

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 8, 2017

Volume 10 Issue 109

Market Overview



Signals Overview

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

Tonight's Research Points

- Very small gains after multiple down days have often been followed by more selling.

Short-term Outlook

The Bottom Line

Evidence is still bullish and the SPX is now oversold. But the evidence is somewhat weak, and I would like to see a bit more of a pullback before I get excited about new positions.

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 8, 2017	Down 2 days then up < 0.2%	1 day	Bearish			
June 6, 2017	Relatively large drop from 50-day high	1-3 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			

The Evidence

The market inched higher on Wednesday. The SPX gained 0.2%, the NASDAQ rose 0.4%, and the Russell 2000 climbed 0.1%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 43%. NYSE volume rose a little from Tuesday's level.

The mild move again did not trigger much in the Quantifinder. But there was some evidence worth discussing. The study below suggested the SPX bounce was so weak that it could be a concern. In the 12/27/16 letter I looked to see whether there was a substantial difference in performance following a small move down after two down days versus a small move up after two down days. Below I have updated that study.

First let's consider what happens after two down days are followed by a third lower close, but that third close is a drop of less than 0.2%.

SPX declines for the 3rd day in a row. Today's drop is less than 0.2%. Buy on close. Sell next day's close. \$100k/trade. 1999- present.			
All Trades			
Total Net Profit	\$9,684.79	Profit Factor	1.62
Gross Profit	\$25,352.88	Gross Loss	(\$15,668.09)
Total Number of Trades	46	Percent Profitable	69.57%
Winning Trades	32	Losing Trades	14
Even Trades	0		
Avg. Trade Net Profit	\$210.54	Ratio Avg. Win:Avg. Loss	0.71
Avg. Winning Trade	\$792.28	Avg. Losing Trade	(\$1,119.15)
Largest Winning Trade	\$2,286.08	Largest Losing Trade	(\$2,452.26)

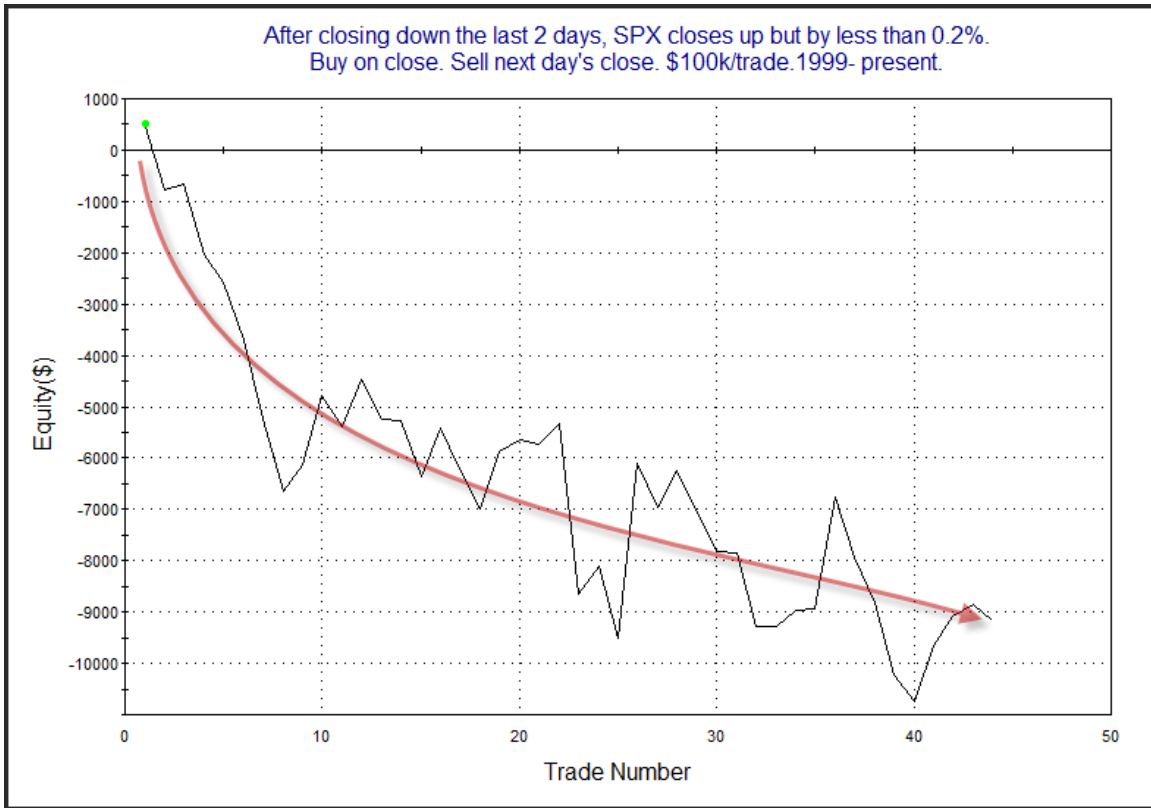
Results here are mildly suggestive of an upside edge.

Now let's look at times like the present where two down days were followed by an up day, but that up day rose less than 0.2%.

After closing down the last 2 days, SPX closes up but by less than 0.2%.
Buy on close. Sell next day's close. \$100k/trade. 1999- present.

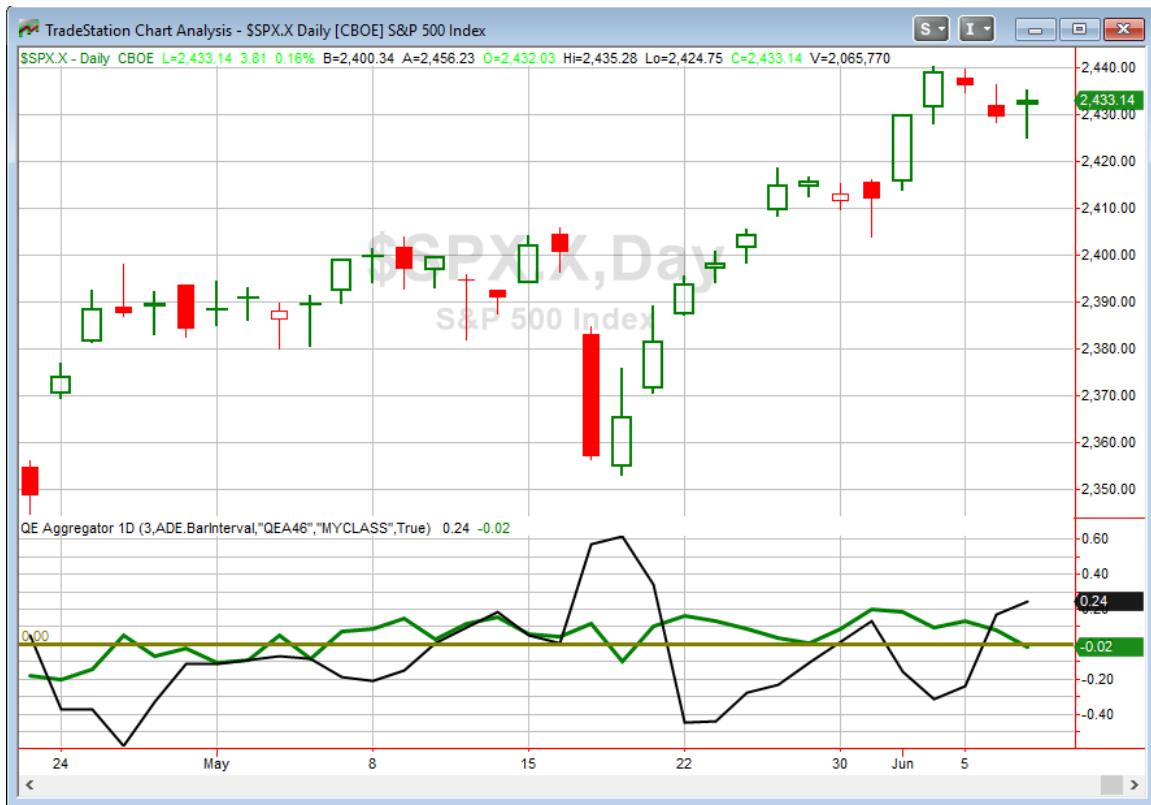
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$9,166.49)	Profit Factor	0.62
Gross Profit	\$15,133.70	Gross Loss	(\$24,300.19)
Total Number of Trades	44	Percent Profitable	43.18%
Winning Trades	19	Losing Trades	25
Even Trades	0		
Avg. Trade Net Profit	(\$208.33)	Ratio Avg. Win:Avg. Loss	0.82
Avg. Winning Trade	\$796.51	Avg. Losing Trade	(\$972.01)
Largest Winning Trade	\$3,390.64	Largest Losing Trade	(\$3,325.38)

As you can see, results here suggest a small down day is substantially different than a small up day. While not overwhelming, the edge in this case would appear to be for more downside. Lastly, I decided to show a profit curve assuming a 1-day holding period.



I don't love this curve, but I believe it is good enough to merit some consideration.

I have updated the Aggregator chart below.



With tonight's study 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 turn back to bullish on Thursday. But with very few studies active, this could easily change if new bearish evidence emerges. The Differential Pivot will be 2446.20 on Thursday. That is 0.5% above Wednesday's close. So for SPX to move from oversold to overbought versus expectations on Thursday it will need to close up at least 0.5%

Expectations are now negative, but only set to remain that way for 1 day. Meanwhile the oversold nature of the market has the Aggregator neutral. Overall, this is not a setup that appears to have very favorable reward/risk. I don't have an index position at the moment, and I won't be taking one until I see a more favorable entry opportunity.

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	\$18.68	1.63%	\$18.40	Catapult

KMI still has not managed to trigger its exit, though it is very close. Any intraday move >= \$19.11 on Thursday will see it reach its exit target. It would then be officially sold at the open on Friday. I will also note that I added a stop to this trade idea. I have been in it long enough that I do not see a point in allowing it to turn into a loser and enduring another leg down.

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