

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 21, 2017

Volume 10 Issue 118

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.
- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.

## *Short-term Outlook*

### *The Bottom Line*

The song remains the same. The Aggregator remains neutral. Expectations after Wednesday are somewhat up in the air. I do not have a strong directional bias.

**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
<b>Active - Short Term</b>						
June 21, 2017	Unfilled down after unfill up & 20-high	1-3 days	Bearish			
June 21, 2017	Relatively big drop from 50-high	1-3 days	Bullish			
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			
<b>Active - Long Term</b>						
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			

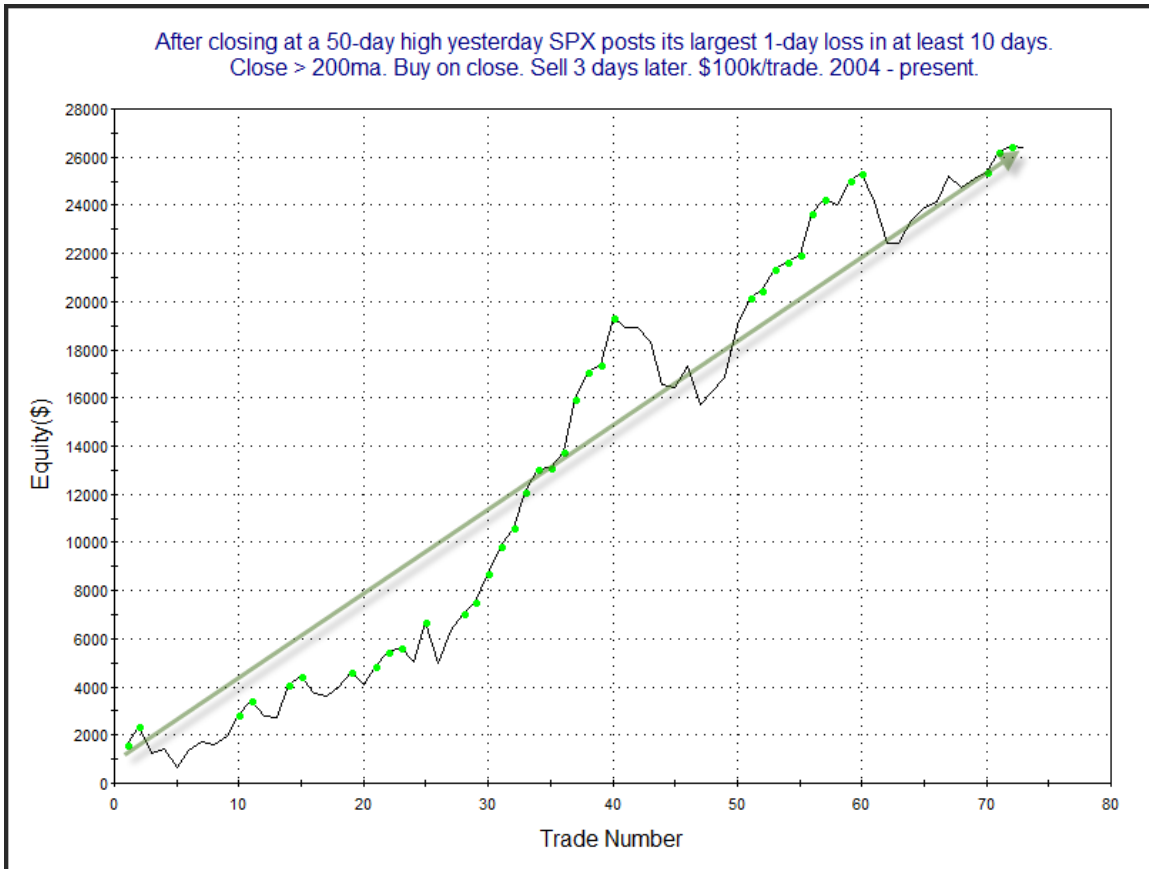
**The Evidence**

Tuesday was a down day. The SPX fell 0.7%, the NASDAQ declined 0.8%, and the Russell 2000 tumbled 1.1%. Breadth was positive as the NYSE Up Issues % was 28% and the Up Volume % came in at 19%. NYSE volume rose a little from Monday’s level.

There was a mix of studies that appeared tonight. This 1<sup>st</sup> one looked at *relatively* large drops from intermediate-term highs. It was last seen in the 5/12/17 letter. I have updated all the stats.

After closing at a 50-day high yesterday SPX posts its largest 1-day loss in at least 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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	25,490.68	68	46	22	67.65	1,178.41	3,149.37	-1,305.29	-3,454.00	0.90	1.89	374.86
4	31,986.81	72	51	21	70.83	967.17	2,725.38	-825.65	-3,895.76	1.17	2.84	444.26
3	26,384.34	73	53	20	72.60	773.87	2,192.40	-731.53	-1,808.21	1.06	2.80	361.43
2	16,095.02	76	44	32	57.89	732.60	2,437.50	-504.36	-1,777.55	1.45	2.00	211.78
1	9,147.61	76	46	30	60.53	505.97	1,521.72	-470.89	-1,354.59	1.07	1.65	120.36

The stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 3-day holding period.



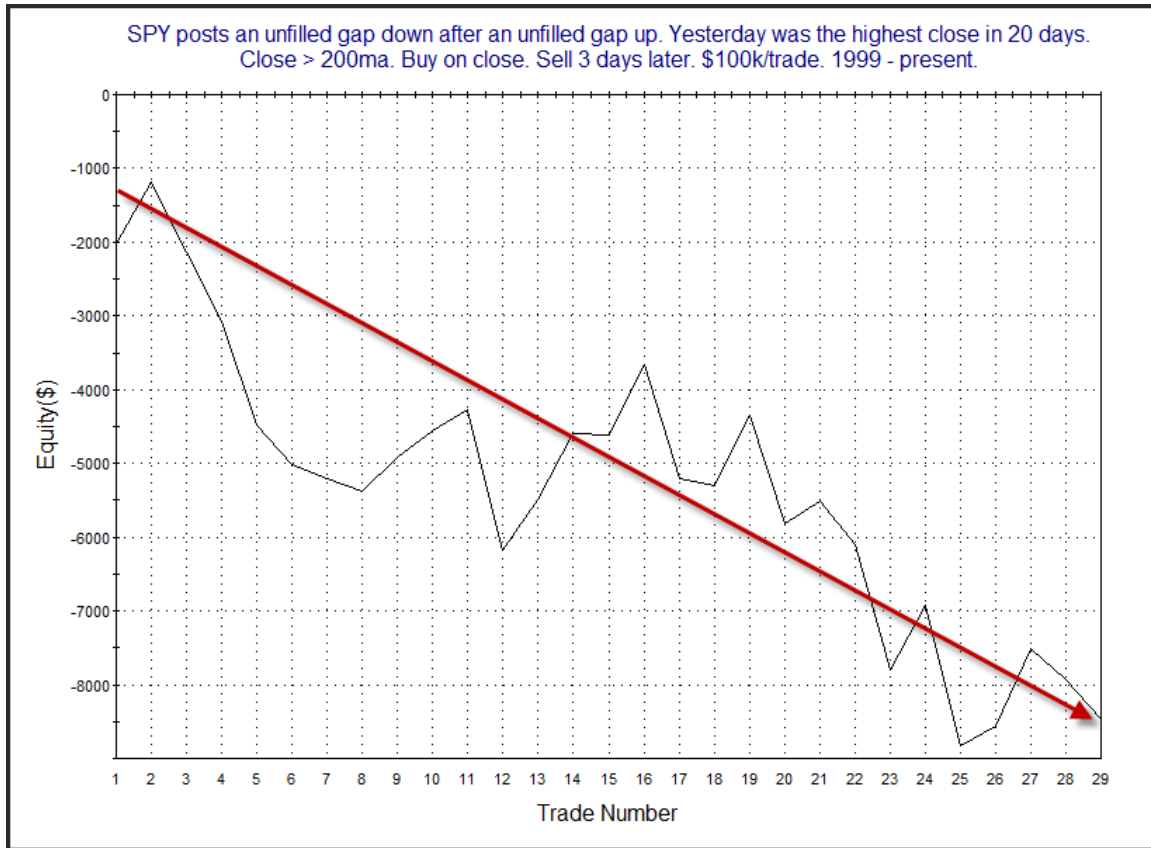
The strong upslope seems to confirm the bullish inclination. This study is on the Active List tonight. I will note that I get questions about this study quite often, because many times (like tonight) the “big” drop is not that big. That is ok. It simply looks at the size of the drop versus the last 10 days.

But the next study considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 11/29/16 Subscriber Letter. Below are updated results.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days.  
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - present.

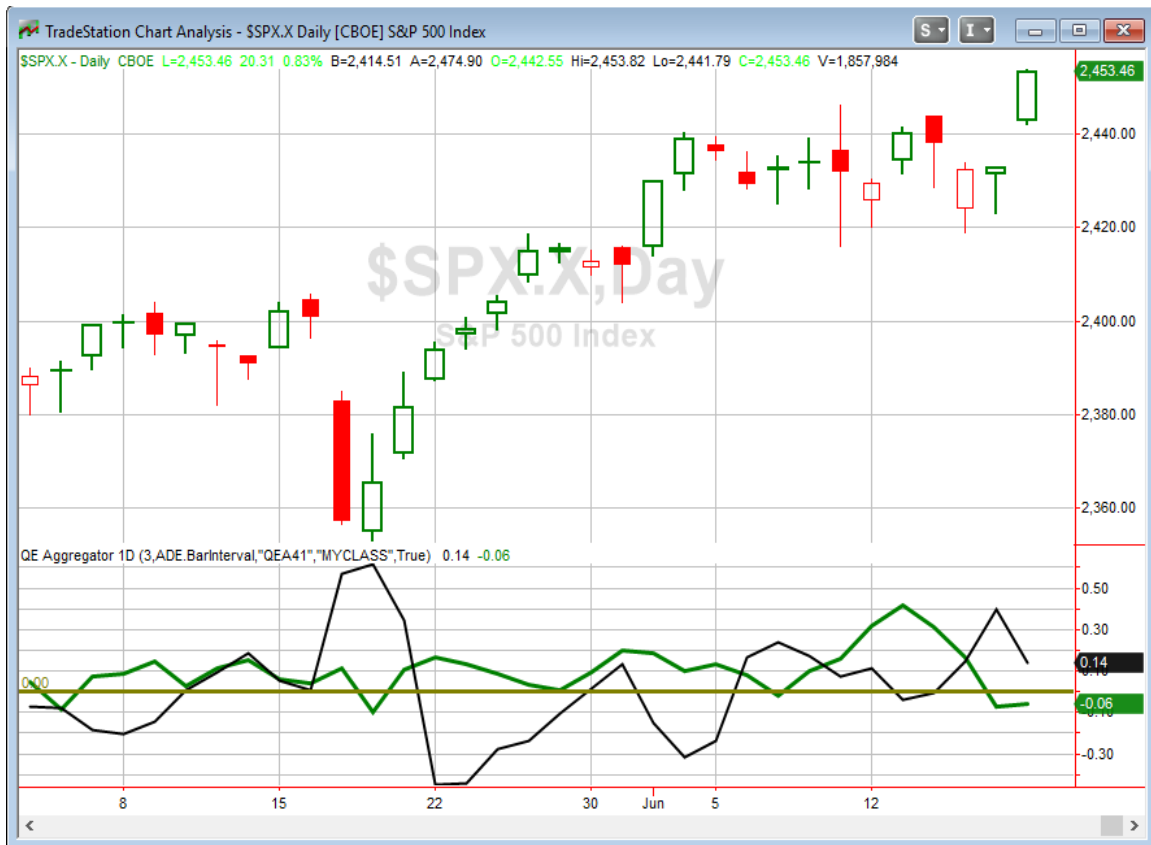
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-8,344.56	29	14	15	48.28	750.53	1,649.70	-1,256.80	-4,404.92	0.60	0.56	-287.74
4	-10,968.62	29	12	17	41.38	750.40	1,509.68	-1,174.91	-3,746.95	0.64	0.45	-378.23
3	-8,461.09	29	12	17	41.38	660.62	1,044.24	-964.03	-2,017.28	0.69	0.48	-291.76
2	-5,665.69	30	12	18	40.00	517.19	1,082.16	-659.55	-2,232.00	0.78	0.52	-188.86
1	-4,189.46	30	13	17	43.33	437.65	1,008.68	-581.11	-1,807.92	0.75	0.58	-139.65

The numbers here appear to suggest a downside edge. Let's also take a look at a profit curve.



While the curve is choppy, it has persisted downwards. This serves as confirmation of the downside edge, and suggests we could see further selling over the next few days.

I have updated the Aggregator chart below.



With tonight's studies to consider the green Aggregator line remained 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain bearish on Wednesday. Of course this could change if compelling new bullish evidence emerges. The Differential Pivot will be 2442.95 on Wednesday. That is 0.2% above Tuesday's close. So SPX would only need to close up 0.2% on Wednesday in order to move from oversold to overbought versus expectations.

Tuesday's selloff did nothing to change my outlook. I am still not seeing a good reason to get involved. The Aggregator remains neutral. And both expectations and overbought/oversold could easily either remain or flip from what they are saying now. I'll continue to stand aside and wait for a better opportunity to emerge.

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

### **Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

#### ***Open Catapult Triggers***

None

***Broad Market Large Cap CBI – 0***

### **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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