

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 19, 2017

Volume 10 Issue 95

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The weak bounce on Thursday does not bode well for the coming days.
- VIX 100-day highs will sometimes suggest a bounce for SPX, but the current setup does not look enticing.

## *Short-term Outlook*

### *The Bottom Line*

Evidence beyond just 1-day is now pointing south. The market remains oversold. This has the Aggregator neutral, and me looking to exit my long index position for the time being..

**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 |
|----------------------------|---|-----------|---------|------------|------------|-----------------------|
| <b>Active - Short Term</b> |   |           |         |            |            |                       |
| 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 |            |            |                       |
| <b>Active - Long Term</b>  |   |           |         |            |            |                       |
| 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 |            |            |                       |

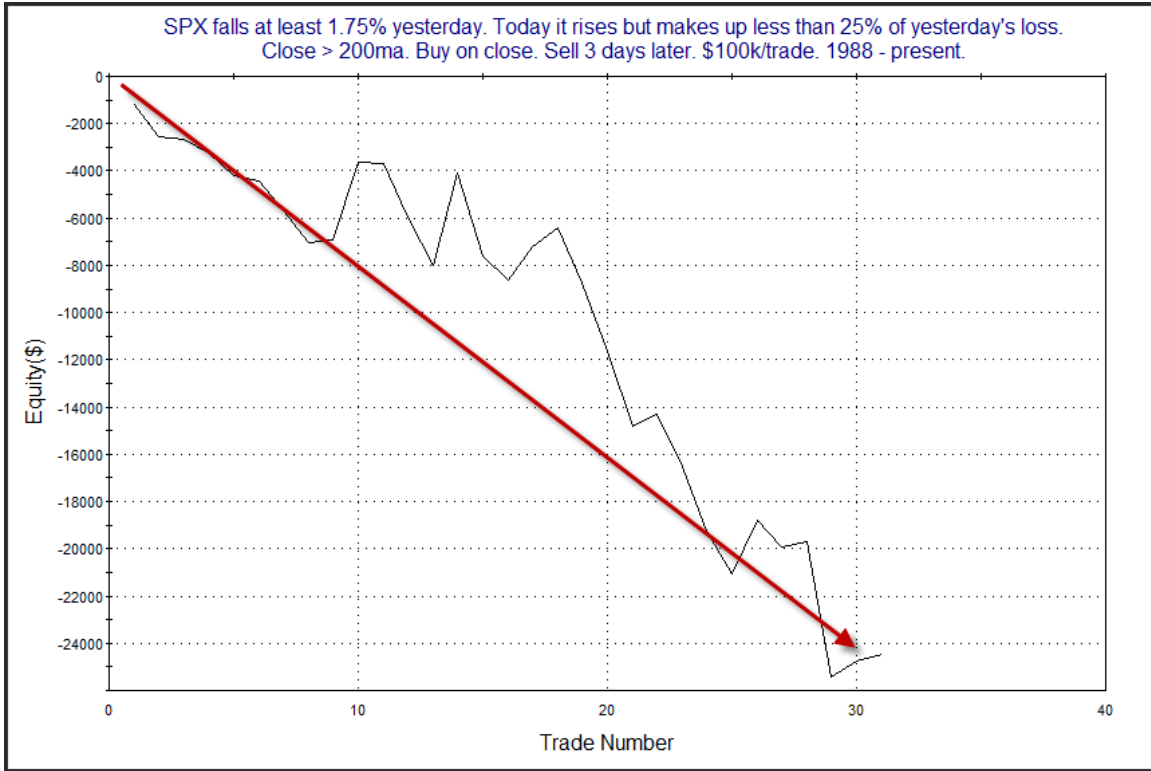
**The Evidence**

The market bounce back a little bit on Thursday. The SPX finished up 0.4%, the NASDAQ gained 0.7%, and the Russell 2000 rose 0.4%. Breadth was mixed as the NYSE Up Issues % was 51% and the Up Volume % came in at 48%. NYSE volume rose some from Wednesday’s level.

Often times, the 1<sup>st</sup> day of a bounce can provide us clues as to the chances of the bounce following through. As a basic guideline, a strong initial bounce from an oversold condition is more likely to see follow through than a weak bounce. One study I did with regards to this was last seen in the 7/1/15 letter. I have updated the results below.

| SPX falls at least 1.75% yesterday. Today it rises but makes up less than 25% of yesterday's loss. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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  | -12,074.59      | 24                | 10                  | 14                 | 41.67             | 1,625.78               | 4,769.00               | -2,023.74             | -5,506.23             | 0.80                | 0.57              | -503.11        |
| 4  | -12,050.72      | 24                | 10                  | 14                 | 41.67             | 1,696.87               | 2,587.95               | -2,072.82             | -4,284.75             | 0.82                | 0.58              | -502.11        |
| 3  | -18,758.10      | 24                | 10                  | 14                 | 41.67             | 1,343.36               | 3,939.79               | -2,299.41             | -5,685.45             | 0.58                | 0.42              | -781.59        |
| 2  | -11,574.35      | 25                | 12                  | 13                 | 48.00             | 746.18                 | 2,794.56               | -1,579.12             | -3,844.10             | 0.47                | 0.44              | -462.97        |
| 1  | -8,659.02       | 25                | 11                  | 14                 | 44.00             | 620.81                 | 1,669.20               | -1,106.28             | -2,302.95             | 0.56                | 0.44              | -346.36        |

The numbers here look decidedly bearish. Below is a look at a 3-day profit curve.



The strong and persistent decline serves as some confirmation of the downside edge.

There was a blog post I did way back on 10/17/08 that looked at times the VIX made a 100-day high but SPX did NOT make a 100-day low. It generally found this to be a favorable setup for a move higher in SPX over the coming days. I sliced it a bit further tonight to see how it might apply to the current setup. First, I filtered it so that the SPX must also close above the 200ma. The next thing I did is break down results by times the SPX closed higher on the day vs lower. The 2 results tables are below.

VIX makes 100-day intraday high. SPX does NOT make a 100-day intraday low. SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1990 - present.

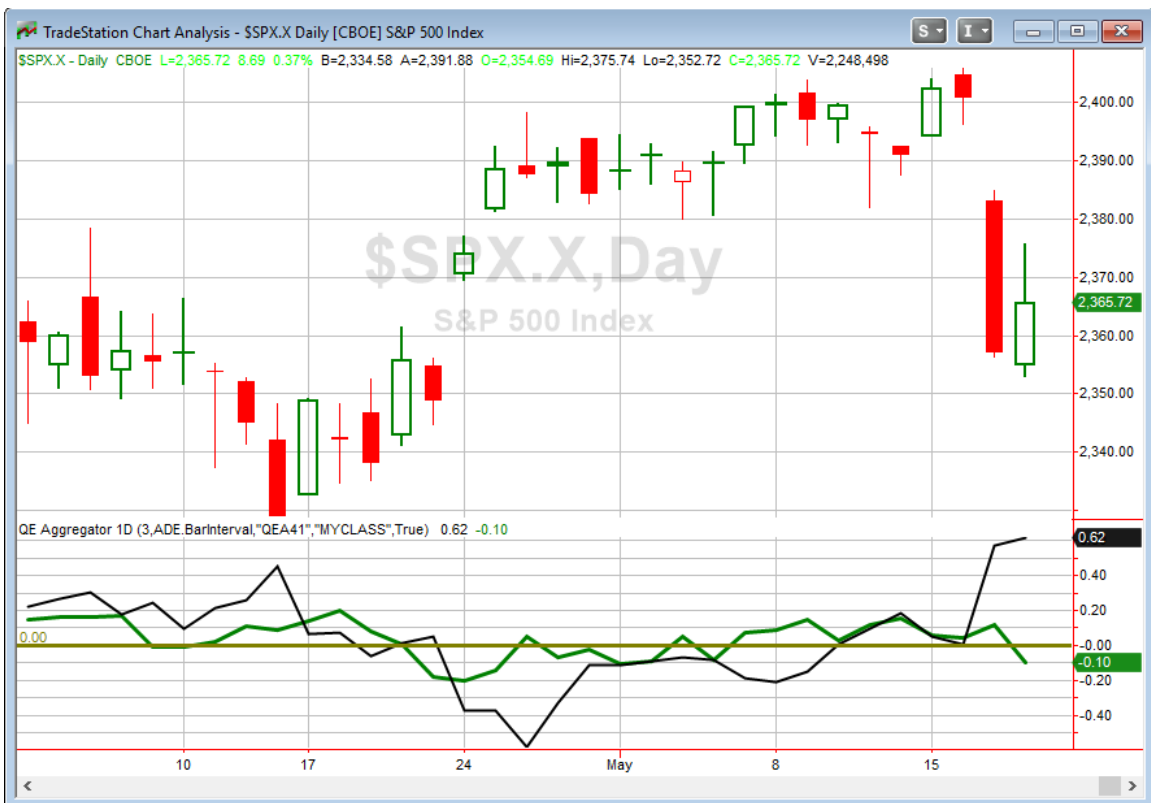
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10     | 39,299.47       | 32                | 25                  | 7                  | 78.13             | 2,584.96               | 6,401.46               | -3,617.79             | -9,869.76             | 0.71                | 2.55              | 1,228.11       |
| 9      | 45,511.46       | 33                | 26                  | 7                  | 78.79             | 2,464.01               | 6,145.62               | -2,650.40             | -9,101.56             | 0.93                | 3.45              | 1,379.14       |
| 8      | 47,738.12       | 33                | 25                  | 8                  | 75.76             | 2,460.45               | 6,960.84               | -1,721.63             | -9,154.20             | 1.43                | 4.47              | 1,446.61       |
| 7      | 49,254.52       | 34                | 22                  | 12                 | 64.71             | 2,618.13               | 7,500.06               | -695.35               | -3,577.86             | 3.77                | 6.90              | 1,448.66       |
| 6      | 50,611.09       | 35                | 28                  | 7                  | 80.00             | 2,159.46               | 7,272.06               | -1,407.69             | -3,322.53             | 1.53                | 6.14              | 1,446.03       |
| 5      | 41,635.20       | 36                | 25                  | 11                 | 69.44             | 2,251.26               | 7,070.28               | -1,331.48             | -4,961.56             | 1.69                | 3.84              | 1,156.53       |
| 4      | 41,534.58       | 39                | 29                  | 10                 | 74.36             | 2,073.95               | 4,690.50               | -1,861.00             | -3,551.20             | 1.11                | 3.23              | 1,064.99       |
| 3      | 38,453.29       | 40                | 28                  | 12                 | 70.00             | 1,877.94               | 3,940.55               | -1,177.42             | -2,752.04             | 1.59                | 3.72              | 961.33         |
| 2      | 27,555.76       | 44                | 28                  | 16                 | 63.64             | 1,449.37               | 4,809.66               | -814.17               | -2,726.97             | 1.78                | 3.12              | 626.27         |
| 1      | 21,320.25       | 54                | 36                  | 17                 | 66.67             | 1,050.33               | 5,117.46               | -970.09               | -2,454.04             | 1.08                | 2.29              | 394.82         |

VIX makes 100-day intraday high. SPX does NOT make a 100-day intraday low. SPX closes up and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1990 - 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     | -9,288.76       | 16                | 9                   | 7                  | 56.25             | 1,708.61               | 3,177.25               | -3,523.75             | -11,602.12            | 0.48                | 0.62              | -580.55        |
| 9      | -1,459.32       | 16                | 8                   | 8                  | 50.00             | 2,020.24               | 4,737.12               | -2,202.65             | -5,189.72             | 0.92                | 0.92              | -91.21         |
| 8      | 3,596.93        | 16                | 9                   | 7                  | 56.25             | 2,017.42               | 3,809.97               | -2,079.98             | -3,779.36             | 0.97                | 1.25              | 224.81         |
| 7      | 7,966.22        | 17                | 11                  | 6                  | 64.71             | 1,540.47               | 4,500.69               | -1,496.49             | -3,642.93             | 1.03                | 1.89              | 468.60         |
| 6      | 8,395.99        | 17                | 10                  | 7                  | 58.82             | 1,620.82               | 4,221.66               | -1,116.03             | -2,919.84             | 1.45                | 2.07              | 493.88         |
| 5      | 11,190.13       | 17                | 11                  | 6                  | 64.71             | 1,707.18               | 5,396.71               | -1,264.81             | -2,497.11             | 1.35                | 2.47              | 658.24         |
| 4      | 1,628.96        | 19                | 11                  | 8                  | 57.89             | 1,183.37               | 2,860.56               | -1,423.52             | -4,559.50             | 0.83                | 1.14              | 85.73          |
| 3      | -4,940.98       | 20                | 11                  | 9                  | 55.00             | 1,022.25               | 3,127.71               | -1,798.42             | -4,707.50             | 0.57                | 0.69              | -247.05        |
| 2      | 1,182.14        | 20                | 9                   | 11                 | 45.00             | 1,634.55               | 2,927.74               | -1,229.89             | -3,138.00             | 1.33                | 1.09              | 59.11          |
| 1      | 5,830.18        | 20                | 11                  | 9                  | 55.00             | 1,041.10               | 2,842.84               | -624.66               | -2,034.00             | 1.67                | 2.04              | 291.51         |

Unfortunately for the bulls, the 2<sup>nd</sup> case is the one that is currently active. There does not appear to be a substantial edge based on this setup. Had SPX closed down on Thursday, then the odds would have looked much better. So this study is not included on the Active List.

I have updated the Aggregator chart below.



With 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 remained above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are set to remain bearish on Friday. This could change if compelling new bullish evidence emerges. The Differential Pivot will be 2406.05 on Friday. That is 1.7% above Thursday's close. So SPX would need to close up at least 1.7% to turn overbought as of Friday's close. That is a 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.

I am a bit surprised that the evidence turned sour so quickly. I feel like we could certainly get more out of this bounce. But like the study shows, similar bounces have not fared well in the following days. So rather than fight the odds, I will look to exit my long index exposure at the open on Friday. I do still have a number of Catapults active and I will hold them until they generate exit signals.

***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)

DIS – 1/3 @ \$106.31 (bought @ limit)

FB – 1/3 @ \$144.85 (bought @ limit)

VZ – 1/3 @ \$44.48 (bought @ 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.

None tonight

### Current Open Trade Ideas

| Symbol   | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes        |
|----------|------------|-------------|---------------|-------------|------|--------------|
| DIS(1/3) | 5/4/2017   | \$110.58    | \$106.68      | -3.53%      |      | Catapult     |
| DIS(1/3) | 5/5/2017   | \$111.17    | \$106.68      | -4.04%      |      | Catapult     |
| DIS(1/3) | 5/18/2017  | \$105.98    | \$106.68      | 0.66%       |      | Catapult     |
| FB(1/3)  | 5/18/2017  | \$144.72    | \$147.66      | 2.03%       |      | Catapult     |
| VZ(1/3)  | 5/18/2017  | \$44.48     | \$45.04       | 1.26%       |      | Catapult     |
| SPY(1/4) | 5/18/2017  | \$235.73    | \$236.77      | 0.44%       |      | sell on open |

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