

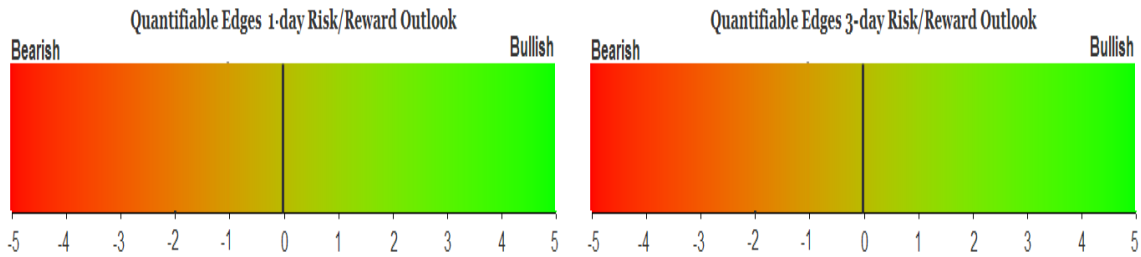
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 17, 2017

Volume 10 Issue 33

Market Overview



Signals Overview

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

Tonight's Research Points

- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days.
- Opex Friday often suffers selling during the day.
- 5 days higher to a 50-day high rarely sees the move up end abruptly.

Short-term Outlook

The Bottom Line

Once again the Aggregator is in a neutral formation. But it could easily turn bullish on Friday's close if SPX does not rally.

The Evidence

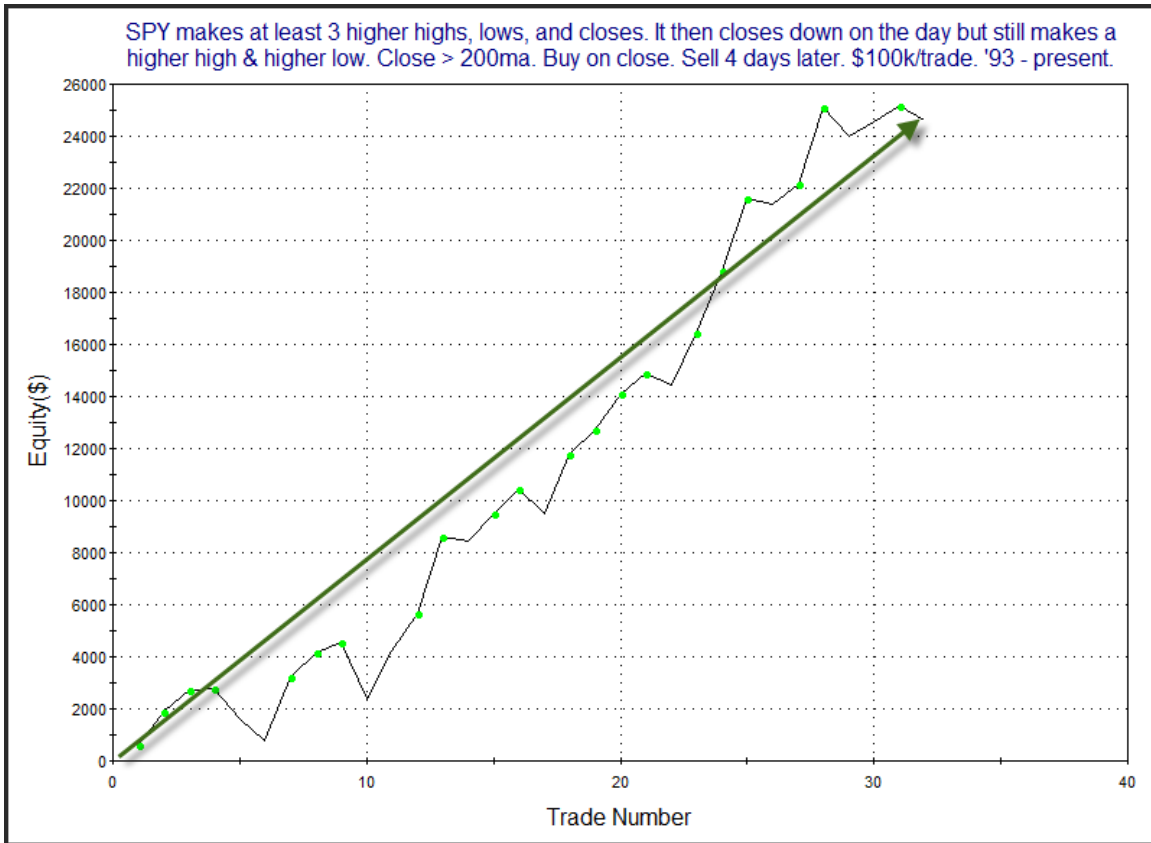
Thursday the market finally saw a little pullback. The SPX closed down 0.1%, the NASDAQ fell 0.1%, and the Russell 2000 declined 0.4%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 36%. NYSE volume rose a little for the 4th day in a row.

While SPY closed lower on Thursday, it did manage to register a higher high and a higher low. The study below was last seen in the 12/13/16 letter and examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

SPY makes at least 3 higher highs, lows, and closes. It then closes down on the day but still makes a higher high & higher low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. '93 - 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	21,238.75	32	20	12	62.50	1,549.20	3,602.64	-812.10	-2,800.26	1.91	3.18	663.71
4	24,623.28	32	23	9	71.88	1,400.65	2,962.96	-843.51	-2,191.22	1.66	4.24	769.48
3	16,802.40	32	23	9	71.88	1,015.44	2,762.41	-728.08	-2,640.33	1.39	3.56	525.08
2	12,280.67	32	25	6	78.13	719.75	2,073.28	-952.17	-1,804.67	0.76	3.15	383.77
1	9,667.16	32	23	9	71.88	542.17	1,395.93	-311.42	-1,137.92	1.74	4.45	302.10

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



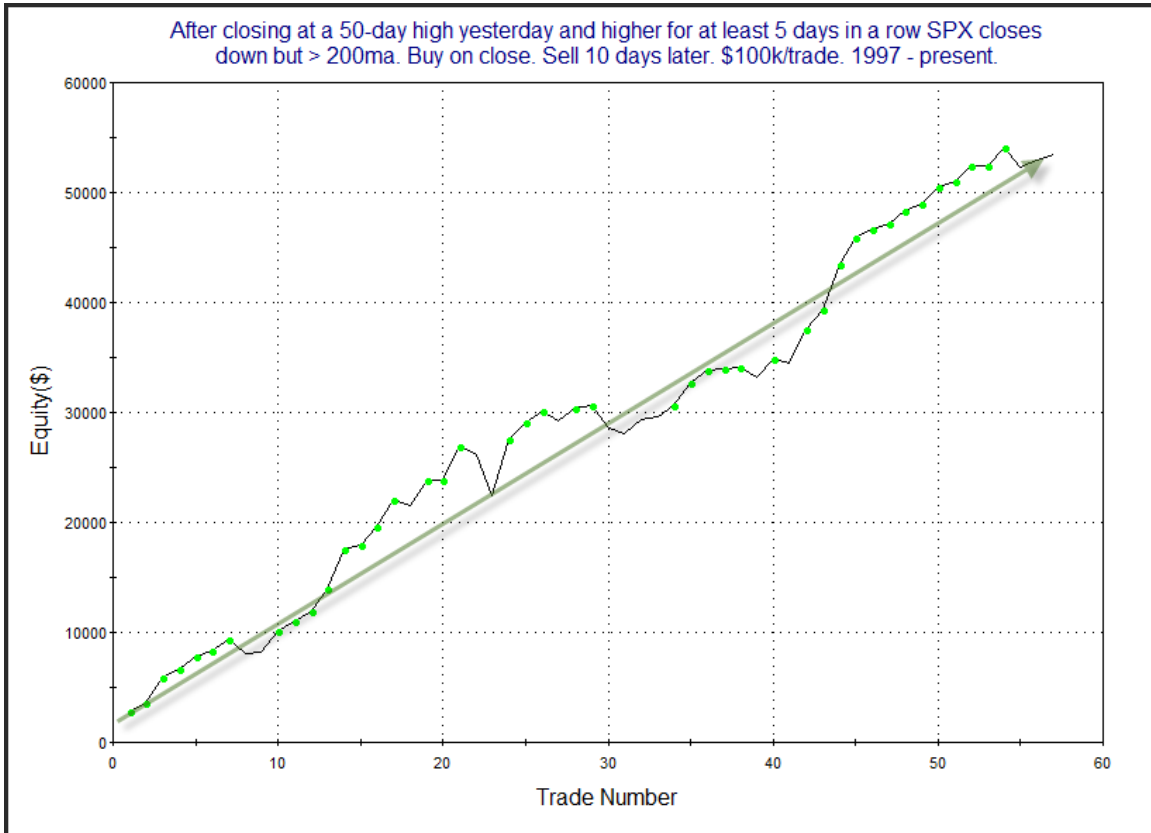
The upslope is impressive. This study certainly seems worthy of consideration and I have included it on the Active List.

Another compelling study that triggered tonight also suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 7/18/16 Letter. I have updated the stats in the table below.

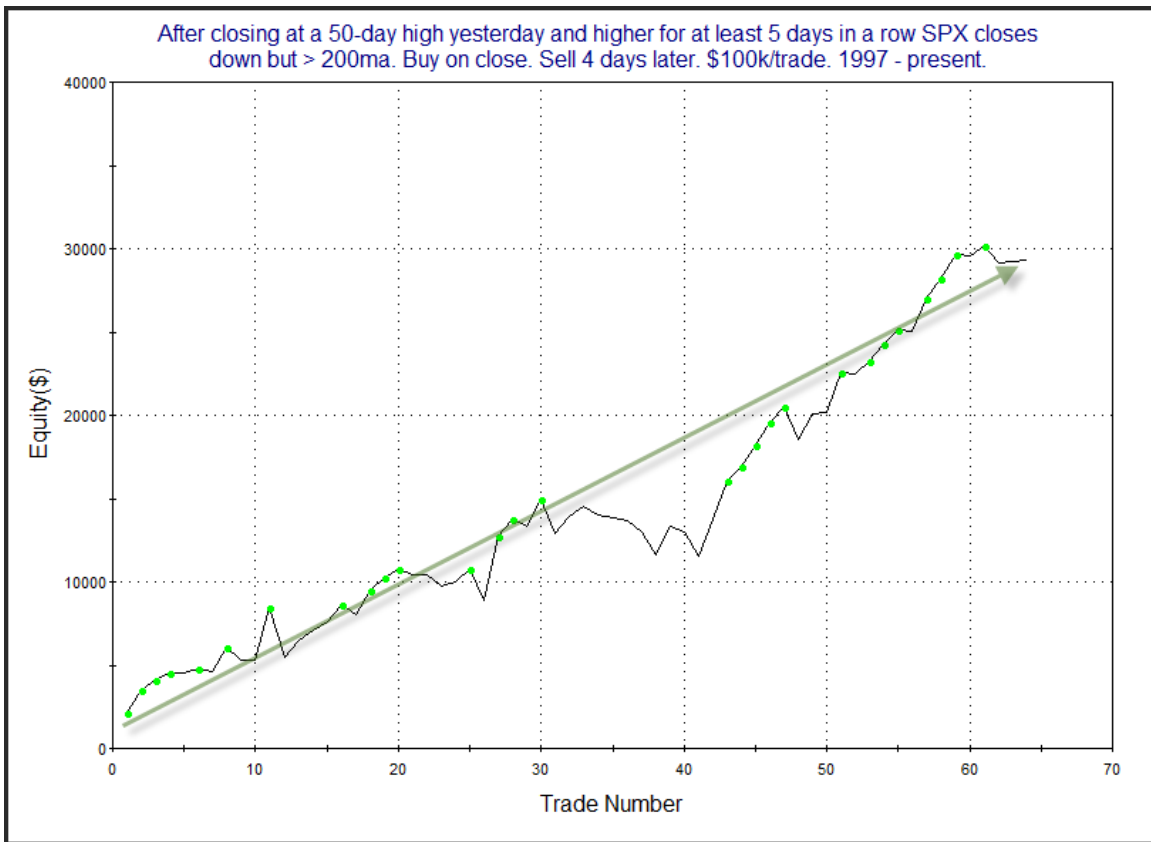
After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - present.

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	53,437.06	57	47	10	82.46	1,411.98	5,131.35	-1,292.59	-3,672.90	1.09	5.13	937.49
9	53,786.56	60	49	11	81.67	1,407.47	5,023.20	-1,379.97	-4,151.40	1.02	4.54	896.44
8	46,088.32	61	43	18	70.49	1,591.64	4,878.08	-1,241.79	-4,874.10	1.28	3.06	755.55
7	35,605.40	62	42	20	67.74	1,452.32	3,874.76	-1,269.59	-3,912.48	1.14	2.40	574.28
6	35,906.95	64	44	20	68.75	1,324.37	4,307.20	-1,118.27	-3,637.71	1.18	2.61	561.05
5	27,674.91	64	40	24	62.50	1,169.21	4,252.50	-795.56	-2,466.75	1.47	2.45	432.42
4	29,316.15	64	40	24	62.50	1,182.96	3,843.00	-750.09	-3,003.39	1.58	2.63	458.06
3	18,173.59	64	41	23	64.06	877.79	2,472.85	-774.59	-1,992.34	1.13	2.02	283.96
2	17,194.83	64	44	20	68.75	742.88	2,437.50	-774.59	-2,614.95	0.96	2.11	268.67
1	10,533.01	64	42	21	65.63	519.34	1,751.19	-537.11	-1,744.10	0.97	1.93	164.58

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 4-day timeframe suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 4-day exit profit curves. First, the 10 day.

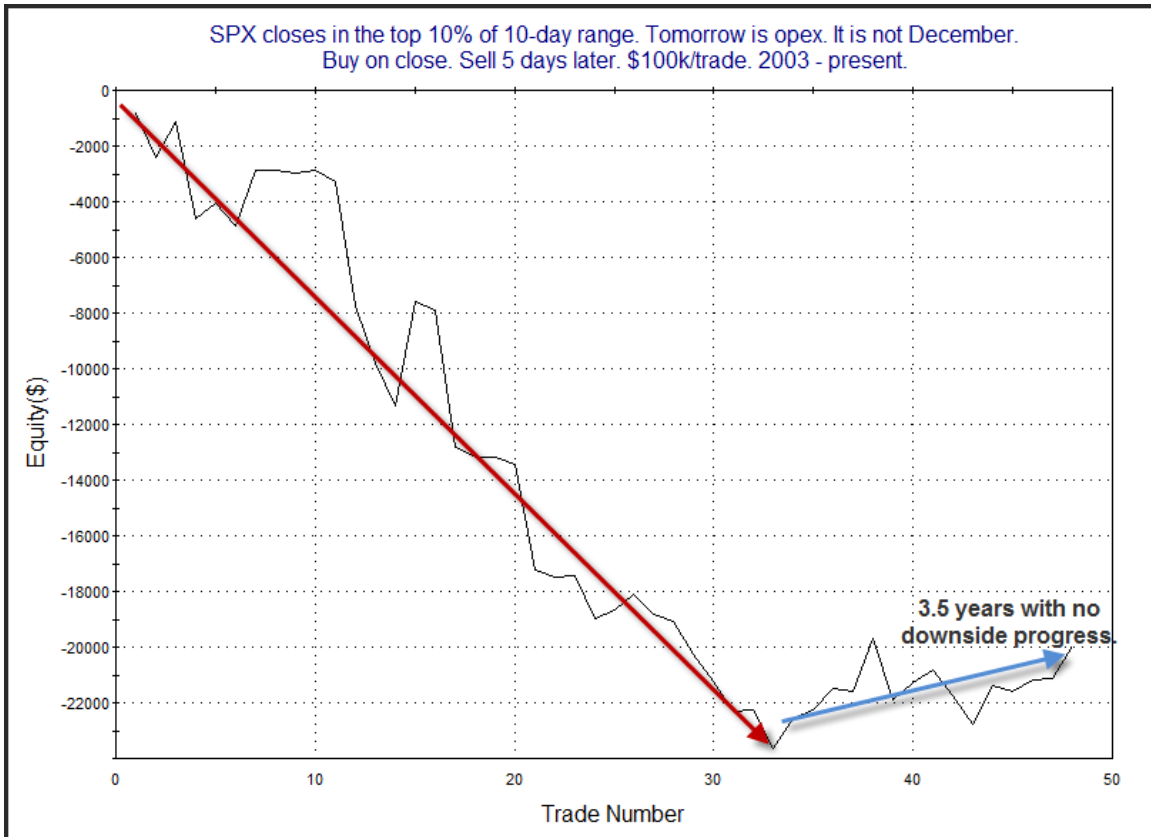


The strong upslope appears to confirm the bullish edge. Next let's look at the 4-day curve.



Results are choppy. But even with more whipsaws this one appears worthy of consideration. I have included this study on both the short-term and intermediate-term active lists.

There was a bearish study that appeared in the Quantifinder that looked at closes near the top of the recent range going into options expiration. In looking tonight, the study is no longer holding the appeal it once did. This can be seen in the profit curve below.



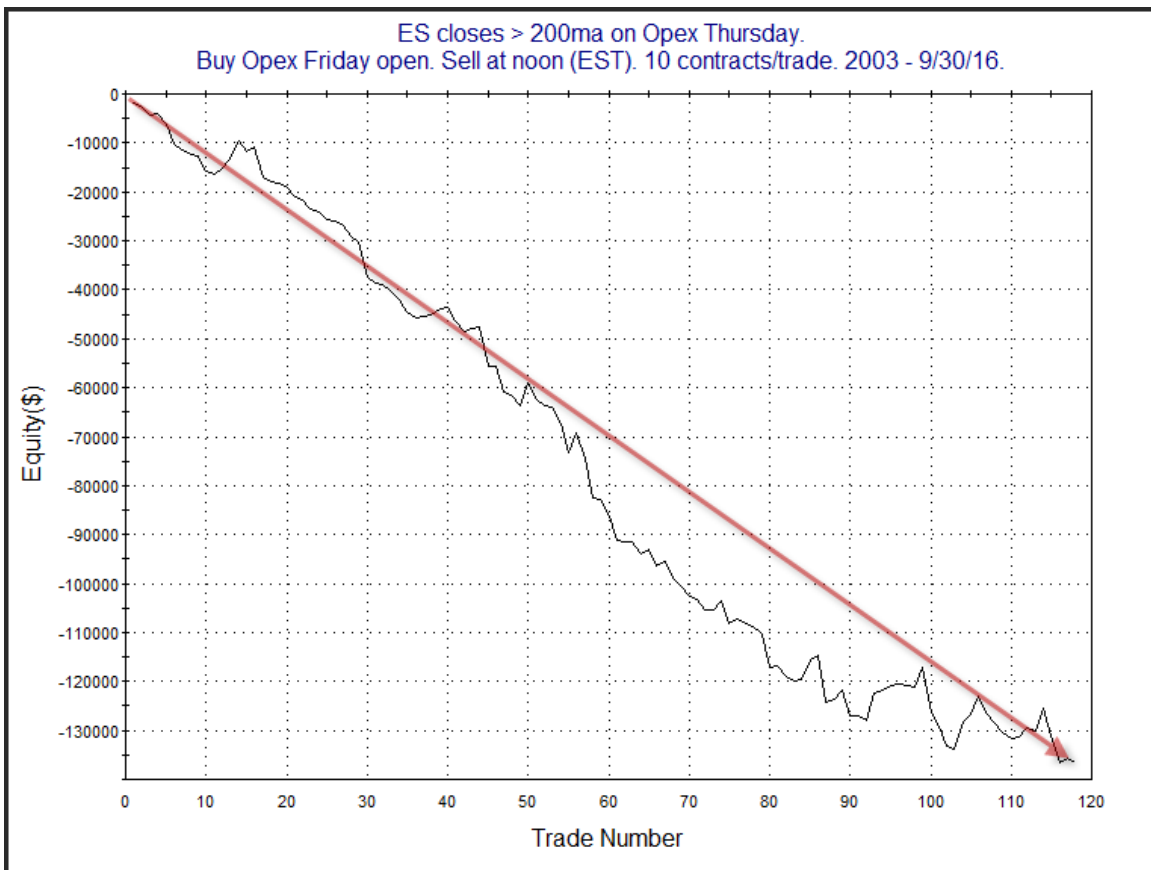
I have put this study on probation for the time being and am not including it on the Active List tonight.

One seasonal factor that could come into play on Friday is that the market has often struggled after the open on opex Friday. Below is a study from the 9/16/16 letter showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day. (Note this study is NOT updated tonight.)

ES closes > 200ma on Opex Thursday.
Buy Opex Friday open. Sell at time shown on left (EST). 10 contracts/trade. 2003 - 9/30/16.

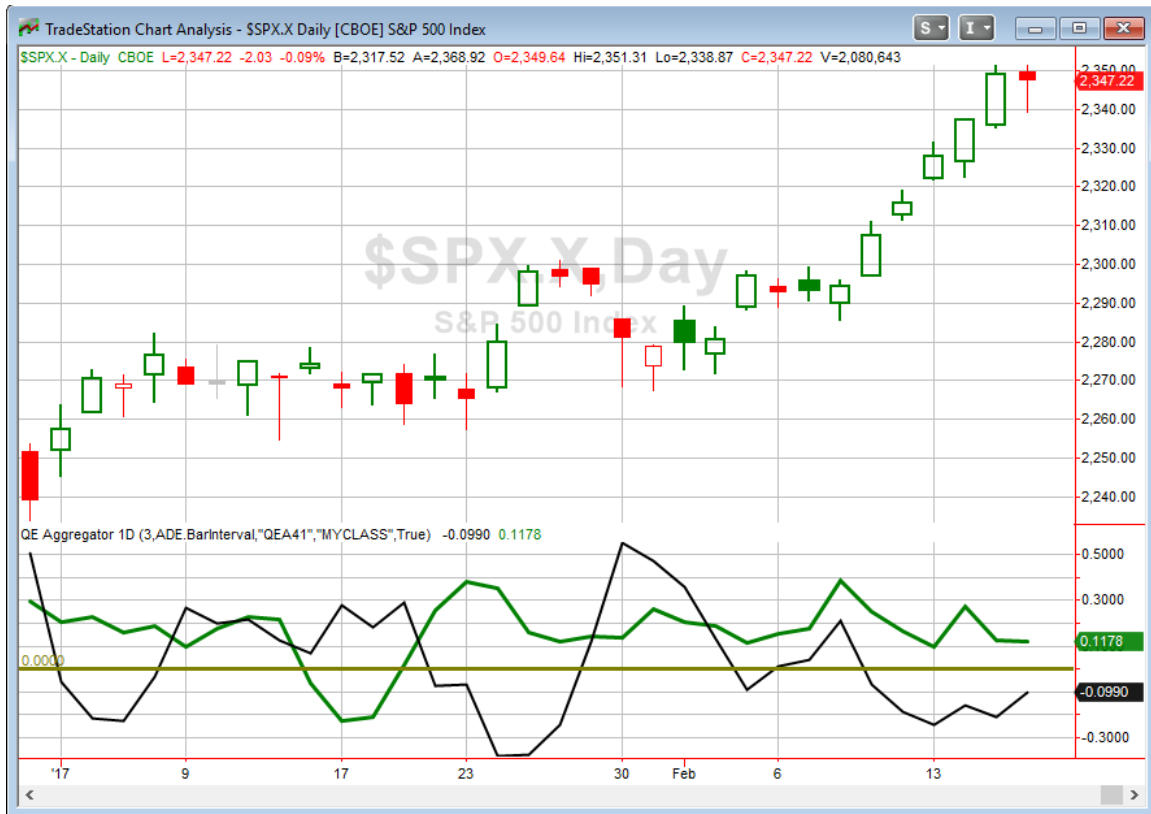
OE Op-Ex Fri Intra Short2: timeofday	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
1,600	-120,625.00	118	50	65	42.37	2,337.50	13,875.00	-3,653.85	-16,125.00	0.64	0.49	-1,022.25
1,500	-132,125.00	118	39	76	33.05	2,442.31	9,875.00	-2,991.78	-11,625.00	0.82	0.42	-1,119.70
1,400	-143,125.00	118	34	78	28.81	2,139.71	9,875.00	-2,767.63	-10,750.00	0.77	0.34	-1,212.92
1,300	-135,875.00	118	35	82	29.66	2,021.43	9,625.00	-2,519.82	-10,000.00	0.80	0.34	-1,151.48
1,200	-136,625.00	118	35	83	29.66	1,789.29	5,625.00	-2,400.60	-9,750.00	0.75	0.31	-1,157.84
1,100	-93,875.00	118	42	74	35.59	1,473.21	7,250.00	-2,104.73	-7,625.00	0.70	0.40	-795.55
1,000	-77,125.00	118	32	84	27.12	898.44	3,625.00	-1,260.42	-3,625.00	0.71	0.27	-653.60

As you can see, the bearish implications primarily play themselves out during the morning. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) Below is a profit curve that assumes the trade is sold at noon each time.



The downward slope has been in effect and fairly steady for a long time. So caution seems warranted on the long side during the morning on Friday.

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 Friday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted* at 2350.19 on Friday. That is 0.1% *above* Thursday's close. An inverted pivot means that the Differential line will cross through 0 if SPX closes flat. In this case, SPX is going to need to close up at least 0.1% on Friday in order to remain overbought. Anything less than that and it will be considered "oversold" versus expectations as of Friday's close.

So the Aggregator is again neutral. But evidence remains bullish. And without a rally on Friday, SPX will be turning oversold. I am not quite ready to start buying yet, but I very well could be on Monday morning depending on how Friday plays out and what new studies emerge.

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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