

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 20, 2016

Volume 9 Issue 246

Market Overview



Signals Overview

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

Tonight's Research Points

- Monday's unfilled gap up along with it being an inside day suggests a 1-day bearish edge for Tuesday.

Short-term Outlook

The Bottom Line

The Aggregator has turned bearish. And though the bearish formation is likely to only last 1 day, I am viewing it as a good time to take profits on my long position.

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						
December 20, 2016	Unfilled gap up inside day	1 day	Bearish			
December 15, 2016	Large drop from 50-day high	1-4 days	Bullish			
Active - Long Term						
December 16, 2016	Russell strong after Dec opex Thurs	1-10 days	Bullish			
December 12, 2016	Dec opex	1-15 days	Bullish	3.60%	-1.70%	-3.50%
December 12, 2016	RSI(2) crosses over 99. Close > 200ma	1-15 days	Bullish	2.30%	-1.40%	-2.70%
December 1, 2016	20-high then poor close	1-10 days	Bullish			
November 11, 2016	SPX 20-high. NDX biggest drop in 20.	1-50 days	Bullish			
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			

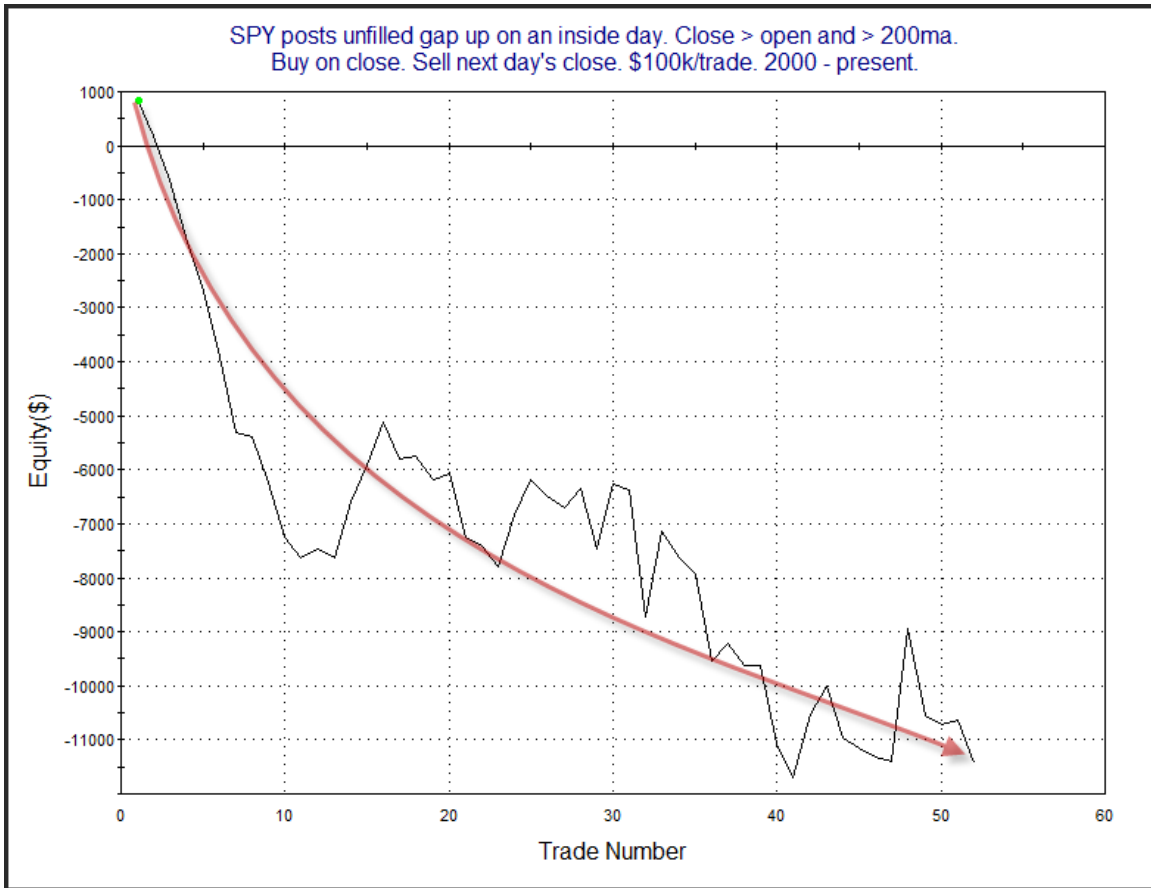
The Evidence

The SPX changed direction Monday for the 6th day in a row. It posted a gain of 0.2%, the NASDAQ rose 0.4%, and the Russell 2000 rallied 0.55%. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 54%. NYSE volume came in light, and it probably will continue to do so through year end.

Interestingly, the most compelling study to emerge based on Monday's action is one that I just showed two nights ago in the 12/16/16 letter. It looks at days like Monday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results below.

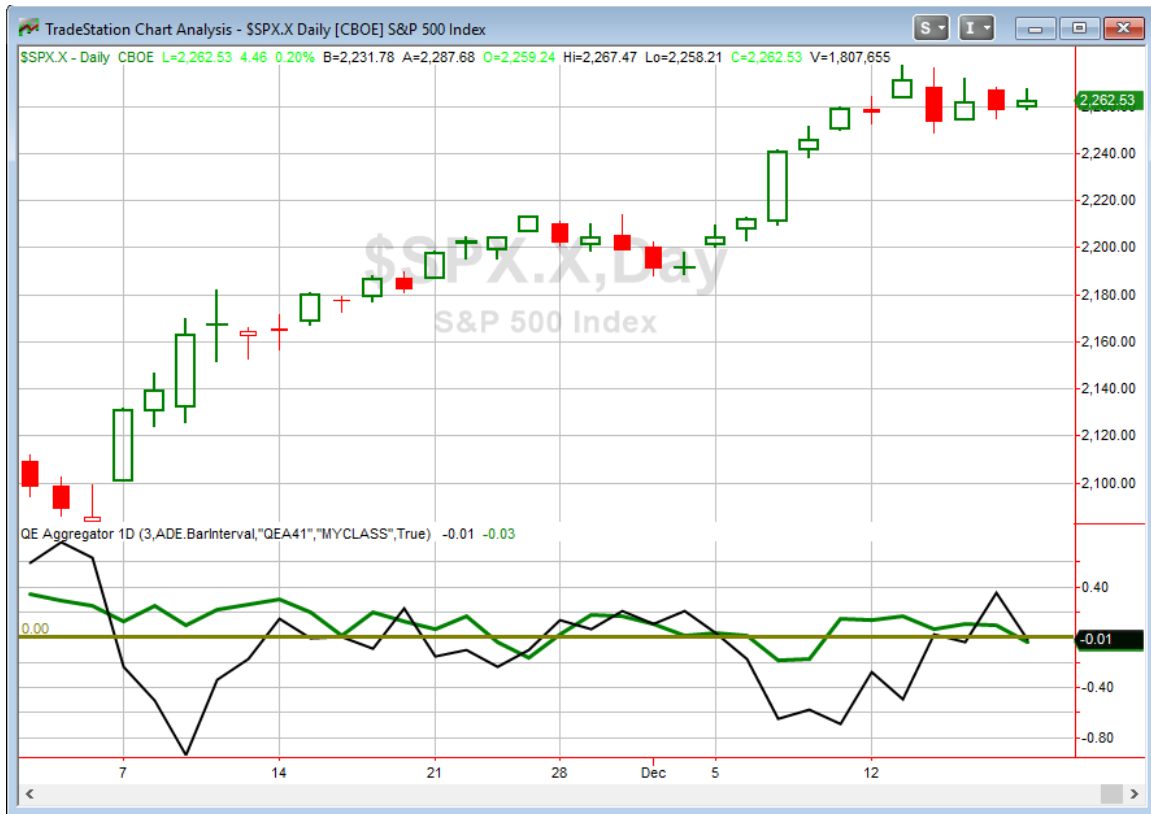
SPY posts unfilled gap up on an inside day. Close > open and > 200ma. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$11,422.68)	Profit Factor	0.53
Gross Profit	\$13,026.75	Gross Loss	(\$24,449.43)
Total Number of Trades	52	Percent Profitable	32.69%
Winning Trades	17	Losing Trades	34
Even Trades	1		
Avg. Trade Net Profit	(\$219.67)	Ratio Avg. Win:Avg. Loss	1.07
Avg. Winning Trade	\$766.28	Avg. Losing Trade	(\$719.10)
Largest Winning Trade	\$2,470.05	Largest Losing Trade	(\$2,348.90)

Implications here appear somewhat bearish. I'd also note that 46 of 52 instances (88%) closed below the entry price at some point in the next week. Below is a profit curve that shows how the downside edge has played out over time.



This is not an ideal profit curve but it still appears to suggest a downside edge.

I have updated the Aggregator chart below.



With tonight's study considered 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 also dipped 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 below zero. Therefore, the Aggregator signal changed from long to short at the close.

Both of the current active short-term studies are set to expire on Tuesday. This would turn expectations bullish based on the current intermediate-term studies. Of course any new short-term evidence that emerges over the next few days will have a substantial impact on expectations. The Differential Pivot will be *inverted at 2269.79* on Tuesday. That is 0.3% *above* Monday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. So SPX will need to close up at least 0.3% on Tuesday in order to remain overbought. Anything short of that and it will be considered oversold as of Tuesday's close.

So the Aggregator is in a bearish formation. But expectations are set to flip bullish and the market is primed to move from overbought to oversold versus expectations on Tuesday. So any bearish edge appears likely to be fleeting. I have some current long exposure. With the bearish Aggregator I will look to take profits on that on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/19 – 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IWM(1/4)	12/15/2016	\$135.15	\$136.80	1.22%		<i>sell @ \$136.50 limit</i>

I will sell IWM if I can get filled at \$136.50 or higher on Tuesday.

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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