

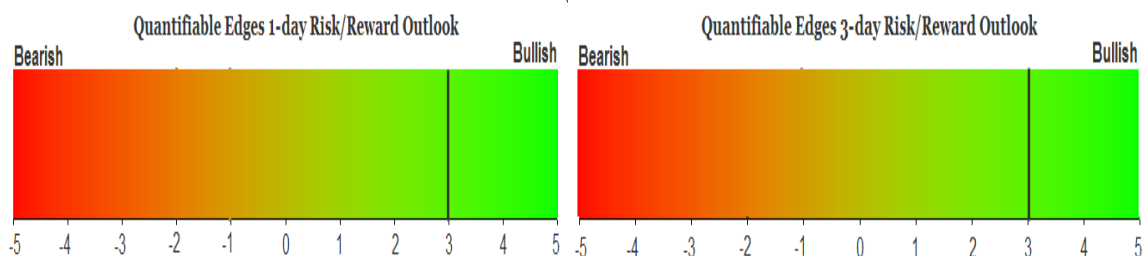
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 18, 2017

Volume 10 Issue 159

Market Overview



Signals Overview

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

Tonight's Research Points

- Weak closes at short-term lows often lead to a bounce.
- System 110524 triggered for SPY, which has been a reliable trigger over the years.

Short-term Outlook

The Bottom Line

Evidence is pointing higher, and the SPX is now clearly oversold. This suggests an upside edge. I am looking to start scaling into an index position.

The Evidence

The markets took a sizable hit on Thursday. The SPX lost 1.5%, the NASDAQ dropped 1.9%, and the Russell 2000 declined 1.8%. Breadth was negative as the NYSE Up Issues % was 18% and the Up Volume % also came in at 11%. NYSE volume rose some from Wednesday’s level.

There were a few interesting studies that triggered in the Quantifinder – though perhaps not quite as many as I thought might trigger with action that felt fairly extreme.

In the 4/17/17 letter I showed a study that examined large losses that finished at intermediate-term lows. I have updated that study below.

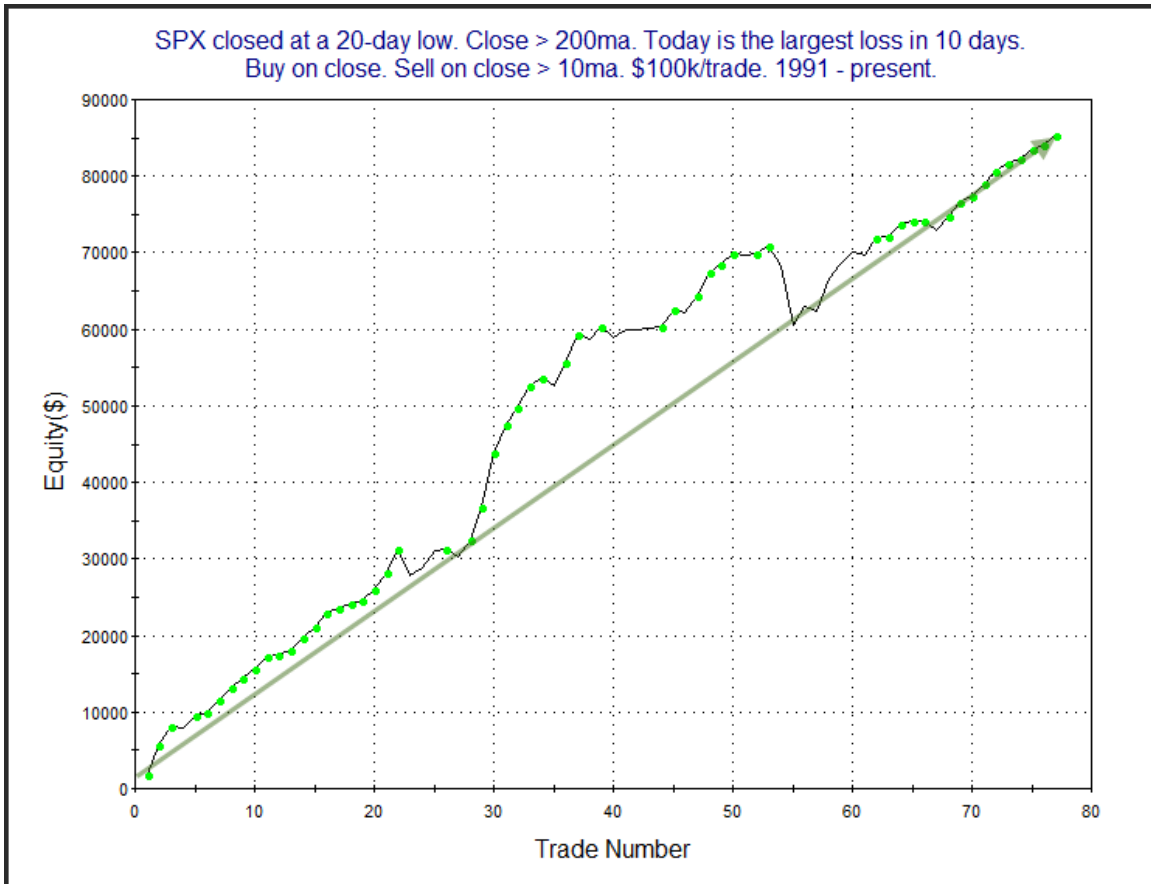
SPX closed at a 20-day low. Close > 200ma. Today is the largest loss in 10 days. Buy on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	80,106.62	74	53	21	71.62	2,465.46	5,953.20	-2,407.76	-13,993.88	1.02	2.58	1,082.52
9	96,342.18	75	57	18	76.00	2,299.02	5,761.56	-1,927.89	-10,059.36	1.19	3.78	1,284.56
8	83,002.89	76	55	21	72.37	2,331.73	6,960.84	-2,154.40	-14,092.68	1.08	2.83	1,092.14
7	96,126.24	77	58	19	75.32	2,220.97	7,500.06	-1,720.52	-8,018.76	1.29	3.94	1,248.39
6	89,335.26	79	59	20	74.68	2,152.43	7,272.06	-1,882.90	-7,966.32	1.14	3.37	1,130.83
5	75,708.29	80	50	30	62.50	2,163.93	7,070.28	-1,082.93	-3,385.80	2.00	3.33	946.35
4	52,831.15	82	53	29	64.63	1,740.84	4,731.13	-1,359.78	-3,863.84	1.28	2.34	644.28
3	40,828.11	82	54	28	65.85	1,370.78	4,277.94	-1,185.50	-5,331.20	1.16	2.23	497.90
2	40,626.39	83	55	28	66.27	1,187.89	4,809.66	-882.41	-3,863.25	1.35	2.64	489.47
1	15,823.58	85	54	31	63.53	702.14	5,117.46	-712.65	-2,162.04	0.99	1.72	186.16

Results here are quite bullish. Some subscribers may recognize the setup as numbered-system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

SPX closed at a 20-day low. Close > 200ma. Today is the largest loss in 10 days.
 Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary		Expand ▾	
All Trades			
Total Net Profit	\$85,402.67	Profit Factor	5.14
Gross Profit	\$106,017.15	Gross Loss	(\$20,614.48)
Total Number of Trades	77	Percent Profitable	83.12%
Winning Trades	64	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	\$1,109.13	Ratio Avg. Win:Avg. Loss	1.04
Avg. Winning Trade	\$1,656.52	Avg. Losing Trade	(\$1,585.73)
Largest Winning Trade	\$7,070.28	Largest Losing Trade	(\$7,630.40)

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. Below is a profit curve where it can be seen.



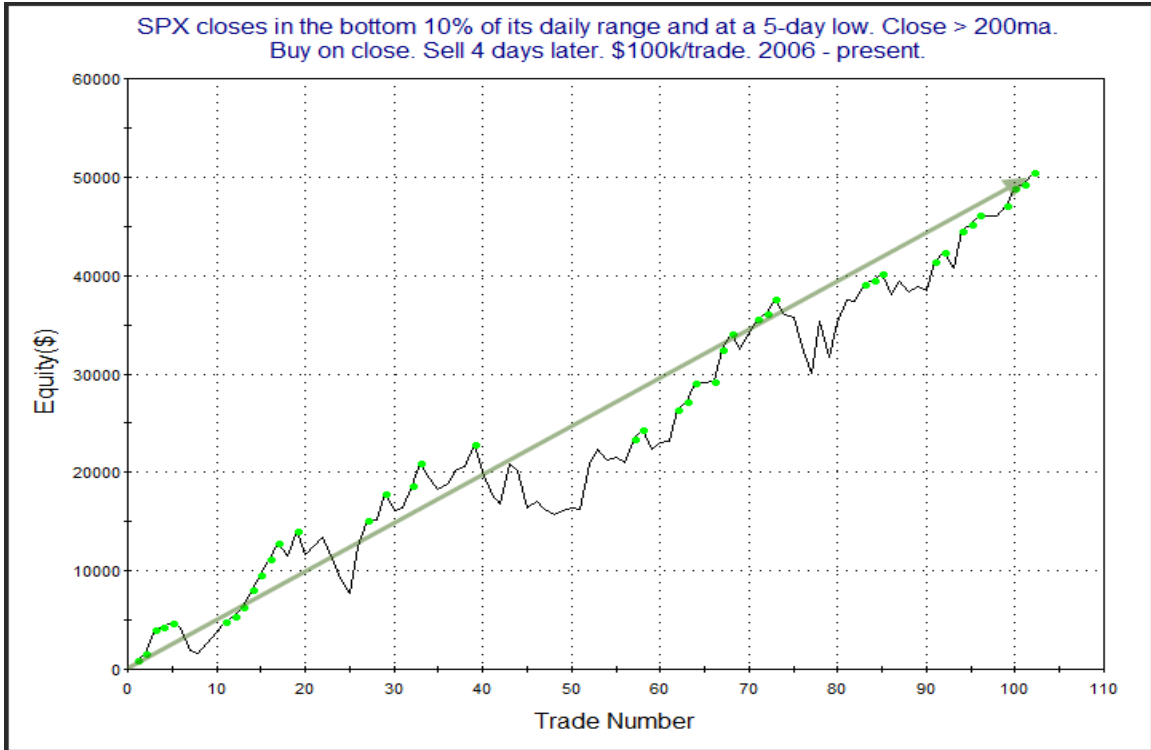
The big drop was made up for fairly quickly, and the upward slope is back in place and looks as healthy as ever.

Over the last several years when SPX has closed near the bottom of its range and at even a 5-day low, it has typically been followed by a bounce in the next few days. This can be seen in the study below from the 12/3/15 letter.

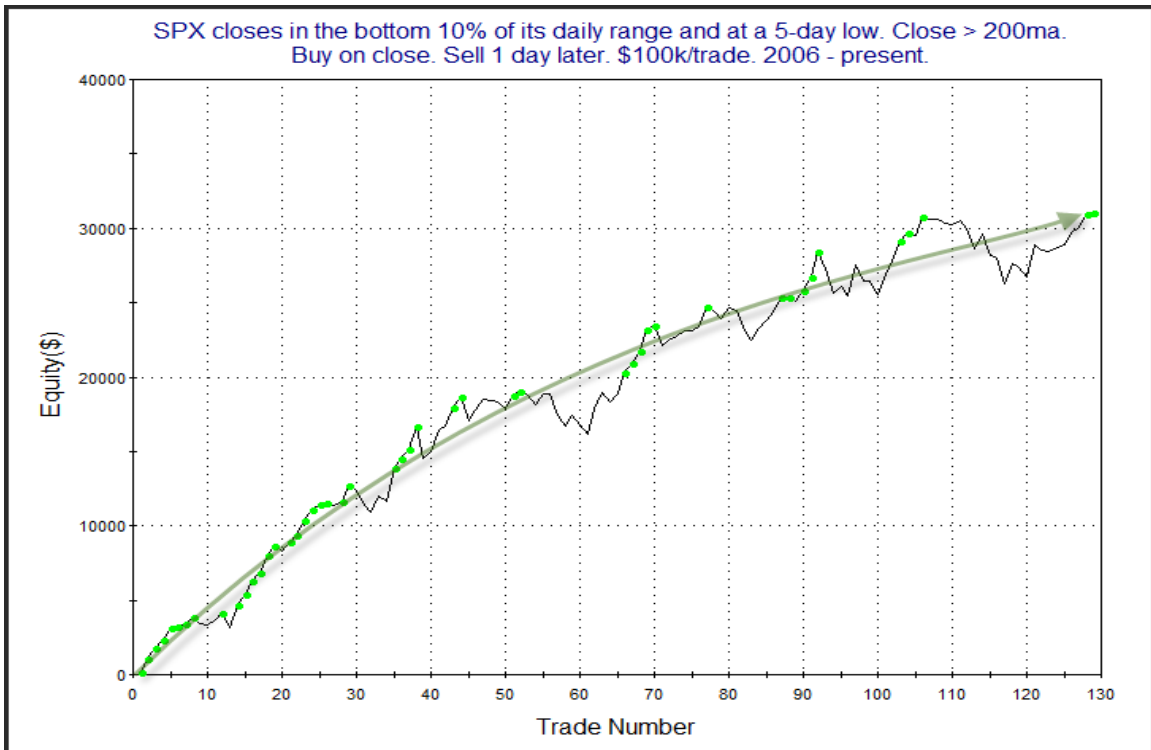
SPX closes in the bottom 10% of its daily range and at a 5-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2006 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	62,731.18	99	65	34	65.66	1,763.72	5,555.16	-1,526.78	-3,680.82	1.16	2.21	633.65
4	50,547.81	102	66	36	64.71	1,540.24	5,290.00	-1,419.67	-3,863.84	1.08	1.99	495.57
3	40,017.14	109	70	39	64.22	1,210.23	4,895.50	-1,146.12	-3,437.94	1.06	1.90	367.13
2	31,858.73	119	68	51	57.14	1,086.22	4,424.50	-823.62	-2,726.97	1.32	1.76	267.72
1	31,070.54	129	82	47	63.57	756.61	2,230.60	-658.97	-2,200.08	1.15	2.00	240.86

91% of instances closed above the entry price at some point in the next week.

The stats here appear to suggest a pretty solid upside tendency over the last 11 ½ years. Below is a look at the profit curve assuming a 4-day holding period.

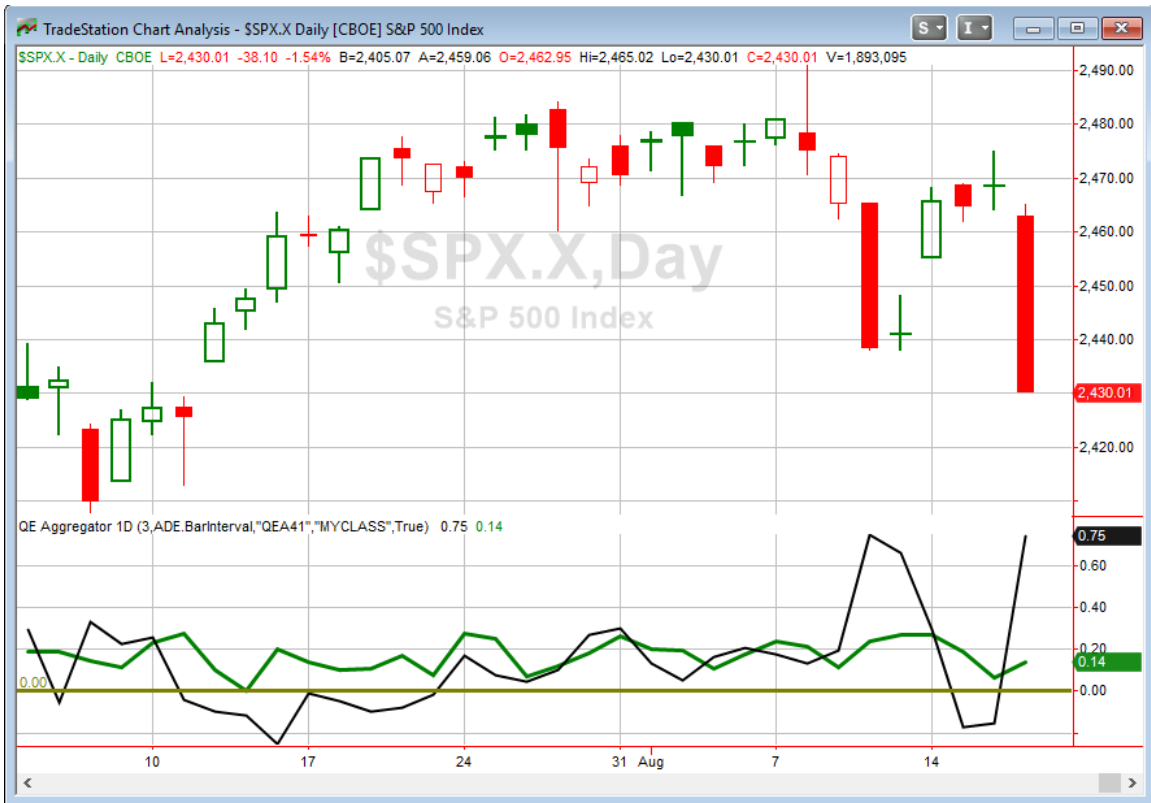


The upslope has persisted the whole time and the curve is again at new highs. The 1-day curve was also appealing. I have published that below.



Here again we see a steady move higher from lower left to upper right. This seems to serve as some confirmation of the short-term upside edge. I have included this study on the Short-Term Active List tonight.

I have updated the Aggregator chart below.



Without any new evidence to consider tonight, 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 large selloff helped the black Differential Line jump back 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 turned long at the close.

Based on the current active studies, expectations are set to remain positive on Friday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2481.97 on Friday. That is a whopping 2.1% above Thursday's close. So SPX would need to close up at least 2.1% on Friday to move from oversold to overbought versus expectations. That is unlikely to happen in just one day. A more likely scenario to work off the oversold conditions would be a multi-day gain or consolidation.

So there appears to be a decent upside edge here. We are seeing some evidence suggesting a bounce. There is also plenty of room to the upside before the market would turn overbought. So there appears to be favorable risk/reward for the long side, and the case is compelling enough for me to want to take a position. But I am just going to dip my toe for the time being. The market is showing increased volatility, and while we got a quick bounce and nice profit on a similar setup a week ago, it may not be as easy this time. Oversold can get more oversold, and this especially true during emotional markets. And this certainly appears to be one with the increased volatility – both realized and implied (VIX). So for Friday I will be looking for a favorable fill on a small position. If the market fails to bounce on Friday, and people may be wary of stepping into long positions going into a weekend, we could see another sizable down day. If that happens then we might *really* see a substantial edge emerge. So I expect I will become a more aggressive buyer early next week if this small position goes against me initially.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/14– bullish

The intermediate-term outlook was last updated in the 8/14 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)

AIG– 1/3 @ \$63.00 (bought @ limit)

AIG– 1/3 @ \$62.65(buy @ limit) – not filled

Broad Market Large Cap CBI – 5(AGN-3, AIG-2)

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 @ \$61.70 limit. This is from the Catapult section above. It did not fill initially. Being that it is currently available at a substantial discount to the initial signal, I will look to take on the 2nd lot on Friday if I can get filled at Thursday's closing level or better.

SPY – buy 1/4 index position @ \$243.09 limit. Based on the short-term outlook above, I will look to start scaling into a long index position.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AGN(1/3)	8/7/2017	\$242.65	\$224.77	-7.37%		Catapult
AGN(1/3)	8/8/2017	\$241.22	\$224.77	-6.82%		Catapult
AGN(1/3)	8/9/2017	\$239.74	\$224.77	-6.24%		Catapult
AIG(1/3)	8/11/2017	\$63.00	\$61.70	-2.06%		Catapult

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