

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 18, 2017

Volume 10 Issue 136

Market Overview



Signals Overview

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

Tonight's Research Points

- When an overbought market has pulled back as little as it did Thursday, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.

Short-term Outlook

The Bottom Line

Evidence continues to point higher. Bu with the market still overbought, reward/risk is not great.

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 18, 2017	SPX down. RSI2 > 90	1-2 days	Bullish			
July 17, 2017	3 up, 50-high breakout on low volume	1-5 days	Bullish	1.70%	-0.90%	-2.00%
Active - Long Term						
July 17, 2017	NASDAQ Leading	int term	Bullish			
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			

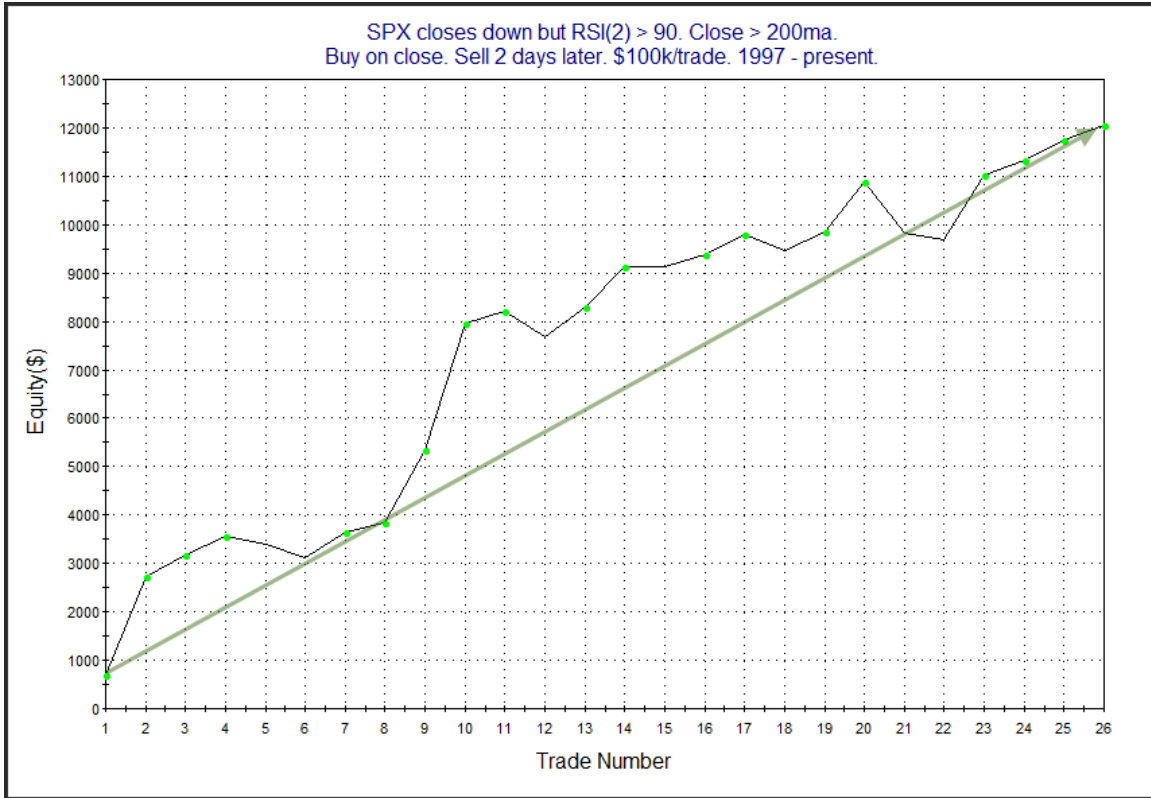
The Evidence

Monday was mixed and mild. The SPX closed up less than 0.1%, the NASDAQ gained less than 0.1%, and the Russell 2000 rose 0.2%. Breadth was positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 57%. NYSE volume rose some from Friday's level.

The move higher last week has many oscillators strongly overbought short-term. With such a small SPX decline on Monday, it is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a very sensitive indicator so it would take a very small decline from a very overbought position in order for it to remain above 90 on a down day. This is what happened on Monday. It therefore triggered the below study from the 5/27/16 letter, which I have updated.

SPX closes down but RSI(2) > 90. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	4,659.40	24	10	14	41.67	1,486.48	4,121.28	-728.96	-2,008.73	2.04	1.46	194.14
4	6,154.46	25	13	12	52.00	1,130.17	3,806.46	-711.48	-1,717.70	1.59	1.72	246.18
3	12,193.08	26	15	11	57.69	1,092.29	2,923.44	-381.03	-1,123.50	2.87	3.91	468.96
2	12,056.34	26	19	7	73.08	766.00	2,619.76	-356.81	-1,054.68	2.15	5.83	463.71
1	5,751.41	26	18	8	69.23	479.03	2,310.88	-358.90	-704.76	1.33	3.00	221.21

The stats here are all appealing over the 1-2 day period. Winning %, win/loss ratio, and profit factor all strongly favor the bulls. Below is a profit curve assuming a 2-day holding period.



The profit curve shows a strong upslope and is making new highs. I have added this study to the Active List.

It is also notable that SPY posted an inside day just 1 day after breaking out to a 50-day day high. This is something I examined way back in the 8/4/10 Letter. I have updated the results of that study below.

Yesterday SPY breaks out to a 50-day high after basing for at least 10 days. Today SPY posts and inside 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	6,005.95	9	7	2	77.78	1,022.49	2,169.36	-575.74	-665.28	1.78	6.22	667.33
4	4,232.96	9	6	3	66.67	901.56	2,997.36	-392.14	-722.10	2.30	4.60	470.33
3	3,072.57	9	6	3	66.67	717.75	1,399.32	-411.30	-601.51	1.75	3.49	341.40
2	4,590.25	9	7	2	77.78	747.14	1,656.00	-319.86	-594.36	2.34	8.18	510.03
1	1,340.44	9	4	5	44.44	778.05	2,094.84	-354.36	-495.04	2.20	1.76	148.94

Yesterday SPY breaks out to a 50-day high after basing for at least 10 days.
 Today SPY posts and inside day. Buy on close. Sell 2 days later.
 \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/22/1998	Buy	\$120.69	1.66%	\$2,641.32
12/24/1998	Sell	\$122.69		\$0.00
8/25/2000	Buy	\$151.25	0.22%	\$1,097.26
8/29/2000	Sell	\$151.59		(\$224.74)
11/15/2001	Buy	\$114.87	0.78%	\$852.60
11/19/2001	Sell	\$115.77		(\$1,278.90)
2/12/2004	Buy	\$115.65	0.45%	\$673.92
2/17/2004	Sell	\$116.17		(\$768.96)
4/21/2006	Buy	\$131.15	-0.59%	\$0.00
4/25/2006	Sell	\$130.37		(\$937.26)
10/2/2007	Buy	\$154.09	-0.05%	\$207.36
10/4/2007	Sell	\$154.02		(\$388.80)
8/3/2010	Buy	\$112.22	0.56%	\$792.99
8/5/2010	Sell	\$112.85		(\$124.74)
9/16/2010	Buy	\$113.05	1.03%	\$1,246.44
9/20/2010	Sell	\$114.21		(\$769.08)
2/25/2014	Buy	\$184.84	0.53%	\$557.23
2/27/2014	Sell	\$185.82		(\$275.91)

While the odds look solid, the low number of instances is a bit concerning. I am not including this stud on the Active List, but will be keeping a close eye on it in the future.

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 (just slightly) below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Tuesday. Of course compelling new bearish studies could change this. The Differential Pivot will be 2457.17 on Monday. That is 0.1% below Monday's close. So SPX would only need to close down about 0.1% point on Tuesday in order to move from overbought to oversold versus recent expectations.

Similar to last night, the evidence appears to be suggesting an upside edge, but I would prefer to see the market pull back a bit before considering reward/risk favorable enough to take on new long positions. So I will remain keenly interested in Tuesday's action, and the new studies that emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/17 –somewhat bullish

The intermediate-term outlook was last updated in the 7/17 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

None.

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