

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 25, 2016

Volume 9 Issue 229

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Short	100% Short SPY	Flat

Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- Low volume on Thanksgiving Wednesday has often been followed by a pullback in the few days.

Short-term Outlook

The Bottom Line

The Aggregator is bearish for the 1st time in a while. But the overbought condition will expire on Friday unless the market rallies. So it does not appear to be a "tradeable" downside edge to me.

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 25, 2016	Thanksgiving Wed Lowest Volume 20	1-2 days	Bearish			
November 25, 2016	SPY up < 0.25%. Top 10% daily range	1-3 days	Bearish			
November 21, 2016	Thanksgiving Fri	1 day	Bullish			
November 22, 2016	20 low volume. SPX up 0.5%>10ma	1-3 days	Bearish			
November 21, 2016	Relatively big drop from 50-day high	1-4 days	Bullish			
November 18, 2016	50-low to 50-high in 10 days	1-6 days	Bullish			
November 18, 2016	50 high with an unfilled gap up	1-5 days	Bullish			
Active - Long Term						
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			

The Evidence

Wednesday was a mixed day for the market. The SPX gained 0.1%, the NASDAQ lost 0.1%, and the Russell 2000 rose 0.6%. Breadth was also mixed as the NYSE Up Issues % was 49.9% and the Up Volume % came in at 61.6%. NYSE volume came in very light ahead of the Thanksgiving holiday.

Low volume on up days can be a sign of complacency, so it will commonly trigger studies with bearish edges. But Wednesday's volume came one day ahead of Thanksgiving. So perhaps it wasn't so much a sign of complacency, but rather a sign of people taking off early ahead of the holiday. Often when volume comes in extremely light on or just in front of a holiday I will simply dismiss low-volume studies. But there was one low-volume study from the 11/27/15 letter that specifically examined low volume on the day before Thanksgiving. And it had interesting results. So I updated it below.

Wednesday before Thanksgiving posts the lowest NYSE volume in 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 2015.												
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	-5,770.34	13	6	7	46.15	1,473.59	3,685.24	-2,087.41	-7,726.01	0.71	0.61	-443.87
4	-702.12	13	6	7	46.15	1,243.49	3,610.64	-1,166.15	-4,359.94	1.07	0.91	-54.01
3	-6,398.15	13	4	9	30.77	1,397.13	3,468.90	-1,331.85	-4,948.90	1.05	0.47	-492.17
2	-12,690.75	13	2	11	15.38	664.12	1,096.98	-1,274.45	-5,644.20	0.52	0.09	-976.21
1	-3,846.95	13	5	8	38.46	298.70	746.00	-667.56	-1,721.70	0.45	0.28	-295.92

The 1st instance (1982) was the only one that did not close below Wednesday's close on either Friday or Monday.

In the last 46 years there have been 13 instances where Wednesday marked a 20-day volume low. This isn't as common as some might suspect but it's about 4 times higher than you'd get looking at any random day. Interesting is how poorly the SPX has performed over the next 2 days when volume has come in low. The number of instances is low, but I also took a deeper look at the results. Below are all the instances.

Wednesday before Thanksgiving posts the lowest NYSE volume in 20 days. Buy SPX on close. Sell 2 days later. \$100k/trade. 1970 - 2015.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/24/1982	Buy	\$133.88	0.23%	\$1,574.06
11/29/1982	Sell	\$134.19		(\$634.10)
11/25/1987	Buy	\$244.10	-5.65%	\$4.09
11/30/1987	Sell	\$230.30		(\$7,496.97)
11/23/1988	Buy	\$269.00	-0.14%	\$0.00
11/28/1988	Sell	\$268.63		(\$942.34)
11/24/1993	Buy	\$462.36	-0.10%	\$533.52
11/29/1993	Sell	\$461.90		(\$114.48)
11/25/1998	Buy	\$1,186.86	-1.96%	\$512.40
11/30/1998	Sell	\$1,163.62		(\$1,952.16)
11/24/1999	Buy	\$1,417.08	-0.65%	\$571.20
11/29/1999	Sell	\$1,407.83		(\$905.10)
11/26/2003	Buy	\$1,058.45	1.10%	\$1,129.88
12/1/2003	Sell	\$1,070.12		(\$157.92)
11/24/2004	Buy	\$1,181.76	-0.27%	\$435.12
11/29/2004	Sell	\$1,178.57		(\$788.76)
11/22/2006	Buy	\$1,406.09	-1.72%	\$0.00
11/27/2006	Sell	\$1,381.96		(\$1,750.15)
11/25/2009	Buy	\$1,110.63	-1.35%	\$0.00
11/30/2009	Sell	\$1,095.63		(\$2,420.10)
11/24/2010	Buy	\$1,198.35	-0.88%	\$0.00
11/29/2010	Sell	\$1,187.76		(\$2,050.93)
11/26/2014	Buy	\$2,072.83	-0.94%	\$140.64
12/1/2014	Sell	\$2,053.44		(\$1,116.48)
11/25/2015	Buy	\$2,088.87	-0.41%	\$232.18
11/30/2015	Sell	\$2,080.41		(\$397.62)
Avg Run-up: 0.4% Avg Drawdown: -1.6% Largest Run-up: 1.6%				

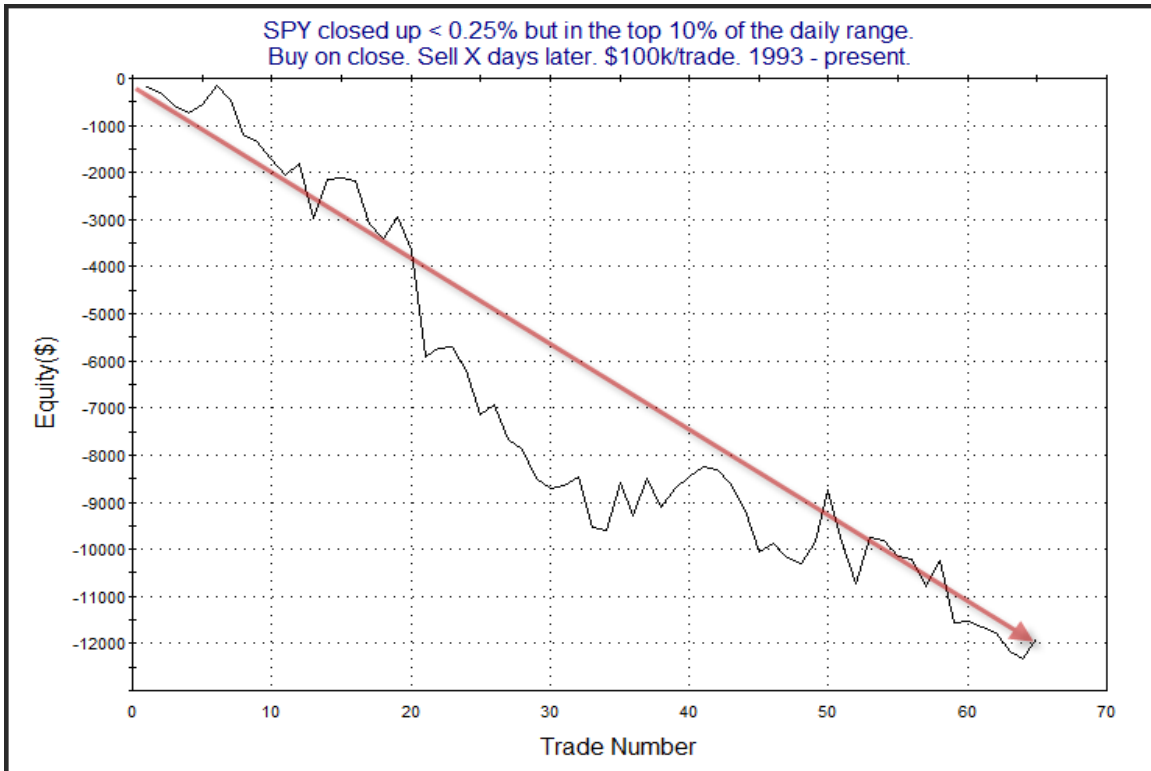
I don't see any red flags here (other than the low number of instances). With the Average Drawdown 4x the size of the Avg Run-Up, and also larger than the Max Run-up, reward/risk has favored the bears. Results appear skewed enough to the downside and the study seems worth some consideration. I have included it on the Active List tonight.

This next study was last seen in the 10/24/16 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closed up < 0.25% but in the top 10% of the daily range.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

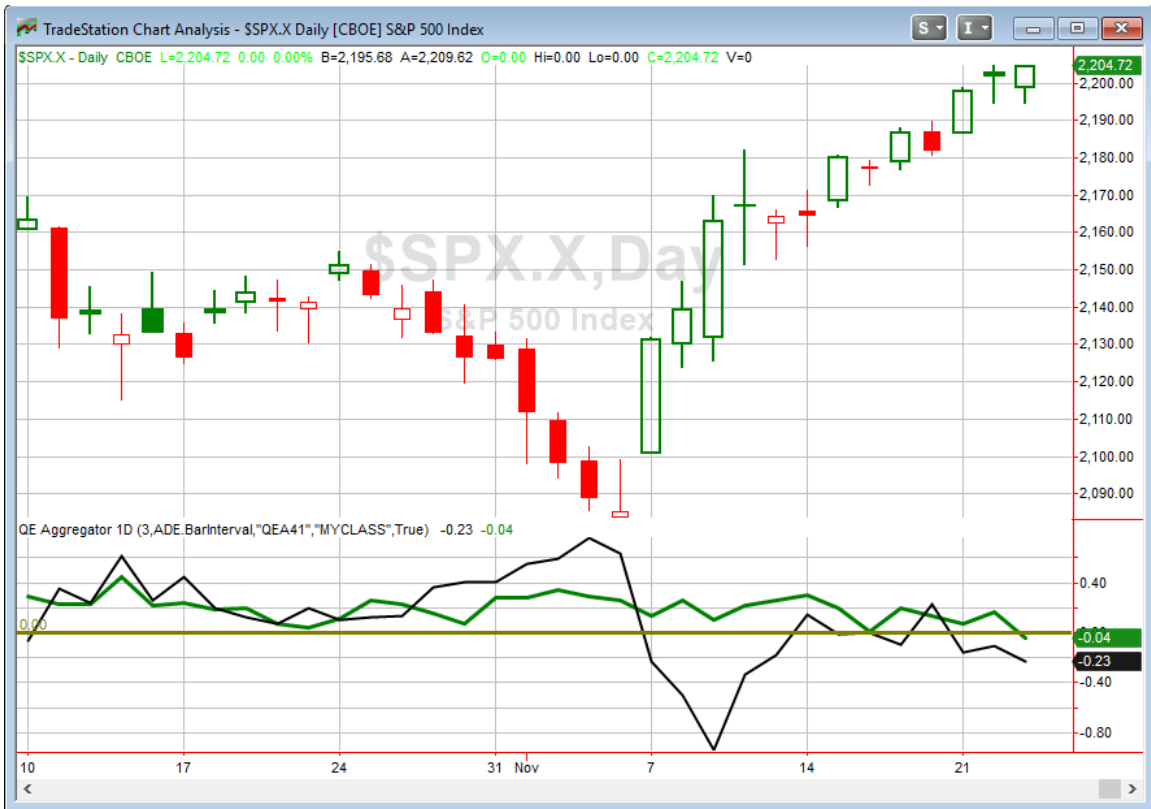
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$11,890.23)	Profit Factor	0.44
Gross Profit	\$9,207.21	Gross Loss	(\$21,097.44)
Total Number of Trades	65	Percent Profitable	35.38%
Winning Trades	23	Losing Trades	42
Even Trades	0		
Avg. Trade Net Profit	(\$182.93)	Ratio Avg. Win:Avg. Loss	0.80
Avg. Winning Trade	\$400.31	Avg. Losing Trade	(\$502.32)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day.

I have updated the Aggregator chart below.



With tonight's studies to consider, the green Aggregator Line dipped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line stayed below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal changed from flat to short at the close.

Based on the current active studies, expectations are primed to remain negative on Friday. Of course, this could change if compelling new bullish evidence emerges. The Differential Pivot will be *inverted at 2206.98* on Friday. That is 0.1% *above* Wednesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX is going to need to close up about 2 points in order to remain overbought. Anything less than that and it will be considered "oversold" vs expectations as of Friday's close.

I generally do not view inverted pivot situations as favorable opportunities to take on new positions. That is because potential reward is very limited. The Aggregator short signal will expire on any move lower. So 1 day is all the time this setup would have to profit. (And in this case it will be a shortened trading day.) Of course if the market goes strongly against the short position, the short signal could potentially persist for several days. So while the outlook for the next few days is negative, I remain in "wait and see" mode.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/20 – 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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