

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 1, 2017

Volume 10 Issue 104

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 down closes to finish an up month is often a positive.
- The Thursday after Memorial Day has historically been bullish

Short-term Outlook

The Bottom Line

Evidence is bullish and the market is oversold. I like the long side. I have some long exposure already and am looking to take advantage of a bounce.

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						
June 1, 2017	Memorial Thursday bullish	1 day	Bullish	0.80%		
June 1, 2017	Dn last 2 days of positive month	1-4 dyas	Bullish			
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

Wednesday was a mild pullback day for the market. The SPX finished down 0.05%, the NASDAQ lost 0.08%, and the Russell 2000 declined 0.07%. Breadth was negative as the NYSE Up Issues % was 49% and the Up Volume % came in at 40%. NYSE volume came in a little higher than Friday.

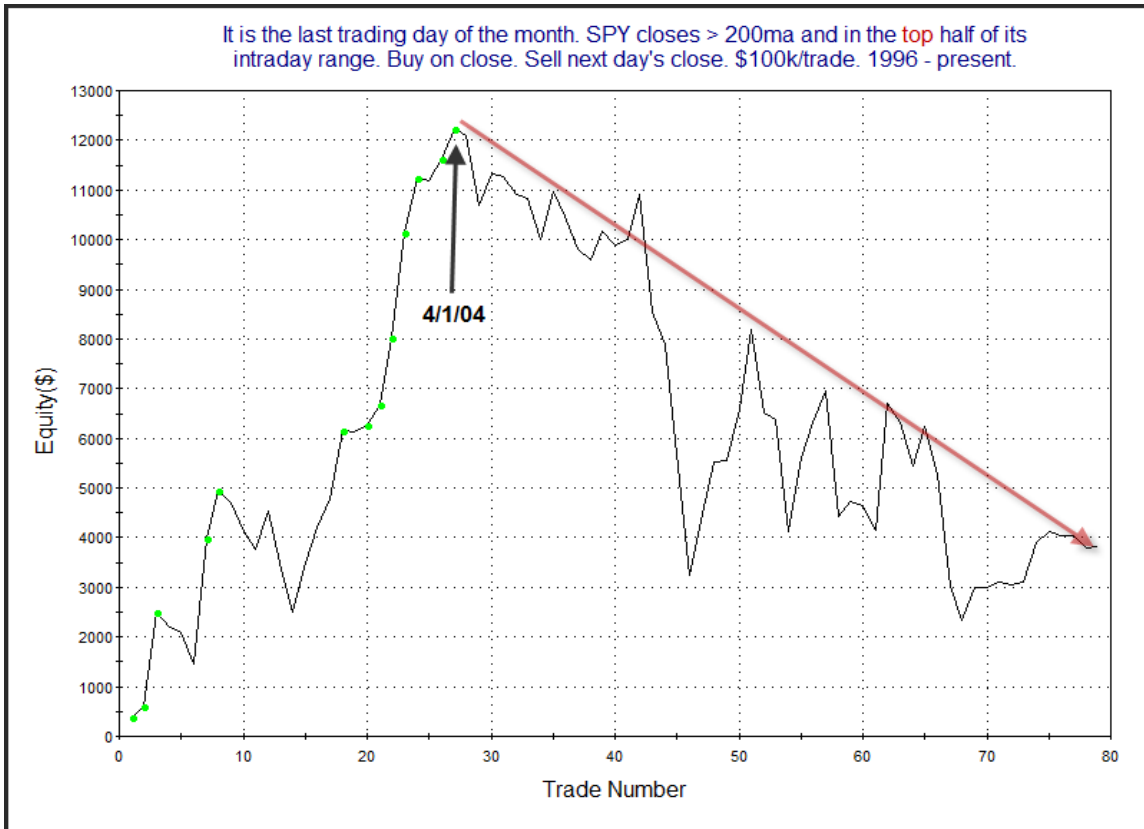
There were several studies that emerged related to turn of the month. In last night's letter I showed that closes in the bottom half of the intraday range on the last day of the month were much more favorable than closes in the top half of the range. SPY posted an afternoon rally and closed in the top half of the day's range. Below I have pasted my notes for those circumstances.

Let's also examine what the results would have looked like if SPY closed in the top half of its intraday range.

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.



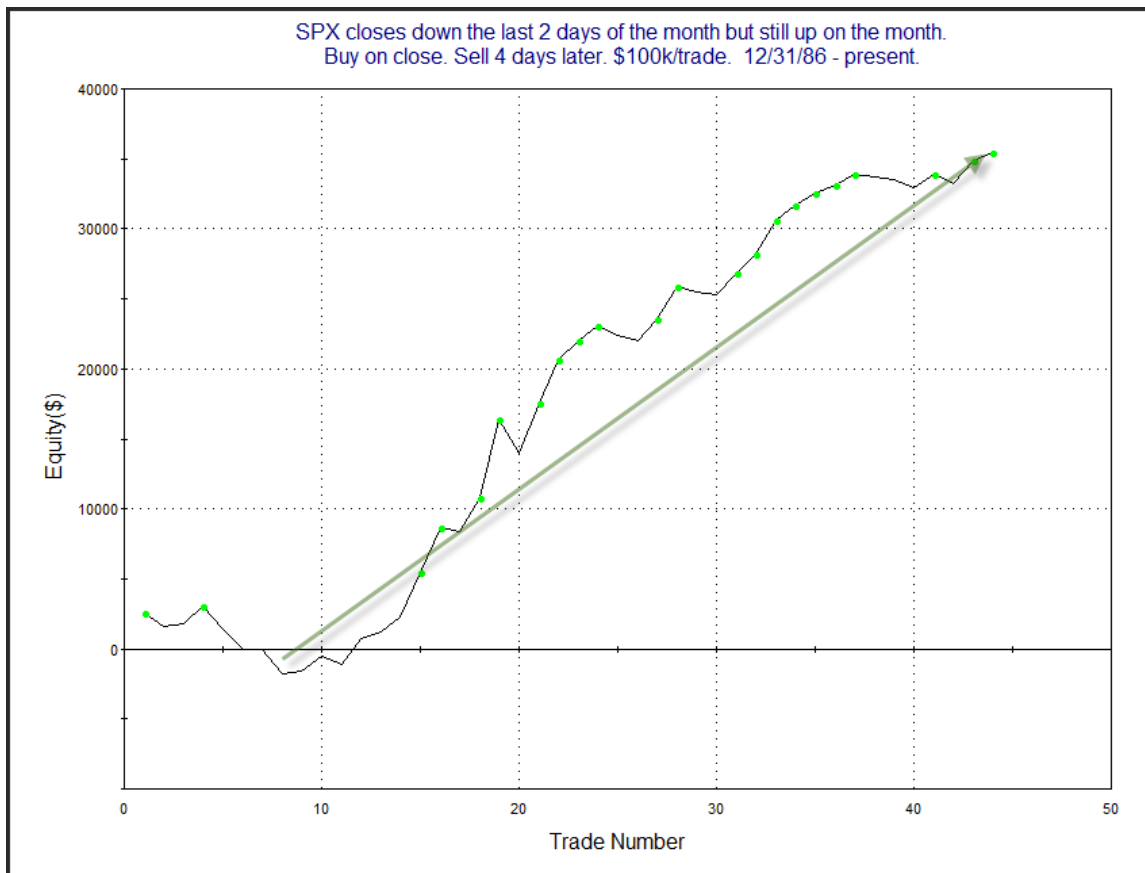
This paints an even bleaker picture.

So that study did not suggest a substantial edge. But there was one turn of month study that still appeared worth some consideration. It looked at times SPX closed down the last 2 days of the month but the month still posted overall gains. It was last seen in the 2/1/13 Letter. I have updated the stats below.

SPX closes down the last 2 days of the month but still up on the month.
Buy on close. Sell X days later. \$100k/trade. 12/31/86 - present.

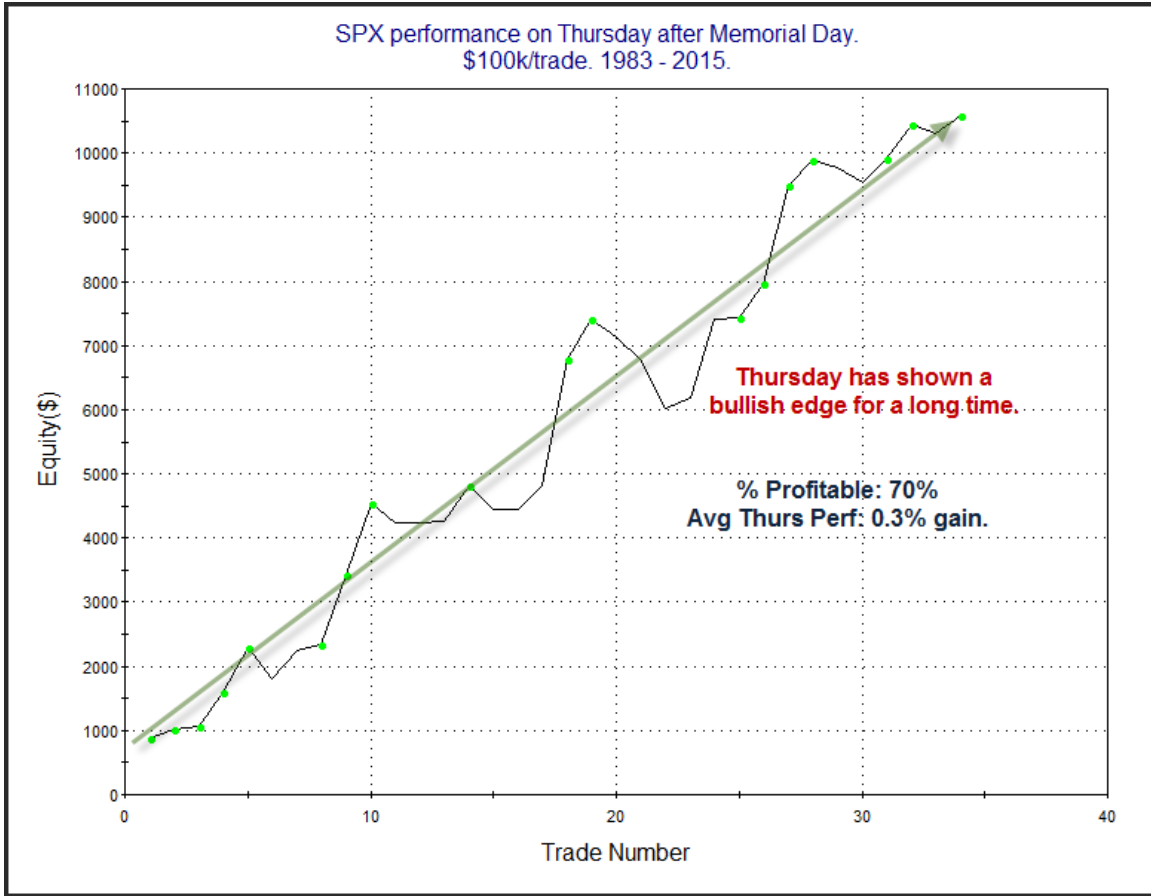
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	33,890.63	44	30	14	68.18	1,538.11	5,265.88	-875.19	-1,998.92	1.76	3.77	770.24
4	35,502.14	44	28	16	63.64	1,711.10	5,553.52	-775.55	-2,414.35	2.21	3.86	806.87
3	27,303.52	44	29	15	65.91	1,502.18	4,047.64	-1,083.99	-4,024.28	1.39	2.68	620.53
2	22,321.84	44	33	11	75.00	1,065.74	3,828.24	-1,167.96	-2,995.78	0.91	2.74	507.31
1	11,284.14	44	31	13	70.45	772.78	2,286.08	-974.76	-4,147.45	0.79	1.89	256.46

Results here would seem to suggest a decent edge over the next week. Below is a profit curve using a 4-day holding strategy.



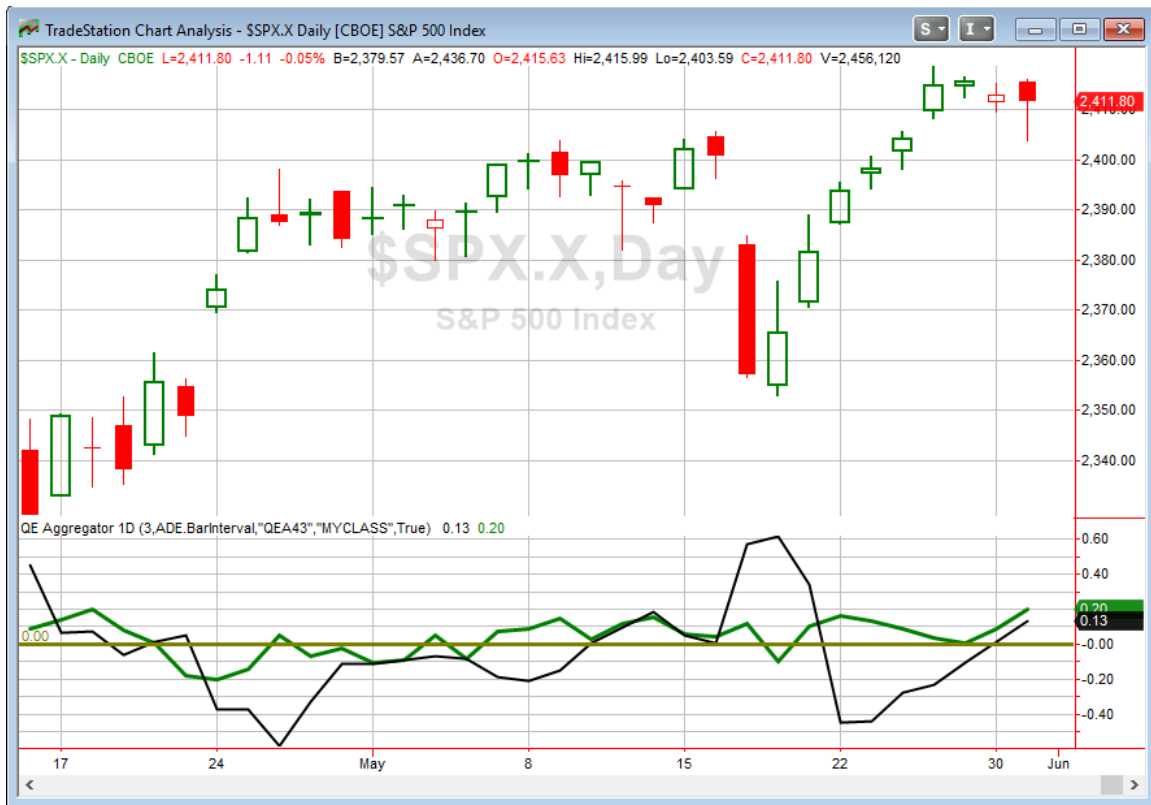
The upslope has been positive for a long time.

In the letter this past weekend, I looked at Memorial Week performance on a day by day basis. I found that Thursday by far showed the strongest and most consistent bullish tendency. Below is the profit curve I showed over the weekend that measured Thursday performance.



The curve here is impressive enough that I have included this on the Active List tonight.

I have updated the Aggregator chart below.



With tonight's studies to consider the green Aggregator line remained positive. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also moved further 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. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2419.00 on Thursday. That is 0.3% above Wednesday's close. So for SPX to move from oversold to overbought versus expectations on Wednesday it will need to close up at least 0.3%.

So the Aggregator is again suggesting a short-term bullish edge. But the Differential Line is not too far off, so a bounce on Thursday could easily mean the end of the bullish signal. I took on some long exposure on Wednesday in anticipation of a bounce. If the bounce arrives on Thursday and is powerful enough to turn the SPX overbought, I will look to take my profits on my index position.

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

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

KMI – 1/3 @ \$18.42 (bought 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KMI(1/3)	5/31/2017	\$18.38	\$18.76	2.07%		bought on open
SPY(1/4)	5/31/2017	\$241.44	\$241.44	0.00%		bought on close

I will look to sell SPY at \$242.16 LIMIT ON CLOSE, which would be right about at the SPX Differential Pivot.

One SPY lot was filled. But since it closed in the top half of the intraday range, the other lot was not filled.

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