

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 9, 2017

Volume 10 Issue 27

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.
- When the Russell has fallen for 3 days while SPX has closed at a 3-day high then the market has rallied over the next couple of days and weeks.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. Evidence is improving. I will look to get in if I can get a bargain price at the close on Thursday.

**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
<b>Active - Short Term</b>						
February 9, 2017	SPY up 2 but < 3 ago	1-2 days	Bullish			
February 9, 2017	RUT down 3. SPX 3-day high.	1-2 days	Bullish			
February 6, 2017	4 down then 3 up days	1-7 days	Bullish	2.35%	-1.10%	-2.15%
February 1, 2017	4 days down. Tuesday	1-6 days	Bullish	2.50%	-1.20%	-2.50%
January 31, 2017	3 down days > 200ma. Turn Tues	1-8 days	Bullish	2.20%	-1.30%	-2.40%
<b>Active - Long Term</b>						
February 9, 2017	RUT down 3. SPX 3-day high.	1-10 days	Bullish			
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			

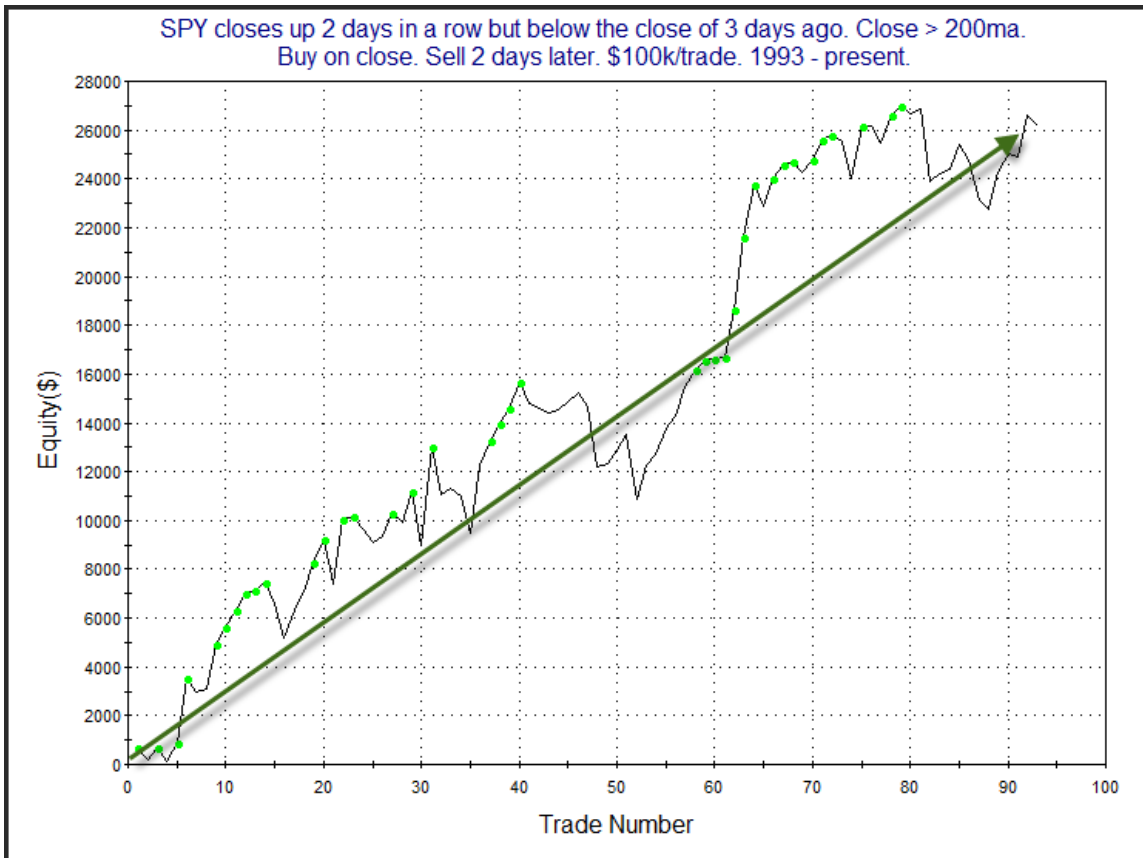
**The Evidence**

Wednesday was again mixed and mild. The SPX closed up 0.07%, the NASDAQ gained 0.15%, and the Russell 2000 declined 0.17%. Breadth was positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 57%. NYSE volume rose some from Tuesday's level.

There were a couple of interesting studies that triggered in the Quantifinder. This first one was last seen in the 9/12/14 Letter. It looked at times that SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. I have updated the study below.

SPY closes up 2 days in a row but below the close of 3 days ago. Close > 200ma. 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	16,323.07	91	53	37	58.24	1,466.40	4,717.70	-1,659.35	-6,549.84	0.88	1.27	179.37
4	20,688.83	92	58	34	63.04	1,301.03	4,698.60	-1,610.91	-4,384.89	0.81	1.38	224.88
3	18,698.29	93	59	34	63.44	1,141.70	3,000.00	-1,431.24	-4,092.24	0.80	1.38	201.06
2	26,188.25	93	61	32	65.59	927.58	4,088.25	-949.81	-2,932.22	0.98	1.86	281.59
1	9,104.29	93	52	39	55.91	650.36	3,732.75	-633.71	-1,777.90	1.03	1.37	97.90

The stats appear to suggest a bit of an upside edge over the 1<sup>st</sup> 2 days. Below is an equity curve using a 2-day exit strategy.



There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

Another aspect of recent market action that is interesting and suggestive of an upside edge is the fact that despite the rise in the SPX, the Russell 2000 closed lower for the third day in a row. The study below was last seen in the 11/18/14 Subscriber Letter. Stats are updated.

Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high.  
Buy SPX on close. Sell X days later. \$100k/trade. 10/1998 - present.

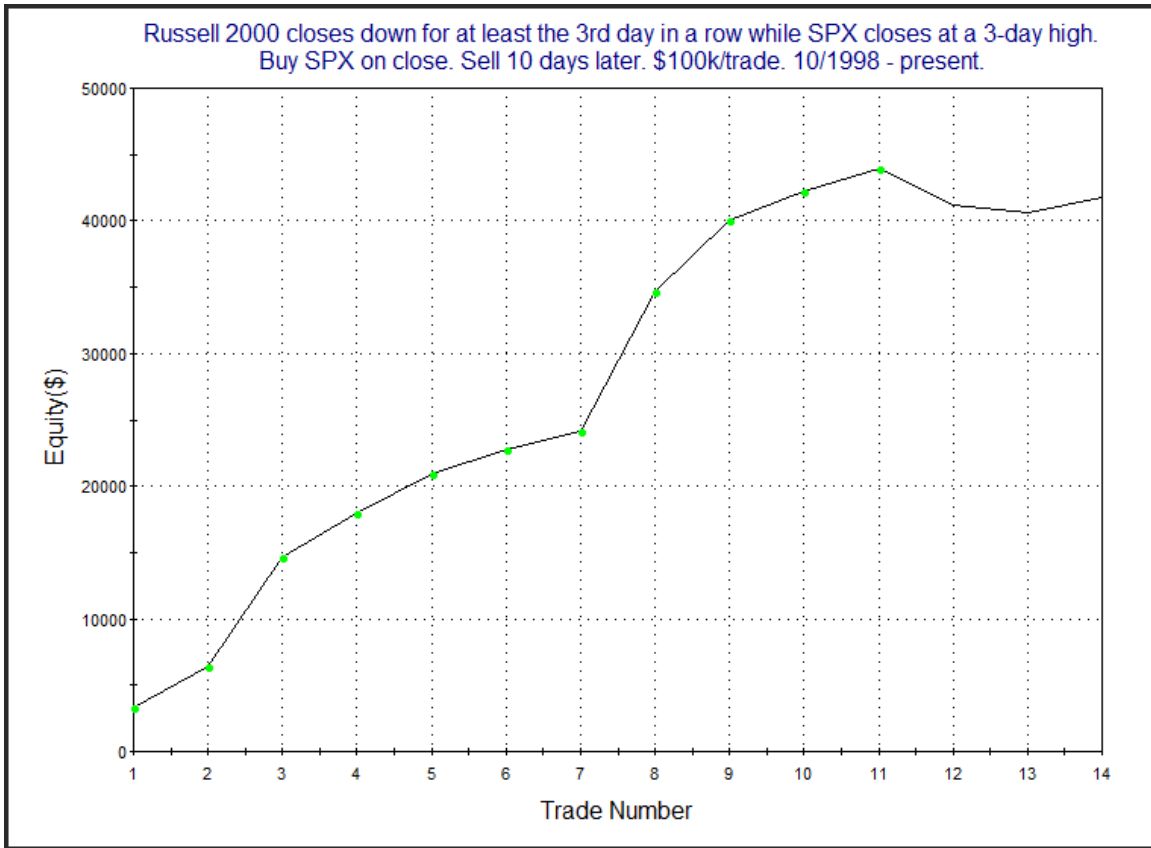
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	41,797.76	14	12	2	85.71	3,761.47	10,577.93	-1,669.96	-2,723.00	2.25	13.51	2,985.55
9	34,808.06	14	11	3	78.57	3,443.71	8,209.02	-1,024.26	-2,674.70	3.36	12.33	2,486.29
8	32,170.41	14	11	3	78.57	3,149.37	9,347.15	-824.21	-1,463.00	3.82	14.01	2,297.89
7	33,088.27	14	9	5	64.29	4,134.54	9,614.11	-824.52	-2,783.20	5.01	9.03	2,363.45
6	28,624.11	14	10	4	71.43	3,499.14	9,598.49	-1,591.81	-3,491.60	2.20	5.50	2,044.58
5	22,785.97	14	10	4	71.43	2,919.59	7,700.66	-1,602.48	-2,075.04	1.82	4.55	1,627.57
4	23,612.44	14	10	4	71.43	2,757.74	7,217.86	-991.23	-1,680.10	2.78	6.96	1,686.60
3	18,096.73	14	10	4	71.43	2,035.48	4,839.33	-564.51	-887.22	3.61	9.01	1,292.62
2	17,892.83	14	11	3	78.57	1,719.96	5,134.01	-342.23	-551.73	5.03	18.43	1,278.06
1	11,592.23	15	10	5	66.67	1,344.82	4,708.01	-371.19	-764.46	3.62	7.25	772.82

As you can see, stats are overwhelmingly bullish right off the bat, and they stay strong through the first two weeks. Instances are a bit low, but I have listed them all below along with their 2-day returns.

Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high. Buy SPX on close. Sell 2 days later. \$100k/trade. 10/1998 - present.

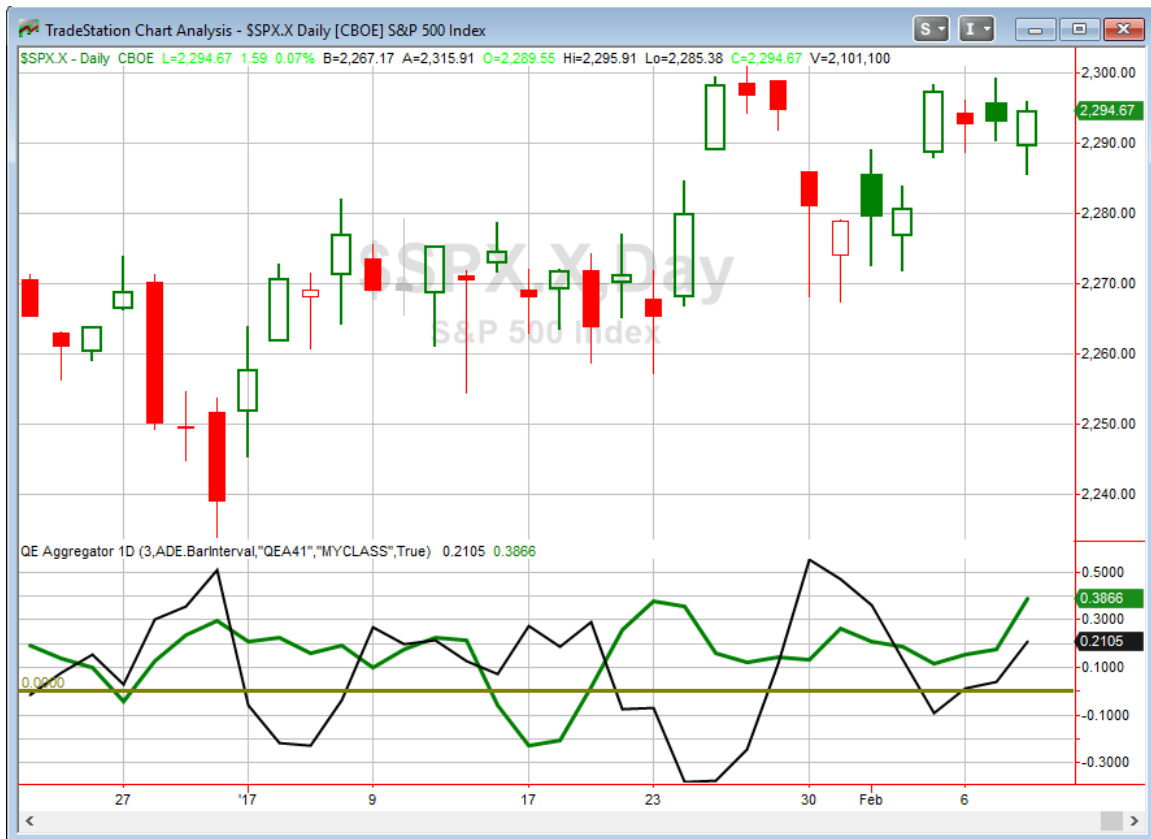
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/13/1998	Buy	\$1,125.72	1.21%	\$2,286.24
11/17/1998	Sell	\$1,139.32		\$0.00
6/3/1999	Buy	\$1,299.59	2.69%	\$2,799.84
6/7/1999	Sell	\$1,334.52		(\$3.80)
3/15/2000	Buy	\$1,392.16	5.19%	\$6,047.07
3/17/2000	Sell	\$1,464.47		(\$0.71)
11/9/2001	Buy	\$1,120.31	1.68%	\$1,675.87
11/13/2001	Sell	\$1,139.09		(\$1,957.11)
8/7/2003	Buy	\$974.12	0.66%	\$1,156.68
8/11/2003	Sell	\$980.59		(\$29.58)
12/4/2003	Buy	\$1,069.72	-0.04%	\$0.00
12/8/2003	Sell	\$1,069.29		(\$895.59)
7/14/2005	Buy	\$1,226.50	-0.44%	\$245.43
7/18/2005	Sell	\$1,221.13		(\$434.97)
7/9/2009	Buy	\$882.68	2.08%	\$2,075.81
7/13/2009	Sell	\$901.05		(\$1,115.31)
7/6/2010	Buy	\$1,028.06	4.10%	\$4,189.43
7/8/2010	Sell	\$1,070.25		\$0.00
1/21/2011	Buy	\$1,283.35	0.61%	\$660.66
1/25/2011	Sell	\$1,291.18		(\$175.56)
2/28/2012	Buy	\$1,372.18	0.14%	\$421.92
3/1/2012	Sell	\$1,374.09		(\$602.64)
3/30/2012	Buy	\$1,408.47	0.34%	\$973.70
4/3/2012	Sell	\$1,413.31		(\$280.70)
3/7/2014	Buy	\$1,878.04	-0.55%	\$228.43
3/11/2014	Sell	\$1,867.63		(\$750.48)
11/17/2014	Buy	\$2,041.32	0.36%	\$708.48
11/19/2014	Sell	\$2,048.72		(\$45.60)

I see nothing here that greatly concerns me. I also produced a profit curve for a 10-day holding period.



The move up has been impressive. I have included this study on both the short-term and the intermediate-term active list.

I have updated the Aggregator chart below.



With tonight's studies to consider, 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 moved further above 0. The positive Differential Line reading means SPX is slightly 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 stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. Strongly bearish evidence would need to emerge in order to change this. The Differential Pivot will be 2303.12 on Thursday. That is 0.4% above Wednesday's close. Therefore, SPX will need to closed up at least 0.4% in order to move back to "overbought" versus recent expectations.

So again the Aggregator is bullish. The new studies are encouraging. And there is some room to the upside, but not much. I do think there is a bit of a bullish edge. But I do not love an aggressive entry. I will be interested in taking some long index exposure if SPY closes down below its 10ma on Thursday. I should also note a new Catapult triggered that I will look to take advantage of on Thursday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/6 – bullish***

The intermediate-term outlook was last updated in the 2/6 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***

***New***

GE – 1/3 @ \$29.43 (buy @ limit)

***Broad Market Large Cap CBI – 1(GE)***

**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 @ \$228.42 LIMIT ON CLOSE.** Based on the short-term outlook above, I will begin scaling in to a long position if SPY closes below its 10ma on Thursday.

**GE – buy 1/3 Catapult position @ \$29.43 LIMIT.** From the Catapult section above. This is the 1<sup>st</sup> of 3 possible lots of GE.

**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](#).

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2016 Hanna Capital Management, LLC.