

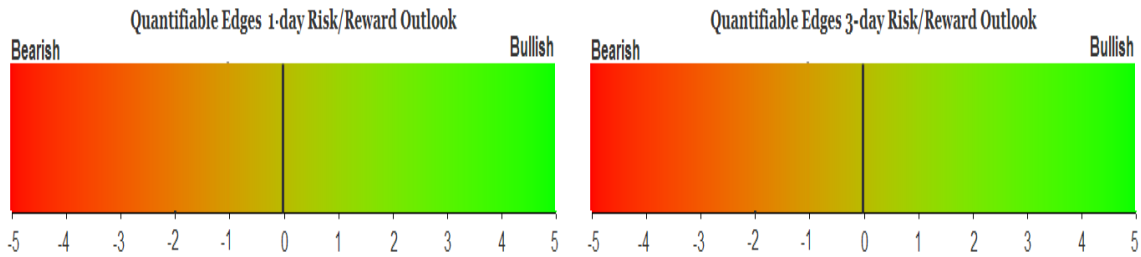
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 16, 2017

Volume 10 Issue 32

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The strongly rising VIX with the SPY also up is something that has often been followed by market gains.
- Persistent overbought conditions like we have seen recently often lead to more short-term gains.
- A new VIX high to go with a new SPX high suggests a SPX pullback is due.

## *Short-term Outlook*

### *The Bottom Line*

Once again, expectations remain positive but the market is overbought. This is leaving me with a neutral short-term outlook.

***The Evidence***

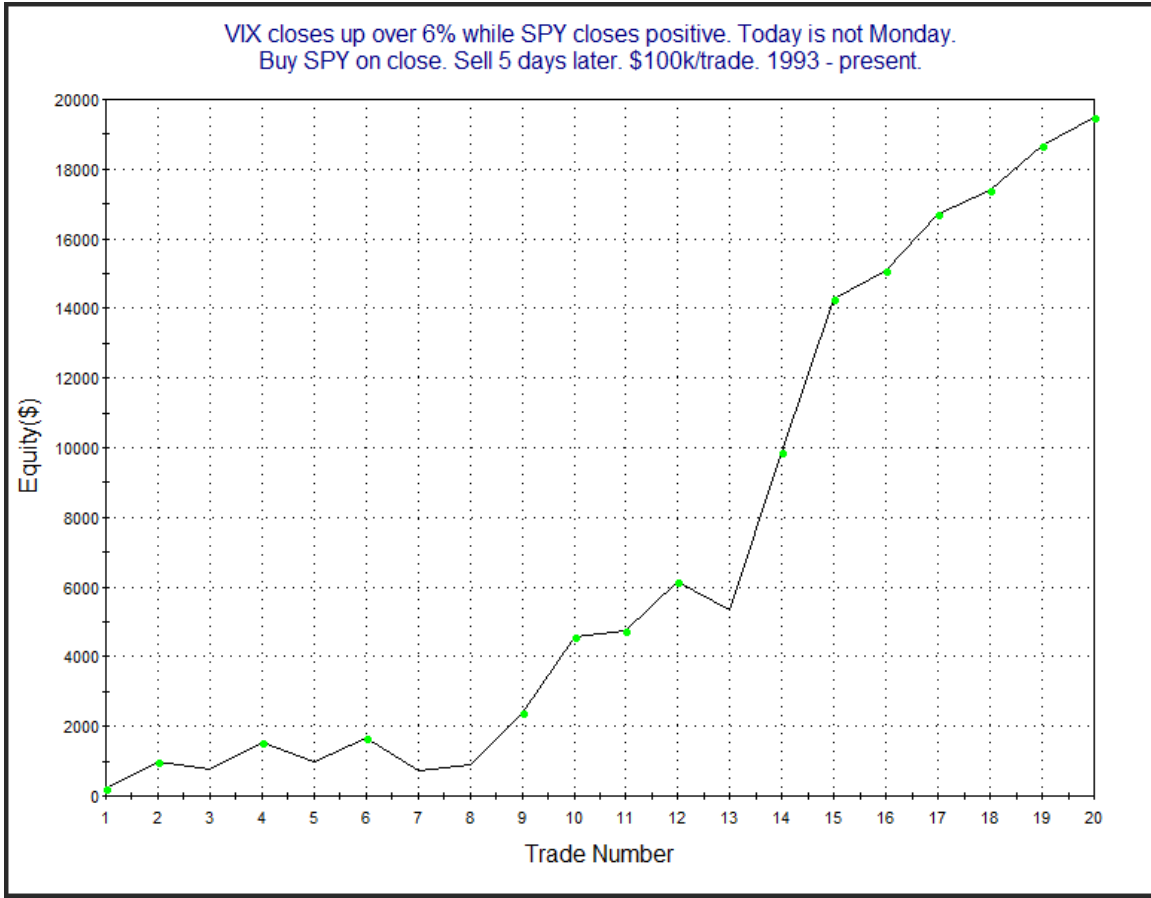
Another day another push higher. The SPX closed up 0.5%, the NASDAQ gained 0.6%, and the Russell 2000 climbed 0.5%. Breadth was positive as the NYSE Up Issues % was 57% and the Up Volume % came in at 61%. NYSE volume rose a little for the 3<sup>rd</sup> day in a row.

There was some interesting action on Wednesday that generated a mix of studies. Especially interesting about the action on Wednesday was that the VIX spiked over 11% while SPY closed up solidly. It's fairly remarkable to see such a large spike in the VIX on a day where the SPY actually rose. In fact, this is only the 4<sup>th</sup> time ever that the VIX gained over 10% while SPY also rose. The other instances all occurred in the 90s. They were 3/14/94, 3/31/94, and 5/5/97. The study below was last seen in the 12/12/14 letter. It looked at non-Mondays that saw the VIX spike up > 6% despite the SPY also rising. I have updated the results table below.

VIX closes up over 6% while SPY closes positive. Today is not Monday. Buy SPY 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	19,466.96	20	16	4	80.00	1,375.50	4,501.60	-635.27	-914.83	2.17	8.66	973.35
4	17,006.93	20	15	5	75.00	1,365.58	4,225.18	-695.36	-1,233.08	1.96	5.89	850.35
3	12,939.92	20	16	4	80.00	1,074.71	4,576.06	-1,063.87	-3,070.92	1.01	4.04	647.00
2	8,034.40	20	13	7	65.00	1,010.17	2,807.04	-728.26	-2,288.52	1.39	2.58	401.72
1	1,734.35	21	12	9	57.14	541.02	1,893.29	-528.65	-1,613.70	1.02	1.36	82.59

**100% of instances closed above the entry price at some point in the next week.**

The edge here appears to be strong. Below is a profit curve assuming a 5-day holding period.



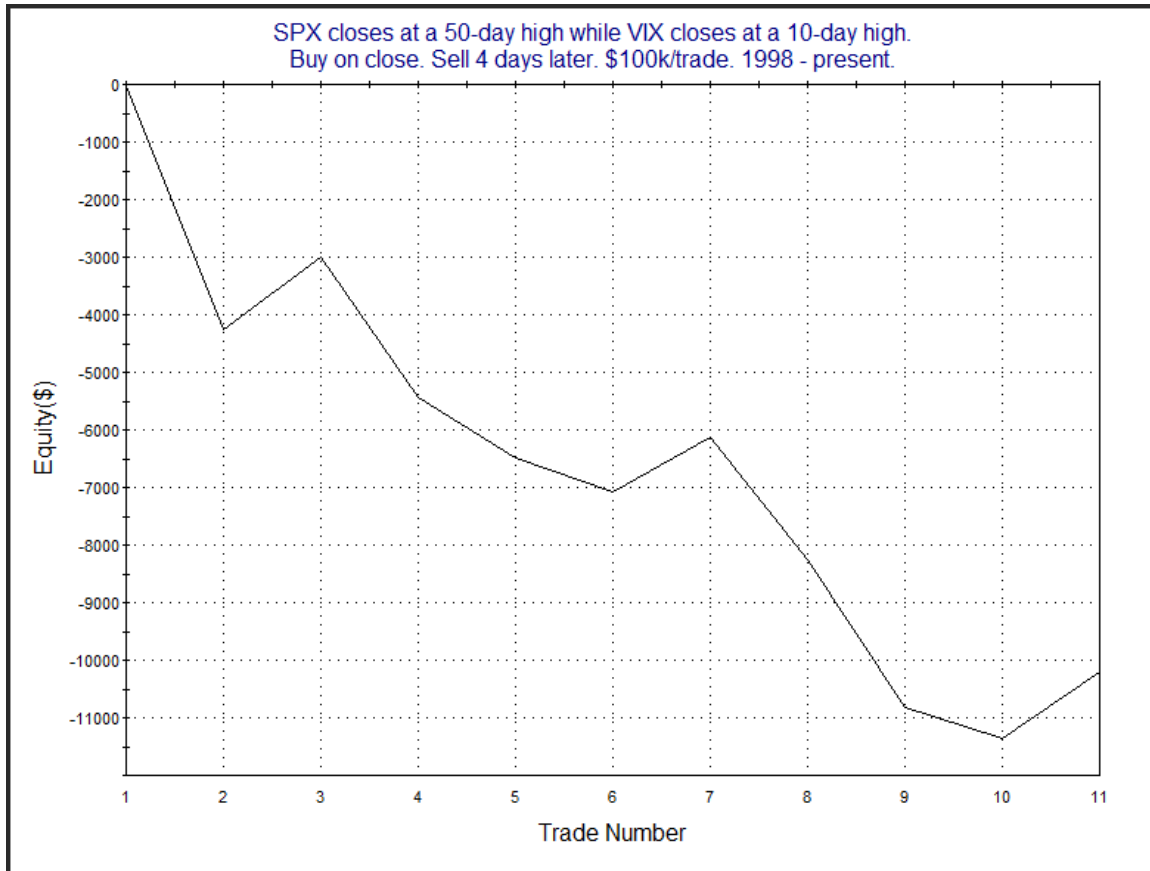
Results appear very strong. And recent instances have been even stronger. This serves as some confirmation of the upside edge.

But there were other VIX studies suggesting a possible downside edge. Not only did the VIX rise on Wednesday, it made a new short-term high. That is very unusual to see the VIX making a short-term high while SPX is making a long-term high. Over the last 19 years, that has also been a sign of possible trouble.

SPX closes at a 50-day high while VIX closes at a 10-day high.  
Buy on close. Sell X days later. \$100k/trade. 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
5	-8,722.23	11	5	6	45.45	1,045.26	2,323.00	-2,324.76	-4,221.70	0.45	0.37	-792.93
4	-10,197.29	11	3	8	27.27	1,133.57	1,262.70	-1,699.75	-4,240.48	0.67	0.25	-927.03
3	-9,514.73	11	3	8	27.27	1,287.81	1,539.24	-1,672.27	-4,423.40	0.77	0.29	-864.98
2	-2,881.20	11	3	8	27.27	1,143.26	1,835.17	-788.87	-1,461.48	1.45	0.54	-261.93
1	188.62	12	5	7	41.67	601.04	1,530.15	-402.37	-987.24	1.49	1.07	15.72

Instances are low, but the numbers appear to favor the bulls over the next 2-4 days. Below is a look the profit curve with a 4-day exit strategy.



The results appear strong enough to give this study some consideration.

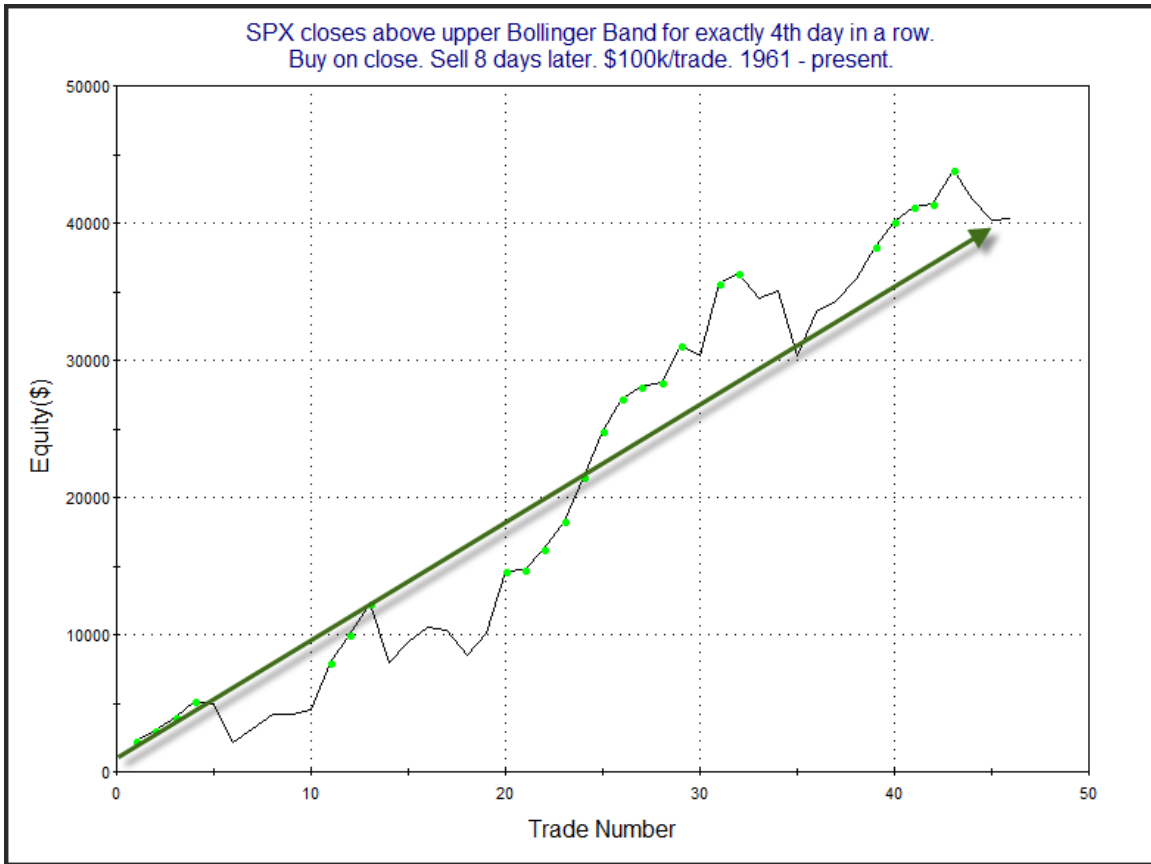
The strong upside momentum we are seeing is something I have discussed the last 2 nights, with studies emerging suggesting momentum is strong enough that it is likely to continue. Another study with that theme triggered on Wednesday. It notes that SPX has now closed above its upper Bollinger Band (using the standard 20-period, 2 standard deviation bands) for 4 days in a row. It's somewhat unusual to see the market close this far above its mean for 4 days in a row. Such shows of strength have often begat more short-term strength. This can be seen in the study below, which last appeared in the 3/19/12 subscriber letter.

SPX closes above upper Bollinger Band for exactly 4th day in a row.  
Buy on close. Sell X days later. \$100k/trade. 1961 - 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	34,364.13	46	32	13	69.57	1,839.99	3,731.50	-1,885.82	-3,824.52	0.98	2.40	747.05
9	40,151.02	46	33	12	71.74	1,829.90	3,927.00	-1,686.30	-3,737.50	1.09	2.98	872.85
8	40,281.59	46	36	10	78.26	1,682.12	5,222.40	-2,027.49	-4,731.56	0.83	2.99	875.69
7	33,141.27	46	34	12	73.91	1,521.67	4,335.00	-1,549.62	-4,901.14	0.98	2.78	720.46
6	27,525.19	46	33	13	71.74	1,345.91	3,356.16	-1,299.21	-4,428.54	1.04	2.63	598.37
5	21,529.38	46	34	12	73.91	1,181.71	3,581.50	-1,554.07	-6,988.92	0.76	2.15	468.03
4	20,991.72	46	31	15	67.39	1,117.06	3,067.74	-909.15	-3,254.50	1.23	2.54	456.34
3	16,590.77	46	32	14	69.57	844.61	3,025.75	-745.48	-3,128.00	1.13	2.59	360.67
2	18,124.13	46	29	17	63.04	885.39	2,701.80	-444.24	-2,081.50	1.99	3.40	394.00
1	4,135.31	46	26	19	56.52	457.61	1,582.32	-408.56	-1,596.68	1.12	1.53	89.90

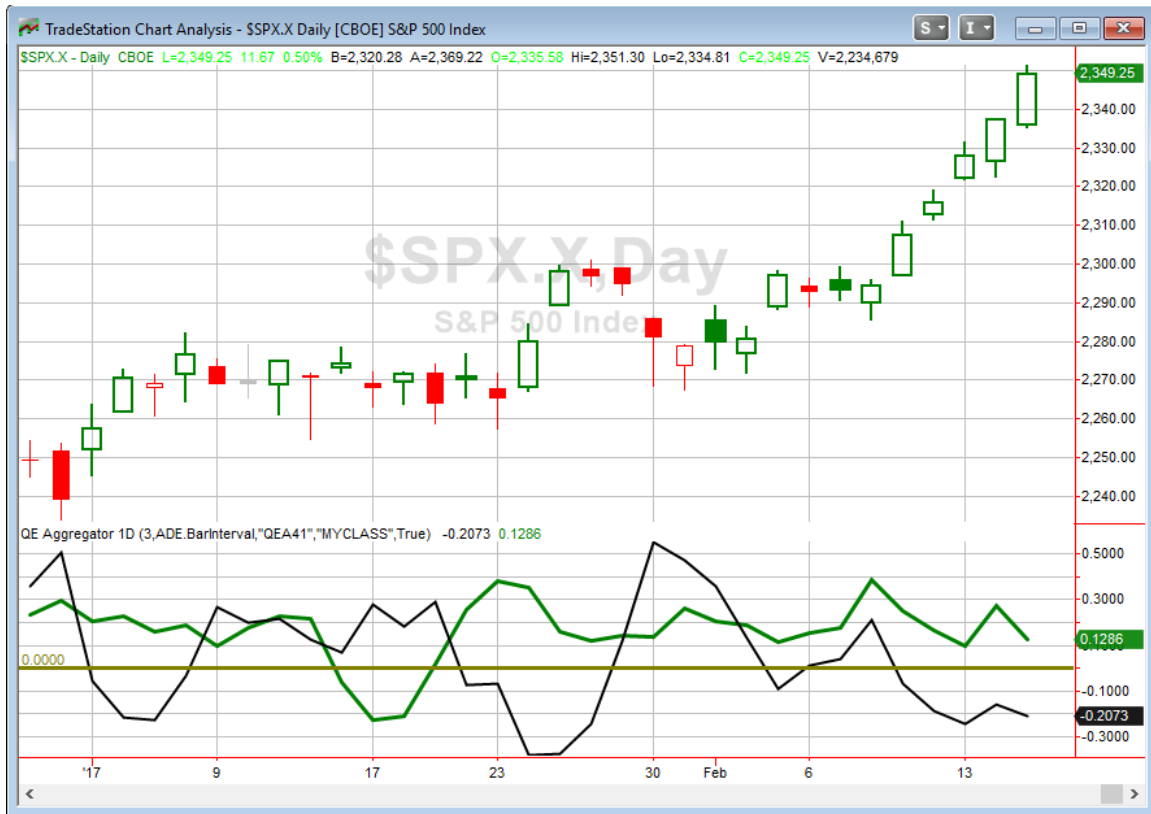
42 of 46 instances (91%) closed above the entry price at some point in the next week.

The stats seem to strongly support the bull case. Even those instances that didn't continue higher immediately mostly just saw a shallow pullback before hitting new highs at some point in the week. I find the results especially impressive considering the moves are measured from a point where the market is already substantially overbought. Below is an equity curve that assumes an 8-day exit strategy.



Despite the last trade being a loser the consistent upslope remains quite impressive.

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 Thursday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2340.24 on Thursday. That is 0.4% below Wednesday's close. Therefore, SPX will need to close down at least 0.4% in order to move to "oversold" versus recent expectations.

The song remains the same. The market looks strong and is suggesting more upside. But it is already overbought and overdue for a pullback. (It has been 30 days since the NDX closed below its 10ma.) I still intend to wait until a more favorable entry 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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