

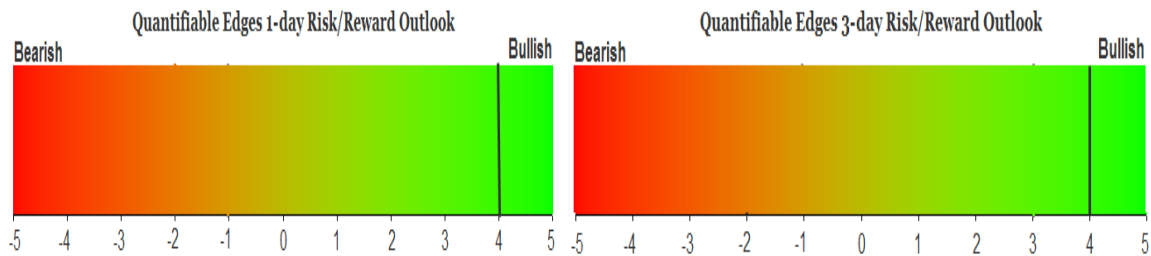
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 1, 2017

Volume 10 Issue 146

Market Overview



Signals Overview

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

Tonight's Research Points

- A combination of factors are suggesting turn of the month is likely to see gains.
- The 3-day pullback has a lot going for it suggesting an upside edge, including the quiet action on the pullback and the fact that is coming from a high level.
- System 11111 triggered for SPY.
- The first drop below the 10ma in quite a while will often be followed by another leg up.

Short-term Outlook

The Bottom Line

The Aggregator suggests a bullish edge. New studies are diverse and all pointing higher. SPX remains oversold. I have some long exposure and am looking to add to it.

Summary of Recent Active Studies (see Letters from listed dates for details) – not updated tonight

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
Active - Short Term						
July 28, 2017	3-high, 3-low, 3-low close	1-5 days	Bullish	1.90%	-1.20%	-2.50%
July 27, 2017	100-day high on a Fed Day	1-6 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

Monday saw the market mostly lower. The SPX closed down 0.1%, the NASDAQ fell 0.4%, and the Russell 2000 lost 0.3%. Breadth was positive as the NYSE Up Issues % was 53% and the Up Volume % came in at 57%. NYSE volume rose some from Friday’s level.

Several studies related to turn of the month triggered in the Quantifinder. Beginnings of new months often arrive with seasonal strength. This has especially been true 1) during long-term uptrends, and 2) when the market is experiencing a short-term pullback, and 3) when it closes weakly on the last day of the month. In the study below I took these concepts, which were learned from past studies, and combined them. It was last seen in the 6/1/15 letter. The very strong results have all been updated.

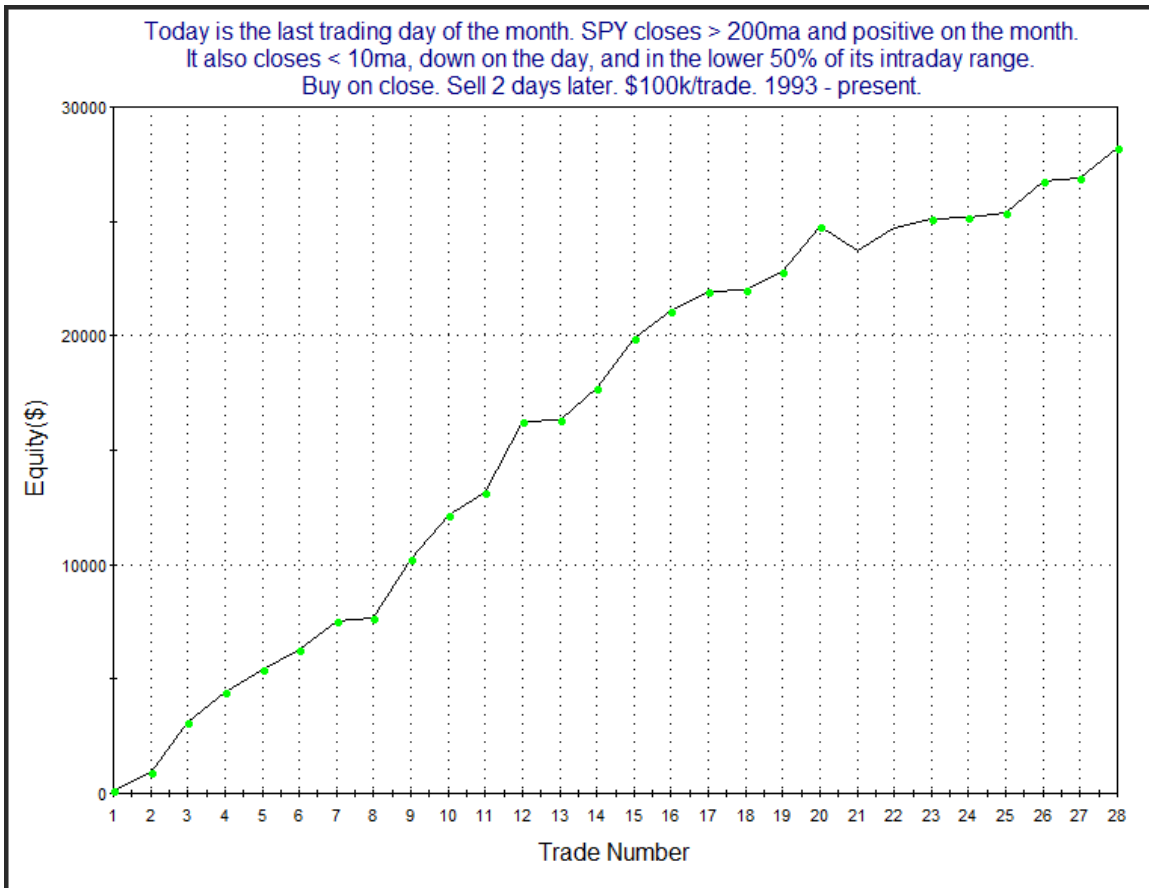
Today is the last trading day of the month. SPY closes > 200ma and positive on the month. It also closes < 10ma, down on the day, and in the lower 50% of its intraday range. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning 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	38,421.06	28	22	6	78.57	2,180.49	5,025.88	-1,591.62	-6,349.55	1.37	5.02	1,372.18
4	34,630.95	28	21	7	75.00	1,958.65	3,718.84	-928.66	-4,936.67	2.11	6.33	1,236.82
3	31,909.48	28	22	6	78.57	1,668.84	4,245.00	-800.84	-1,673.59	2.08	7.64	1,139.62
2	28,228.49	28	27	1	96.43	1,085.68	3,135.34	-1,084.89	-1,084.89	1.00	27.02	1,008.16
1	22,317.05	28	26	2	92.86	875.04	1,792.50	-216.95	-257.40	4.03	52.43	797.04
The lone 2nd day loser DID close higher on Day 1. It triggered on 4/30/10.												

The reliability of a bounce over the next 1-2 days has been remarkable. So were the 2-day Run-up/Drawdown stats, which I have pasted below:

Today is the last trading day of the month. SPY closes > 200ma and positive on the month.
 It also closes < 10ma, down on the day, and in the lower 50% of its intraday range.
 Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

Run-up/Drawdown	Run-up	Drawdown
Max. Value	\$3,275.38	(\$1,589.49)
Max. Value Date	4/5/1999	5/4/2010
Avg. Value	\$1,512.87	(\$355.17)

The Avg Run-Up was nearly the size of the MAX Drawdown, and over 4x the size of the Avg Drawdown. Those are some impressive numbers. Here also is a profit curve.



Other than the 1-instance hiccup, it has been a steady ride higher. This study certainly seems worthy of consideration.

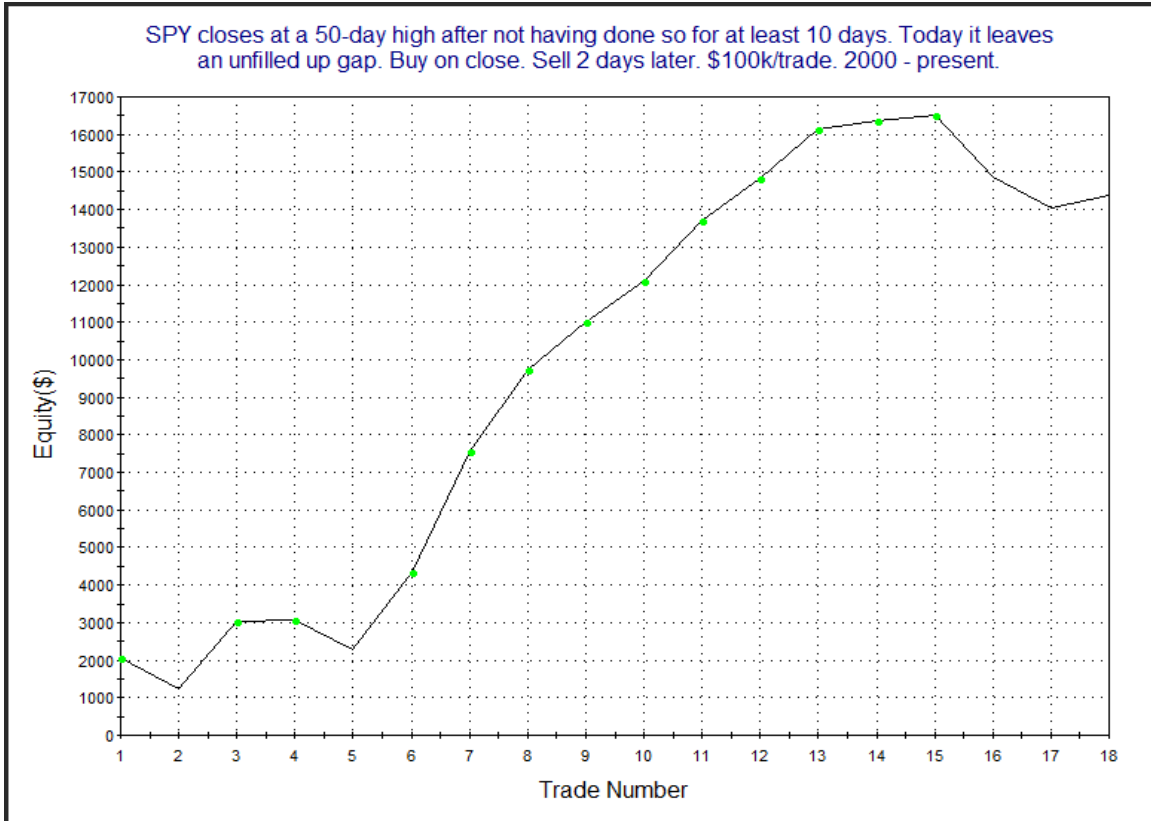
Three-day pullbacks for SPX will often trigger some bullish studies. And that was the case on Monday night. The most compelling of those studies was the one below. It considered the facts that 1) the pullback is coming off an intermediate-term high and 2) it occurred on very low volatility as shown by the Quantifiable Edges 3/10 Offset HV calculation. The study was last seen just a week ago in the 7/25/17. It has been updated.

SPX closes down for exactly 3rd day in a row and HV Offset 3/10 Indicator < 0.25. The pullback originated from a 20-day high. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	13,604.81	18	12	6	66.67	1,941.16	4,674.00	-1,614.86	-3,579.52	1.20	2.40	755.82
4	15,223.93	18	11	7	61.11	1,960.56	3,783.20	-906.03	-2,501.81	2.16	3.40	845.77
3	13,694.81	18	11	7	61.11	1,644.95	3,576.02	-628.53	-1,438.78	2.62	4.11	760.82
2	14,375.61	18	14	4	77.78	1,315.15	3,212.80	-1,009.11	-1,621.97	1.30	4.56	798.65
1	7,329.27	18	13	5	72.22	812.41	2,861.60	-646.42	-1,057.50	1.26	3.27	407.18

17 of 18 instances (94%) closed above the entry price at some point in the next week.

The numbers appear quite strong. Below is a look at the profit curve.



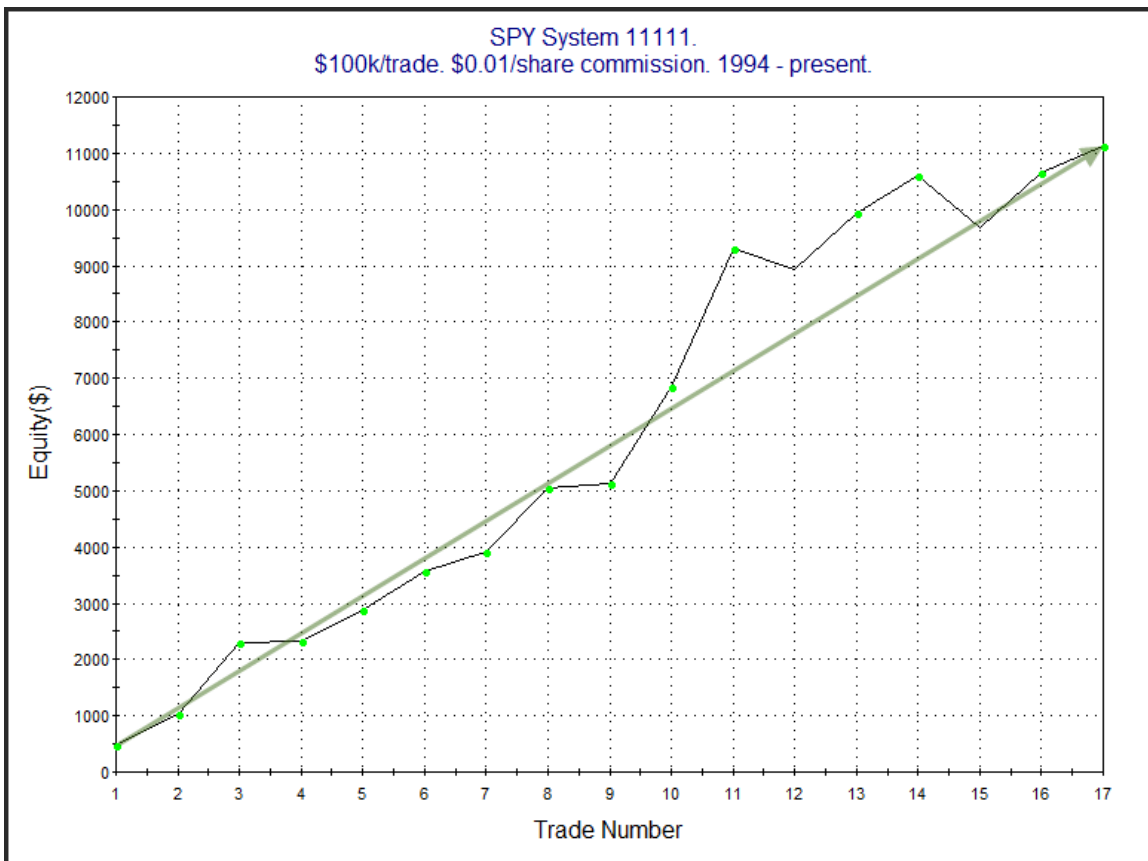
The last 2 instances have struggled a bit, but this still appears to suggest an upside edge. I believe it is worth taking under consideration and have added it to the Active List.

SPY is now set up to trigger QE numbered system 11111 on Tuesday. A trade at or below SPY's closing price would mean an entry for this system. System 11111 has done fairly well over the years. With SPY, it has done very well. I last noted this in the 12/2/14 Letter. Below are the updated stats.

SPY System 11111.
 \$100k/trade. \$0.01/share commission. 1994 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$11,127.64	Profit Factor	9.69
Gross Profit	\$12,407.49	Gross Loss	(\$1,279.85)
Total Number of Trades	17	Percent Profitable	88.24%
Winning Trades	15	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	\$654.57	Ratio Avg. Win:Avg. Loss	1.29
Avg. Winning Trade	\$827.17	Avg. Losing Trade	(\$639.92)
Largest Winning Trade	\$2,442.40	Largest Losing Trade	(\$916.80)

There have not been a whole lot of instances but the stats are extremely lopsided in favor of the bulls. Below is the list of hypothetical trades.



The short time in these trades and the high percent that end up profitable speaks to the probability of a quick bounce here. I have incorporated this setup into the Aggregator as well. Subscribers may find a link to system the 11111 page below:

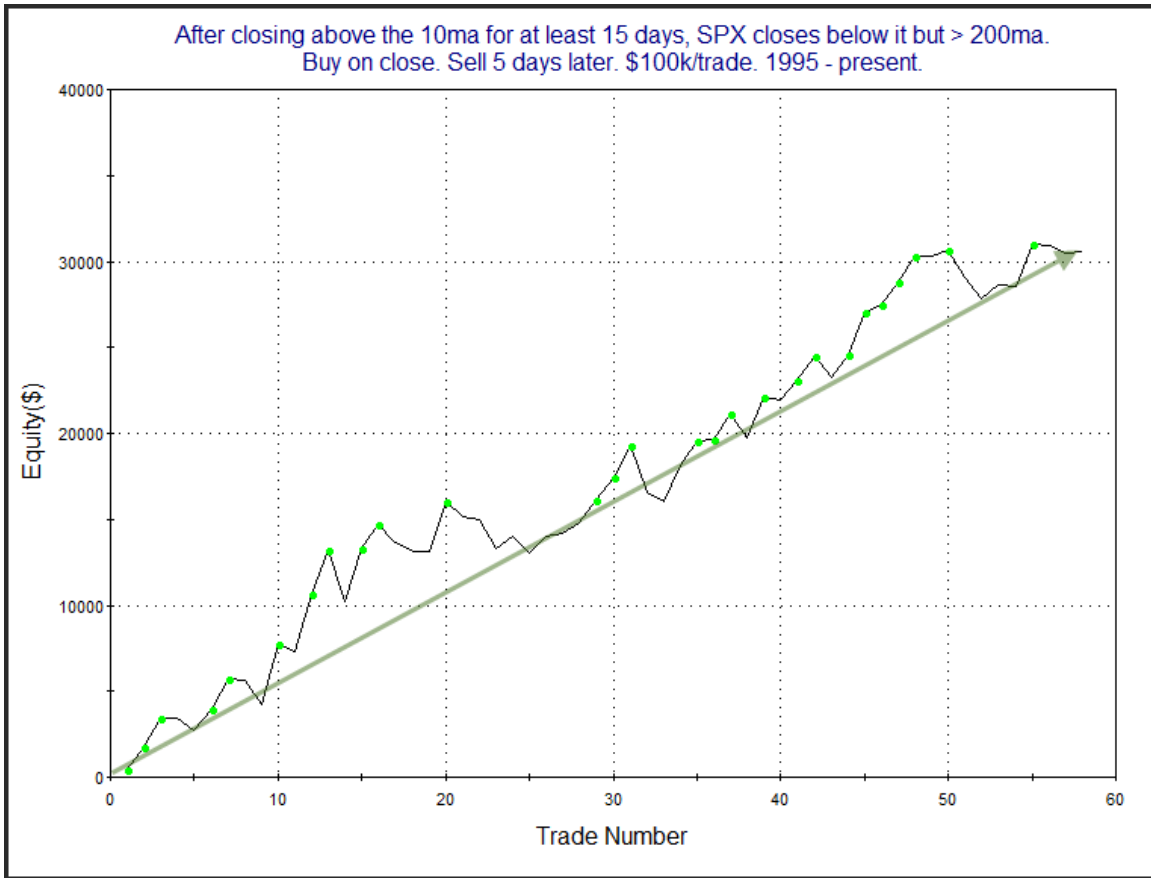
<http://quantifiableedges.com/system-11111/>

The persistent uptrend of late has kept SPX above its short-term moving averages for an extended period. Monday, after 15 consecutive closes above the 10ma, SPX sliced down and closed below it. In the 6/16/17 letter I looked at performance following other instances where SPX closed below its 10ma for the first time in a while. Results are updated below.

After closing above the 10ma for at least 15 days, SPX closes below it but > 200ma. 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
5	30,603.15	58	34	24	58.62	1,495.15	3,505.74	-843.00	-2,959.70	1.77	2.51	527.64
4	28,404.56	58	37	21	63.79	1,359.62	3,206.40	-1,042.92	-3,078.40	1.30	2.30	489.73
3	22,125.60	58	39	19	67.24	1,036.35	2,805.12	-962.75	-2,062.10	1.08	2.21	381.48
2	16,359.29	58	36	22	62.07	987.24	2,682.72	-871.89	-2,185.60	1.13	1.85	282.06
1	15,723.13	58	37	21	63.79	680.32	2,097.92	-449.93	-1,542.24	1.51	2.66	271.09

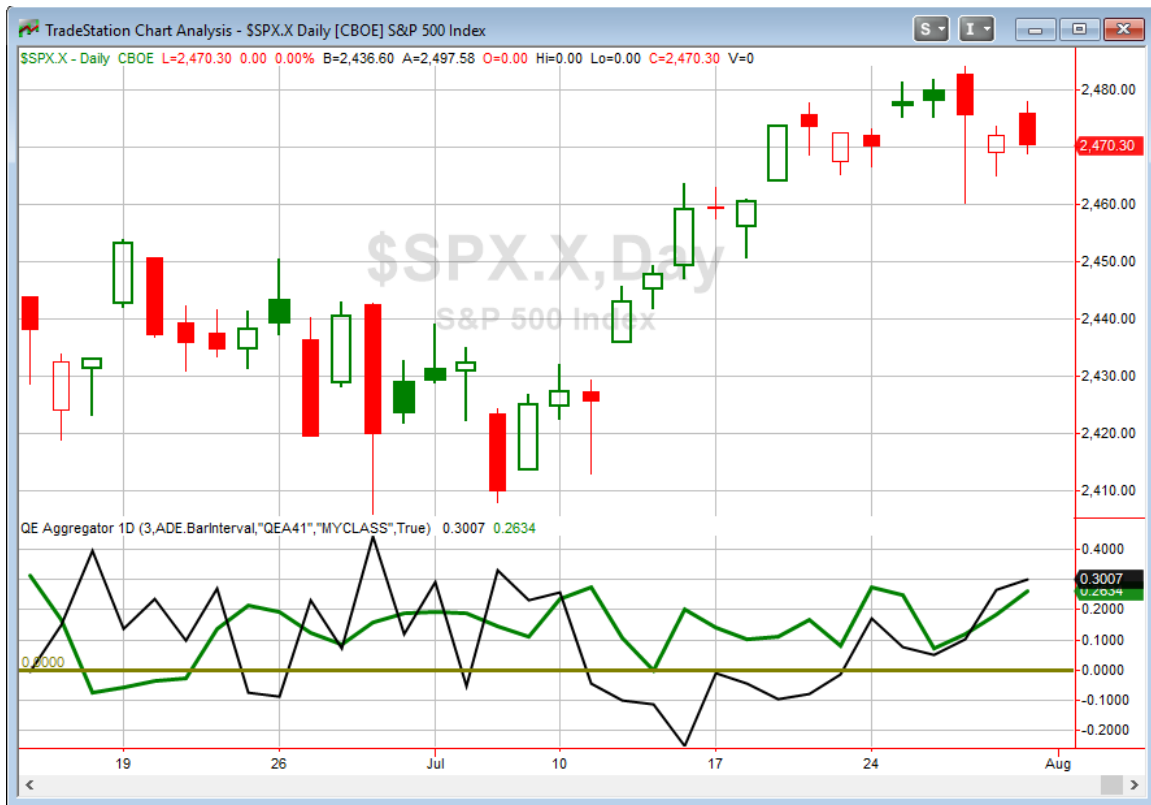
90% of instances closed above the entry price at some point in the next week.

The numbers here all look solidly bullish over the next week. You can see the 5-day profit curve below.



Here too, the strong upslope serves as some confirmation of the bullish edge.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator line moved further 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 Tuesday. It would take some extremely compelling new bearish studies to change this. The Differential Pivot will be 2486.38 on Tuesday. That is 0.7% above Monday's close. So SPX would need to close up 0.7% on Tuesday in order to move from oversold to overbought versus expectations.

The evidence is building and the SPX remains oversold. The studies are showing a strong and diverse consensus. It appears there is a solid chance of a bounce in the next few days. I took some long exposure at the close on Monday. I will look to take more if on Tuesday if I can get a good fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/31 – bullish

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

New

ABT – 1/3 @ \$49.18 (buy @ limit)

Broad Market Large Cap CBI – 1

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.

***SPY – buy ¼ index position @ \$246.77 LIMIT.** Based on the short-term outlook above, I will be looking to up my long position if I can get it at Monday’s close or lower.*

***ABT – buy 1/3 Catapult position @ \$49.18 LIMIT.** This is from the Catapult section above. It is the 1st of 3 possible lots of ABT.*

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/31/2017	\$246.77	\$246.77	0.00%		bought on close

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