

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 13, 2017

Volume 10 Issue 70

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A gap down to a short-term low followed by further selling during a long-term uptrend has often led to higher prices in the next few days.
- Holy Thursday has been a bullish day for the market in the past.

### *Short-term Outlook*

#### *The Bottom Line*

SPX remains oversold and the evidence is turning more bullish. There now appears to be an upside edge strong enough to compel me to try and take advantage.

**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 13, 2017	Holy Thursday bullish	1 day	Bullish			
April 13, 2017	Gap to 5-day low. More selling.	1-6 days	Bullish			
April 12, 2017	VIX 100-high. SPX no 100-low.	1-7 days	Bullish	2.90%	-2.25%	-4.85%
April 10, 2017	20-low HV 3x. No SPX 20-high	1-5 days	Bearish	-2.20%	1.20%	2.10%
<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			
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			

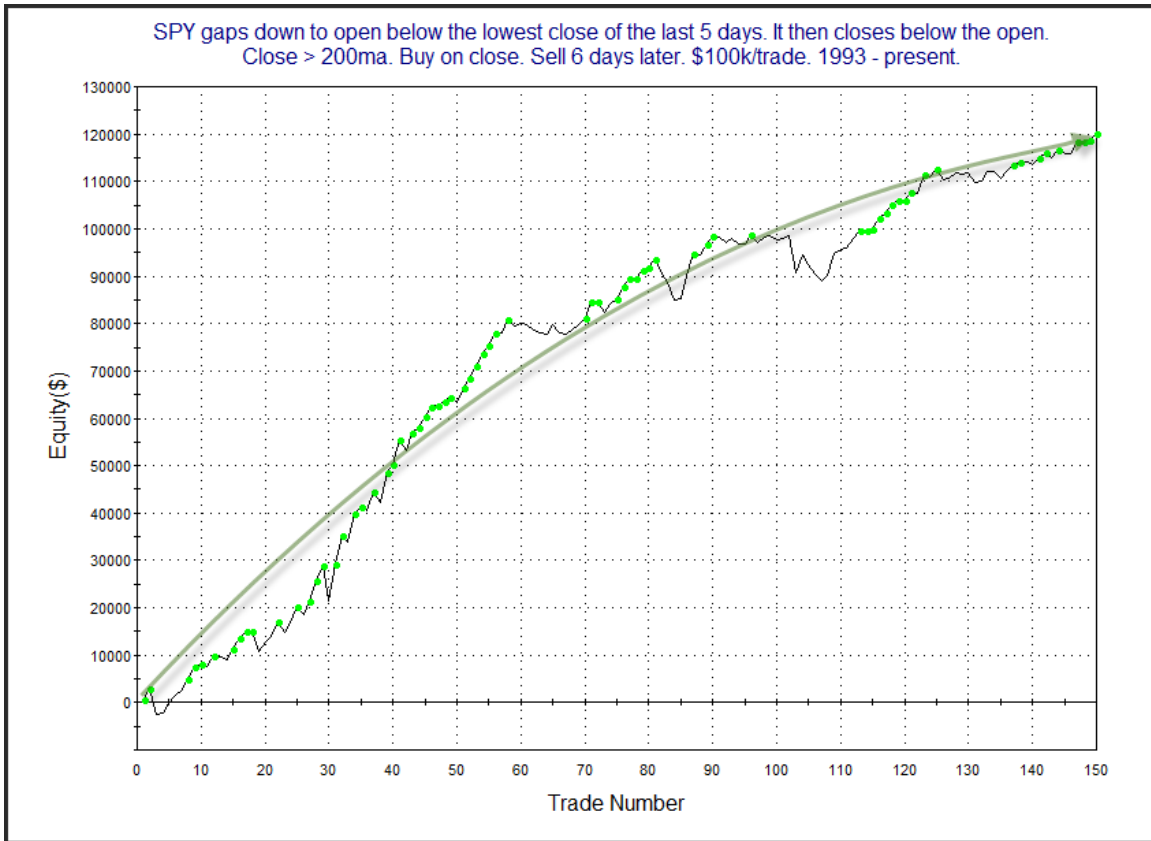
**The Evidence**

Wednesday was a down day for the market. The SPX lost 0.4%, the NASDAQ declined 0.5%, and the Russell 2000 fell 1.3%. Breadth was negative as the NYSE Up Issues % was 31% and the Up Volume % came in at 29%. NYSE volume declined some from Tuesday’s level.

One interesting aspect of Wednesday’s action was the unfilled gap down and continued selloff. The study below was seen recently in the 6/5/15 letter. It considers the fact that the gap down on Wednesday put SPY at a short-term low immediately and then the selling continued from there.

SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	129,184.66	132	85	47	64.39	2,641.28	9,282.24	-2,028.17	-14,007.15	1.30	2.36	978.67
9	140,574.25	140	91	49	65.00	2,569.67	7,585.77	-1,903.38	-10,036.80	1.35	2.51	1,004.10
8	132,409.71	142	96	45	67.61	2,332.67	7,858.26	-2,033.92	-14,030.10	1.15	2.45	932.46
7	115,767.41	148	97	51	65.54	2,078.96	8,324.13	-1,684.16	-8,047.80	1.23	2.35	782.21
6	120,311.34	150	103	47	68.67	1,906.92	7,873.02	-1,619.17	-7,910.10	1.18	2.58	802.08
5	109,898.05	151	101	49	66.89	1,763.65	8,239.74	-1,392.46	-4,103.46	1.27	2.61	727.80
4	107,047.68	159	106	53	66.67	1,693.72	5,581.02	-1,367.68	-4,096.40	1.24	2.48	673.26
3	95,859.07	164	104	59	63.41	1,540.33	5,117.85	-1,090.43	-4,085.40	1.41	2.49	584.51
2	80,963.80	177	112	62	63.28	1,207.11	5,477.88	-874.72	-2,614.66	1.38	2.49	457.42
1	56,112.35	192	123	69	64.06	833.41	5,764.38	-672.42	-3,772.68	1.24	2.21	292.25
<b>90% of instances closed above the entry price at some point in the next 5 days.</b>												

There are a sizable number of occurrences and the numbers all appear squarely positive. Below is a look at a profit curve that assumes a 6-day holding period.



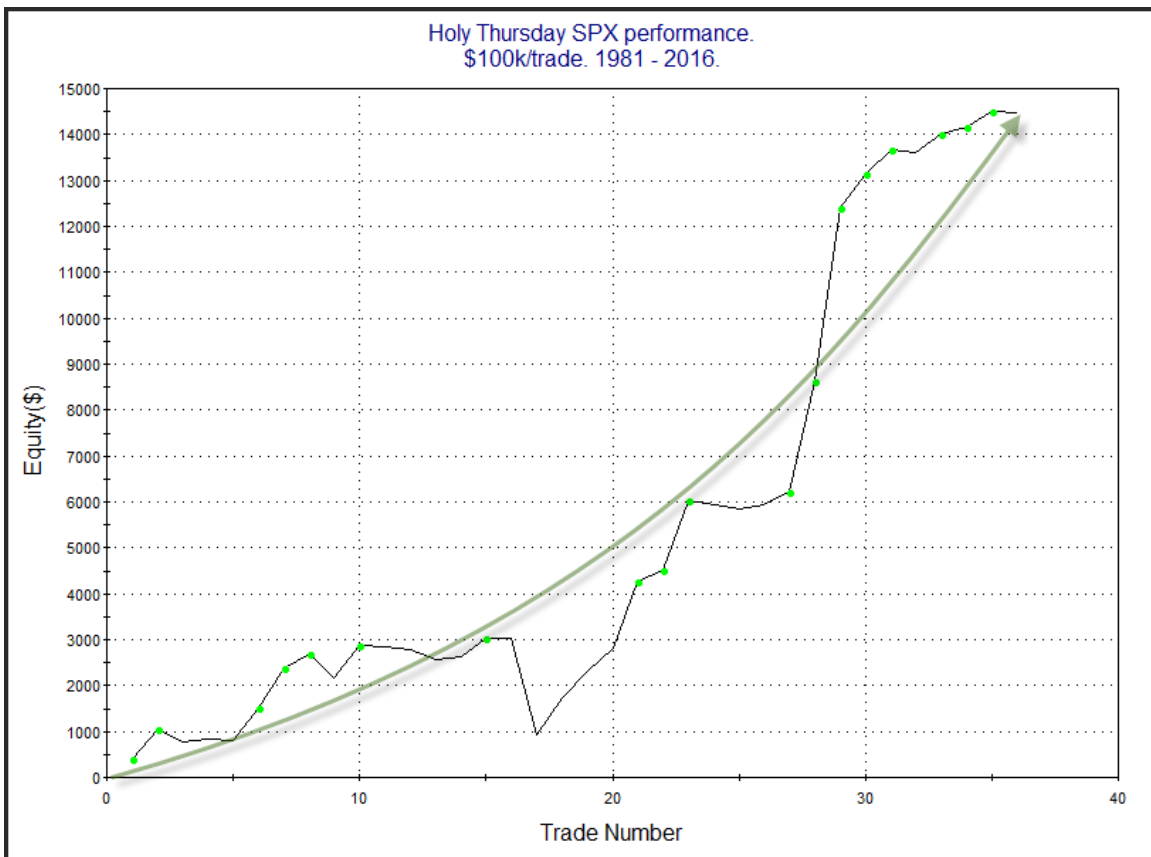
While not quite as steep as it once was, the curve has continued to move higher and again made new highs the last time it triggered. I have added this study to the Active List tonight.

In the 3/24/16 Letter I showed that Holy Thursday has been a seasonally strong day going back to 1981. Below I have updated those study results.

Holy Thursday SPX performance.  
\$100k/trade. 1981 - 2016.

TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$14,462.78	Profit Factor	5.09
Gross Profit	\$18,002.13	Gross Loss	(\$3,539.35)
Total Number of Trades	36	Percent Profitable	66.67%
Winning Trades	24	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$401.74	Ratio Avg. Win:Avg. Loss	2.54
Avg. Winning Trade	\$750.09	Avg. Losing Trade	(\$294.95)
Largest Winning Trade	\$3,799.40	Largest Losing Trade	(\$2,097.90)

The numbers are compelling, and it is especially impressive to see how much the winners have outsized the losers. Below is the profit curve.



The curve isn't exactly straight, but you can't complain about the last 19 years. This seems worth consideration, and has also been added to the Active List.

I have updated the Aggregator chart below.



With tonight's studies to consider the green Aggregator Line 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 0. Therefore, the Aggregator signal stayed long at the close.

The current list of studies is set to leave expectations positive on Thursday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2360.57 on Thursday. That is 0.7% above Wednesday's close. Therefore, SPX will need to close at least 0.7% higher in order to move from oversold to overbought versus expectations on Tuesday.

Evidence is now building a bit more, and the market is increasingly oversold. I typically like oversold with bullish seasonality – though the bullish seasonality variety today is just

a 1-day thing. Still, the positive outlook based on multiple non-correlated studies, along with good amount of room to the upside has me interested in new long exposure. I will look to enter some SPY on Thursday if I can get a decent fill.

***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 @ \$234.03 LIMIT.** Based on the short-term outlook above, I will start to scale in to an index position in SPY if I can get filled at Wednesday’s closing price or better. (Note – last night’s trade idea missed filling by \$0.03.)

### **Current Open Trade Ideas**

None.

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