

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 29, 2016

Volume 9 Issue 231

Market Overview



Signals Overview

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

Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.
- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a bullish edge. But SPX has been extended upwards for a while and I would prefer a bit more of a pullback before taking on 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
Active - Short Term						
November 29, 2016	Big drop from 50-high	1-4 days	Bullish			
November 29, 2016	Unfilled gap down after 20-high unfl up	1 day	Bearish			
November 28, 2016	50-high, inside day, 50-high	1-3 days	Bearish			
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 ofTops)	int term	Bearish			

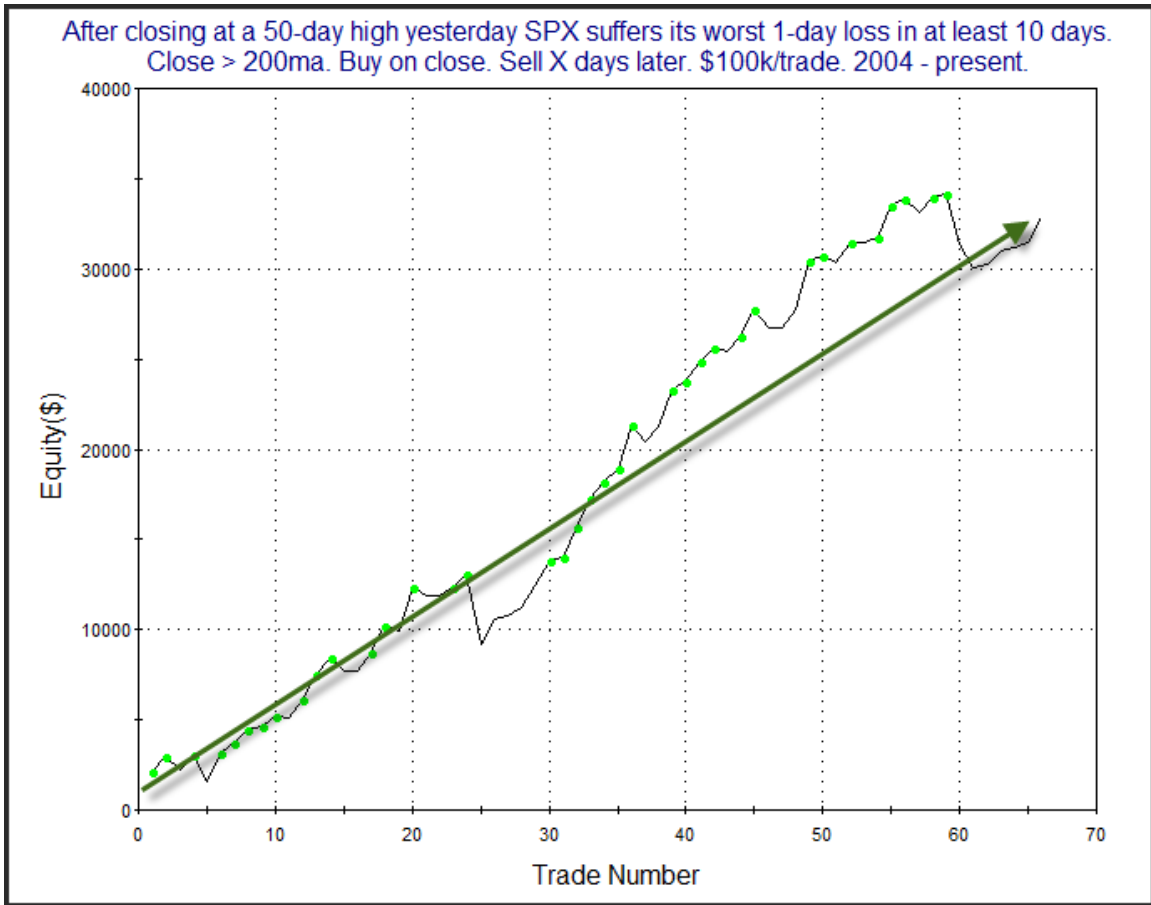
The Evidence

Monday was a pullback day for the market. The SPX fell 0.5%, the NASDAQ dropped 0.6%, and the Russell 2000 declined 1.3%. Breadth was negative as the NYSE Up Issues % was 33% and the Up Volume % came in at 32%. NYSE volume came in a little above the last couple of days.

There was a mix of studies that triggered in the Quantifinder. I have highlighted below the most compelling bullish and most compelling bearish studies that I examined. The first study below looks at *relatively* large drops from intermediate-term highs. It was last seen just over a week ago in the 11/21/16 letter. I have updated all the stats.

After closing at a 50-day high yesterday SPX suffers its worst 1-day loss in at least 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	24,700.43	61	42	19	68.85	3,149.37	-3,454.00	1,220.60	-1,398.14	0.87	1.93	404.93
4	32,844.10	66	48	18	72.73	2,725.38	-3,895.76	1,000.66	-843.76	1.19	3.16	497.64
3	25,187.04	67	49	18	73.13	2,192.40	-1,808.21	800.90	-780.95	1.03	2.79	375.93
2	15,126.90	69	40	29	57.97	2,437.50	-1,777.55	768.58	-538.49	1.43	1.97	219.23
1	7,604.80	69	41	28	59.42	1,521.72	-1,354.59	519.73	-489.43	1.06	1.55	110.21

Over the last 12 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



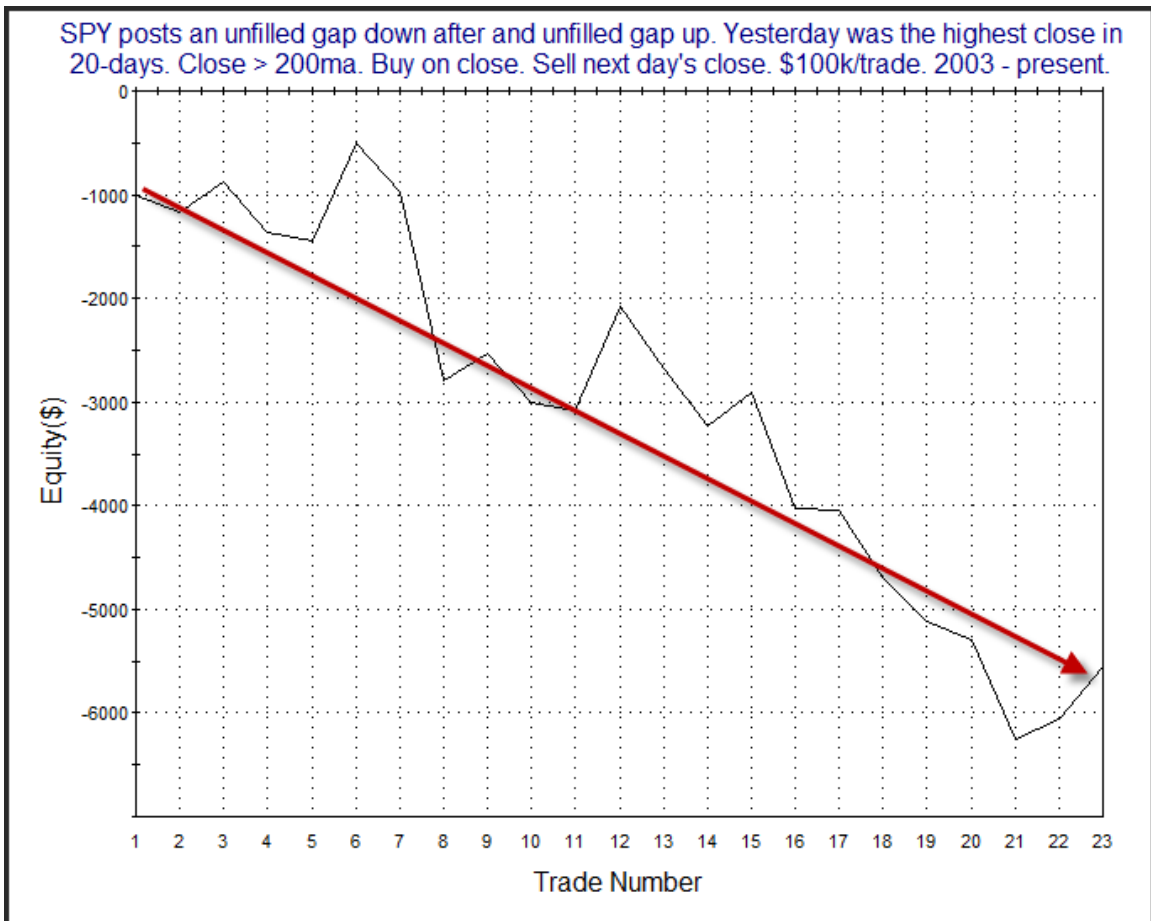
Despite some recent struggles, the steady upslope seems to confirm the bullish inclination. This study is on the Active List tonight.

But the next study considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 11/17/16 Subscriber Letter. Below are updated results.

SPY posts an unfilled gap down after and unfilled gap up. Yesterday was the highest close in 20-days. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 2003 - present.

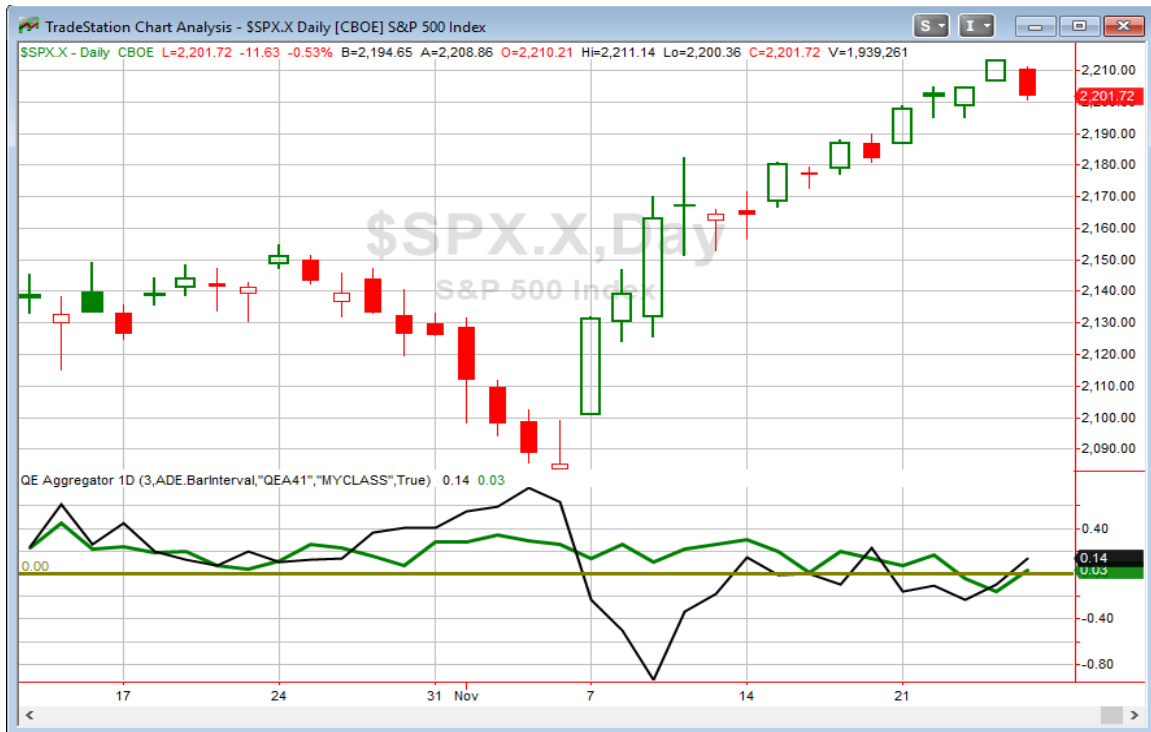
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$5,547.59)	Profit Factor	0.39
Gross Profit	\$3,526.32	Gross Loss	(\$9,073.91)
Total Number of Trades	23	Percent Profitable	30.43%
Winning Trades	7	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	(\$241.20)	Ratio Avg. Win:Avg. Loss	0.89
Avg. Winning Trade	\$503.76	Avg. Losing Trade	(\$567.12)
Largest Winning Trade	\$1,008.68	Largest Losing Trade	(\$1,807.92)

The numbers here appear to suggest a downside edge. Let's also take a look at the profit curve.



While the curve is choppy, it has persisted downwards. This serves as confirmation of the downside edge, and suggests we could see further selling on Tuesday.

I have updated the Aggregator chart below.



With tonight's studies to consider, the green Aggregator Line inched back above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also crossed above 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 flipped from short to 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 2209.00 on Tuesday. That is 0.3% above Monday's close. So SPX would only need to close up 0.3% in order to move from oversold to overbought versus expectations.

The edge has quickly flipped, and upside now seems to be favored. But while the SPX is not overbought with regards to recent expectations, it is by some other metrics. It remains

in the top ¼ of its 2-week range. It also closed above the 10-day moving average for the 15th day in a row. So it remains extended, which increases risk and reduces potential reward. I am not inclined to take on new positions here with the market still somewhat extended. I would prefer to wait until we see more of a pullback.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/28 – 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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