

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 31, 2017

Volume 10 Issue 103

Market Overview



Signals Overview

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

Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- A poor close to end the month could suggest bullish odds for Thursday.

Short-term Outlook

The Bottom Line

Evidence is mildly bullish and the market is no longer overbought. I may look to take on some long exposure Wednesday if we see more selling.

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 31, 2017	5+ days up to 50-high. Then 1 down.	1-2 days	Bullish	0.80%	-0.50%	-1.10%
Active - Long Term						
May 31, 2017	5+ days up to 50-high. Then 1 down.	1-10 days	Bullish	1.90%	-1.05%	-2.20%
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			

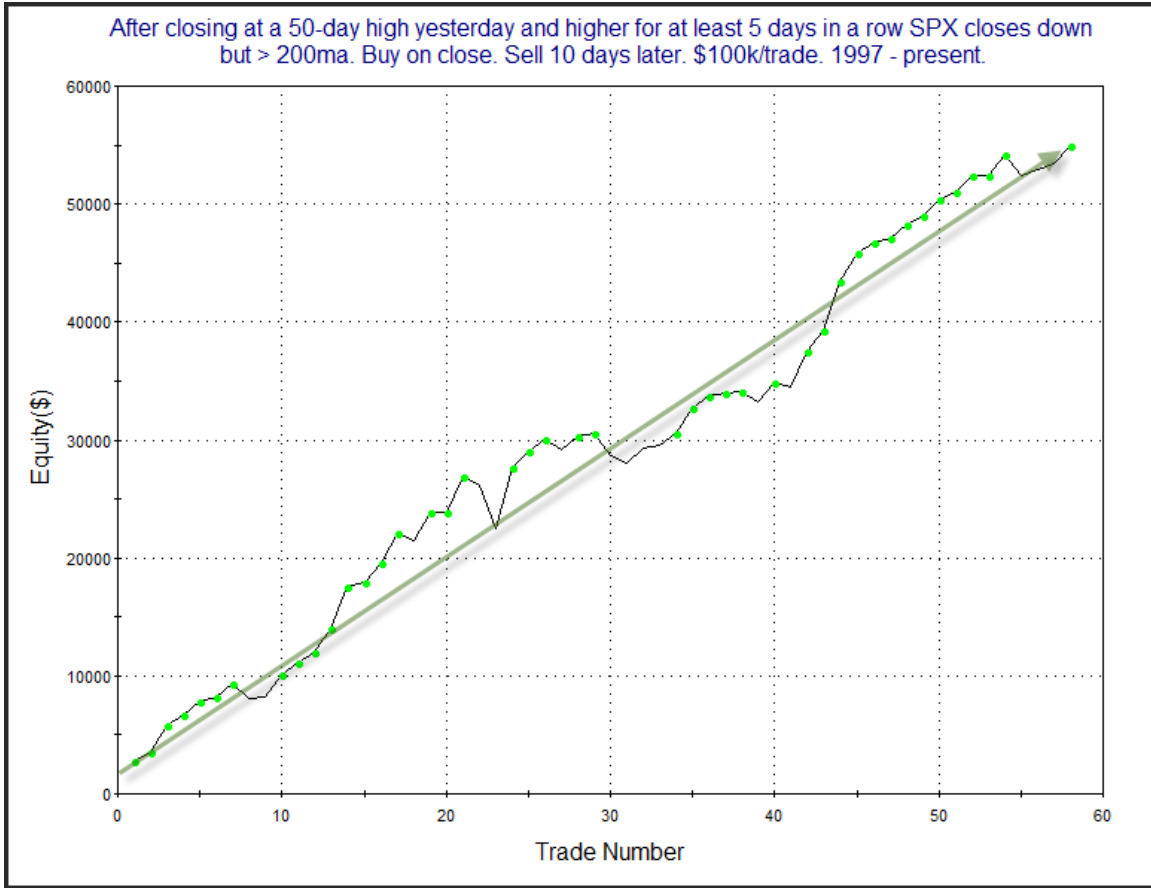
The Evidence

Tuesday was a mild pullback day for the market. The SPX finished down 0.12%, the NASDAQ lost 0.11%, and the Russell 2000 declined 0.8%. Breadth was negative as the NYSE Up Issues % was 37% and the Up Volume % came in at 36%. NYSE volume came in a little higher than Friday.

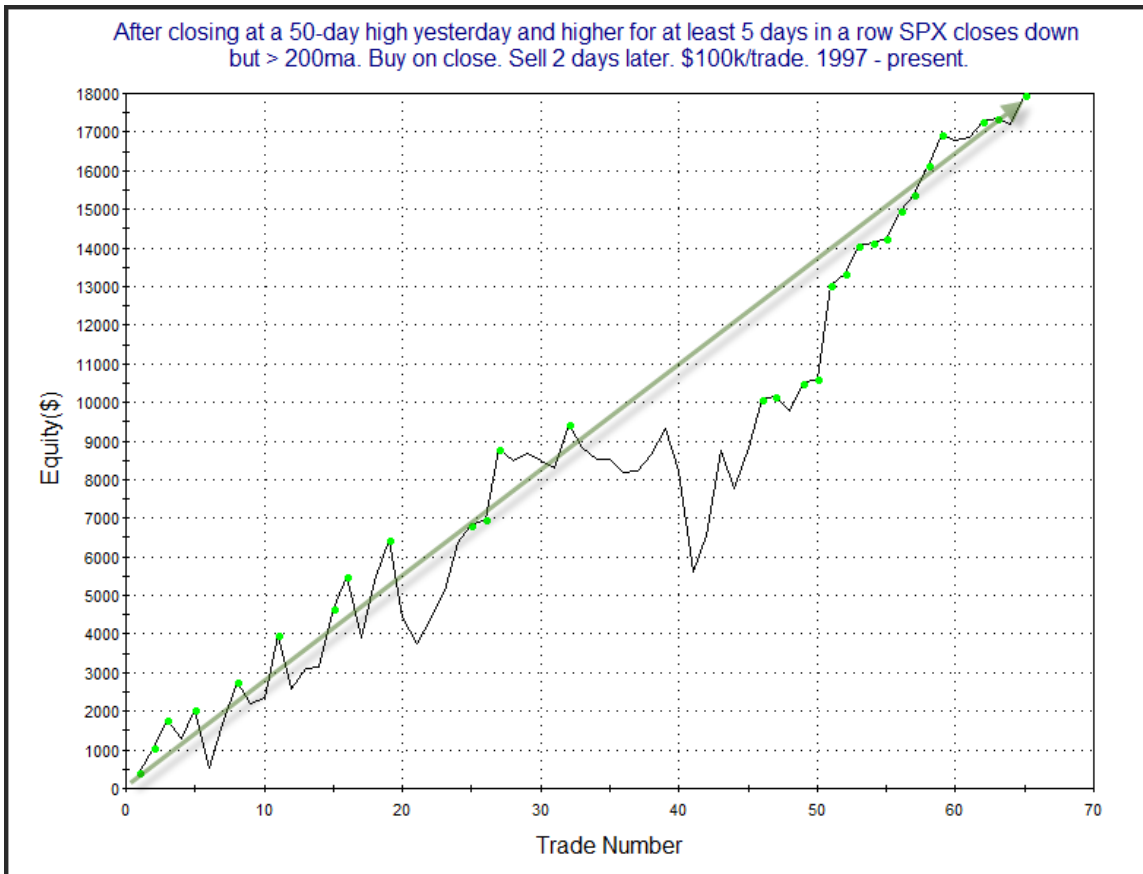
One compelling study that triggered tonight suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 2/17/17 Letter. I have updated the stats in the table below.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	54,944.86	58	48	10	82.76	1,413.97	5,131.35	-1,292.59	-3,672.90	1.09	5.25	947.33
9	55,243.96	61	50	11	81.97	1,408.47	5,023.20	-1,379.97	-4,151.40	1.02	4.64	905.64
8	48,135.40	62	44	18	70.97	1,601.99	4,878.08	-1,241.79	-4,874.10	1.29	3.15	776.38
7	36,295.04	63	43	20	68.25	1,434.58	3,874.76	-1,269.59	-3,912.48	1.13	2.43	576.11
6	36,852.37	65	45	20	69.23	1,315.95	4,307.20	-1,118.27	-3,637.71	1.18	2.65	566.96
5	28,519.95	65	41	24	63.08	1,161.30	4,252.50	-795.56	-2,466.75	1.46	2.49	438.77
4	30,012.94	65	41	24	63.08	1,171.10	3,843.00	-750.09	-3,003.39	1.56	2.67	461.74
3	18,828.79	65	42	23	64.62	872.49	2,472.85	-774.59	-1,992.34	1.13	2.06	289.67
2	17,957.55	65	45	20	69.23	743.32	2,437.50	-774.59	-2,614.95	0.96	2.16	276.27
1	10,698.49	65	43	21	66.15	511.11	1,751.19	-537.11	-1,744.10	0.95	1.95	164.59

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 2-day curve.



Results are choppy. But even with more whipsaws this one appears worthy of consideration. I have included this study on both the short-term and intermediate-term active lists.

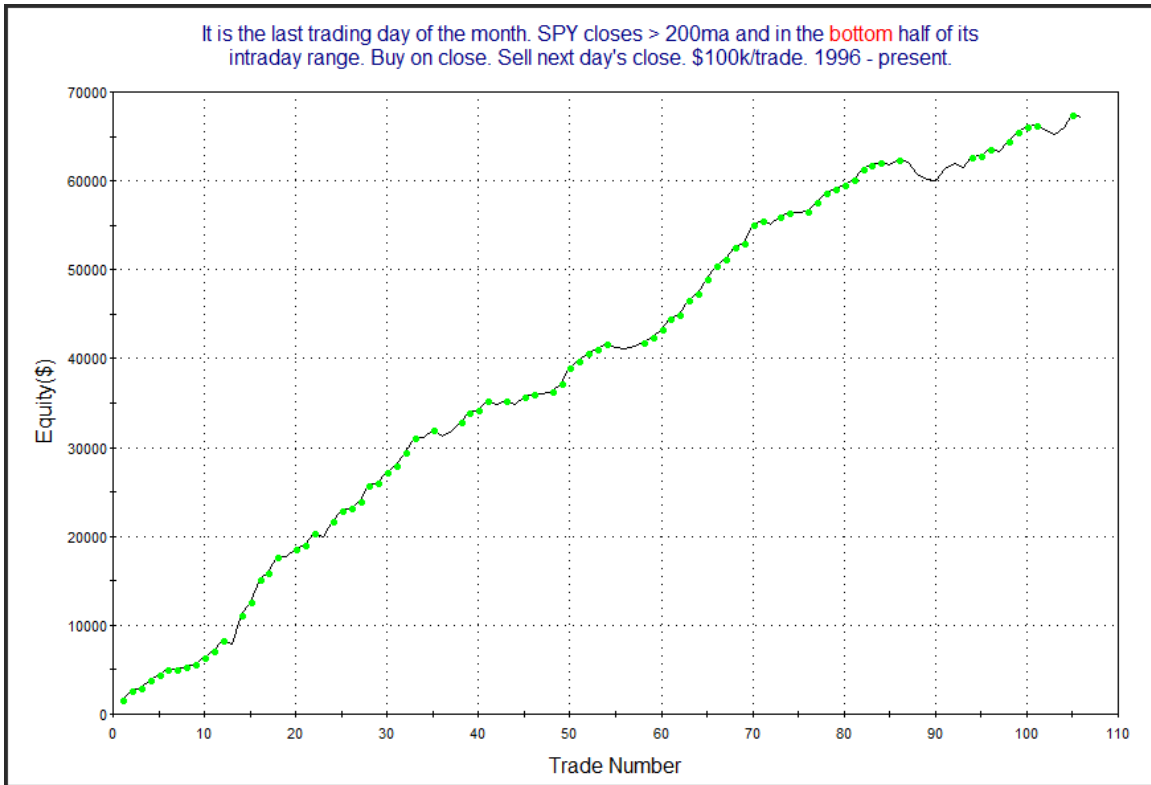
It is also worth noting that Wednesday is the last trading day of the month. In the 5/1/17 letter I showed some studies about the 1st trading day of the month based on how the last trading day of the previous month performed. I have copied those studies below. (Not updated.)

The first study looks at times where the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$67,243.57	Profit Factor	8.97
Gross Profit	\$75,682.75	Gross Loss	(\$8,439.18)
Total Number of Trades	106	Percent Profitable	79.25%
Winning Trades	84	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	\$634.37	Ratio Avg. Win:Avg. Loss	2.35
Avg. Winning Trade	\$900.99	Avg. Losing Trade	(\$383.60)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are over 9x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 106 instances. Below is a profit curve.



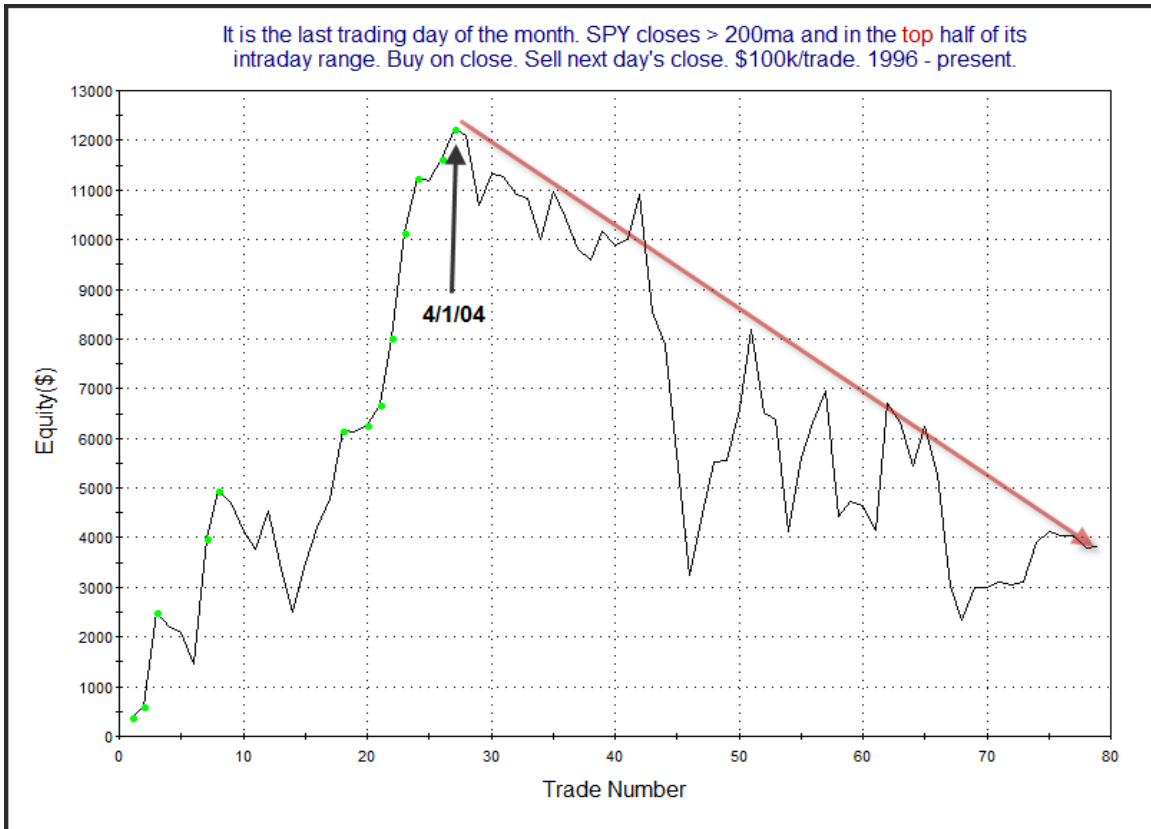
The long and persistent upslope is impressive, and serves to confirm the numbers.

Let's also examine what the results would have looked like if SPY closed in the top half of its intraday range. (Also from the 3/31/17 letter.)

It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

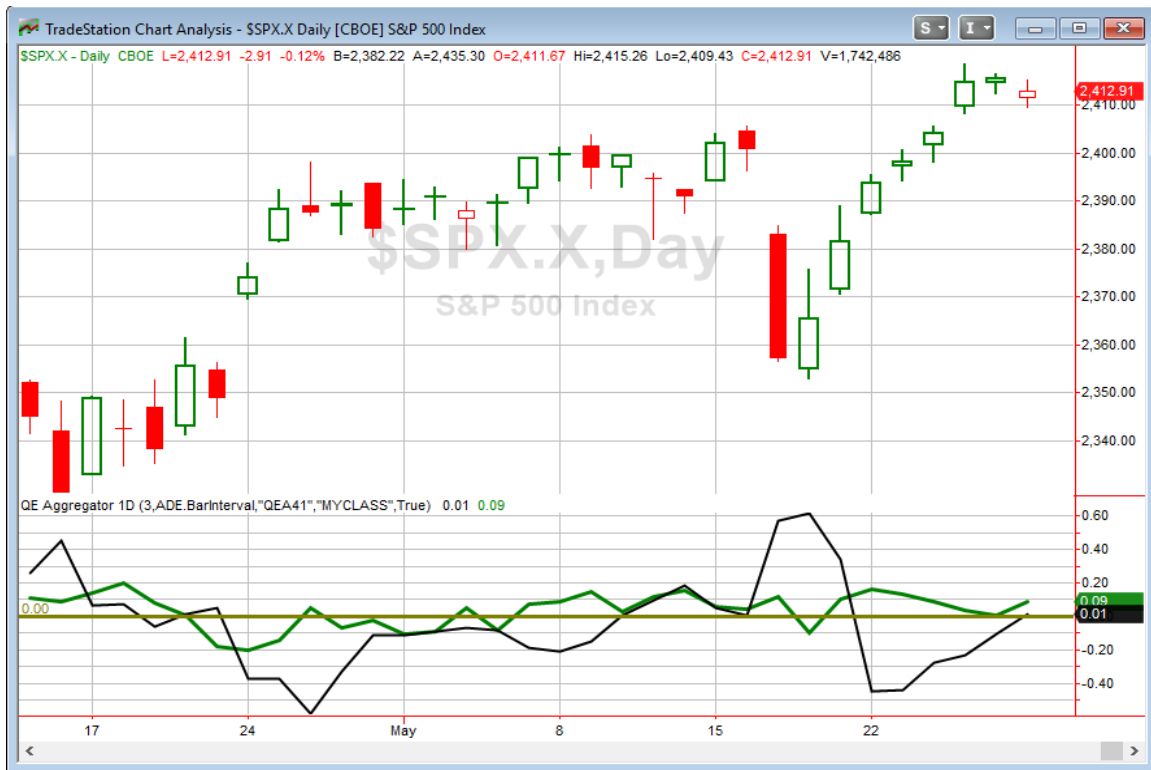
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$3,833.95	Profit Factor	1.13
Gross Profit	\$33,053.26	Gross Loss	(\$29,219.31)
Total Number of Trades	79	Percent Profitable	51.90%
Winning Trades	41	Losing Trades	38
Even Trades	0		
Avg. Trade Net Profit	\$48.53	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$806.18	Avg. Losing Trade	(\$768.93)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



This paints an even bleaker picture.

I have updated the Aggregator chart below.



With tonight's new study to consider the green Aggregator line remained slightly positive. 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. Therefore, the Aggregator signal turned (slightly) long at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2421.38 on Wednesday. That is 0.35% above Tuesday's close. So for SPX to move from oversold to overbought versus expectations on Wednesday it will need to close up at least 0.35%.

So there appears to be a mild upside edge at the moment. And mild may be the key word. Evidence is somewhat light, and the degree to which the market is oversold is very small. But we do have a few things that could be working in our favor on Thursday. For one, as I noted in last night's letter, the Thursday after Memorial Day has shown bullish tendencies. Additionally, the 1st trading day of the month has often been bullish – and depending on how Wednesday finishes, that could set up well for the bulls. So I won't rush into a position, but I may look to get long on Wednesday near the close if SPY fails to rally.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/30 –bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

New

KMI – 1/3 @ \$18.42 (*buy at limit*)

Broad Market Large Cap CBI – 1(KMI)

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 @ \$241.50 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take on some SPY exposure if Wednesday closes flat or down. And if it also closes weakly, I may add a 2nd lot as described below.

SPY – buy ¼ index position @ \$241.50 LIMIT ON CLOSE if SPY closes in bottom 50% of intraday range. I will look to take a 2nd lot if everything sets up properly. I will probably be looking to sell at least 1 of these lots fairly quickly on Thursday, and then utilize my typical approach with the other lot.

KMI – buy 1/3 Catapult position @ \$18.42 LIMIT. This is from the Catapult section above. It is the 1st of 3 possible lots for KMI.

Current Open Trade Ideas

None.

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