

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 22, 2017

Volume 10 Issue 54

Market Overview



Signals Overview

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

Tonight's Research Points

- Outside day at bottom of range creates a strongly bullish setup.
- 4+ day pullbacks that experience the worst day of the pullback are normally primed for a bounce.
- 4-day pullbacks going into a Wednesday have been strongly prone to upside reversals.

Short-term Outlook

The Bottom Line

More bullish evidence emerged and the market is now strongly oversold. This all suggests and upside edge over the next several days.

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 22, 2017	Down 4 into Wednesday	1-6 days	Bullish			
March 22, 2017	Down 4+ and today largest drop	1-5 days	Bullish			
March 22, 2017	Outside day low close > 200	1-8 days	Bullish			
March 21, 2017	Down 3 into Turnaround Tuesday	1-8 days	Bullish	2.15%	-1.30%	-2.40%
Active - Long Term						
March 9, 2017	1st 10-day low in 30+ days	1-10 days	Bullish	3.10%	-1.95%	-4.40%
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

Tuesday was the 1st big losing day the market has suffered in months. The SPX lost 1.2%, the NASDAQ fell 1.8%, and the Russell 2000 declined 2.7%. Breadth was negative as the NYSE Up Issues % was 21% and the Up Volume % came in at 13%. NYSE volume rose some from Monday's level.

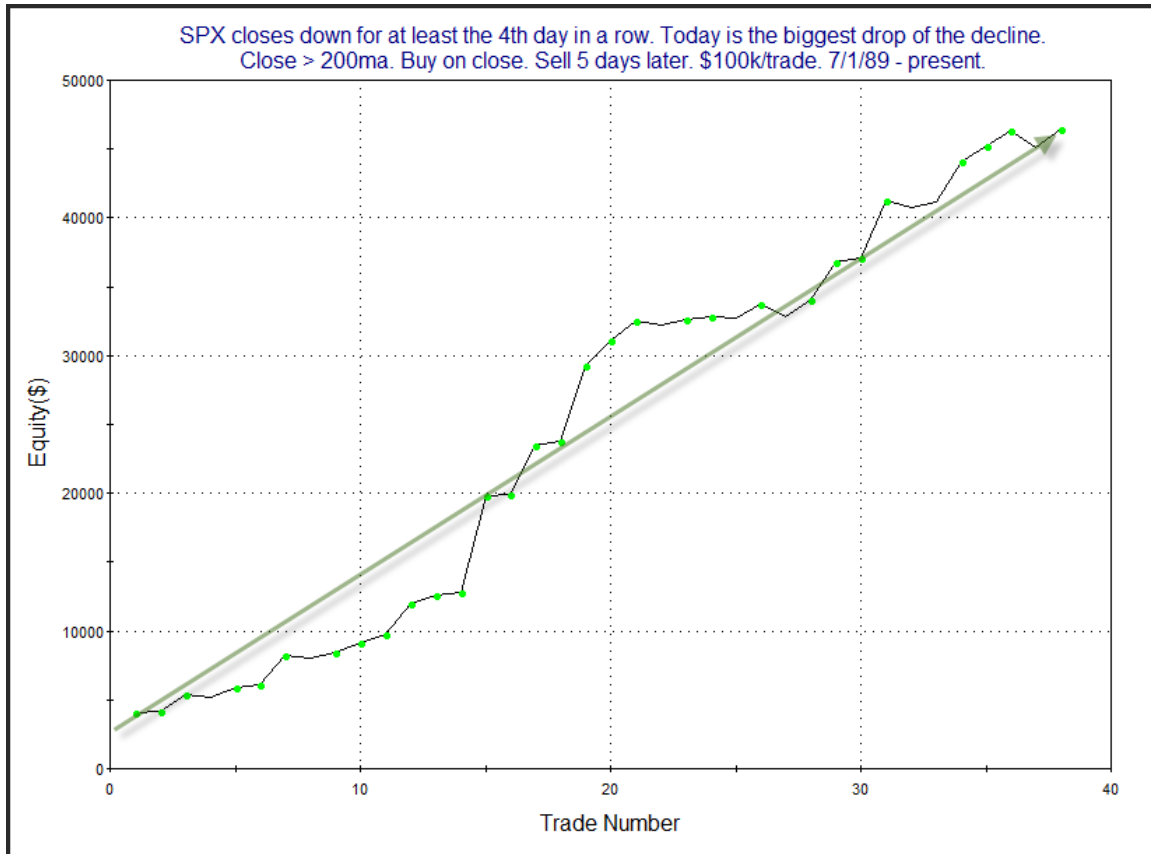
Several studies appeared in the Quantifinder. I'll discuss the most compelling ones. The study below examined other multi-day selloffs that accelerated after already being down for a number of days. It was last seen in the 11/2/16 Subscriber Letter.

SPX closes down for at least the 4th day in a row. Today is the biggest drop of the decline. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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	46,460.03	38	31	7	81.58	1,608.33	7,070.28	-485.45	-1,218.72	3.31	14.67	1,222.63
4	38,875.55	38	29	9	76.32	1,643.15	5,187.49	-975.07	-2,665.92	1.69	5.43	1,023.04
3	38,773.67	38	29	9	76.32	1,559.49	5,339.18	-716.83	-1,565.28	2.18	7.01	1,020.36
2	33,437.08	39	29	10	74.36	1,378.05	4,809.66	-652.65	-1,343.84	2.11	6.12	857.36
1	19,320.97	42	28	14	66.67	1,003.55	5,117.46	-627.03	-1,699.92	1.60	3.20	460.02

100% of instances closed above the entry price at some point in the next 6 days.

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of that over the last 9 years since beginning Quantifiable Edges. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact, just before the period shown there were 2 trades that were losers. Still, the evidence

appears strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



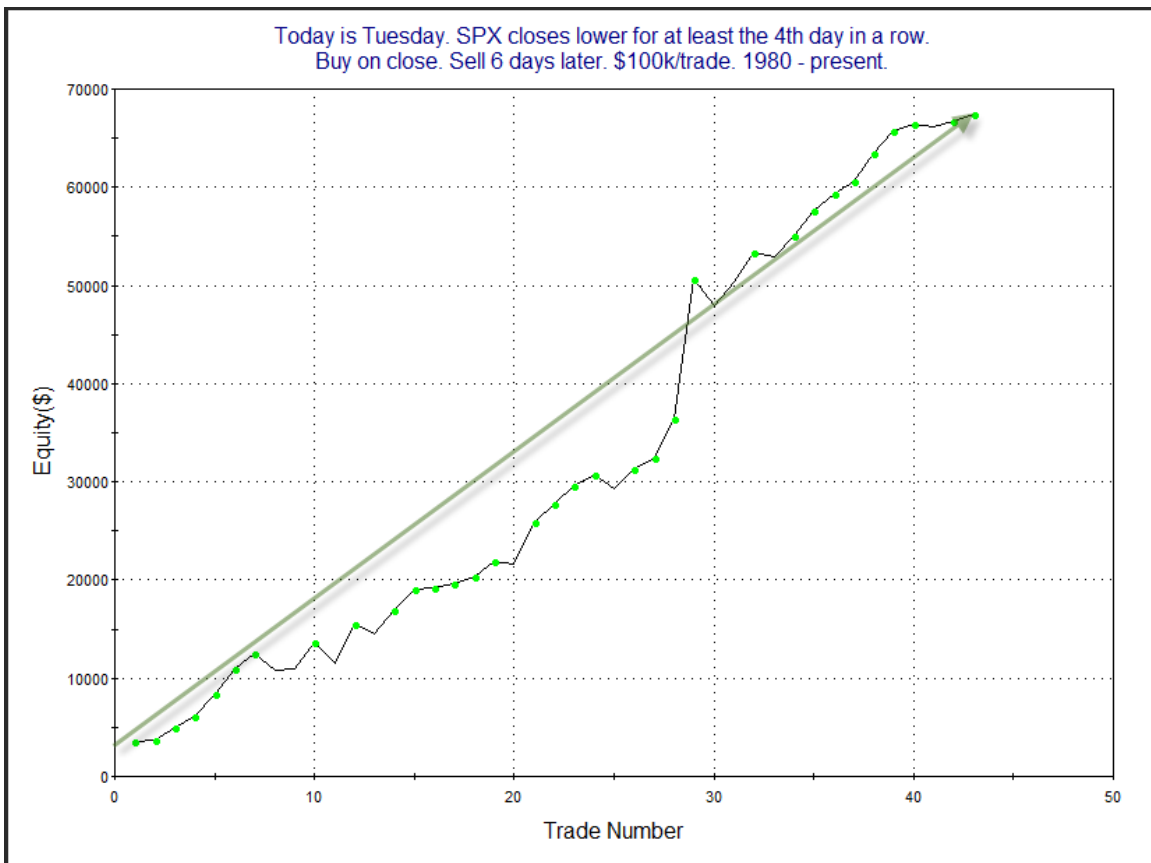
The consistently strong upslope makes this an appealing looking equity curve.

Last night I showed a Turnaround Tuesday study that suggested a bounce was likely to start on Tuesday. That sure didn't happen. Historically, when there hasn't been a close higher on Tuesday after a 3-day pullback, what does that mean for Wednesday and beyond? The test below is updated from the 2/1/17 Letter and it answers that question.

Today is Tuesday. SPX closes lower for at least the 4th day in a row.
Buy on close. Sell X days later. \$100k/trade. 1980 - 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	63,025.43	43	33	10	76.74	2,412.94	7,733.75	-1,660.17	-4,415.04	1.45	4.80	1,465.71
9	65,141.03	43	36	7	83.72	2,177.00	5,490.33	-1,890.15	-3,589.44	1.15	5.92	1,514.91
8	74,345.61	43	35	8	81.40	2,424.71	8,317.50	-1,314.92	-3,575.04	1.84	8.07	1,728.97
7	69,471.02	43	35	8	81.40	2,327.57	10,870.00	-1,499.23	-4,817.12	1.55	6.79	1,615.61
6	67,364.27	43	35	8	81.40	2,207.61	14,240.00	-1,235.28	-2,605.12	1.79	7.82	1,567.08
5	55,120.34	43	32	11	74.42	2,139.40	13,135.00	-1,212.78	-3,256.96	1.76	5.13	1,281.87
4	49,578.61	43	31	12	72.09	2,106.34	12,657.50	-1,309.81	-4,495.68	1.61	4.15	1,152.99
3	35,610.97	43	31	12	72.09	1,564.71	6,892.50	-1,074.59	-2,936.64	1.46	3.76	828.16
2	16,615.24	43	26	17	60.47	1,043.21	5,122.50	-618.13	-1,661.08	1.69	2.58	386.40
1	15,576.40	43	28	15	65.12	832.00	5,716.25	-514.65	-1,721.25	1.62	3.02	362.24

Results here have been very strong over a long period. Below is a profit curve using a 6-day exit strategy.

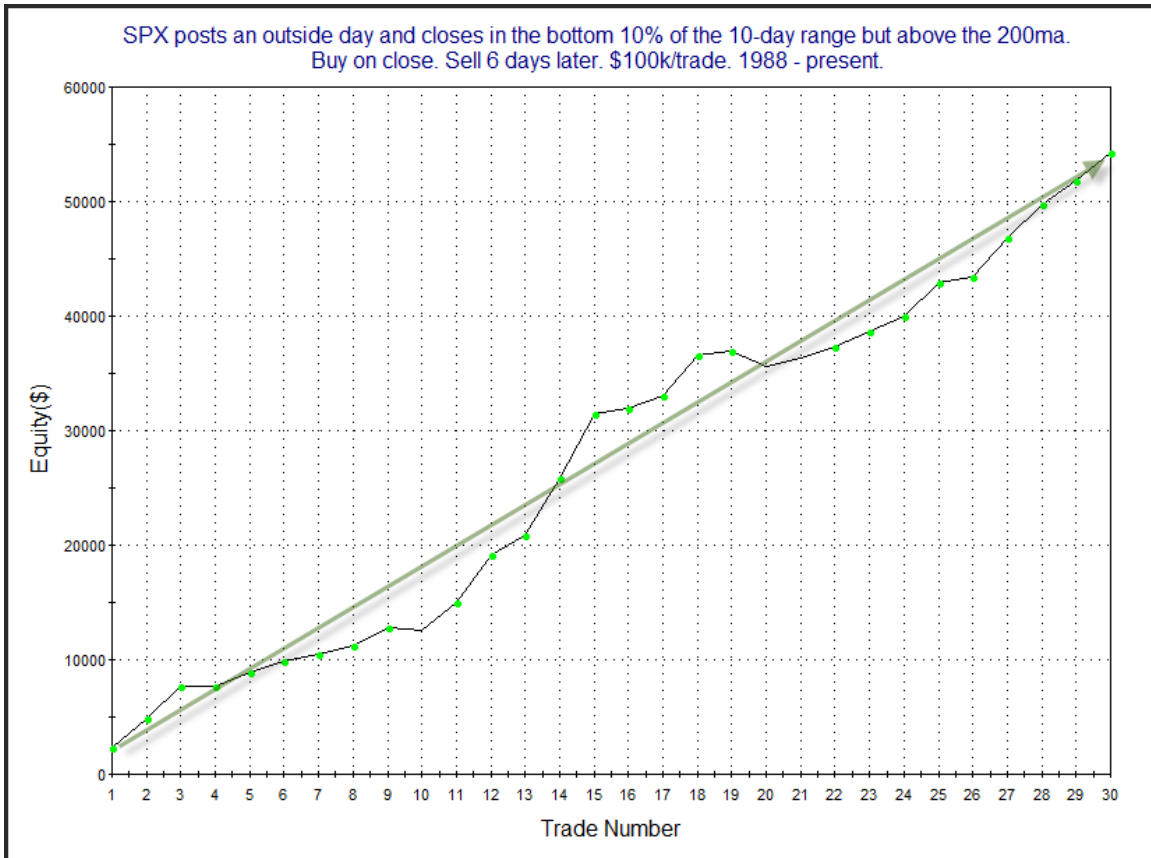


It seems the “Turnaround Tuesday Failure” is likely a temporary setback.

The big outside day that SPX put in is also notable. The study below is from the 8/8/14 letter. It examines the implications of an outside day occurring and putting the SPX near the lower end of its range during a long-term uptrend.

SPX posts an outside day and closes in the bottom 10% of the 10-day range but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	55,503.11	29	24	5	82.76	2,590.90	6,549.66	-1,335.69	-2,142.23	1.94	9.31	1,913.90
9	55,778.09	29	24	5	82.76	2,579.69	6,622.56	-1,226.88	-3,224.13	2.10	10.09	1,923.38
8	55,054.02	29	24	5	82.76	2,547.40	5,596.29	-1,216.72	-2,364.18	2.09	10.05	1,898.41
7	52,068.00	30	26	4	86.67	2,215.04	5,846.58	-1,380.73	-2,644.46	1.60	10.43	1,735.60
6	54,243.39	30	28	2	93.33	1,992.70	5,645.64	-776.09	-1,353.73	2.57	35.95	1,808.11
5	51,366.31	30	27	3	90.00	1,972.88	5,460.84	-633.81	-869.01	3.11	28.01	1,712.21
4	38,637.81	30	24	6	80.00	1,812.31	5,187.49	-809.60	-2,964.25	2.24	8.95	1,287.93
3	29,477.90	30	21	9	70.00	1,721.40	5,339.18	-741.27	-1,665.30	2.32	5.42	982.60
2	22,876.18	33	22	11	66.67	1,255.75	3,591.28	-431.84	-1,105.36	2.91	5.82	693.22
1	8,863.49	33	26	7	78.79	588.92	1,337.22	-921.19	-1,799.08	0.64	2.37	268.59

Rarely do I see results more bullish than these. Not only is the consistency incredibly impressive, but the size of the average trade is very large for using a “> 200ma” filter. And it isn’t just the numbers that look good. Here is the profit curve.



That is a nice straight profit curve.

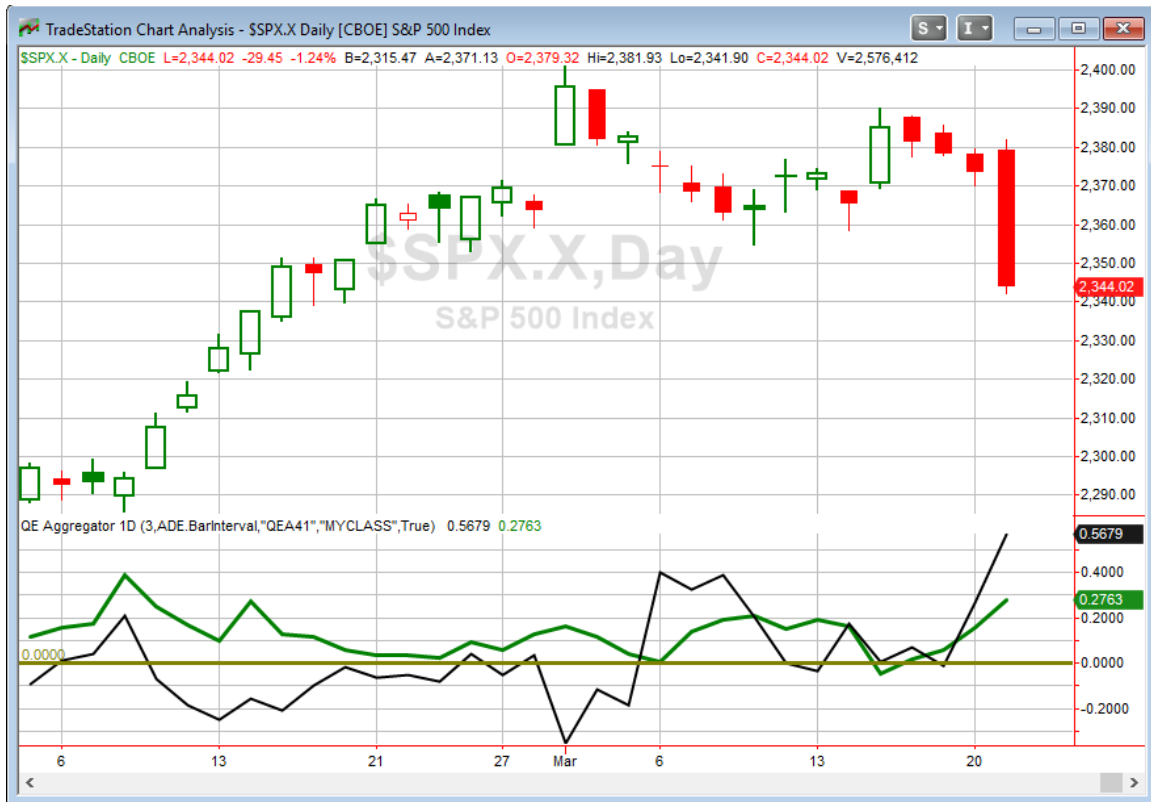
Lastly, I'll also note that Tuesday was the 1st day that SPX closed down over 1% since 10/11/16. It ruined a streak of 109 days. I decided to look back at other times streaks of 100+ days had finished. Interestingly, there have been very few comparisons. Below is the complete list back to 1970 along with their 10-day returns.

After going 100+ days without a 1% down close, SPX closes down > 1% today.
Buy on close. Sell 10 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/13/1985	Buy	\$185.33	3.18%	\$3,250.17
6/27/1985	Sell	\$191.22		\$0.00
5/18/1995	Buy	\$519.58	2.49%	\$3,327.36
6/2/1995	Sell	\$532.51		(\$481.92)
12/18/1995	Buy	\$606.82	2.39%	\$2,694.52
1/3/1996	Sell	\$621.32		(\$290.28)

Short list. It is very dangerous to draw conclusions from just 3 instances. I did find it interesting that none of the 3 had a further drawdown of even 0.5%.

I have updated the Aggregator chart below.



With tonight's evidence to consider, the green Aggregator Line moved further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is now far above 0. The positive Differential Line reading means SPX is strongly 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 stayed long at the close.

The current list of studies is set to leave expectations positive on Wednesday afternoon. It would take some incredibly bearish new evidence in order to overturn such expectations. The Differential Pivot will be 2378.51 on Wednesday. That is 1.5% above Tuesday's close. So SPX would need to close up at least 1.5% on Wednesday in order to move from oversold to overbought. A gain that large is very unlikely. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

Tonight's evidence appears to be strongly compelling. And the market is more oversold with more potential upside than we have seen in several months. So I certainly want to be positioned long. My Tuesday entry was obviously early. But that is why I often scale into positions. So with the outlook strong, I will look to increase my long exposure further on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/20 – bullish

The intermediate-term outlook was last updated in the 3/20/17 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)

BRK.B – 1/3 @ \$172.82 (bought @ limit)

BRK.B – 1/3 @ \$172.07 (bought @ limit)

New

BRK.B – 1/3 @ \$172.07 (buy @ limit)

Broad Market Large Cap CBI – 5(TGT-2, BRK.B-3)

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.

BRK.B – buy 1/3 Catapult position @ \$169.47 LIMIT. This is from the Catapult section above. It is the 3rd and final lot for BRK.B.

SPY – buy ¼ index position @ \$233.75 LIMIT. This is based on the short-term outlook above. I will look to scale further into an index position with SPY.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
TGT(1/3)	3/8/2017	\$55.14	\$53.39	-3.17%		Catapult
TGT(1/3)	3/9/2017	\$55.00	\$53.39	-2.93%		Catapult
BRK.B(1/3)	3/20/2017	\$172.30	\$169.47	-1.64%		Catapult
BRK.B(1/3)	3/21/2017	\$172.07	\$169.47	-1.51%		Catapult
SPY(1/4)	3/21/2017	\$236.77	\$233.75	-1.28%		Catapult

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