

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 30, 2016

Volume 9 Issue 232

Market Overview



Signals Overview

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

Tonight's Research Points

- Whether Wednesday closes in the upper or lower part of its daily range will have a sizable impact on the odds for Thursday.
- Back to back outside days for QQQ has often been followed by short-term market gains.

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. Same as last night.

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 of Tops) | int term | Bearish | | | |

The Evidence

Tuesday was a mixed and mild day. The SPX gained 0.1%, the NASDAQ rose 0.2%, and the Russell 2000 declined 0.1%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 40%. NYSE volume came in a little above the last couple of days.

One 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 recently in the 11/11/16 subscriber letter. I have copied those results and notes below.

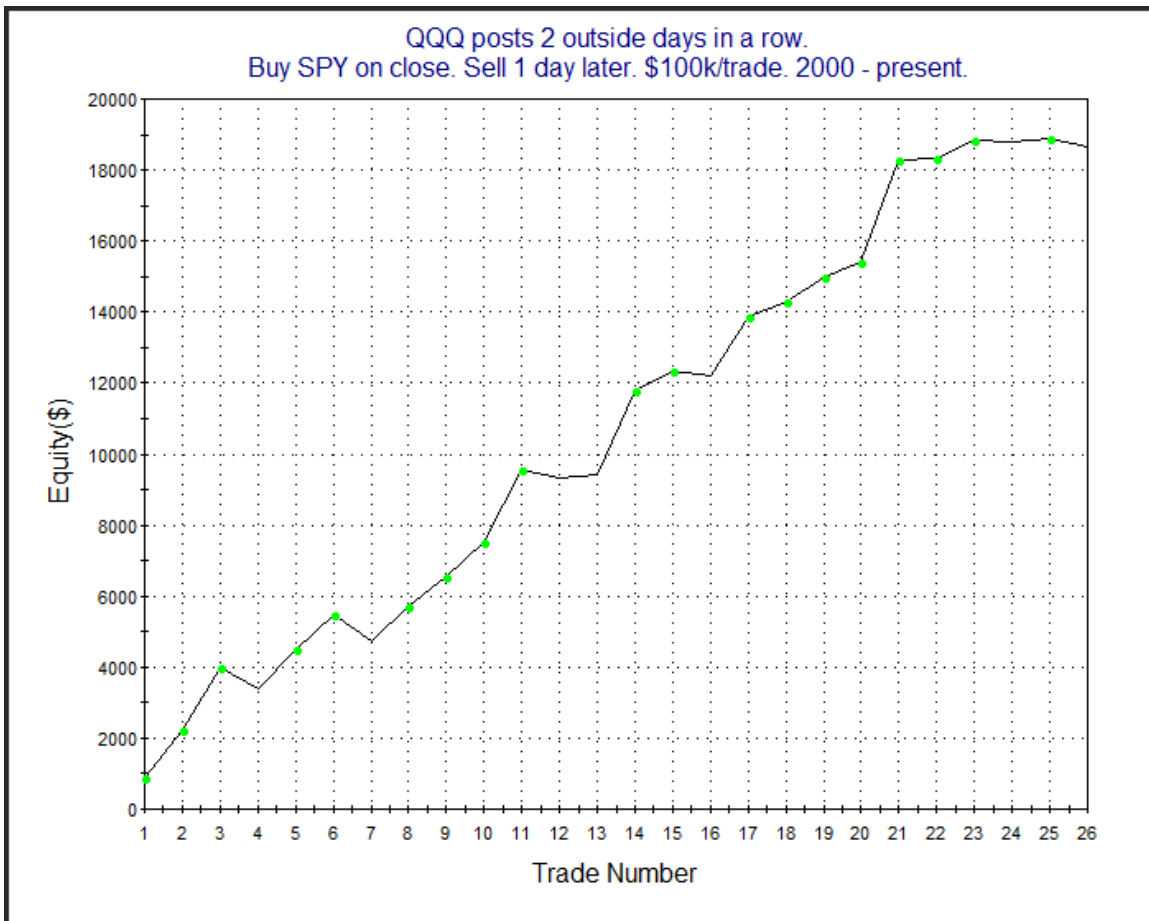
| QQQ posts 2 outside days in a row. Buy on close. Sell X days later. \$100k/trade. 2000 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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. Note this curve was updated for tonight.



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

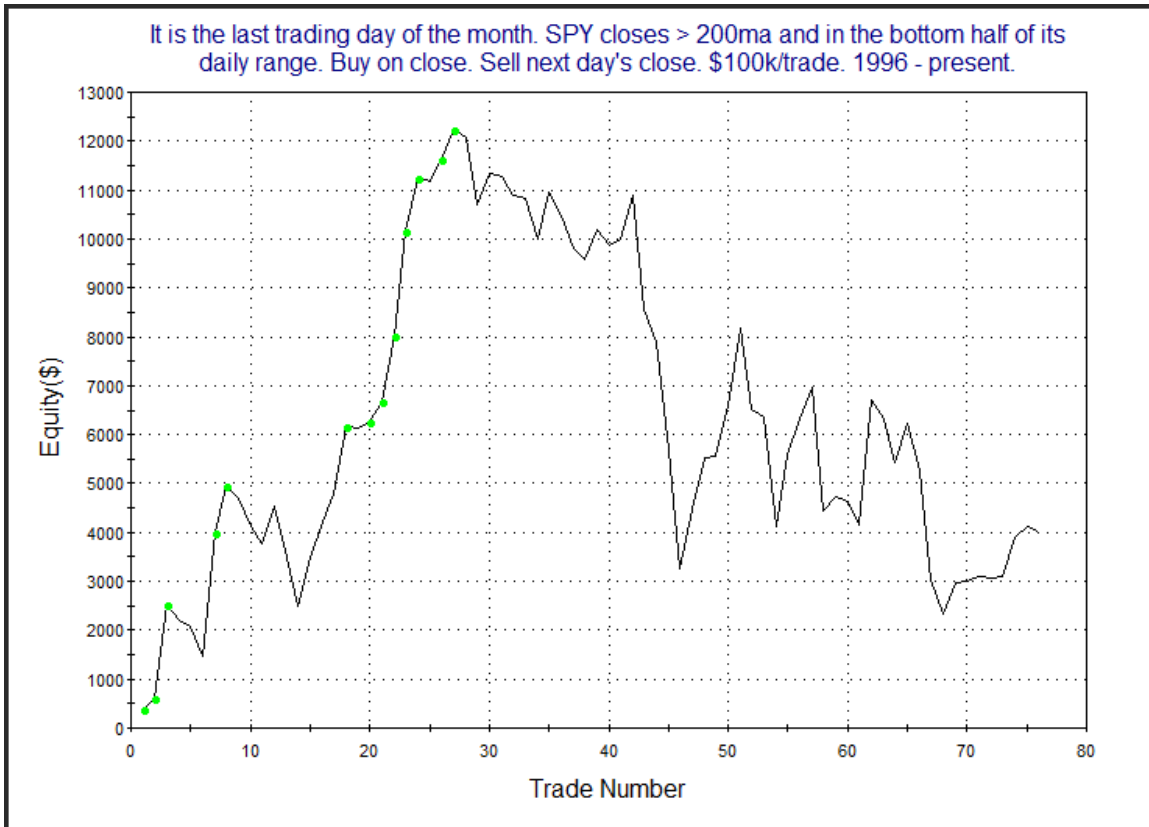
In the 8/31/16 letter I looked at the 1st trading day of new months. I have copied that discussion below as well.

The study looked at all 1st days of the month that occurred during long-term uptrends (above the 200ma). They were broken down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the top half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its daily range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

| TradeStation Performance Summary Expand ▾ | | | |
|--|-------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | \$4,030.08 | Profit Factor | 1.14 |
| Gross Profit | \$33,009.15 | Gross Loss | (\$28,979.07) |
| Total Number of Trades | 76 | Percent Profitable | 51.32% |
| Winning Trades | 39 | Losing Trades | 37 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$53.03 | Ratio Avg. Win:Avg. Loss | 1.08 |
| Avg. Winning Trade | \$846.39 | Avg. Losing Trade | (\$783.22) |
| Largest Winning Trade | \$2,562.30 | Largest Losing Trade | (\$2,515.60) |

The numbers here do not suggest much of an edge. Here is a look at the profit curve.

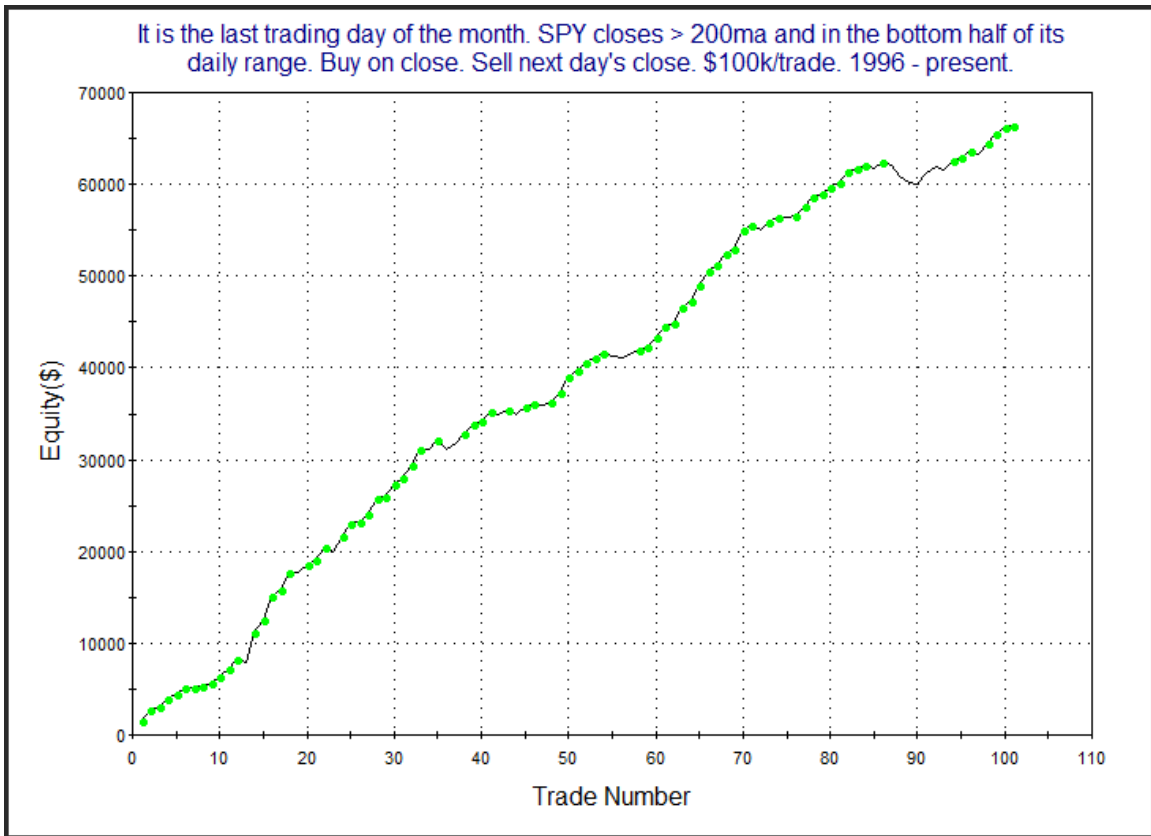


The curve is even worse than the stats. It topped out in 2004, and since then there has been a bit of a downside inclination when the market posted a strong close like this. Now let's look at times that SPY has closed in the bottom half of the daily range.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its daily range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

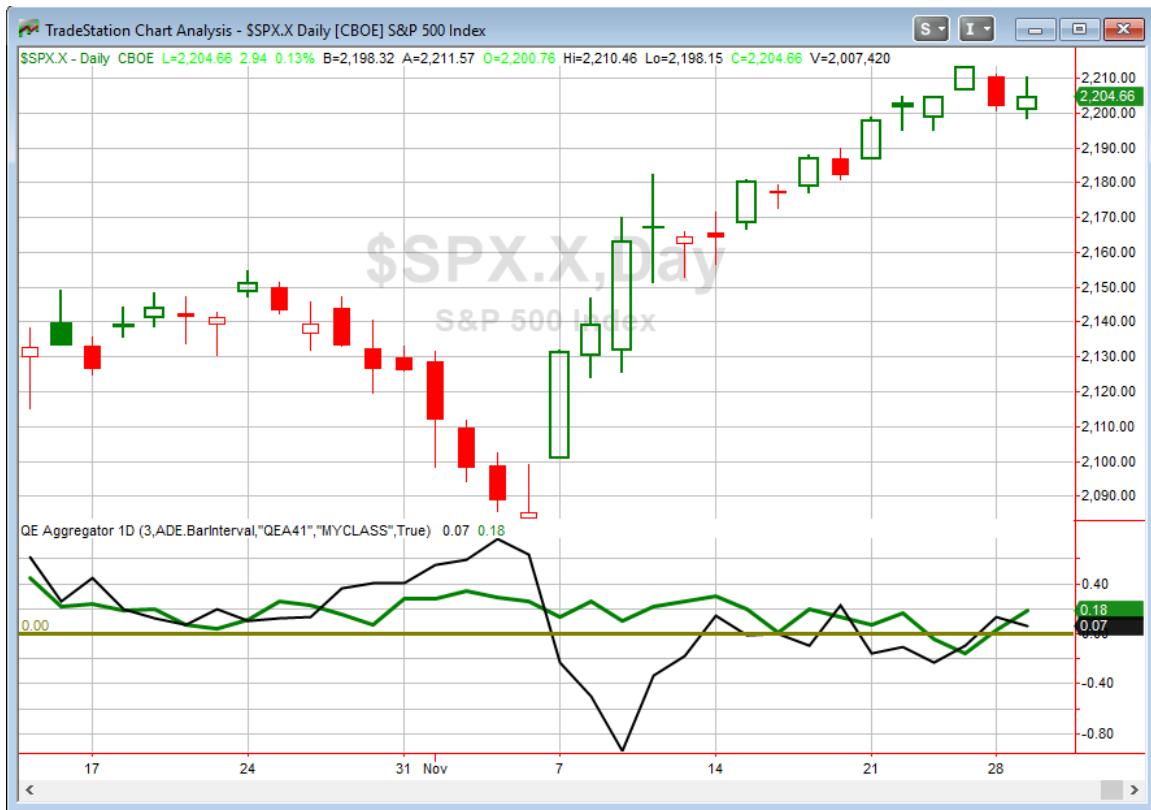
| TradeStation Performance Summary Expand ▾ | | | |
|--|-------------|--------------------------|--------------|
| All Trades | | | |
| Total Net Profit | \$66,346.95 | Profit Factor | 10.25 |
| Gross Profit | \$73,521.56 | Gross Loss | (\$7,174.61) |
| Total Number of Trades | 101 | Percent Profitable | 81.19% |
| Winning Trades | 82 | Losing Trades | 19 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$656.90 | Ratio Avg. Win:Avg. Loss | 2.37 |
| Avg. Winning Trade | \$896.60 | Avg. Losing Trade | (\$377.61) |
| Largest Winning Trade | \$3,295.88 | Largest Losing Trade | (\$1,353.69) |

The stats here are phenomenal. Gains absolutely blow away losses. Gross gains are over 10x the size of gross losses. That's an incredible stat when you are looking at a sample size of over 100 instances. And here is a profit curve.



You won't see a curve much better than this one. This appears well worth consideration as Wednesday plays out.

I have updated the Aggregator chart below.



With tonight's studies to consider, the green Aggregator Line moved a bit higher 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 held 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 remained long at the close.

Based on the current active studies, expectations are primed to remain positive on Wednesday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2212.60 on Wednesday. That is 0.4% above Tuesday's close. So SPX would only need to close up 0.4% in order to move from oversold to overbought versus expectations.

My outlook is much the same as last night. Upside still 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 16th 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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