

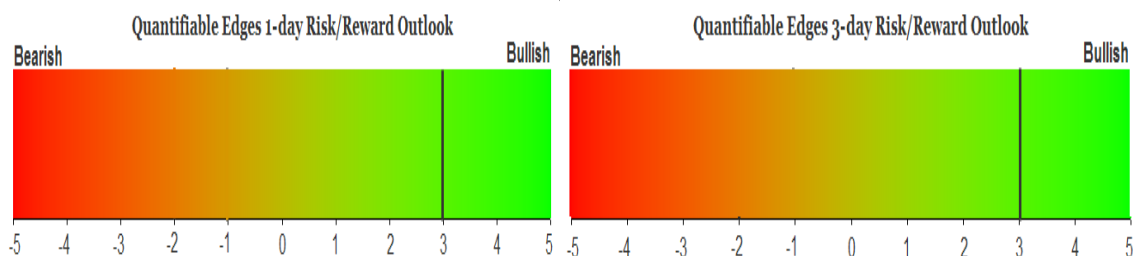
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 11, 2017

Volume 10 Issue 154

Market Overview



Signals Overview

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

Tonight's Research Points

- When the VIX has hit 100-day highs without the SPX making 100-day lows, that has often led to a market rally.
- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.

Short-term Outlook

The Bottom Line

Strong selling seems to have spooked the market to a point where a bounce typically ensues in the next few days. I am partially long and looking to increase my position.

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 | | | | | | |
| August 11, 2017 | Gap down, 10-low, 3 days lower | 1-2 days | Bullish | | | |
| August 11, 2017 | VIX 100-day high. SPX not 100-low. | 1-5 days | Bullish | | | |
| August 9, 2017 | 3-high, 3-low, 3-low close | 1-5 days | Bullish | | | |
| August 9, 2017 | Relativley big drop from 50-high | 1-3 day | Bullish | | | |
| August 8, 2017 | Low volume breakout | 1-5 days | Bullish | | | |
| Active - Long Term | | | | | | |
| August 11, 2017 | VIX 100-day high. SPX not 100-low. | 1-15 days | Bullish | | | |
| 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

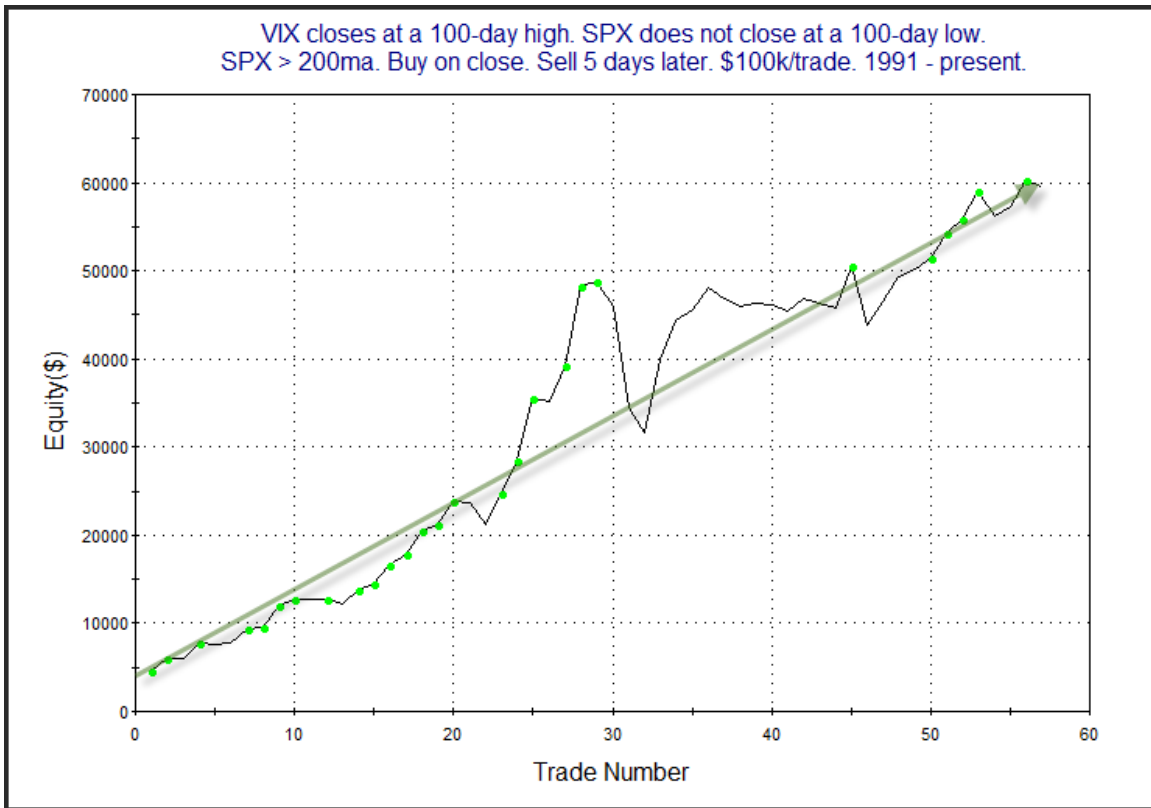
Thursday was a scary day for the market. The SPX closed down 1.5%, the NASDAQ fell 2.1%, and the Russell 2000 dropped 1.75%. Breadth was negative as the NYSE Up Issues % was 14% and the Up Volume % also came in at 14%. NYSE volume rose for the 3rd day in a row.

The VIX provided some notable action today with a gain of over 44%. The VIX is often referred to as the fear index. When VIX levels are relatively high, that often suggests fear and uncertainty among market participants. Relative highs can be measured a number of ways. Often I will show VIX levels compared to short-term moving averages. But an interesting study tonight looked at 100-day VIX highs that occurred when the SPX was not making 100-day lows. In other words, relatively extreme fear in a market that is not making long-term lows. The study was last seen in the 4/12/17 Subscriber Letter. I have updated it below.

VIX closes at a 100-day high. SPX does not close at a 100-day low.
 SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 1991 - 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 | 85,958.15 | 44 | 34 | 10 | 77.27 | 3,314.50 | 13,488.65 | -2,673.49 | -11,992.24 | 1.24 | 4.22 | 1,953.59 |
| 14 | 80,831.57 | 44 | 34 | 10 | 77.27 | 3,270.59 | 12,644.94 | -3,036.86 | -11,498.24 | 1.08 | 3.66 | 1,837.08 |
| 13 | 79,247.29 | 45 | 34 | 11 | 75.56 | 3,424.98 | 15,243.90 | -3,381.99 | -16,254.16 | 1.01 | 3.13 | 1,761.05 |
| 12 | 78,737.16 | 46 | 34 | 12 | 73.91 | 3,455.04 | 13,656.44 | -3,227.86 | -13,950.56 | 1.07 | 3.03 | 1,711.68 |
| 11 | 68,727.59 | 46 | 32 | 14 | 69.57 | 3,281.35 | 12,236.77 | -2,591.11 | -11,048.96 | 1.27 | 2.89 | 1,494.08 |
| 10 | 64,983.65 | 48 | 32 | 16 | 66.67 | 3,096.08 | 13,815.90 | -2,130.67 | -7,532.72 | 1.45 | 2.91 | 1,353.83 |
| 9 | 70,781.46 | 48 | 37 | 11 | 77.08 | 2,664.73 | 11,486.80 | -2,528.52 | -6,727.63 | 1.05 | 3.54 | 1,474.61 |
| 8 | 61,209.76 | 51 | 36 | 15 | 70.59 | 2,621.31 | 11,382.35 | -2,210.49 | -9,154.20 | 1.19 | 2.85 | 1,200.19 |
| 7 | 62,967.86 | 53 | 33 | 20 | 62.26 | 2,657.55 | 10,706.80 | -1,236.56 | -7,304.57 | 2.15 | 3.55 | 1,188.07 |
| 6 | 57,493.32 | 56 | 42 | 14 | 75.00 | 2,260.31 | 10,082.80 | -2,674.27 | -9,712.78 | 0.85 | 2.54 | 1,026.67 |
| 5 | 59,562.42 | 57 | 38 | 19 | 66.67 | 2,495.30 | 9,157.20 | -1,855.74 | -11,533.34 | 1.34 | 2.69 | 1,044.95 |
| 4 | 56,849.57 | 60 | 43 | 17 | 71.67 | 2,157.58 | 8,810.76 | -2,113.32 | -9,828.00 | 1.02 | 2.58 | 947.49 |
| 3 | 46,862.28 | 65 | 45 | 20 | 69.23 | 1,819.34 | 8,432.34 | -1,750.39 | -6,956.04 | 1.04 | 2.34 | 720.96 |
| 2 | 51,582.27 | 73 | 46 | 27 | 63.01 | 1,772.09 | 6,245.15 | -1,108.66 | -7,559.56 | 1.60 | 2.72 | 706.61 |
| 1 | 43,318.68 | 97 | 59 | 37 | 60.82 | 1,347.85 | 5,117.46 | -978.50 | -5,829.81 | 1.38 | 2.20 | 446.58 |

The stats seem to suggest a bullish edge that persists for three weeks or more. Much of that edge is realized over the first 1-5 days. Below is a profit curve showing a 5-day holding strategy.



The curve is a little choppy, but the upside persistence here is impressive and it is continuing to hit new highs. This study seems to be worth taking into consideration.

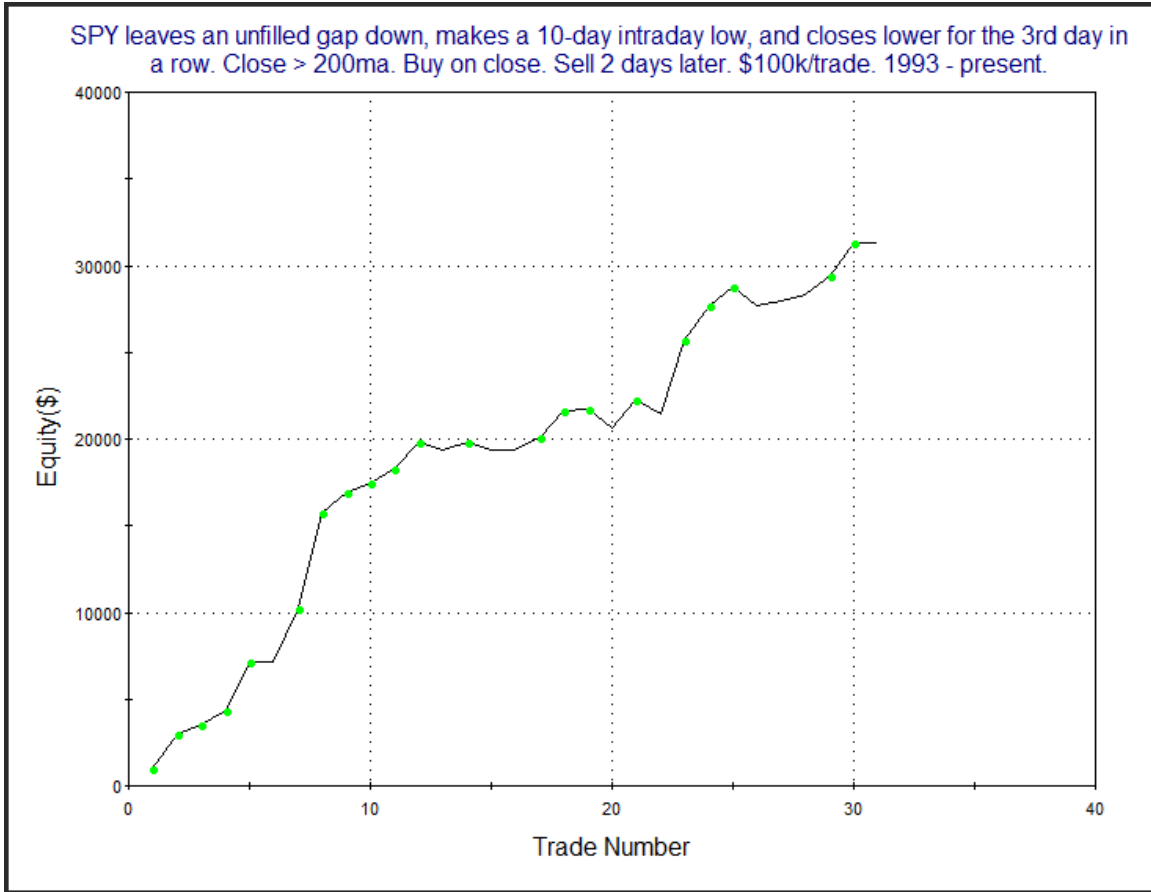
This next study was also interesting. It looked for multiple down days, short-term lows, and an unfilled gap down. It was last seen in the 1/6/15 letter. I have updated the results.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for the 3rd day in a row. Close > 200ma. 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 | 29,002.04 | 31 | 23 | 8 | 74.19 | 1,773.68 | 8,239.74 | -1,474.09 | -4,770.78 | 1.20 | 3.46 | 935.55 |
| 4 | 22,008.02 | 31 | 21 | 10 | 67.74 | 1,781.67 | 5,581.02 | -1,540.70 | -4,430.01 | 1.16 | 2.43 | 709.94 |
| 3 | 31,813.00 | 31 | 24 | 7 | 77.42 | 1,586.49 | 4,249.44 | -894.69 | -1,847.47 | 1.77 | 6.08 | 1,026.23 |
| 2 | 31,267.31 | 31 | 24 | 6 | 77.42 | 1,470.35 | 5,477.88 | -670.19 | -1,118.36 | 2.19 | 8.78 | 1,008.62 |
| 1 | 17,015.56 | 32 | 24 | 8 | 75.00 | 929.82 | 5,764.38 | -662.52 | -1,677.36 | 1.40 | 4.21 | 531.74 |

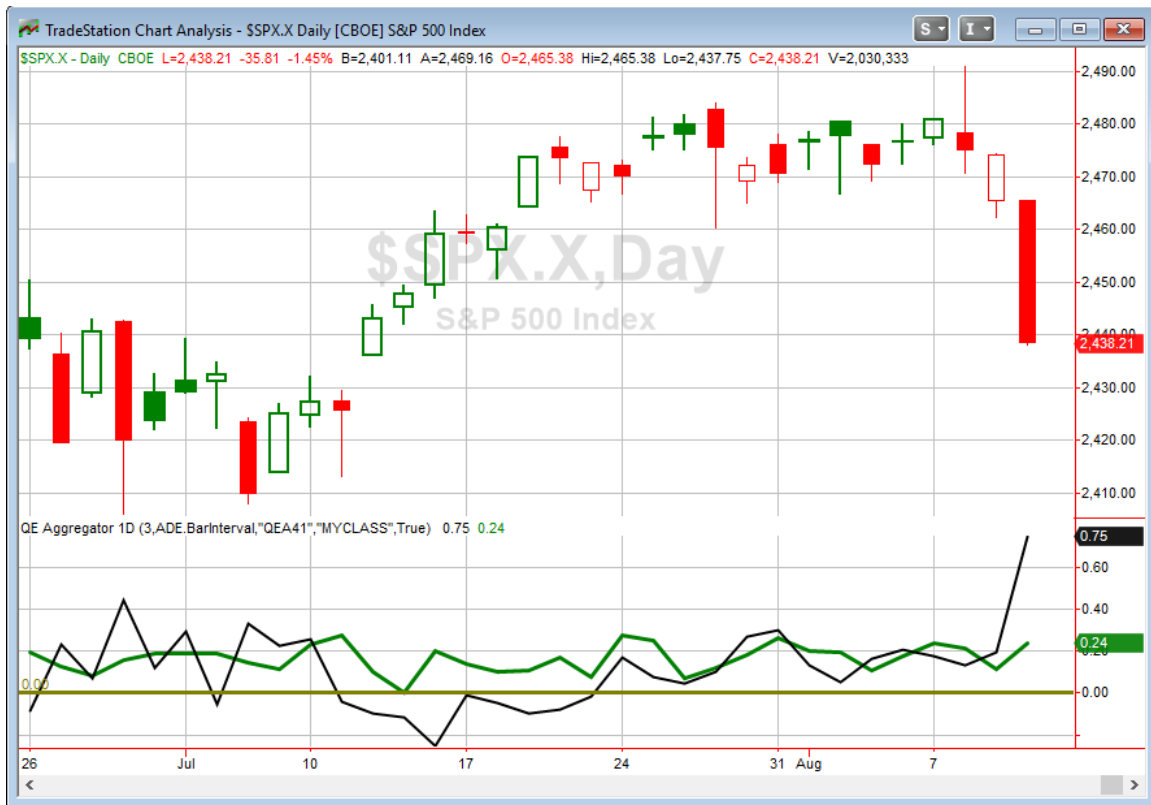
29 of 31 instances (94%) closed above the entry price within the next 3 days.

The stats suggest a high probability of an almost immediate bounce. Below is a profit curve assuming a 2-day holding period.



The curve is a little choppy, but the study certainly seems strong enough to include on the Active List tonight.

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 Friday. Of course, this could change if compelling bearish evidence emerges. The Differential Pivot will be 2489.81 on Friday. That is a whopping 2.1% above Thursday's close. A rally of that size is unlikely to occur in just one day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

There were a number of similar studies to the ones I covered above that also appeared in the Quantifinder tonight. There was nothing suggesting more selling is the likely scenario. But scared markets can stay scared and selling can certainly intensify. So exact timing is impossible. Still, the edge appears strong enough and potential reward appears large enough that I believe continuing to scale into an index position is a solid play here. I will be looking to add a 2nd lot (of potentially 4) of SPY on Friday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/7– bullish

The intermediate-term outlook was last updated in the 8/7 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

AGN– 1/3 @ \$239.74 (bought @ limit)

AGN– 1/3 @ \$242.65 (bought @ limit)

AGN– 1/3 @ \$241.22 (bought @ limit)

New

AIG– 1/3 @ \$63.00 (buy @ limit)

Broad Market Large Cap CBI – 4(AGN-3, AIG)

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.

AIG – buy 1/3 Catapult position @ 63.00 LIMIT. This is from the Catapult section above. It is the 1st of 3 possible lots for AIG.

SPY – buy 1/4 index position at \$243.76 LIMIT. Based on the short-term section above. I will look to up my SPY exposure to take advantage of a potential bounce.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| SPY(1/4) | 7/31/2017 | \$246.77 | \$243.76 | -1.22% | | Aggregator |
| AGN(1/3) | 8/7/2017 | \$242.65 | \$232.20 | -4.31% | | Catapult |
| AGN(1/3) | 8/8/2017 | \$241.22 | \$232.20 | -3.74% | | Catapult |
| AGN(1/3) | 8/9/2017 | \$239.74 | \$232.20 | -3.15% | | Catapult |
| | | | | | | |

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