

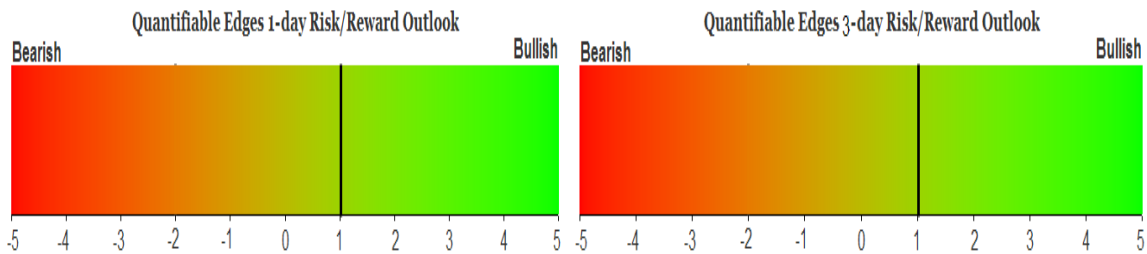
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 26, 2017

Volume 10 Issue 142

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Long	100% Long XIV	Short

Tonight's Research Points

- Extremely high volume on an up day suggests bullish implications.
- SPY's strong (unfilled) gap up, high volume and close below the open appears to be bullish for the next few days.
- While tomorrow is a Fed Day, the setup appears less bullish than most Fed Days.

Short-term Outlook

The Bottom Line

The Aggregator suggests a bullish edge, but the opportunity appears small and the Fed announcement is a wild card. I am standing aside for the time being.

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 26, 2017	Unfill gap up. 20-high. Close < open. V up	1-3 days	Bullish			
July 25, 2017	Dn 3 days from 20-high. Offset HV < 0.25	1-2 days	Bullish			
Active - Long Term						
July 26, 2017	SPX rises. Highest volume in 20 days	1-10 days	Bullish			
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			

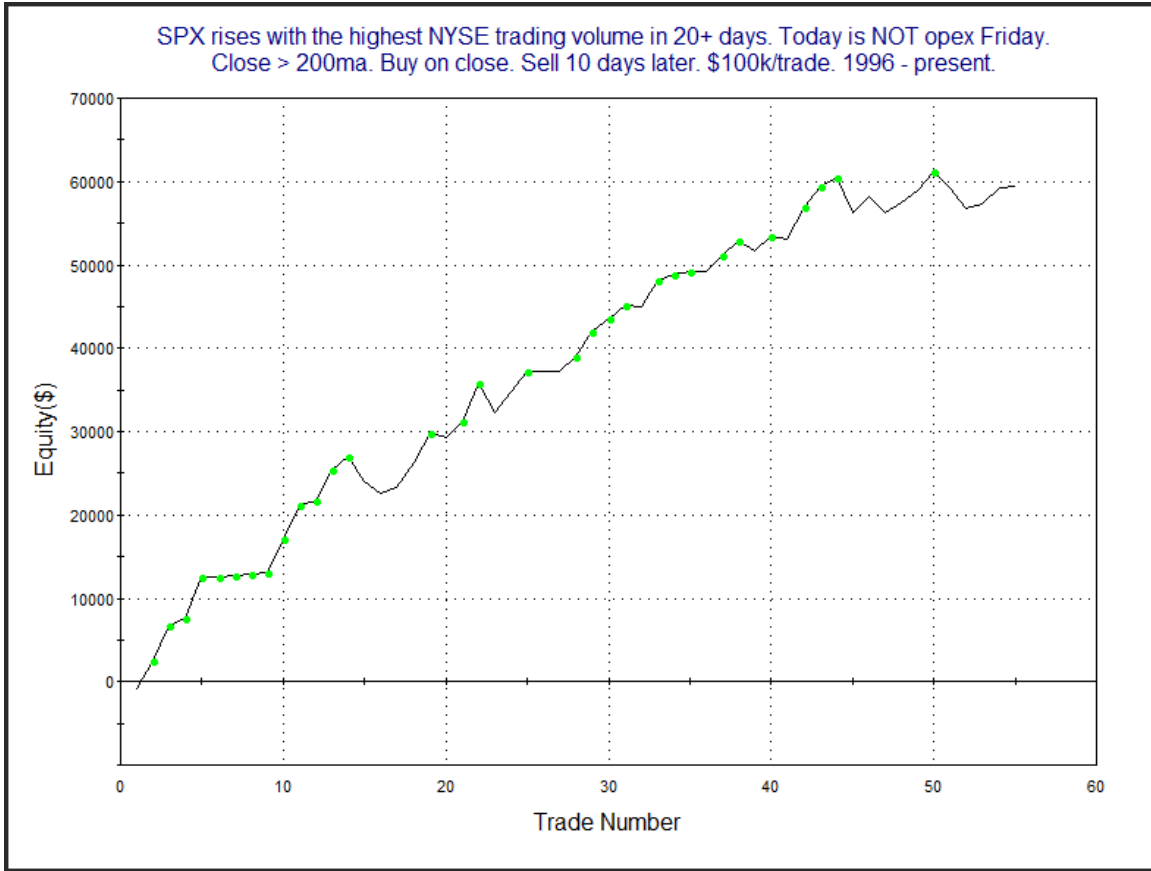
The Evidence

Tuesday saw the S&P gap higher and then chop around in a fairly narrow range all day. The SPX closed up 0.3%, the NASDAQ rose less than 0.1%, and the Russell 2000 gained 0.9%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 79%. NYSE volume spiked to the highest level in a while.

The high volume provided an interesting bit of evidence. When the market has risen on extremely high volume on a day other than op-ex Friday, that has typically been a good sign. Below is a study last shown in the 3/19/15 subscriber letter that demonstrates this.

SPX rises with the highest NYSE trading volume in 20+ days. Today is NOT opex Friday. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1996 - 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	59,464.95	55	40	15	72.73	2,022.79	4,885.00	-1,429.78	-4,242.42	1.41	3.77	1,081.18
9	52,661.76	55	40	15	72.73	1,895.14	5,451.25	-1,542.93	-5,429.38	1.23	3.28	957.49
8	51,181.03	55	42	13	76.36	1,754.44	4,174.09	-1,731.20	-5,492.28	1.01	3.27	930.56
7	39,101.54	57	41	16	71.93	1,725.18	4,869.18	-1,976.93	-5,526.30	0.87	2.24	685.99
6	37,782.36	60	40	20	66.67	1,765.59	5,552.91	-1,642.07	-4,857.36	1.08	2.15	629.71
5	27,274.72	61	41	20	67.21	1,448.37	4,683.84	-1,605.42	-4,459.24	0.90	1.85	447.13
4	24,407.05	64	39	25	60.94	1,375.64	4,518.75	-1,169.71	-4,368.22	1.18	1.83	381.36
3	16,065.39	66	43	23	65.15	1,052.01	3,216.85	-1,268.31	-3,332.96	0.83	1.55	243.42
2	6,175.16	67	40	27	59.70	804.58	2,830.24	-963.27	-3,844.10	0.84	1.24	92.17
1	8,608.49	80	45	35	56.25	618.80	2,368.66	-549.65	-2,302.95	1.13	1.45	107.61

The statistics appear to suggest a solid bullish edge over the next couple of weeks. Below is an equity curve using a 10-day exit strategy that shows how the edge has played out over time.



There curve has flattened out a bit lately, but the study still seems worthy of some consideration. Since the 1st few days are not as reliable, I simply added it to the intermediate-term Active List.

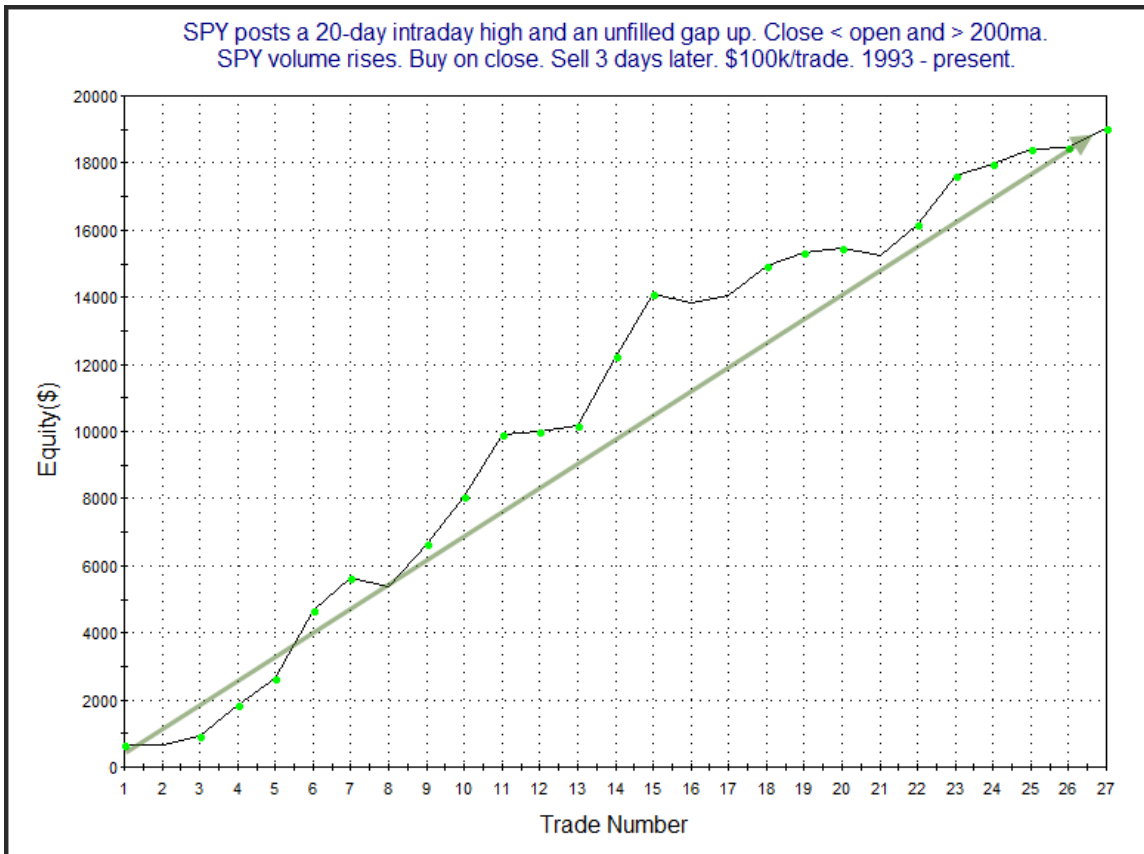
The price and volume action in SPY on Tuesday triggered a study from the 11/3/14 letter. It considered the fact that while the market opened strong and held its morning gap on rising volume, it failed to add to its morning gains by the end of the day. This failure to add to the gains during the day may sound discouraging, but it has actually been a bullish sign in the past. Below is an updated version of the study.

SPY posts a 20-day intraday high and an unfilled gap up. Close < open and > 200ma.
 SPY volume rises. 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
10	28,130.09	25	16	9	64.00	2,261.22	3,751.11	-894.38	-2,117.20	2.53	4.49	1,125.20
9	22,206.55	25	19	6	76.00	1,516.15	3,384.84	-1,100.05	-1,837.44	1.38	4.36	888.26
8	20,208.22	25	18	6	72.00	1,478.16	3,352.48	-1,066.43	-1,581.20	1.39	4.16	808.33
7	19,784.86	25	17	8	68.00	1,604.44	3,310.89	-936.33	-1,451.12	1.71	3.64	791.39
6	20,517.18	25	18	7	72.00	1,506.20	3,008.79	-942.06	-2,000.96	1.60	4.11	820.69
5	15,392.98	26	15	11	57.69	1,357.77	3,754.17	-452.14	-1,879.20	3.00	4.09	592.04
4	17,917.21	26	22	4	84.62	877.24	3,436.02	-345.53	-628.68	2.54	13.96	689.12
3	19,051.55	27	23	3	85.19	859.65	2,056.39	-240.14	-252.60	3.58	27.45	705.61
2	12,999.53	28	20	8	71.43	804.63	1,998.70	-386.64	-926.12	2.08	5.20	464.27
1	9,011.34	28	22	6	78.57	478.89	1,708.92	-254.05	-479.96	1.89	6.91	321.83

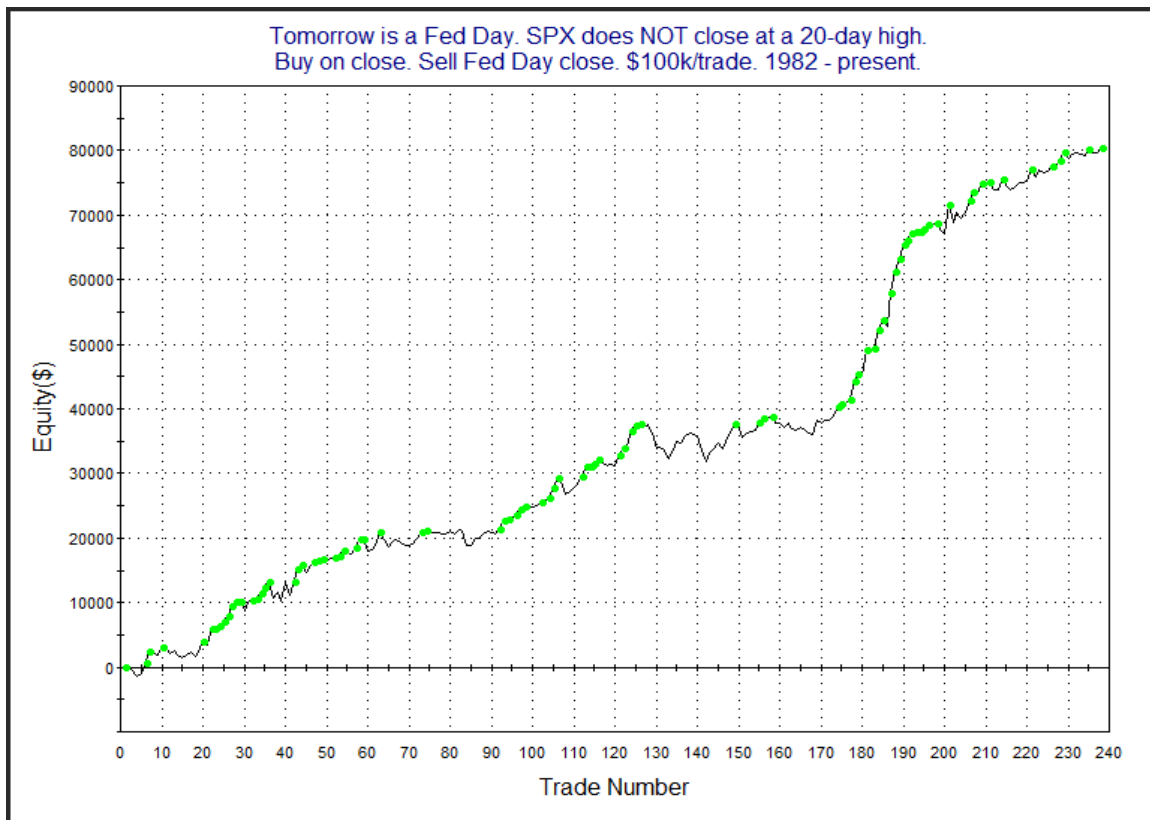
27 of 28 instances (96%) closed above the entry price at some point in the next 3 days.

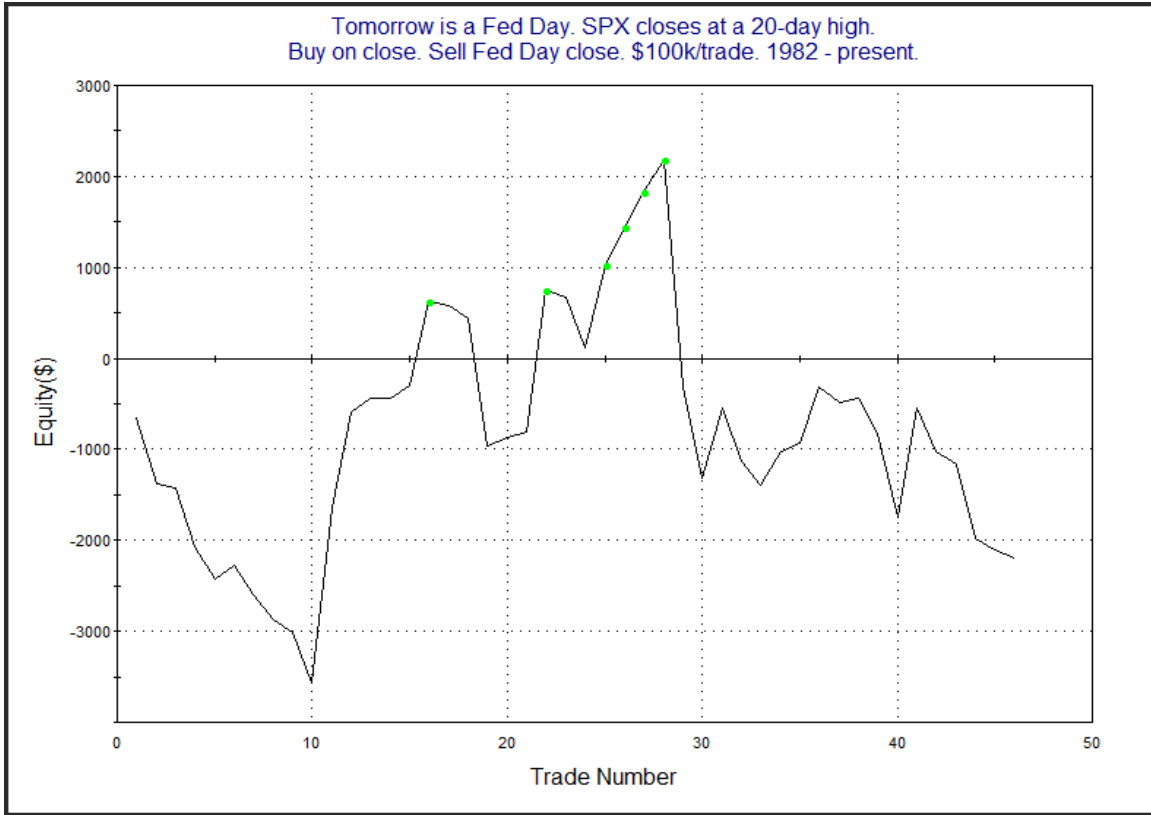
The stats here all point strongly to the bulls for the short-term. Below is a profit curve.



The strong, steady upslope appears to confirm the bullish edge.

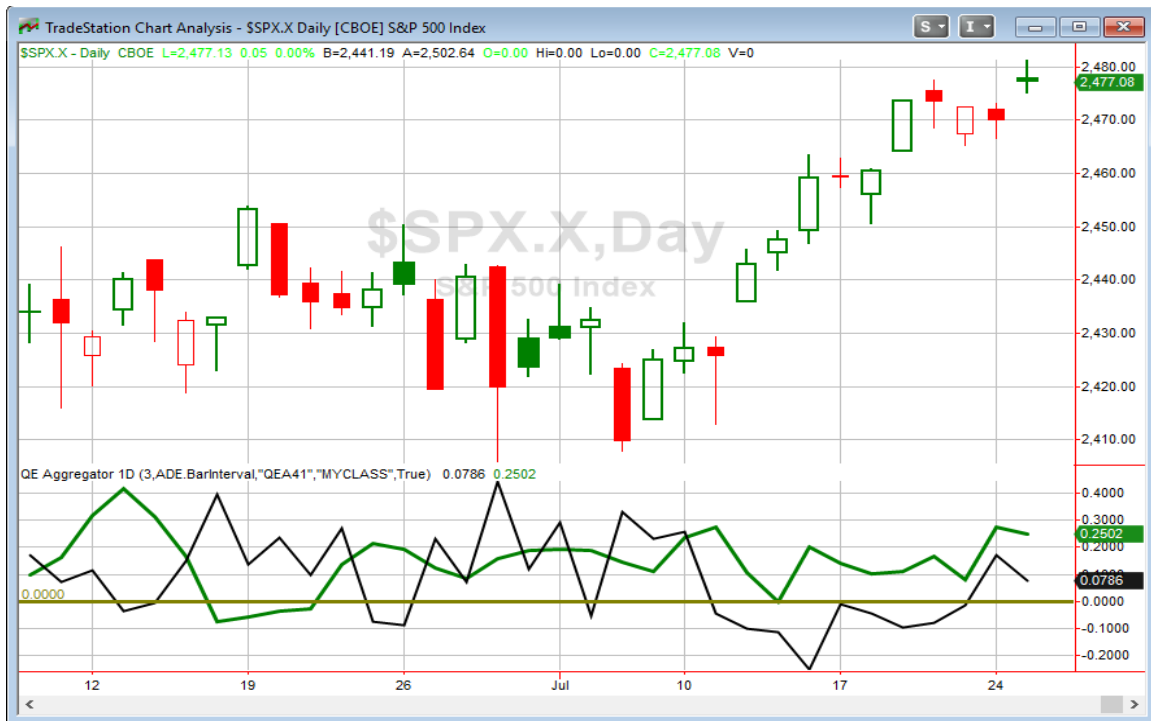
As I mentioned last night, Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. I have documented this tendency in great detail over the last few years, with the most complete documentation coming in *The Quantifiable Edges Guide to Fed Days*. Based on what the market did Tuesday, this does not seem to be the most favorable Fed Day setup. A big reason for this is that SPX closed at a 20-day high on Tuesday. Fed Day bullishness has often occurred when a Fed announcement has helped to alleviate market stress. When the market closes at a 20-day high, it typically means there isn't a lot of worry present. Under these circumstances, the upside inclination has also not been present. I last showed this in the 12/12/12 subscriber letter. Below are charts that compare Fed Days that close below 20-day highs to those that close at 20-day highs.





The new high on Tuesday appears to eliminate, or greatly reduce, the bullish Fed Day edge. Another consideration with regards to the Fed Day is that the core part of the Fed Day edge has occurred prior to the announcement. After the announcement, results have been more volatile (as you would expect) and more random.

I have updated the Aggregator chart below.



With tonight's evidence considered, 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 also remained 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 stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. Of course compelling new bearish studies could easily change this. The Differential Pivot will be 2481.47 on Wednesday. That is 0.2% above Tuesday's close. So SPX would only need to close up 0.2% on Wednesday in order to move from oversold to overbought versus expectations.

While there appears to be a bit of an upside edge, I am not real high on reward/risk here. The Fed Day announcement is a wildcard. And as I mentioned above, while Fed Days are typically bullish, that bullishness is primarily realized prior to the announcement. And the current Fed Day edge appears sub-par thanks to the market being at new highs. So there is not much time to profit before the Fed announces, and with the Differential Pivot so close by, there is not a lot of profit potential. Taking a position right now would be betting that the Fed announcement receives a positive reaction from 2-4pm EST. That is not an appealing bet in my view. I will therefore wait until Wed night, see how things play out, and take a fresh look at the evidence and reward/risk potential then.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/24 – bullish

The intermediate-term outlook was last updated in the 7/24 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. Last night's long SPY trade idea never received a fill since SPY posted an unfilled gap up.

Current Open Trade Ideas

None.

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