

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 29, 2016

Volume 9 Issue 252

Market Overview



Signals Overview

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

Tonight's Research Points

- The 1st 10-day low in a while is often buyable.
- The SPY gap and reversal on Wednesday after an unfilled gap up on Tuesday suggests an upside edge for Thursday.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral and so am I.

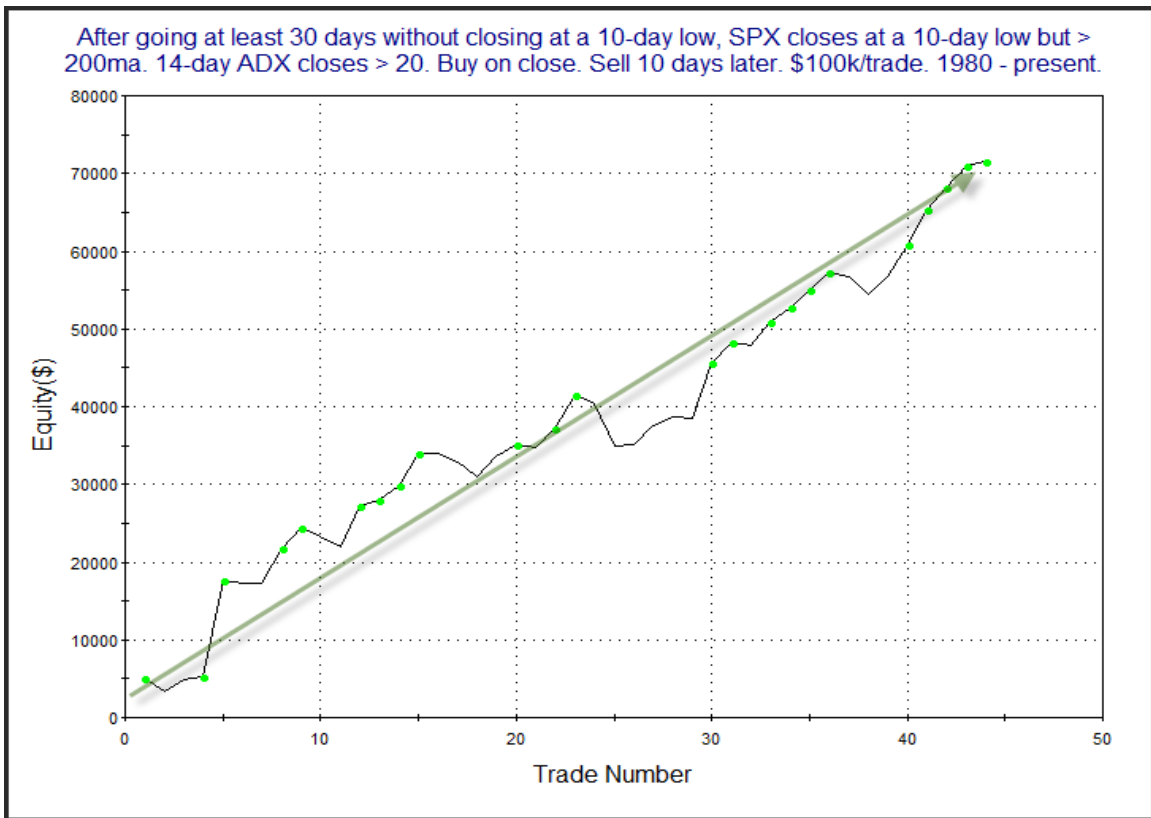
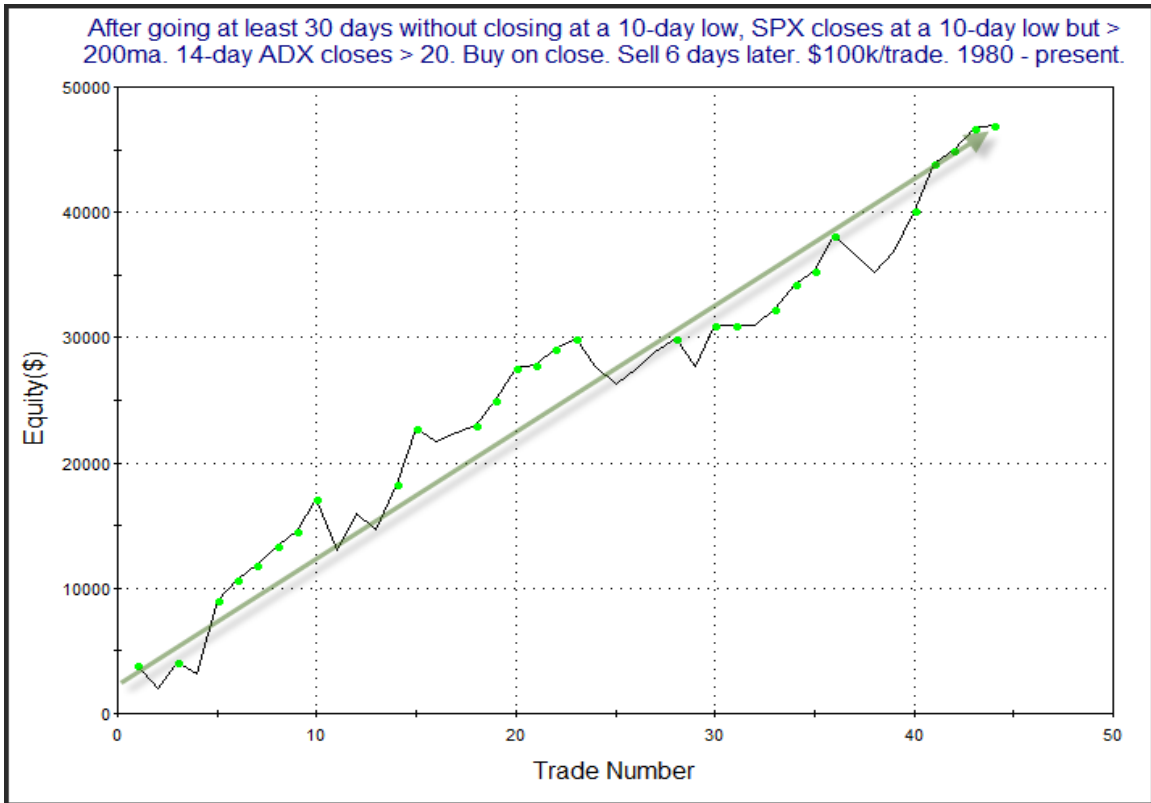
The Evidence

Wednesday was the worst day for the market in a while. SPX posted a loss of 0.8%, the NASDAQ fell 0.9%, and the Russell 2000 dropped 1.2%. Breadth was negative as the NYSE Up Issues % was 24% and the Up Volume % came in at 18%. NYSE volume rose a little from Tuesday's level.

Notable about the low close on Wednesday is that it was the 1st 10-day low close since 11/4. Before today SPX had gone 35 trading days without posting a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after such a long time without one has provided a solid upside edge. In the 11/12/15 letter I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. In that letter I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. Updated results are below with that filter included.

After going at least 30 days without closing at a 10-day low, SPX closes at a 10-day low but > 200ma. 14-day ADX closes > 20. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	71,594.00	44	30	14	68.18	2,968.72	12,395.76	-1,247.69	-5,362.24	2.38	5.10	1,627.14
9	69,653.49	44	33	11	75.00	2,576.10	10,529.82	-1,396.16	-3,753.36	1.85	5.54	1,583.03
8	65,737.30	44	34	10	77.27	2,444.41	10,554.48	-1,737.27	-6,117.72	1.41	4.78	1,494.03
7	46,661.09	44	31	13	70.45	2,393.29	7,743.24	-2,117.75	-8,141.12	1.13	2.69	1,060.48
6	46,996.21	44	33	11	75.00	1,975.97	5,893.74	-1,655.54	-4,111.40	1.19	3.58	1,068.10
5	40,439.10	44	30	14	68.18	1,913.11	4,608.35	-1,211.02	-3,502.11	1.58	3.39	919.07
4	39,094.61	44	34	10	77.27	1,614.19	4,690.50	-1,578.80	-2,616.60	1.02	3.48	888.51
3	18,493.27	44	30	14	68.18	1,239.74	3,940.55	-1,335.64	-4,464.88	0.93	1.99	420.30
2	9,606.83	44	28	16	63.64	1,030.02	3,744.45	-1,202.11	-7,559.56	0.86	1.50	218.34
1	6,556.95	44	27	17	61.36	702.00	2,287.60	-729.23	-1,922.40	0.96	1.53	149.02
41 of 44 instances (93%) closed above the entry price at some point in the next week.												

The numbers here are quite good. The edge appears to persist for a full 2 weeks, but much of the gains are realized in the first 6 trading days. Below are the 6 and 10-day profit curves.



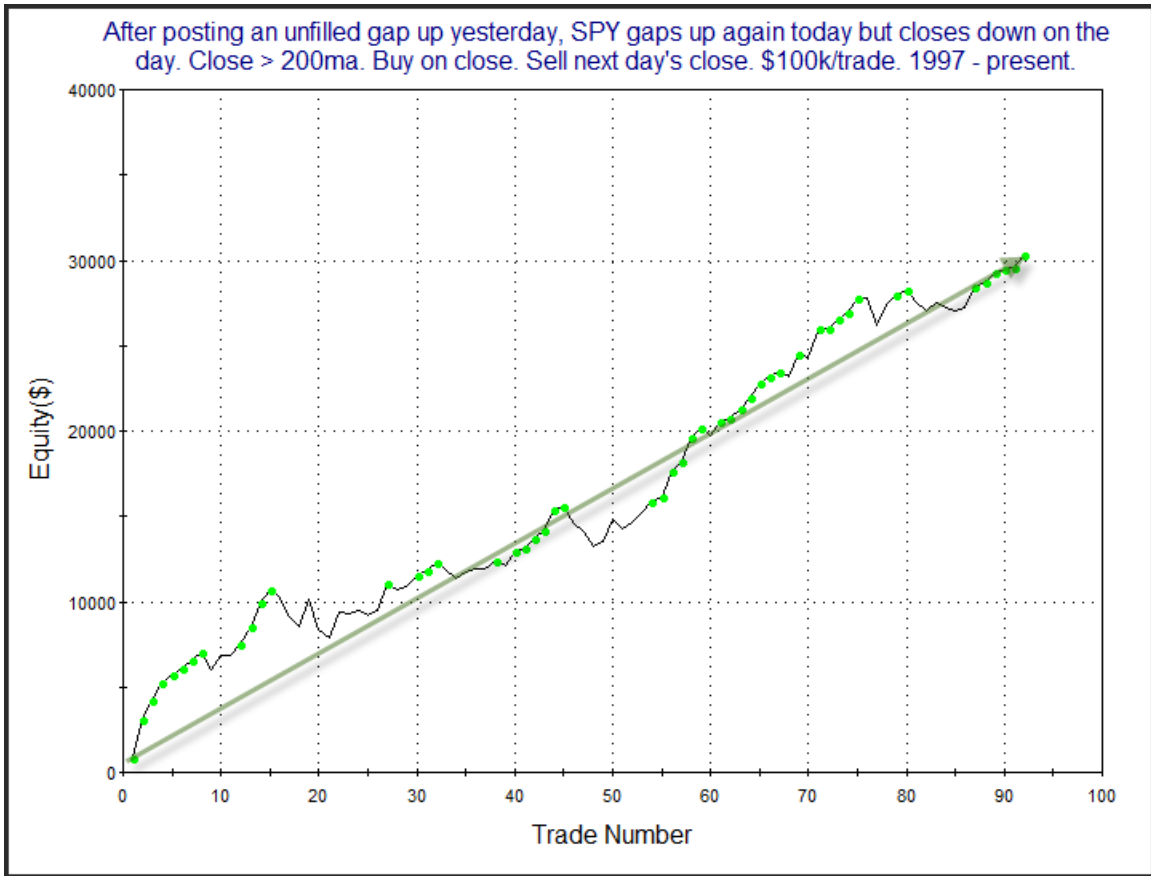
This profit curves show strong steady upslopes. I have included this study on the Active Lists tonight.

In the 11/21/16 letter I examined similar price action in SPY with regards to how it gapped and finished. I found that gains had been pretty consistent the next day after similar action. The study is updated below.

After posting an unfilled gap up yesterday, SPY gaps up again today but closes down on the day. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1997 - present.

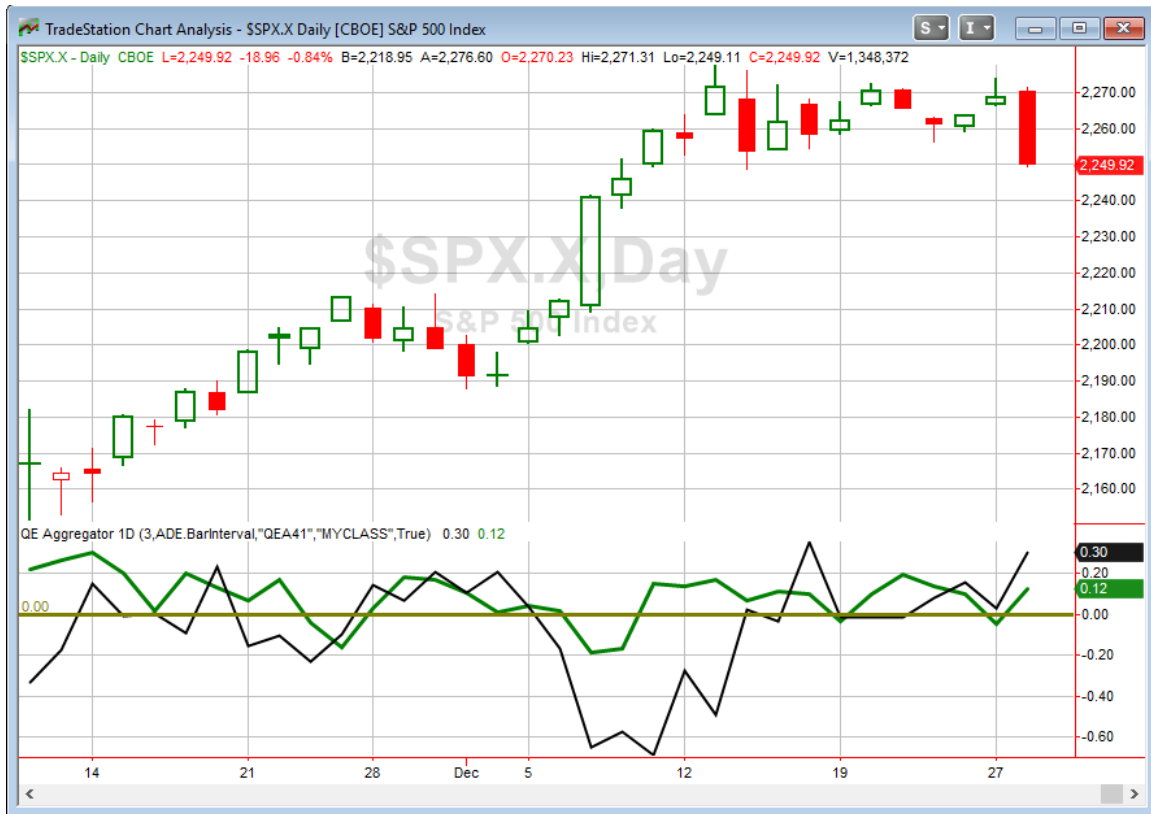
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$30,339.91	Profit Factor	3.06
Gross Profit	\$45,094.92	Gross Loss	(\$14,755.01)
Total Number of Trades	92	Percent Profitable	71.74%
Winning Trades	66	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	\$329.78	Ratio Avg. Win:Avg. Loss	1.20
Avg. Winning Trade	\$683.26	Avg. Losing Trade	(\$567.50)
Largest Winning Trade	\$2,194.38	Largest Losing Trade	(\$1,764.00)

The numbers here all look solidly bullish. Below is a look at profit curve.



The strong, steady upslope is encouraging. Based on the action of the last 2 days, it appears an up day on Thursday is fairly likely. I have included this study on the Active List tonight.

I have updated the Aggregator chart below.



With tonight's studies considered the green Aggregator Line rose above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line 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 turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2273.75 on Thursday. That is 1.0% above Wednesday's close. So SPX will need to close up at least 1.0% to move from oversold to overbought versus expectations.

The Aggregator is bullish, evidence is compelling, and there is a good amount of room to the upside to profit before SPX would be considered overbought. I consider these appealing conditions and will be looking to take on some more long exposure on Thursday.

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

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

New

GM @ \$35.15 – buy 1/3 @ limit

Broad Market Large Cap CBI – 1(GM)

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.

GM – buy 1/3 Catapult position @ \$35.15 limit. This is from the Catapult section above. It is the 1st of 3 possible lots for GM.

SPY – buy ¼ index position @ \$224.40 limit. Based on the short-term outlook above, I will look to get long if I can get filled at or below Wednesday’s close.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MDT(1/3)	12/22/2016	\$71.50	\$71.81	0.43%		<i>sell on open</i>

MDT hit an exit trigger. I will close out the trade idea at Thursday’s open.

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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