

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 1, 2016

Volume 9 Issue 233

Market Overview



Signals Overview

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

Tonight's Research Points

- Three new bullish studies emerged

Short-term Outlook

The Bottom Line

The appears to be a decent upside edge for Thursday, but with the Differential Pivot inverted reward/risk does not appear strong enough for me to try and take advantage.

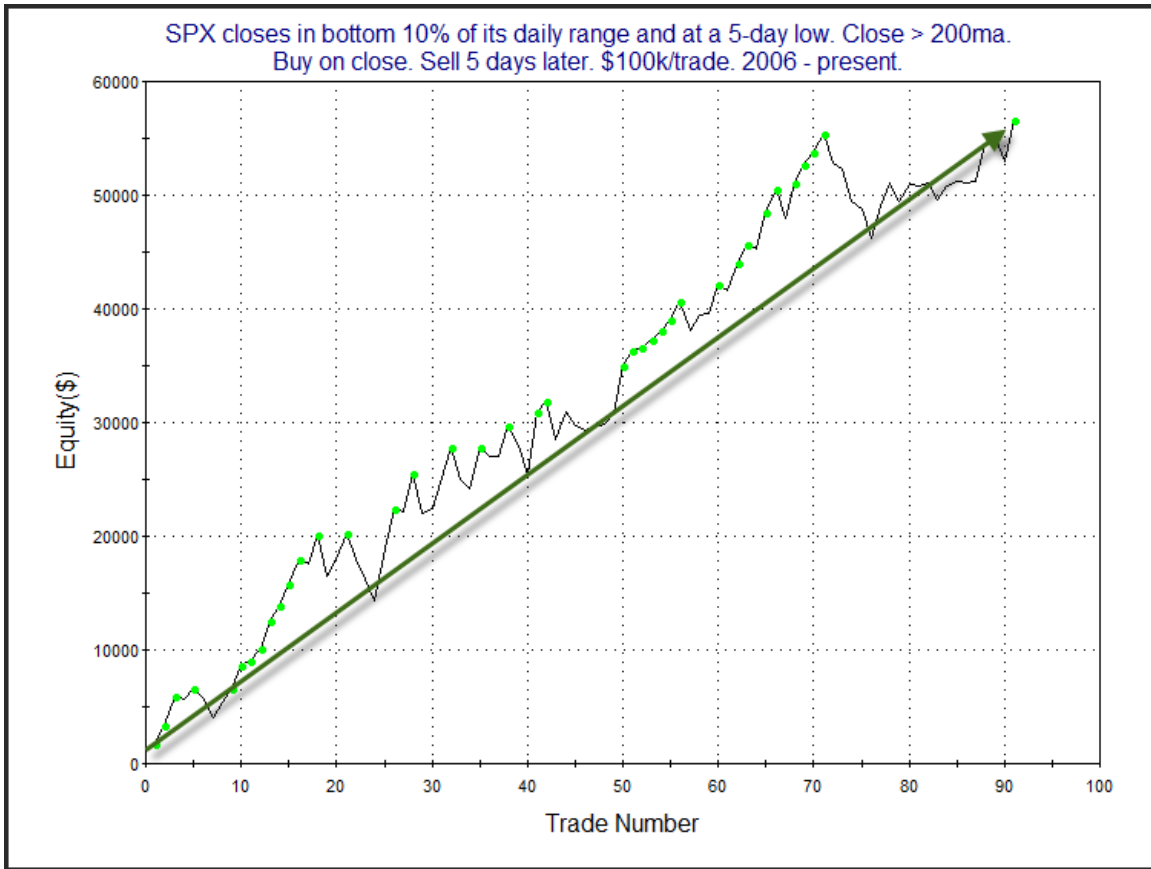
The Evidence

Wednesday saw the market pull back a bit. The SPX lost 0.3%, the NASDAQ dropped 1.05%, and the Russell 2000 declined 0.4%. Breadth was mixed as the NYSE Up Issues % was 40% and the Up Volume % came in at 55%. NYSE volume rose to the highest level in a few weeks.

The selling also put SPX at a short-term closing low. Over the last several years when SPX has closed near the bottom of its range and at a 5-day low, it has typically been followed by a bounce in the next few days. This can be seen in the study below, which is updated from the 12/31/14 letter.

SPX closes in bottom 10% of its daily range and at a 5-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2006 - 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	56,681.54	91	59	32	64.84	1,829.13	5,555.16	-1,601.17	-3,680.82	1.14	2.11	622.87	
4	44,606.09	94	59	35	62.77	1,620.54	5,290.00	-1,457.31	-3,863.84	1.11	1.87	474.53	
3	36,040.01	101	63	38	62.38	1,281.54	4,895.50	-1,176.24	-3,437.94	1.09	1.81	356.83	
2	29,725.71	111	62	49	55.86	1,144.09	4,424.50	-840.98	-2,726.97	1.36	1.72	267.80	
1	28,861.97	121	76	45	62.81	782.32	2,230.60	-679.88	-2,200.08	1.15	1.94	238.53	

The stats here appear to suggest a pretty solid upside tendency over the last 9 years. Below is a look at the profit curve assuming a 5-day holding period.



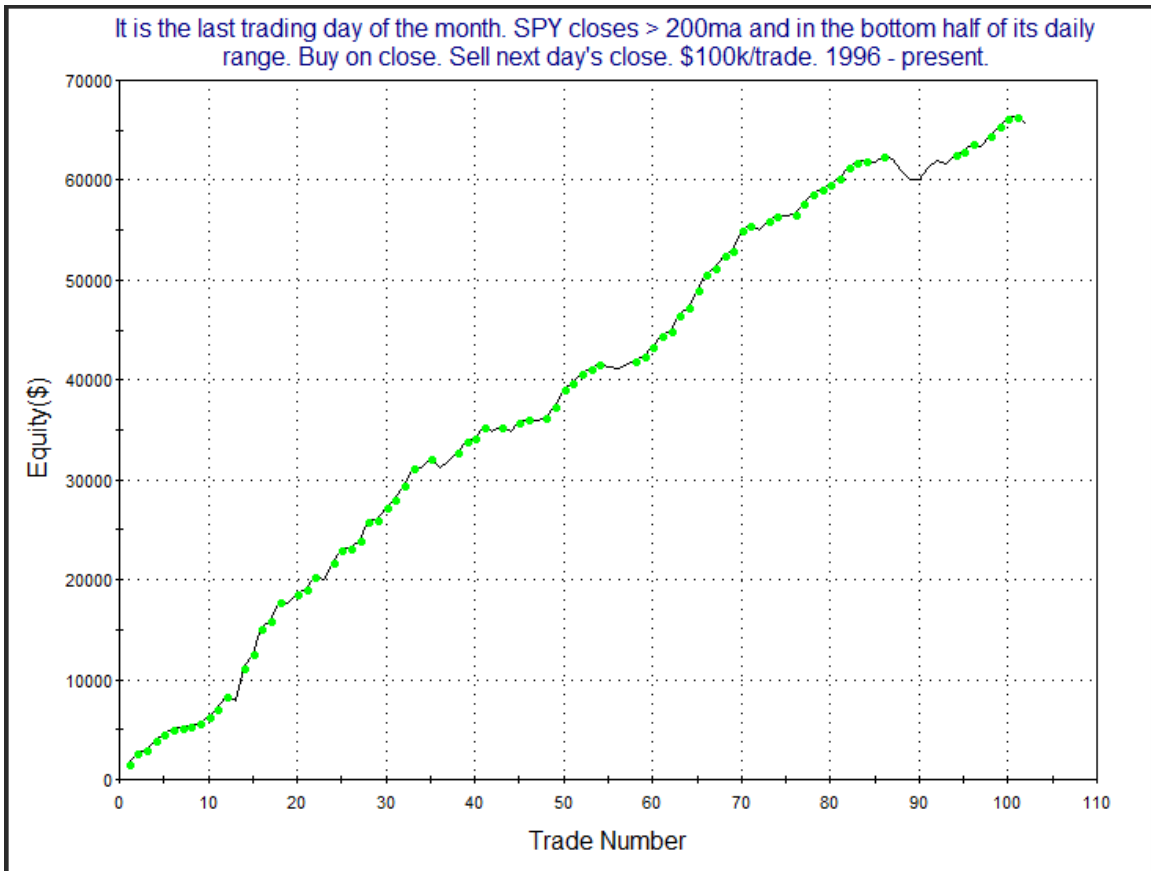
The profit curve has had a pretty steady move higher from lower left to upper right. I have included this study on the Short-Term Active List tonight.

Last night I showed research from the 8/31/16 letter that looked at the 1st trading day of new months. It showed that when the last day of the month has closed weakly, that has commonly been followed by a rally the next day. Stats are updated below.

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	\$65,623.15	Profit Factor	9.31
Gross Profit	\$73,521.56	Gross Loss	(\$7,898.41)
Total Number of Trades	102	Percent Profitable	80.39%
Winning Trades	82	Losing Trades	20
Even Trades	0		
Avg. Trade Net Profit	\$643.36	Ratio Avg. Win:Avg. Loss	2.27
Avg. Winning Trade	\$896.60	Avg. Losing Trade	(\$394.92)
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 9x 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.



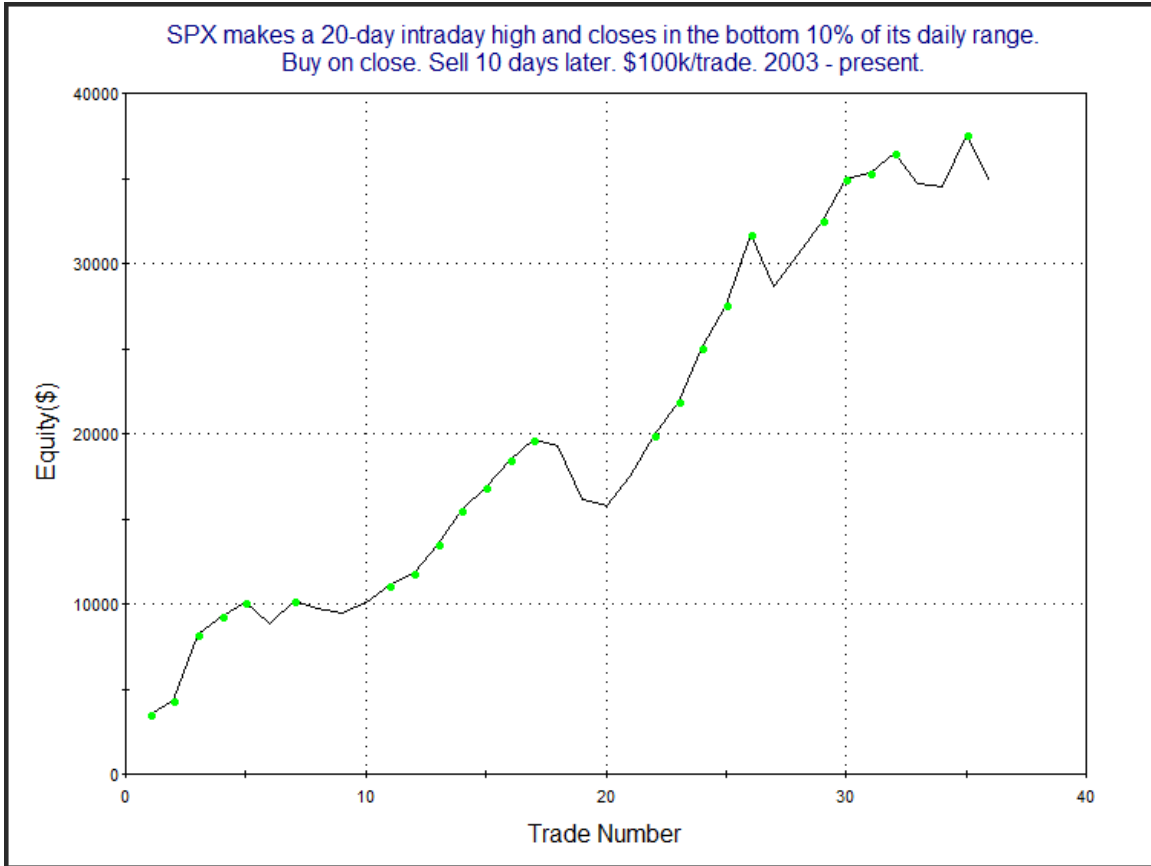
You won't see a curve much better than this one.

Before spending much of the day selling off, the SPX managed to make a new intraday all-time high. The new high followed by a poor and downward close triggered the study below, which was last seen in the 4/28/15 subscriber letter. Results are all updated.

SPX makes a 20-day intraday high and closes in the bottom 10% of its daily range. Buy on close. Sell X days later. \$100k/trade. 2003 - 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
10	34,846.58	36	26	10	72.22	1,862.86	4,119.18	-1,358.78	-3,210.80	1.37	3.56	967.96
9	33,033.09	36	27	9	75.00	1,678.04	3,613.36	-1,363.77	-3,775.10	1.23	3.69	917.59
8	34,056.79	37	28	9	75.68	1,687.38	4,483.84	-1,465.54	-3,543.84	1.15	3.58	920.45
7	24,427.31	37	28	9	75.68	1,506.84	3,761.94	-1,973.81	-4,159.32	0.76	2.38	660.20
6	23,881.56	38	29	9	76.32	1,307.23	3,331.38	-1,558.67	-2,942.40	0.84	2.70	628.46
5	13,208.79	38	26	12	68.42	994.54	2,693.34	-1,054.11	-3,566.84	0.94	2.04	347.60
4	9,872.52	40	25	15	62.50	993.64	2,531.61	-997.90	-2,332.44	1.00	1.66	246.81
3	12,985.44	40	26	14	65.00	891.62	2,159.82	-728.33	-2,091.82	1.22	2.27	324.64
2	9,437.29	40	24	16	60.00	805.33	3,288.48	-618.16	-1,575.22	1.30	1.95	235.93
1	6,595.00	41	28	13	68.29	510.85	1,710.72	-592.98	-1,194.83	0.86	1.86	160.85

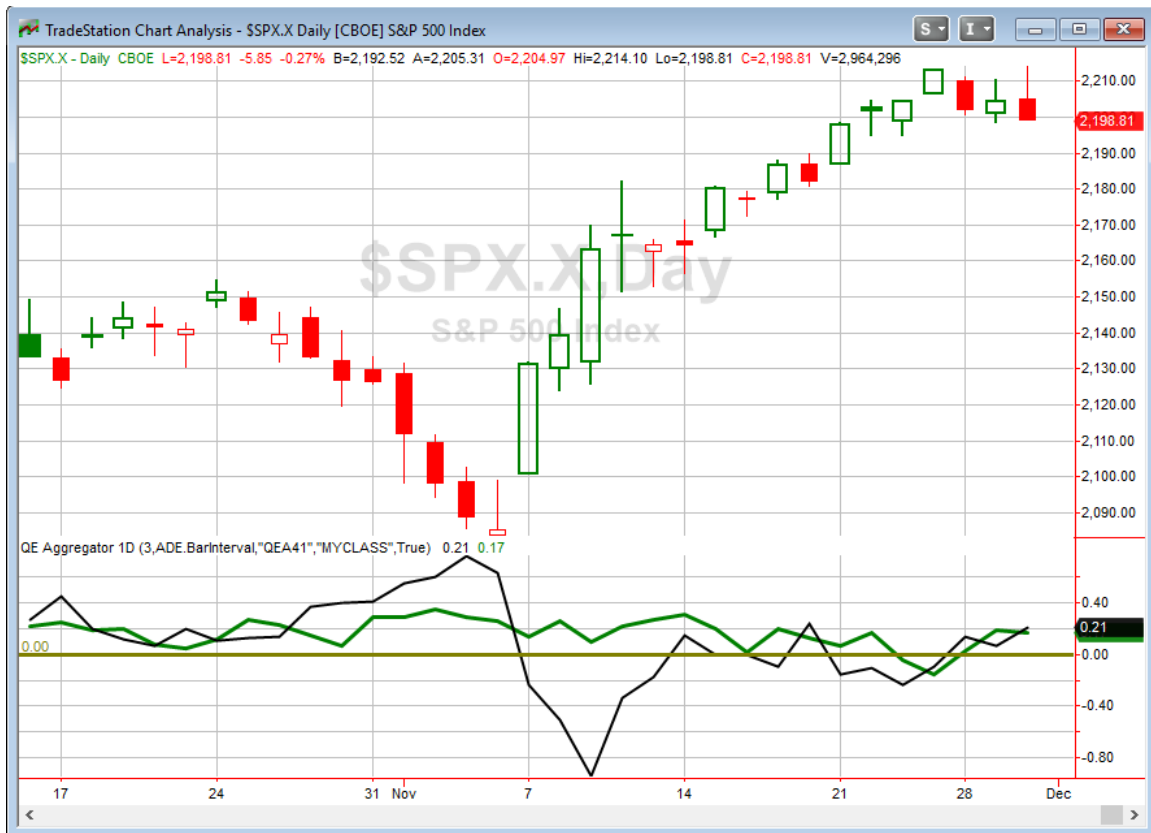
39 of 41 instances (95%) closed above the entry price at some point in the next week. The 2 that failed triggered on 12/30/04 and 12/31/04.

Results here seem to suggest an upside edge over the next 1-2 weeks. Below is a profit curve assuming a 10-day holding period.



The persistent upslope appears to confirm the upside edge suggested by the statistics. I have added this study to the intermediate-term Active List.

I have updated the Aggregator chart below.



With tonight's studies to consider, the green Aggregator Line remained 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 stayed long at the close.

Based on the current active studies, expectations are primed to remain positive on Thursday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted* at 2197.94 on Thursday. That is a little less than 1 point below Wednesday's close. An inverted pivot means that the Differential Line will cross zero if SPX closes flat. In this case SPX will need to close down about 1 point in order to remain oversold versus expectations.

I generally do not view inverted pivots as opportune times to enter new positions. This is because upside is limited to just 1 day, and potential risk is outsized. So while I would love to play what appears to be a decent 1-day edge, this does not look like a substantial swing trading opportunity. More nimble and aggressive traders could look to take advantage of a possible rally on Thursday.

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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