

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 29, 2017

Volume 10 Issue 59

Market Overview



Signals Overview

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

Tonight's Research Points

- A bounce from a 20-day low to a 4-day high has often been an initiation of further gains.

Short-term Outlook

The Bottom Line

There still appears to be an upside edge, but the market is now nearing overbought. This has me considering exit possibilities for my open long positions.

Summary of Recent Active Studies (see Letters from listed dates for details) – not updated tonight

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
March 27, 2017	20-low. 3 closes 'tween high and low	1-5 days	Bullish			
March 23, 2017	20-low yest. 20-low then up today	1-4 days	Bullish			
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 23, 2017	20-low yest. 20-low then up today	1-10 days	Bullish			
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			
Dropped Tonight						
March 24, 2017	Up Issues > 55%. SPX down	1 day	Bullish			

The Evidence

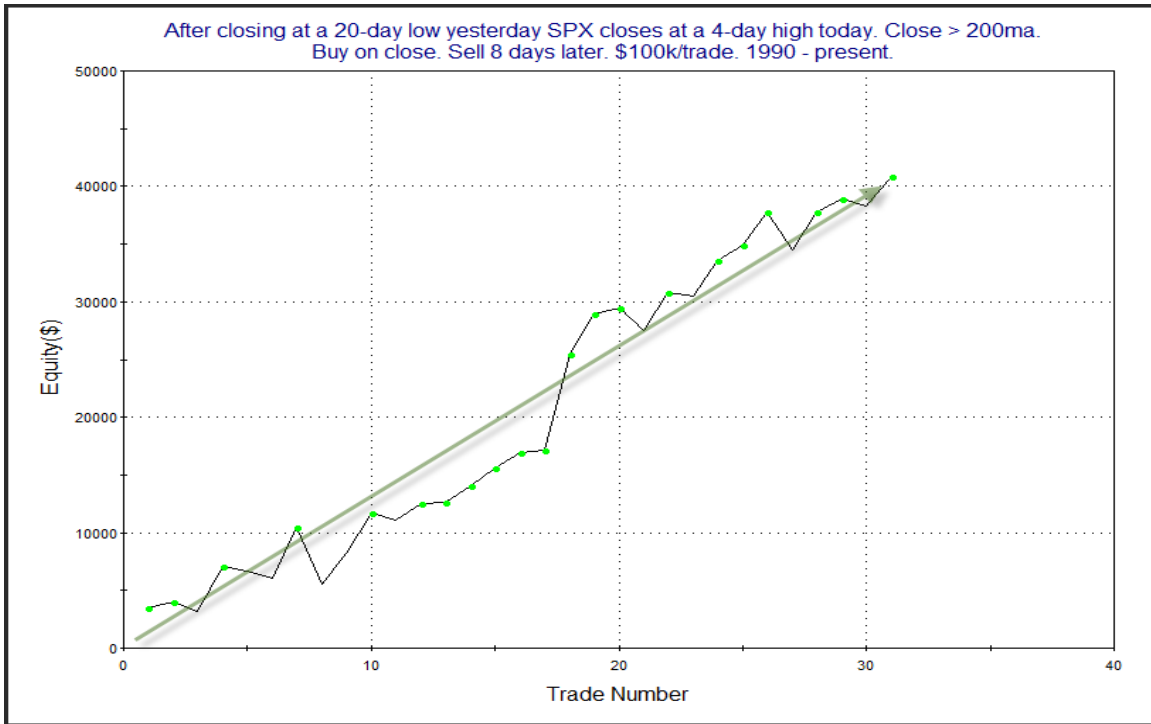
Tuesday was a strong day for the market. The SPX gained 0.7%, the NASDAQ rose 0.6%, and the Russell 2000 climbed 0.7%. Breadth was slightly negative as the NYSE Up Issues % was 74% and the Up Volume % came in at 78%. NYSE volume declined some from Monday's level.

Tuesday was a strong enough move that we saw SPX go from closing at a 20-day low on Monday to closing at a 6-day high on Tuesday. In the 10/19/16 letter I looked at other times in which the market put in a strong thrust off a 20-day low. There I required a close of at least a 4-day high. I have updated the results below.

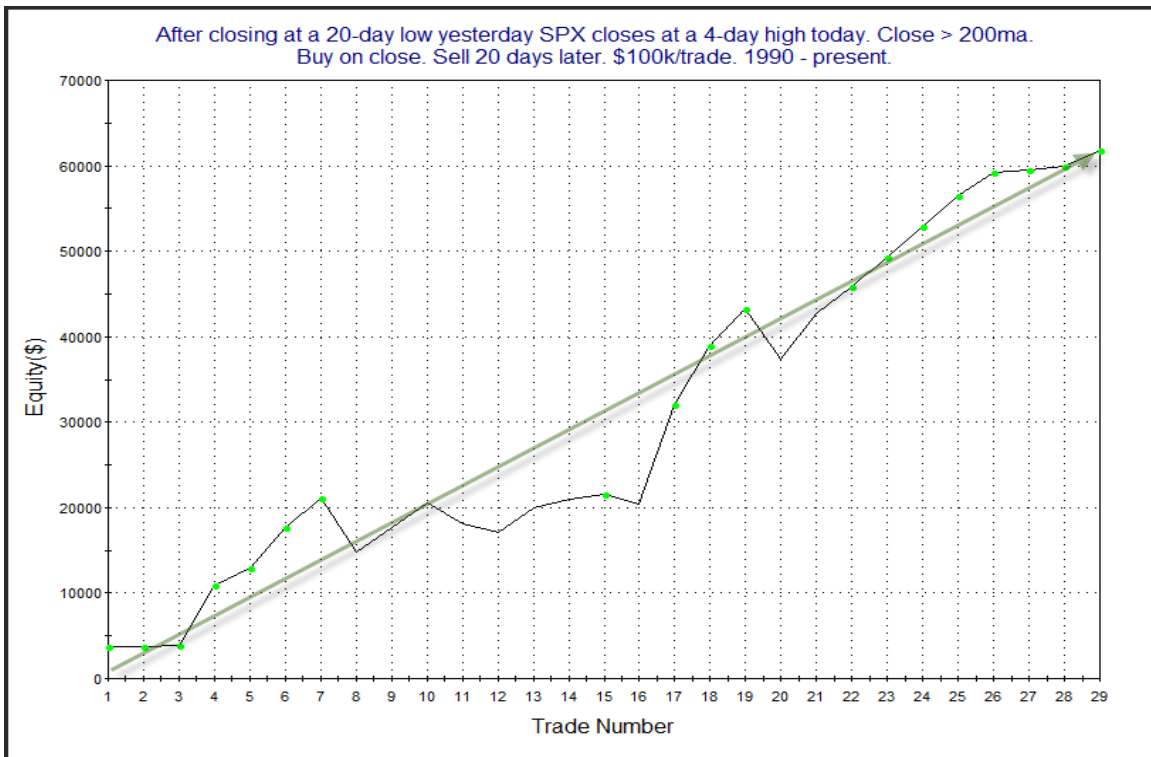
After closing at a 20-day low yesterday SPX closes at a 4-day high today. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

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
20	61,784.78	29	24	5	82.76	3,277.04	11,665.50	-3,372.85	-6,379.08	0.97	4.66	2,130.51
19	60,087.46	29	22	7	75.86	3,543.02	12,037.30	-2,551.29	-6,347.80	1.39	4.36	2,071.98
18	55,060.62	30	24	6	80.00	2,907.94	10,563.30	-2,455.00	-4,148.97	1.18	4.74	1,835.35
17	55,308.79	30	24	6	80.00	2,963.51	11,183.70	-2,635.90	-4,247.96	1.12	4.50	1,843.63
16	52,716.24	30	23	7	76.67	2,922.12	11,506.00	-2,070.35	-4,320.78	1.41	4.64	1,757.21
15	49,209.61	30	21	9	70.00	3,027.88	11,173.80	-1,597.32	-4,723.96	1.90	4.42	1,640.32
14	50,500.11	31	24	7	77.42	2,805.13	9,507.30	-2,403.30	-7,897.52	1.17	4.00	1,629.04
13	41,419.86	31	23	8	74.19	2,597.37	9,427.00	-2,289.95	-7,363.04	1.13	3.26	1,336.12
12	40,285.07	31	21	10	67.74	2,700.31	8,151.00	-1,642.14	-5,686.84	1.64	3.45	1,299.52
11	46,552.48	31	24	7	77.42	2,488.68	8,642.70	-1,882.25	-5,722.20	1.32	4.53	1,501.69
10	43,017.28	31	23	8	74.19	2,571.26	8,924.30	-2,015.22	-8,745.48	1.28	3.67	1,387.65
9	42,169.38	31	22	9	70.97	2,452.15	8,603.10	-1,308.67	-6,371.60	1.87	4.58	1,360.30
8	40,884.00	31	22	9	70.97	2,467.30	8,276.40	-1,488.52	-4,917.08	1.66	4.05	1,318.84
7	29,962.98	31	21	10	67.74	2,253.98	5,832.20	-1,737.06	-4,106.50	1.30	2.72	966.55
6	25,449.26	31	19	12	61.29	2,199.40	5,888.30	-1,361.62	-5,306.50	1.62	2.56	820.94
5	20,322.16	31	19	12	61.29	1,899.49	5,508.80	-1,314.02	-5,320.00	1.45	2.29	655.55
4	21,801.35	32	22	10	68.75	1,693.99	4,326.30	-1,546.65	-4,559.50	1.10	2.41	681.29
3	17,569.69	32	22	10	68.75	1,504.35	4,365.90	-1,552.60	-4,707.50	0.97	2.13	549.05
2	14,434.83	33	24	9	72.73	1,117.52	3,479.30	-1,376.19	-3,138.00	0.81	2.17	437.42
1	948.47	33	16	17	48.48	742.39	2,536.10	-642.93	-2,034.00	1.15	1.09	28.74

Day 1 is a bit iffy, but after that there appears to be a strong and consistent edge over the next 4 weeks. This suggests a decent chance that Monday's rally was the beginning of a continued move higher. I produced profit curves for the 8-day and 20-day holding periods highlighted above. First, the 8 day...



The strong, steady upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 20-day curve.



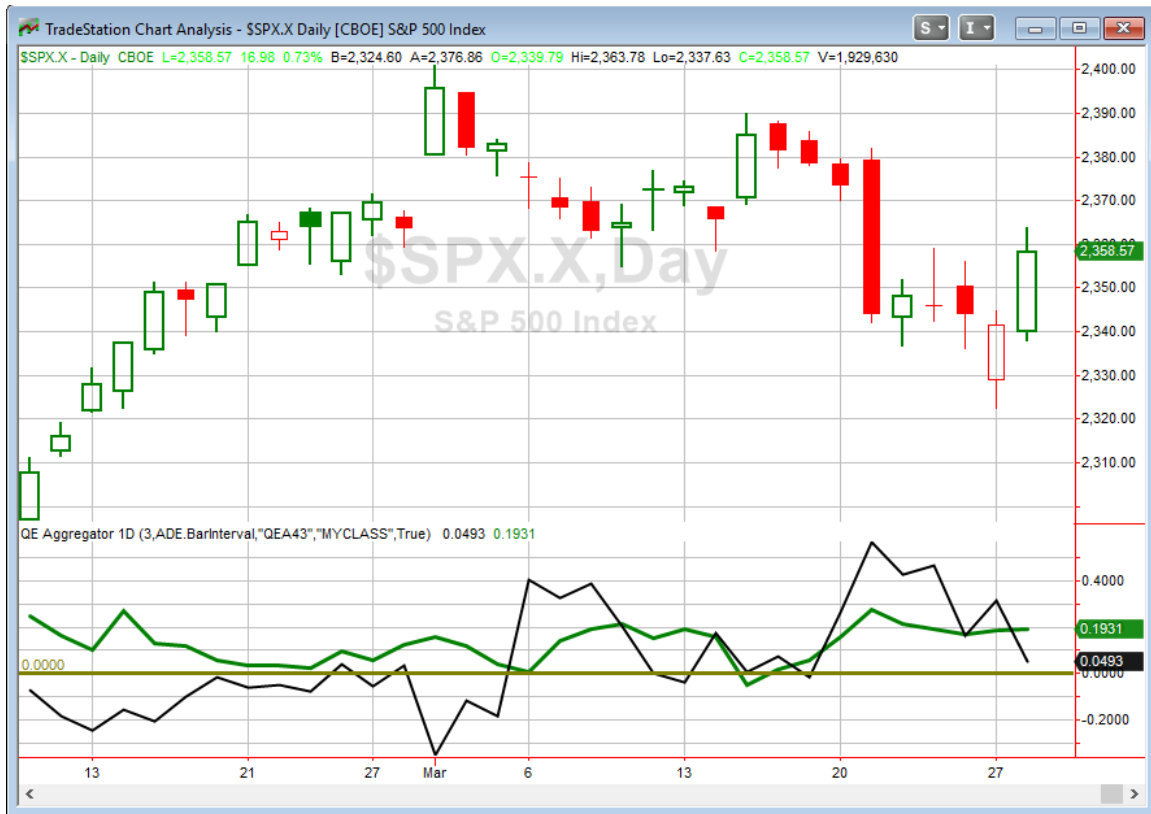
This one is a little choppy, but it sure has been strong lately, with 11 of the last 12 instances all closing higher. In the 10/19/16 letter I also looked at bounces that did not reach 4-day highs the 1st day. I have copied that table below.

After closing at a 20-day low yesterday SPX closes up but below a 4-day high today. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1990 - 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
20	100,127.04	82	58	24	70.73	3,058.65	12,927.20	-3,219.78	-9,587.72	0.95	2.30	1,221.06
19	91,810.25	82	58	24	70.73	2,835.03	13,564.52	-3,025.90	-12,375.24	0.94	2.26	1,119.64
18	99,055.16	84	58	26	69.05	2,970.78	13,895.61	-2,817.31	-13,625.69	1.05	2.35	1,179.23
17	87,981.10	85	58	27	68.24	2,871.25	13,554.35	-2,909.31	-10,959.00	0.99	2.12	1,035.07
16	84,221.73	85	54	31	63.53	3,055.21	11,842.40	-2,605.15	-9,466.89	1.17	2.04	990.84
15	81,826.98	88	57	31	64.77	2,830.87	11,759.91	-2,565.57	-7,655.72	1.10	2.03	929.85
14	79,990.45	88	59	29	67.05	2,580.23	10,449.11	-2,491.13	-7,789.32	1.04	2.11	908.98
13	86,422.46	89	59	30	66.29	2,580.22	10,954.22	-2,193.68	-6,510.77	1.18	2.31	971.04
12	54,331.94	92	56	36	60.87	2,473.99	11,243.50	-2,339.21	-8,570.72	1.06	1.65	590.56
11	64,062.50	95	59	36	62.11	2,451.06	10,913.54	-2,237.51	-8,225.72	1.10	1.80	674.34
10	53,535.69	97	59	38	60.82	2,344.81	10,577.93	-2,231.79	-11,602.12	1.05	1.63	551.91
9	69,966.27	99	64	35	64.65	2,177.64	8,067.07	-1,982.94	-6,195.44	1.10	2.01	706.73
8	78,270.85	102	72	30	70.59	1,990.19	8,124.70	-2,167.42	-7,580.04	0.92	2.20	767.36
7	101,219.97	104	75	29	72.12	2,034.93	7,734.85	-1,772.42	-5,195.64	1.15	2.97	973.27
6	85,498.20	108	76	32	70.37	1,894.64	6,520.10	-1,827.95	-5,822.32	1.04	2.46	791.65
5	69,827.66	112	73	39	65.18	1,875.28	6,560.78	-1,719.69	-5,937.53	1.09	2.04	623.46
4	56,816.84	119	79	40	66.39	1,453.44	5,650.00	-1,450.12	-5,345.28	1.00	1.98	477.45
3	44,828.20	127	81	46	63.78	1,163.20	3,939.79	-1,073.72	-6,154.38	1.08	1.91	352.98
2	41,067.16	140	86	54	61.43	1,029.09	3,644.28	-878.42	-2,742.74	1.17	1.87	293.34
1	22,430.47	140	83	57	59.29	771.99	2,937.71	-730.61	-2,525.60	1.06	1.54	160.22

Results here are pretty good and also seem to favor more upside. But if you compare the “Avg Trade” column on the far right you’ll find that from Day 2 – Day 20 the Avg Trade here was about *one-half to two-thirds* the Avg Trade when the 1st day jumped SPX up to a 4-day high. Overall, the 1st study above appears worthy of both the short and intermediate-term Active Lists.

I have updated the Aggregator chart below.



With tonight's evidence to consider, the green Aggregator Line again remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held above 0. The positive Differential Line reading means SPX is squarely 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. In fact, all active short-term studies remain bullish. It would still take some incredibly bearish new evidence in order to overturn such expectations. The Differential Pivot will be *slightly inverted at 2357.51* on Wednesday. That is about 1 point *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down a little more than 1 point in order to remain oversold. Anything other than that and it will be considered "overbought" versus expectations.

I often view inverted pivots as opportune time to begin taking profits. While an upside edge still exists, reward/risk is reduced thanks to the fact that the bullish Aggregator signal will turn off on any up close. Therefore, I will be looking to reduce my position size if I can get a decent fill, and I'll be getting out of my entire index position if we close above

the Differential Pivot. But there does still appear to be an upside edge, so I will not be looking to sell at just any price. I will also note that a few of the Catapult trade ideas reached their exit triggers, so I intend to reduce exposure there as well.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 3/27 – bullish***

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

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

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

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

JNJ – 1/3 @ \$125.48 (buy @ limit)

Broad Market Large Cap CBI – 4(BRK.B-3, JNJ)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
TGT(1/3)	3/8/2017	\$55.14	\$53.60	-2.79%		sell on open
TGT(1/3)	3/9/2017	\$55.00	\$53.60	-2.55%		sell on open
BRK.B(1/3)	3/20/2017	\$172.30	\$168.31	-2.32%		Catapult
BRK.B(1/3)	3/21/2017	\$172.07	\$168.31	-2.19%		Catapult
SPY(1/4)	3/21/2017	\$236.77	\$235.32	-0.61%		sell @ \$235.32 limit on close
SPY(1/4)	3/22/2017	\$233.75	\$235.32	0.67%		sell @ \$235.32 LIMIT
BRK.B(1/3)	3/23/2017	\$169.10	\$168.31	-0.47%		Catapult
ALL(1/3)	3/27/2017	\$80.37	\$81.83	1.82%		sell on open
JNJ(1/3)	3/27/2017	\$125.16	\$125.66	0.40%		Catapult

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