

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 4, 2017

Volume 10 Issue 63

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- “Turnaround Tuesday” has not lived up to the hype under similar circumstances in the past.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I believe there is a bit of an upside edge over the next few days. I am partially positioned to try and take advantage of it.

*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
<b>Active - Short Term</b>						
April 3, 2017	Early April bullish	1-4 days	Bullish	1.80%	-1.15%	-2.75%
March 29, 2017	20-low to 4-day high	1-8 days	Bullish	2.25%	-1.60%	-3.30%
<b>Active - Long Term</b>						
March 29, 2017	20-low to 4-day high	1-20 days	Bullish	3.40%	-2.70%	-5.40%
March 28, 2017	Turn Tues 3 dn & 20-low	1-10 days	Bullish			
March 23, 2017	20-low yest. 20-low then up today	1-10 days	Bullish			
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			
<b>Dropped Tonight</b>						
April 3, 2017	Weak close on last day of month	1 day	Bullish			

**The Evidence**

Monday was a down day for the market. The SPX lost 0.2%, the NASDAQ fell 0.3%, and the Russell 2000 declined 1.2%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 35%. NYSE volume rose for the 3<sup>rd</sup> day in a row.

The action did not trigger much in the way of Quantifinder studies. But as I laid out in the “Turnaround Tuesday” study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. Unfortunately, as I showed in the 8/4/15 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row and it was Monday. Here are those results.

SPX closes down for the 2nd day in a row. Today is Monday. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$30,103.19	Profit Factor	2.03
Gross Profit	\$59,231.36	Gross Loss	(\$29,128.17)
Total Number of Trades	90	Percent Profitable	56.67%
Winning Trades	51	Losing Trades	39
Even Trades	0		
Avg. Trade Net Profit	\$334.48	Ratio Avg. Win:Avg. Loss	1.56
Avg. Winning Trade	\$1,161.40	Avg. Losing Trade	(\$746.88)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)

The win rate is just modestly positive, but the winners have been quite a bit bigger on average, so the net expectation is solidly bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (*unlike* now).

SPX closes down for the 2nd day in a row. Today is Monday. SPX < 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$28,393.19	Profit Factor	3.22
Gross Profit	\$41,193.74	Gross Loss	(\$12,800.55)
Total Number of Trades	37	Percent Profitable	64.86%
Winning Trades	24	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	\$767.38	Ratio Avg. Win:Avg. Loss	1.74
Avg. Winning Trade	\$1,716.41	Avg. Losing Trade	(\$984.66)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,117.68)

We see here under half of the total instances, but very positive numbers, and almost 100% of the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for the 2nd day in a row. Today is Monday. SPX > 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$1,710.00	Profit Factor	1.10
Gross Profit	\$18,037.62	Gross Loss	(\$16,327.62)
Total Number of Trades	53	Percent Profitable	50.94%
Winning Trades	27	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	\$32.26	Ratio Avg. Win:Avg. Loss	1.06
Avg. Winning Trade	\$668.06	Avg. Losing Trade	(\$627.99)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn’t fit here. In fact, the tendency for a while appeared to slightly favor a continuation of the 2-day pullback. Recent instances have turned the stats mildly positive. I am not really convinced of an edge in either direction at this point. But I am convinced that “Turnaround Tuesday” does not seem to provide a strong bullish edge under these circumstances. Therefore, nothing new will be added to the Active List tonight.

I have updated the Aggregator chart below.



Without anything new and compelling to add tonight 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 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 Tuesday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2379.14 on Tuesday. That is 0.9% above Monday’s close. Therefore, SPX will need to

close at least 0.9% higher in order to move from oversold to overbought versus expectations on Tuesday.

So evidence remains mild but bullish. And the SPX is still oversold. This does not appear to be greatest setup I have ever seen, but there does appear to be a bit of a bullish edge. I took some long exposure at the close on Monday. I am not inclined to add to it any further on Tuesday. I'll keep my exposure fairly light until more compelling evidence emerges.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 4/3 – 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
BRK.B(1/3)	3/20/2017	\$172.30	\$166.87	-3.15%		Catapult
BRK.B(1/3)	3/21/2017	\$172.07	\$166.87	-3.02%		Catapult
BRK.B(1/3)	3/23/2017	\$169.10	\$166.87	-1.32%		Catapult
JNJ(1/3)	3/27/2017	\$125.16	\$124.69	-0.38%		Catapult
SPY(1/4)	4/3/2017	\$235.33	\$235.33	0.00%		bought on close

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