

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 19, 2017

Volume 10 Issue 116

Market Overview



Signals Overview

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

Tonight's Research Points

- The week after opex in June has done quite poorly for the last 18 years.
- Very small gains after multiple down days have often been followed by more selling.

Short-term Outlook

The Bottom Line

The market remains oversold, but expectations have turned negative. I am neutral and awaiting a better trading 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 19, 2017	Down 2 days then up < 0.2%	1 day	Bearish			
June 19, 2017	June post-opex week bearish	1-5 days	Bearish			
June 16, 2017	1st drop < 10ma in over 15 days	1-5 days	Bullish			
Active - Long Term						
June 12, 2017	50-high then 5-days sideways	1-10 days	Bullish	2.20%	-1.20%	-2.40%
June 2, 2017	SPX closes above 50-day Bollinger Band	1-50 days	Bullish	4.90%	-4.10%	-7.80%
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 was mixed on Friday. The SPX fell 0.2%, the NASDAQ dropped 0.5%, and the Russell 2000 declined 0.5%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % came in at 30%. NYSE volume declined a little from Wednesday's level.

The study below suggested the SPX bounce was so weak that it could be a concern. In the 6/8/17 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)

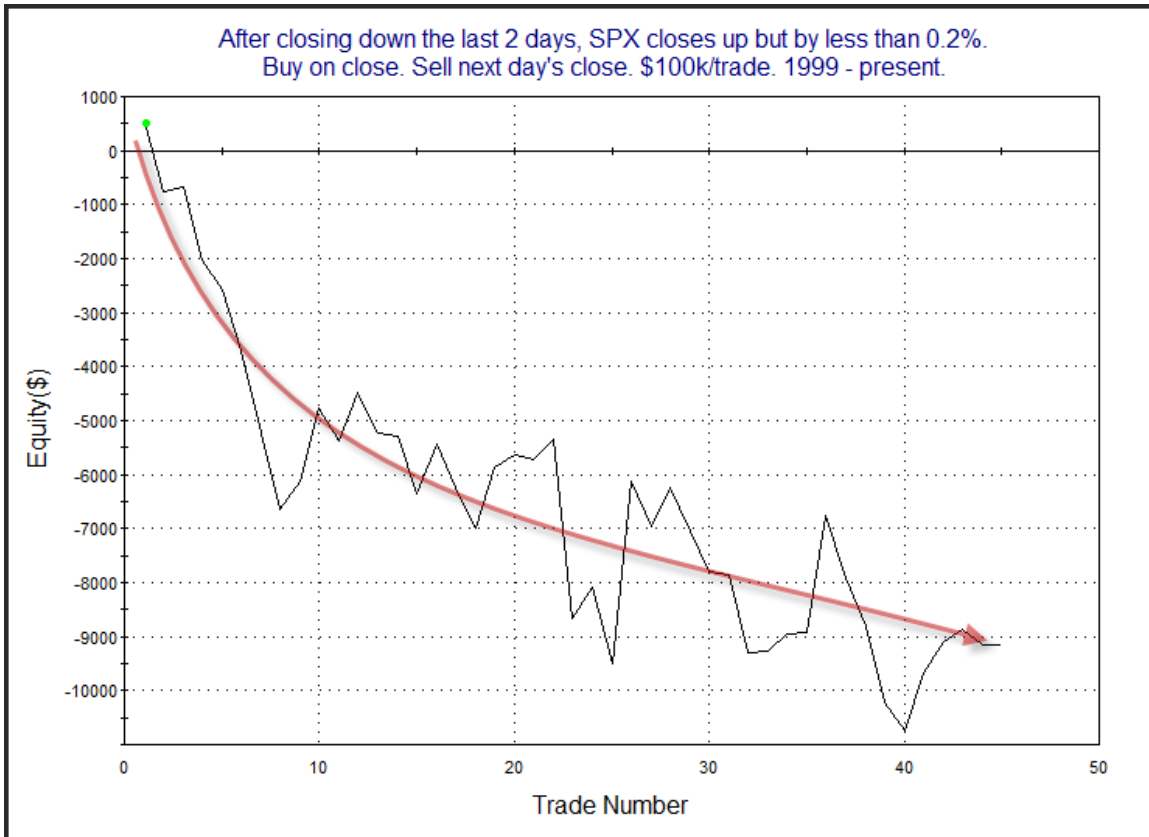
Results here are mildly suggestive of an upside edge.

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	(\$9,139.84)	Profit Factor	0.62
Gross Profit	\$15,160.35	Gross Loss	(\$24,300.19)
Total Number of Trades	45	Percent Profitable	44.44%
Winning Trades	20	Losing Trades	25
Even Trades	0		
Avg. Trade Net Profit	(\$203.11)	Ratio Avg. Win:Avg. Loss	0.78
Avg. Winning Trade	\$758.02	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 noted back in the 6/20/16 letter that the week after June options expiration has done especially poorly in recent years. The table below shows all such weeks dating back to 1999.

Weekly SPX performance following opex Friday in June.
\$100k/trade. 1999 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$18,130.36)	Profit Factor	0.09
Gross Profit	\$1,834.30	Gross Loss	(\$19,964.66)
Total Number of Trades	18	Percent Profitable	16.67%
Winning Trades	3	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	(\$1,007.24)	Ratio Avg. Win:Avg. Loss	0.46
Avg. Winning Trade	\$611.43	Avg. Losing Trade	(\$1,330.98)
Largest Winning Trade	\$906.92	Largest Losing Trade	(\$3,626.75)

Those are some pretty weak numbers. Below are all the individual instances.

Weekly SPX performance following opex Friday in June. \$100k/trade. 1999 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/18/1999	Buy	\$1,342.84	-2.05%	\$612.72
6/25/1999	Sell	\$1,315.31		(\$2,541.16)
6/16/2000	Buy	\$1,464.48	-1.57%	\$1,662.60
6/23/2000	Sell	\$1,441.54		(\$1,779.56)
6/15/2001	Buy	\$1,214.36	0.91%	\$2,122.16
6/22/2001	Sell	\$1,225.42		(\$545.30)
6/21/2002	Buy	\$989.14	0.07%	\$1,690.74
6/28/2002	Sell	\$989.82		(\$3,658.22)
6/20/2003	Buy	\$995.69	-1.96%	\$0.00
6/27/2003	Sell	\$976.22		(\$2,189.00)
6/18/2004	Buy	\$1,135.02	-0.05%	\$996.16
6/25/2004	Sell	\$1,134.43		(\$937.20)
6/17/2005	Buy	\$1,216.96	-2.09%	\$215.66
6/24/2005	Sell	\$1,191.53		(\$2,091.82)
6/16/2006	Buy	\$1,251.54	-0.56%	\$507.18
6/23/2006	Sell	\$1,244.50		(\$1,135.23)
6/15/2007	Buy	\$1,532.91	-1.98%	\$286.65
6/22/2007	Sell	\$1,502.56		(\$2,091.05)
6/20/2008	Buy	\$1,317.86	-2.99%	\$1,332.75
6/27/2008	Sell	\$1,278.49		(\$3,439.50)
6/19/2009	Buy	\$921.23	-0.25%	\$83.16
6/26/2009	Sell	\$918.90		(\$3,495.96)
6/18/2010	Buy	\$1,117.51	-3.65%	\$1,221.08
6/25/2010	Sell	\$1,076.76		(\$4,416.18)
6/17/2011	Buy	\$1,271.50	-0.24%	\$2,114.58
6/24/2011	Sell	\$1,268.45		(\$673.14)
6/15/2012	Buy	\$1,342.84	-0.58%	\$1,525.88
6/22/2012	Sell	\$1,335.02		(\$1,363.82)
6/21/2013	Buy	\$1,592.43	0.87%	\$1,713.68
6/28/2013	Sell	\$1,606.28		(\$1,990.20)
6/20/2014	Buy	\$1,962.87	-0.10%	\$265.00
6/27/2014	Sell	\$1,960.96		(\$909.00)
6/19/2015	Buy	\$2,109.76	-0.39%	\$945.17
6/26/2015	Sell	\$2,101.61		(\$675.86)
6/17/2016	Buy	\$2,071.22	-1.64%	\$2,020.80
6/24/2016	Sell	\$2,037.30		(\$1,855.20)

As you can see, it has been quite a streak of bearishness. Twelve out of the last thirteen years have closed down. So it would seem we may be entering a week seasonal period.

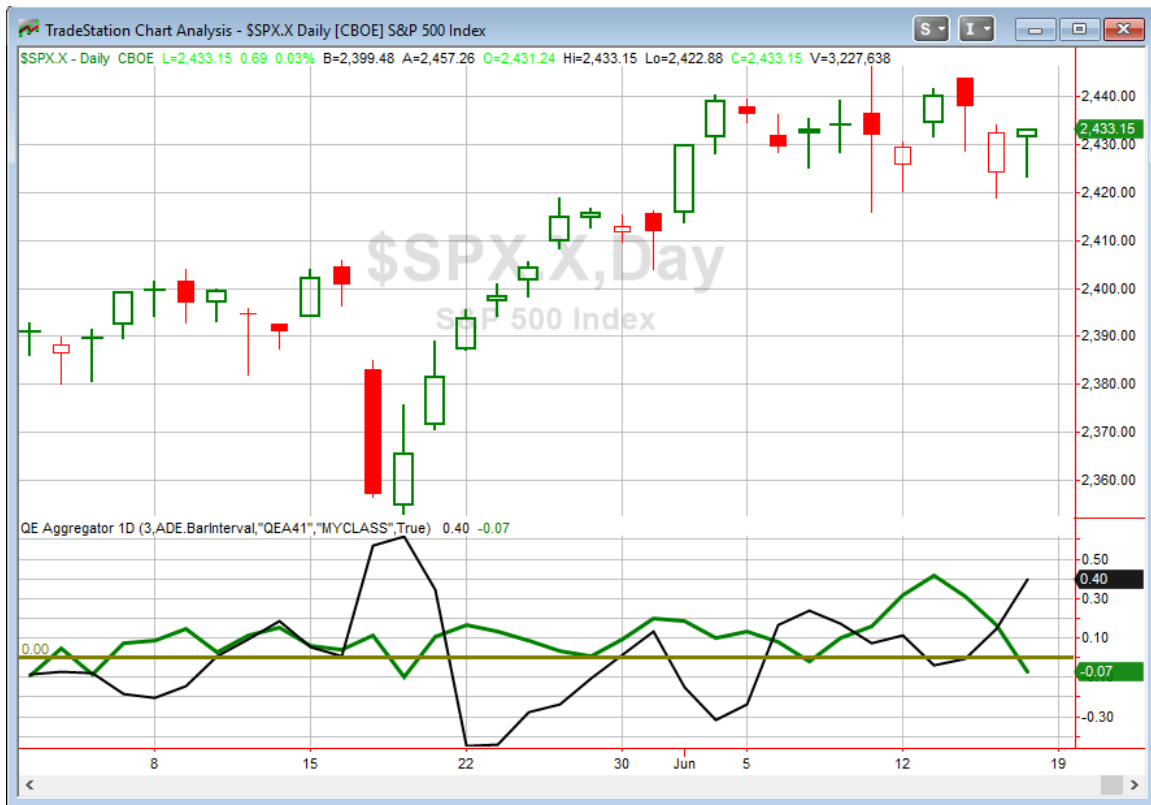
But if you look back further, you'll find periods where this week appeared to show a bullish tendency. Below is the same seasonal study run from 1979 - 1989.

Weekly SPX Performance Following Opex Friday in June.
\$100k/trade. 1979 - 1989.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/15/1979	Buy	\$102.08	0.54%	\$1,057.32
6/22/1979	Sell	\$102.63		(\$1,145.43)
6/20/1980	Buy	\$114.05	1.71%	\$3,433.92
6/27/1980	Sell	\$116.00		(\$613.20)
6/19/1981	Buy	\$132.27	0.21%	\$1,534.68
6/26/1981	Sell	\$132.55		(\$884.52)
6/18/1982	Buy	\$107.27	1.73%	\$3,830.52
6/25/1982	Sell	\$109.13		(\$876.08)
6/17/1983	Buy	\$169.13	0.74%	\$2,139.42
6/24/1983	Sell	\$170.39		(\$1,081.53)
6/15/1984	Buy	\$149.02	3.65%	\$4,435.31
6/22/1984	Sell	\$154.46		(\$335.50)
6/21/1985	Buy	\$189.61	1.18%	\$1,180.48
6/28/1985	Sell	\$191.85		(\$938.06)
6/20/1986	Buy	\$247.58	0.82%	\$1,027.65
6/27/1986	Sell	\$249.60		(\$1,265.42)
6/19/1987	Buy	\$306.96	0.06%	\$1,075.75
6/26/1987	Sell	\$307.15		(\$208.00)
6/17/1988	Buy	\$270.67	1.15%	\$2,287.80
6/24/1988	Sell	\$273.78		(\$1,162.35)
6/16/1989	Buy	\$321.35	2.07%	\$2,068.15
6/23/1989	Sell	\$328.00		(\$653.10)

So back then we had 11 years in a row of gains. For me, this somewhat diminishes the probability of a strong bearish seasonal edge actually existing. Not to say that it doesn't, but I'm not inclined to give it as much weight as if 1) it had persisted for longer or 2) I could explain why this particular week has done so poorly. Still, I did add it to the active list for tonight.

I have updated the Aggregator chart below.



With tonight's study to consider the green Aggregator line dove below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line held 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 remain bearish on Monday. Of course this could change if compelling new bullish evidence emerges. The Differential Pivot will be 2463.51 on Monday. That is 1.2% above Friday's close. So SPX would need to close up a sizable 1.25% on Monday in order to move from oversold to overbought versus expectations.

I am not seeing a good reason to get involved here. Evidence is mixed and leaning bearish, but the market is quite oversold already. I will wait for a better opportunity to emerge before putting new capital to work.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/19 –neutral

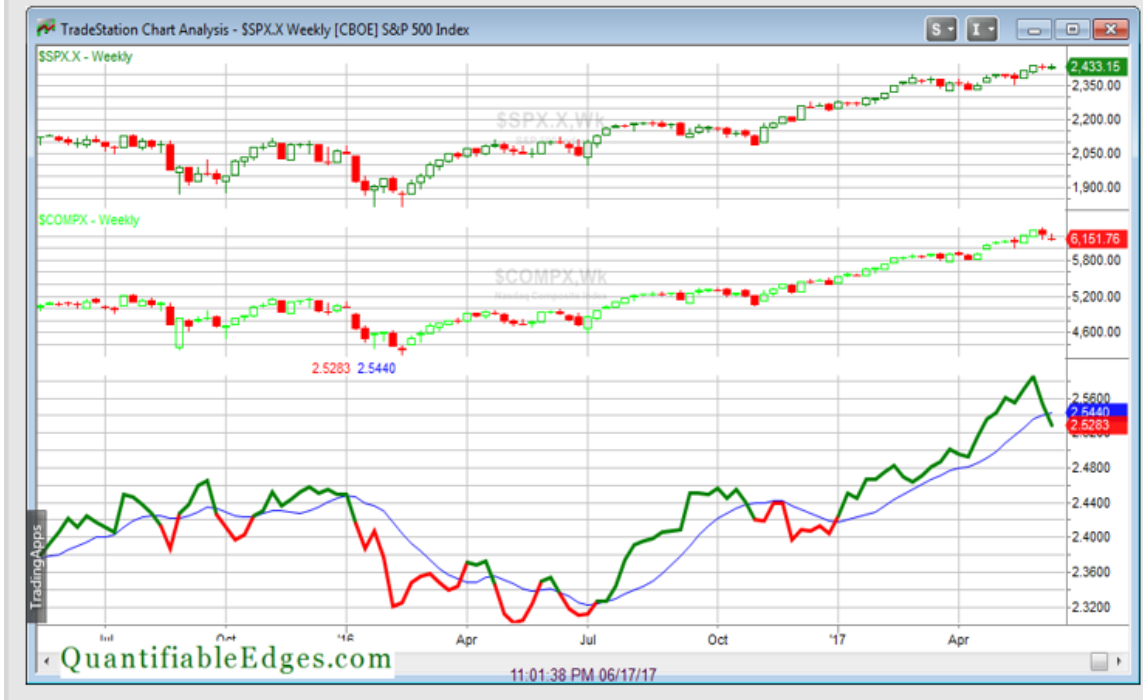
Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week Combo Systems #2 & #3 both changed to “Flat”.*

The SPX eeked out a small gain this week of less than 2 points. But the NASDAQ did not fare as well, and suffered a 0.9% loss on the week. That divergence led to a change in one of our Market Timing Course indicators.

The NASDAQ fell into a lagging position versus the SPX. The chart below is the same as the one shown on the charts page and it shows the NASDAQ/SPX Relative Strength indicator at the bottom of the chart. The green line (which is about to turn red) moving down below the blue line is the signal that the NASDAQ is now lagging.

NASDAQ/S&P 500 Relative Strength Weekly



Since 4/9/71, which is the earliest data point after the inception of the Nasdaq in which the calculations could be run, until now, the SPX has gained 1737.60 points when the Nasdaq was in leading position. When the SPX has been leading during that time it has gained only 437.28 points. The NASDAQ differential has been even more exaggerated, with the NASDAQ gaining 6041.68 points while leading and only 1.7 points while lagging. More information on the indicator, including links to download the model in either Excel or Tradestation, can be found on [the Nasdaq Weekly Strength Model page](#).

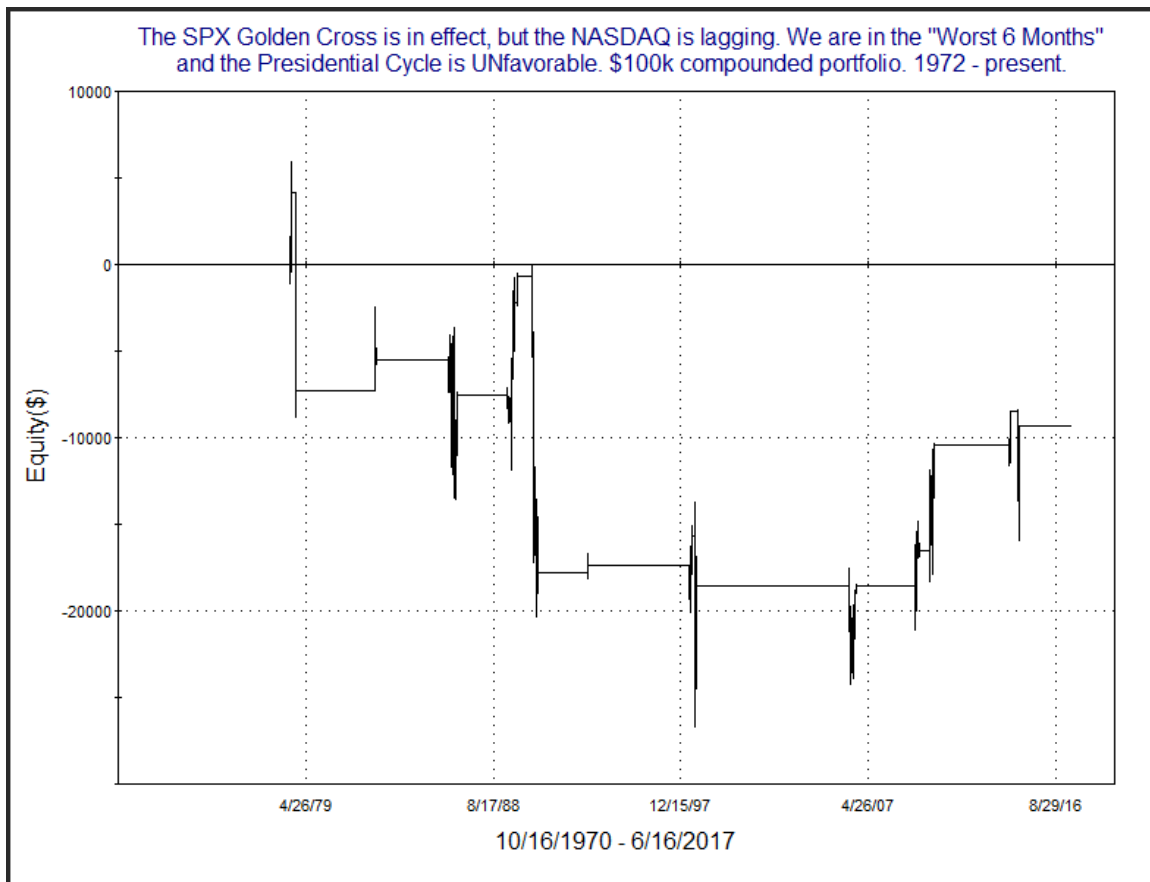
For those subscribers that also have access to the Market Timing Course (included with all annual subscriptions), this model is also discussed in detail there. The Excel model there is updated weekly, and also available for download (after completing the course). This model is one of the price-based indicators used for the course.

So let's now look and see how the SPX has performed when the Market Timing Course indicators have been in their current state.

The SPX Golden Cross is in effect, but the NASDAQ is lagging. We are in the "Worst 6 Months" and the Presidential Cycle is UNfavorable. \$100k/trade. 1972 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$6,997.23)	Profit Factor	0.81
Gross Profit	\$29,003.51	Gross Loss	(\$36,000.74)
Total Number of Trades	23	Percent Profitable	65.22%
Winning Trades	15	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	(\$304.23)	Ratio Avg. Win:Avg. Loss	0.43
Avg. Winning Trade	\$1,933.57	Avg. Losing Trade	(\$4,500.09)
Largest Winning Trade	\$6,311.04	Largest Losing Trade	(\$17,220.32)

The stats here are poor, as the market has historically generated a net loss under these conditions. Below I have produced a profit curve utilizing re-investment of capital and compounding.



The setup has not done as poorly in recent times, but it is still not a favorable one for the market.

The Fed's website has been down for maintenance most of the weekend, so I am unable to update the SOMA charts. But I will be back with that next week.

I am becoming a bit wary at this point. Intermediate-term evidence is mixed and weakening. There are a couple of intermediate-term studies that are still active, and the long-term trend still appears to be up. But with NASDAQ now lagging, the Golden Cross long-term trend indicator is the only one of the Market Timing Course indicators that remains negative. This leaves all 3 "Combo" systems flat. Of course bears also have overall weak Fed support, weak seasonality, and a long-term divergence of new highs to point to. So for the 1st time in a while, I have decided to change my bullish stance to neutral. I will be a little less aggressive with both longs and shorts, but am willing to take either for short-term trades.

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

Open Catapult Triggers

MA – 1/3 @ \$120.76 (buy @ limit) – not filled - cancel for now

Broad Market Large Cap CBI – 1 (MA)

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

Current Open Trade Ideas

None

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