

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 26, 2017

Volume 10 Issue 101

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr / SOMA Swing |
|------------|----------------|-------------------------|
| Flat | 50% Long XIV | Flat |

Tonight's Research Points

- 5 higher highs is not indicative of a rally in need of a pullback when it is at an intermediate-term high.

Short-term Outlook

The Bottom Line

Similar to last night, the studies suggest up is the more likely direction, but the market is still short-term overbought. This again leaves me 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 22, 2017 | 10 Intra-Low yest. Unfill gap. Cls<10m. | 1-5 days | Bullish | | | |
| May 22, 2017 | 1.75% drop. Then up 2 < 3 ago. | 1-5 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% |
| 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

Thursday saw the market rise for the 6th day in a row, and also generated more all-time highs. The SPX finished up 0.4%, the NASDAQ gained 0.7%, and the Russell 2000 rose 0.1%. Breadth was mixed as the NYSE Up Issues % was 53% and the Up Volume % came in at 43%. NYSE volume rose some for the 2nd day in a row.

An interesting study from the Quantifinder looked at the possible impact of 5 higher highs occurring. I last looked at this in the 11/27/13 letter. The studies examined the impact of the position of the market when the 5 higher highs occurred. I broke it down again tonight. I wanted to see all times the 5 higher highs were accompanied by a 50-day high versus times they weren't. First let's look at times where 5 higher highs occur without a 50-day high.

| SPY makes a higher high for the 5th day in a row but not a 50-day intraday high. 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 | -15,817.42 | 68 | 36 | 32 | 52.94 | 1,391.25 | 8,382.48 | -2,059.45 | -6,714.00 | 0.68 | 0.76 | -232.61 |
| 4 | -34,288.78 | 68 | 31 | 37 | 45.59 | 1,087.72 | 3,317.60 | -1,838.05 | -7,879.83 | 0.59 | 0.50 | -504.25 |
| 3 | -6,813.96 | 68 | 38 | 30 | 55.88 | 1,069.26 | 4,059.44 | -1,581.52 | -4,560.85 | 0.68 | 0.86 | -100.21 |
| 2 | 4,826.39 | 68 | 37 | 31 | 54.41 | 957.36 | 5,364.26 | -986.97 | -2,399.36 | 0.97 | 1.16 | 70.98 |
| 1 | 378.77 | 68 | 33 | 35 | 48.53 | 598.62 | 3,057.76 | -553.59 | -2,245.23 | 1.08 | 1.02 | 5.57 |

Stats over the 1st few days suggest a possible mild downside edge. After 5 higher highs the market will sometimes need a breather.

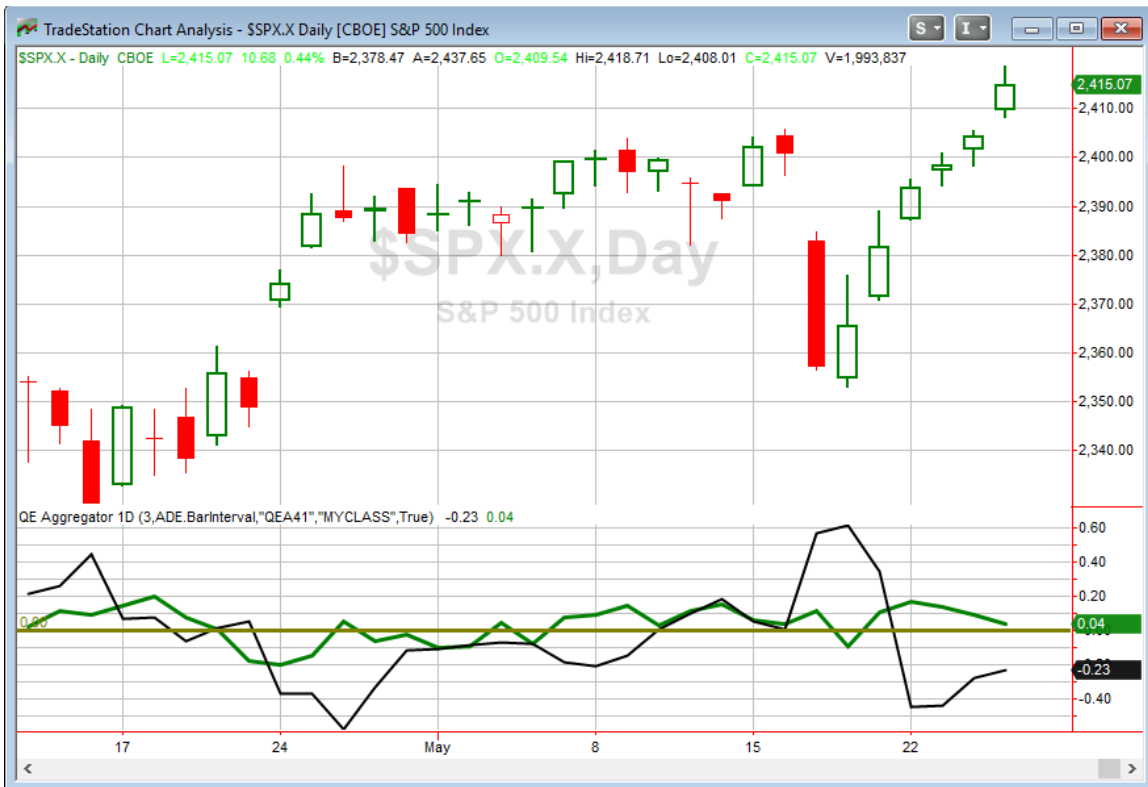
But what of times (like now) when a strong uptrend exists and the market is also making a 50-day high? Those stats can be found below.

SPY makes a higher high for the 5th day in a row and a 50-day intraday high.
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 | 2,765.84 | 57 | 28 | 29 | 49.12 | 1,189.71 | 3,452.80 | -1,053.31 | -3,514.00 | 1.13 | 1.09 | 48.52 |
| 4 | -63.85 | 57 | 30 | 27 | 52.63 | 934.56 | 2,413.62 | -1,040.76 | -3,646.08 | 0.90 | 1.00 | -1.12 |
| 3 | -4,627.54 | 57 | 31 | 25 | 54.39 | 740.76 | 2,362.10 | -1,103.65 | -3,561.68 | 0.67 | 0.83 | -81.18 |
| 2 | -2,087.41 | 57 | 31 | 25 | 54.39 | 580.46 | 2,545.92 | -803.27 | -2,585.46 | 0.72 | 0.90 | -36.62 |
| 1 | -1,945.11 | 57 | 29 | 28 | 50.88 | 358.89 | 1,495.81 | -441.17 | -1,745.63 | 0.81 | 0.84 | -34.12 |

Interestingly, the number of instances has been nearly the same. But with an intermediate-term rally also occurring the tendency to pull back no longer exists. So the 5 higher highs are really of no concern in situations like the current one.

I have updated the Aggregator chart below.



Without any new 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 held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain slightly bullish on Friday. This could easily change if new bearish evidence emerges. The Differential Pivot will be 2408.13 on Friday. That is 0.3% below Thursday's close. So for SPX to move from overbought to oversold versus expectations on Friday it will need to close down at least 0.3%.

Very similar to last night. Short-term edges are pretty lacking at the moment. I'd like to see some compelling new short-term evidence emerge before putting capital at risk. So I will continue to wait for the next setup with strongly favorable reward/risk potential to emerge. It does not appear we are there, yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/22 –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

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------------|------------------|-----------------|-----------------|--------------|------|---------------------|
| DIS(1/3) | 5/4/2017 | \$110.58 | \$107.27 | -2.99% | | sell on open |
| DIS(1/3) | 5/5/2017 | \$111.17 | \$107.27 | -3.51% | | sell on open |
| DIS(1/3) | 5/18/2017 | \$105.98 | \$107.27 | 1.22% | | sell on open |
| FB(1/3) | 5/18/2017 | \$144.72 | \$150.30 | 3.86% | | sold on open |
| | | | | | | |
| | | | | | | |

FB was sold at the open as per last night's letter.

DIS reached its intraday target that I mentioned in last night's letter. It will be exited at the open on Friday.

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