

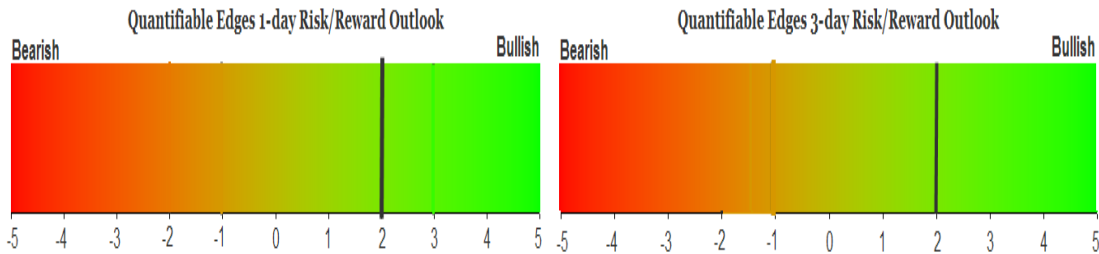
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 5, 2017

Volume 10 Issue 127

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.
- Positive days that close poorly will often be followed by buying in the next few days.

### *Short-term Outlook*

#### *The Bottom Line*

The evidence still appears bullish, but the market could easily turn overbought on Wednesday, which reduces reward/risk potential. I am moderately bullish.

*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>						
July 5, 2017	Bottom 10% Range on Up Day	1-3 days	Bullish			
July 5, 2017	SPY up 2 < 3 ago	1-2 days	Bullish			
July 3, 2017	SPX<10>200 end of month	1-5 days	Bullish			
June 28, 2017	5-day low, weak close, > 200	1-5 days	Bullish			
<b>Active - Long Term</b>						
June 24, 2017	Hindenburg Omen cluster	1-35 days	Bearish	-7.00%		
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			
<b>Dropped Tonight</b>						
July 3, 2017	SPY close in bottom 1/2 range EOM	1 day	Bullish			

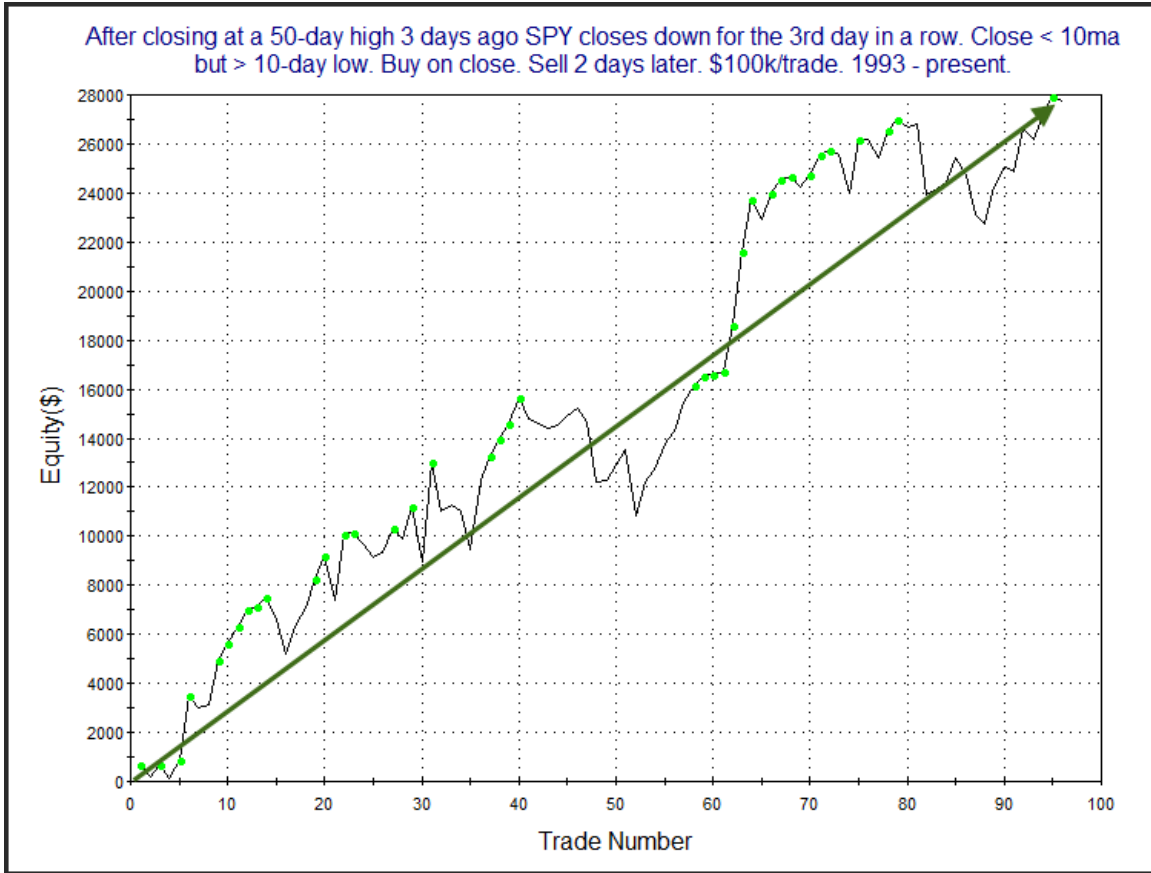
**The Evidence**

Monday gapped higher but finished mixed. The SPX finished up 0.2%, the NASDAQ declined 0.5%, and the Russell 2000 rose 0.8%. Breadth was positive as the NYSE Up Issues % was 71% and the Up Volume % came in at 72%. NYSE was light as you would expect on a shortened day ahead of July 4<sup>th</sup>.

There were a couple of compelling studies from the Quantifinder that I have decided to discuss. This first one was last seen in the 6/9/17 Letter. It looked at times that SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. I have updated the study below.

SPY closed up 2 days in a row but below the close of 3 days ago. Close > 200ma. 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
5	20,220.05	94	55	38	58.51	1,484.00	4,717.70	-1,615.79	-6,549.84	0.92	1.33	215.11
4	24,267.54	95	61	34	64.21	1,295.72	4,698.60	-1,610.91	-4,384.89	0.80	1.44	255.45
3	21,516.78	96	62	34	64.58	1,131.92	3,000.00	-1,431.24	-4,092.24	0.79	1.44	224.13
2	27,734.83	96	63	33	65.63	925.41	4,088.25	-926.25	-2,932.22	1.00	1.91	288.90
1	10,052.54	96	54	40	56.25	646.64	3,732.75	-621.66	-1,777.90	1.04	1.40	104.71

The stats appear to suggest a bit of an upside edge over the 1<sup>st</sup> 2 days. Below is an equity curve using a 2-day exit strategy.



There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

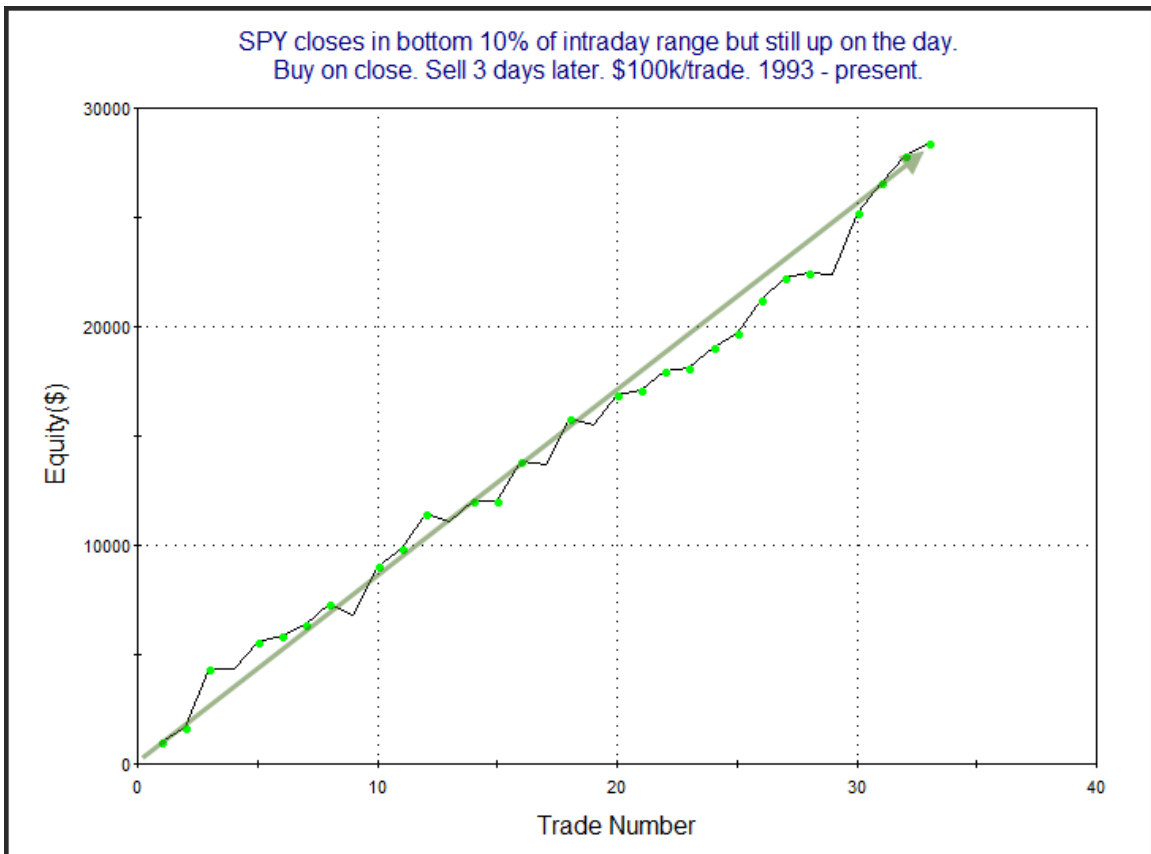
The late-day selling and weak close may have felt like a negative, but it triggered a study that has been very bullish over the years. SPY closing in the bottom 10% of its daily range, but still up on the day is something that doesn't occur very often. It is something I explored in the 6/21/16 letter. Results below are all updated.

SPY closes in bottom 10% of intraday range but still up on the day.  
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
5	19,012.94	32	23	9	71.88	1,397.02	3,611.20	-1,457.60	-3,968.25	0.96	2.45	594.15
4	19,986.88	33	26	7	78.79	1,110.57	2,786.48	-1,269.72	-3,623.88	0.87	3.25	605.66
3	28,370.95	33	27	5	81.82	1,098.20	2,820.64	-256.09	-472.68	4.29	23.16	859.73
2	19,582.42	33	24	9	72.73	940.09	3,028.76	-331.09	-531.70	2.84	7.57	593.41
1	10,706.29	34	23	11	67.65	655.54	3,476.36	-397.37	-903.90	1.65	3.45	314.89

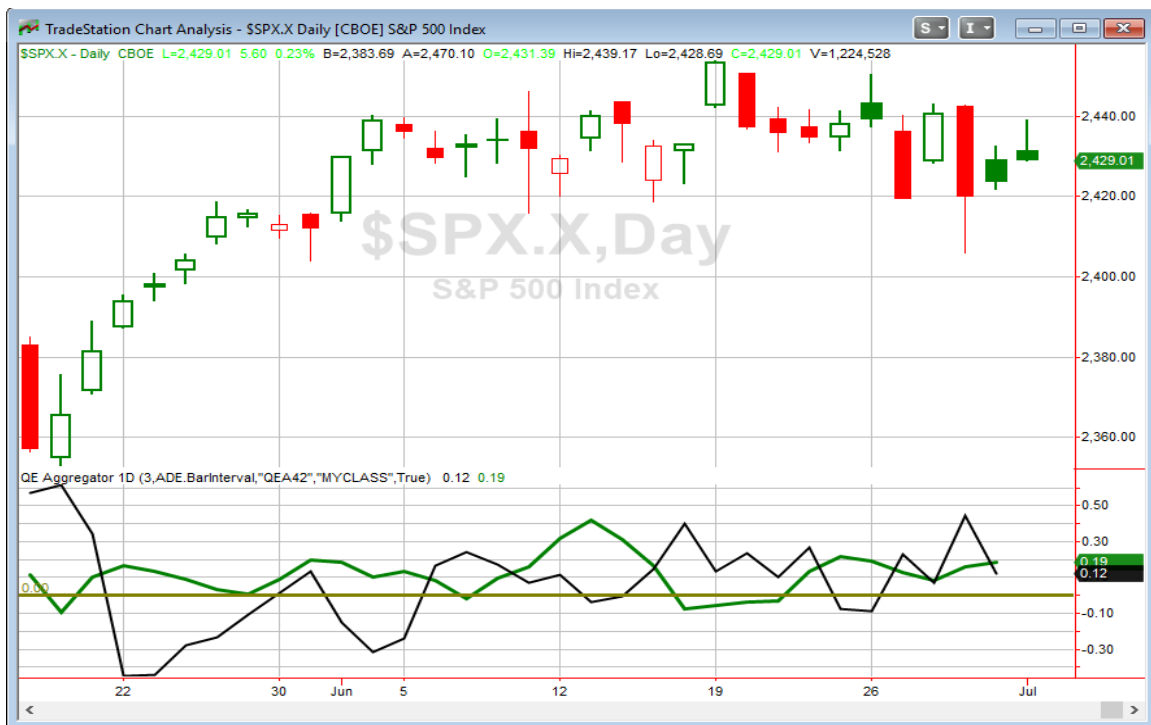
All 34 instances closed above the entry price  
at some point in the next 4 days.

The numbers here are impressively bullish. I also ran a profit curve assuming a 3-day holding period.



This curve is almost as straight as the arrow, and acts as confirmation of the upside edge.

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 Wednesday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2428.66 on Wednesday. That is less than 1 point *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close about 1 point lower in order to remain "oversold" versus expectations. Otherwise it will be considered "overbought" as of Wednesday's close.

For the 2<sup>nd</sup> day in a row, the SPY trade idea I posted went unfilled. In this case it missed by \$0.02. While evidence is still pointing higher, I am not a fan of taking on new positions while facing an inverted pivot. This is because reward is capped at 1-day's potential gains.

It hardly seems worth the risk. Therefore, I will stand aside and see how Wednesday plays out before looking to take on any new exposure.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 7/3 –neutral***

The intermediate-term outlook was last updated in the 7/3 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**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.*

*None tonight.*

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
COST(1/3)	6/23/2017	\$159.40	\$158.82	-0.36%		Catapult

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