

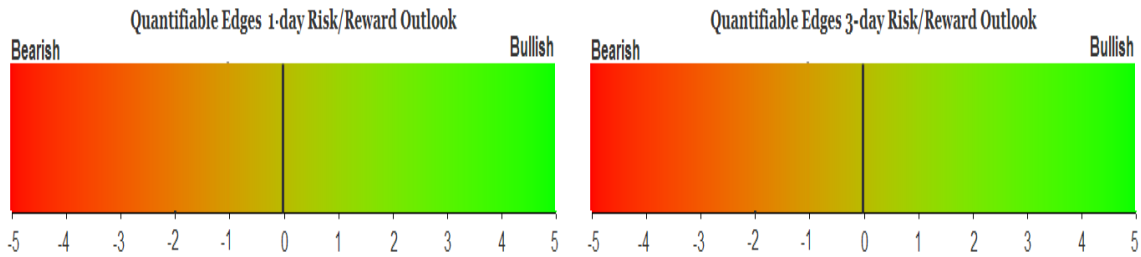
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 10, 2017

Volume 10 Issue 28

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.

Short-term Outlook

The Bottom Line

The Aggregator is back to neutral and so am I.

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 10, 2017	SPY Breakaway Gap	1-5 days	Bullish			
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%
Active - Long Term						
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			

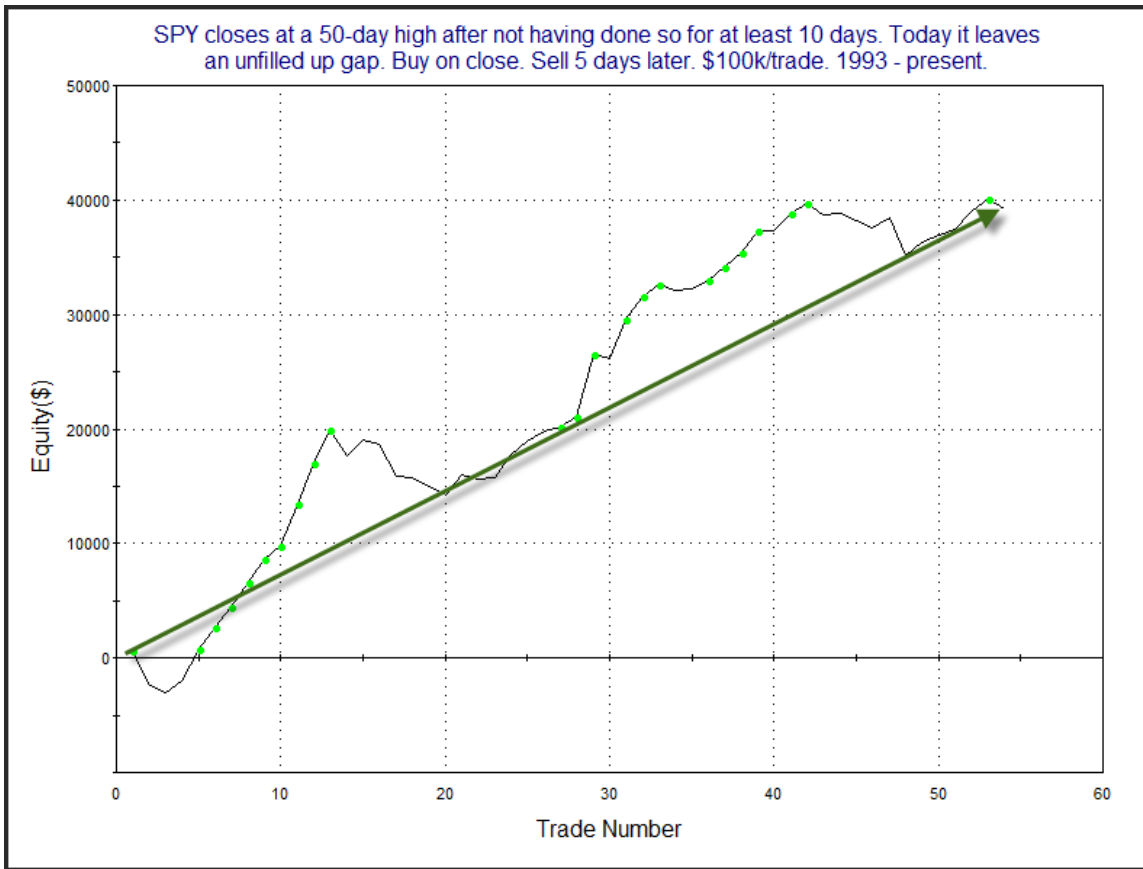
The Evidence

Thursday saw some indices break out to new highs. The SPX closed up 0.6%, the NASDAQ gained 0.6%, and the Russell 2000 rallied 1.5%. Breadth was positive as the NYSE Up Issues % was 65% and the Up Volume % came in at 70%. NYSE volume rose some from Wednesday's level.

Breakout days often give clues as to whether we are likely to see additional follow through. Breadth, volume, and whether the market is posting an unfilled gap are three indications we often examine. The unfilled gap up provided the strongest hint on Thursday. In the 1/26/17 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	39,250.46	54	37	17	68.52	1,548.71	5,434.00	-1,061.86	-3,218.88	1.46	3.17	726.86
4	25,438.24	54	37	17	68.52	1,177.42	3,637.92	-1,066.26	-3,267.84	1.10	2.40	471.08
3	19,900.22	54	36	18	66.67	1,037.37	3,992.56	-969.17	-2,538.18	1.07	2.14	368.52
2	16,614.09	54	36	18	66.67	766.78	2,545.92	-610.55	-2,293.20	1.26	2.51	307.67
1	6,458.75	54	37	17	68.52	471.50	1,816.10	-646.28	-2,591.68	0.73	1.59	119.61
48 of 54 instances (89%) 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 1/26/17 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.

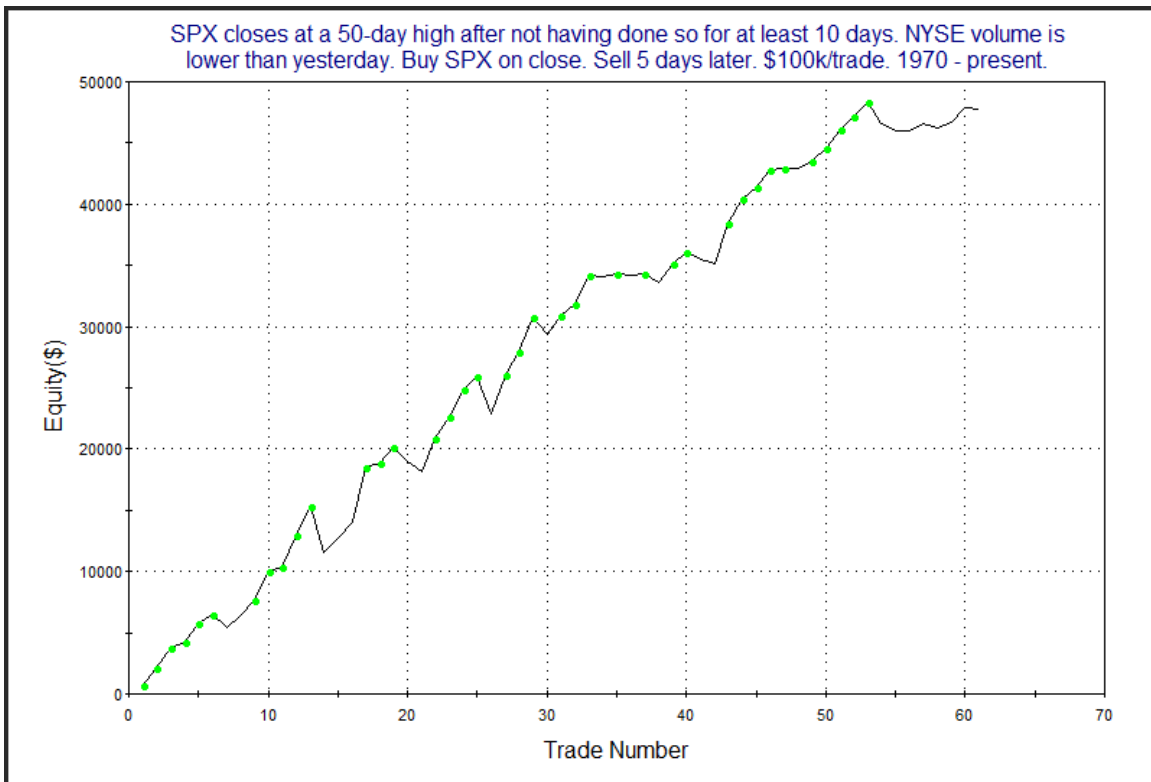
I mentioned volume can sometimes give clues on breakouts. Thursday's volume was not ideal, since it was neither very high, nor did it come in lower than Wednesday. Increasing, but not extreme, volume has been the weakest indication of the 3. I last discussed this in the 1/25/17 letter. I have simply copied that commentary below.

One measurement that can provide clues when SPX breaks out to a new high after a basing period is volume. I've discussed volume on breakouts a number of times in the past, including in the 1/9/17 letter. For a breakout to have a good chance of success you generally want volume to come in either 1) lower than the day before, or 2) extremely high. Moderate but increasing volume is the worst (and current) scenario. To see why I say this, take a look at the 3 studies below. The first one examines new breakouts that occur on declining volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	32,651.08	56	32	24	57.14	2,623.70	11,088.84	-2,137.81	-8,157.10	1.23	1.64	583.05
19	31,542.43	57	33	24	57.89	2,480.99	9,628.99	-2,097.09	-9,056.82	1.18	1.63	553.38
18	34,106.52	57	35	22	61.40	2,460.80	11,076.80	-2,364.61	-9,094.80	1.04	1.66	598.36
17	32,863.59	57	35	22	61.40	2,503.33	10,017.28	-2,488.78	-8,682.96	1.01	1.60	576.55
16	35,918.48	57	36	21	63.16	2,446.29	10,944.36	-2,483.24	-9,243.81	0.99	1.69	630.15
15	29,793.96	57	37	20	64.91	2,214.21	8,166.13	-2,606.59	-9,354.92	0.85	1.57	522.70
14	34,329.84	59	40	19	67.80	1,990.71	7,314.30	-2,384.13	-6,525.68	0.83	1.76	581.86
13	34,455.36	60	38	22	63.33	1,992.49	7,780.85	-1,875.42	-5,160.09	1.06	1.84	574.26
12	20,630.76	60	33	27	55.00	1,984.72	5,996.75	-1,661.67	-4,539.14	1.19	1.46	343.85
11	15,603.86	61	32	29	52.46	1,890.93	5,809.60	-1,548.48	-6,029.07	1.22	1.35	255.80
10	16,583.16	61	31	30	50.82	1,900.05	5,960.00	-1,410.61	-4,324.52	1.35	1.39	271.86
9	23,350.20	61	38	23	62.30	1,570.91	5,147.20	-1,580.18	-5,812.26	0.99	1.64	382.79
8	29,526.61	61	42	19	68.85	1,402.70	5,096.00	-1,546.68	-4,186.55	0.91	2.00	484.04
7	30,870.12	61	39	22	63.93	1,368.09	4,655.00	-1,022.07	-3,211.35	1.34	2.37	506.07
6	45,514.68	61	42	19	68.85	1,426.36	5,002.50	-757.51	-3,563.65	1.88	4.16	746.14
5	47,732.27	61	45	16	73.77	1,418.22	4,482.50	-1,005.47	-3,693.73	1.41	3.97	782.50
4	31,823.45	61	43	18	70.49	1,169.88	4,440.00	-1,026.74	-2,913.85	1.14	2.72	521.70
3	30,252.44	61	40	21	65.57	1,134.73	3,950.00	-720.80	-1,802.37	1.57	3.00	495.94
2	18,533.17	61	40	21	65.57	804.44	2,212.98	-649.74	-1,912.60	1.24	2.36	303.82
1	8,015.38	61	39	22	63.93	452.37	1,384.02	-437.59	-1,921.32	1.03	1.83	131.40

Numbers here appear pretty solid, with add-on buying typically coming in during the next week. Below is a look at a profit curve.



The move from lower left to upper right is encouraging. Next let's look at times where there was extremely strong volume (20-day high volume).

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in at least 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	18,538.22	40	22	18	55.00	3,632.58	8,953.20	-3,409.92	-8,308.32	1.07	1.30	463.46
19	13,685.17	40	23	17	57.50	3,409.41	8,942.40	-3,807.72	-7,980.00	0.90	1.21	342.13
18	24,595.39	40	23	17	57.50	3,674.90	9,613.50	-3,525.13	-7,323.36	1.04	1.41	614.88
17	20,613.97	40	24	16	60.00	3,274.62	9,069.84	-3,623.55	-8,144.90	0.90	1.36	515.35
16	25,570.48	40	23	17	57.50	3,530.65	8,048.82	-3,272.62	-8,109.35	1.08	1.46	639.26
15	20,775.66	40	23	17	57.50	3,424.99	7,668.00	-3,411.72	-8,358.20	1.00	1.36	519.39
14	21,212.29	40	23	17	57.50	3,302.74	8,128.38	-3,220.63	-8,338.45	1.03	1.39	530.31
13	25,626.24	40	24	16	60.00	3,054.35	7,478.64	-2,979.88	-8,251.55	1.02	1.54	640.66
12	21,979.40	40	23	17	57.50	2,796.65	7,352.31	-2,490.79	-8,757.15	1.12	1.52	549.49
11	28,371.52	40	26	14	65.00	2,514.89	6,782.40	-2,643.98	-6,975.70	0.95	1.77	709.29
10	31,145.17	40	24	16	60.00	2,487.82	6,199.20	-1,785.15	-3,730.08	1.39	2.09	778.63
9	27,897.57	40	24	15	60.00	2,272.85	6,418.16	-1,776.73	-3,113.22	1.28	2.05	697.44
8	29,663.58	40	24	16	60.00	2,245.80	6,220.34	-1,514.73	-2,943.34	1.48	2.22	741.59
7	30,443.70	40	25	15	62.50	2,017.12	5,264.21	-1,332.29	-2,946.00	1.51	2.52	761.09
6	33,597.45	40	28	12	70.00	1,753.17	4,695.76	-1,290.94	-3,093.30	1.36	3.17	839.94
5	29,863.77	40	26	14	65.00	1,655.48	4,771.60	-941.33	-2,562.72	1.76	3.27	746.59
4	21,201.24	40	26	14	65.00	1,266.35	3,165.12	-837.42	-1,948.21	1.51	2.81	530.03
3	17,575.07	40	26	14	65.00	1,086.30	2,989.36	-762.04	-2,188.15	1.43	2.65	439.38
2	27,508.43	40	27	12	67.50	1,181.81	3,813.53	-366.70	-1,259.60	3.22	7.25	687.71
1	15,102.12	40	29	11	72.50	648.11	2,755.52	-335.73	-1,292.50	1.93	5.09	377.55

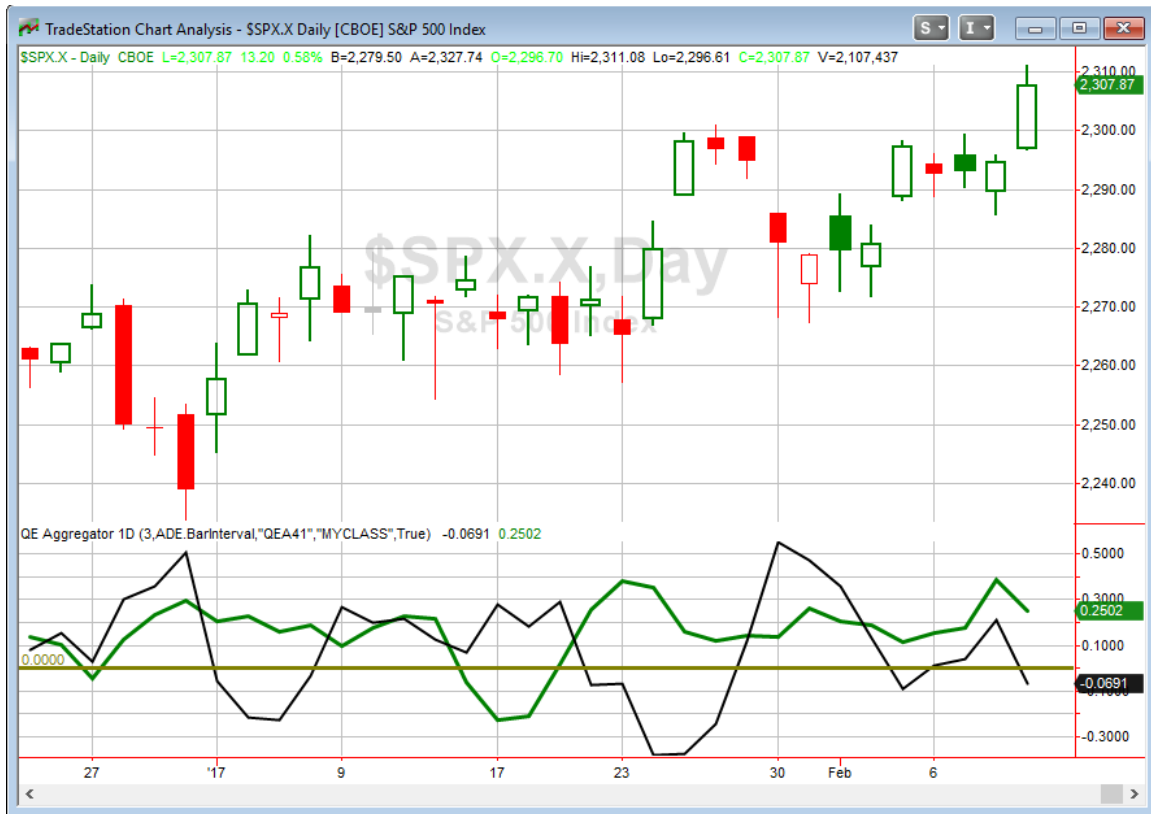
Numbers here are quite similar, with the first week getting solid follow-through buying once again. Lastly, let's look at rising but moderate volume, which was the situation on Tuesday.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	-757.98	97	46	51	47.42	3,351.74	13,401.70	-3,038.00	-11,541.15	1.10	1.00	-7.81
19	8,582.81	97	49	48	50.52	3,127.85	9,135.36	-3,014.20	-11,854.89	1.04	1.06	88.48
18	14,668.13	98	52	46	53.06	2,936.91	9,503.00	-3,001.11	-10,293.66	0.98	1.11	149.67
17	7,209.09	98	52	46	53.06	2,820.38	9,962.68	-3,031.54	-9,419.67	0.93	1.05	73.56
16	2,454.98	100	53	47	53.00	2,650.28	8,910.72	-2,936.38	-9,482.88	0.90	1.02	24.55
15	10,536.66	100	52	48	52.00	2,595.03	8,150.48	-2,591.77	-9,608.60	1.00	1.08	105.37
14	-2,729.97	100	55	45	55.00	2,334.17	7,702.40	-2,913.54	-10,120.46	0.80	0.98	-27.30
13	-3,810.87	100	52	48	52.00	2,345.30	7,911.80	-2,620.13	-9,725.34	0.90	0.97	-38.11
12	-10,331.74	100	53	47	53.00	2,195.41	10,197.98	-2,695.50	-9,869.02	0.81	0.92	-103.32
11	-4,455.17	100	50	50	50.00	2,338.23	10,380.37	-2,427.34	-9,482.88	0.96	0.96	-44.55
10	-11,484.33	100	48	52	48.00	2,211.49	10,515.18	-2,262.23	-8,683.66	0.98	0.90	-114.84
9	-6,980.60	100	46	54	46.00	2,179.78	8,413.73	-1,986.12	-6,878.68	1.10	0.93	-69.81
8	-10,683.84	100	52	48	52.00	1,714.82	8,532.68	-2,080.30	-7,076.24	0.82	0.89	-106.84
7	6,673.66	100	51	49	51.00	1,766.23	6,337.26	-1,702.12	-7,255.84	1.04	1.08	66.74
6	4,957.32	100	55	45	55.00	1,478.63	6,819.80	-1,697.05	-7,103.18	0.87	1.06	49.57
5	1,213.16	100	48	52	48.00	1,545.06	8,516.82	-1,402.88	-6,088.44	1.10	1.02	12.13
4	-4,917.27	100	53	47	53.00	1,253.22	6,716.71	-1,517.83	-5,585.56	0.83	0.93	-49.17
3	7,122.37	100	57	43	57.00	1,131.43	6,740.50	-1,334.17	-5,361.06	0.85	1.12	71.22
2	912.38	100	58	42	58.00	770.62	4,028.44	-1,042.47	-4,276.16	0.74	1.02	9.12
1	7,701.98	100	55	45	55.00	519.95	2,731.56	-464.34	-2,722.61	1.12	1.37	77.02

This does not appear to suggest any edge over the next 1-4 weeks.

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 moved below 0. The negative Differential Line reading means SPX is now 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 turned flat at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. Strongly bearish evidence would need to emerge in order to change this. The Differential Pivot will be 2303.38 on Friday. That is 0.2% below Thursday's close. Therefore, SPX will need to closed down at least 0.2% in order to move back to "oversold" versus recent expectations.

The breakout looks strong, but the Aggregator is neutral and I generally do not favor buying into overbought conditions. So I will give it some time and look for a pullback to buy into. Fortunately, the Differential Pivot is close by, so it may not take too much of a pullback to get me interested in a long trade.

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

GE – 1/3 @ \$29.43 (buy @ limit) – not filled, cancel for now

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.

None tonight.

Current Open Trade Ideas

None. Neither trade idea from last night filled on Thursday.

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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