

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 18, 2017

Volume 10 Issue 94

Market Overview



Signals Overview

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

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.
- The sharp VIX spike suggests a bounce in the next few days.

Short-term Outlook

The Bottom Line

Evidence is pointing higher and the market is now strongly oversold. I like the long side and will begin scaling into an index position.

Summary of Recent Active Studies (see Letters from listed dates for details) – not updated tonight

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------|---|-----------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| May 17, 2017 | Unfilled gap up. Then gap up and cls dn | 1 day | Bullish | | | |
| May 16, 2017 | 5 low to 50 high | 1-4 days | Bearish | | | |
| May 15, 2017 | Close < 10ma after 15+ days above | 1-5 days | Bullish | 1.50% | -1.00% | -2.00% |
| May 15, 2017 | Gap dn from 5-low and close < open | 1-6 days | Bullish | 2.20% | -1.30% | -2.60% |
| May 12, 2017 | Relatively big drop from 50-high | 1-4 days | Bullish | | | |
| May 5, 2017 | High volume up days | 1-10 days | Bullish | | | |
| Active - Long Term | | | | | | |
| May 15, 2017 | Gap dn from 5-low and close < open | 1-10 days | Bullish | 2.90% | -1.60% | -3.40% |
| 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 | | | |

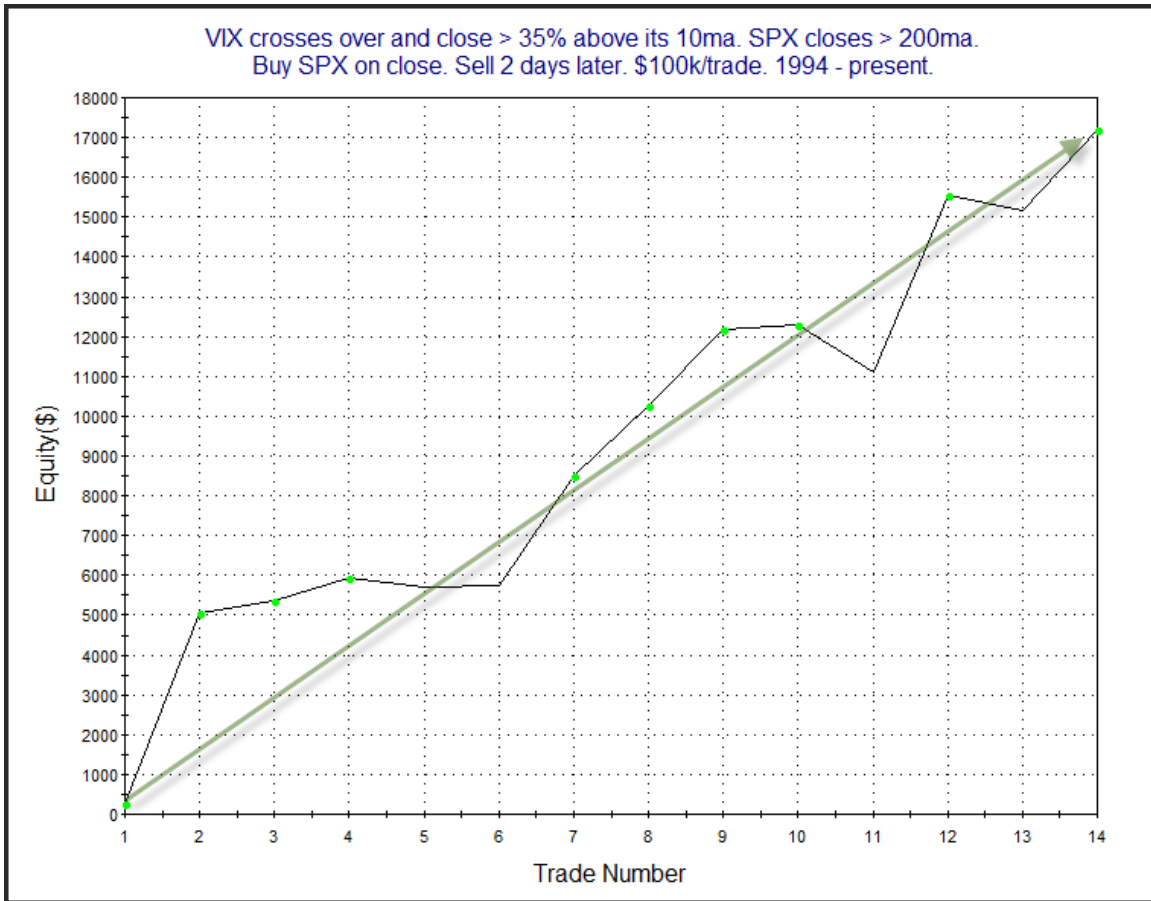
The Evidence

News from Washington sparked a dive in the market on Wednesday. The SPX lost 1.8%, the NASDAQ fell 2.6%, and the Russell 2000 declined 2.8%. Breadth was negative as the NYSE Up Issues % was 21% and the Up Volume % came in at 17%. NYSE volume rose some from Wednesday’s level.

The VIX underwent a large spike on Wednesday. It went from closing less than 3% above its 10ma on Tuesday to 43.5% above its 10ma on Wednesday. That was a big spike and it is now greatly stretched. In the 8/21/15 letter I looked at other stretches that took the VIX more than 35% above its 10ma. Tonight I looked at that study again, but also included a long-term SPX filter. Results are below.

| VIX crosses over and close > 35% above its 10ma. SPX closes > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1994 - 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 | 14,621.08 | 12 | 7 | 5 | 58.33 | 2,763.78 | 7,070.28 | -945.08 | -1,759.84 | 2.92 | 4.09 | 1,218.42 |
| 4 | 17,367.49 | 13 | 8 | 5 | 61.54 | 2,872.67 | 5,290.00 | -1,122.77 | -2,616.60 | 2.56 | 4.09 | 1,335.96 |
| 3 | 16,227.67 | 14 | 10 | 4 | 71.43 | 1,980.28 | 4,895.50 | -893.79 | -1,788.99 | 2.22 | 5.54 | 1,159.12 |
| 2 | 17,198.41 | 14 | 11 | 3 | 78.57 | 1,725.29 | 4,809.66 | -593.27 | -1,166.69 | 2.91 | 10.66 | 1,228.46 |
| 1 | 8,664.85 | 14 | 9 | 5 | 64.29 | 1,327.49 | 5,117.46 | -656.52 | -1,519.76 | 2.02 | 3.64 | 618.92 |

This appears to suggest an edge, especially over the next 2 days. Below is a profit curve for the 2-day holding period.



That is a good looking upslope. I have included this study on the Active List tonight.

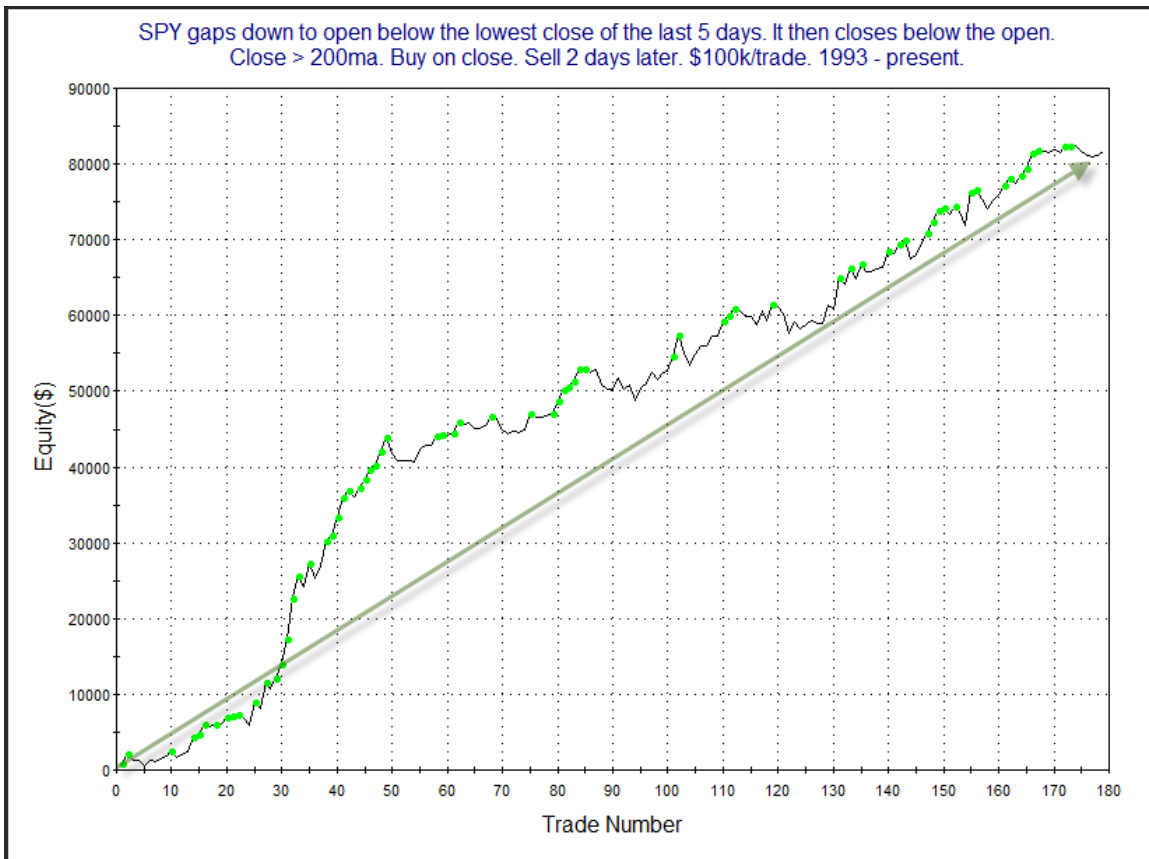
Another compelling study was last seen in the 6/5/15 letter. It looked at gaps down to short-term lows that experienced further selling during long-term uptrends. Results are updated.

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 | 90,931.45 | 101 | 62 | 39 | 61.39 | 2,665.73 | 9,282.24 | -1,906.24 | -14,007.15 | 1.40 | 2.22 | 900.31 |
| 9 | 105,660.63 | 109 | 70 | 39 | 64.22 | 2,512.19 | 7,585.77 | -1,799.81 | -10,036.80 | 1.40 | 2.51 | 969.36 |
| 8 | 95,777.09 | 111 | 76 | 34 | 68.47 | 2,205.37 | 7,858.26 | -2,112.67 | -14,030.10 | 1.04 | 2.33 | 862.86 |
| 7 | 77,313.55 | 116 | 74 | 42 | 63.79 | 1,927.71 | 8,324.13 | -1,555.65 | -8,047.80 | 1.24 | 2.18 | 666.50 |
| 6 | 79,031.13 | 116 | 78 | 38 | 67.24 | 1,676.77 | 6,100.26 | -1,362.03 | -7,910.10 | 1.23 | 2.53 | 681.30 |
| 5 | 59,728.79 | 116 | 72 | 43 | 62.07 | 1,622.11 | 5,634.39 | -1,327.05 | -4,103.46 | 1.22 | 2.05 | 514.90 |
| 4 | 61,020.94 | 124 | 76 | 48 | 61.29 | 1,657.73 | 4,827.80 | -1,353.47 | -3,909.15 | 1.22 | 1.94 | 492.10 |
| 3 | 54,656.52 | 130 | 80 | 50 | 61.54 | 1,388.45 | 4,348.05 | -1,128.39 | -4,085.40 | 1.23 | 1.97 | 420.43 |
| 2 | 56,247.06 | 143 | 91 | 51 | 63.64 | 1,110.59 | 4,479.35 | -878.75 | -2,614.66 | 1.26 | 2.26 | 393.34 |
| 1 | 38,432.64 | 153 | 97 | 56 | 63.40 | 769.15 | 4,400.20 | -645.97 | -3,772.68 | 1.19 | 2.06 | 251.19 |

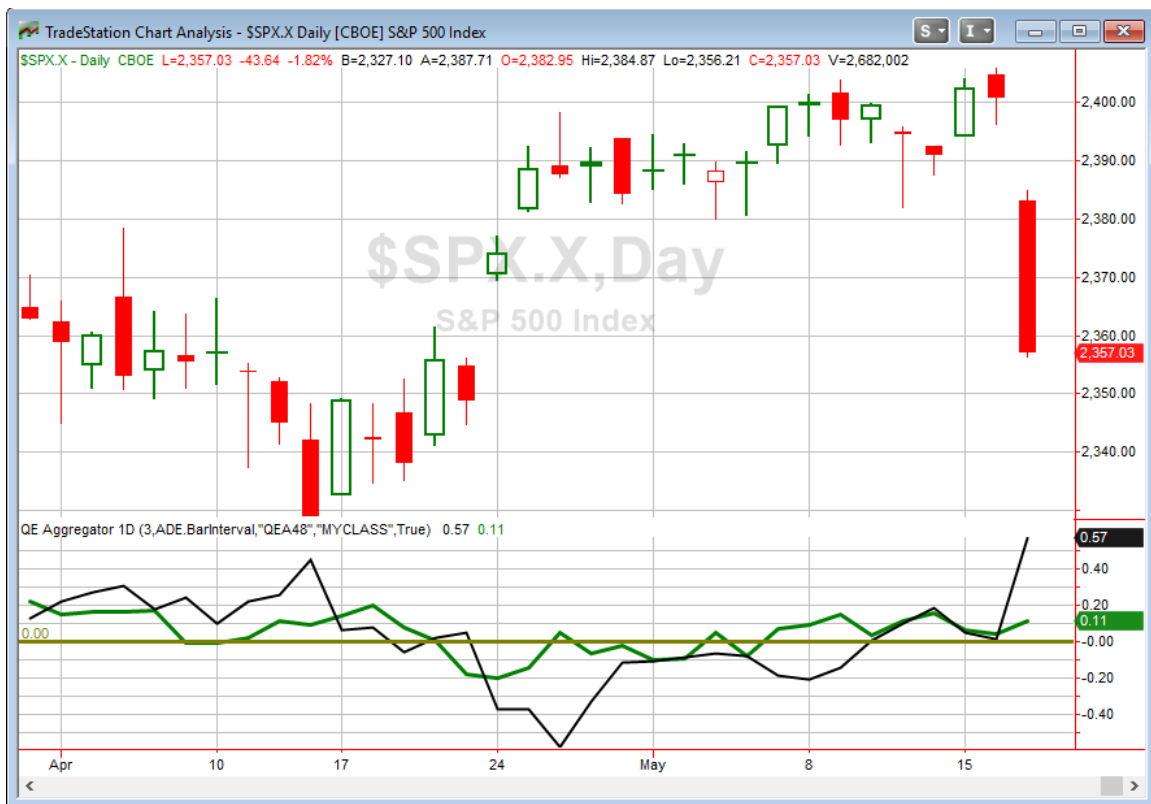
90% of instances closed above the entry price at some point in the next week.

The numbers suggest an upside edge over the next couple of weeks. A good chunk of the profits occur in the 1st couple of days. Below is a 2-day profit curve.



The strong move up appears to confirm the bullish numbers.

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 remained 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.

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 2409.29 on Thursday. That is 2.2% above Wednesday's close. So SPX would need to close up at least 2.2% to turn overbought as of Thursday's close. That is a very large gain, and one that is unlikely to happen in one day. A more likely scenario for working off the oversold condition would be a multi-day gain or consolidation.

Between the bullish evidence and the substantial room to the upside before the SPX would turn overbought, I like the current setup. There appears to be a good chance of a bounce in the coming days. Of course when a reaction is as strong as we saw on Wednesday, then

the move could easily have a bit lower to go before a bounce ensues. Still, I like reward/risk here and believe it is worth looking to start scaling into an index position. I'll also note that there are some new Catapults I'll be looking to take on.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/15 –bullish

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

DIS – 1/3 @ \$111.62 (bought @ limit)

DIS – 1/3 @ \$111.17 (bought @ limit)

New

DIS – 1/3 @ \$106.31 (buy @ limit)

FB – 1/3 @ \$144.85 (buy @ limit)

VZ – 1/3 @ \$44.48 (buy @ limit)

Broad Market Large Cap CBI – 5(DIS-3, FB, VZ)

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 @ \$235.82 LIMIT. Based on the short-term outlook above I will look to start scaling into an index position.

DIS – buy 1/3 Catapult position @ \$106.31 LIMIT. From the Catapult section above, this would be the 3rd and final lot for DIS.

FB – buy 1/3 Catapult position @ \$144.85 LIMIT. From the Catapult section above, this would be the 1st of up to 3 possible lots for FB.

VZ – buy 1/3 Catapult position @ \$44.48 LIMIT. From the Catapult section above, this would be the 1st of up to 3 possible lots for VZ.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|-----------------|------------------|-----------------|-----------------|--------------|------|----------------------------|
| DIS(1/3) | 5/4/2017 | \$110.58 | \$106.31 | -3.86% | | Catapult |
| DIS(1/3) | 5/5/2017 | \$111.17 | \$106.31 | -4.37% | | Catapult |
| IBM(1/3) | 5/11/2017 | \$151.05 | \$153.30 | 1.49% | | <i>sold on open</i> |
| IBM(1/3) | 5/11/2017 | \$150.30 | \$153.30 | 2.00% | | <i>sold on open</i> |
| | | | | | | |

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