

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 14, 2017

Volume 10 Issue 134

Market Overview



Signals Overview

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

Tonight's Research Points

- The steep drop in VXO may have signaled trouble if the market was in a downtrend, but does not appear concerning during a long-term uptrend.

Short-term Outlook

The Bottom Line

Evidence is lacking. I am neutral.

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						
None						
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 saw the market creep a little higher. The SPX closed up 0.2%, the NASDAQ also gained 0.2%, and the Russell 2000 rose 0.1%. Breadth was positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 63%. NYSE volume declined for the 2nd day in a row.

More quiet action again lead to a dearth of compelling studies in the Quantifinder. Interestingly, the study below triggered again, for the 2nd time in a week. The except below is from the Sunday night subscriber letter.

The rally was accompanied by a very large drop in the VIX (and VXO, which is the old calculation for the VIX). Back in the 8/11/15 subscriber letter I noted that big drops in the VXO have had much different connotations depending on whether SPX is in a long-term uptrend or downtrend (as defined by its proximity to the 200ma). I decided to review those studies, which require a 15% 1-day VXO drop, in tonight's letter.

First let's consider what has followed when the large VXO drop has occurred during a long-term downtrend.

VXO closes down over 15%. SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-17,127.04	27	15	12	55.56	2,031.92	6,915.44	-3,967.15	-13,784.48	0.51	0.64	-634.33
4	-29,181.03	29	14	15	48.28	1,665.91	4,104.78	-3,500.25	-10,971.63	0.48	0.44	-1,006.24
3	-33,812.52	30	10	20	33.33	1,269.38	2,993.44	-2,325.32	-7,806.29	0.55	0.27	-1,127.08
2	-41,144.44	30	9	21	30.00	946.61	2,466.36	-2,364.95	-9,455.49	0.40	0.17	-1,371.48
1	-18,999.82	30	8	22	26.67	890.80	2,404.65	-1,187.56	-4,400.45	0.75	0.27	-633.33

We see here some bearish statistics over the 1-2 day period. There is rarely upside follow-through when fear dissipates that quickly during a downtrend.

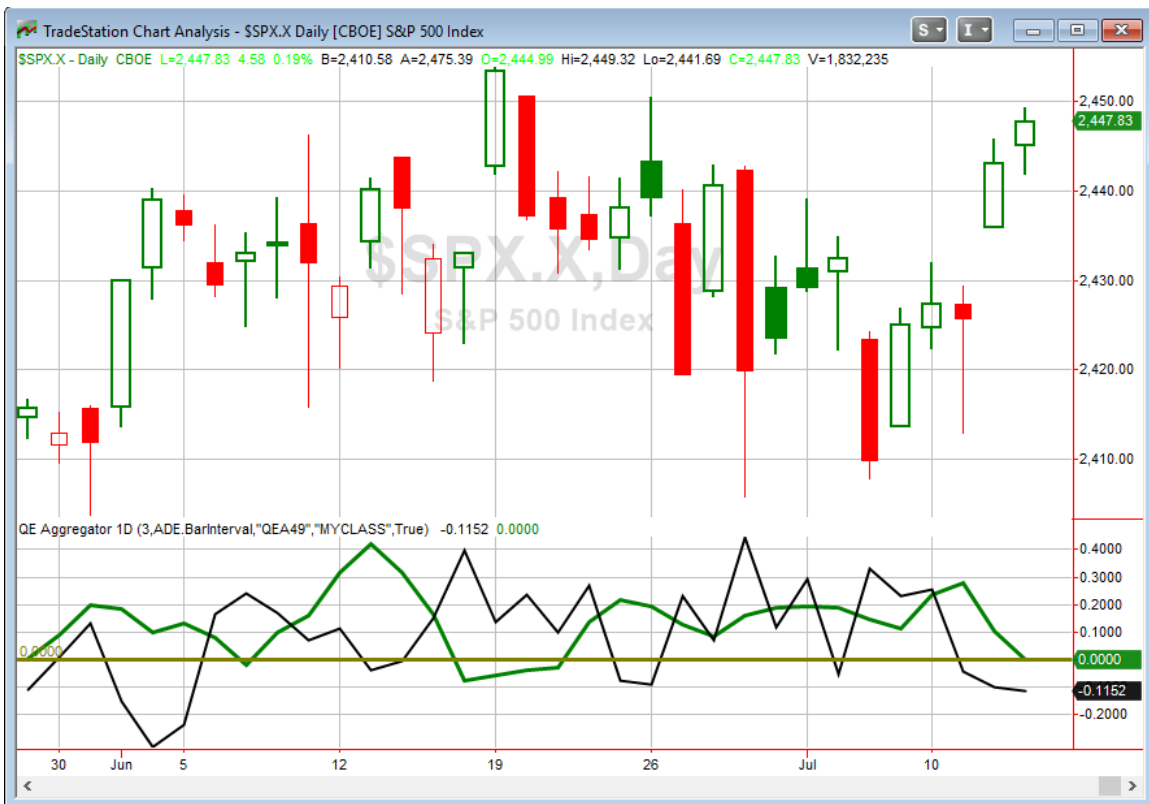
But now let's consider times like the present where SPX is in an uptrend.

VXO closes down over 15%. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	9,973.04	48	26	22	54.17	1,613.48	5,396.71	-1,453.52	-4,561.65	1.11	1.31	207.77
4	8,455.78	51	29	22	56.86	1,238.43	3,394.72	-1,248.13	-2,927.52	0.99	1.31	165.80
3	8,779.69	53	28	25	52.83	1,272.47	3,276.14	-1,073.97	-3,629.81	1.18	1.33	165.65
2	6,514.40	54	31	23	57.41	1,075.44	3,075.73	-1,166.27	-5,300.66	0.92	1.24	120.64
1	3,939.54	57	29	28	50.88	843.39	2,842.84	-732.82	-3,572.94	1.15	1.19	69.11

Here there is no hint of a short-term bearish inclination. In fact the setup has shown slight gains for each of the time periods measured. I don't think the numbers are strong enough to consider this a bullish setup, but it certainly is not bearish.

I have updated the Aggregator chart below.



With the last short-term study expiring and the intermediate-term outlook currently neutral, the green Aggregator cline closed exactly at 0 – meaning 0 short-term direction edge is

being suggested by the Quantifiable Edges database of studies. Meanwhile, the black Differential Line remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are flat and SPX is overbought. This is considered a neutral configuration. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain neutral on Friday. Of course new evidence could easily turn expectations either positive or negative. The Differential Pivot will be 2440.71 on Friday. That is 0.3% below Thursday's close. So SPX would need to close down at least 0.2% on Friday in order to move from overbought to oversold versus recent expectations.

There just does not seem to be a strong directional edge at the moment. So I will patiently sit on my hands until the next good edge emerges. Of further note, the last outstanding Catapult hit its exit trigger on Thursday, so the CBI is now back to 0.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/10 –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

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 tonight.](#)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>KHC(1/3)</i>	<i>7/6/2017</i>	<i>\$83.30</i>	<i>\$84.74</i>	<i>1.73%</i>		<i>sold on open</i>
<i>KHC(1/3)</i>	<i>7/7/2017</i>	<i>\$82.58</i>	<i>\$84.74</i>	<i>2.62%</i>		<i>sold on open</i>
<i>SO(1/3)</i>	<i>7/7/2017</i>	<i>\$47.40</i>	<i>\$47.62</i>	<i>0.46%</i>		<i>sold on open</i>
<i>SO(1/3)</i>	<i>7/10/2017</i>	<i>\$47.36</i>	<i>\$47.62</i>	<i>0.55%</i>		<i>sold on open</i>
<i>SO(1/3)</i>	<i>7/11/2017</i>	<i>\$47.28</i>	<i>\$47.62</i>	<i>0.72%</i>		<i>sold on open</i>
<i>COST(1/3)</i>	<i>7/11/2017</i>	<i>\$151.00</i>	<i>\$153.65</i>	<i>1.75%</i>		<i>sell on open</i>

COST reached its exit trigger. It will be sold at Friday's open.

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