

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 12, 2017

Volume 10 Issue 175

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY's unfilled up-gap and new 50-day high suggest a bullish edge.
- The mild increase in volume on the breakout was not encouraging.

Short-term Outlook

The Bottom Line

Evidence is pointing higher, but the market is overbought. This is leaving the Aggregator neutral. I am neutral, also.

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 12, 2017	Unfilled gap up to 50-day high breakout	1-5 days	Bullish			
September 6, 2017	1 dn after 5+ up days	1-10 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%
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			

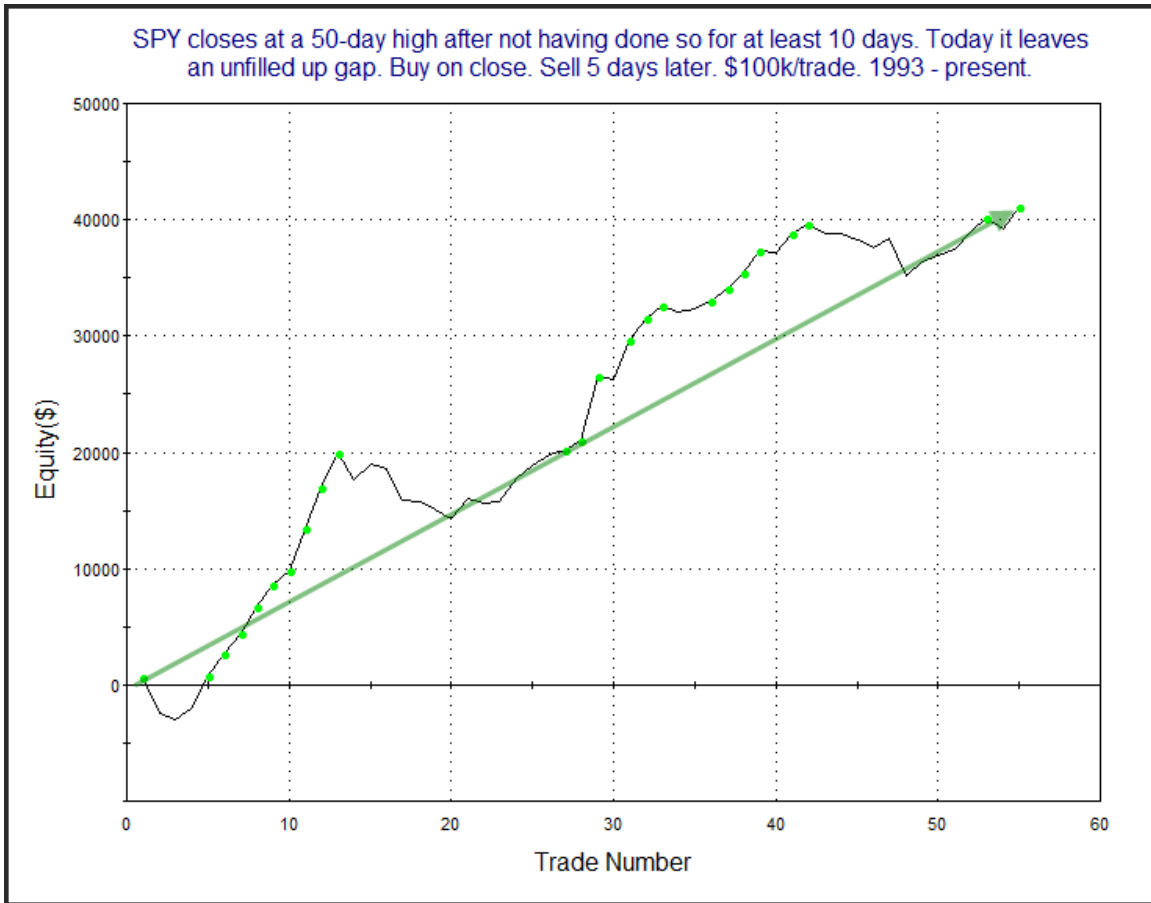
The Evidence

Monday started with a big gap up, and the open was near the low of the day, as prices moved even higher. The SPX, NASDAQ, and the Russell 2000 all rallied about 1.1%. Breadth was strongly positive as the NYSE Up Issues % was 78% and the Up Volume % came in at 81%. NYSE volume rose above the level of the last 3 days.

Breakout days often give clues as to whether we are likely to see additional follow through. Breadth, volume, and whether the market is posting an unfilled gap are three indications we often examine. The unfilled gap up provided the strongest hint on Monday. In the 2/10/17 subscriber letter I looked at the importance of an unfilled upside gap on new high breakouts for SPY. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. 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	41,034.43	55	38	17	69.09	1,554.90	5,434.00	-1,061.86	-3,218.88	1.46	3.27	746.08	
4	27,308.80	55	38	17	69.09	1,195.66	3,637.92	-1,066.26	-3,267.84	1.12	2.51	496.52	
3	21,242.52	55	37	18	67.27	1,045.61	3,992.56	-969.17	-2,538.18	1.08	2.22	386.23	
2	17,553.70	55	37	18	67.27	771.45	2,545.92	-610.55	-2,293.20	1.26	2.60	319.16	
1	6,852.78	55	38	17	69.09	469.46	1,816.10	-646.28	-2,591.68	0.73	1.62	124.60	
49 of 55 instances (89%) closed above the entry price at some point in the next week.													

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The strong move from lower left to upper right is impressive.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was *not* accompanied by an unfilled gap. Interestingly, the number of instances was very close. This study also appeared in the 2/10/17 letter and has been updated.

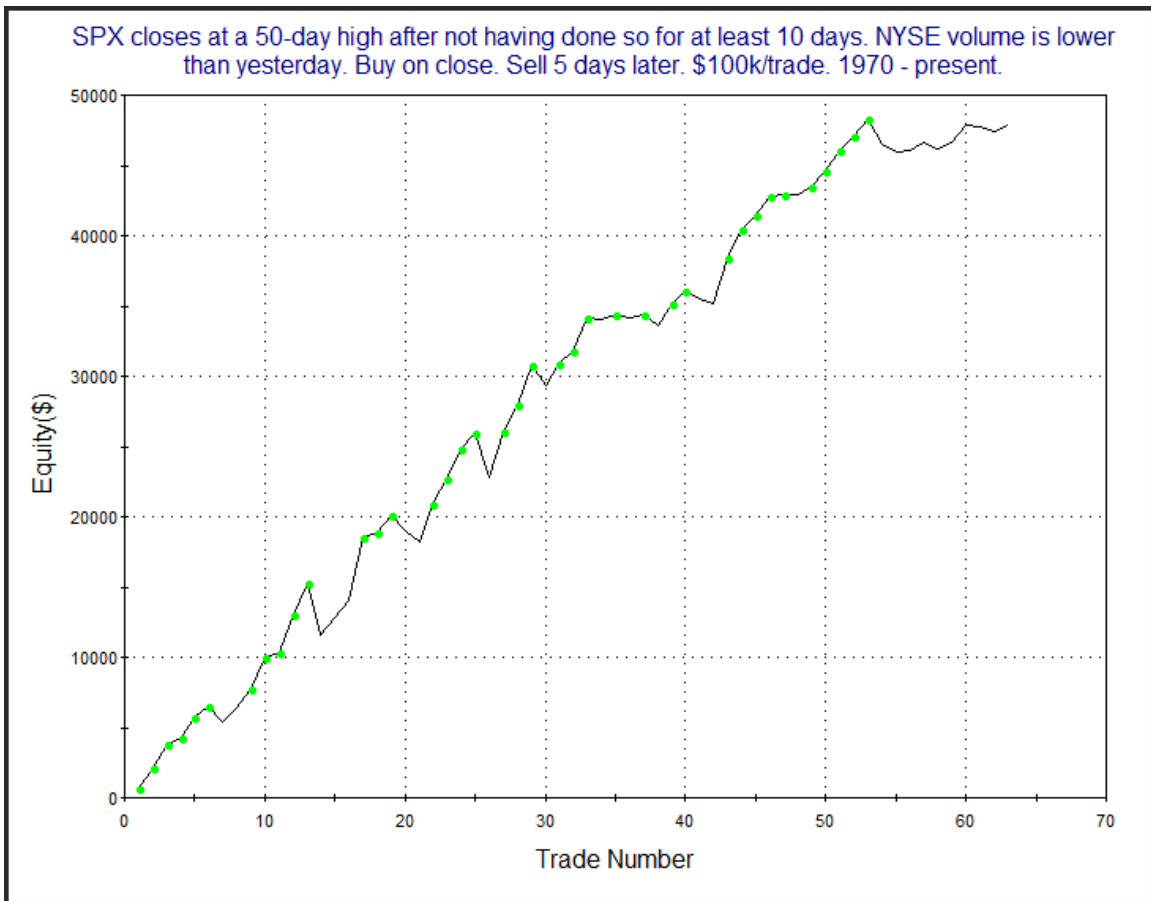
SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled up gap. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	1,533.16	44	26	18	59.09	991.52	2,671.20	-1,347.02	-4,285.26	0.74	1.06	34.84
4	-919.60	44	25	19	56.82	973.50	2,072.07	-1,329.32	-4,518.34	0.73	0.96	-20.90
3	3,860.36	44	26	18	59.09	994.05	2,927.90	-1,221.39	-5,133.72	0.81	1.18	87.74
2	-2,917.61	44	22	22	50.00	635.35	2,324.90	-767.97	-3,640.86	0.83	0.83	-66.31
1	1,851.04	44	23	21	52.27	483.02	1,586.97	-440.88	-2,448.72	1.10	1.20	42.07

Moves to new highs that don't start with an unfilled gap are much less reliable.

I mentioned volume can sometimes give clues on breakouts. Monday's volume was not ideal. For a breakout to have a good chance of success you generally want volume to come in either 1) lower than the day before, or 2) extremely high. Moderate but increasing volume is the worst (and current) scenario. To see why I say this, take a look at the 3 studies below, which were also seen in the 2/10/17 letter. The first one examines new breakouts that occur on declining volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
20	34,112.23	59	34	25	57.63	2,533.46	11,088.84	-2,081.01	-8,157.10	1.22	1.66	578.17
19	33,209.93	60	35	25	58.33	2,410.93	9,628.99	-2,046.90	-9,056.82	1.18	1.65	553.50
18	36,124.49	60	38	22	63.33	2,319.63	11,076.80	-2,364.61	-9,094.80	0.98	1.69	602.07
17	34,113.00	60	38	22	63.33	2,338.58	10,017.28	-2,488.78	-8,682.96	0.94	1.62	568.55
16	37,423.78	60	39	21	65.00	2,296.72	10,944.36	-2,483.24	-9,243.81	0.92	1.72	623.73
15	31,342.65	60	40	20	66.67	2,086.86	8,166.13	-2,606.59	-9,354.92	0.80	1.60	522.38
14	36,253.95	62	43	19	69.35	1,896.57	7,314.30	-2,384.13	-6,525.68	0.80	1.80	584.74
13	36,243.57	63	41	22	65.08	1,890.31	7,780.85	-1,875.42	-5,160.09	1.01	1.88	575.29
12	22,198.06	63	35	28	55.56	1,917.11	5,996.75	-1,603.60	-4,539.14	1.20	1.49	352.35
11	15,828.98	63	33	30	52.38	1,847.00	5,809.60	-1,504.06	-6,029.07	1.23	1.35	251.25
10	16,376.39	63	32	31	50.79	1,856.71	5,960.00	-1,388.33	-4,324.52	1.34	1.38	259.94
9	22,619.83	63	39	24	61.90	1,547.19	5,147.20	-1,571.69	-5,812.26	0.98	1.60	359.04
8	28,536.35	63	43	20	68.25	1,387.35	5,096.00	-1,555.97	-4,186.55	0.89	1.92	452.96
7	31,639.09	63	41	22	65.08	1,320.11	4,655.00	-1,022.07	-3,211.35	1.29	2.41	502.21
6	46,064.51	63	44	19	69.84	1,374.03	5,002.50	-757.51	-3,563.65	1.81	4.20	731.18
5	47,919.09	63	46	17	73.02	1,396.93	4,482.50	-966.56	-3,693.73	1.45	3.92	760.62
4	32,191.80	63	44	19	69.84	1,156.18	4,440.00	-983.16	-2,913.85	1.18	2.72	510.98
3	30,848.78	63	42	21	66.67	1,094.90	3,950.00	-720.80	-1,802.37	1.52	3.04	489.66
2	18,489.60	63	41	22	65.08	786.13	2,212.98	-624.62	-1,912.60	1.26	2.35	293.49
1	8,013.87	63	40	23	63.49	441.15	1,384.02	-418.79	-1,921.32	1.05	1.83	127.20

Numbers here appear pretty solid, with add-on buying typically coming in during the next week. Below is a look at a profit curve.



The move from lower left to upper right is encouraging. Next let's look at times where there was extremely strong volume (20-day high volume).

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in at least 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	18,538.22	40	22	18	55.00	3,632.58	8,953.20	-3,409.92	-8,308.32	1.07	1.30	463.46
19	13,685.17	40	23	17	57.50	3,409.41	8,942.40	-3,807.72	-7,980.00	0.90	1.21	342.13
18	24,595.39	40	23	17	57.50	3,674.90	9,613.50	-3,525.13	-7,323.36	1.04	1.41	614.88
17	20,613.97	40	24	16	60.00	3,274.62	9,069.84	-3,623.55	-8,144.90	0.90	1.36	515.35
16	25,570.48	40	23	17	57.50	3,530.65	8,048.82	-3,272.62	-8,109.35	1.08	1.46	639.26
15	20,775.66	40	23	17	57.50	3,424.99	7,668.00	-3,411.72	-8,358.20	1.00	1.36	519.39
14	21,212.29	40	23	17	57.50	3,302.74	8,128.38	-3,220.63	-8,338.45	1.03	1.39	530.31
13	25,626.24	40	24	16	60.00	3,054.35	7,478.64	-2,979.88	-8,251.55	1.02	1.54	640.66
12	21,979.40	40	23	17	57.50	2,796.65	7,352.31	-2,490.79	-8,757.15	1.12	1.52	549.49
11	28,371.52	40	26	14	65.00	2,514.89	6,782.40	-2,643.98	-6,975.70	0.95	1.77	709.29
10	31,145.17	40	24	16	60.00	2,487.82	6,199.20	-1,785.15	-3,730.08	1.39	2.09	778.63
9	27,897.57	40	24	15	60.00	2,272.85	6,418.16	-1,776.73	-3,113.22	1.28	2.05	697.44
8	29,663.58	40	24	16	60.00	2,245.80	6,220.34	-1,514.73	-2,943.34	1.48	2.22	741.59
7	30,443.70	40	25	15	62.50	2,017.12	5,264.21	-1,332.29	-2,946.00	1.51	2.52	761.09
6	33,597.45	40	28	12	70.00	1,753.17	4,695.76	-1,290.94	-3,093.30	1.36	3.17	839.94
5	29,863.77	40	26	14	65.00	1,655.48	4,771.60	-941.33	-2,562.72	1.76	3.27	746.59
4	21,201.24	40	26	14	65.00	1,266.35	3,165.12	-837.42	-1,948.21	1.51	2.81	530.03
3	17,575.07	40	26	14	65.00	1,086.30	2,989.36	-762.04	-2,188.15	1.43	2.65	439.38
2	27,508.43	40	27	12	67.50	1,181.81	3,813.53	-366.70	-1,259.60	3.22	7.25	687.71
1	15,102.12	40	29	11	72.50	648.11	2,755.52	-335.73	-1,292.50	1.93	5.09	377.55

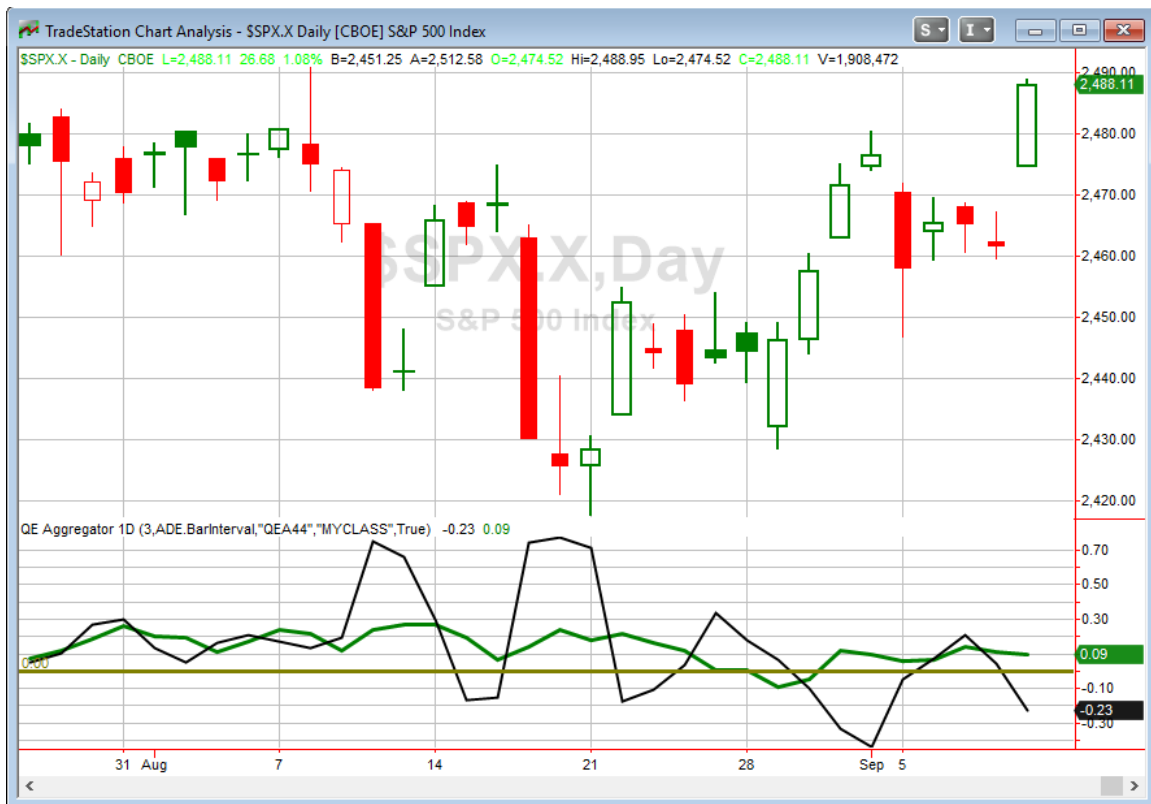
Numbers here are quite similar, with the first week getting solid follow-through buying once again. Lastly, let's look at rising but moderate volume, which was the situation on Monday.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
20	2,800.27	98	47	51	47.96	3,356.14	13,401.70	-3,038.00	-11,541.15	1.10	1.02	28.57
19	12,251.14	98	50	48	51.02	3,138.66	9,135.36	-3,014.20	-11,854.89	1.04	1.08	125.01
18	17,725.00	99	53	46	53.54	2,939.17	9,503.00	-3,001.11	-10,293.66	0.98	1.13	179.04
17	10,096.55	99	53	46	53.54	2,821.65	9,962.68	-3,031.54	-9,419.67	0.93	1.07	101.99
16	5,429.72	101	54	47	53.47	2,656.29	8,910.72	-2,936.38	-9,482.88	0.90	1.04	53.76
15	13,009.59	101	53	48	52.48	2,592.73	8,150.48	-2,591.77	-9,608.60	1.00	1.10	128.81
14	-658.23	101	56	45	55.45	2,329.48	7,702.40	-2,913.54	-10,120.46	0.80	0.99	-6.52
13	-2,261.58	101	53	48	52.48	2,330.28	7,911.80	-2,620.13	-9,725.34	0.89	0.98	-22.39
12	-6,738.23	102	55	47	53.92	2,180.91	10,197.98	-2,695.50	-9,869.02	0.81	0.95	-66.06
11	-1,167.40	102	52	50	50.98	2,311.53	10,380.37	-2,427.34	-9,482.88	0.95	0.99	-11.45
10	-8,367.69	102	50	52	49.02	2,185.36	10,515.18	-2,262.23	-8,683.66	0.97	0.93	-82.04
9	-4,038.11	102	48	54	47.06	2,150.26	8,413.73	-1,986.12	-6,878.68	1.08	0.96	-39.59
8	-7,574.94	102	54	48	52.94	1,708.88	8,532.68	-2,080.30	-7,076.24	0.82	0.92	-74.26
7	9,180.13	102	53	49	51.96	1,746.87	6,337.26	-1,702.12	-7,255.84	1.03	1.11	90.00
6	6,796.43	102	56	46	54.90	1,485.47	6,819.80	-1,660.64	-7,103.18	0.89	1.09	66.63
5	2,853.61	102	49	53	48.04	1,548.06	8,516.82	-1,377.38	-6,088.44	1.12	1.04	27.98
4	-3,102.24	102	55	47	53.92	1,240.65	6,716.71	-1,517.83	-5,585.56	0.82	0.96	-30.41
3	9,028.56	102	59	43	57.84	1,125.39	6,740.50	-1,334.17	-5,361.06	0.84	1.16	88.52
2	2,502.95	102	60	42	58.82	771.44	4,028.44	-1,042.47	-4,276.16	0.74	1.06	24.54
1	8,842.77	102	57	45	55.88	521.72	2,731.56	-464.34	-2,722.61	1.12	1.42	86.69

This does not appear to suggest any edge over the next 1-4 weeks. So it appears the breakout is showing mixed indications at this point.

I have updated the Aggregator chart below.



With tonight's evidence under consideration, 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 dropped 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 turned flat at the close.

Based on the current active studies, expectations are set to remain positive on Tuesday. It would take very compelling bearish evidence emerging on Tuesday to change this. The Differential Pivot will be 2471.67 on Tuesday. That is 0.7% below Monday's close. Therefore, SPX would need to close down at least 0.7% on Tuesday in order to move from short-term overbought to oversold versus recent expectations.

Breakout indications are mixed, with evidence leaning bullish overall. But the move to new highs left the market overbought, and not at a prime buying level. Chasing is not my approach. I will wait for a more favorable reward/risk setup before looking to take on new index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/11– 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 – Last night’s order was not filled and should now be cancelled.

Current Open Trade Ideas

None

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