

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 1, 2017

Volume 10 Issue 169

Market Overview



Signals Overview

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

Tonight's Research Points

- 5 higher closes in an uptrend that is not making new 50-day highs has historically suggested a strong market that is likely to continue higher over the next few weeks.

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						
September 1, 2017	5 days up. Close < 50-high.	1-10 days	Bullish	2.30%	-1.30%	-2.70%
Active - Long Term						
September 1, 2017	5 days up. Close < 50-high.	1-15 days	Bullish	3.05%	-1.60%	-3.20%
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			

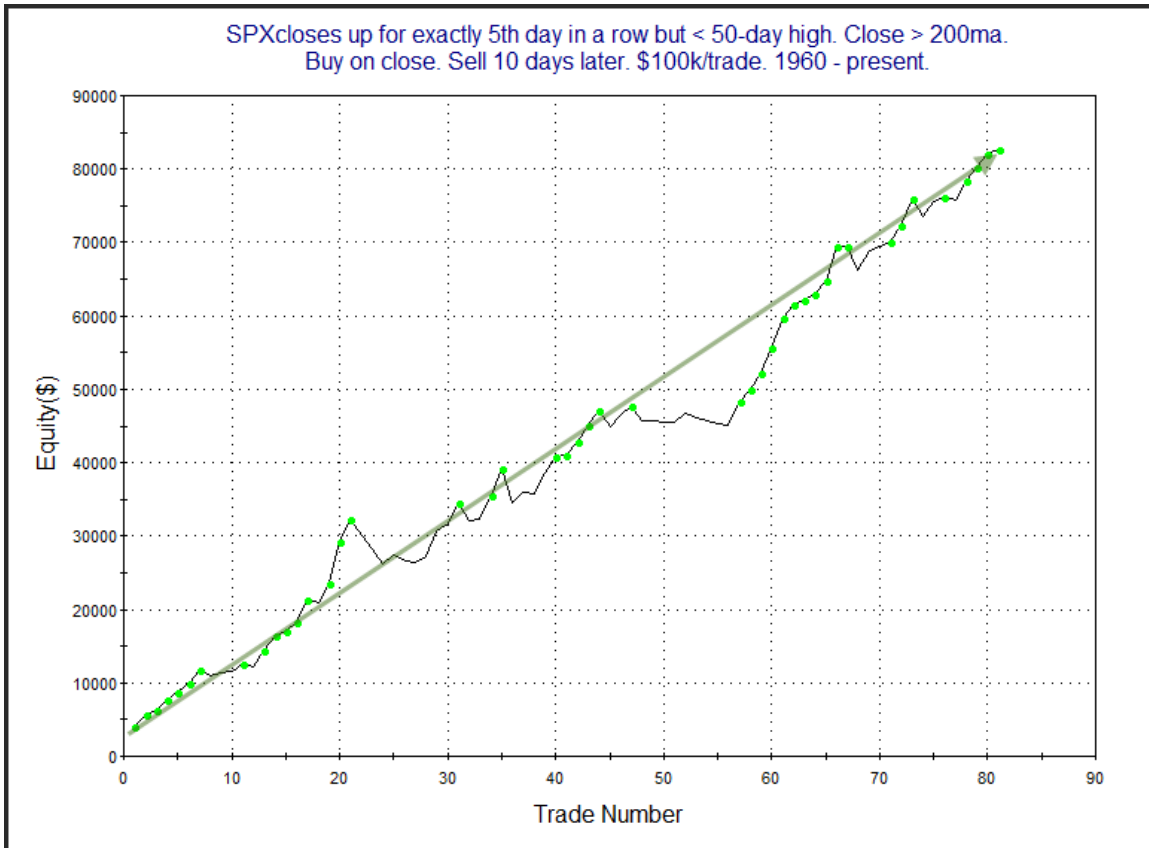
The Evidence

Thursday was a strong day for the market. The SPX closed up 0.6%, the NASDAQ rose 0.95%, and the Russell 2000 climbed 1.0%. Breadth was positive as the NYSE Up Issues % was 72.4% and the Up Volume % came in at 72.5%. NYSE rose to the highest level of August other than OpEx Friday.

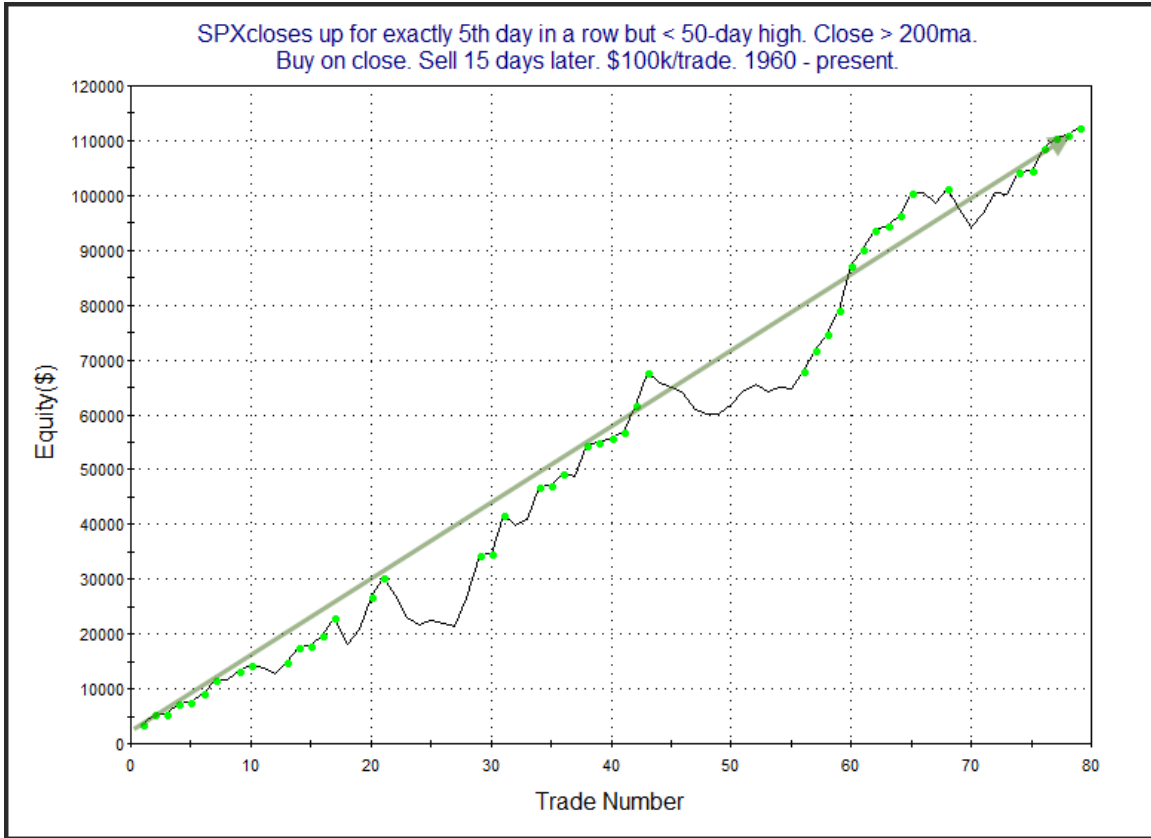
The study below utilizes a phenomenon that I have spoken of a number of times in the past. That is that when the market begins to get overbought it will often suggest a pullback is likely, but when overbought gets powered through then odds will sometimes shift from a pullback to a continuation of that move. This study looks at 5 higher closes as “strongly overbought” and demonstrates the continuation concept. It was last seen in the 4/22/14 subscriber letter.

SPX closes up for exactly 5th day in a row but < 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - 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	112,481.04	79	55	24	69.62	2,712.25	8,288.00	-1,528.86	-4,879.10	1.77	4.07	1,423.81
14	102,078.10	79	54	25	68.35	2,612.27	8,272.60	-1,559.38	-4,738.50	1.68	3.62	1,292.13
13	102,772.02	79	58	21	73.42	2,437.66	6,401.50	-1,838.68	-3,773.44	1.33	3.66	1,300.91
12	94,006.54	80	59	21	73.75	2,208.71	5,925.50	-1,728.93	-3,661.77	1.28	3.59	1,175.08
11	78,997.13	81	55	26	67.90	2,105.54	6,074.75	-1,415.68	-4,894.24	1.49	3.15	975.27
10	82,782.24	81	59	22	72.84	1,888.65	5,675.25	-1,302.19	-4,684.28	1.45	3.89	1,022.00
9	79,935.62	81	56	25	69.14	1,933.03	5,228.75	-1,132.56	-4,910.55	1.71	3.82	986.86
8	74,237.92	82	60	22	73.17	1,639.72	5,146.50	-1,097.51	-3,376.64	1.49	4.07	905.34
7	66,762.49	82	57	25	69.51	1,657.47	5,698.75	-1,108.52	-3,500.70	1.50	3.41	814.18
6	55,041.63	82	61	21	74.39	1,385.06	5,134.75	-1,402.24	-3,366.60	0.99	2.87	671.24
5	44,738.70	82	59	22	71.95	1,237.97	4,476.75	-1,286.42	-3,716.53	0.96	2.58	545.59
4	30,187.19	82	53	29	64.63	1,089.03	3,983.25	-949.36	-3,494.78	1.15	2.10	368.14
3	29,231.89	82	56	26	68.29	995.48	2,796.50	-1,019.81	-3,359.36	0.98	2.10	356.49
2	15,256.82	82	54	28	65.85	764.36	2,479.25	-929.24	-3,748.50	0.82	1.59	186.06
1	9,013.35	82	52	30	63.41	520.15	2,211.54	-601.15	-2,200.96	0.87	1.50	109.92

These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.



This appears to be quite a consistent curve and makes the study even more compelling. I also ran the 15-day profit curve.



Much like the 10-day curve, the 15-day shows impressive upslope. In addition to the short-term Active List, have also added this study to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.

I'll also note that while SPX failed to close at a 50-day high, the NASDAQ did close at one, which was also an all-time high. I looked at other instances where NASDAQ made a fresh breakout for the first time in a few weeks, and SPX was still in a base. I wondered whether the NASDAQ leading the charge had reliable implications. The results did not appear compelling for either longs or shorts

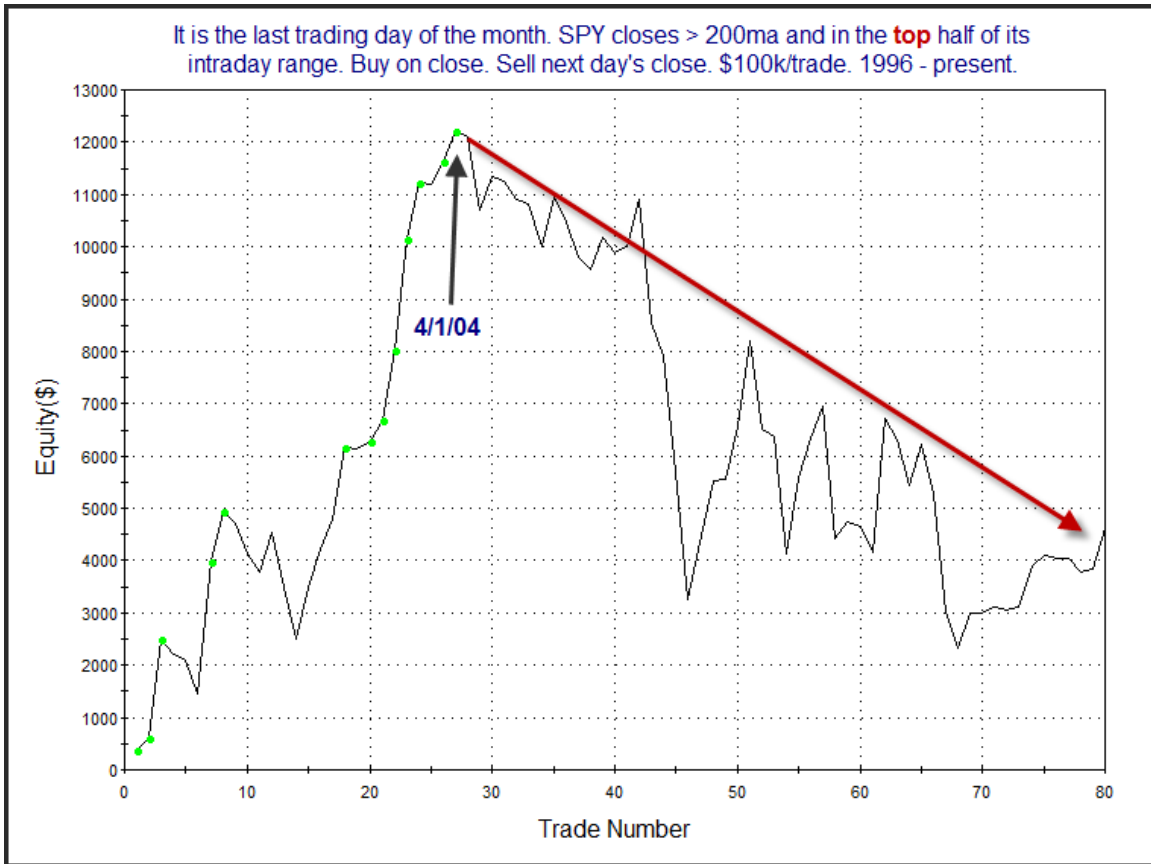
There were also several studies related to turn of the month that triggered. As I showed last night, strong closes at the end of the month have basically neutralized what would be an upside edge if we had seen a weak close. Below I have copied the study from last night with regards to closes in the top half of the day's range.

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)

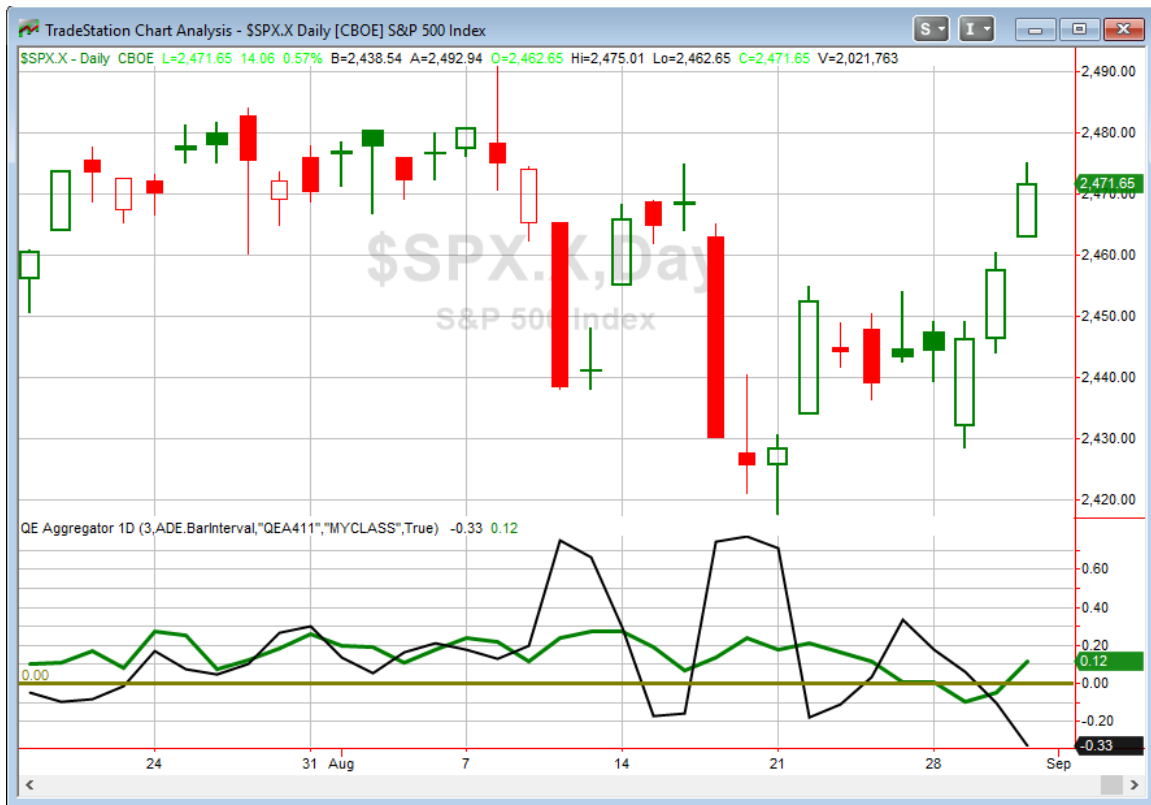
We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



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

Other “overbought” studies in the Quantifinder showed similar results. New short-term highs to close a month leave the next day without a discernable edge.

I have updated the Aggregator chart below.



With tonight's study considered, the green Aggregator rose back above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal changed to flat 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 2444.10 on Friday. That is 1.1% below Thursday's close. So SPX would need to close down at least 1.1% in order to move from overbought to oversold on Friday.

The Aggregator is neutral, and I am too. While evidence tonight suggests we could see more follow through in the coming weeks, the overbought nature of the market reduces reward/risk a bit. I'll wait for a better entry.

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	\$225.11	-7.23%		<i>sold on open</i>
AGN(1/3)	8/8/2017	\$241.22	\$225.11	-6.68%		<i>sold on open</i>
AGN(1/3)	8/9/2017	\$239.74	\$225.11	-6.10%		<i>sold on open</i>
AIG(1/3)	8/11/2017	\$63.00	\$60.48	-4.00%		Catapult
AIG(1/3)	8/18/2017	\$61.46	\$60.48	-1.59%		Catapult

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