

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 12, 2017

Volume 10 Issue 69

Market Overview



Signals Overview

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

Tonight's Research Points

- When the VIX has hit 100-day highs without the SPX making 100-day lows, that has often led to a market rally.

Short-term Outlook

The Bottom Line

SPX remains oversold and the evidence is turning more bullish. Overall, there appears to be a moderate upside edge.

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						
April 10, 2017	20-low HV 3x. No SPX 20-high	1-5 days	Bearish	-2.20%	1.20%	2.10%
April 6, 2017	Weak close. 5-day low.	1-5 days	Bullish	1.70%	-1.25%	-2.45%
Active - Long Term						
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			
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			

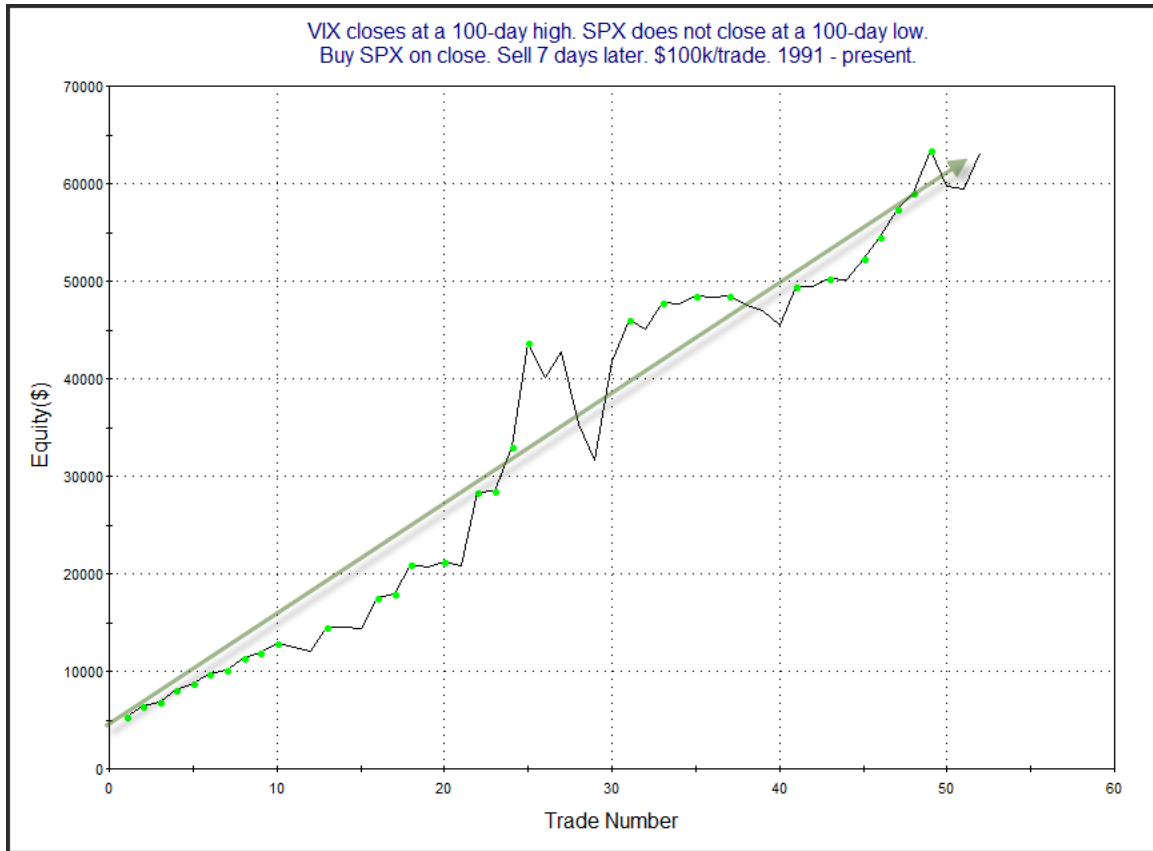
The Evidence

Tuesday was a mixed day for the market. The SPX finished down 0.1%, the NASDAQ lost 0.2%, and the Russell 2000 gained 0.7%. Breadth was positive as the NYSE Up Issues % was 58% and the Up Volume % came in at 54%. NYSE volume rose some from Monday's level.

The VIX provided some notable action again today. The VIX is often referred to as the fear index. When VIX levels are relatively high, that often suggests fear and uncertainty among market participants. Relative highs can be measured a number of ways. Often I will show VIX levels compared to short-term moving averages. But an interesting study tonight looked at 100-day VIX highs that occurred when the SPX was not making 100-day lows. In other words, relatively extreme fear in a market that is not making long-term lows. The study was last seen in the 10/8/14 Subscriber Letter. I have updated it below.

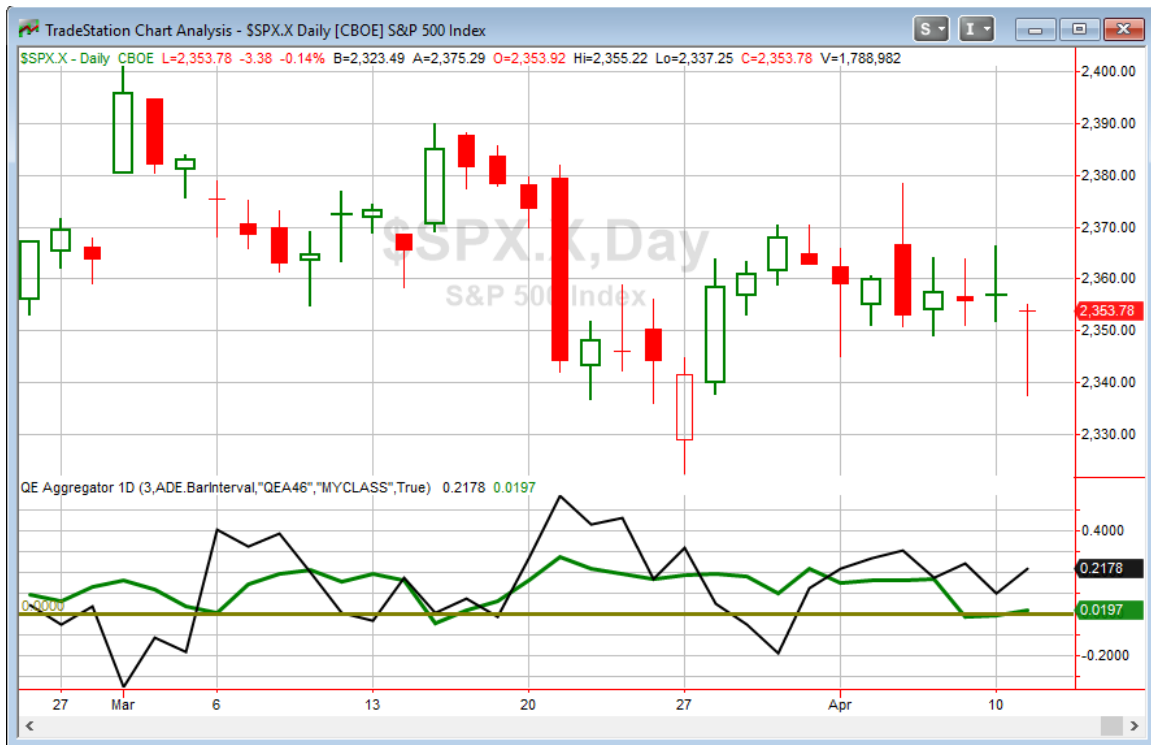
VIX closes at a 100-day high. SPX does not close at a 100-day low. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	84,515.45	43	33	10	76.74	3,371.22	13,488.65	-2,673.49	-11,992.24	1.26	4.16	1,965.48
14	79,261.19	43	33	10	76.74	3,322.12	12,644.94	-3,036.86	-11,498.24	1.09	3.61	1,843.28
13	77,796.18	44	33	11	75.00	3,484.79	15,243.90	-3,381.99	-16,254.16	1.03	3.09	1,768.10
12	77,459.52	45	33	12	73.33	3,521.03	13,656.44	-3,227.86	-13,950.56	1.09	3.00	1,721.32
11	67,258.01	45	31	14	68.89	3,339.79	12,236.77	-2,591.11	-11,048.96	1.29	2.85	1,494.62
10	63,569.51	47	31	16	65.96	3,150.33	13,815.90	-2,130.67	-7,532.72	1.48	2.86	1,352.54
9	69,318.60	47	36	11	76.60	2,698.12	11,486.80	-2,528.52	-6,727.63	1.07	3.49	1,474.86
8	60,354.22	50	35	15	70.00	2,671.76	11,382.35	-2,210.49	-9,154.20	1.21	2.82	1,207.08
7	63,181.64	52	33	19	63.46	2,657.55	10,706.80	-1,290.39	-7,304.57	2.06	3.58	1,215.03
6	57,406.80	55	41	14	74.55	2,313.33	10,082.80	-2,674.27	-9,712.78	0.87	2.53	1,043.76
5	60,218.04	56	38	18	67.86	2,495.30	9,157.20	-1,922.41	-11,533.34	1.30	2.74	1,075.32
4	57,336.35	59	43	16	72.88	2,157.58	8,810.76	-2,214.98	-9,828.00	0.97	2.62	971.80
3	47,062.62	64	45	19	70.31	1,819.34	8,432.34	-1,831.97	-6,956.04	0.99	2.35	735.35
2	52,069.05	71	45	26	63.38	1,799.11	6,245.15	-1,111.19	-7,559.56	1.62	2.80	733.37
1	43,519.01	94	58	35	61.70	1,356.56	5,117.46	-1,004.62	-5,829.81	1.35	2.24	462.97

The stats seem to suggest a bullish edge that persists for three weeks or more. Much of that edge is realized over the first 1-7 days. Below is a profit curve showing a 7-day holding strategy.



The curve is a little choppy, but the upside persistence here is impressive and it is continuing to hit new highs. This study seems to be worth taking into consideration.

I have updated the Aggregator chart below.



With tonight's study to consider the green Aggregator Line inched above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line 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 0. Therefore, the Aggregator signal turned long at the close.

The current list of studies is set to leave expectations positive on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2363.11 on Wednesday. That is 0.4% above Tuesday's close. Therefore, SPX will need to close at least 0.4% higher in order to move from oversold to overbought versus expectations on Tuesday.

So we are now seeing some evidence that the market could bounce, and there appears to be a bit of an upside edge. Still, the market is near the middle of its recent range, and certainly does not appear stretched. With evidence mixed and only mildly leaning bullish, I am not inclined to get too aggressive. Additionally, tonight's study, while bullish, has been volatile. So I will not jump right in at the open on Wednesday. I may add some long exposure if we see a SPX close down a fair amount.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/10 – 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.

SPY – buy ¼ index position @ \$234.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will start to scale in to an index position if SPY closes at or below this level on Wednesday. This would be a drop of just over \$1, and it would find SPY near the lower end of its recent range, improving potential reward/risk.

Current Open Trade Ideas

None.

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