

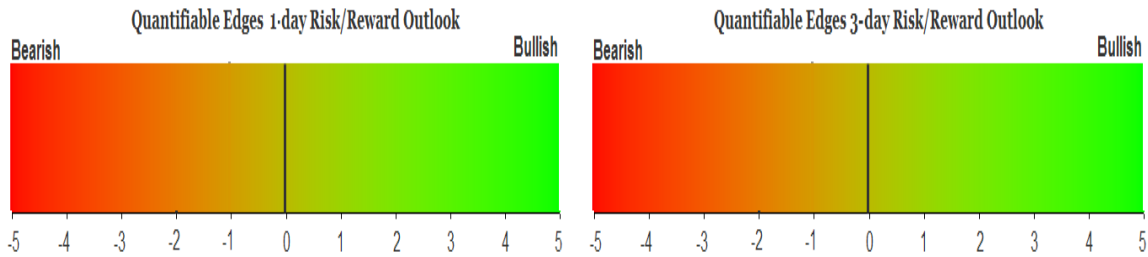
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 4, 2017

Volume 10 Issue 2

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Flat	50% Long XIV	Flat

## Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through.

## *Short-term Outlook*

### *The Bottom Line*

While we could see some follow-through in the next couple of days, the Aggregator is now neutral. I am looking to take profits on my index 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
<b>Active - Short Term</b>						
January 3, 2017	2 days down & poor close at end of mth	1-3 days	Bullish			
January 3, 2017	10-day low to finish month.	1 day	Bullish			
December 29, 2017	1st 10-low in 30+ days	1-6 days	Bullish			
December 22, 2016	Twas 3 Nights Before Christmas	1-8 days	Bullish			
<b>Active - Long Term</b>						
December 29, 2017	1st 10-low in 30+ days	1-10 days	Bullish			
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%
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			

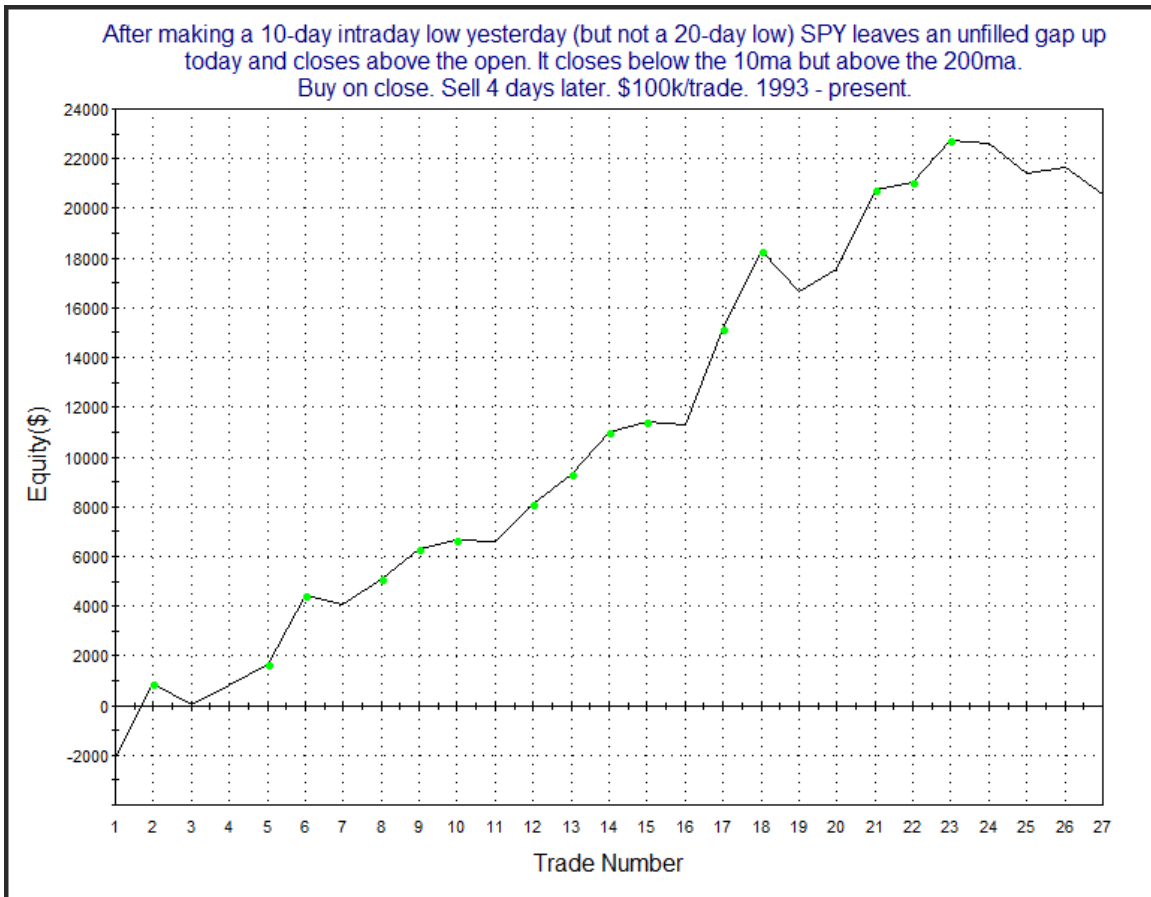
**The Evidence**

2017 got off on a positive note. SPX and the NASDAQ each rose 0.9%, and the Russell 2000 gained 0.6%. Breadth was positive as the NYSE Up Issues % was 75% and the Up Volume % came in at 80%. NYSE volume rose as traders returned from vacation.

Tuesday's rally was marked by the fact that it featured an unfilled gap up and a further rise between the open and the close. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up from a low appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 5/3/16 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	20,472.49	27	20	7	74.07	1,330.61	4,106.63	-877.11	-1,949.70	1.52	4.33	758.24
4	20,561.89	27	18	9	66.67	1,558.58	3,904.83	-832.50	-2,096.99	1.87	3.74	761.55
3	13,575.04	28	17	11	60.71	1,315.35	3,914.92	-798.72	-1,874.00	1.65	2.55	484.82
2	9,168.49	28	17	11	60.71	1,205.67	2,828.00	-1,029.80	-2,183.21	1.17	1.81	327.45
1	1,130.45	28	14	13	50.00	866.82	1,773.46	-846.54	-2,895.33	1.02	1.10	40.37
27 of 28 instances (96%) closed above the entry price at some point in the next week. The last instance (5/2/16) was the only failure.												

Indications here are bullish across the board. It is impressive that nearly every instance saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 4-day holding period.



Despite a few recent failures, the strong, steady upslope is impressive.

Also in the 5/3/16 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below (not updated).

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-4,695.74	29	13	16	44.83	1,726.48	3,073.60	-1,696.25	-3,739.32	1.02	0.83	-161.92
4	-889.35	31	17	14	54.84	1,296.82	2,950.20	-1,638.23	-2,744.82	0.79	0.96	-28.69
3	-8,242.29	33	16	17	48.48	844.90	2,811.60	-1,280.04	-3,070.92	0.66	0.62	-249.77
2	-8,070.55	35	17	18	48.57	830.72	2,341.35	-1,232.94	-2,818.42	0.67	0.64	-230.59
1	-2,592.64	35	13	22	37.14	951.55	2,470.05	-680.12	-1,777.90	1.40	0.83	-74.08

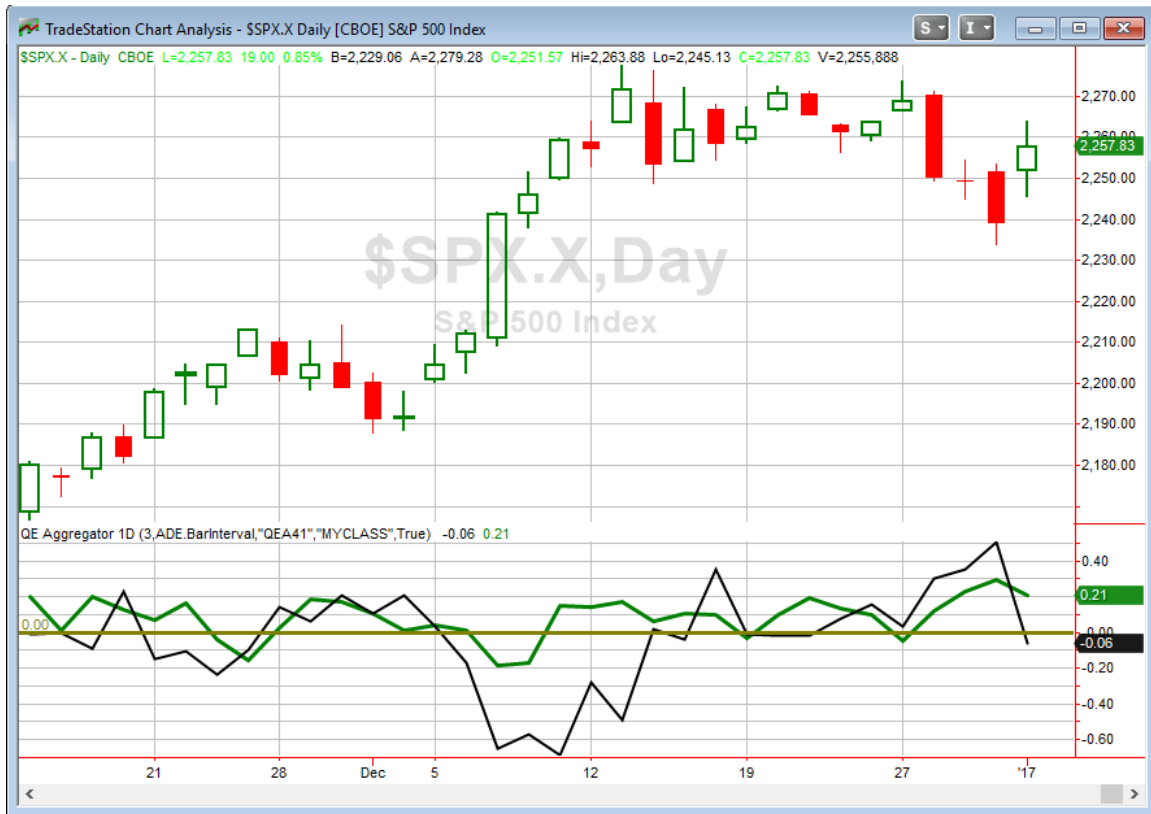
In the 5/3/16 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below (not updated).

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and close above the open. It closes **above** the 10ma and above the 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-6,262.63	15	7	8	46.67	777.28	1,647.78	-1,462.95	-3,691.98	0.53	0.46	-417.51
4	-2,790.09	15	7	8	46.67	679.37	1,903.47	-943.21	-1,788.75	0.72	0.63	-186.01
3	-4,944.59	15	7	8	46.67	583.23	1,393.05	-1,128.40	-2,475.20	0.52	0.45	-329.64
2	-2,071.60	15	8	7	53.33	579.64	1,325.28	-958.39	-2,293.20	0.60	0.69	-138.11
1	-3,534.86	15	7	8	46.67	478.47	949.00	-860.52	-2,591.68	0.56	0.49	-235.66

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Tuesday.

I have updated the Aggregator chart below.



With tonight's studies considered 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 dropped down below 0. The negative Differential Line reading means SPX is now overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal changed from long to flat at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. It would require strong bearish evidence to change this. The Differential Pivot will be 2256.23 on Wednesday. That is just 0.1% below Tuesday's close. So SPX will only need to close down 0.1% in order to move from overbought to oversold versus expectations.

Tonight's study is suggesting more upside. And it does not view the market as "overbought". But the Differential Line does view it as overbought, so we have a neutral Aggregator formation. In any case, whether SPX is overbought or not appears borderline. But it can get there pretty easily. Potential reward seems somewhat limited over the next day or so and I will look to take profits on my SPY position. There was also 1 new Catapult and 1 Catapult that reached an exit trigger.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 1/3 – bullish***

**Catapult and Capitulative Breadth Statistics**

*[Catapult & CBI Presentation Link](#)*

***Open Catapult Triggers***

GM @ \$35.15 – bought 1/3 @ limit

GM @ \$35.14 – buy 1/3 @ limit

GM @ \$34.84 – buy 1/3 @ limit

**New**

MDT @ \$70.61 – buy 1/3 @ limit

***Broad Market Large Cap CBI – 4(GM-3, MDT)***

**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.*

**MDT – buy 1/3 Catapult position @ \$70.61 limit.** This is from the Catapult section above. It is the 1<sup>st</sup> of 3 possible lots for MDT.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GM(1/3)	12/29/2016	\$35.15	\$35.15	0.00%		Catapult
SPY(1/4)	12/29/2016	\$224.40	\$225.24	0.37%		<i>sell @ \$225.24 limit</i>
GM(1/3)	12/30/2017	\$35.14	\$35.15	0.03%		Catapult
GM(1/3)	1/3/2017	\$34.84	\$35.15	0.89%		Catapult
BRK.B(1/3)	1/3/2017	\$162.98	\$163.83	0.52%		<i>sell on open</i>

BRK.B reached its exit trigger and will be closed out at the open on Wednesday.

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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