

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 7, 2017

Volume 10 Issue 129

Market Overview



Signals Overview

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

Tonight's Research Points

- System 110524 triggered for SPY, which has been a reliable trigger over the years.

Short-term Outlook

The Bottom Line

The evidence is bullish, the market is oversold, and I am looking for a bounce in the next few days.

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 | | | | | | |
| July 7, 2017 | System 100524 | 1-7 days | Bullish | | | |
| July 5, 2017 | Bottom 10% Range on Up Day | 1-3 days | Bullish | | | |
| July 3, 2017 | SPX<10>200 end of month | 1-5 days | Bullish | | | |
| Active - Long Term | | | | | | |
| 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 | | | |

The Evidence

Thursday was a down day for the market, with some indices hitting new intermediate-term lows. The SPX declined 0.9%, the NASDAQ lost 1.0%, and the Russell 2000 sold off 1.4%. Breadth was negative as the NYSE Up Issues % was 19% and the Up Volume % came in at 14%. NYSE declined some from Wednesday's level.

The selloff in SPX put it at a 20-day low. In the 4/17/17 letter I showed a study that examined large losses that finished at intermediate-term lows. I have updated that study below.

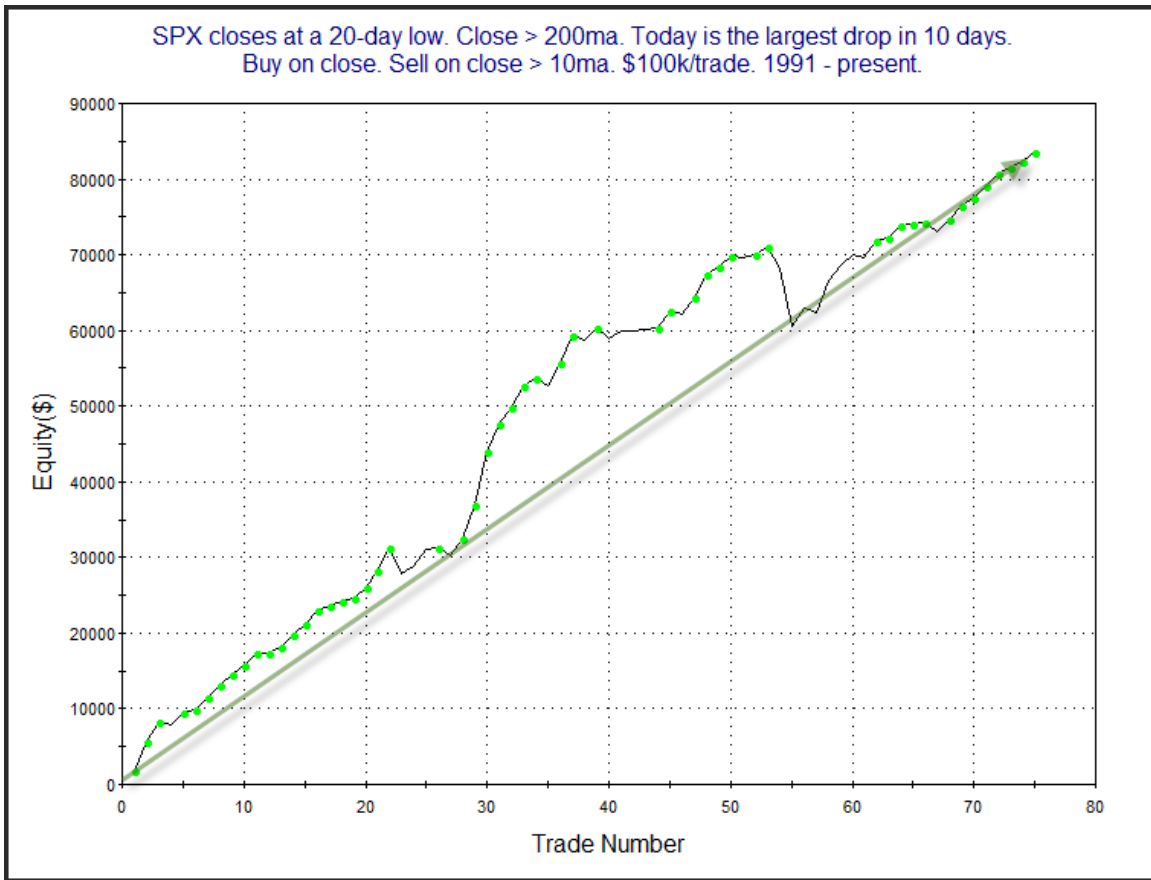
| SPX closes at a 20-day low. Close > 200ma. Today is the largest drop in 10 days. Buy on close. Sell X days later. \$100k/trade. 1991 - present. | | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|--|
| 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 | 77,494.91 | 73 | 52 | 21 | 71.23 | 2,462.65 | 5,953.20 | -2,407.76 | -13,993.88 | 1.02 | 2.53 | 1,061.57 | |
| 9 | 93,714.90 | 74 | 56 | 18 | 75.68 | 2,293.16 | 5,761.56 | -1,927.89 | -10,059.36 | 1.19 | 3.70 | 1,266.42 | |
| 8 | 80,917.64 | 75 | 54 | 21 | 72.00 | 2,336.30 | 6,960.84 | -2,154.40 | -14,092.68 | 1.08 | 2.79 | 1,078.90 | |
| 7 | 94,101.25 | 76 | 57 | 19 | 75.00 | 2,224.40 | 7,500.06 | -1,720.52 | -8,018.76 | 1.29 | 3.88 | 1,238.17 | |
| 6 | 87,304.94 | 78 | 58 | 20 | 74.36 | 2,154.53 | 7,272.06 | -1,882.90 | -7,966.32 | 1.14 | 3.32 | 1,119.29 | |
| 5 | 74,483.21 | 78 | 49 | 29 | 62.82 | 2,176.23 | 7,070.28 | -1,108.68 | -3,385.80 | 1.96 | 3.32 | 954.91 | |
| 4 | 50,231.75 | 80 | 51 | 29 | 63.75 | 1,758.14 | 4,731.13 | -1,359.78 | -3,863.84 | 1.29 | 2.27 | 627.90 | |
| 3 | 39,098.73 | 80 | 52 | 28 | 65.00 | 1,390.25 | 4,277.94 | -1,185.50 | -5,331.20 | 1.17 | 2.18 | 488.73 | |
| 2 | 38,768.68 | 81 | 53 | 28 | 65.43 | 1,197.66 | 4,809.66 | -882.41 | -3,863.25 | 1.36 | 2.57 | 478.63 | |
| 1 | 15,063.44 | 83 | 52 | 31 | 62.65 | 714.53 | 5,117.46 | -712.65 | -2,162.04 | 1.00 | 1.68 | 181.49 | |

Results here are quite bullish. Some subscribers may recognize the setup as numbered-system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

SPX closes at a 20-day low. Close > 200ma. Today is the largest drop in 10 days.
 Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

| TradeStation Performance Summary Expand ▾ | | | |
|--|--------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | \$83,451.89 | Profit Factor | 5.05 |
| Gross Profit | \$104,066.37 | Gross Loss | (\$20,614.48) |
| Total Number of Trades | 75 | Percent Profitable | 82.67% |
| Winning Trades | 62 | Losing Trades | 13 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$1,112.69 | Ratio Avg. Win:Avg. Loss | 1.06 |
| Avg. Winning Trade | \$1,678.49 | Avg. Losing Trade | (\$1,585.73) |
| Largest Winning Trade | \$7,070.28 | Largest Losing Trade | (\$7,630.40) |

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. Below is a profit curve where it can be seen.



The big drop was made up for fairly quickly and the upward slope is back in place.

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 moved back 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 2441.84 on Friday. That is less than 1.3% point above Thursday's close. So SPX would need to close up at least 1.3% on Friday in order to move from oversold to overbought. That is a sizable gain, and somewhat unlikely. A more likely scenario for working off the oversold condition would be a multi-day gain or consolidation.

So evidence is suggesting a bounce, and SPX is now clearly oversold. Additionally, there is ample profit potential to the upside before SPX would turn back to overbought. This seems like an edge that is worth trying to take advantage of. I intend to start scaling into an index position.

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

KHC – 1/3 @ \$83.79 (bought @ limit)

New

KHC – 1/3 @ \$82.82 (buy @ limit)

SO – 1/3 @ \$47.40 (buy @ limit)

Broad Market Large Cap CBI – 3(KHC-2, SO)

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 1/4 index position @ \$240.55 LIMIT. Based on the short-term outlook above, I will look to start scaling into a SPY position here.

KHC – buy 1/3 Catapult position @ \$82.82 LIMIT. This is from the Catapult section above. It is the 2nd of 3 possible lots for KHC.

SO – buy 1/3 Catapult position @ \$47.40 LIMIT. This is from the Catapult section above. It is the 1st of 3 possible lots for SO.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|-----------|------------|-------------|---------------|-------------|------|---------------------|
| COST(1/3) | 6/23/2017 | \$159.40 | \$157.09 | -1.45% | | <i>exit on open</i> |
| KHC(1/3) | 7/6/2017 | \$83.30 | \$82.82 | -0.58% | | bought on open |

COST hit its intraday exit trigger on Thursday. It will be sold at the open on Friday.

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