

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 6, 2017

Volume 10 Issue 171

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Flat	50% Long XIV	Short

Tonight's Research Points

- Monday's spiking VIX and mild SPX decline are quite unusual.
- After over 5 days higher the market pulled back Thursday. When the market has been in a similar position in the past, the 1-2 week timeframe has been strong.
- The unfilled gap pattern over the last couple of days set up a bearish trigger.

Short-term Outlook

The Bottom Line

Unusual activity and a neutral Aggregator have me wary of taking strong positions in either direction right now.

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 6, 2017	5+ days up. Close < 50-high, 1 down day	1-10 days	Bullish			
September 6, 2017	Unfilled up, unfilled dn < 2 ago	1-2 days	Bearish			
September 5, 2017	Post Labor when SPX < 20 days ago	1-2 days	Bullish			
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%
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			

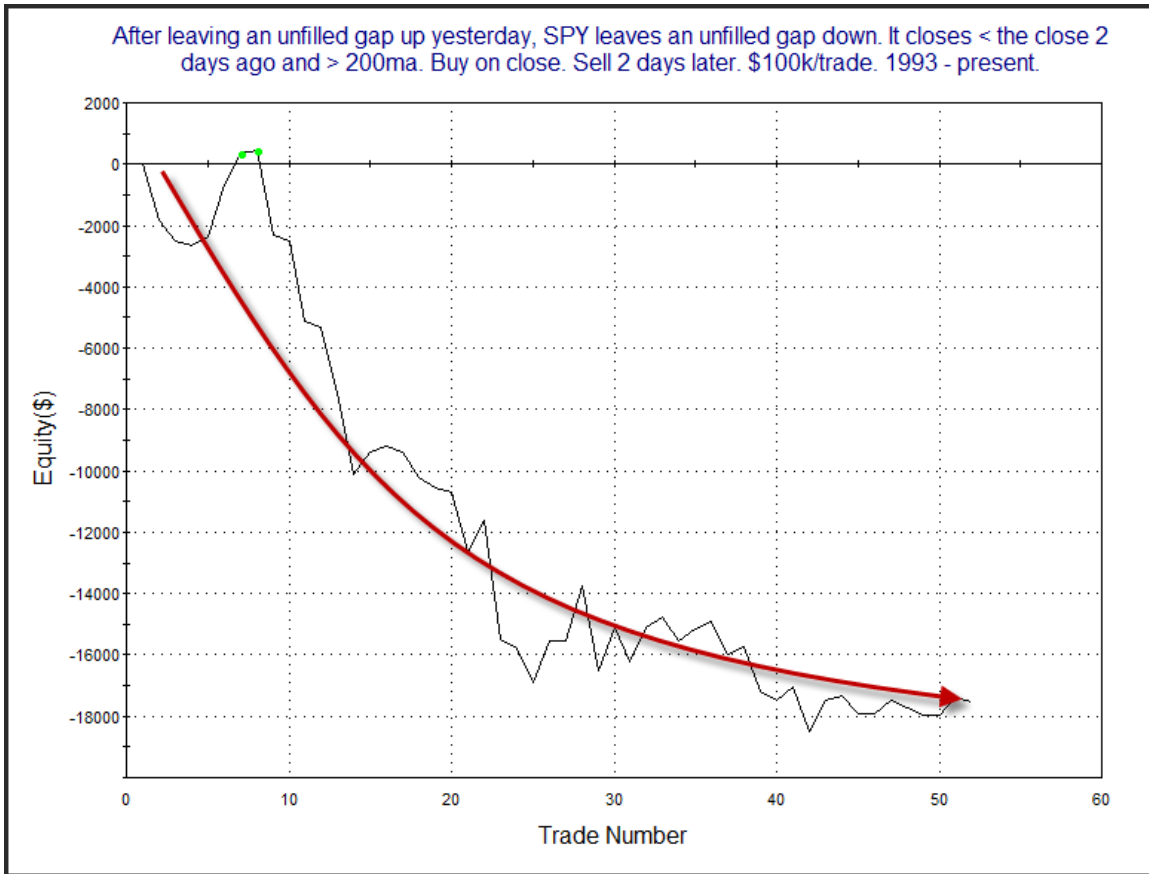
The Evidence

Tuesday was a tough day for the market. The SPX lost 0.8%, the NASDAQ dropped 0.9%, and the Russell 2000 declined 1.0%. Breadth was negative as the NYSE Up Issues % was 30% and the Up Volume % came in at 40%. NYSE volume increased as traders came back from summer vacations.

The Quantifinder showed a mix of studies tonight. There was one bearish study worth discussion. It was last seen in the 10/12/16 letter. It examines 2-day moves like SPY has just encountered, and it is updated below.

After leaving an unfilled gap up yesterday, SPY leaves an unfilled gap down. It closes < the close 2 days ago and > 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	5,429.72	49	26	23	53.06	1,296.62	3,949.59	-1,229.67	-3,791.20	1.05	1.19	110.81	
4	4,698.88	50	23	27	46.00	1,440.60	3,637.58	-1,053.14	-4,926.08	1.37	1.17	93.98	
3	-18,209.87	52	24	28	46.15	770.97	2,463.47	-1,311.18	-5,321.00	0.59	0.50	-350.19	
2	-17,532.00	52	22	29	42.31	664.34	1,754.40	-1,108.53	-3,893.00	0.60	0.45	-337.15	
1	-3,886.63	52	24	27	46.15	474.94	1,325.15	-566.12	-1,736.76	0.84	0.75	-74.74	

The suggestion here is that more downside appears likely over the next few days. Of course I also examined the profit curves. Below is the 2-day.



While the curve has been a bit choppy, it still appears to be trending downwards. I believe this study is worth taking into consideration and have included it in the Aggregator.

I also found the large spike in the VIX (20.7%) especially noteworthy. Such a large spike is rare when the SPX does not decline even as much as 1%. In fact, there have only been 3 other similar instances looking back to 1991. I have listed them below along with their 4-day returns.

VIX rises > 20% while SPX does not suffer a > 1% decline.
Buy SPX on close. Sell 4 days later. \$100k/trade. 1991 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
7/6/1993	Buy	\$441.43	1.71%	\$1,735.68
7/12/1993	Sell	\$448.98		(\$6.78)
12/8/2014	Buy	\$2,060.31	-2.81%	\$13.92
12/12/2014	Sell	\$2,002.33		(\$2,783.04)
6/13/2016	Buy	\$2,079.06	-0.38%	\$316.32
6/17/2016	Sell	\$2,071.22		(\$1,377.12)

So the next few days has been mixed for the market in other instances. With the VIX rise being just over 20%, I decided to look at other nearby levels.

VIX rises between 15% - 20% while SPX does not suffer a > 1% decline. Buy SPX on close. Sell 4 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	21,893.92	13	10	3	76.92	2,714.93	6,349.93	-1,751.80	-2,762.19	1.55	5.17	1,684.15
9	27,507.67	13	11	2	84.62	2,659.65	6,495.68	-874.27	-992.07	3.04	16.73	2,115.97
8	22,938.04	13	10	3	76.92	2,422.18	5,891.50	-427.90	-619.77	5.66	18.87	1,764.46
7	19,624.96	13	10	3	76.92	2,153.03	5,801.50	-635.11	-1,399.41	3.39	11.30	1,509.61
6	19,751.89	15	11	4	73.33	2,073.95	5,457.00	-765.39	-1,350.72	2.71	7.45	1,316.79
5	22,627.28	16	11	5	68.75	2,373.65	5,471.50	-696.58	-1,218.72	3.41	7.50	1,414.20
4	21,109.01	16	13	3	81.25	1,976.25	5,290.00	-1,527.40	-2,665.92	1.29	5.61	1,319.31
3	14,151.22	16	11	5	68.75	1,618.09	4,895.50	-729.56	-1,565.28	2.22	4.88	884.45
2	8,476.44	16	10	6	62.50	1,274.00	4,424.50	-710.59	-1,163.48	1.79	2.99	529.78
1	3,077.79	16	10	6	62.50	679.74	2,007.50	-619.93	-1,219.53	1.10	1.83	192.36

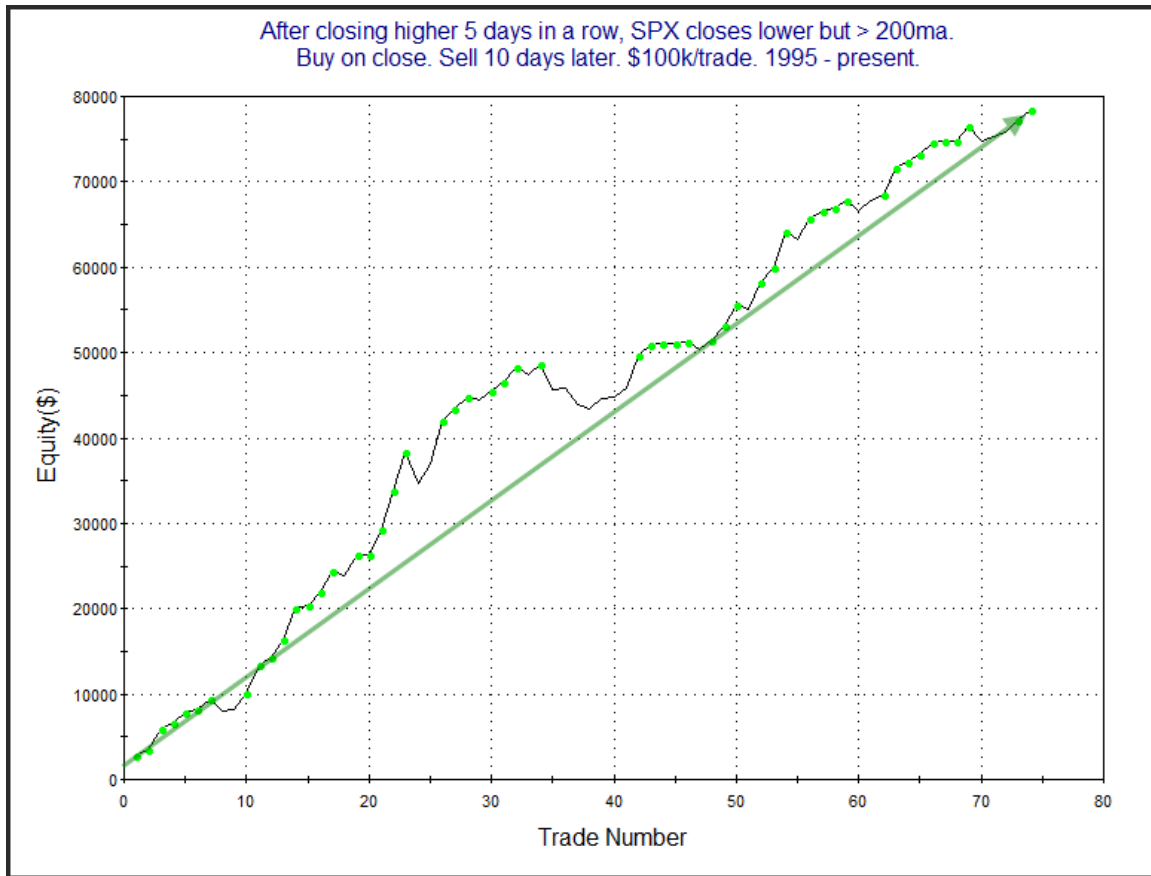
So between 15%-20% the numbers were actually quite bullish. Overall, the edge is not entirely clear based on the VIX move. So while I did think it was worth showing, I am not utilizing this information for projections in the Aggregator.

Tuesday's decline did trigger some bullish studies that looked at pullbacks after at least 5 consecutive up days. The studies below were last seen in the 4/24/14 Subscriber Letter. I have updated the results.

After closing higher 5 days in a row, SPX closes lower 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
10	78,389.58	74	61	13	82.43	1,571.01	5,131.35	-1,341.68	-3,672.90	1.17	5.49	1,059.32
9	78,120.66	80	65	15	81.25	1,530.06	5,196.49	-1,422.22	-4,151.40	1.08	4.66	976.51
8	72,300.06	81	60	21	74.07	1,674.13	4,878.08	-1,340.38	-4,874.10	1.25	3.57	892.59
7	54,345.13	82	60	22	73.17	1,430.91	3,874.76	-1,432.24	-3,970.62	1.00	2.72	662.75
6	54,780.76	85	62	23	72.94	1,359.79	4,307.20	-1,283.74	-3,637.71	1.06	2.86	644.48
5	45,378.66	85	58	27	68.24	1,206.86	4,252.50	-911.82	-3,188.16	1.32	2.84	533.87
4	44,302.66	85	57	28	67.06	1,167.39	3,843.00	-794.24	-3,003.39	1.47	2.99	521.21
3	28,156.08	85	56	29	65.88	939.98	2,797.08	-844.23	-2,852.01	1.11	2.15	331.25
2	19,463.13	85	57	28	67.06	765.71	2,480.28	-863.65	-2,614.95	0.89	1.80	228.98
1	9,240.80	85	55	29	64.71	478.96	1,751.19	-589.73	-2,531.86	0.81	1.54	108.72

89% of instances closed above the entry price at some point in the next week.

Initially there appears to be a moderate inclination for a move higher. Once you get out 9-10 days the upside edge appears very substantial. Below is an equity curve using a 10-day exit strategy.



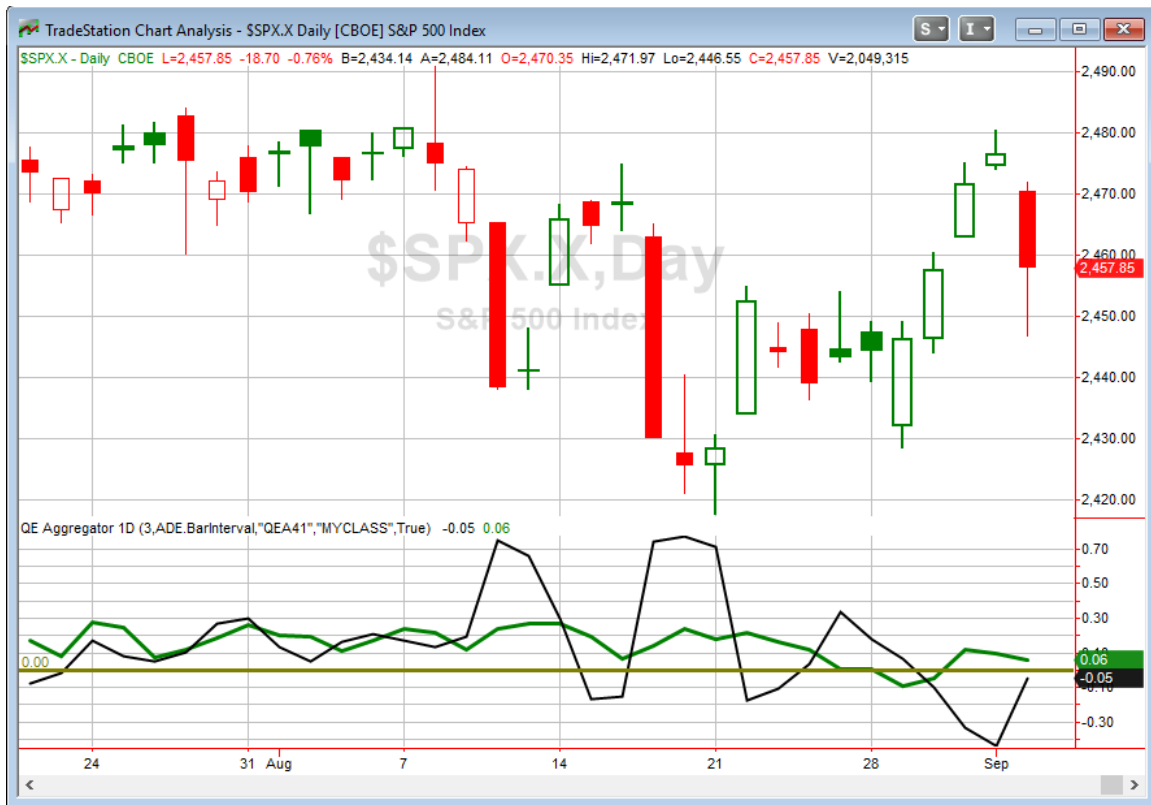
There's some wiggle here but the periods of pullback have been short and mild. This appears to confirm the bullish edge.

In that 4/24/14 letter I also filtered out times where the SPX had closed a 50-day high the day before. I also applied that filter tonight and updated those stats.

After closing higher 5 days in a row but not at a 50-day high, SPX closes lower 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
10	26,043.70	19	15	4	78.95	2,090.21	4,644.11	-1,327.35	-2,964.60	1.57	5.91	1,370.72
9	23,888.74	19	15	4	78.95	2,002.82	5,196.49	-1,538.40	-3,251.34	1.30	4.88	1,257.30
8	24,434.59	19	16	3	84.21	1,889.40	4,770.49	-1,931.92	-4,038.66	0.98	5.22	1,286.03
7	17,973.90	19	17	2	89.47	1,417.13	3,335.92	-3,058.68	-3,970.62	0.46	3.94	945.99
6	17,098.97	19	16	3	84.21	1,516.22	2,736.52	-2,386.86	-3,388.23	0.64	3.39	899.95
5	16,185.49	19	16	3	84.21	1,356.95	2,590.50	-1,841.93	-3,188.16	0.74	3.93	851.87
4	13,338.94	19	15	4	78.95	1,171.70	2,600.40	-1,059.13	-2,494.80	1.11	4.15	702.05
3	8,254.74	19	13	6	68.42	1,147.83	2,797.08	-1,111.18	-2,852.01	1.03	2.24	434.46
2	802.43	19	11	8	57.89	862.98	2,480.28	-1,086.29	-2,455.11	0.79	1.09	42.23
1	-1,412.18	19	12	7	63.16	363.77	716.31	-825.34	-2,531.86	0.44	0.76	-74.33

The 1st day or so is iffy, but after that the upside edge appears even stronger than without the filter applied. The number of instances is just a little low, but the market position doesn't appear to raise any red flags. The idea behind this study is that strong moves higher tend to weaken before they roll over. The five days up suggest the move is strong. Since they rarely turn on a dime, this 1st dip is not likely the end of the up move. And in this case the fact that we are not yet at a 50-day high suggests it is not long-term overextended either. I used the broader study to generate estimates for the Aggregator.

I have updated the Aggregator chart below.



With tonight's evidence considered, 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 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain positive on Wednesday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be *inverted* at 2471.03 on Wednesday. That is 0.5% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX is going to need to close up over 0.5% in order to remain "overbought" versus expectations. Anything short of that and it will be considered oversold as of Wednesday's close.

Unusual activity, mixed messages, a neutral Aggregator, and an inverted pivot all leave me disinterested in taking on new positions right here. Evaluating reward/risk under these conditions is difficult. I expect to get more clarity over the next few days, and will be ready when the next favorable opportunity emerges. Nothing for me to do on Wednesday from a trading standpoint, though.

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

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Broad Market Large Cap CBI – 0

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
<i>AIG(1/3)</i>	<i>8/11/2017</i>	<i>\$63.00</i>	<i>\$60.43</i>	<i>-4.08%</i>		<i>sold on open</i>
<i>AIG(1/3)</i>	<i>8/18/2017</i>	<i>\$61.46</i>	<i>\$60.43</i>	<i>-1.68%</i>		<i>sold on open</i>

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