

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 19, 2017

Volume 10 Issue 137

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- A 50-day high, an inside day, and then another 50-day high have often been followed by a pullback.
- VIX rising on a day that SPX hits a new 50-day has often led to a decline the next day.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is mixed and the Differential Pivot is inverted. Reward/risk is not great overall. Wednesday appears to have a downside edge.

*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 19, 2017	VIX up midweek. SPX 50-high.	1 day	Bearish			
July 19, 2017	50-high. Inside day. 50-high.	1 day	Bearish			
July 19, 2017	SPY up < 0.25%. Top of range	1 day	Bearish			
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%
<b>Active - Long Term</b>						
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			

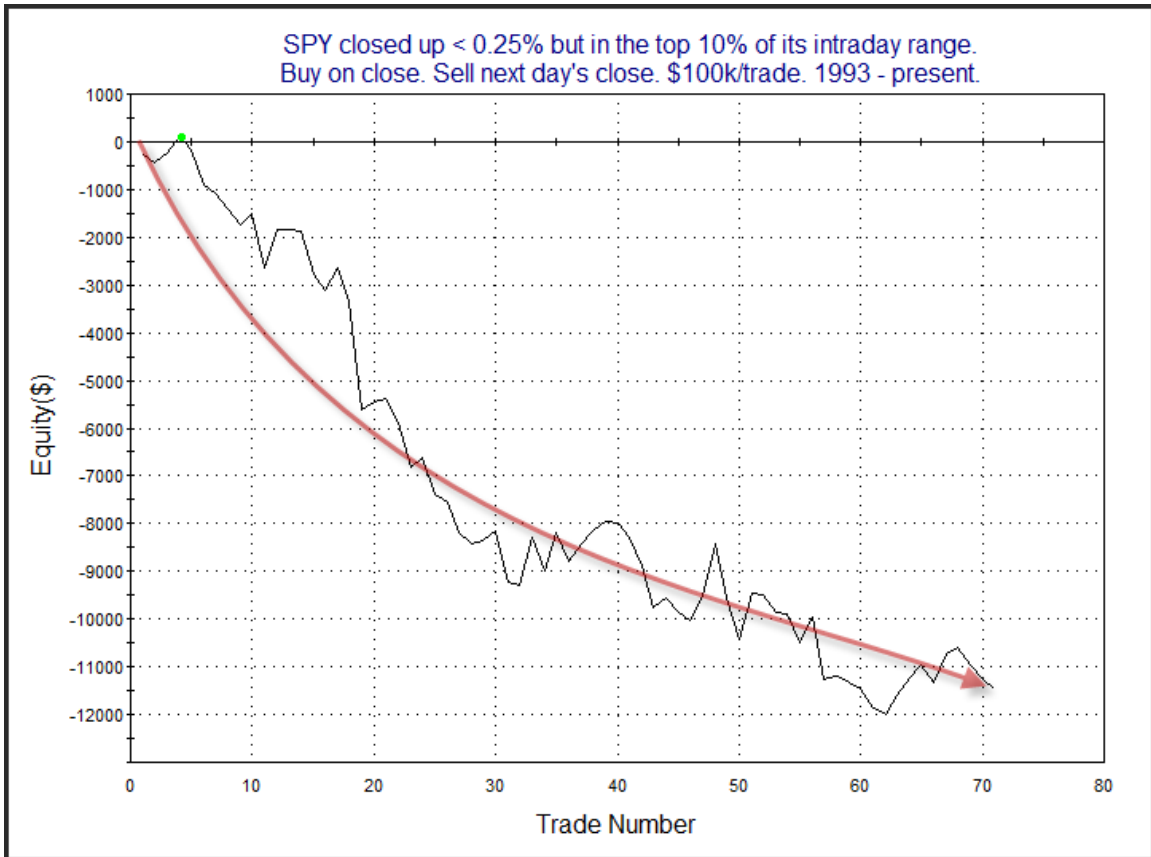
**The Evidence**

Tuesday was another mixed day. The SPX closed up less than 0.1%, the NASDAQ gained 0.5%, and the Russell 2000 declined 0.3%. Breadth was negative as the NYSE Up Issues % was 48% and the Up Volume % came in at 38%. NYSE volume declined some from Monday's level.

There were a number of very short-term (1-day) studies that triggered suggesting Wednesday could be a down day. One interesting study to appear in the Quantifinder was the one below, which was last seen just last week in the 4/5/17 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closed up < 0.25% but in the top 10% of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$11,468.30)	Profit Factor	0.48
Gross Profit	\$10,577.89	Gross Loss	(\$22,046.19)
Total Number of Trades	71	Percent Profitable	38.03%
Winning Trades	27	Losing Trades	44
Even Trades	0		
Avg. Trade Net Profit	(\$161.53)	Ratio Avg. Win:Avg. Loss	0.78
Avg. Winning Trade	\$391.77	Avg. Losing Trade	(\$501.05)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



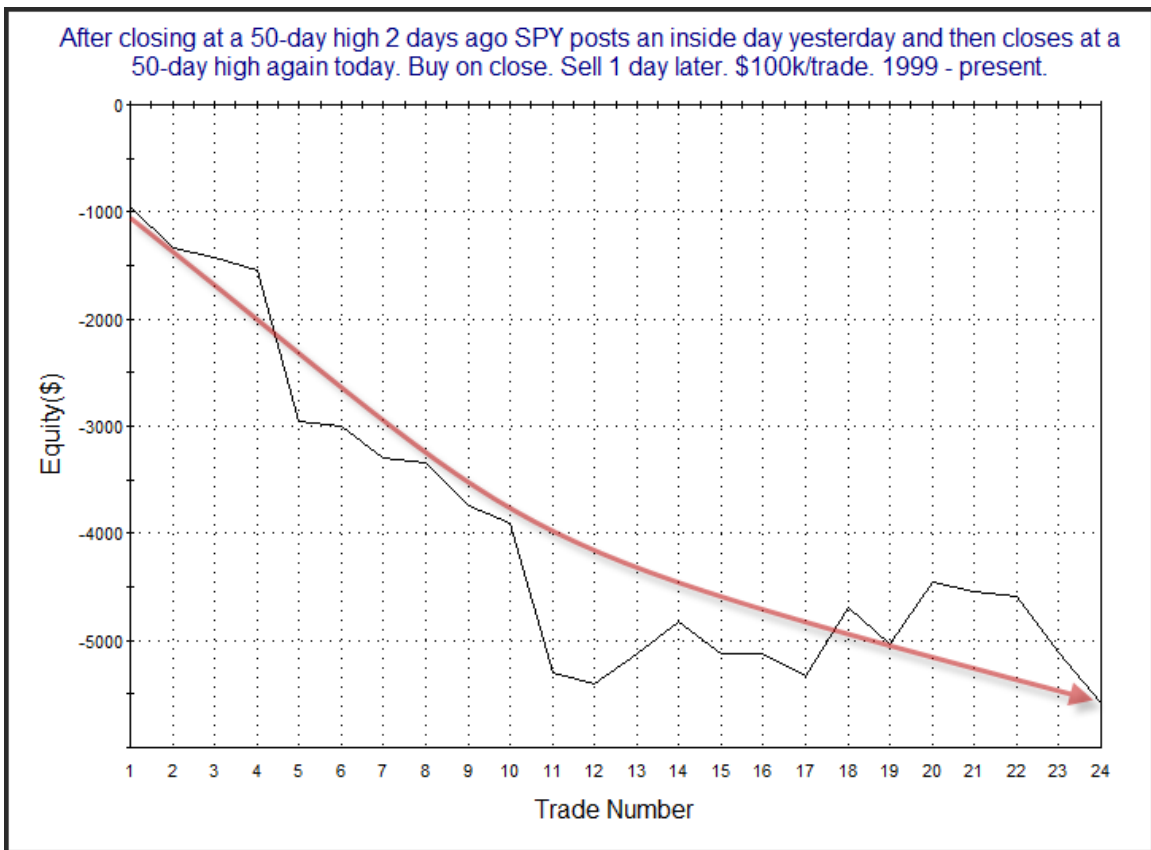
It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day.

After Friday's move to a new high in SPY, Monday put in an inside day. With Tuesday closing at another new high the study below triggered. It was last seen in the 11/18/14 subscriber letter. I have updated all statistics.

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and then closes at a 50-day high again today. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-16,881.83	24	7	17	29.17	671.55	1,413.21	-1,269.57	-3,754.10	0.53	0.22	-703.41
4	-12,238.00	24	8	16	33.33	725.65	1,245.97	-1,127.70	-5,106.46	0.64	0.32	-509.92
3	-11,590.52	24	8	16	33.33	583.02	1,367.56	-1,015.92	-3,417.34	0.57	0.29	-482.94
2	-11,143.36	24	6	18	25.00	654.76	1,132.23	-837.33	-2,737.00	0.78	0.26	-464.31
1	-5,580.26	24	4	20	16.67	451.88	651.42	-369.39	-1,405.62	1.22	0.24	-232.51

Stats here suggest a bearish inclination following action similar to the last 3 days. One day later the market has declined 20 of 24 times. Below is a look at the 1-day profit curve.

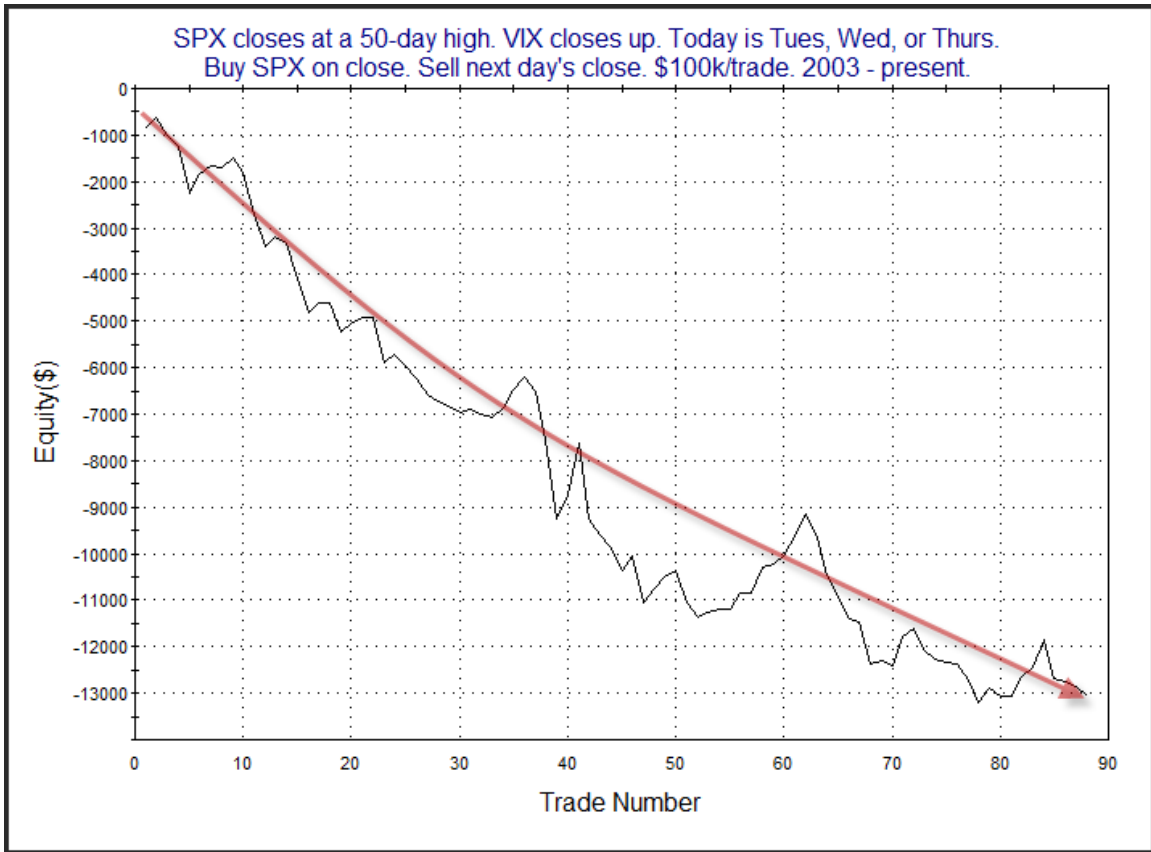


The curve has not been as strong lately, but it is back to making new lows. I have included this study on the Active List tonight.

The study below was last seen in the 11/12/14 letter. It examines other times where the VIX rose midweek while SPX was closing at a 50-day high. I often segregate VIX studies by mid-week vs. Monday or Friday because the VIX has a natural tendency to decline on Friday afternoons and rise on Mondays. For a while it appeared that the setup below carried bearish influence for several days. But a strong bull market seems to have changed that. Still, the 1-day results appear to be worth examination. Results below are updated.

SPX closes at a 50-day high. VIX closes up. Today is Tues, Wed, or Thurs. Buy SPX on close. Sell next day's close. \$100k/trade. 2003 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$13,077.70)	Profit Factor	0.44
Gross Profit	\$10,096.97	Gross Loss	(\$23,174.67)
Total Number of Trades	88	Percent Profitable	43.18%
Winning Trades	38	Losing Trades	50
Even Trades	0		
Avg. Trade Net Profit	(\$148.61)	Ratio Avg. Win:Avg. Loss	0.57
Avg. Winning Trade	\$265.71	Avg. Losing Trade	(\$463.49)
Largest Winning Trade	\$1,108.05	Largest Losing Trade	(\$1,721.70)

The numbers seem moderately suggestive of a downside edge. Here is the profit curve.



The strong, steady downslope supports the bearish thesis.

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 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 Wednesday. Of course compelling new bearish studies could change this. The Differential Pivot will be *inverted* at 2466.84 on Wednesday. That is 0.25% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX is going to need to close up at least 0.25% in order to remain overbought. Anything shy of that and it will be considered "oversold" versus expectations as of Wednesday's close.

The Aggregator uses our 3-day expectations. And while those are bullish, tonight's studies flipped the 1-day expectations to bearish. A 1-day edge is not often enough to get me interested in taking on a swing position. This is especially true when a flat close on Wednesday could see the Aggregator formation turn bullish, thanks to the inverted pivot. So I am still in a holding pattern, waiting for a more favorable reward/risk opportunity to emerge before putting new capital to work.

***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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