

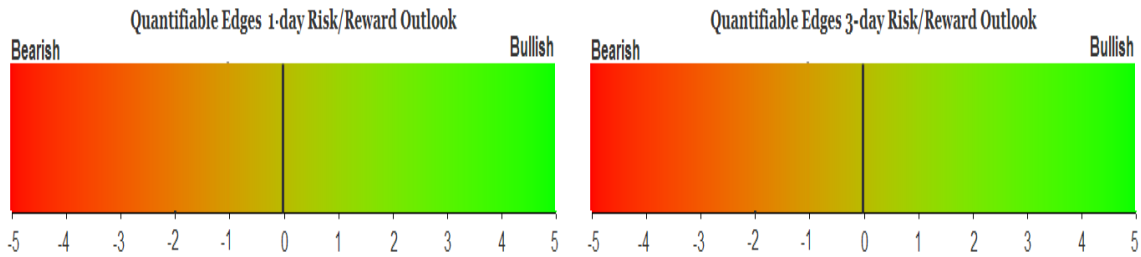
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 14, 2017

Volume 10 Issue 30

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.
- RSI(2) crossing above 99 bodes well for the intermediate-term.

## *Short-term Outlook*

### *The Bottom Line*

Expectations remain positive but the market is overbought. This is leaving me with a neutral short-term outlook.

*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 14, 2017	VIX up SPX 50-high on Monday	1-2 days	Bearish			
February 13, 2017	2 unfilled gaps & 50-high	1-2 days	Bullish			
February 10, 2017	SPY Breakaway Gap	1-5 days	Bullish			
February 6, 2017	4 down then 3 up days	1-7 days	Bullish	2.35%	-1.10%	-2.15%
<b>Active - Long Term</b>						
February 14, 2017	RSI(2) crosses over 99	1-11 days	Bullish			
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			

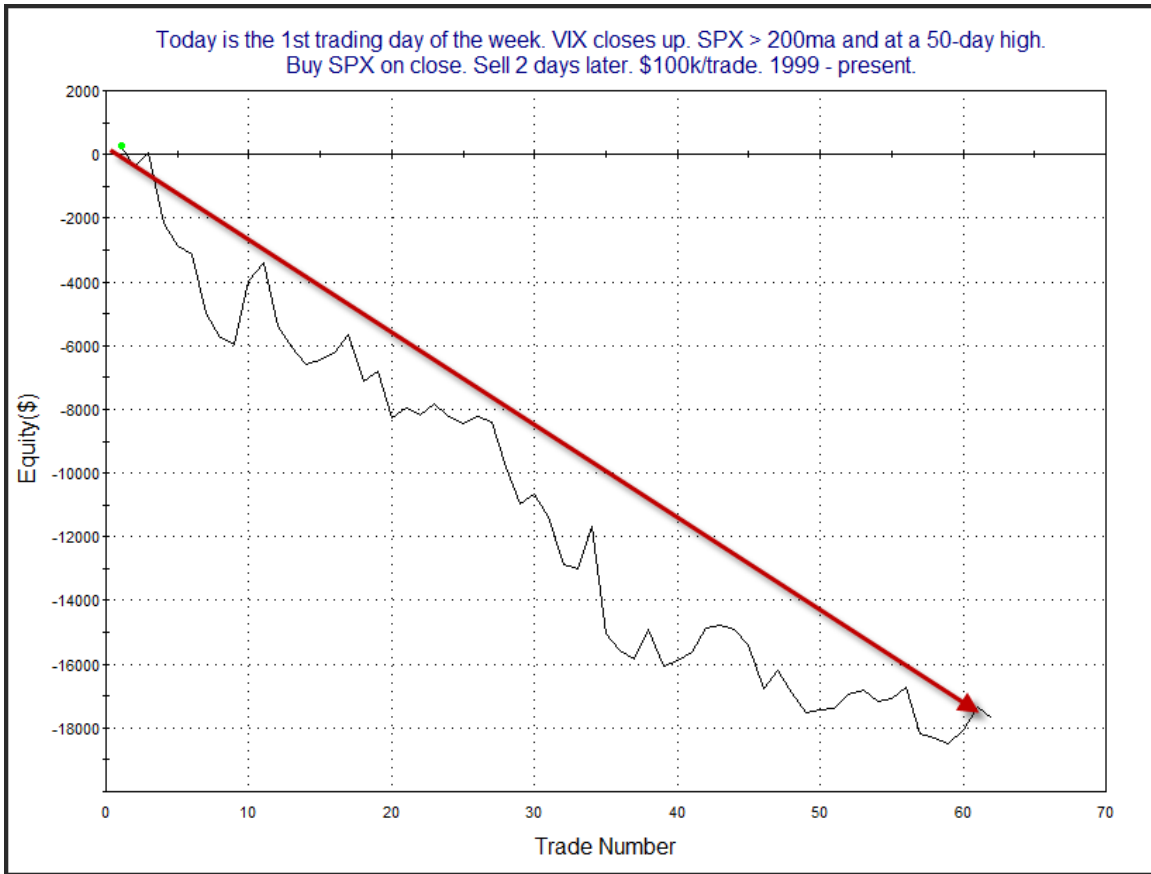
**The Evidence**

Monday was more gains for the market. The SPX closed up 0.5%, the NASDAQ gained 0.5%, and the Russell 2000 climbed 0.25%. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 68%. NYSE volume rose a little from Friday's level.

A mix of evidence emerge tonight. While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 12/12/16 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-13,730.73	57	27	30	47.37	1,078.52	3,260.25	-1,428.36	-5,048.68	0.76	0.68	-240.89
4	-7,883.23	62	29	33	46.77	954.12	2,953.65	-1,077.35	-4,271.52	0.89	0.78	-127.15
3	-8,738.63	62	28	34	45.16	754.15	2,641.80	-878.09	-3,887.84	0.86	0.71	-140.95
2	-17,691.15	62	27	35	43.55	453.13	1,981.72	-855.02	-3,372.16	0.53	0.41	-285.34
1	-7,384.43	62	23	39	37.10	335.42	769.70	-387.16	-1,580.04	0.87	0.51	-119.10

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



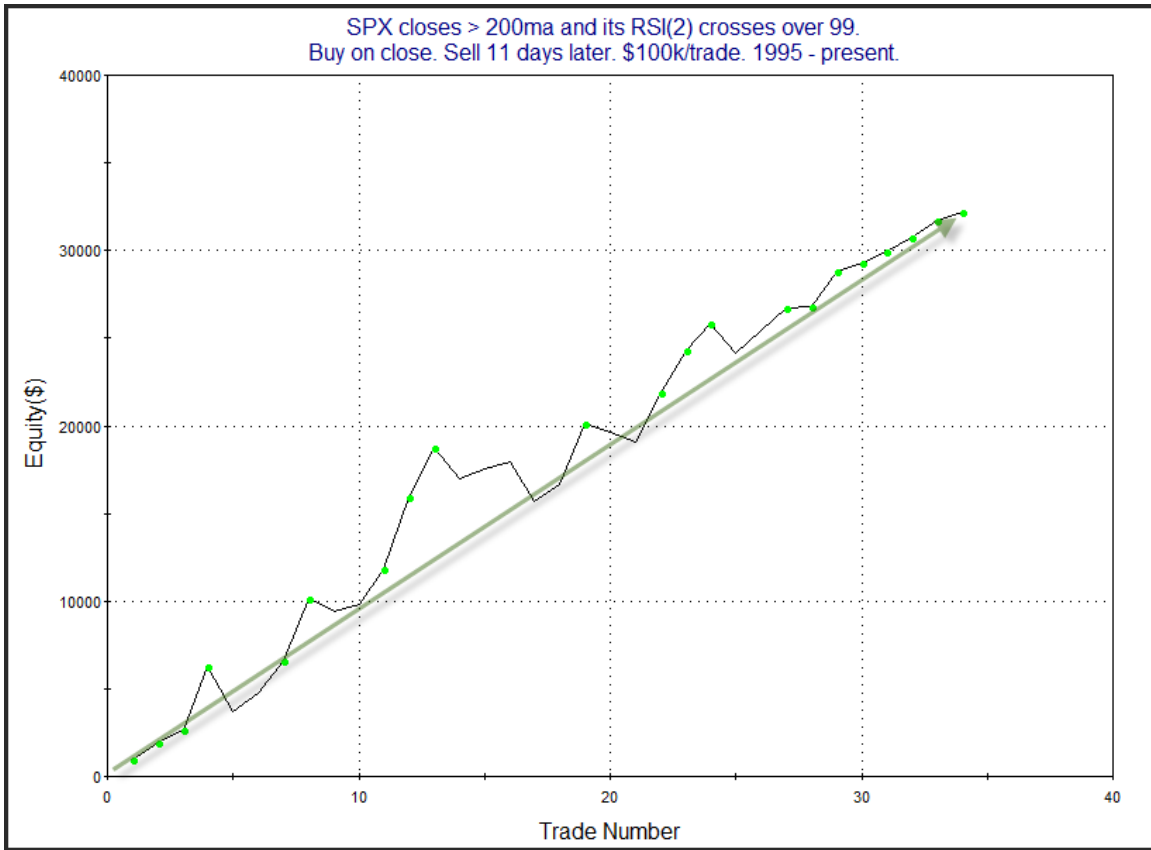
The profit curve has had a long and fairly steady decline. This study seems worthy of consideration and I have included it on the Active List.

Of course short-term overbought often triggers some studies that suggest a downside edge. But when the overbought condition gets *very* strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below, which uses RSI(2) and was last seen in the 8/16/16 Letter.

SPX closes > 200ma and its RSI(2) crosses over 99.  
Buy on close. Sell X days later. \$100k/trade. 1995 - present.

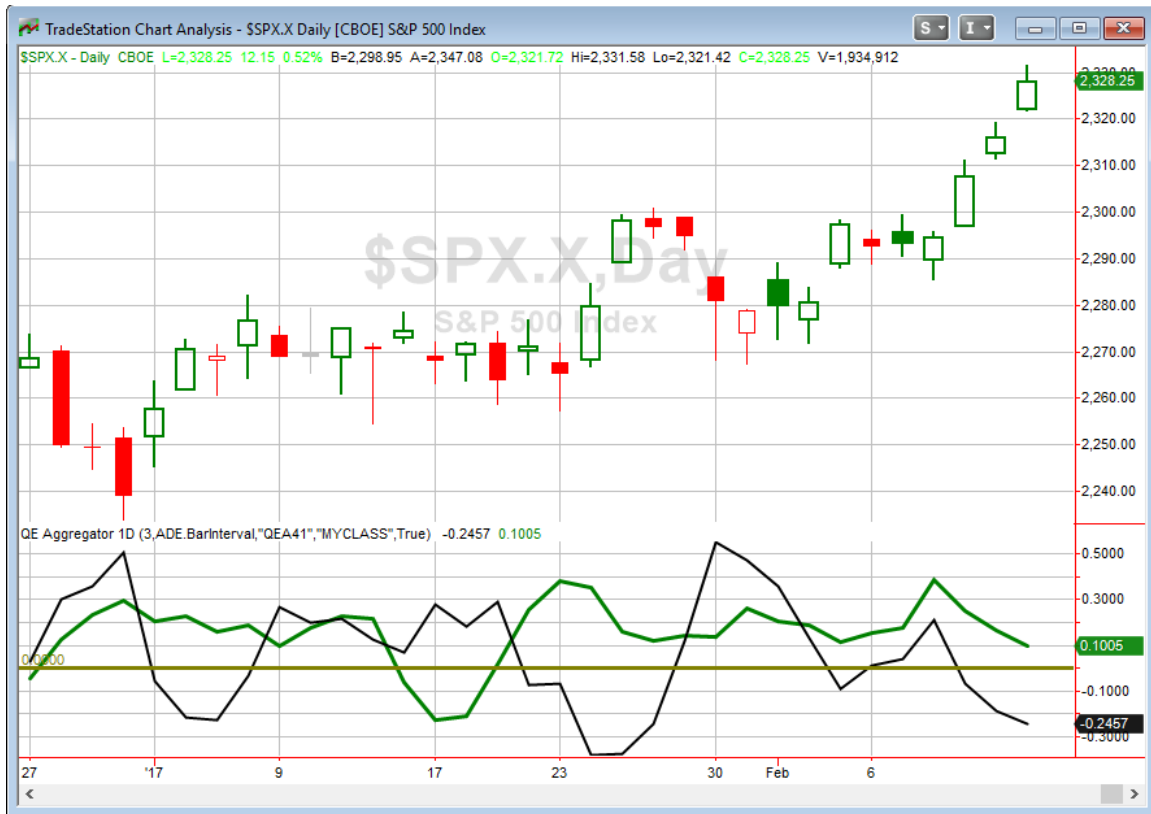
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	13,775.95	21	15	6	71.43	1,480.88	3,354.72	-1,406.21	-3,063.60	1.05	2.63	656.00
14	12,868.89	21	15	6	71.43	1,416.05	3,413.94	-1,395.30	-2,699.52	1.01	2.54	612.80
13	13,359.18	21	16	5	76.19	1,370.26	2,961.48	-1,713.01	-3,320.01	0.80	2.56	636.15
12	13,357.63	21	14	7	66.67	1,437.10	3,085.89	-965.97	-1,954.71	1.49	2.98	636.08
11	13,362.52	21	16	5	76.19	1,263.21	3,510.45	-1,369.77	-2,274.70	0.92	2.95	636.31
10	10,419.26	21	15	6	71.43	1,273.83	3,370.38	-1,448.04	-2,793.28	0.88	2.20	496.16
9	9,372.37	21	14	7	66.67	1,297.75	2,804.01	-1,256.59	-3,440.07	1.03	2.07	446.30
8	12,670.37	21	14	7	66.67	1,444.55	3,533.94	-1,079.06	-3,460.32	1.34	2.68	603.35
7	10,830.30	22	14	8	63.64	1,484.43	3,564.39	-1,243.96	-4,153.62	1.19	2.09	492.29
6	4,594.36	22	14	8	63.64	1,229.30	2,634.36	-1,576.98	-5,296.92	0.78	1.36	208.83
5	4,422.68	22	14	8	63.64	918.16	1,714.77	-1,053.95	-3,596.40	0.87	1.52	201.03
4	4,556.58	22	15	7	68.18	828.57	1,816.56	-1,124.57	-3,039.18	0.74	1.58	207.12
3	-1,828.17	23	12	11	52.17	599.47	1,887.03	-820.16	-2,880.45	0.73	0.80	-79.49
2	-75.66	23	15	8	65.22	451.02	1,998.39	-855.13	-2,348.76	0.53	0.99	-3.29
1	-856.92	23	13	10	56.52	387.27	1,606.89	-589.14	-3,515.37	0.66	0.85	-37.28

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is the profit curve showing an 11-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously this study does not help us with the short-term, but I have added it to the intermediate-term 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 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 Tuesday. Strongly bearish evidence would need to emerge in order to change this. The Differential Pivot will be 2326.67 on Tuesday. That is 0.2% below Monday's close. Therefore, SPX will need to close down at least 0.2% in order to move back to "oversold" versus recent expectations.

Similar to last night. The market looks strong and is suggesting more upside. But it is already overbought. I intend to wait until a more favorable opportunity emerges.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 2/13 – 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.*

***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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