

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 11, 2017

Volume 10 Issue 89

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- The gap and reverse pattern the last 2 days suggests weakness over the next couple of days.

Short-term Outlook

The Bottom Line

The Aggregator formation is bullish but I am not enthused about the mix of studies and the current market position. I am basically neutral.

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						
May 11, 2017	Gap & revers 2x. 10--high today.	1-2 days	Bearish			
May 11, 2017	SPY top 10% range. Less than 0.25% gain	1 day	Bearish			
May 8, 2017	50-day breakout on lower volume	1-5 days	Bullish			
May 5, 2017	High volume up days	1-10 days	Bullish			
Active - Long Term						
April 28, 2017	20-high. High volume.	1-16 days	Bullish	2.80%	-1.80%	-3.20%
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			

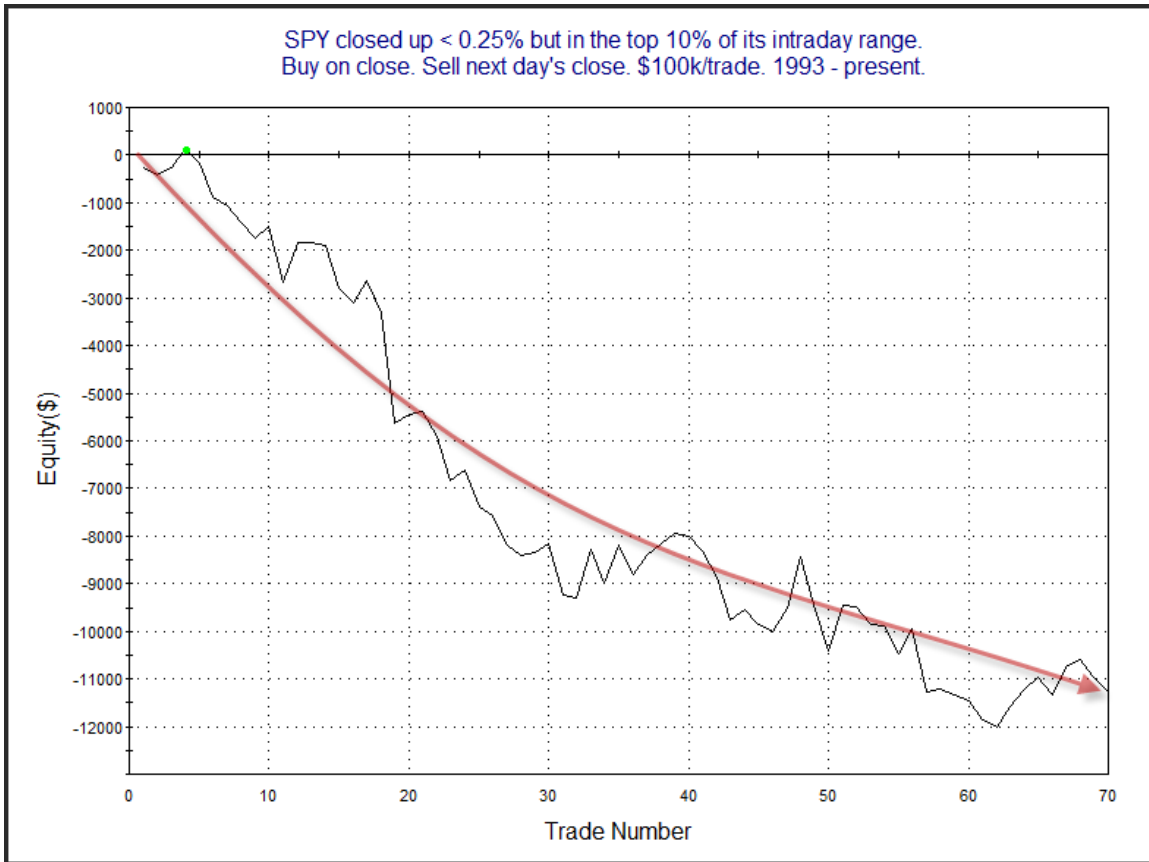
The Evidence

The market remains dull. On Wednesday the SPX gained 0.1%, the NASDAQ rose 0.1%, and the Russell 2000 rallied 0.6%. Breadth was positive as the NYSE Up Issues % was 63% and the Up Volume % came in at 73%. NYSE volume declined some from Tuesday's level.

One interesting study to appear in the Quantifinder was the one below, which was last seen just last week in the 4/5/17 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closed up < 0.25% but in the top 10% of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$11,264.46)	Profit Factor	0.48
Gross Profit	\$10,577.89	Gross Loss	(\$21,842.35)
Total Number of Trades	70	Percent Profitable	38.57%
Winning Trades	27	Losing Trades	43
Even Trades	0		
Avg. Trade Net Profit	(\$160.92)	Ratio Avg. Win:Avg. Loss	0.77
Avg. Winning Trade	\$391.77	Avg. Losing Trade	(\$507.96)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



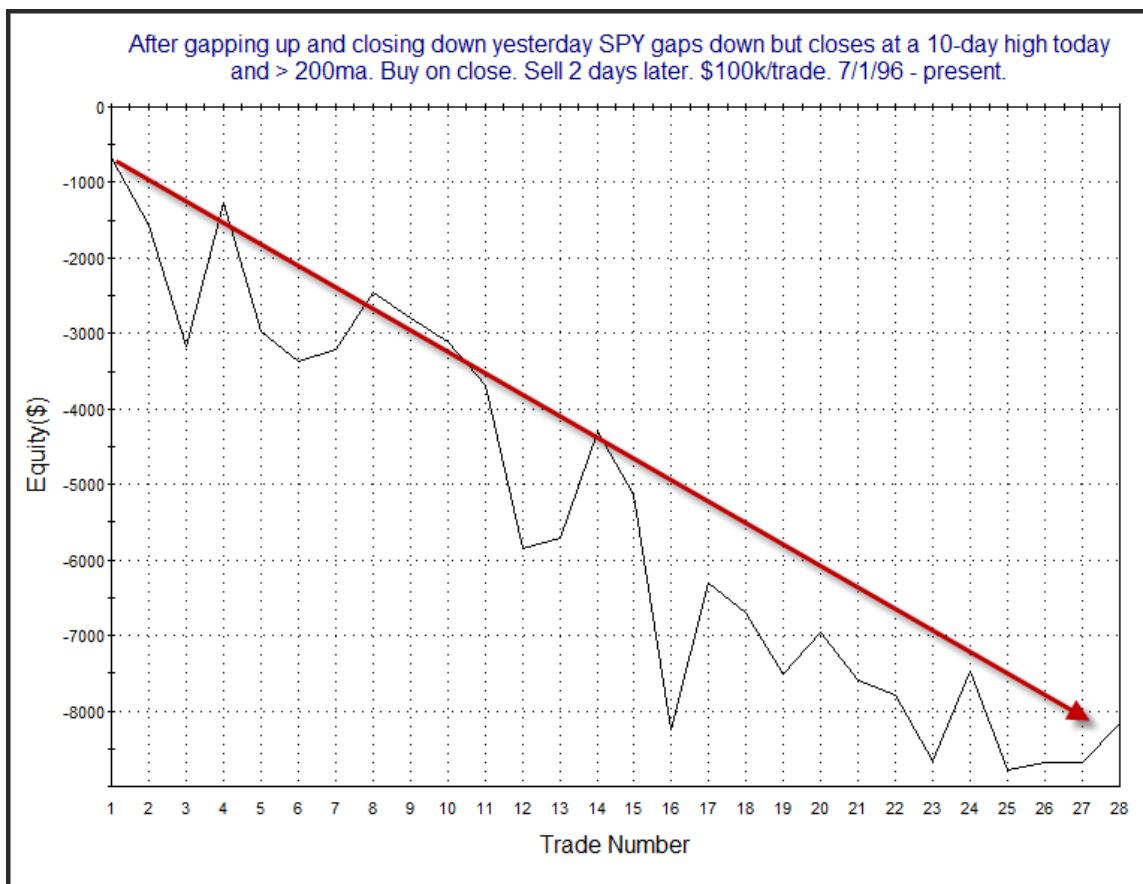
It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. While some recent instances have gone the opposite way, I am not yet concerned that the edge no longer persists.

While the market managing to recover from a gap down and closing at a new high may seem like a positive, the study below saw Friday's "gap and reverse" as a potential negative. The study was last seen in the 2/21/17 Subscriber Letter. I have updated the results.

After gapping up and closing down yesterday SPY gaps down but closes at a 10-day high today and > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/96 - present.

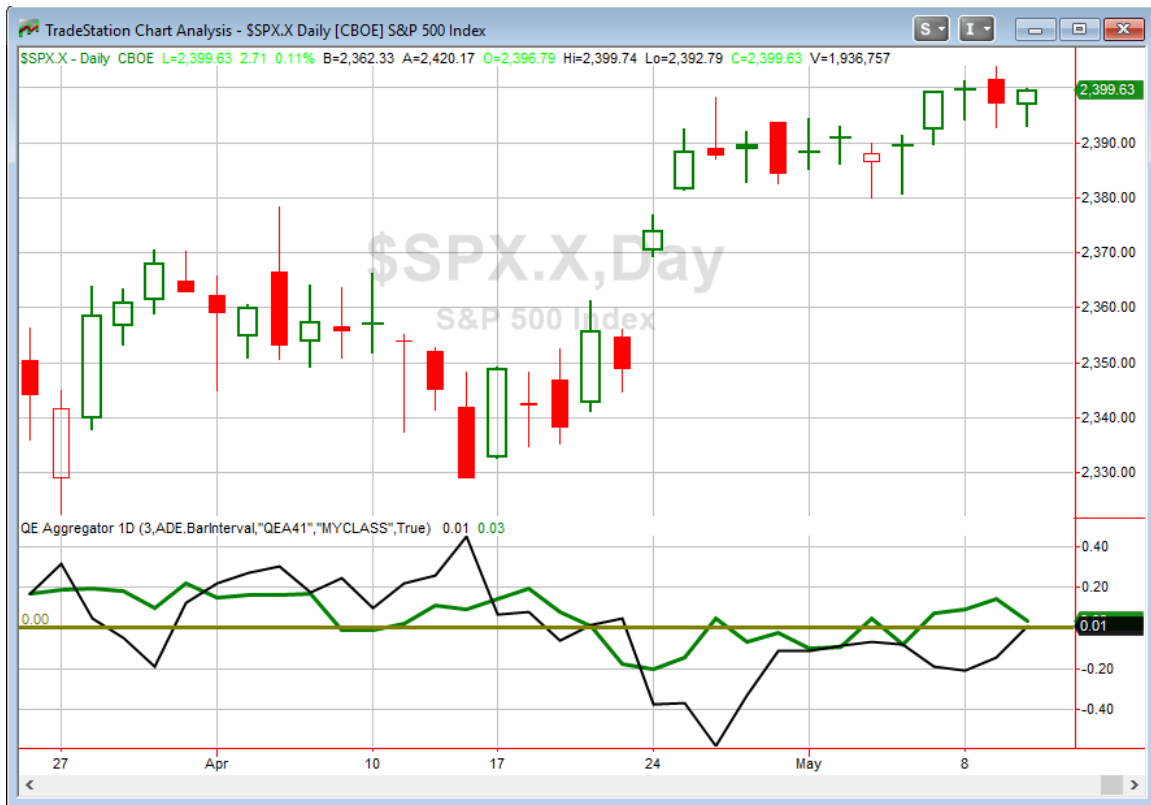
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,454.29	27	12	15	44.44	1,128.48	1,888.77	-1,733.07	-6,714.00	0.65	0.52	-461.27
4	-12,377.87	27	12	15	44.44	955.12	1,803.51	-1,589.29	-4,267.12	0.60	0.48	-458.44
3	-7,387.60	28	14	14	50.00	854.05	2,657.93	-1,381.74	-4,244.74	0.62	0.62	-263.84
2	-8,174.93	28	11	17	39.29	787.81	1,935.96	-990.64	-3,107.14	0.80	0.51	-291.96
1	-145.91	28	13	15	46.43	556.35	2,409.00	-491.90	-1,388.76	1.13	0.98	-5.21

The numbers here look somewhat bearish, with much of the damage being done by day 2. I also produced a profit curve assuming a 2-day holding period.



There is a bit of chop in this curve but the overall slope seems good enough to warrant consideration. I included this study on the Short-Term Active List.

I have updated the Aggregator chart below.



Even with tonight's bearish studies, the green Aggregator Line held slightly above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line inched 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. This time they both just barely qualified. Therefore, the Aggregator signal turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2401.32 on Thursday. That is 0.1% above Wednesday's close. So for SPX to move from oversold to overbought on Thursday it will only need to close higher by 0.1%.

The Aggregator is in a bullish formation, but it is not a very compelling setup. First off, we are seeing new evidence suggesting downside over the next day or two. And while 3-day expectations are positive, the 1-day is actually negative. Additionally, there is almost no room to the upside before the market will turn overbought. So potential upside reward is quite limited. Overall, I am still not seeing a compelling reason to take on new index exposure. I will note there was 1 new Catapult that triggered that I will look to trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/8 –bullish

The intermediate-term outlook was last updated in the 5/8 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)

T – 1/3 @ \$38.01 (*not filled – cancel for now*)

DIS – 1/3 @ \$111.17 (bought @ limit)

New

IBM – 1/3 @ \$151.25 (buy @ limit)

Broad Market Large Cap CBI – 5(T-2, DIS-2, IBM)

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.

IBM – buy 1/3 Catapult position @ \$151.25 LIMIT. This is from the Catapult section above. It is the 1st of 3 possible lots for IBM.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
T(1/3)	5/4/2017	\$38.40	\$38.45	0.13%		Catapult
DIS(1/3)	5/4/2017	\$110.58	\$109.66	-0.83%		Catapult
DIS(1/3)	5/5/2017	\$111.17	\$109.66	-1.36%		Catapult

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