

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 20, 2017

Volume 10 Issue 13

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY's big outside day reversal pattern suggests a short-term upside edge.
- Inauguration days have not done well, but the days and weeks following have often been good.

Short-term Outlook

The Bottom Line

Expectations have turned bullish and there appears to be a mild upside edge. It is not at the point where I am inclined to take advantage of it, but a down day Friday could set up a trade early next week.

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 20, 2017	3-high, 3-low, 3 low close	1-5 days	Bullish			
January 17, 2017	MLK/Jan Opex Weakness	1-4 days	Bearish	0.80%	-2.40%	-4.60%
Active - Long Term						
January 9, 2017	NASDAQ Leading	int term	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			
Dropped Tonight						
January 19, 2017	Up < 0.25%. Top of range.	1 day	Bearish			

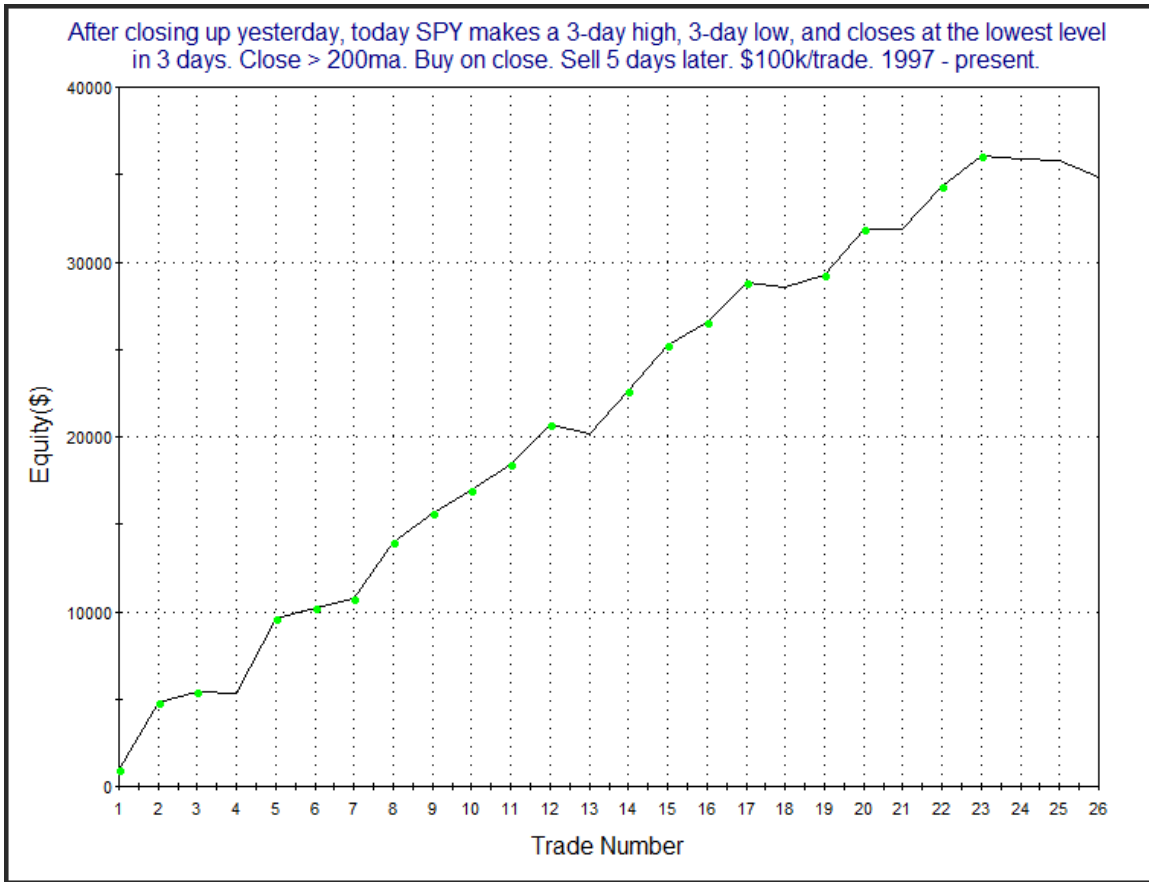
The Evidence

Thursday was a down day for the market. SPX lost 0.4%, the NASDAQ declined 0.3%, and the Russell 2000 fell 0.9%. Breadth was negative as the NYSE Up Issues % was 25% and the Up Volume % came in at 29%. NYSE volume declined some from Wednesday’s level.

SPY traded in a relatively wide range and closed down on Friday. The study below was last shown in the 10/10/16 subscriber letter. It looks for the reversal day to engulf both of the last two days, close at a three day low, and still be above the 200ma. All results are updated.

After closing up yesterday, today SPY makes a 3-day high, 3-day low, and closes at the lowest level in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	34,873.44	26	19	7	73.08	1,947.18	4,273.50	-303.29	-892.80	6.42	17.43	1,341.29
4	20,964.23	26	17	9	65.38	1,658.40	4,533.98	-803.17	-2,123.52	2.06	3.90	806.32
3	7,105.91	26	16	10	61.54	1,424.62	3,903.34	-1,568.80	-3,393.78	0.91	1.45	273.30
2	5,428.75	27	15	12	55.56	1,293.26	3,244.78	-1,164.19	-3,737.28	1.11	1.39	201.06
1	768.50	27	17	10	62.96	651.22	2,359.84	-1,030.22	-3,909.03	0.63	1.07	28.46

After the first couple of days there appears to be a strong and consistent upside edge. It is notable that with 25 instances, the biggest loser when looking out 5 days was less than 0.9%. Below is a profit curve that assumes a 5-day holding period.



The last couple of instances have not gotten anywhere, but it is an impressive equity curve nonetheless. It appears to be a nice confirmation of the bullish suggestion by the stats table.

In the 1/20/09 blog eight years ago I looked at inauguration day returns. I examined whether a new president brought about new hope and optimism for the market.

I limited the instances to only those inaugurations where a new president was entering office. I don't think re-elections carry a sense of "new hope" the way a new president does. I also eliminated inaugurations of Presidents that weren't elected (Ford in '74, Johnson in '63, Truman in '45, and Coolidge in '23). I just don't believe the same sense of excitement is generated by a replacement as by a newly elected president.

That left me with the following 12 instances:

March 4, 1921 - Warren G. Harding

March 4, 1929 – Herbert Hoover

March 4, 1933 – Franklin Roosevelt

January 20, 1953 – Dwight Eisenhower

January 20, 1961 – John Kennedy

January 20, 1969 – Richard Nixon

January 20, 1977 – James Carter

January 20, 1981 – Ronald Reagan

January 20, 1989 – George H.W. Bush

January 20, 1993 – William Clinton

January 20, 2001 – George W. Bush

January 20, 2009 – Barack Obama

First I looked to see how the market performed on the day of the inauguration. Surely the wonderful speeches and overall positive vibes would have had a positive effect on the market:

Inauguration Day Returns of 1st Term Presidents when inauguration occurred on day NYSE was open. DJIA. 1920 - 2016.				
Date/Time	Signal	Price	% Profit	
3/3/1921	Buy	\$75.20	-0.13%	Warren G Harding
3/4/1921	Sell	\$75.10		
3/1/1929	Buy	\$321.20	-2.27%	Herbert Hoover
3/4/1929	Sell	\$313.90		
1/19/1953	Buy	\$287.00	0.35%	Dwight Eisenhower
1/20/1953	Sell	\$288.00		
1/19/1961	Buy	\$632.30	0.32%	John Kennedy
1/20/1961	Sell	\$634.30		
1/17/1969	Buy	\$935.50	-0.45%	Richard Nixon
1/20/1969	Sell	\$931.30		
1/19/1977	Buy	\$968.70	-1.00%	Jimmy Carter
1/20/1977	Sell	\$959.00		
1/19/1981	Buy	\$971.00	-2.09%	Ronald Reagan
1/20/1981	Sell	\$950.70		
1/19/1989	Buy	\$2,239.29	-0.18%	George H.W. Bush
1/20/1989	Sell	\$2,235.36		
1/19/1993	Buy	\$3,255.99	-0.43%	Bill Clinton
1/20/1993	Sell	\$3,241.95		
1/16/2009	Buy	\$8,281.22	-4.01%	Barack Obama
1/20/2009	Sell	\$7,949.09		

Then again, perhaps not. Eisenhower wins the award for most market-friendly speech by juicing the Dow for 0.35%. Obama was the biggest loser with a 4% drop on his inauguration day. George W. Bush and Franklin Roosevelt are not included on the list since their 1st inaugurations were on weekends.

What if we look out a little longer, though? Buying on the close of inauguration day (or 1st day after for W. Bush and Roosevelt) and holding for 10 days offered significantly more positive results:

DJIA performance from 1st-term Elected Inauguration Day close to 10 trading days later.			
Date/Time	Signal	Price	% Profit
3/4/1921	Buy	\$75.10	1.60%
3/18/1921	Sell	\$76.30	
3/4/1929	Buy	\$313.90	1.18%
3/18/1929	Sell	\$317.60	
3/6/1933	Buy	\$55.50	7.93%
3/20/1933	Sell	\$59.90	
1/20/1953	Buy	\$288.00	0.76%
2/3/1953	Sell	\$290.20	
1/20/1961	Buy	\$634.30	2.93%
2/3/1961	Sell	\$652.90	
1/20/1969	Buy	\$931.30	1.68%
2/3/1969	Sell	\$946.90	
1/20/1977	Buy	\$959.00	-1.24%
2/3/1977	Sell	\$947.10	
1/20/1981	Buy	\$950.70	-0.98%
2/3/1981	Sell	\$941.40	
1/20/1989	Buy	\$2,235.36	4.29%
2/3/1989	Sell	\$2,331.25	
1/20/1993	Buy	\$3,241.95	4.07%
2/3/1993	Sell	\$3,373.79	
1/22/2001	Buy	\$10,578.24	3.66%
2/5/2001	Sell	\$10,965.85	
1/20/2009	Buy	\$7,949.09	1.63%
2/3/2009	Sell	\$8,078.36	

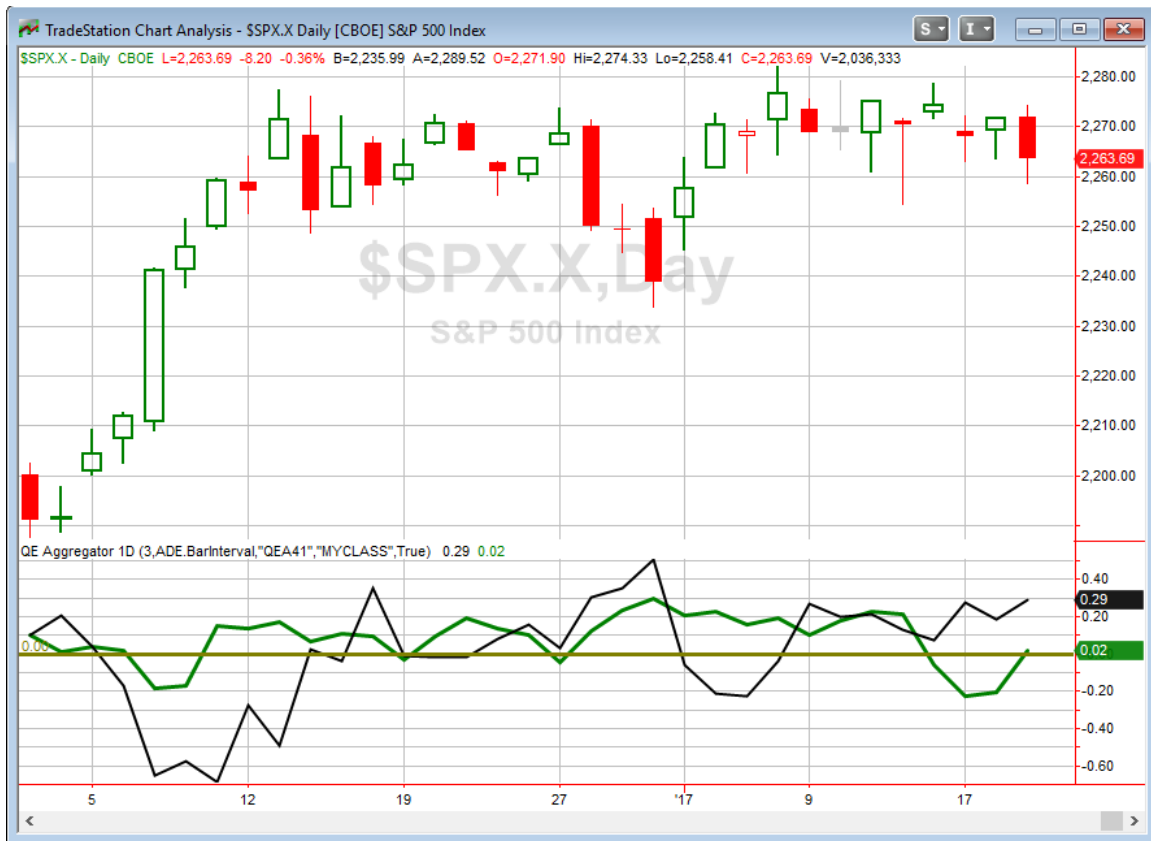
The 10-day timeframe has shown some very positive results. For an intermediate-term perspective below are the results for the 1st 75 trading days of the new presidency:

DJIA performance from 1st-term Elected
Inauguration Day close to 75 trading days later.

Date/Time	Signal	Price	% Profit
3/4/1921	Buy	\$75.10	-11.72%
6/21/1921	Sell	\$66.30	
3/4/1929	Buy	\$313.90	0.80%
6/19/1929	Sell	\$316.40	
3/6/1933	Buy	\$55.50	72.79%
6/21/1933	Sell	\$95.90	
1/20/1953	Buy	\$288.00	-3.40%
5/8/1953	Sell	\$278.20	
1/20/1961	Buy	\$634.30	8.29%
5/9/1961	Sell	\$686.90	
1/20/1969	Buy	\$931.30	3.25%
5/9/1969	Sell	\$961.60	
1/20/1977	Buy	\$959.00	-2.70%
5/9/1977	Sell	\$933.10	
1/20/1981	Buy	\$950.70	2.91%
5/7/1981	Sell	\$978.40	
1/20/1989	Buy	\$2,235.36	6.08%
5/9/1989	Sell	\$2,371.33	
1/20/1993	Buy	\$3,241.95	6.02%
5/7/1993	Sell	\$3,437.19	
1/22/2001	Buy	\$10,578.24	2.73%
5/9/2001	Sell	\$10,866.98	
1/20/2009	Buy	\$7,949.09	5.80%
5/7/2009	Sell	\$8,409.85	

Mostly positive here as well. Of course the main issue with this line of tests is that we are dealing with only 12 instances in 98 years. It would be quite dangerous to base any trades on just these results. So I did not add these to the Active Lists. I do find them interesting and somewhat notable, though.

I have updated the Aggregator chart below.



With tonight's research under consideration, the green Aggregator Line inched just barely 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 Friday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2266.28 on Friday. That is 0.1% above Thursday's close. Therefore, SPX will need to close up just 0.1% in order to flip from oversold to overbought versus expectations on Friday.

So the Aggregator formation is now bullish. But 1-day expectations remain negative (3-day are positive). Also, the Differential Pivot is very close overhead. This limits upside potential, since nearly any up close will turn the SPX overbought and mean the end of the long signal. So I am not inclined to get involved right here. But there is a good chance I will be looking to get long early next week if we see a decline on Friday.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 1/17 – 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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