

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 2, 2017

Volume 10 Issue 105

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX is quite stretched on an intermediate-term basis, but that has led to more intermediate-term upside in the past.

Short-term Outlook

The Bottom Line

Evidence is still bullish but the rally on Thursday has turned the SPX overbought. This leaves me neutral and awaiting a better opportunity.

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	Dn last 2 days of positive month	1-4 days	Bullish			
Active - Long Term						
June 2, 2017	SPX closes above 50-day Bollinger Band	1-50 days	Bullish	4.90%	-4.10%	-7.80%
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			
Dropped Tonight						
June 1, 2017	Memorial Thursday bullish	1 day	Bullish	0.80%		
May 31, 2017	5+ days up to 50-high. Then 1 down	1-2 days	Bullish	0.80%	-0.50%	-1.10%

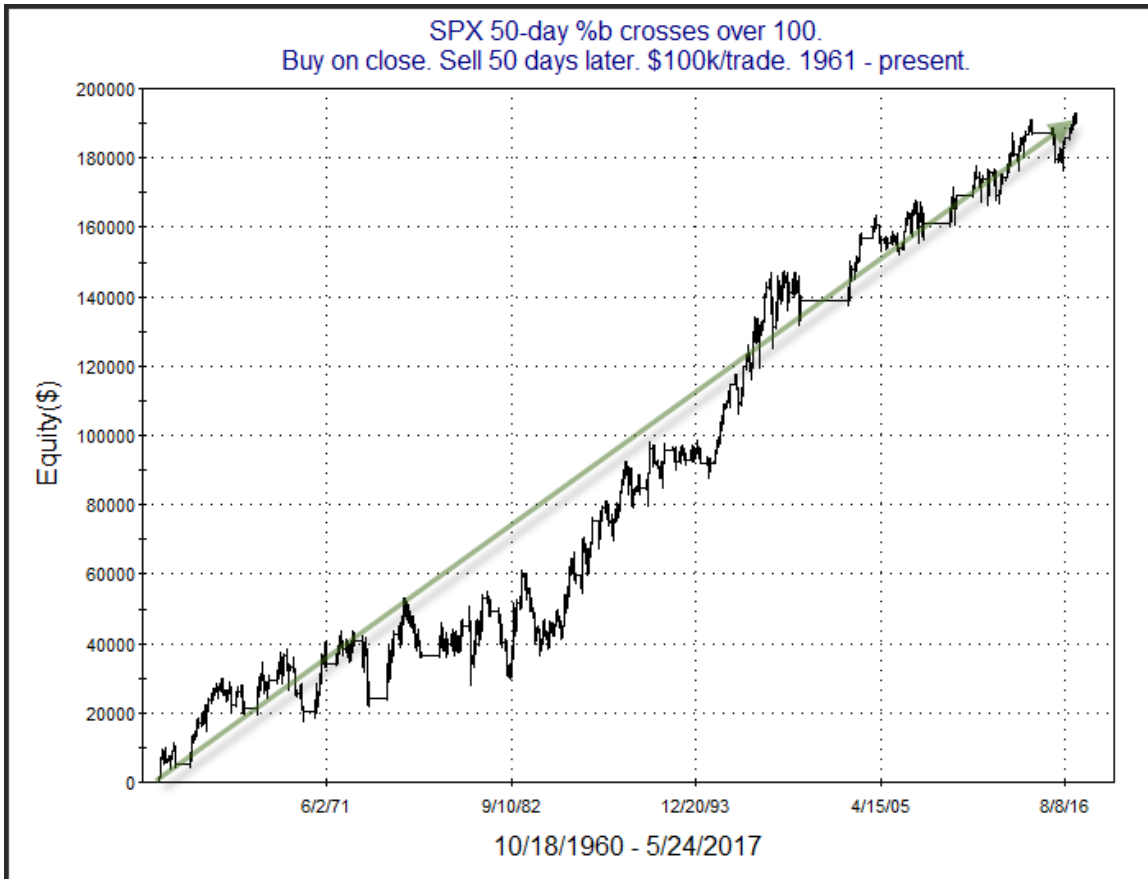
The Evidence

Thursday was a strong up day for the market with several new highs being made. The SPX rose 0.76%, the NASDAQ gained 0.78%, and the Russell 2000 rallied 1.89%. Breadth was strongly positive as the NYSE Up Issues % was 81% and the Up Volume % came in at 75%. NYSE volume came in a little higher than Friday.

One study from the 10/25/13 Subscriber Letter that triggered today has some potential intermediate-term implications, and it is fairly interesting, so I figured I would talk a little about it. This study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.

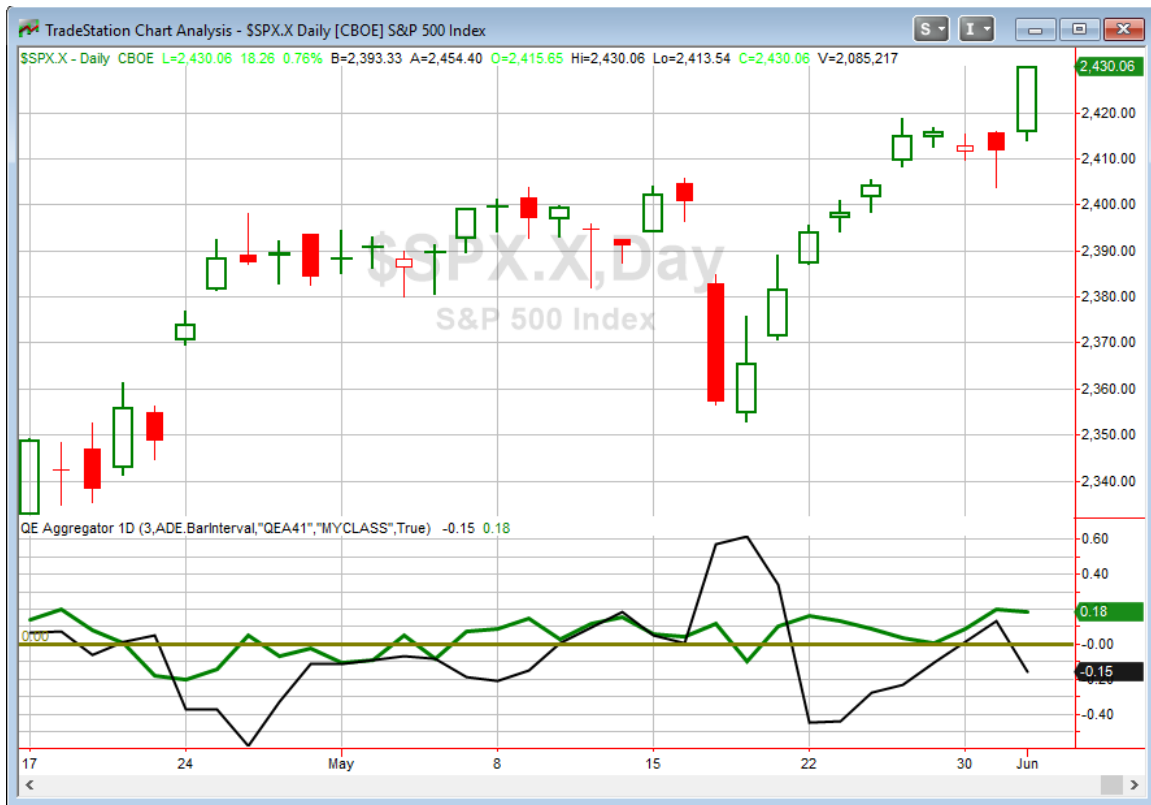
SPX 50-day %b crosses over 100. Buy on close. Sell X days later. \$100k/trade. 1961 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
50	192,535.97	137	83	54	60.58	4,940.75	18,408.18	-4,028.63	-15,795.00	1.23	1.89	1,405.37
45	149,676.88	144	82	62	56.94	4,910.45	15,816.57	-4,080.32	-25,812.76	1.20	1.59	1,039.42
40	161,419.55	147	88	59	59.86	4,382.66	17,624.67	-3,800.93	-15,540.70	1.15	1.72	1,098.09
35	144,280.77	155	93	62	60.00	3,995.71	15,782.13	-3,666.46	-13,617.00	1.09	1.63	930.84
30	97,295.97	160	95	65	59.38	3,322.80	11,920.74	-3,359.55	-10,485.00	0.99	1.45	608.10
25	74,995.38	167	96	71	57.49	3,067.82	10,859.94	-3,091.76	-8,732.16	0.99	1.34	449.07
20	67,654.70	177	100	77	56.50	2,731.26	9,501.30	-2,668.46	-10,205.38	1.02	1.33	382.23
15	73,529.53	193	111	82	57.51	2,387.91	7,843.46	-2,335.72	-9,763.44	1.02	1.38	380.98
10	70,232.84	216	137	79	63.43	1,725.94	8,239.16	-2,104.06	-9,133.53	0.82	1.42	325.15
5	39,698.91	259	154	104	59.46	1,135.77	5,030.81	-1,300.09	-5,817.77	0.87	1.29	153.28

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

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 strong move upwards in the SPX caused the black Differential Line to dive down 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 above 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. But with very few studies active, this could easily change if new bearish evidence emerges. The Differential Pivot will be 2416.03 on Friday. That is 0.6% below Thursday's close. So for SPX to move from overbought to oversold versus expectations on Thursday it will need to close down at least 0.6%.

The Aggregator is now neutral and I am also. The big jump to new highs seemed like a good place to take profits, so that is what I did. Friday's employment report, which is released 8:30am EST, about an hour before the NYSE open, could be a market mover as well. So I am happy to be sidelined with a nice 1-day profit, and I will now await the next favorable reward/risk opportunity to put my capital back to work.

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	\$18.99	3.32%		Catapult
SPY(1/4)	5/31/2017	\$241.44	\$243.36	0.80%		<i>sold on close</i>

SPY was sold at the close as indicated would happen in last night's letter.

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