

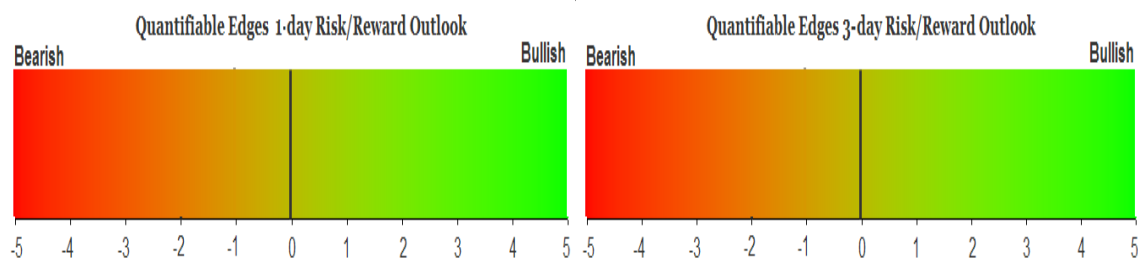
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 19, 2017

Volume 10 Issue 180

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX is quite stretched on an intermediate-term basis, but that has led to more intermediate-term upside in the past.
- Tuesday's action could have a substantial impact on the Fed Day edge for Wednesday.

Short-term Outlook

The Bottom Line

Expectations have turned negative but SPX is not yet overbought. The Fed meeting could deliver some edges in the next few days.

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 18, 2017	Weakest Week of the Year	1-4 days	Bearish			
September 15, 2017	3 higher hi, low, close. Dn close.	1-4 days	Bullish			
September 6, 2017	1 dn after 5+ up days	1-10 days	Bullish			
Active - Long Term						
September 19, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
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			
Dropped Tonight						
September 13, 2017	Intraday high brkt from base.	1-4 days	Bullish			
September 12, 2017	Unfilled gap up to 50-day high brkt	1-5 days	Bullish			

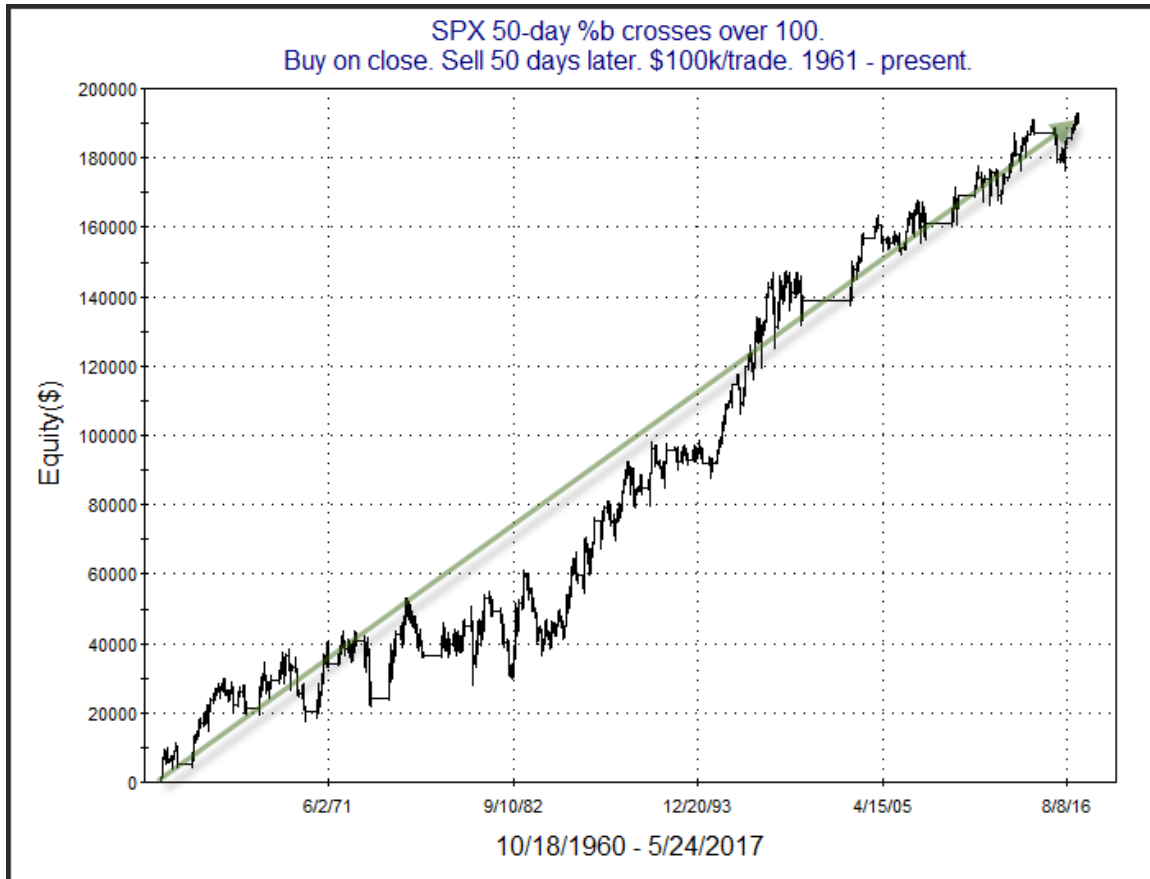
The Evidence

Monday saw most indices post moderate gains. The SPX rose 0.15%, the Nasdaq gained 0.10%, and the Russell 2000 rallied 0.65%. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 61%. NYSE volume declined as it typically does after Opex Friday.

One study from the 6/2/17 Subscriber Letter that triggered today has some potential intermediate-term implications, and it is fairly interesting, so I figured I would talk a little about it. This study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.

SPX 50-day %b crosses over 100. Buy on close. Sell X days later. \$100k/trade. 1961 - 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
50	192,997.63	138	84	54	60.87	4,887.42	18,408.18	-4,028.63	-15,795.00	1.21	1.89	1,398.53
45	151,594.44	145	83	62	57.24	4,874.39	15,816.57	-4,080.32	-25,812.76	1.19	1.60	1,045.48
40	163,143.17	148	89	59	60.14	4,352.78	17,624.67	-3,800.93	-15,540.70	1.15	1.73	1,102.32
35	146,022.45	156	94	62	60.26	3,971.73	15,782.13	-3,666.46	-13,617.00	1.08	1.64	936.04
30	97,844.00	162	96	66	59.26	3,300.67	11,920.74	-3,318.49	-10,485.00	0.99	1.45	603.98
25	73,603.70	169	96	73	56.80	3,067.82	10,859.94	-3,026.12	-8,732.16	1.01	1.33	435.52
20	67,001.14	179	100	79	55.87	2,731.26	9,501.30	-2,609.18	-10,205.38	1.05	1.33	374.31
15	73,719.16	195	113	82	57.95	2,347.33	7,843.46	-2,335.72	-9,763.44	1.00	1.38	378.05
10	70,480.84	218	139	79	63.76	1,702.89	8,239.16	-2,104.06	-9,133.53	0.81	1.42	323.31
5	40,011.84	261	156	104	59.77	1,123.21	5,030.81	-1,300.09	-5,817.77	0.86	1.30	153.30

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

It is also notable that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 7/25/17 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in the top 25% of its daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$7,522.80	Profit Factor		1.31
Gross Profit	\$31,671.93	Gross Loss		(\$24,149.13)
Total Number of Trades	79	Percent Profitable		48.10%
Winning Trades	38	Losing Trades		39
Even Trades	2			
Avg. Trade Net Profit	\$95.23	Ratio Avg. Win:Avg. Loss		1.35
Avg. Winning Trade	\$833.47	Avg. Losing Trade		(\$619.21)
Largest Winning Trade	\$2,238.25	Largest Losing Trade		(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$15,899.23	Profit Factor		2.13
Gross Profit	\$29,912.99	Gross Loss		(\$14,013.76)
Total Number of Trades	45	Percent Profitable		55.56%
Winning Trades	25	Losing Trades		19
Even Trades	1			
Avg. Trade Net Profit	\$353.32	Ratio Avg. Win:Avg. Loss		1.62
Avg. Winning Trade	\$1,196.52	Avg. Losing Trade		(\$737.57)
Largest Winning Trade	\$4,704.07	Largest Losing Trade		(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

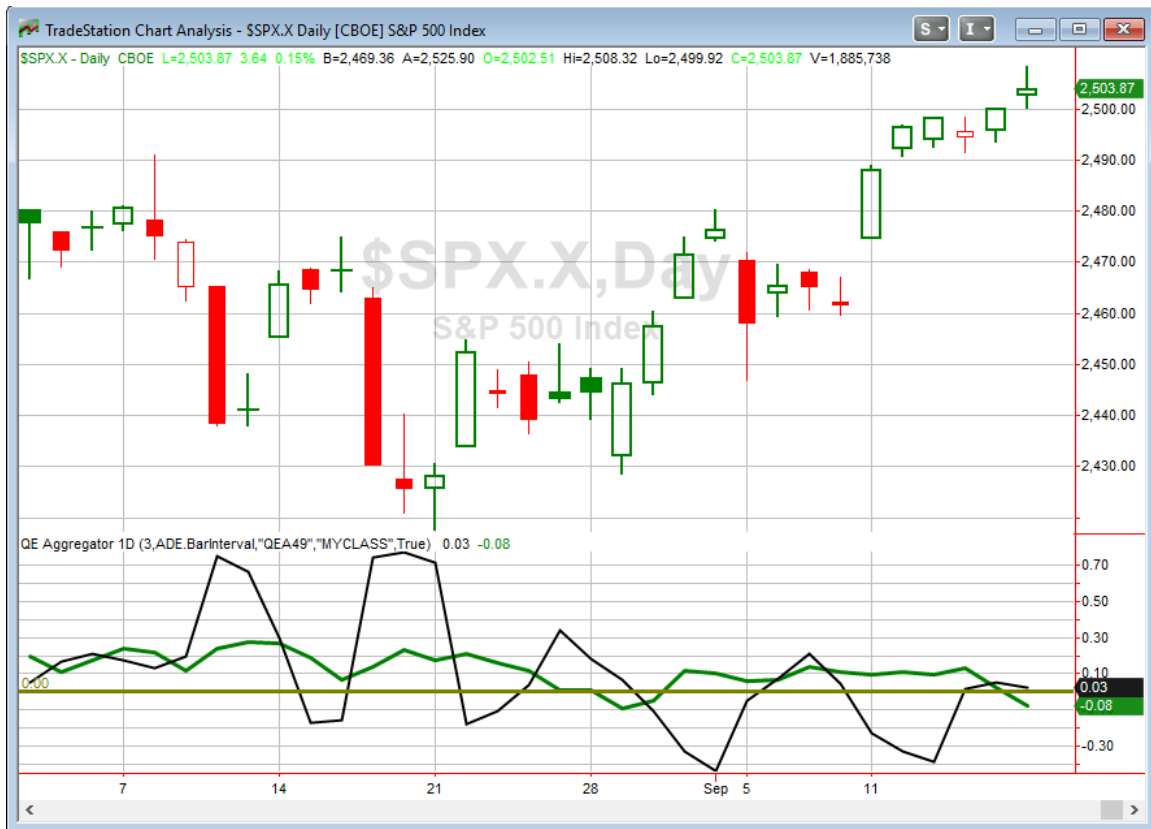
TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$11,831.97	Profit Factor		2.35
Gross Profit	\$20,566.44	Gross Loss		(\$8,734.47)
Total Number of Trades	34	Percent Profitable		70.59%
Winning Trades	24	Losing Trades		10
Even Trades	0			
Avg. Trade Net Profit	\$348.00	Ratio Avg. Win:Avg. Loss		0.98
Avg. Winning Trade	\$856.94	Avg. Losing Trade		(\$873.45)
Largest Winning Trade	\$2,943.00	Largest Losing Trade		(\$2,066.62)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$23,650.08	Profit Factor	4.54
Gross Profit	\$30,332.77	Gross Loss	(\$6,682.69)
Total Number of Trades	38	Percent Profitable	76.32%
Winning Trades	29	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$622.37	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$1,045.96	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 7 years ago when I first devised this study holds true today: the worse the close, the better the edge. So traders will want to keep this in mind as we approach the close on Tuesday. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line dipped a little below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line held slightly above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 negative on Tuesday. Of course, this could change if new bullish evidence emerges. The Differential Pivot will be 2504.05 on Friday. That is just a little more than 1 point above Monday's close. Therefore, SPX will need to close up just a little over a point in order to move from oversold to overbought versus expectations.

Expectations are weakly negative, the market is slightly oversold versus recent expectations, and either of these things could easily change depending on Tuesday's action. September post-opex is typically weak, Fed Days are bullish and the reaction following them can be a wildcard, especially when policy changes are announced. Reward/risk has not yet improved enough for me to take a directional bet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/18– somewhat 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

None

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2017 Hanna Capital Management, LLC.