

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 30, 2017

Volume 10 Issue 125

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The SPY gap and reversal on Thursday after an unfilled gap up on Wednesday suggests an upside edge for Friday.
- A poor close to end the month could suggest bullish odds for Friday.

## *Short-term Outlook*

### *The Bottom Line*

The outlook appears somewhat bullish. A poor close on Friday would likely create an even more bullish short-term outlook based on the turn of the month.

### *The Evidence*

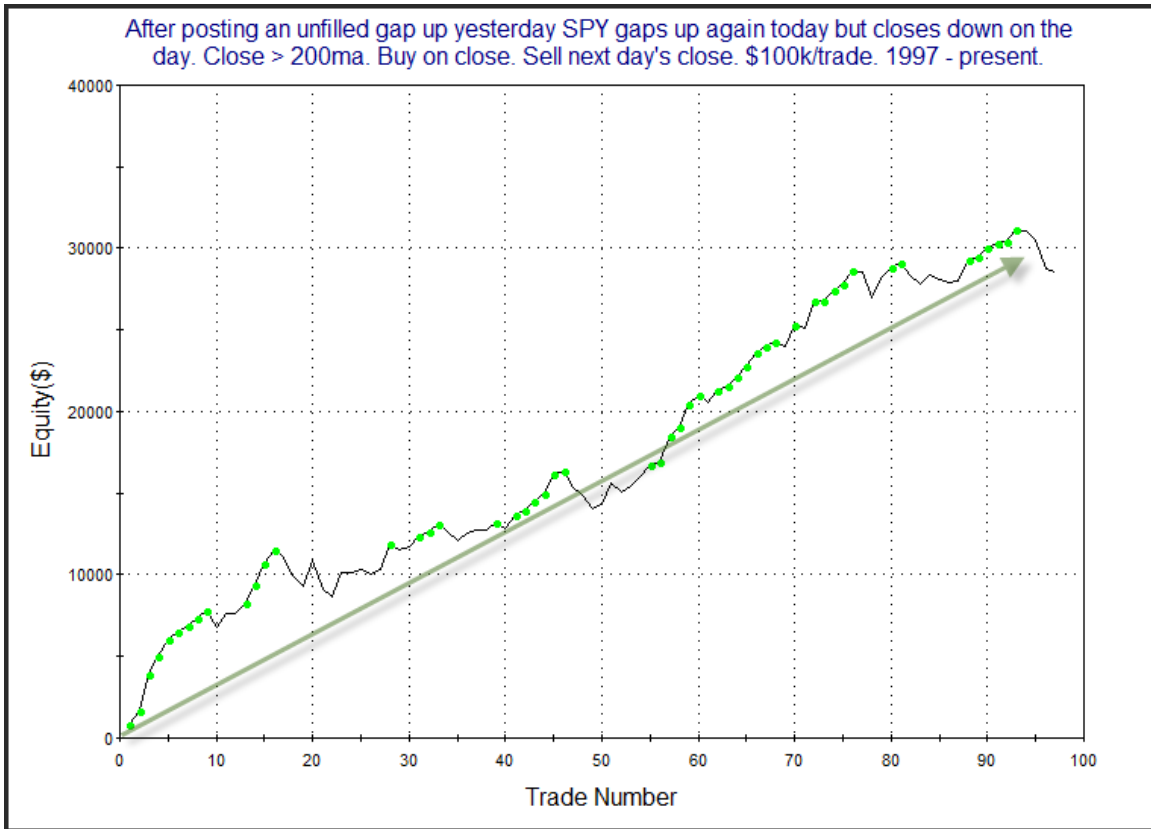
Thursday saw a sharp change of direction for the 3<sup>rd</sup> day in a row. The SPX lost 0.9%, the NASDAQ declined 1.4%, and the Russell 2000 dropped 0.6%. Breadth was negative as the NYSE Up Issues % was 30% and the Up Volume % came in at 41%. NYSE volume rose some from Wednesday's level.

SPY gapped up and closed lower Thursday after leaving an unfilled up gap on Wednesday. In the 5/17/17 letter I examined similar price action in SPY with regards to how it gapped and finished. I found that gains had been pretty consistent the next day after similar action. The study is updated below.

After posting an unfilled gap up yesterday SPY gaps up again today but closes down on the day. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1997 - present.

TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$28,543.66	Profit Factor	2.65
Gross Profit	\$45,892.86	Gross Loss	(\$17,349.20)
Total Number of Trades	97	Percent Profitable	69.07%
Winning Trades	67	Losing Trades	30
Even Trades	0		
Avg. Trade Net Profit	\$294.26	Ratio Avg. Win:Avg. Loss	1.18
Avg. Winning Trade	\$684.97	Avg. Losing Trade	(\$578.31)
Largest Winning Trade	\$2,194.38	Largest Losing Trade	(\$1,772.16)

The numbers here all look solidly bullish. Below is the profit curve.



We have seen the setup struggle a bit in recent instances. This does not yet concern me greatly. There have been other dips in the curve of about this magnitude, and the edge has generally shown strong persistence over the years. I have included this study on the Active List tonight.

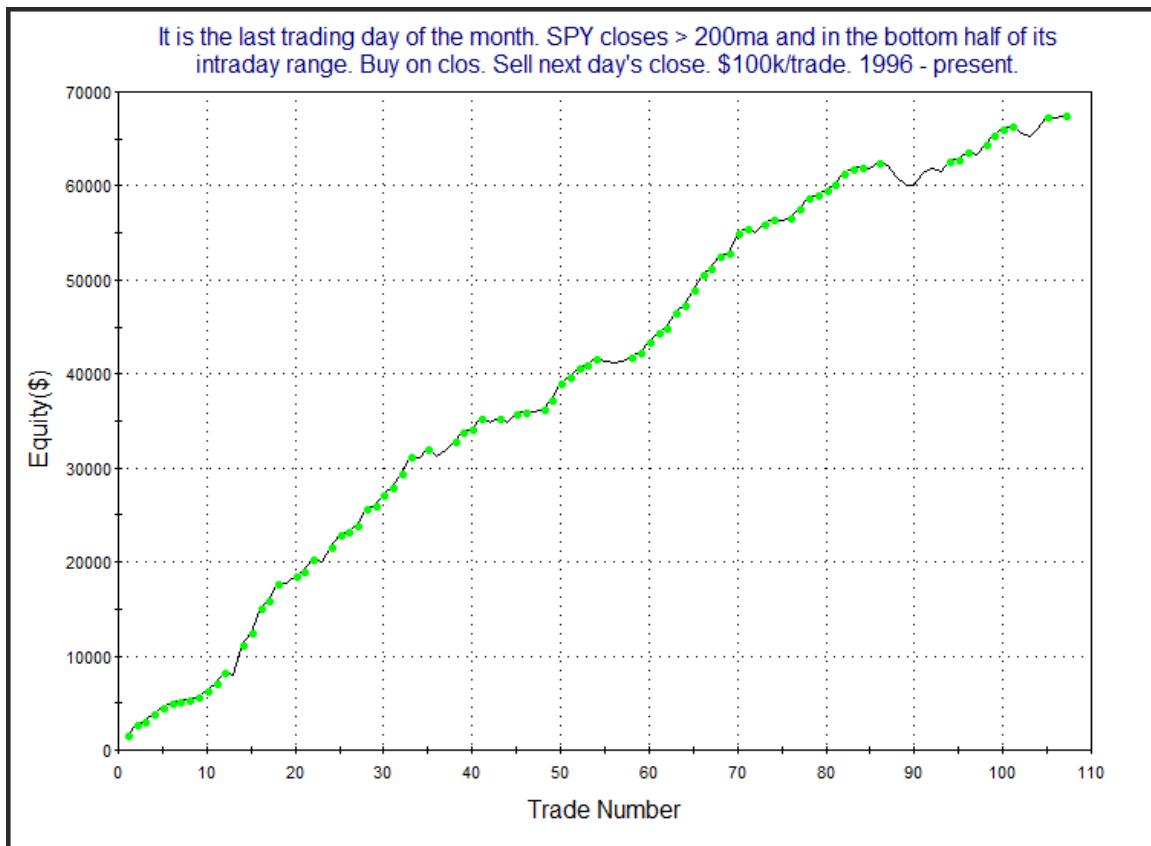
It is also worth noting that Friday is the last trading day of the month. In the 5/31/17 letter I showed some studies about the 1<sup>st</sup> trading day of the month based on how the last trading day of the previous month performed. I have updated those studies below.

The first study looks at times where the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on clos. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$67,495.57	Profit Factor	9.00
Gross Profit	\$75,934.75	Gross Loss	(\$8,439.18)
Total Number of Trades	107	Percent Profitable	79.44%
Winning Trades	85	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	\$630.80	Ratio Avg. Win:Avg. Loss	2.33
Avg. Winning Trade	\$893.35	Avg. Losing Trade	(\$383.60)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 9x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 107 instances. Below is a profit curve.



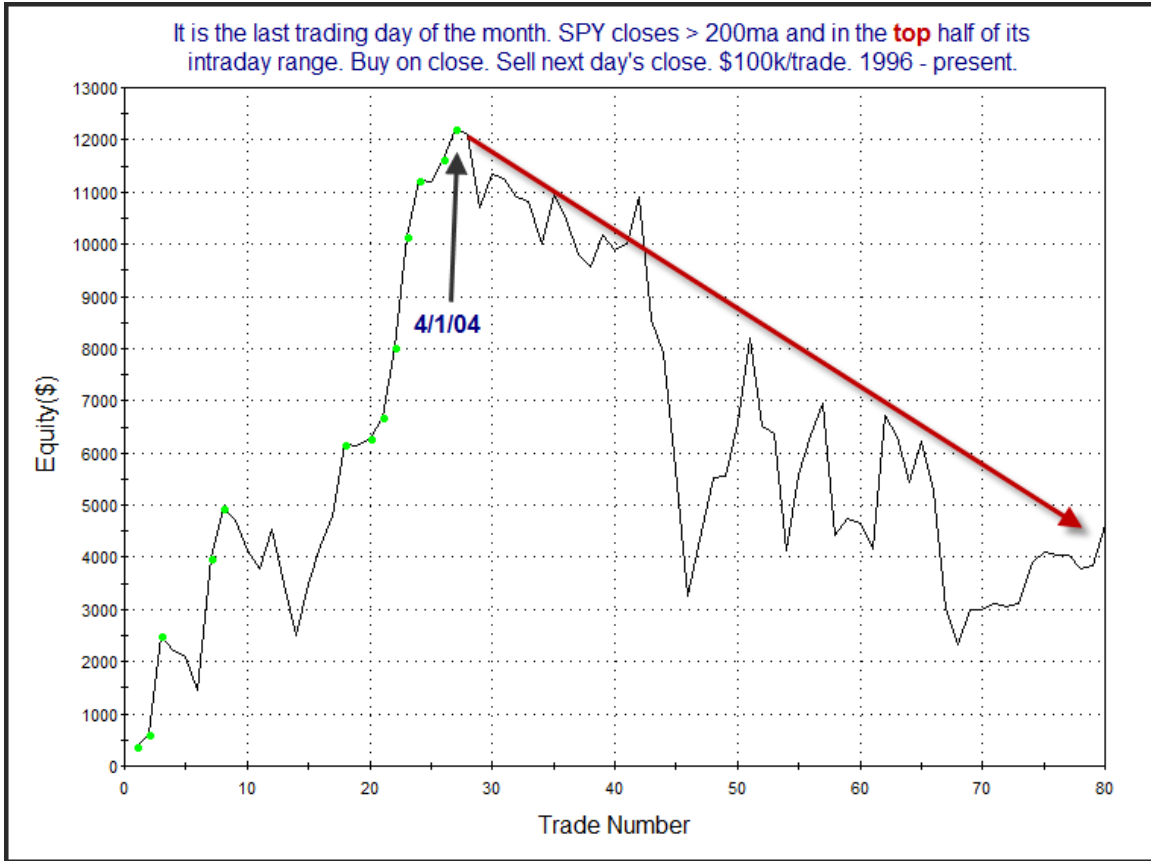
The long and persistent upslope is impressive, and serves to confirm the numbers.

Let's also examine what the results would have looked like if SPY closed in the top half of its intraday range. (Also from the 5/31/17 letter.)

It is the last trading day of the month. SPY closes > 200ma and in the **top** half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

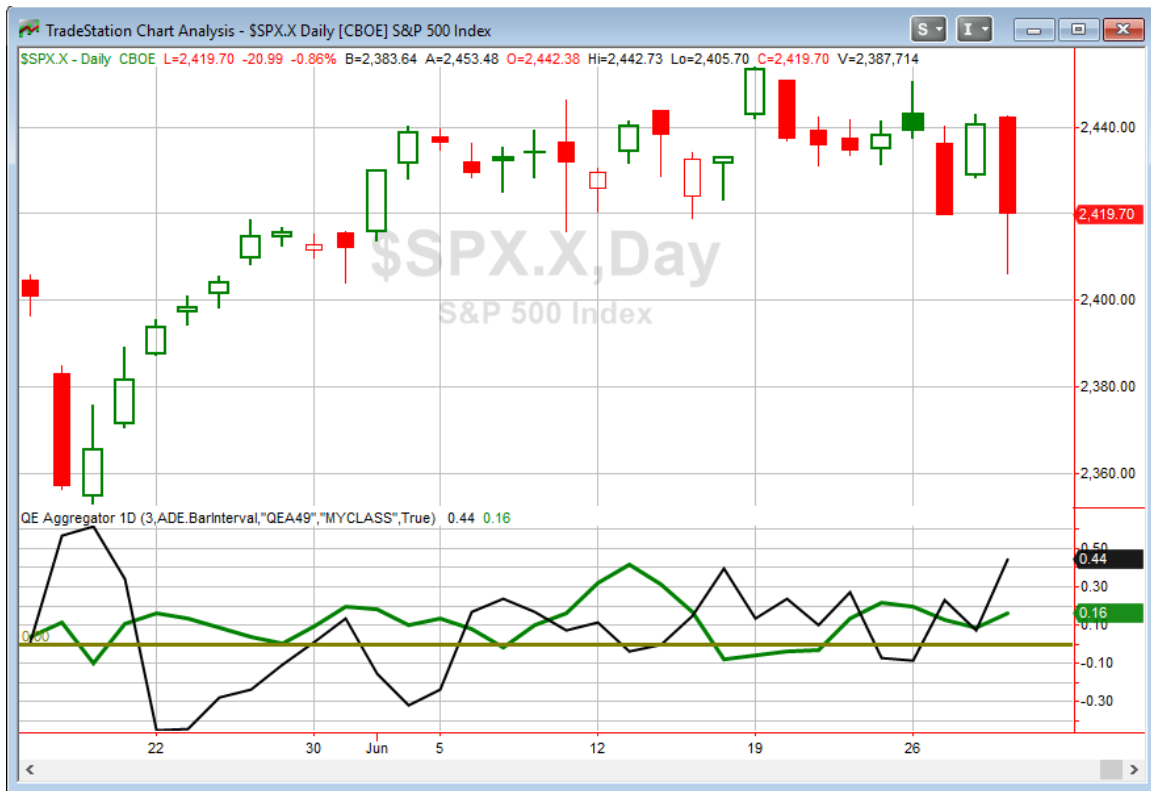
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$4,628.83	Profit Factor	1.16	
Gross Profit	\$33,848.14	Gross Loss	(\$29,219.31)	
Total Number of Trades	80	Percent Profitable	52.50%	
Winning Trades	42	Losing Trades	38	
Even Trades	0			
Avg. Trade Net Profit	\$57.86	Ratio Avg. Win:Avg. Loss	1.05	
Avg. Winning Trade	\$805.91	Avg. Losing Trade	(\$768.93)	
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)	

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



This paints an even bleaker picture.

I have updated the Aggregator chart below.



With tonight's evidence to consider the green Aggregator line held above zero. Positive readings mean net expectations from the Active List are for upside 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 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 stayed 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 2432.18 on Thursday. That is 0.5% above Thursday's close. So SPX will need to close up at least 0.5% in order to move from oversold to overbought as of Friday's close.

There is not a ton of bullish evidence. But there is some. And from a short-term standpoint there is nothing right now suggesting a real downside edge. With the market oversold and a bit of room to the upside before it would turn overbought, reward/risk appears somewhat favorable. So while I would like to have a little more evidence pointing in my direction, the current setup appears good enough for me to begin taking on some long exposure. And if Friday sells off and finishes poorly, then that should provide some additional turn-of-month evidence that would convince me to take on a bit more long exposure.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 6/26 –neutral*

**Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

***Open Catapult Triggers***

COST – 1/3 @ \$159.79 (bought @ limit)

COST – 1/3 @ \$157.13 (buy @ limit) – not filled – cancel for now

***Broad Market Large Cap CBI – 2(COST-2)***

**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.*

***SPY – buy ¼ index position @ \$241.35 LIMIT.*** Based on the short-term outlook above, I will look to begin scaling into and index position if I can get a favorable fill.

***SPY – buy ¼ index position @ \$241.00 LIMIT ON CLOSE IF IT ALSO CLOSES IN THE BOTTOM HALF OF ITS INTRADAY RANGE.*** The end-of-month study above would have me taking on a bit more exposure at the close if I can get a favorable entry.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
COST(1/3)	6/23/2017	\$159.40	\$158.68	-0.45%		Catapult

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