

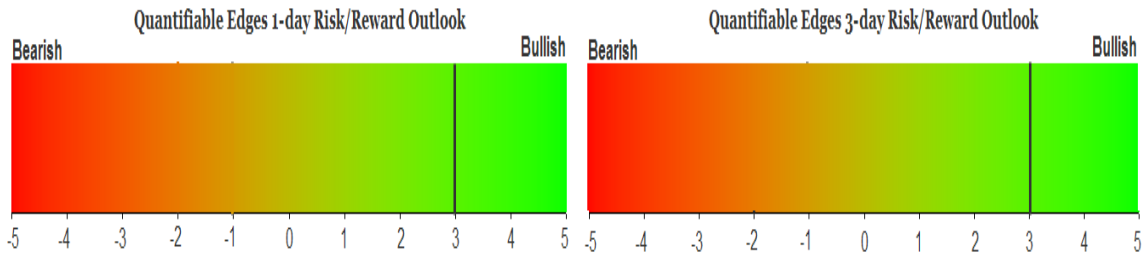
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 18, 2017

Volume 10 Issue 72

Market Overview



Signals Overview

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

Tonight's Research Points

- Tax Day and the day after have carried seasonal bullishness over the years.
- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through.

Short-term Outlook

The Bottom Line

Evidence is again squarely bullish, but SPX may no longer be oversold as of Tuesday's close. I am looking to sell my long index position into a further rally on Tuesday.

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 18, 2017	Unfill up close < 10 > 200ma	1-4 days	Bullish			
April 18, 2017	Tax Days bullish	1-2 days	Bullish			
April 17, 2017	System 110524	1-7 days	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%
Active - Long Term						
March 29, 2017	20-low to 4-day high	1-20 days	Bullish	3.40%	-2.70%	-5.40%
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			

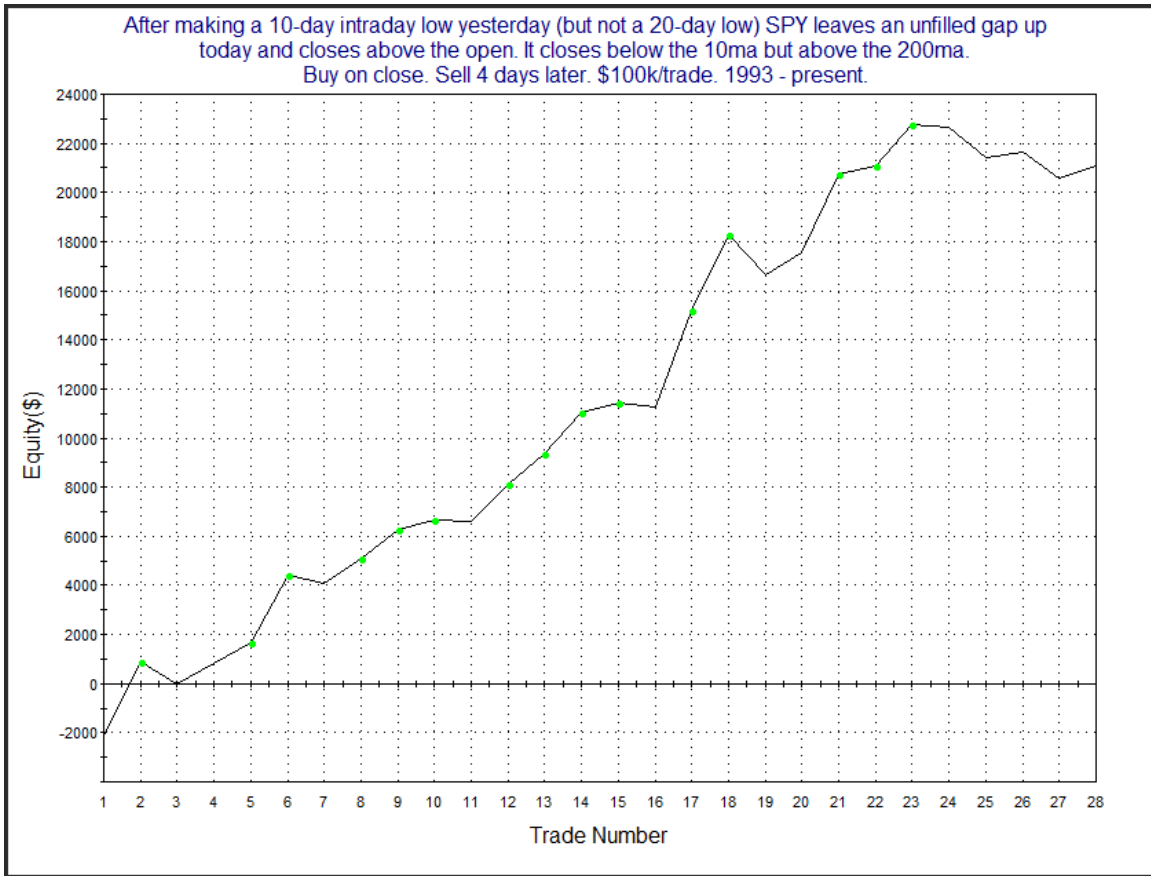
The Evidence

Monday saw the market bounce. The SPX rose 0.9%, the NASDAQ gained 0.9%, and the Russell 2000 rallied 1.2%. Breadth was positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 81%. NYSE volume declined for the 3rd day in a row.

Monday's rally was marked by the fact that it featured an unfilled gap up and a further rise between the open and the close. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up from a low appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 1/4/17 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 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
5	21,012.95	28	21	7	75.00	1,292.99	4,106.63	-877.11	-1,949.70	1.47	4.42	750.46
4	21,102.35	28	19	9	67.86	1,504.99	3,904.83	-832.50	-2,096.99	1.81	3.82	753.66
3	14,447.75	29	18	11	62.07	1,290.76	3,914.92	-798.72	-1,874.00	1.62	2.64	498.20
2	9,682.37	29	18	11	62.07	1,167.23	2,828.00	-1,029.80	-2,183.21	1.13	1.85	333.87
1	1,724.07	29	15	13	51.72	848.60	1,773.46	-846.54	-2,895.33	1.00	1.16	59.45
28 of 29 instances (96%) closed above the entry price at some point in the next week. The lone failure triggered on 5/2/16.												

Indications here are bullish across the board. It is impressive that nearly every instance saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 4-day holding period.



Despite a few recent failures, the strong upslope is impressive.

Also in the 1/4/17 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 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
5	791.08	31	15	16	48.39	1,862.07	3,178.32	-1,696.25	-3,739.32	1.10	1.03	25.52
4	3,545.07	33	19	14	57.58	1,393.70	2,950.20	-1,638.23	-2,744.82	0.85	1.15	107.43
3	-3,094.11	35	18	17	51.43	1,037.03	3,306.24	-1,280.04	-3,070.92	0.81	0.86	-88.40
2	-3,824.11	37	19	18	51.35	966.78	3,089.76	-1,232.94	-2,818.42	0.78	0.83	-103.35
1	-1,026.40	37	14	23	37.84	1,005.17	2,470.05	-656.47	-1,777.90	1.53	0.93	-27.74

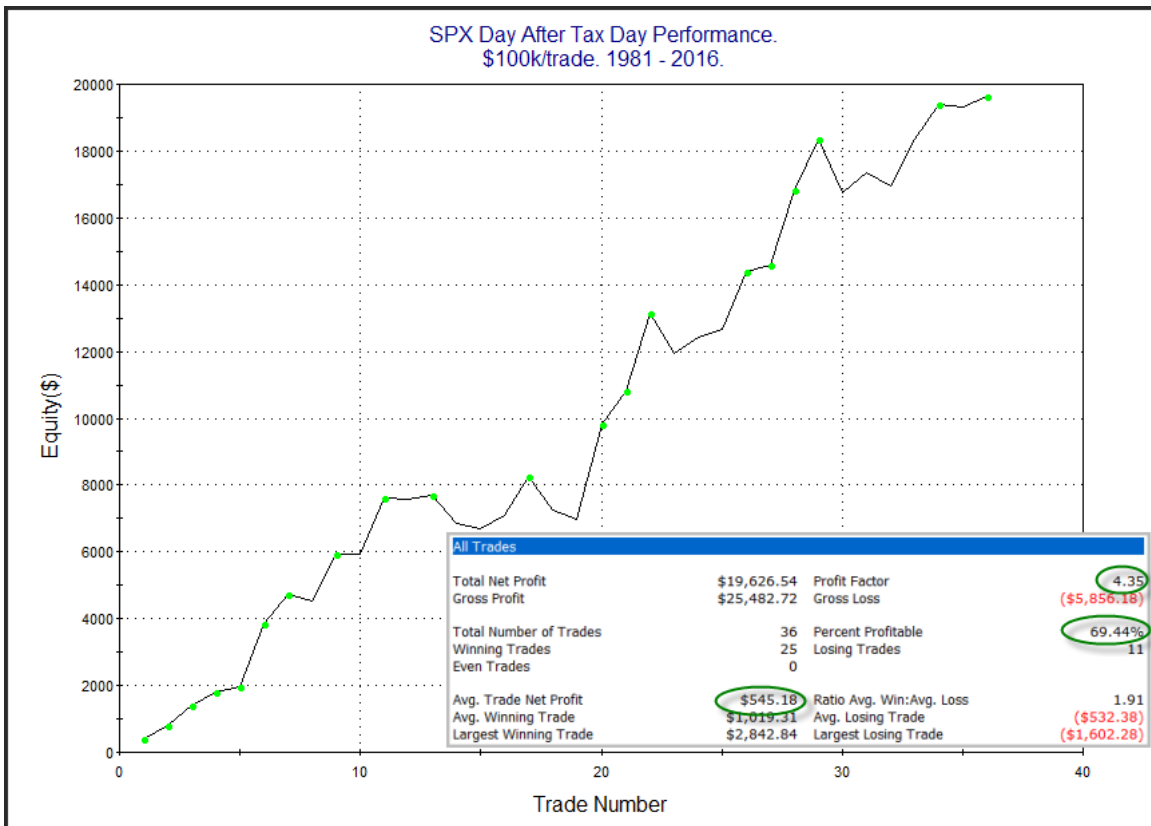
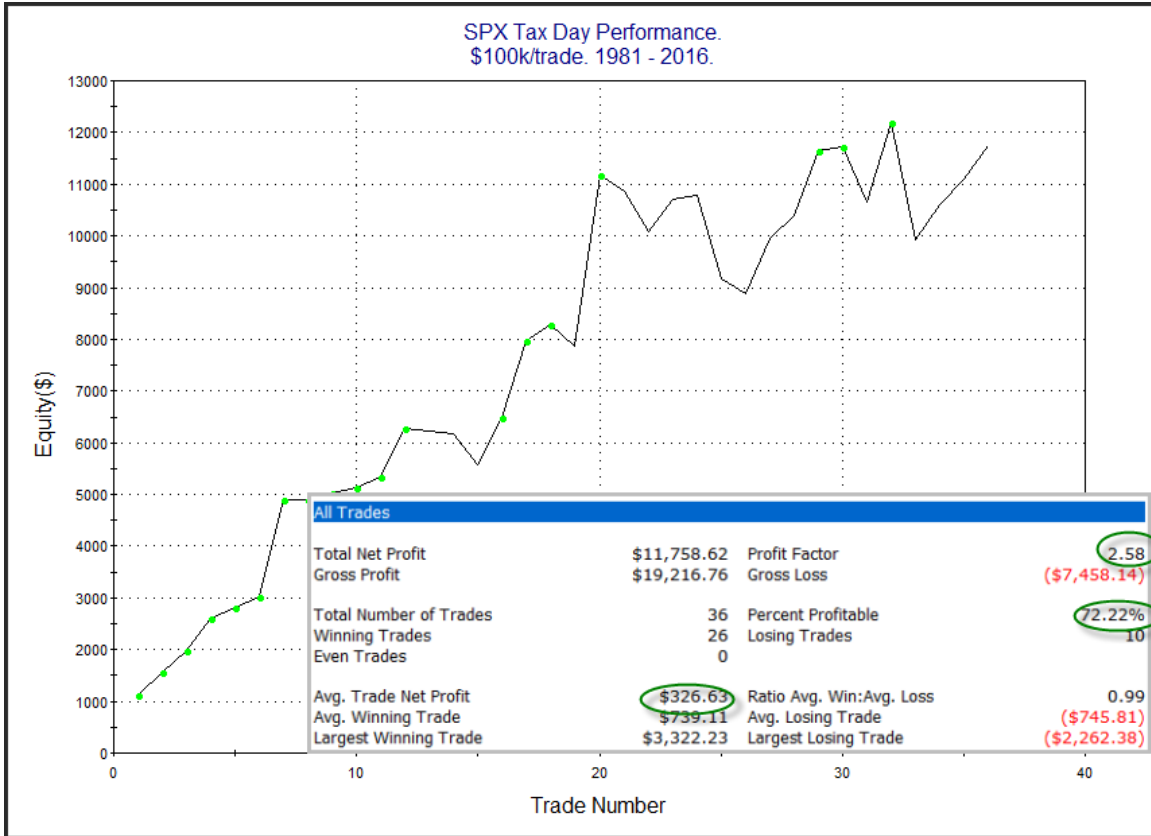
In the 1/4/17 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below (not updated).

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes above the 10ma and above the 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
5	-5,956.44	16	8	8	50.00	718.39	1,647.78	-1,462.95	-3,691.98	0.49	0.49	-372.28
4	-2,785.52	16	8	8	50.00	595.02	1,903.47	-943.21	-1,788.75	0.63	0.63	-174.10
3	-5,387.88	16	7	9	43.75	583.23	1,393.05	-1,052.28	-2,475.20	0.55	0.43	-336.74
2	-2,519.46	16	8	8	50.00	579.64	1,325.28	-894.58	-2,293.20	0.65	0.65	-157.47
1	-3,699.38	16	7	9	43.75	478.47	949.00	-783.19	-2,591.68	0.61	0.48	-231.21

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Monday.

I made an error in last night's letter, as I thought US tax day was on Monday. But it is Tuesday. This really changed nothing in my analysis other than realizing that the seasonal strength was due Tuesday and Wednesday rather than Monday and Tuesday. So we still have 2 strong seasonal days ahead. Below I have copied my Tax Day notes from last night.

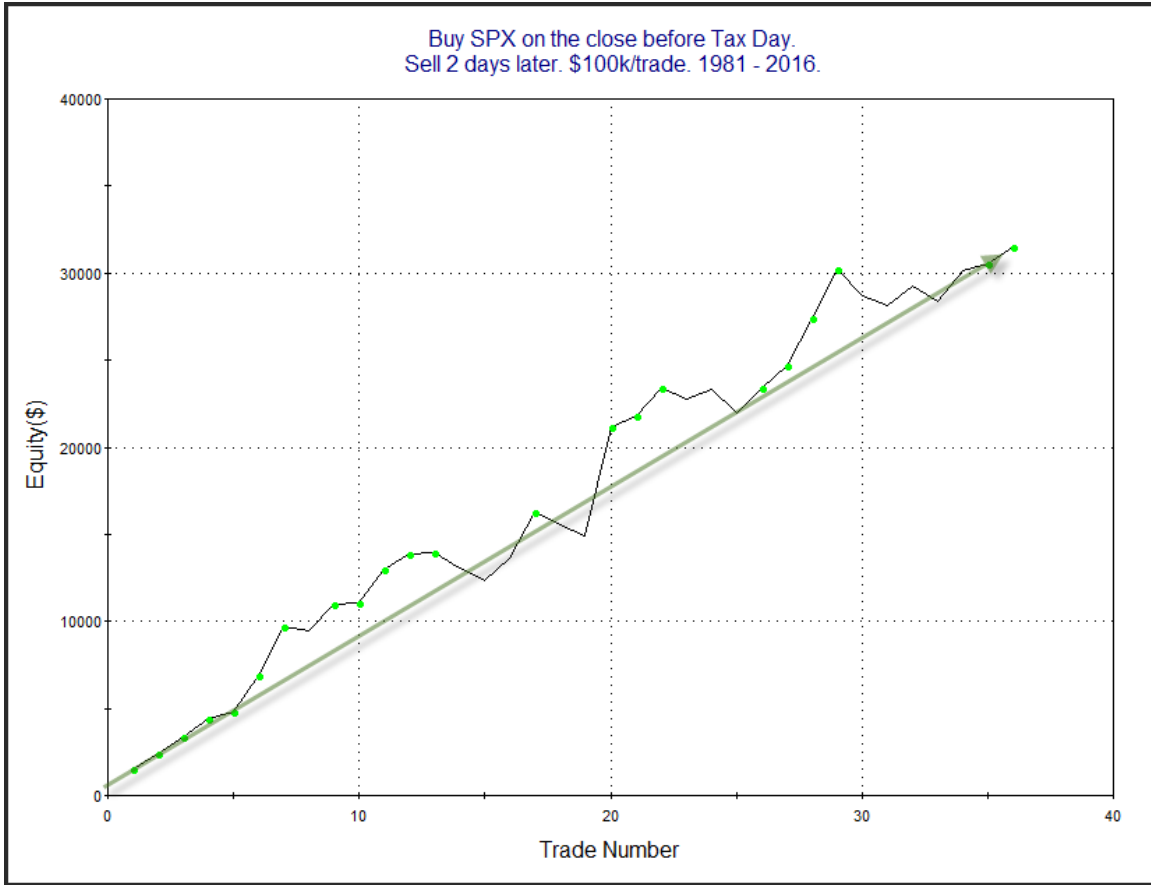
In the 4/18/16 letter I showed that there has been a strong historical tendency on tax day (normally April 15th, but Tuesday the 18th this year) and the day immediately after. The reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April 15th. Fund managers will often put this money to work immediately and it creates a positive bias for the market. Below are some updated studies that demonstrate this.



As you can see, both of these days seem to contain very solid upside edges. The study below looks at what happens if you hold for both days instead of just one.

Buy SPX on the close before Tax Day. Sell 2 days later. \$100k/trade. 1981 - 2016.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$31,505.62	Profit Factor	4.87
Gross Profit	\$39,641.52	Gross Loss	(\$8,135.90)
Total Number of Trades	36	Percent Profitable	72.22%
Winning Trades	26	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$875.16	Ratio Avg. Win:Avg. Loss	1.87
Avg. Winning Trade	\$1,524.67	Avg. Losing Trade	(\$813.59)
Largest Winning Trade	\$6,245.15	Largest Losing Trade	(\$1,518.64)

As you would expect, numbers here are nicely impressive. Below I have also included the profit curve.



A good looking curve that made new highs just last year.

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 Tuesday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be *lightly inverted* at 2347.63 on Tuesday. That is about 1.5 points *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down about 1.5 points in order to remain oversold versus recent expectations. Anything other than that will see SPX turn overbought as of Tuesday's close.

I generally view inverted pivots as opportune times to take profits. This is because further potential reward is now limited. The Aggregator will no longer be in a bullish formation on Tuesday if it closes higher. But it likely will remain bullish on a pullback, so there is no reason to quickly exit if the market gaps down on Tuesday. With the strong seasonality

and all the short-term studies now bullish, I will go for a bit more on Tuesday. More aggressive traders could simply look to hold all or part of their position until the close.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/17 – 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.

None tonight. I did not receive a fill on last night's trade idea.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	4/13/2017	\$233.64	\$234.57	0.40%		sell as below

I will look to sell my SPY holding at \$235.00 LIMIT. If not filled during the day, I will lower the limit price and sell at \$234.50 LIMIT ON CLOSE. If it never reaches \$235 and closes above \$234.50, then I will continue to hold the position.

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