

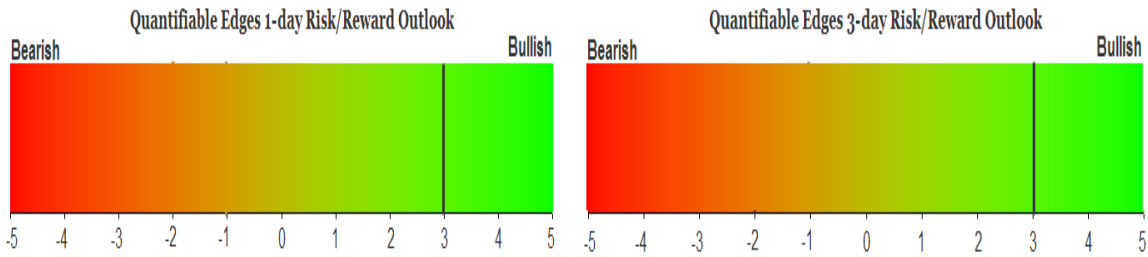
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 31, 2017

Volume 10 Issue 20

Market Overview



Signals Overview

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

Tonight's Research Points

- The spiking VIX suggest fear got quickly overdone and SPX is likely to bounce.
- 3 down days going into a Turnaround Tuesday also appears bullish.
- Wednesday's new month and Fed Day may also present an upside edge.

Short-term Outlook

The Bottom Line

Expectations remain bullish. Evidence is building. The SPX is now solidly oversold. I am longer and may get longer.

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 31, 2017	3 down days > 200ma. Turn Tues	1-8 days	Bullish	2.20%	-1.30%	-2.40%
January 31, 2017	VIX up 10%. SPX dn small.	1-5 days	Bullish	1.60%	-1.40%	-3.00%
January 26, 2017	SPY breakaway gap	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			

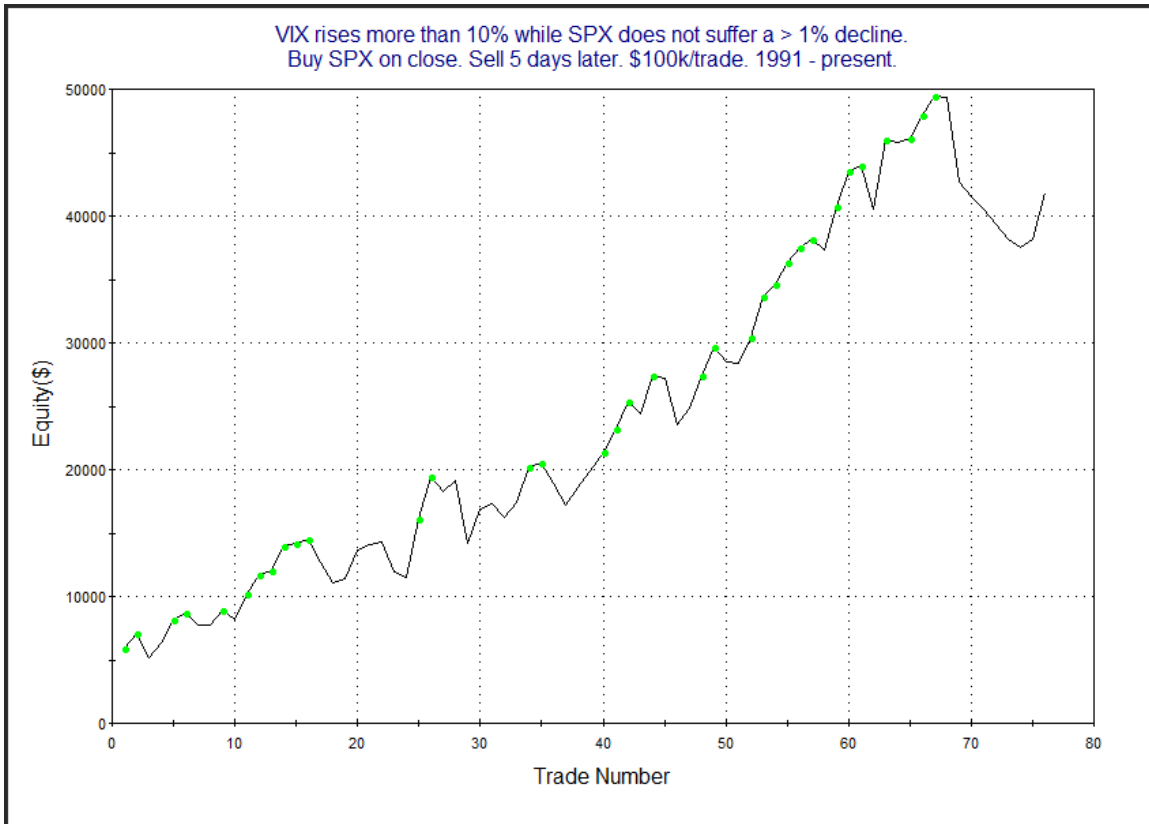
The Evidence

Monday was a selloff. The SPX closed down 0.6%, the NASDAQ lost 0.8%, and the Russell 2000 fell 1.3%. Breadth was negative as the NYSE Up Issues % was 29% and the Up Volume % came in at 22%. NYSE volume rose from Friday's level.

One thing that stood out on Monday was the large spike in the VIX (over 12%) despite the relatively small drop in the SPX. This triggered a study from the 4/4/15 letter that looked at times where the VIX spiked strongly and SPX did not even drop 1%. Below are updated results.

VIX rises more than 10% while SPX does not suffer a > 1% decline. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - 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	41,874.28	76	48	28	63.16	1,765.39	5,945.60	-1,530.87	-6,676.80	1.15	1.98	550.98
4	25,355.49	77	48	29	62.34	1,604.15	6,316.80	-1,780.81	-10,175.52	0.90	1.49	329.29
3	17,382.98	80	49	31	61.25	1,250.08	4,953.60	-1,415.20	-8,947.20	0.88	1.40	217.29
2	12,624.41	82	48	34	58.54	957.96	4,424.50	-981.10	-5,218.56	0.98	1.38	153.96
1	4,962.92	84	46	38	54.76	602.06	2,007.50	-598.21	-2,106.24	1.01	1.22	59.08

The numbers here all seem to favor the bulls. Below is a look at the profit curve for a 5-day holding period.



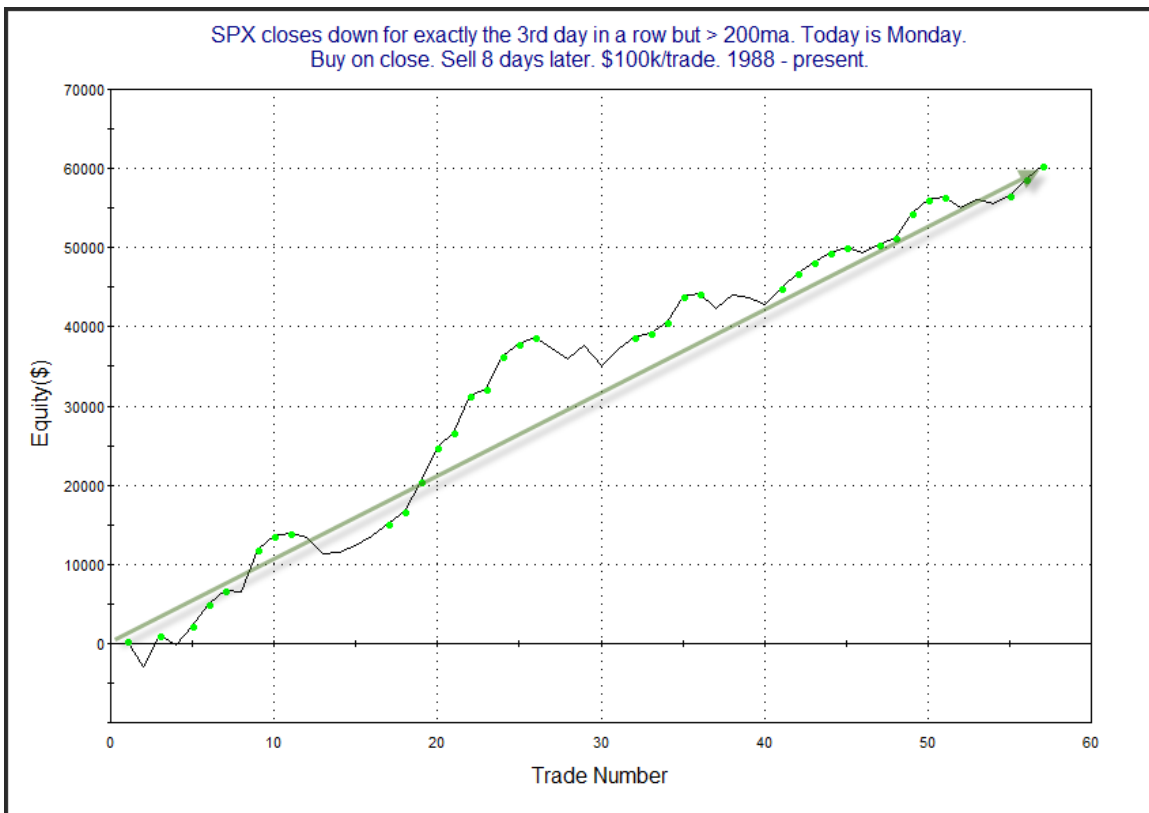
2015-16 had some instances that caused a turn down in the curve. It is now looking like a bit of an ugly fish hook at the end. But while it is a substantial drawdown the study is now working to overcome, I still think it deserves the benefit of the doubt based on the total view. So I have added this study to the Active List tonight. But of course I will be keeping a close eye on it as the next few instances unfold.

It is also notable that Monday marked the 3rd down day in a row. In the past, I have documented both the tendency for the market to bounce 1) after 3 days lower, and 2) going into a Tuesday. In the 9/25/12 letter I combined these concepts. And tonight I also decided to filter the results to only show instances above the 200ma. Below are the results.

SPX closes down for exactly the 3rd day in a row but > 200ma. Today is Monday.
Buy on close. Sell X days later. \$100k/trade. 1988 - present.

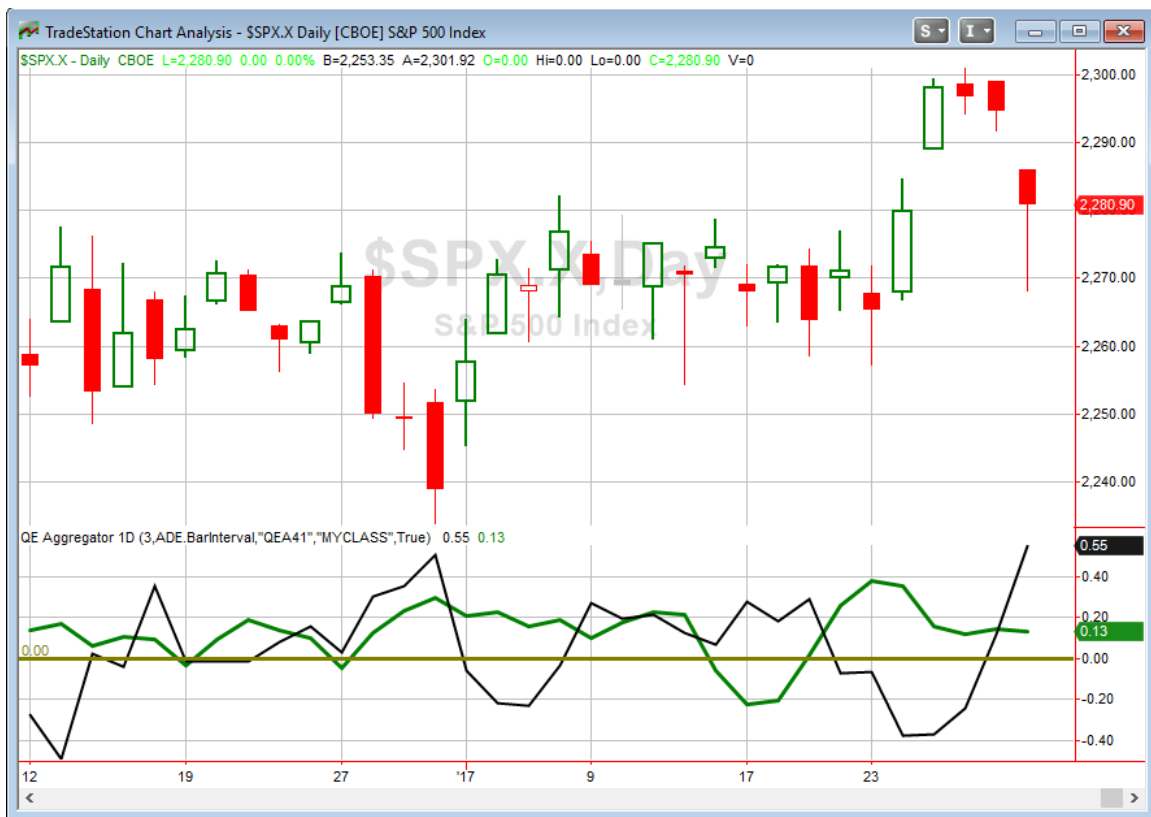
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	53,458.09	51	36	15	70.59	2,039.17	5,045.04	-1,330.13	-3,768.96	1.53	3.68	1,048.20
9	57,081.00	51	38	13	74.51	1,908.96	5,024.40	-1,189.19	-3,512.78	1.61	4.69	1,119.24
8	55,318.69	51	39	12	76.47	1,763.63	5,300.00	-1,121.91	-2,519.70	1.57	5.11	1,084.68
7	47,104.80	51	39	12	76.47	1,528.81	5,345.05	-1,043.23	-3,139.82	1.47	4.76	923.62
6	39,910.28	51	35	16	68.63	1,577.27	4,399.00	-955.88	-1,892.92	1.65	3.61	782.55
5	39,252.81	54	35	19	64.81	1,733.11	4,608.35	-1,126.64	-2,268.75	1.54	2.83	726.90
4	35,727.82	54	37	17	68.52	1,475.32	4,690.50	-1,109.36	-2,964.25	1.33	2.89	661.63
3	30,306.79	54	32	22	59.26	1,456.20	3,940.55	-740.53	-2,026.08	1.97	2.86	561.24
2	26,143.10	54	36	18	66.67	1,112.47	3,744.45	-772.55	-1,775.52	1.44	2.88	484.13
1	10,030.84	54	31	22	57.41	684.70	2,205.80	-508.86	-1,692.52	1.35	1.90	185.76

Results here appear to be quite bullish. The 8-day time period especially stands out. Below is an equity curve showing how that holding period has played out.



The curve is nearly as straight as the arrow. This serves as some confirmation of the upside edge suggested by the numbers. I have included this study on the Active List as well.

I have updated the Aggregator chart below.



With tonight's studies 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 moved further 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 below zero. Therefore, the Aggregator signal stayed 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 bearish evidence emerges. The Differential Pivot will be 2311.07 on Tuesday. That is 1.3% above Monday's close. So it would take a strong move higher on Tuesday in order to flip the SPX from oversold back to overbought.

The bullish Aggregator formation is encouraging. And there appears to be ample room for the market to bounce before it would turn overbought. So I like the upside edge. It is also notable that Wednesday is 1) the 1st day of a new month, and 2) a Fed Day. I will discuss implications of those things more on in the Tuesday night letter. But I have found that both tend to suggest bullish implications for Wednesday – especially if SPX closes poorly on

Tuesday. I took some long exposure at the close on Monday. If we see another poor close Tuesday going into the new month and the Fed Day, then I will add to that position. Details are in the Trade Ideas section near the bottom of the letter.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 1/30 – 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 @ \$227.50 LIMIT ON CLOSE IF IT ALSO CLOSES <= THE MIDPOINT OF ITS INTRADAY RANGE. Based on the short-term outlook above. If SPY sells off a bit more on Tuesday and finishes in the bottom half of its range for the day, then I will again be a buyer at the close.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/30/2017	\$227.55	\$227.55	0.00%		bought on close

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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