

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 20, 2017

Volume 10 Issue 138

Market Overview



Signals Overview

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

Tonight's Research Points

- RSI(2) crossing above 99 bodes well for the intermediate-term.

Short-term Outlook

The Bottom Line

Evidence is pointing higher but the market remains overbought. Reward/risk is not great overall.

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 17, 2017 | 3 up, 50-high breakout on low volume | 1-5 days | Bullish | 1.70% | -0.90% | -2.00% |
| Active - Long Term | | | | | | |
| July 20, 2017 | RSI2 crosses over 99. SPX > 200ma. | 1-15 days | Bullish | 2.30% | -1.40% | -2.70% |
| 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 | | | |

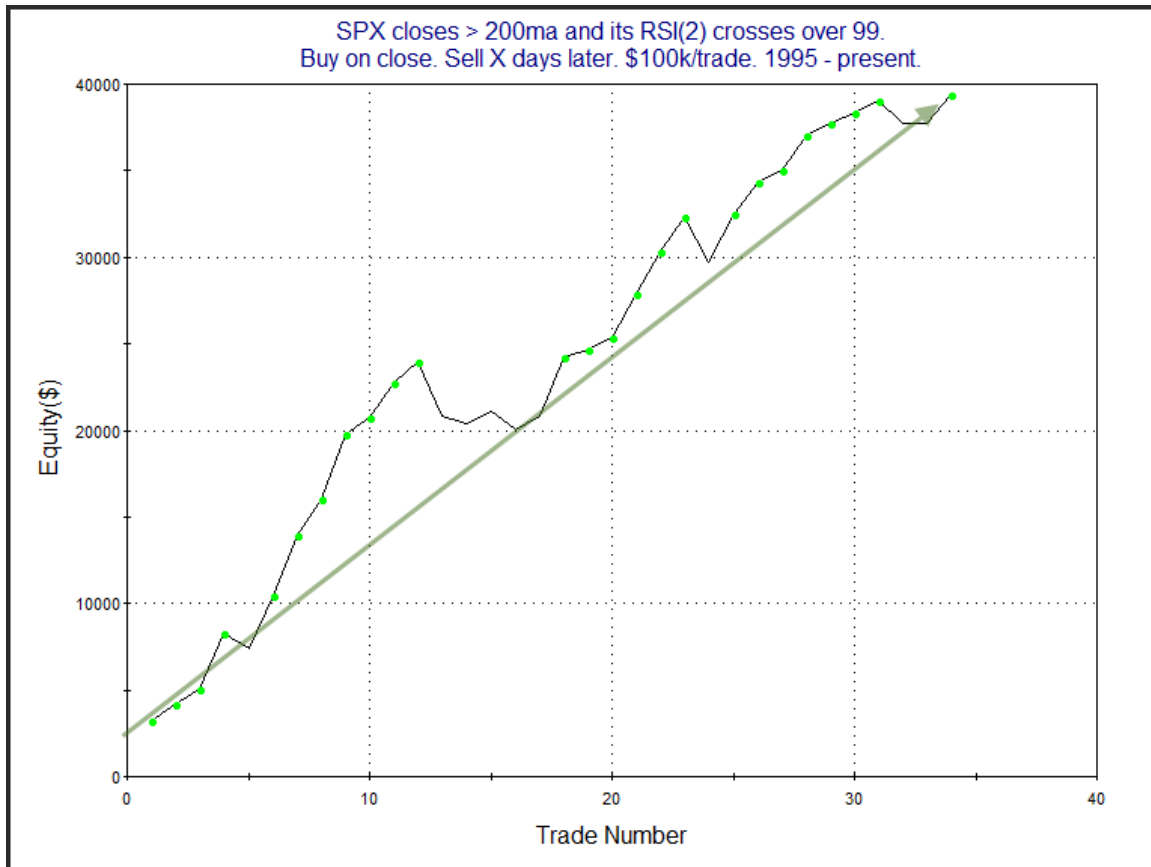
The Evidence

Wednesday saw the market post solid gains and new all-time highs. The SPX closed up 0.5%, the NASDAQ gained 0.6%, and the Russell 2000 rallied 1.0%. Breadth was positive as the NYSE Up Issues % was 73% and the Up Volume % came in at 81%. NYSE volume rose some from Tuesday's level.

The rally over the last several days has been impressive, and it has left the market short-term overbought. Of course short-term overbought often triggers some studies that suggest a downside edge, like it did last night. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below from the 8/19/14 Letter, which uses RSI(2).

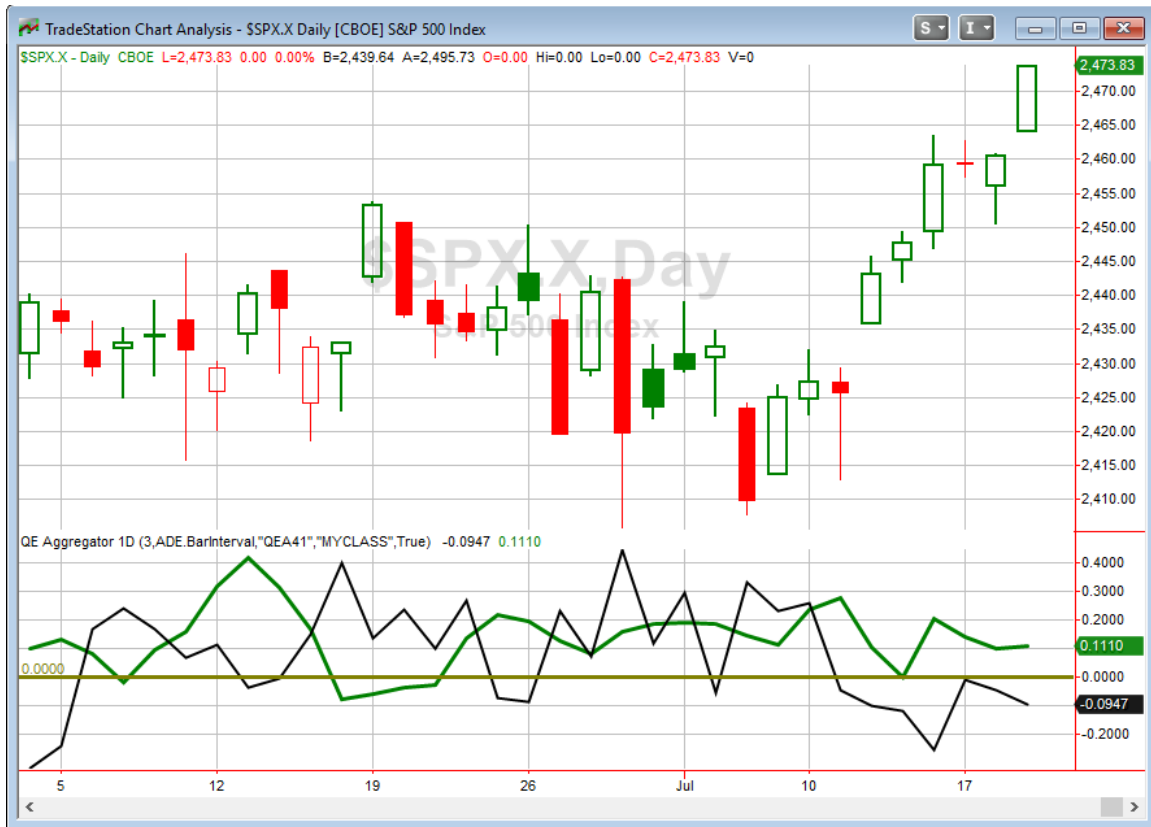
| SPX closes > 200ma and its RSI(2) crosses over 99. Buy on close. Sell X days later. \$100k/trade. 1995 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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 |
| 15 | 39,384.69 | 34 | 27 | 7 | 79.41 | 1,802.89 | 3,782.11 | -1,327.63 | -3,063.60 | 1.36 | 5.24 | 1,158.37 |
| 14 | 33,813.69 | 34 | 26 | 8 | 76.47 | 1,735.31 | 4,461.36 | -1,413.04 | -2,699.52 | 1.23 | 3.99 | 994.52 |
| 13 | 33,744.42 | 35 | 28 | 7 | 80.00 | 1,606.76 | 3,989.82 | -1,606.42 | -3,320.01 | 1.00 | 4.00 | 964.13 |
| 12 | 32,227.83 | 35 | 27 | 8 | 77.14 | 1,561.67 | 4,058.61 | -1,242.16 | -3,175.53 | 1.26 | 4.24 | 920.80 |
| 11 | 34,997.33 | 35 | 28 | 7 | 80.00 | 1,612.15 | 4,106.40 | -1,448.99 | -2,523.21 | 1.11 | 4.45 | 999.92 |
| 10 | 27,848.15 | 36 | 27 | 9 | 75.00 | 1,487.34 | 3,770.55 | -1,367.79 | -2,793.28 | 1.09 | 3.26 | 773.56 |
| 9 | 24,324.17 | 36 | 26 | 10 | 72.22 | 1,395.83 | 3,453.27 | -1,196.74 | -3,440.07 | 1.17 | 3.03 | 675.67 |
| 8 | 25,400.02 | 36 | 25 | 11 | 69.44 | 1,438.53 | 3,547.80 | -960.29 | -3,460.32 | 1.50 | 3.40 | 705.56 |
| 7 | 18,557.61 | 37 | 24 | 13 | 64.86 | 1,279.71 | 3,564.39 | -935.03 | -4,153.62 | 1.37 | 2.53 | 501.56 |
| 6 | 9,809.01 | 37 | 23 | 14 | 62.16 | 1,117.93 | 2,634.36 | -1,135.96 | -5,296.92 | 0.98 | 1.62 | 265.11 |
| 5 | 6,210.45 | 37 | 24 | 13 | 64.86 | 884.49 | 1,782.39 | -1,155.19 | -3,596.40 | 0.77 | 1.41 | 167.85 |
| 4 | 5,235.76 | 37 | 25 | 12 | 67.57 | 837.42 | 2,442.90 | -1,308.30 | -3,039.18 | 0.64 | 1.33 | 141.51 |
| 3 | -591.01 | 38 | 23 | 15 | 60.53 | 699.90 | 1,982.20 | -1,112.58 | -2,880.45 | 0.63 | 0.96 | -15.55 |
| 2 | 1,285.83 | 38 | 23 | 15 | 60.53 | 630.08 | 1,998.39 | -880.39 | -2,348.76 | 0.72 | 1.10 | 33.84 |
| 1 | 1,689.34 | 38 | 20 | 18 | 52.63 | 554.68 | 2,096.10 | -522.46 | -3,515.37 | 1.06 | 1.18 | 44.46 |

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously this study does not help us with the short-term, but I have added it to the intermediate-term list.

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 Thursday. Of course compelling new bearish studies could change this. The Differential Pivot will be 2467.57 on Thursday. That is 0.25% below Wednesday's close. So SPX would need to close down about 0.25% on Thursday in order to move from overbought to oversold versus recent expectations.

Runaway moves higher can sometimes be frustrating as a swing trader. They do not allow for low-risk entries. But giving into that frustration, losing patience, and taking potentially risky trades, is never the right way to deal with such frustration. I'll remain patient and alert, awaiting the next strongly favorable reward/risk scenario in which to allocate new swing trading capital.

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.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2017 Hanna Capital Management, LLC.