

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 23, 2017

Volume 10 Issue 36

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.
- SOMA Swing System signaled short.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral and so am I.

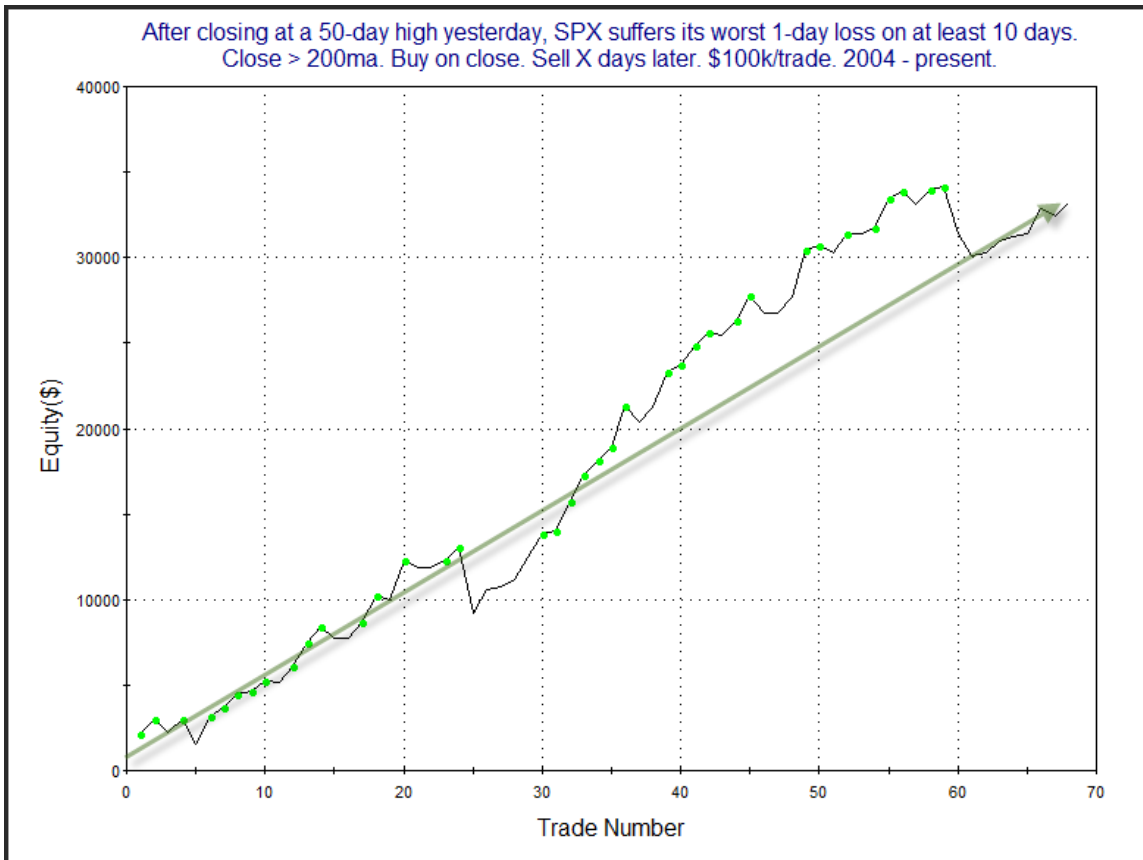
***The Evidence***

The market was mostly a little lower in Wednesday. The SPX dipped 0.1%, the NASDAQ declined 0.1%, and the Russell 2000 dropped 0.5%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 37%. NYSE volume declined some from Tuesday’s level.

There were a few studies worth consideration that emerged tonight. This first study looks at *relatively* large drops from intermediate-term highs. It was last seen in the 12/15/16 letter. I have updated all the stats.

After closing at a 50-day high yesterday, SPX suffers its worst 1-day loss on at least 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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	26,250.48	64	45	19	70.31	1,173.67	3,149.37	-1,398.14	-3,454.00	0.84	1.99	410.16
4	33,173.57	68	49	19	72.06	995.94	2,725.38	-822.49	-3,895.76	1.21	3.12	487.85
3	25,115.24	69	50	19	72.46	793.02	2,192.40	-765.04	-1,808.21	1.04	2.73	363.99
2	15,206.71	71	41	30	57.75	754.97	2,437.50	-524.91	-1,777.55	1.44	1.97	214.18
1	8,122.10	71	43	28	60.56	507.59	1,521.72	-489.43	-1,354.59	1.04	1.59	114.40

The stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



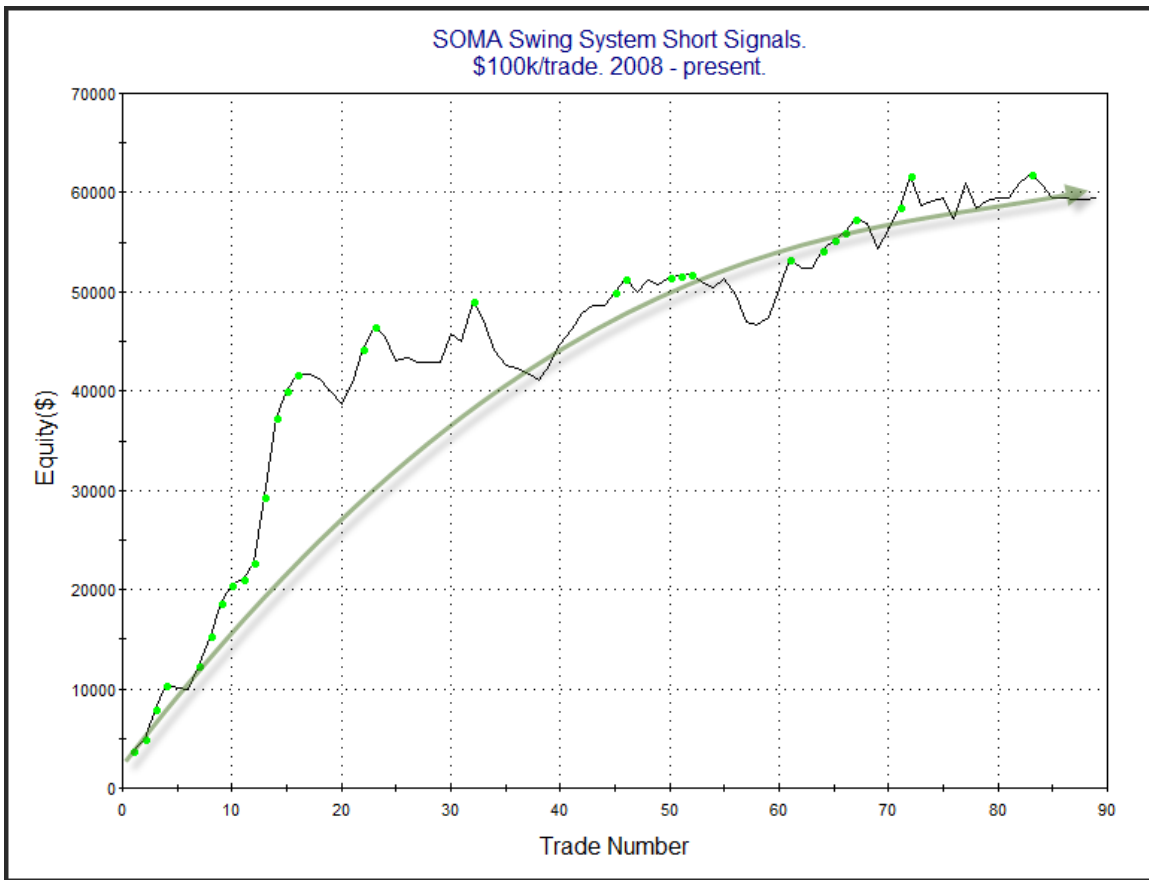
Despite some recent struggles, the steady upslope seems to confirm the bullish inclination. This study is on the Active List tonight.

It is also notable that the positive SOMA flows we have seen over the last 2 weeks are now expected to end, as this upcoming week we are expecting a flat to declining SOMA based on the Fed's reinvestment schedule. Combined with the elevated SPX this is triggering a short signal in the SOMA Swing System. As a refresher, the system will go long any time the Fed's System Open Market Account (SOMA) is expected to increase over the current week and the SPX is oversold (trading in the bottom 20% of its 10-day range). It will hold the position until SPX closes in the top half of its 10-day range, or when the SOMA is no longer in an anticipated expansion period. Shorts are the opposite in which they will short overbought when the SOMA is not expected to show a rise of at least 0.01% in the current week. They will then exit when SOMA expectations turn positive or the market closes in the bottom half of its 10-day range. With tonight's short signal, let's take a look at short signal stats over the years.

SOMA Swing System Short Signals.  
\$100k/trade. 2008 - present.

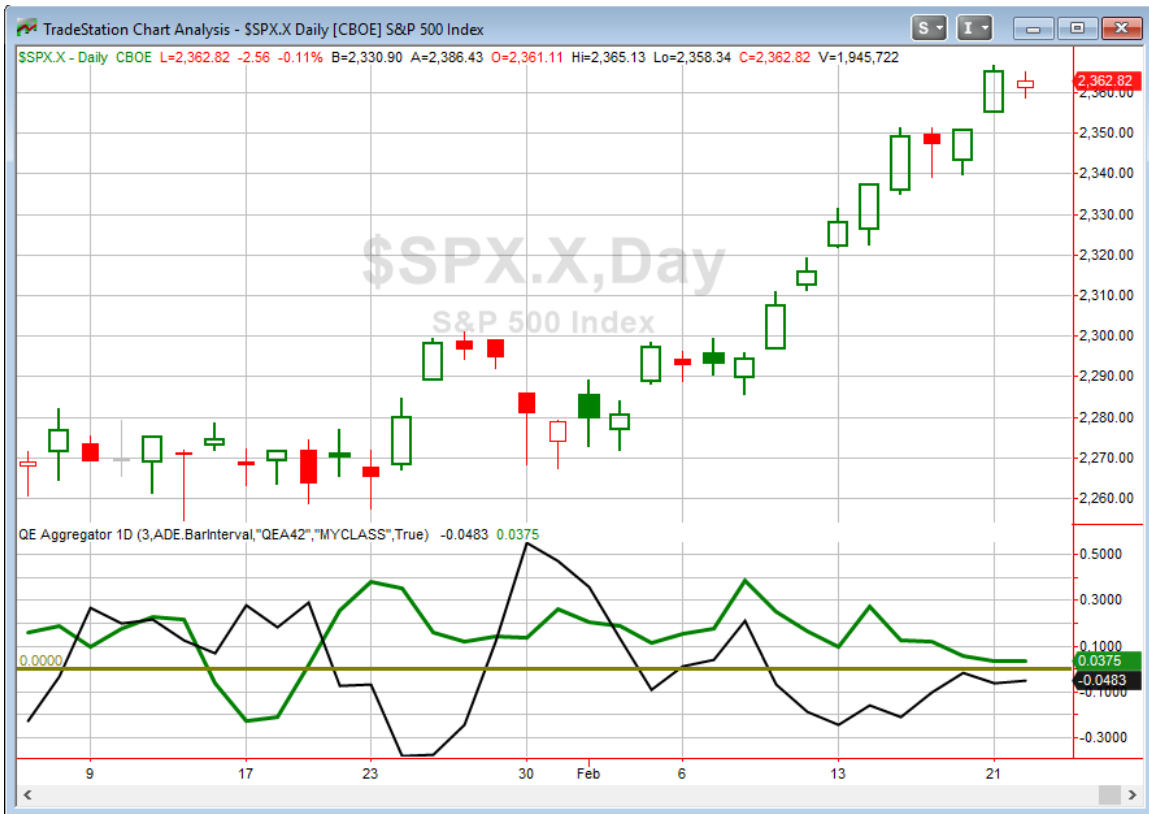
TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$59,471.55	Profit Factor	2.56
Gross Profit	\$97,671.40	Gross Loss	(\$38,199.85)
Total Number of Trades	89	Percent Profitable	62.92%
Winning Trades	56	Losing Trades	33
Even Trades	0		
Avg. Trade Net Profit	\$668.22	Ratio Avg. Win:Avg. Loss	1.51
Avg. Winning Trade	\$1,744.13	Avg. Losing Trade	(\$1,157.57)
Largest Winning Trade	\$8,004.64	Largest Losing Trade	(\$3,039.92)
Max. Consecutive Winning Trades	10	Max. Consecutive Losing Trades	6
Avg. Bars in Winning Trades	4.95	Avg. Bars in Losing Trades	7.79
Avg. Bars in Total Trades	6.00		

The stats look impressive. But the profit curve will tell us more about recent performance.



While not quite as strong as it once appeared, the upslope still seems to be intact.

I have updated the Aggregator chart below.



With tonight's study considered 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 2358.27 on Thursday. That is 0.2% below Wednesday's close. So SPX will need to close down at least 0.2% on Thursday in order to move from overbought to oversold vs expectations.

The Aggregator is again neutral. When the market grinds higher as it has over the last few weeks it can be frustrating for some swing traders as they may feel they are missing a move. In reality, there have not been any playable swings lately. The move up should have been caught by trend traders. But swing traders will often buy oversold and sell (or short) overbought conditions. The big benefit I have realized from the studies and the Aggregator over the last few weeks is that they have kept me from taking on short exposure and getting run over in this unusually strong market. So I am not frustrated by missing anything. On the contrary, I am relieved not to be on the losing end of this. And I am simply waiting for the market to revert to a state that will again favor a swing trade. Until then, I am happy to remain patient and alert.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 2/21 – 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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