

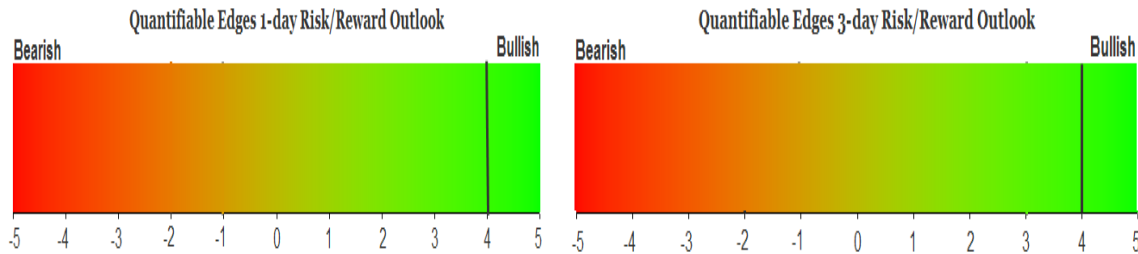
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 1, 2017

Volume 10 Issue 21

Market Overview



Signals Overview

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

Tonight's Research Points

- Since 1982, 3+ down days combined with a Fed Day has resulted in consistent gains over the next 3-4 days.
- 4-day pullbacks going into a Wednesday have been strongly prone to upside reversals.
- 3 days down into the end of the month during uptrends has commonly been followed by a strong start to the next month.

Short-term Outlook

The Bottom Line

Similar to last night. 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						
February 1, 2017	3+ days down. Fed tomorrow.	1-4 days	Bullish	2.30%	-0.50%	-1.05%
February 1, 2017	4 days down. Tuesday	1-6 days	Bullish	2.50%	-1.20%	-2.50%
February 1, 2017	3 days down. End of month	1 day	Bullish			
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

Tuesday saw a partial recovery that finished with mixed results. The SPX closed down 0.1%, the NASDAQ gained 0.02%, and the Russell 2000 rose 0.7%. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 54%. NYSE volume rose from Monday’s level.

When a pullback occurs heading into a strong seasonal period, then that often provides very bullish results. This is a theme I saw tonight in the research. We are coming off a potential Turnaround Tuesday, entering a new month, and with a looming Fed Day. And the market is doing this while SPX has now closed lower 4 days in a row. The three studies I will share tonight all focus on pullbacks and seasonality.

On Tuesday a very interesting Fed Day-related study emerged. It examined other times that SPX was in a long-term uptrend, but closed down for at least the third day in a row going into the Fed Day. I last showed this study in the 11/2/16 subscriber letter, and have updated the results below.

SPX closes lower for at least the 3rd day in a row. Close > 200ma. Tomorrow is a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1982 - 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	29,413.08	19	16	3	84.21	2,223.98	5,471.50	-2,056.86	-3,270.96	1.08	5.77	1,548.06	
4	29,617.47	19	17	2	89.47	1,878.60	5,290.00	-1,159.35	-1,433.11	1.62	13.77	1,558.81	
3	27,289.14	19	17	2	89.47	1,690.20	4,895.50	-722.09	-1,247.38	2.34	19.90	1,436.27	
2	18,384.97	19	14	5	73.68	1,435.73	4,424.50	-343.06	-1,083.82	4.19	11.72	967.63	
1	9,326.72	19	14	5	73.68	812.75	2,007.50	-410.35	-647.66	1.98	5.55	490.88	

These are some very encouraging numbers for the bulls. Below is the list of instances.

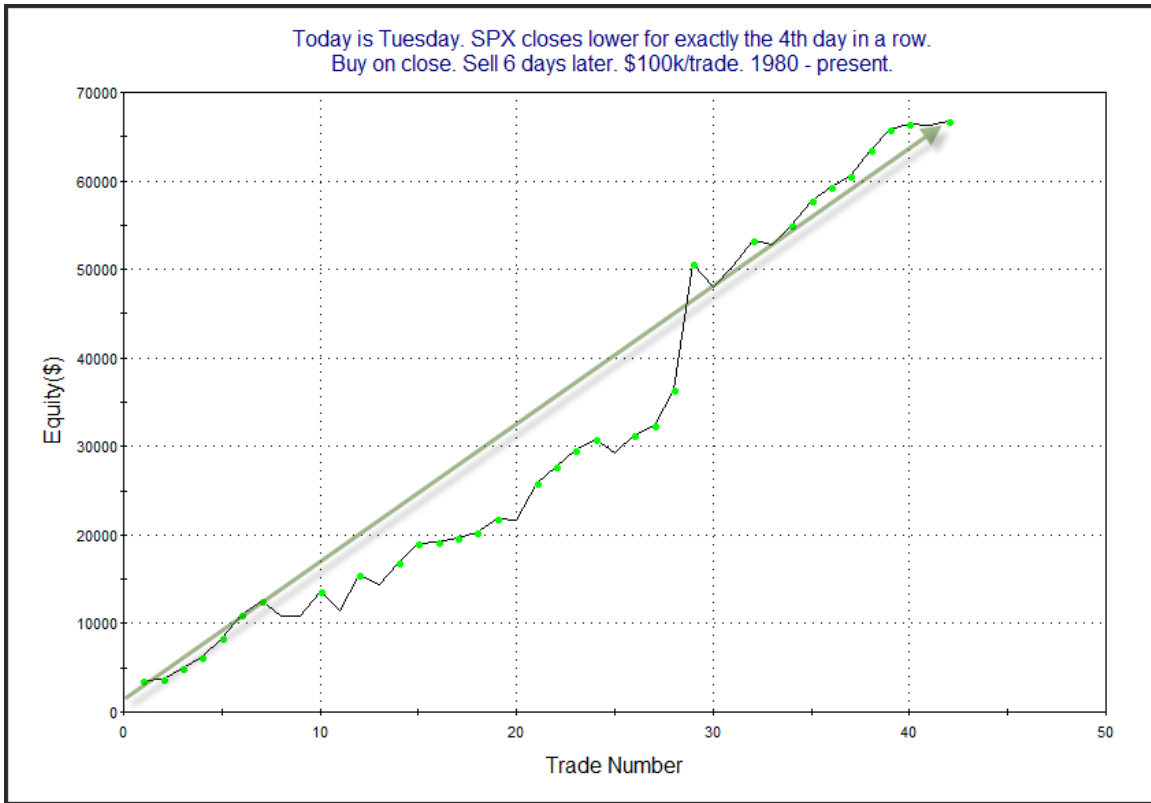
SPX closes lower for at least the 3rd day in a row. Close > 200ma. Tomorrow is a Fed Day. Buy on close. Sell 4 days later. \$100k/trade. 1982 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/16/1982	Buy	\$135.42	-0.89%	\$2,590.38
11/22/1982	Sell	\$134.22		(\$892.98)
10/3/1983	Buy	\$165.81	3.01%	\$3,189.87
10/7/1983	Sell	\$170.80		\$0.00
7/8/1986	Buy	\$241.58	-1.44%	\$780.57
7/14/1986	Sell	\$238.11		(\$1,466.15)
2/10/1987	Buy	\$275.07	3.78%	\$3,778.83
2/17/1987	Sell	\$285.48		(\$431.97)
12/18/1989	Buy	\$343.68	1.09%	\$1,116.50
12/22/1989	Sell	\$347.41		(\$1,177.40)
8/19/1991	Buy	\$376.46	4.70%	\$5,003.20
8/23/1991	Sell	\$394.16		\$0.00
11/4/1991	Buy	\$390.27	0.67%	\$1,574.40
11/8/1991	Sell	\$392.88		(\$688.64)
7/6/1993	Buy	\$441.43	1.71%	\$1,735.68
7/12/1993	Sell	\$448.98		(\$6.78)
9/20/1993	Buy	\$455.05	0.57%	\$797.16
9/24/1993	Sell	\$457.63		(\$1,186.98)
11/14/1995	Buy	\$589.29	1.28%	\$1,877.59
11/20/1995	Sell	\$596.85		(\$157.17)
12/18/1995	Buy	\$606.82	0.85%	\$1,221.80
12/22/1995	Sell	\$611.95		(\$290.28)
12/16/1996	Buy	\$720.99	3.87%	\$4,749.96
12/20/1996	Sell	\$748.87		(\$593.40)
3/30/1998	Buy	\$1,093.60	2.66%	\$2,981.16
4/3/1998	Sell	\$1,122.70		(\$4.55)
5/18/1998	Buy	\$1,105.82	0.42%	\$1,676.70
5/22/1998	Sell	\$1,110.47		\$0.00
8/8/2005	Buy	\$1,223.13	0.59%	\$1,584.36
8/12/2005	Sell	\$1,230.39		\$0.00
3/19/2013	Buy	\$1,548.34	0.22%	\$1,060.48
3/25/2013	Sell	\$1,551.69		(\$306.56)
12/16/2014	Buy	\$1,972.74	5.36%	\$5,301.00
12/22/2014	Sell	\$2,078.54		\$0.00
6/14/2016	Buy	\$2,075.32	0.38%	\$1,216.32
6/20/2016	Sell	\$2,083.25		(\$1,197.60)
11/1/2016	Buy	\$2,111.72	0.94%	\$953.16
11/7/2016	Sell	\$2,131.52		(\$1,312.71)

The setup has certainly been potent over a long period of time. There has not been a loser for the 4-day holding period since 1986. And every instance has closed higher than the entry price *at some point* in the next 4 days.

Last night I showed a Turnaround Tuesday study that suggested a bounce was likely to start on Tuesday. It may have, but SPX did not quite get to positive on the day. Historically, when there hasn't been a close higher on Tuesday after a 3-day pullback, what does that mean for Wednesday and beyond? The test below is updated from the 6/15/16 Letter and it answers that question.

Today is Tuesday. SPX closes lower for exactly the 4th day in a row. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	60,500.90	42	32	10	76.19	2,409.46	7,733.75	-1,660.17	-4,415.04	1.45	4.64	1,440.50
9	63,017.68	42	35	7	83.33	2,178.54	5,490.33	-1,890.15	-3,589.44	1.15	5.76	1,500.42
8	72,744.72	42	34	8	80.95	2,448.94	8,317.50	-1,314.92	-3,575.04	1.86	7.92	1,732.02
7	68,224.02	42	34	8	80.95	2,359.35	10,870.00	-1,499.23	-4,817.12	1.57	6.69	1,624.38
6	66,704.87	42	34	8	80.95	2,252.56	14,240.00	-1,235.28	-2,605.12	1.82	7.75	1,588.21
5	54,509.31	42	31	11	73.81	2,188.71	13,135.00	-1,212.78	-3,256.96	1.80	5.09	1,297.84
4	48,989.94	42	30	12	71.43	2,156.92	12,657.50	-1,309.81	-4,495.68	1.65	4.12	1,166.43
3	34,813.32	42	30	12	71.43	1,590.28	6,892.50	-1,074.59	-2,936.64	1.48	3.70	828.89
2	16,530.10	42	25	17	59.52	1,081.53	5,122.50	-618.13	-1,661.08	1.75	2.57	393.57
1	15,547.16	42	27	15	64.29	861.74	5,716.25	-514.65	-1,721.25	1.67	3.01	370.17

Results here have been very strong over a long period. Below is a profit curve using a 6-day exit strategy.



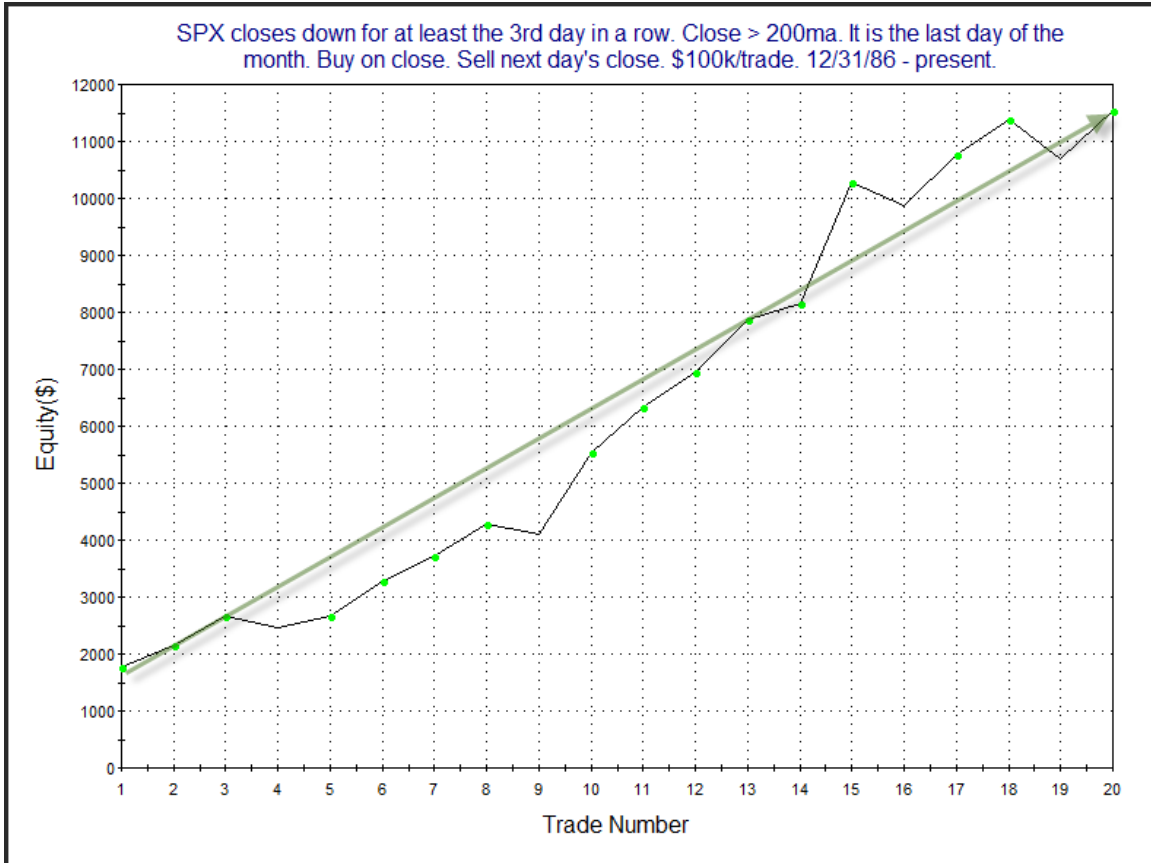
It seems the “Turnaround Tuesday Failure” is likely a temporary setback.

The next study below examines 3+ day pullbacks that come at the end of the month. It was last seen in the 11/1/16 letter.

SPX closes down for at least the 3rd day in a row. Close > 200ma. It is the last day of the month. Buy on close. Sell next day's close. \$100k/trade. 12/31/86 - present.

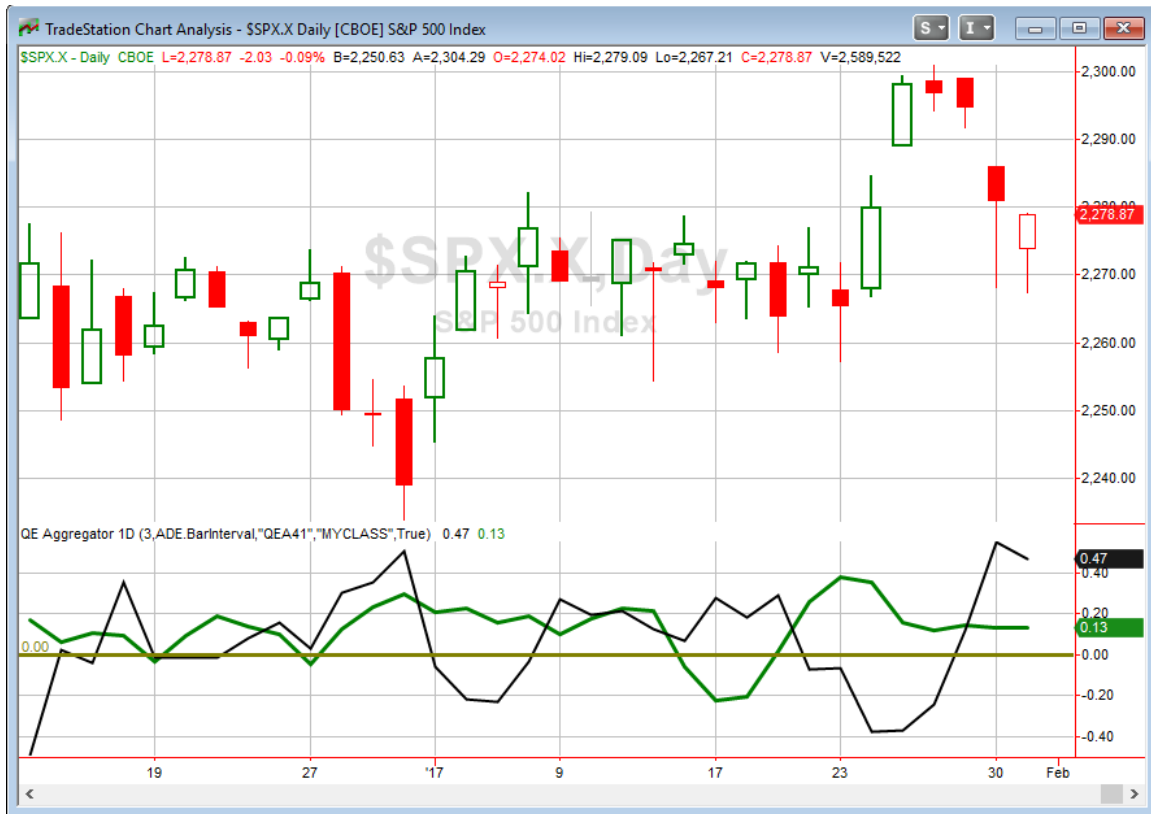
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$11,529.83	Profit Factor	8.80
Gross Profit	\$13,008.96	Gross Loss	(\$1,479.13)
Total Number of Trades	20	Percent Profitable	80.00%
Winning Trades	16	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$576.49	Ratio Avg. Win:Avg. Loss	2.20
Avg. Winning Trade	\$813.06	Avg. Losing Trade	(\$369.78)
Largest Winning Trade	\$2,143.68	Largest Losing Trade	(\$678.21)

The numbers here are very strong. And while the edge did seem to persist even for the next few days, the Day 1 profit curve was the strongest and most consistent. It can be seen below.



This certainly suggests an upside tendency. I have included this study on the Active List as well. The pullback and the seasonality seems to be combining to provide some nice upside edges tonight.

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 also 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 below zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. Extremely bearish evidence would need to emerge in order to change this. The Differential Pivot will be 2304.28 on Wednesday. That is 1.1% above Tuesday's close. So it would take a strong move higher on Wednesday in order to flip the SPX from oversold to overbought.

There is now a good amount of evidence pointing higher. The market is oversold. And as we saw tonight, having seasonality on our side seems to be providing some extra benefit. I am long from Monday's close. If I can get a favorable entry at the open or the close on Wednesday, then I will add to that long exposure.

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 @ \$227.25 LIMIT ON OPEN. If it does not fill at the open, then I will cancel the order and look to buy at \$227.25 LIMIT ON CLOSE.

Based on the short-term outlook above. If I can get a favorable entry at the open of the close, I will add some long exposure on Wednesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/30/2017	\$227.55	\$227.53	-0.01%		Aggregator

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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