

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 26, 2017

Volume 10 Issue 17

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY's unfilled up-gap and new 50-day high suggest a bullish edge.
- 2 unfilled up gaps and a 50-day high are a short-term positive.

Short-term Outlook

The Bottom Line

The situation remains the same. Expectations are bullish but the SPX is overbought. This is leaving me short-term neutral.

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 26, 2017	2 unfilled gaps and 50-day high	1-2 days	Bullish			
January 26, 2017	SPY breakaway gap	1-5 days	Bullish			
January 20, 2017	3-high, 3-low, 3 low close	1-5 days	Bullish			
Active - Long Term						
January 9, 2017	NASDAQ Leading	int term	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			

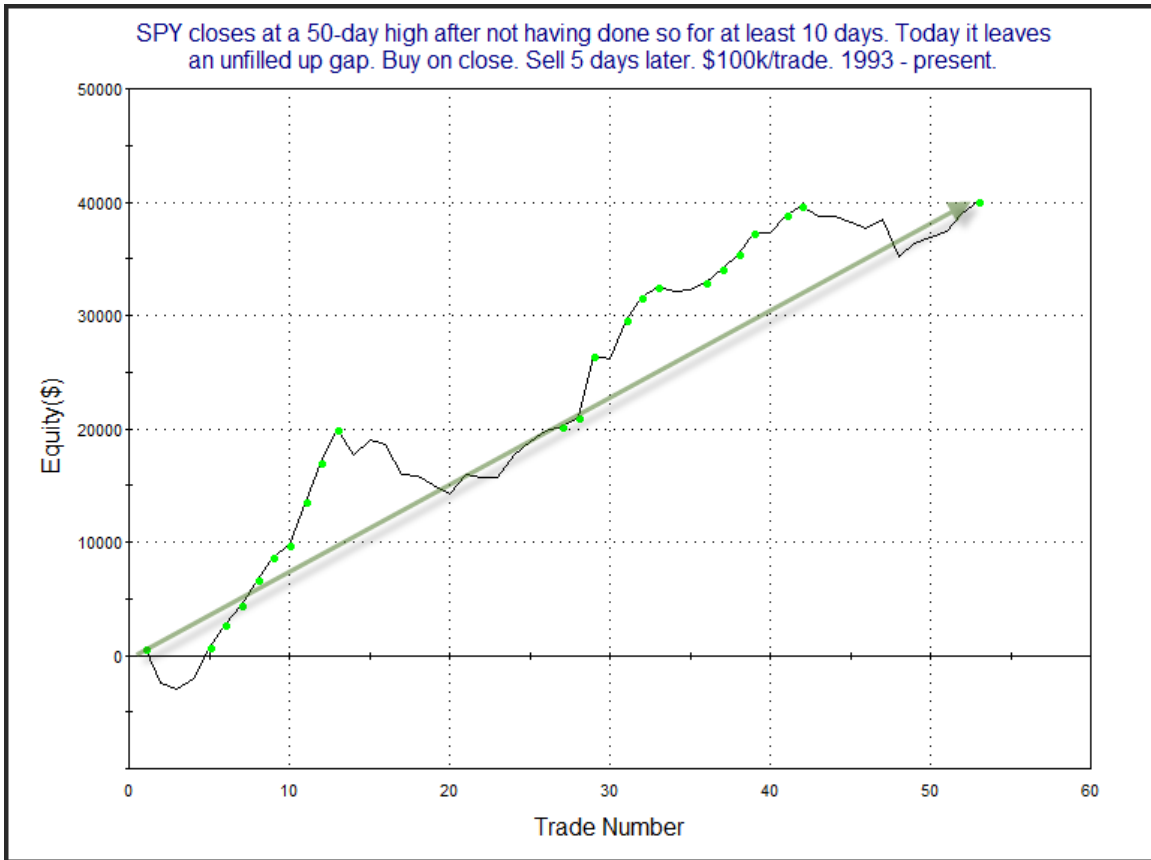
The Evidence

Wednesday was a day of gains. The SPX closed up 0.8%, the NASDAQ gained 1.0%, and the Russell 2000 rallied 1.0%. Breadth was strongly positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 70%. NYSE volume rose some from Tuesday's level.

While SPX broke out and closed at a 50-day high on Tuesday, SPY managed the feat on Wednesday. It is also notable that SPY left an unfilled gap up on Wednesday. In the 7/11/16 subscriber letter I looked at the importance of an unfilled upside gap on new high breakouts for SPY. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. 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	40,098.71	53	37	16	69.81	1,548.71	5,434.00	-1,075.21	-3,218.88	1.44	3.33	756.58
4	26,325.64	53	37	16	69.81	1,177.42	3,637.92	-1,077.44	-3,267.84	1.09	2.53	496.71
3	20,778.92	53	36	17	67.92	1,037.37	3,992.56	-974.50	-2,538.18	1.06	2.25	392.06
2	16,875.09	53	36	17	67.92	766.78	2,545.92	-631.11	-2,293.20	1.21	2.57	318.40
1	6,563.15	53	37	16	69.81	471.50	1,816.10	-680.15	-2,591.68	0.69	1.60	123.83
48 of 53 instances (90.5%) closed above the entry price at some point in the next week.												

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The strong move from lower left to upper right is impressive.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was very close. This study also appeared in the 7/11/16 letter and has been updated.

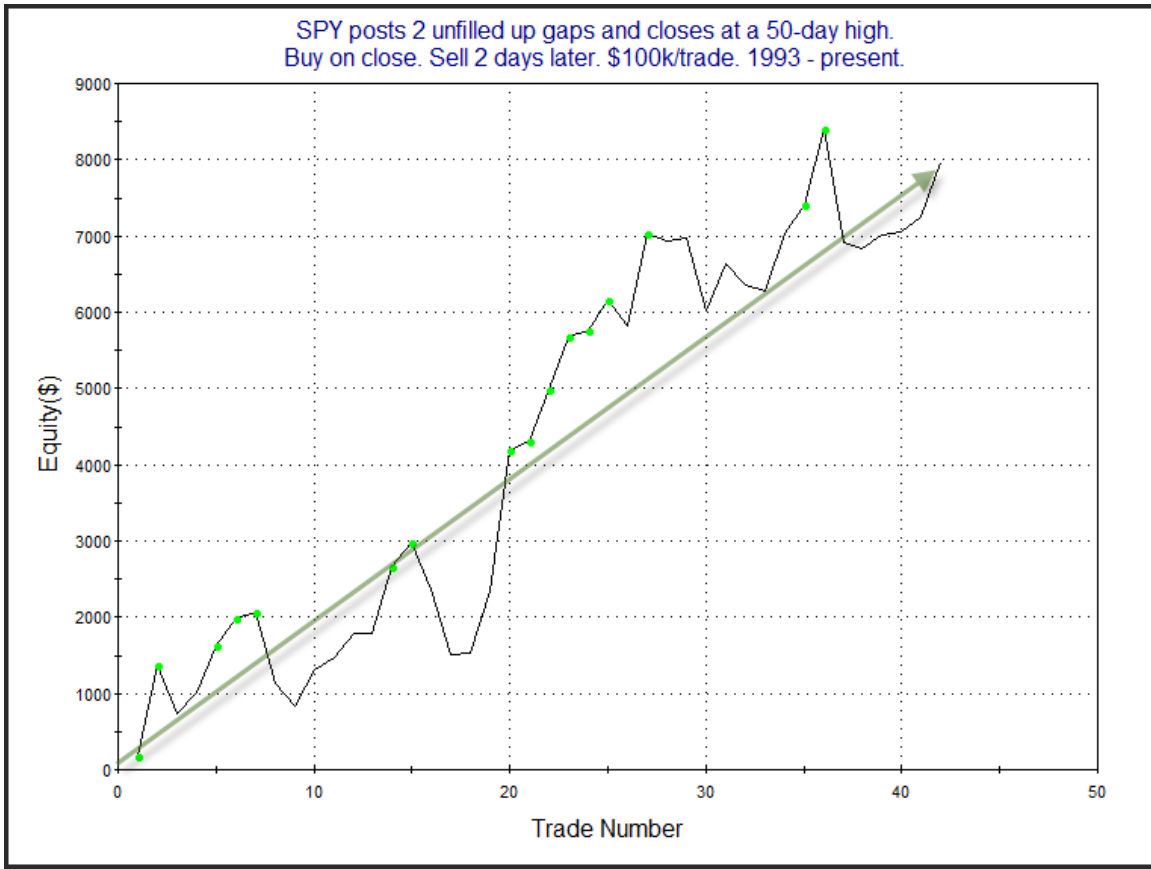
SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled up gap. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	2,680.72	42	25	17	59.52	1,009.69	2,671.20	-1,327.15	-4,285.26	0.76	1.12	63.83
4	-1,633.74	42	23	19	54.76	1,027.10	2,072.07	-1,329.32	-4,518.34	0.77	0.94	-38.90
3	3,099.47	42	24	18	57.14	1,045.18	2,927.90	-1,221.39	-5,133.72	0.86	1.14	73.80
2	-2,588.07	42	21	21	50.00	663.67	2,324.90	-786.91	-3,640.86	0.84	0.84	-61.62
1	2,067.09	42	23	19	54.76	483.02	1,586.97	-475.91	-2,448.72	1.01	1.23	49.22

Moves to new highs that don't start with an unfilled gap are much less reliable.

Also notable was that Wednesday was the 2nd day in a row with an unfilled up gap. The study below is one that was seen in the 7/12/16 letter. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

SPY posts 2 unfilled up gaps and closes at a 50-day high. 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	8,611.52	42	28	14	66.67	905.86	2,013.72	-1,196.61	-4,508.40	0.76	1.51	205.04
4	12,645.98	42	29	13	69.05	905.35	2,475.56	-1,046.86	-2,720.25	0.86	1.93	301.09
3	12,339.45	42	29	13	69.05	664.24	2,419.84	-532.59	-1,801.77	1.25	2.78	293.80
2	7,962.17	42	29	12	69.05	505.13	1,858.87	-557.21	-1,476.68	0.91	2.19	189.58
1	684.73	50	25	25	50.00	357.71	1,156.32	-330.32	-1,942.24	1.08	1.08	13.69

The size of the follow-through isn't terribly large, but it has been pretty consistent that some follow through was achieved in the next few days. Below is the 2-day profit curve.



Despite the recent dip the upward inclination appears to be in place. This study seems worth consideration, and I have included on the Active List.

I have updated the Aggregator chart below.



With tonight's bullish research considered, the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means SPX is 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 2279.97 on Thursday. That is 0.8% below Wednesday's close. Therefore, SPX will need to close down 0.8% in order to flip from overbought to oversold versus expectations on Thursday.

Overbought and likely to go higher is where we seem to be right now. That is not a great entry point for a low risk trade though. So I will continue to wait for the overbought condition to work itself off before considering adding new index long positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/23 – bullish

The intermediate-term outlook was last updated in the 1/23 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

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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