

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 31, 2017

Volume 10 Issue 168

Market Overview



Signals Overview

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

Tonight's Research Points

- A poor close to end the month could suggest bullish odds for Friday.

Short-term Outlook

The Bottom Line

There appears to be a downside edge that is only expected to be in place for 1 day.

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 30, 2017	SPX up VIX up last 2 days	1-2 days	Bearish			
Active - Long Term						
August 22, 2017	20-lo close then 20-intraday lo & up cls.	1-10 days	Bullish	2.80%	-1.80%	-3.30%
August 11, 2017	VIX 100-day high. SPX no 100-day low.	1-15 days	Bullish			
July 17, 2017	NASDAQ Leading	int term	Bullish			
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 some gains. The SPX closed up 0.5%, the NASDAQ rose 1.1%, and the Russell 2000 climbed 0.6%. Breadth was positive as the NYSE Up Issues % was 59% and the Up Volume % came in at 53%. NYSE volume declined again and was very light.

There were several studies that triggered in the Quantifinder, but none that I found compelling. Most of them examined the low volume. As I mentioned last night, I expect volume to be low this week. And barring big news or a market moving event, there is a good chance we will see it decline further the next two days heading into the long weekend. I will not be reading into the low volume as indicative of anything.

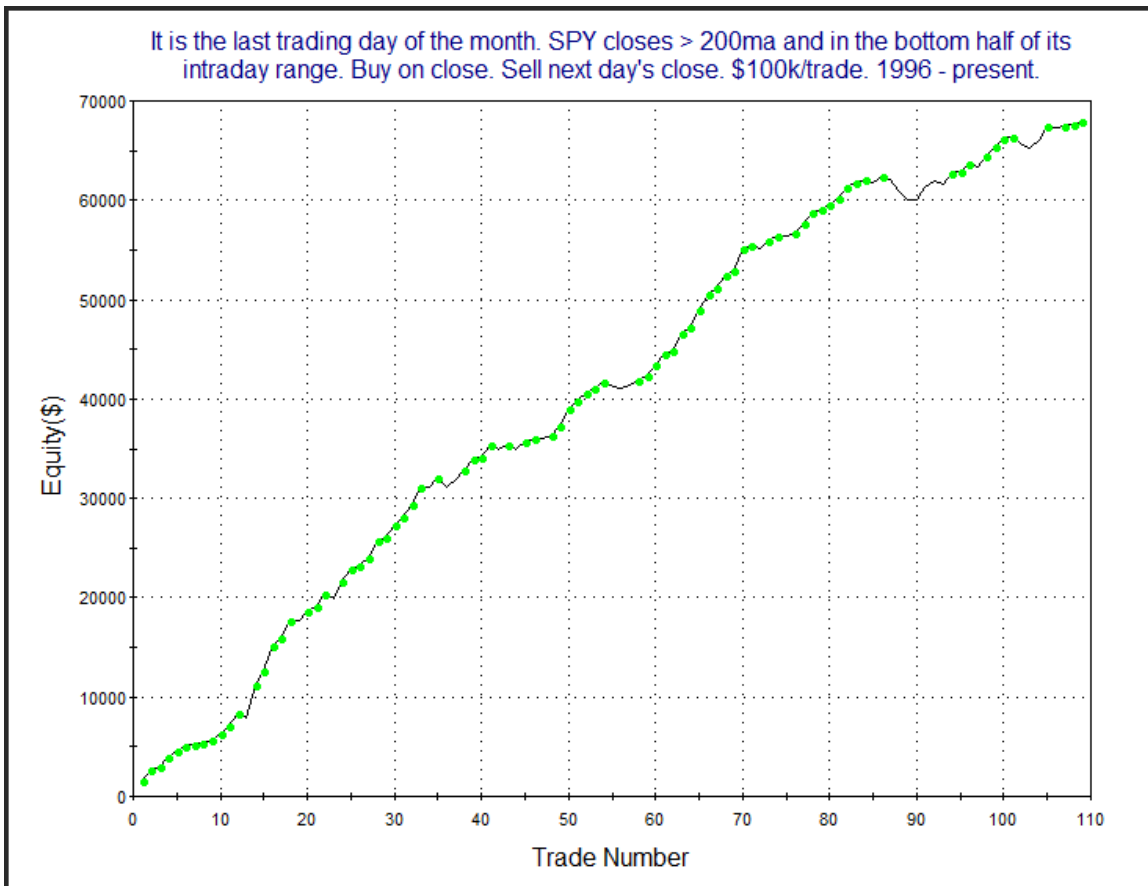
It is worth noting that Thursday is the last trading day of the month. In the 6/30/17 letter I showed some studies about the 1st trading day of the month based on how the last trading day of the previous month performed. I have updated those studies below.

The first study looks at times where the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$67,887.65	Profit Factor	9.04
Gross Profit	\$76,326.83	Gross Loss	(\$8,439.18)
Total Number of Trades	109	Percent Profitable	79.82%
Winning Trades	87	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	\$622.82	Ratio Avg. Win:Avg. Loss	2.29
Avg. Winning Trade	\$877.32	Avg. Losing Trade	(\$383.60)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 9x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 109 instances. Below is a profit curve.



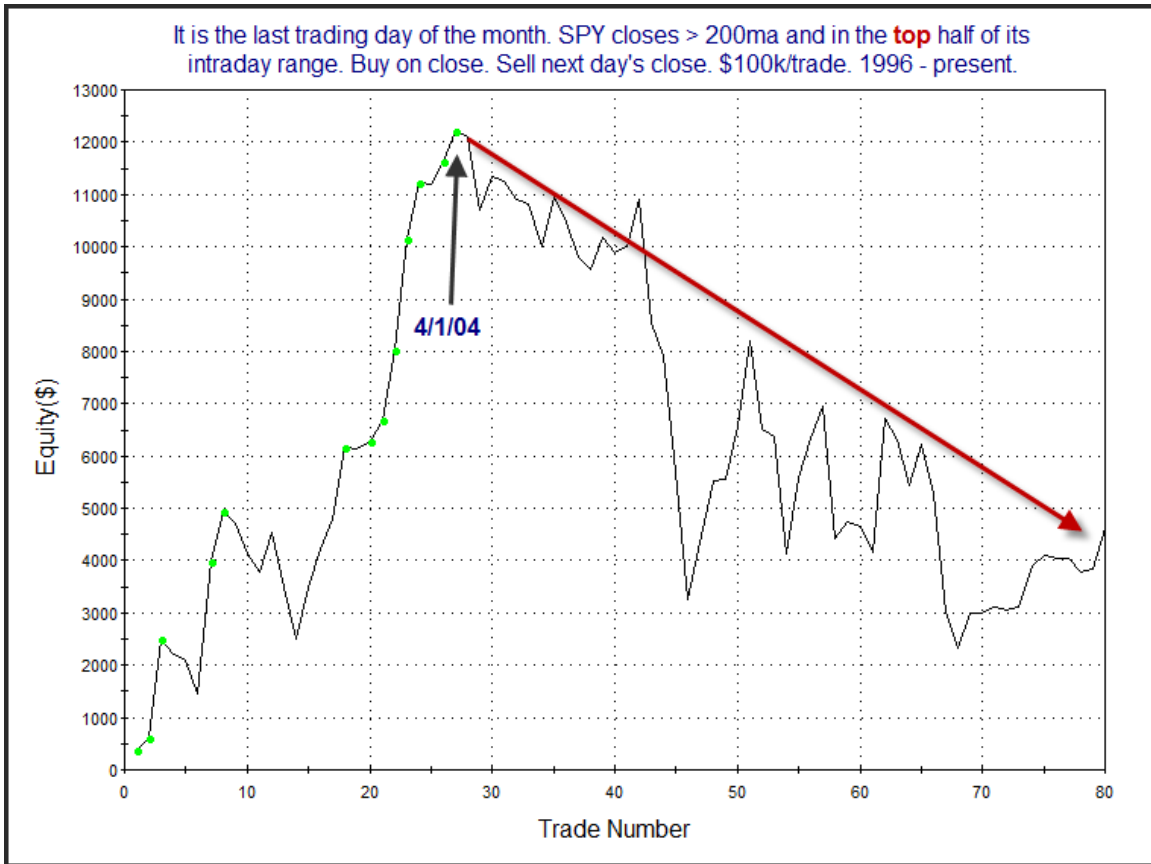
The long and persistent upslope is impressive, and serves to confirm the numbers.

Let's also examine what the results have looked like when SPY closed in the top half of its intraday range. (Also from the 7/31/17 letter.)

It is the last trading day of the month. SPY closes > 200ma and in the **top** half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

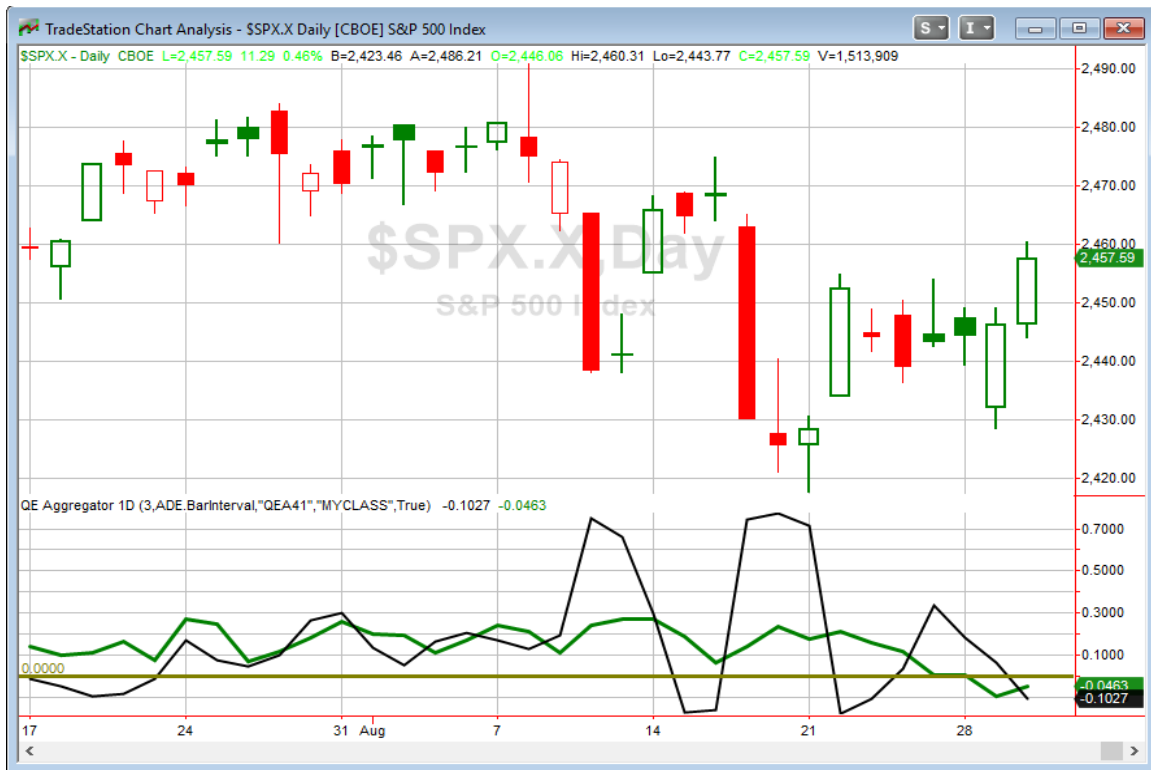
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$4,628.83	Profit Factor	1.16
Gross Profit	\$33,848.14	Gross Loss	(\$29,219.31)
Total Number of Trades	80	Percent Profitable	52.50%
Winning Trades	42	Losing Trades	38
Even Trades	0		
Avg. Trade Net Profit	\$57.86	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$805.91	Avg. Losing Trade	(\$768.93)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



This paints an even bleaker picture. So to set up an upside edge for Friday, traders would prefer a weak close on Thursday.

I have updated the Aggregator chart below.



Without any new evidence tonight the green Aggregator held below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line fell below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal changed to short at the close.

It is going to take new bearish evidence on Thursday for expectations to remain negative. Otherwise we will see expectations turn bullish at Thursday's close. The Differential Pivot will be 2447.40 on Thursday. That is 0.4% below Wednesday's close. So SPX would need to close down at least 0.4% in order to move from overbought to oversold on Thursday.

So the Aggregator formation is bearish, but that is only poised to remain so for 1 day. And if SPX does decline as expected, then 1) it would not take much of a decline for SPX to turn oversold, and 2) the move lower would likely trigger the bullish turn-of-the-month study I shared above. So this is really just a 1-day bearish edge here. While nimble traders could look to take advantage of it on an intraday basis on Thursday, I am not inclined to do so in the subscriber letter. Reward/risk does not appear strong enough here to take a counter-trend position. I'll wait and see how Thursday plays out before committing to any new positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/21– bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

AIG– 1/3 @ \$63.00 (bought @ limit)

AIG– 1/3 @ \$62.65(bought @ \$61.46)

Broad Market Large Cap CBI – 2(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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AGN(1/3)	8/7/2017	\$242.65	\$223.86	-7.74%		sell on open
AGN(1/3)	8/8/2017	\$241.22	\$223.86	-7.20%		sell on open
AGN(1/3)	8/9/2017	\$239.74	\$223.86	-6.62%		sell on open
AIG(1/3)	8/11/2017	\$63.00	\$60.20	-4.44%		Catapult
AIG(1/3)	8/18/2017	\$61.46	\$60.20	-2.05%		Catapult

AGN hit its intraday exit trigger on Wednesday. It will be sold at the open on Thursday.

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