

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 10, 2017

Volume 10 Issue 6

Market Overview



Signals Overview

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

Tonight's Research Points

- When SPX posts an inside day today after a 50-day high breakout yesterday, it suggests further buying over the next week.

Short-term Outlook

The Bottom Line

Expectations are positive and SPX is now a little oversold versus recent expectations. This has the Aggregator in a bullish formation. I may look to take advantage of the upside edge if the market pulls back more on Tuesday.

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						
January 10, 2017	Breakout then inside day	1-5 days	Bullish			
January 9, 2017	50-day high breakout on lower volume	1-5 days	Bullish			
Active - Long Term						
January 9, 2017	NASDAQ Leading	int term	Bullish			
December 29, 2017	1st 10-low in 30+ days	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			

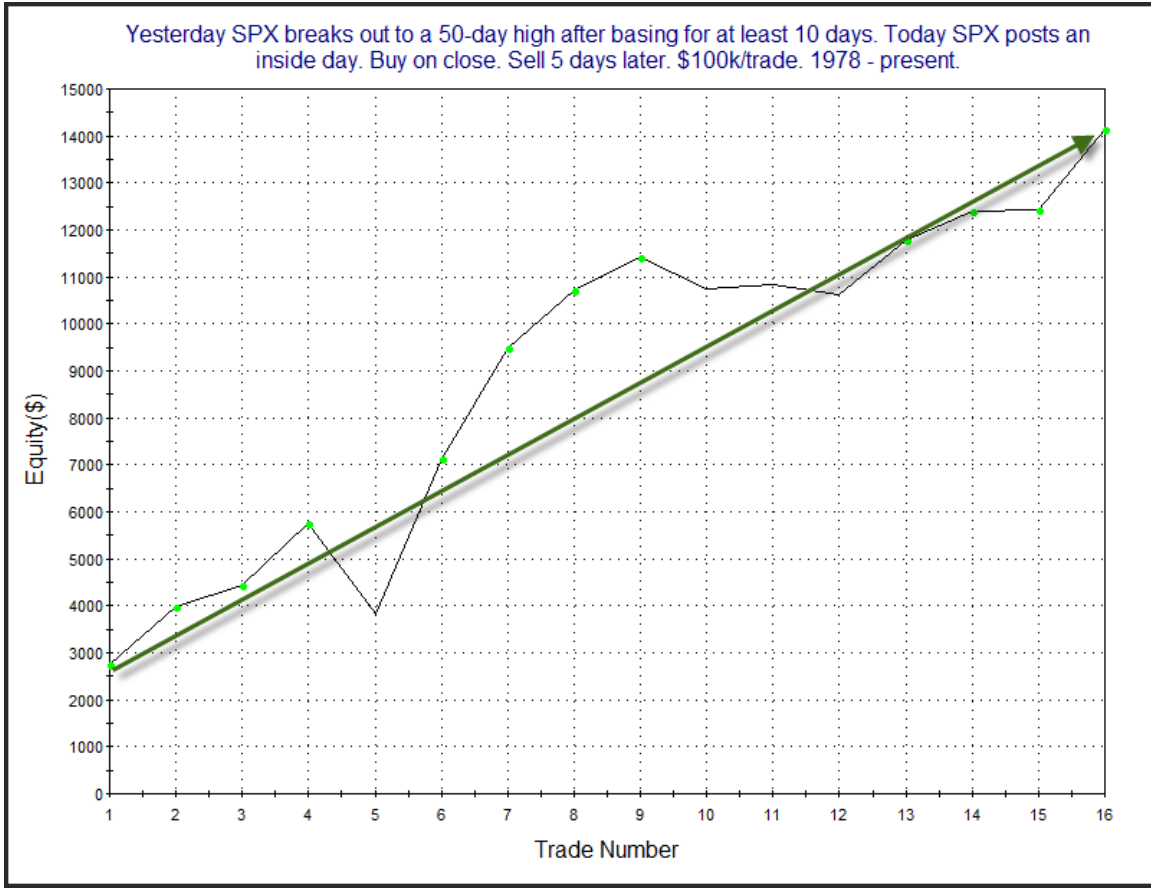
The Evidence

Monday was a mixed day for the market. SPX lost 0.35%, the NASDAQ gained 0.2%, and the Russell 2000 sold off 0.7%. Breadth was negative as the NYSE Up Issues % was 36% and the Up Volume % came in at 28%. NYSE volume rose some from Monday's level.

Friday was a breakout day for the market and we saw some evidence last night that the breakout is likely to see some short-term follow through. SPX pulled back a little on Monday, but it ended up as an inside day. This begs the question of whether the inside day is more likely a pause before a resumption of the breakout, or whether it signals the momentum is fading and the market will swing the other way. The study below is from the 1/12/12 and it attempts to answer that question.

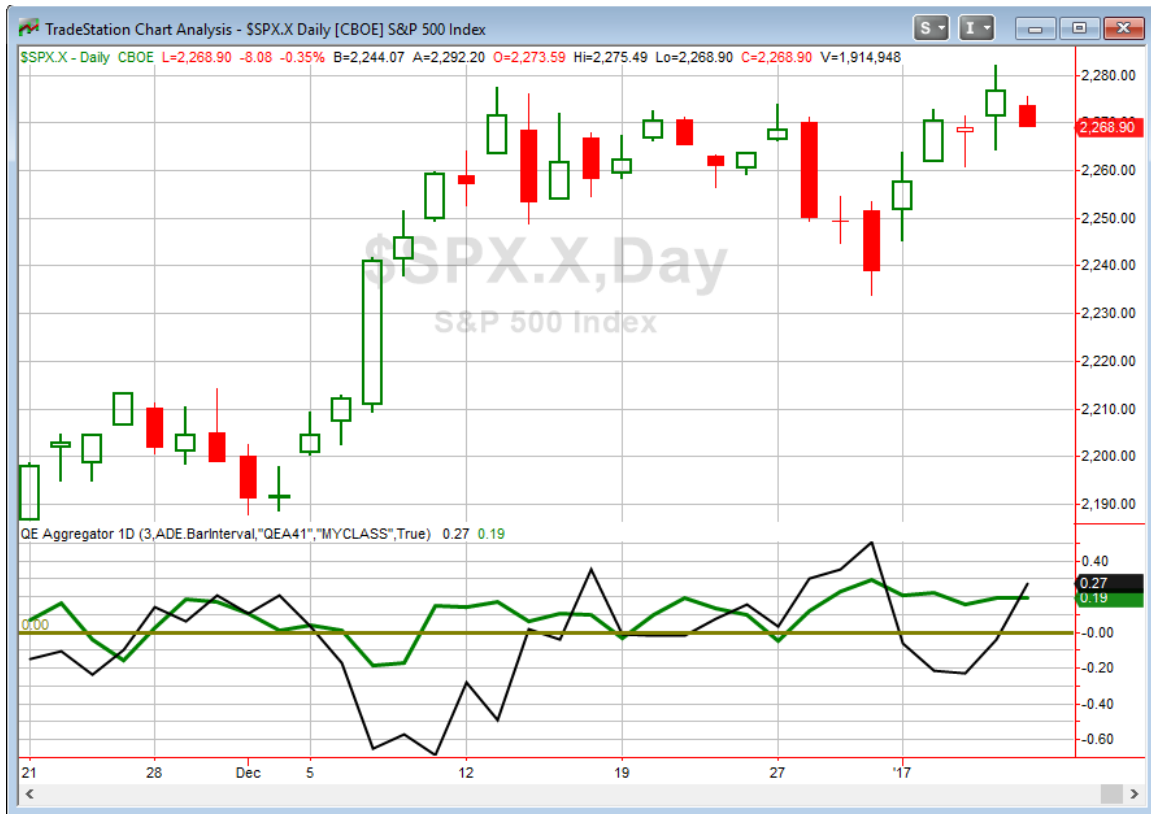
Yesterday SPX breaks out to a 50-day high after basing for at least 10 days. Today SPX posts an inside day. Buy on close. Sell X days later. \$100k/trade. 1978 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	14,134.49	16	13	3	81.25	1,304.57	3,281.34	-941.65	-1,916.98	1.39	6.00	883.41
4	8,412.23	16	10	6	62.50	1,441.13	3,173.92	-999.84	-2,926.98	1.44	2.40	525.76
3	3,244.82	16	12	4	75.00	744.07	2,715.24	-1,420.99	-2,770.43	0.52	1.57	202.80
2	2,644.62	16	7	9	43.75	1,137.71	2,622.42	-591.04	-1,372.28	1.92	1.50	165.29
1	-803.86	16	6	10	37.50	996.24	2,142.00	-678.13	-1,699.88	1.47	0.88	-50.24

The reason I have not updated this study since 2012 is that it has not triggered in the last 5 years. Based on the stats it appears that after day 1 a resumption of the uptrend is the more likely scenario. Below is a profit curve that uses a 5-day exit strategy.



A bit choppy but the general upslope appears good enough that the study seems worthy of consideration.

I have updated the Aggregator chart below.



With tonight's study 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 moved 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 Tuesday. Of course this could change if strong new bearish evidence emerges. The Differential Pivot will be 2282.43 on Tuesday. That is 0.6% above Monday's close. So SPX will need to close up at least 0.6% in order to flip from oversold to overbought versus expectations on Tuesday.

Overall, evidence is fairly compelling. The Aggregator is pointing higher since SPX is now oversold versus recent expectations. But 1 small down close from an all-time high would probably not be considered oversold by hardly any other measure. I would prefer to see SPY pull back a bit more before taking on a long index position. And tonight's study suggests that Tuesday could be vulnerable to some weakness. So I will look to get long at the close on Tuesday if SPY closes at or under its 10ma.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 1/9 – 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.

SPY – buy ¼ index position @ \$225.60 LIMIT ON CLOSE. Based on the short-term outlook above I will look to begin scaling into a long position if SPY closes down a decent amount.

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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