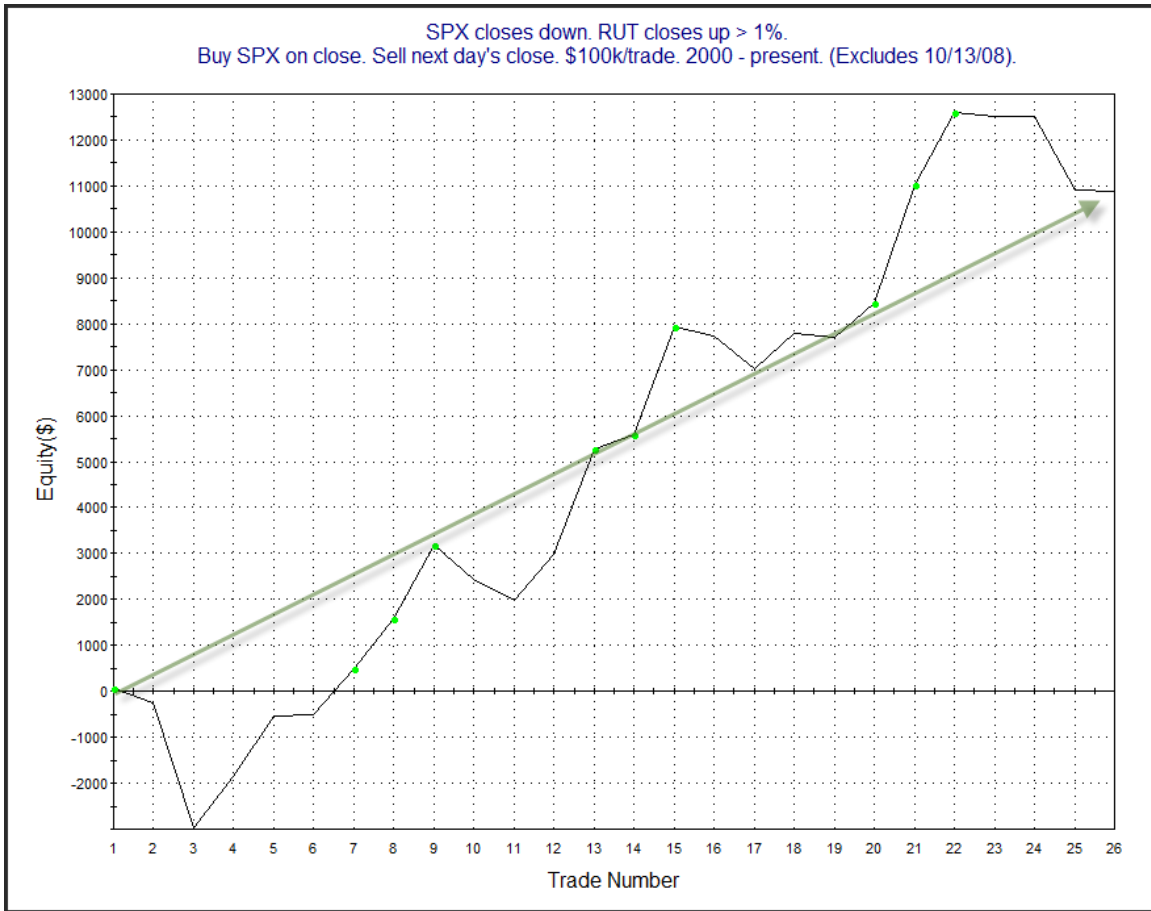
**The Evidence**

Monday was another mixed day. The SPX finished down a mere 0.25 points, the NASDAQ lost 0.4%, and the Russell 2000 rallied 1.3%. Breadth was positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 67%. NYSE volume rose some from Friday's level.

Last night we saw an interesting study that examined other times the SPX closed down on the same day the Russell 2000 rose at least 1%. While it had only triggered 27 times in the last 16 ½ years, it managed to do it for the 2<sup>nd</sup> day in a row on Monday. Last night I showed results both with and without the giant outlier that was the 11% gain on 11/13/08. Tonight I am just showing updated results excluding that outlier.

SPX closes down. RUT closes up > 1%.			
Buy SPX on close. Sell next day's close. \$100k/trade. 2000 - present. (Excludes 10/13/08).			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$10,890.89	Profit Factor	2.57
Gross Profit	\$17,840.17	Gross Loss	(\$6,949.28)
Total Number of Trades	26	Percent Profitable	61.54%
Winning Trades	16	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$418.88	Ratio Avg. Win:Avg. Loss	1.60
Avg. Winning Trade	\$1,115.01	Avg. Losing Trade	(\$694.93)
Largest Winning Trade	\$2,568.00	Largest Losing Trade	(\$2,722.05)

Stats here are strong. Below is a look at the profit curve.



This still seems worth paying some attention to. I have included this on the Active List.

As I laid out in the “Turnaround Tuesday” study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. Unfortunately, as I showed in the 8/23/16 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row and it was Monday. Here are those results.

SPX closes down for the 2nd day in a row. Today is Monday.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$29,358.45	Profit Factor	2.01
Gross Profit	\$58,486.62	Gross Loss	(\$29,128.17)
Total Number of Trades	89	Percent Profitable	56.18%
Winning Trades	50	Losing Trades	39
Even Trades	0		
Avg. Trade Net Profit	\$329.87	Ratio Avg. Win:Avg. Loss	1.57
Avg. Winning Trade	\$1,169.73	Avg. Losing Trade	(\$746.88)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)

The win rate is just above 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed under its 200ma (unlike now).

SPX closes down for the 2nd day in a row but > 200ma. Today is Monday.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$28,393.19	Profit Factor	3.22
Gross Profit	\$41,193.74	Gross Loss	(\$12,800.55)
Total Number of Trades	37	Percent Profitable	64.86%
Winning Trades	24	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	\$767.38	Ratio Avg. Win:Avg. Loss	1.74
Avg. Winning Trade	\$1,716.41	Avg. Losing Trade	(\$984.66)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,117.68)

We see here under half of the total instances, but very positive numbers, and almost 100% of the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for the 2nd day in a row but > 200ma. Today is Monday.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$965.26	Profit Factor	1.06
Gross Profit	\$17,292.88	Gross Loss	(\$16,327.62)
Total Number of Trades	52	Percent Profitable	50.00%
Winning Trades	26	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	\$18.56	Ratio Avg. Win:Avg. Loss	1.06
Avg. Winning Trade	\$665.11	Avg. Losing Trade	(\$627.99)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn’t fit here. In fact, the tendency for a while appeared to slightly favor a continuation of the 2-day pullback. Recent instances have turned the stats breakeven, so I am not really convinced of an edge in either direction at this point. But I am convinced that “Turnaround Tuesday” does not seem to provide a strong bullish edge under these circumstances.

I have updated the Aggregator chart below.



With tonight's new evidence to consider the green Aggregator Line again 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 moved back up through 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 zero. Therefore, the Aggregator signal turned long at the close.

Based on the current active studies, expectations are primed to remain positive on Tuesday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2179.92 on Tuesday. That is 0.7% above Monday's close. So SPX would need to close up at least 0.7% on Tuesday to be considered "overbought" vs recent expectations.

The Aggregator is bullish and there is some decent room to the upside before the SPX would become overbought. This is the kind of setup that I would often jump at. But SPX is still quite high based on other measures. For instance, it remains in the top 80% of its 10-day range and well above its 10-day moving average. Additionally, other indices like the Dow and Russell 2000 have been repeatedly closing at new highs. So I would prefer to exercise some caution and wait for a bit more of a pullback before considering long positions.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 11/13 – somewhat bullish***

### **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**

None

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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