

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 5, 2017

Volume 10 Issue 85

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Short	100% Short SPY	Short

Tonight's Research Points

- Such negative breadth on an up day has typically been followed by short-term selling.
- High volume on an up day normally means more gains in the coming days.

Short-term Outlook

The Bottom Line

There appears to be a mild bearish edge, but that will likely change as soon as Friday. I am not inclined to try and take advantage of it.

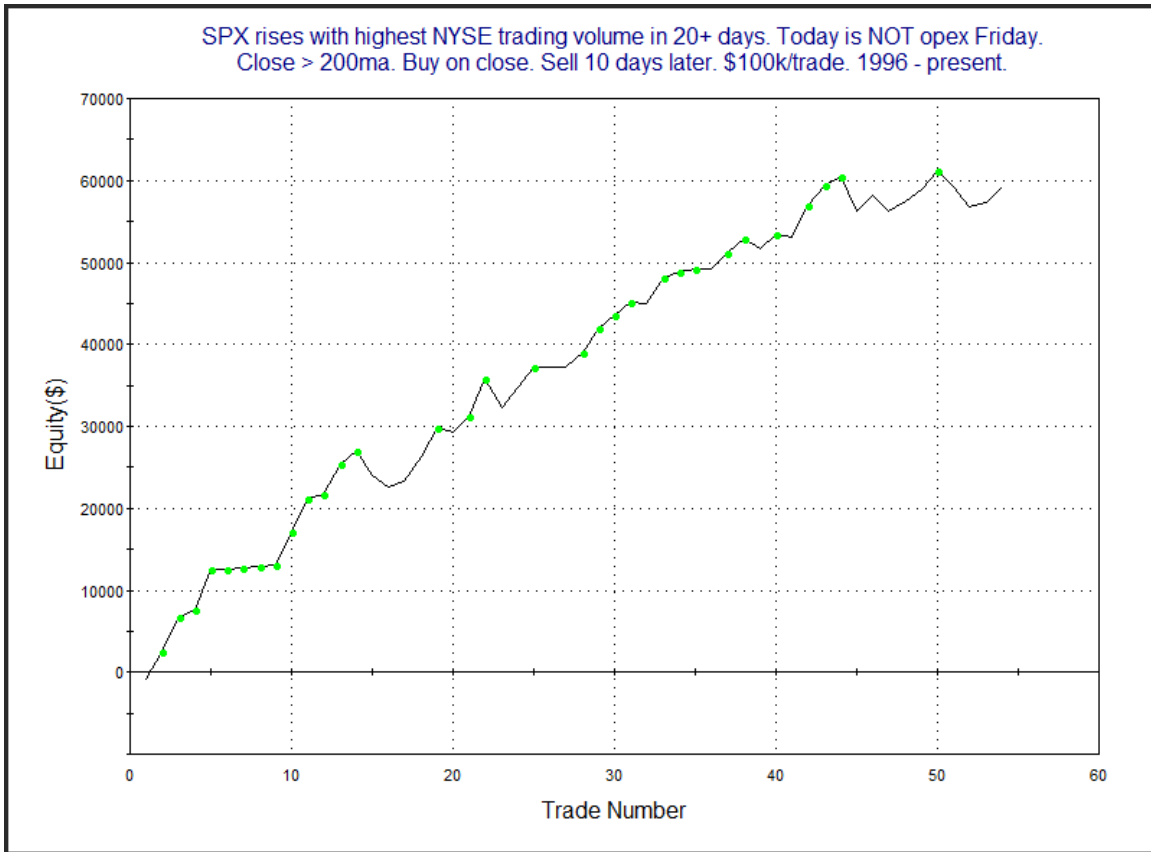
The Evidence

Thursday was mixed and mild. The SPX and NASDAQ each closed down less than 0.1%, while the Russell 2000 rose 0.15%. Breadth was negative as the NYSE Up Issues % was 35.4% and the Up Volume % came in at 35.5%. NYSE volume registered the highest level in over a month.

The high volume provided an interesting bit of evidence. When the market has risen on extremely high volume on a day other than op-ex Friday, that has typically been a good sign. Below is a study last shown in the 3/19/15 subscriber letter that demonstrates this.

SPX rises with highest NYSE trading volume in 20+ days. Today is NOT opex Friday. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1996 - 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	59,232.48	54	39	15	72.22	2,068.70	4,885.00	-1,429.78	-4,242.42	1.45	3.76	1,096.90
9	52,216.50	54	39	15	72.22	1,932.32	5,451.25	-1,542.93	-5,429.38	1.25	3.26	966.97
8	50,846.88	54	41	13	75.93	1,789.09	4,174.09	-1,731.20	-5,492.28	1.03	3.26	941.61
7	38,666.54	56	40	16	71.43	1,757.43	4,869.18	-1,976.93	-5,526.30	0.89	2.22	690.47
6	37,351.04	59	39	20	66.10	1,799.81	5,552.91	-1,642.07	-4,857.36	1.10	2.14	633.07
5	27,073.00	60	40	20	66.67	1,479.53	4,683.84	-1,605.42	-4,459.24	0.92	1.84	451.22
4	23,992.54	63	38	25	60.32	1,400.93	4,518.75	-1,169.71	-4,368.22	1.20	1.82	380.83
3	15,762.00	65	42	23	64.62	1,069.84	3,216.85	-1,268.31	-3,332.96	0.84	1.54	242.49
2	5,770.90	66	39	27	59.09	814.85	2,830.24	-963.27	-3,844.10	0.85	1.22	87.44
1	8,207.92	79	44	35	55.70	623.76	2,368.66	-549.65	-2,302.95	1.13	1.43	103.90

The statistics appear to suggest a solid bullish edge over the next couple of weeks. Below is an equity curve using a 10-day exit strategy that shows how the edge has played out over time.



The profit curve has flattened a little bit recently but still appears to be on track. I have included this study on the Active List tonight.

Interestingly, the high volume and positive close was accompanied by negative breadth. It is very rare to see such negative breadth numbers on a day where the SPX rises. This triggered a number of studies related to breadth divergences. The most compelling of these studies was from the 11/14/14 subscriber letter. It looked at times when the SPX was in a long-term uptrend and it closed higher on a day that both the NYSE Up Issues % and Up Volume % closes < 40%. I have updated the results below.

SPX rises while NYSE Up Issues % < 40% and Up Volume % < 40%. SPX > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1970 - 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	-11,691.52	13	6	7	46.15	852.57	2,059.68	-2,400.99	-4,430.00	0.36	0.30	-899.35
4	-14,725.16	13	4	9	30.77	731.38	1,364.64	-1,961.18	-5,555.22	0.37	0.17	-1,132.70
3	-15,185.44	13	3	10	23.08	266.34	611.03	-1,598.45	-5,209.68	0.17	0.05	-1,168.11
2	-13,111.32	13	4	9	30.77	208.86	364.08	-1,549.64	-3,659.18	0.13	0.06	-1,008.56
1	-8,944.31	14	3	11	21.43	275.10	724.20	-888.15	-1,963.59	0.31	0.08	-638.88

Only one instance failed to closed below the entry price at some point in the next week.

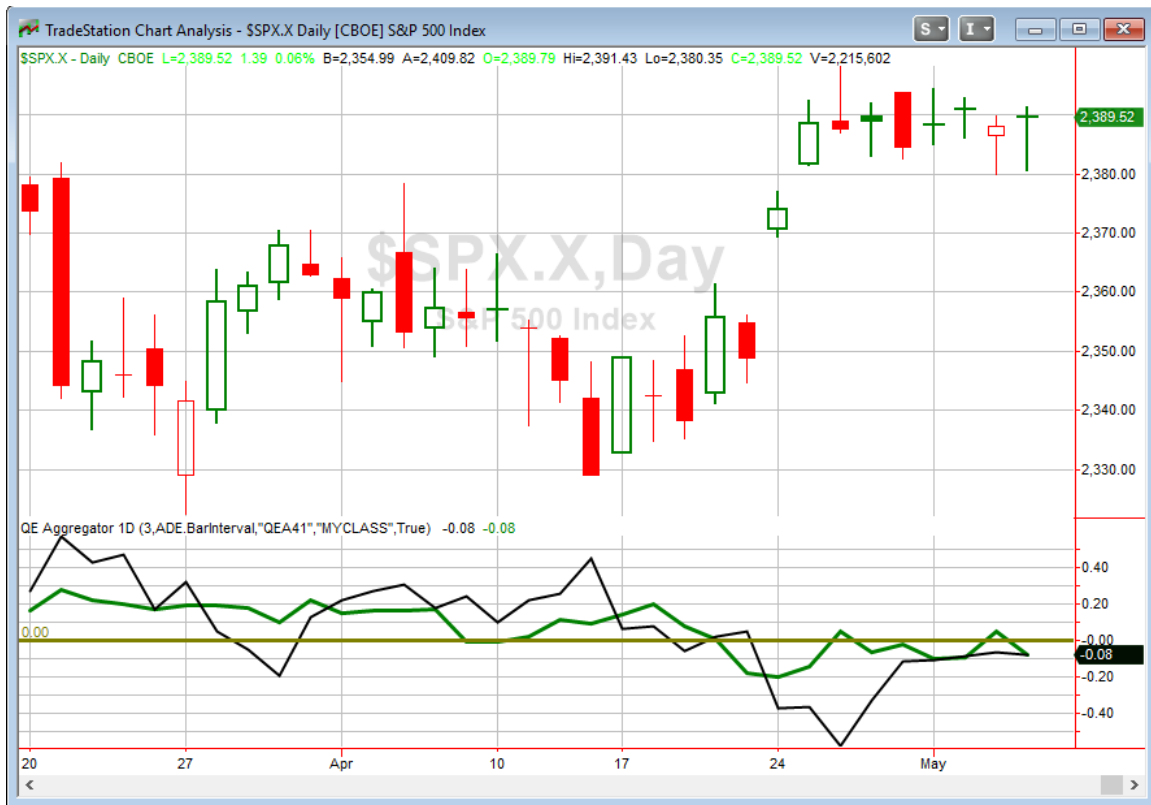
The number of instances is a bit low, but the results are so negative enough that they are worth a more detailed look, and perhaps some consideration. Below I have listed all instances assuming a 3-day holding period.

SPX rises while NYSE Up Issues % < 40% and Up Volume % < 40%. SPX > 200ma.
Buy on close. Sell 3 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/23/1973	Buy	\$118.22	-1.87%	\$692.90
1/29/1973	Sell	\$116.01		(\$2,746.25)
3/4/1980	Buy	\$112.78	-5.21%	\$1,027.76
3/7/1980	Sell	\$106.90		(\$6,015.94)
10/4/1994	Buy	\$461.77	-1.44%	\$0.00
10/7/1994	Sell	\$455.10		(\$2,700.00)
6/7/1996	Buy	\$673.30	-0.63%	\$506.16
6/12/1996	Sell	\$669.04		(\$670.44)
5/17/1999	Buy	\$1,339.31	-0.04%	\$828.06
5/20/1999	Sell	\$1,338.83		(\$1,179.56)
4/23/2004	Buy	\$1,140.60	-1.59%	\$542.88
4/28/2004	Sell	\$1,122.41		(\$1,644.30)
3/23/2005	Buy	\$1,172.53	-0.61%	\$644.30
3/29/2005	Sell	\$1,165.36		(\$751.40)
12/13/2007	Buy	\$1,488.42	-2.25%	\$0.00
12/18/2007	Sell	\$1,454.97		(\$3,535.59)
7/6/2009	Buy	\$898.72	-1.78%	\$0.00
7/9/2009	Sell	\$882.68		(\$3,263.40)
10/15/2010	Buy	\$1,176.19	0.17%	\$793.90
10/20/2010	Sell	\$1,178.17		(\$1,400.80)
11/13/2014	Buy	\$2,039.33	0.61%	\$820.75
11/18/2014	Sell	\$2,051.80		(\$238.63)
7/17/2015	Buy	\$2,126.64	-0.59%	\$290.46
7/22/2015	Sell	\$2,114.15		(\$782.08)
5/18/2016	Buy	\$2,047.63	0.02%	\$514.56
5/23/2016	Sell	\$2,048.04		(\$1,042.56)

The last few instances have bumbled a bit, but the drawdowns recently have still mostly outsized the run-ups. And overall, the *average* drawdown is over 2x the size of the *largest* run-up. So I have decided to include this study on the Active List as well tonight.

I have updated the Aggregator chart below.



Without tonight's studies to consider the green Aggregator Line dipped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal turned short at the close.

Based on the current active studies, expectations are set to turn back to bullish on Friday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2385.87 on Friday. That is 0.2% below Thursday's close. So SPX would need to close down 0.2% in order to move from overbought to oversold as of Friday's close.

While there may be a short-side edge at the moment it appears that it will not last long. Expectations are set to turn positive tomorrow. And even if they don't, and declined of as little as 0.2% would turn the SPX oversold. With a short being a counter-trend trade, this seems like a poor setup to try and take advantage of. I will continue to wait for a more favorable opportunity before taking on new index positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/1 –bullish

The intermediate-term outlook was last updated in the 5/1 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

T – 1/3 @ \$38.40 (buy @ limit)

DIS – 1/3 @ \$111.62 (buy @ limit)

New

T – 1/3 @ \$38.40 (bought @ limit)

DIS – 1/3 @ \$111.62 (bought @ limit)

Broad Market Large Cap CBI – 4(T-2, DIS-2)

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.

T – Buy 1/3 Catapult position @ \$38.01 LIMIT. This is from the Catapult section above. It is the 2nd of up to 3 possible lots for T.

DIS – Buy 1/3 Catapult position @ \$111.17 LIMIT. This is from the Catapult section above. It is the 2nd of up to 3 possible lots for DIS.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
T(1/3)	5/4/2017	\$38.40	\$38.01	-1.02%		Catapult
DIS(1/3)	5/4/2017	\$110.58	\$111.17	0.53%		Catapult

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