

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 15, 2017

Volume 10 Issue 49

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Long	100% Long XIV	Long

Tonight's Research Points

- The Fed Day could provide a mild upside edge (based on where SPY closed Tuesday).

Short-term Outlook

The Bottom Line

While the Fed Day edge is weaker than usual, total expectations are positive. The Aggregator is bullish 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						
March 15, 2017	Fed Day bullish	1 day	Bullish			
March 13, 2017	March Opex Week Bullish	1-4 days	Bullish	1.70%	-1.10%	-2.40%
March 9, 2017	1st 10-low in 30+ days	1-6 days	Bullish	2.35%	-1.40%	-3.10%
Active - Long Term						
March 9, 2017	1st 10-day low in 30+ days	1-10 days	Bullish	3.10%	-1.95%	-4.40%
February 27, 2017	RUT down 3. SPX 3-day high.	1-10 days	Bullish	3.90%	-1.00%	-2.10%
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			
Dropped Tonight						
March 14, 2017	SPY up < 0.25%. Top 10% range	1 day	Bearish			
March 8, 2017	1st close < 10ma in > 15 days	1-5 days	Bullish	1.50%	-1.00%	-2.00%
March 9, 2017	SPY system 11111	1-4 days	Bullish			
March 10, 2017	McClellan Osc 50-low 4 days in row	1-3 days	Bullish			

The Evidence

Tuesday was a down day for the market. The SPX fell 0.3%, the NASDAQ lost 0.3%, and the Russell 2000 declined 0.6%. Breadth was negative as the NYSE Up Issues % was 32% and the Up Volume % came in at 26%. NYSE volume fell for the 4th day in a row.

Most notable in the Quantifinder is that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 7/27/16 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated. (Note that Tuesday finished in the 50% - 75% quartile.)

Tomorrow is a Fed Day. SPY closes in the top 25% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$7,649.28	Profit Factor	1.32	
Gross Profit	\$31,671.93	Gross Loss	(\$24,022.65)	
Total Number of Trades	78	Percent Profitable	48.72%	
Winning Trades	38	Losing Trades	38	
Even Trades	2			
Avg. Trade Net Profit	\$98.07	Ratio Avg. Win:Avg. Loss	1.32	
Avg. Winning Trade	\$833.47	Avg. Losing Trade	(\$632.18)	
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)	

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$15,155.35	Profit Factor		2.09
Gross Profit	\$29,047.89	Gross Loss		(\$13,892.54)
Total Number of Trades	43	Percent Profitable		55.81%
Winning Trades	24	Losing Trades		18
Even Trades	1			
Avg. Trade Net Profit	\$352.45	Ratio Avg. Win:Avg. Loss		1.57
Avg. Winning Trade	\$1,210.33	Avg. Losing Trade		(\$771.81)
Largest Winning Trade	\$4,704.07	Largest Losing Trade		(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

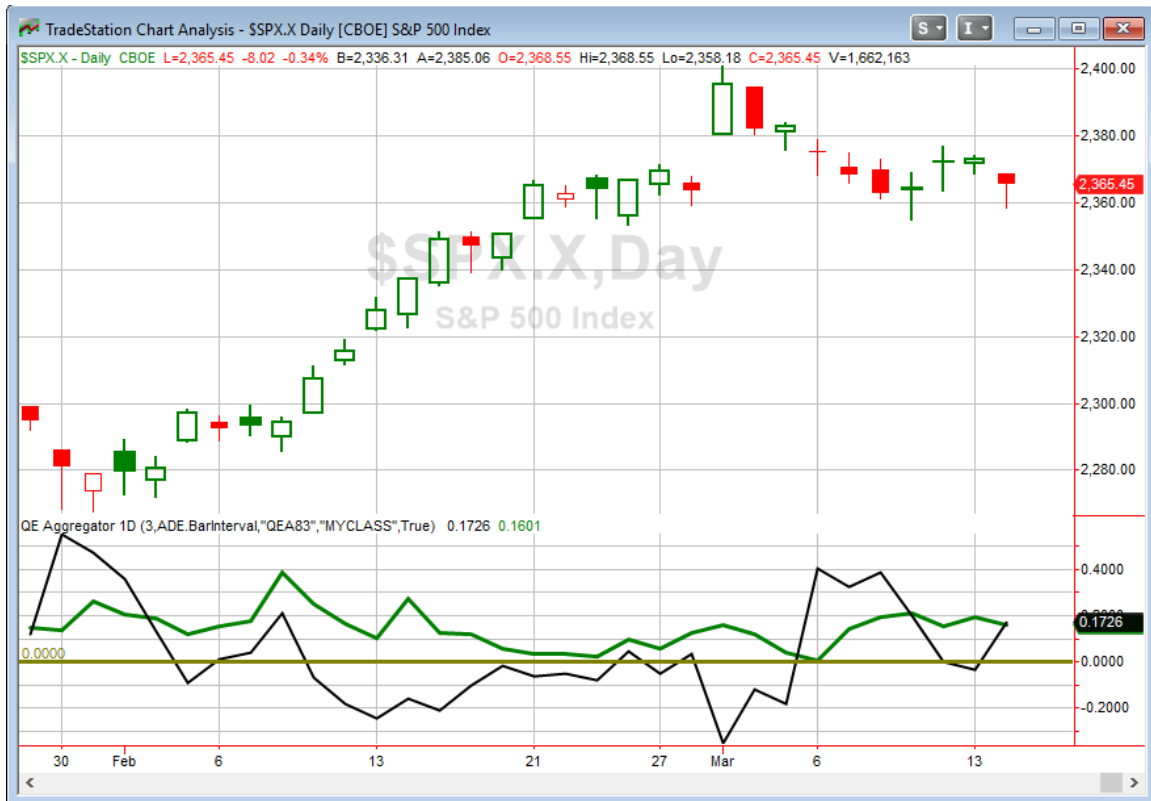
TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$11,827.93	Profit Factor		2.35
Gross Profit	\$20,562.40	Gross Loss		(\$8,734.47)
Total Number of Trades	33	Percent Profitable		69.70%
Winning Trades	23	Losing Trades		10
Even Trades	0			
Avg. Trade Net Profit	\$358.42	Ratio Avg. Win:Avg. Loss		1.02
Avg. Winning Trade	\$894.02	Avg. Losing Trade		(\$873.45)
Largest Winning Trade	\$2,943.00	Largest Losing Trade		(\$2,066.62)

Tomorrow is a Fed Day. SPY closes in the bottom 25% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$23,650.08	Profit Factor		4.54
Gross Profit	\$30,332.77	Gross Loss		(\$6,682.69)
Total Number of Trades	38	Percent Profitable		76.32%
Winning Trades	29	Losing Trades		9
Even Trades	0			
Avg. Trade Net Profit	\$622.37	Ratio Avg. Win:Avg. Loss		1.41
Avg. Winning Trade	\$1,045.96	Avg. Losing Trade		(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade		(\$2,945.28)

What was true 7 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk. Traders that look to trade the Fed Day edge could consider removing some exposure ahead of the Wednesday afternoon announcement. Of course the somewhat strong close Tuesday (between 50% and 75% of the daily range) suggests the edge may be somewhat weak compared to if SPY closed in the lower portion of its range.

I have updated the Aggregator chart below.



With tonight's study 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 rose back above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal turned long at the close.

Based on the current active studies, expectations are set to remain positive on Wednesday. Of course, that could change if strong new bearish evidence emerges. The Differential Pivot will be 2385.73 on Wednesday. That is 0.9% above Tuesday's close. So SPX would need to close up at least 0.9% in order to move from oversold to overbought versus expectations on Wednesday.

The Aggregator is bullish, the Fed Day is providing some (mild) additional bullish evidence, and there appears to be some room to the upside based on the distance to the Differential Pivot. Overall, I like the setup. I would like it more if SPY had closed lower in its daily range. The close in the 70th percentile makes the odds just slightly better than breakeven for a positive Fed Day. Rather than go long ahead of the announcement at this point, I will look to take advantage if the reaction to the announcement is negative and the Fed Day fails to rally. Details in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/13 – bullish

The intermediate-term outlook was last updated in the 3/13/17 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

TGT – 1/3 @ \$55.14 (bought @ limit)

TGT – 1/3 @ \$55.02 (bought @ limit)

Broad Market Large Cap CBI – 2(TGT-2)

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.

SPY – buy 1/4 index position @ \$236.89 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to buy any down day on Wednesday and start scaling in to an index position.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
TGT(1/3)	3/8/2017	\$55.14	\$54.75	-0.71%		Catapult
TGT(1/3)	3/9/2017	\$55.00	\$54.75	-0.45%		Catapult

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