

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 23, 2017

Volume 10 Issue 120

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 3 down days from a 50-day high that closes < 10ma but above 10-day low suggest an upside edge.

### *Short-term Outlook*

#### *The Bottom Line*

Expectations have turned bullish, but the “oversold” nature of the market will not persist unless we see further selling on Friday. So I am not enthused about reward/risk potential just yet.

***The Evidence***

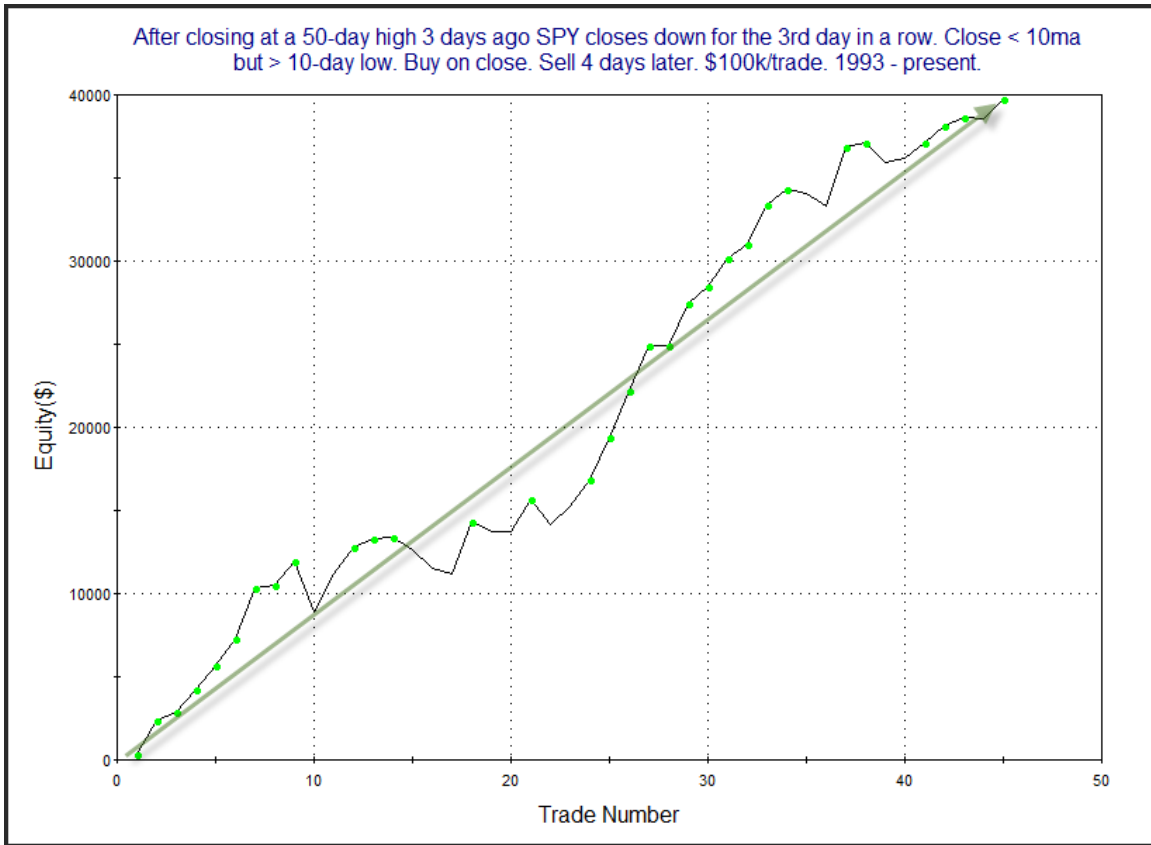
Thursday was a mixed and mild day for the market. The SPX fell 0.05%, the NASDAQ rose 0.04%, and the Russell 2000 rallied 0.38%. Breadth was positive as the NYSE Up Issues % was 57% and the Up Volume % came in at 59%. NYSE volume declined a little from Wednesday’s level.

Thursday marked the 3<sup>rd</sup> close lower in a row for SPY. Three-day pullbacks will often trigger a few bullish studies. I found the one below especially compelling because it also considered the fact that the 3-day pullback was occurring right after a high was hit. Additionally, it required that the pullback was deep enough to put it below the 10ma, but *not* deep enough to see it at a 10-day closing low. It was last seen in the 3/2/15 subscriber letter, and I have updated the stats.

After closing at a 50-day high 3 days ago SPY closes down for the 3rd day in a row. Close < 10ma but > 10-day low. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

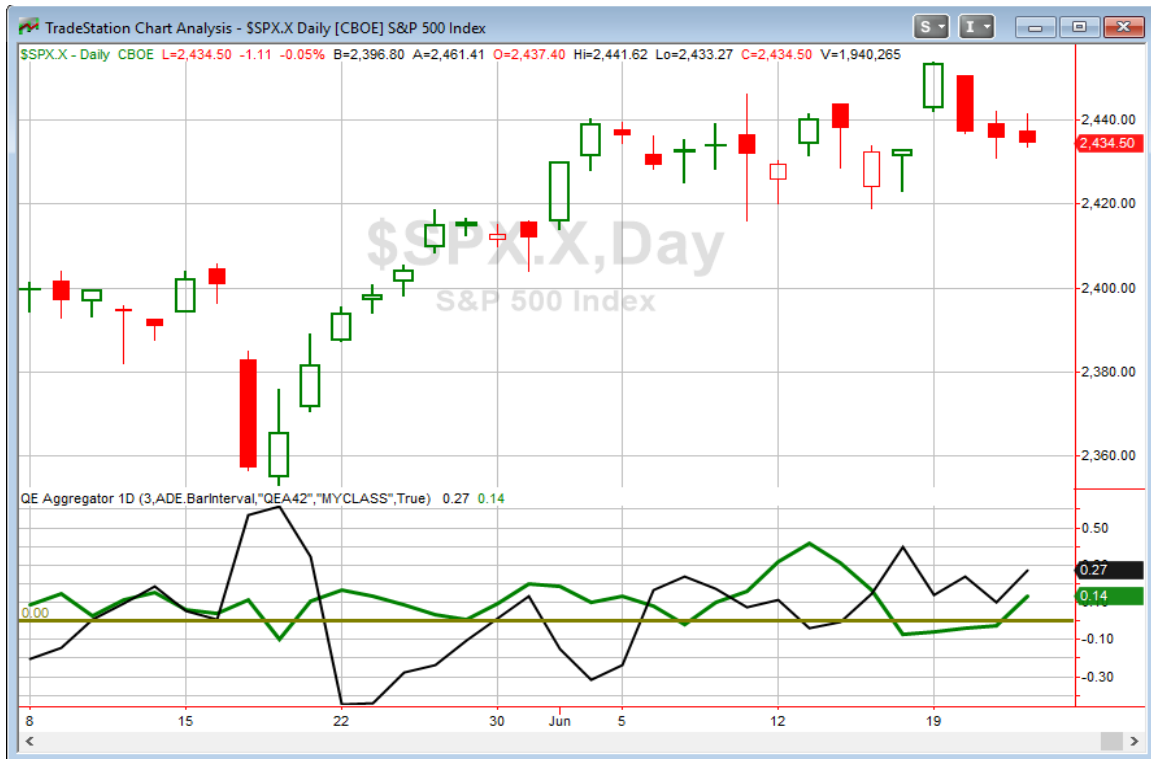
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	43,910.10	44	30	14	68.18	2,386.53	7,242.70	-1,977.55	-6,933.13	1.21	2.59	997.96
9	39,263.29	44	31	13	70.45	2,188.42	6,322.56	-2,198.28	-8,192.92	1.00	2.37	892.35
8	43,417.40	44	32	12	72.73	2,160.25	6,358.08	-2,142.56	-4,499.25	1.01	2.69	986.76
7	37,457.36	44	31	13	70.45	2,022.23	6,322.56	-1,940.90	-4,354.31	1.04	2.48	851.30
6	42,404.64	44	31	13	70.45	1,954.02	5,375.36	-1,397.69	-2,140.14	1.40	3.33	963.74
5	33,913.81	45	30	15	66.67	1,683.17	3,522.94	-1,105.42	-3,453.71	1.52	3.05	753.64
4	39,723.26	45	35	10	77.78	1,411.30	3,543.50	-967.21	-3,076.63	1.46	5.11	882.74
3	27,685.39	45	31	14	68.89	1,322.21	3,543.50	-950.22	-2,027.68	1.39	3.08	615.23
2	13,526.82	45	30	15	66.67	976.67	2,332.48	-1,051.55	-2,781.35	0.93	1.86	300.60
1	10,452.40	45	30	15	66.67	754.54	2,060.16	-812.25	-2,031.09	0.93	1.86	232.28

Under these circumstances, it appears bounces have been both reliable and powerful. While much of the edge was realized in the first 4 days, there does seem to be some follow through as far out as 2 weeks. Below is a look at the profit curve assuming a 4-day exit technique.



The curve appears to provide confirmation of the bullish tendency suggested by the stats table.

I have updated the Aggregator chart below.



With tonight's study to consider the green Aggregator line moved above zero. Positive readings mean net expectations from the Active List are for upside 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 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 turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted* at 2432.96 on Friday. That is 0.1% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case SPX is going to need to close down at least 0.1% if it is going to remain oversold. Anything less than that and it will be considered "overbought" versus expectations as of Friday's close.

So there appears to be a bit of an upside edge. But with the inverted pivot, potential reward is limited. This is because the any day 1 gains would turn the SPX "overbought" and the Aggregator signal would turn neutral (or bearish if expectations worsened). I am not generally a fan of taking on new positions when I am facing an inverted pivot. I will not be looking to begin an index position just yet. I will note that a Catapult did trigger, so I will look for some long exposure there.

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

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

*Catapult & CBI Presentation Link*

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

*New*

COST – 1/3 @ \$159.79 (buy @ limit)

#### ***Broad Market Large Cap CBI – 1(COST)***

### **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.*

**COST – buy 1/3 Catapult position at \$159.79 LIMIT.** This is from the Catapult section above. It is the 1<sup>st</sup> of 3 possible lots of COST.

### **Current Open Trade Ideas**

None

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