

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 20, 2017

Volume 10 Issue 181

Market Overview



Signals Overview

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

Tonight's Research Points

- VIX rising on a day that SPX hits a new 50-day has often led to a decline the next day.
- While Wednesday is a Fed Day, the setup appears less bullish than most Fed Days.

Short-term Outlook

The Bottom Line

There appears to be a mild downside edge. But the Fed meeting is a wildcard, and things could change swiftly based on the reaction to that.

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	SPX 50-high, VIX up midweek.	1 day	Bearish			
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			
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			

The Evidence

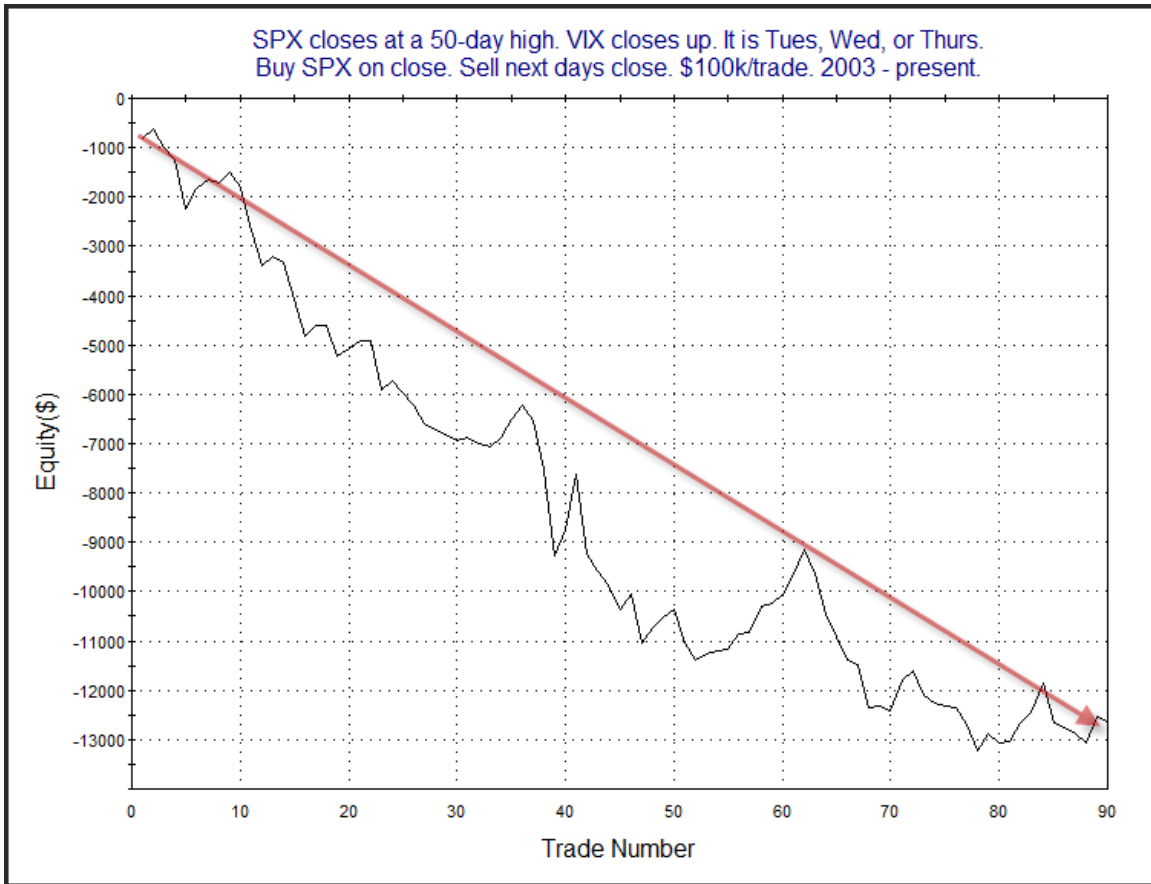
Tuesday was quiet and mixed. The SPX rose 0.11%, the Nasdaq gained 0.10%, and the Russell 2000 declined 0.05%. Breadth was positive as the NYSE Up Issues % was 52% and the Up Volume % came in at 51%. NYSE volume rose some from Monday's level.

The study below was last seen in the 7/27/17 letter. It examines other times where the VIX rose midweek while SPX was closing at a 50-day high. I often segregate VIX studies by mid-week vs. Monday or Friday because the VIX has a natural tendency to decline on Friday afternoons and rise on Mondays. For a while it appeared that the setup below carried bearish influence for several days. But a strong bull market seems to have changed that. Still, the 1-day results appear to be worth examination. Results below are updated.

SPX closes at a 50-day high. VIX closes up. It is Tues, Wed, or Thurs.
Buy SPX on close. Sell next days close. \$100k/trade. 2003 - present.

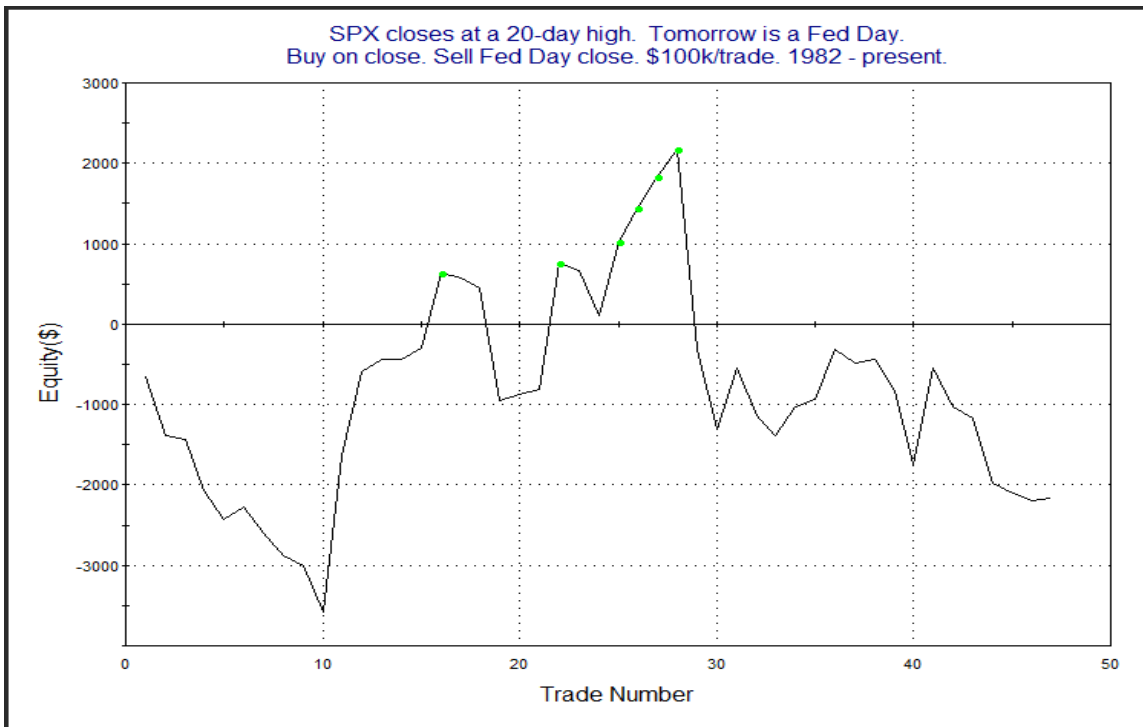
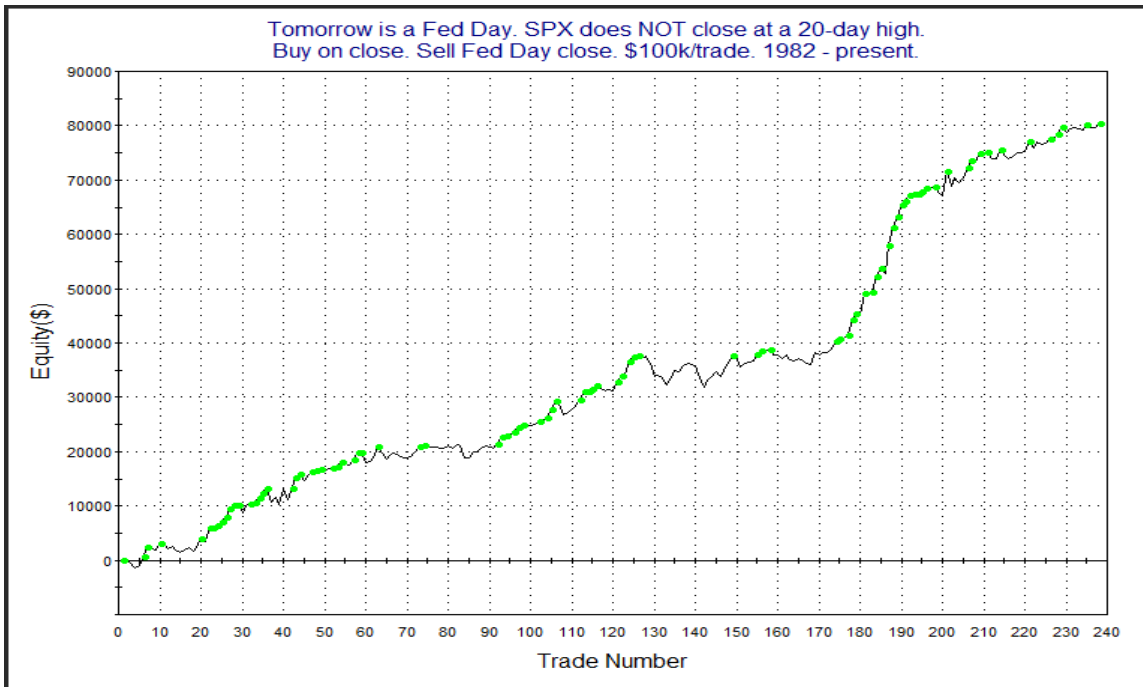
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$12,645.30)	Profit Factor	0.46
Gross Profit	\$10,625.77	Gross Loss	(\$23,271.07)
Total Number of Trades	90	Percent Profitable	43.33%
Winning Trades	39	Losing Trades	51
Even Trades	0		
Avg. Trade Net Profit	(\$140.50)	Ratio Avg. Win:Avg. Loss	0.60
Avg. Winning Trade	\$272.46	Avg. Losing Trade	(\$456.30)
Largest Winning Trade	\$1,108.05	Largest Losing Trade	(\$1,721.70)

The numbers seem moderately suggestive of a downside edge. Here is the profit curve.



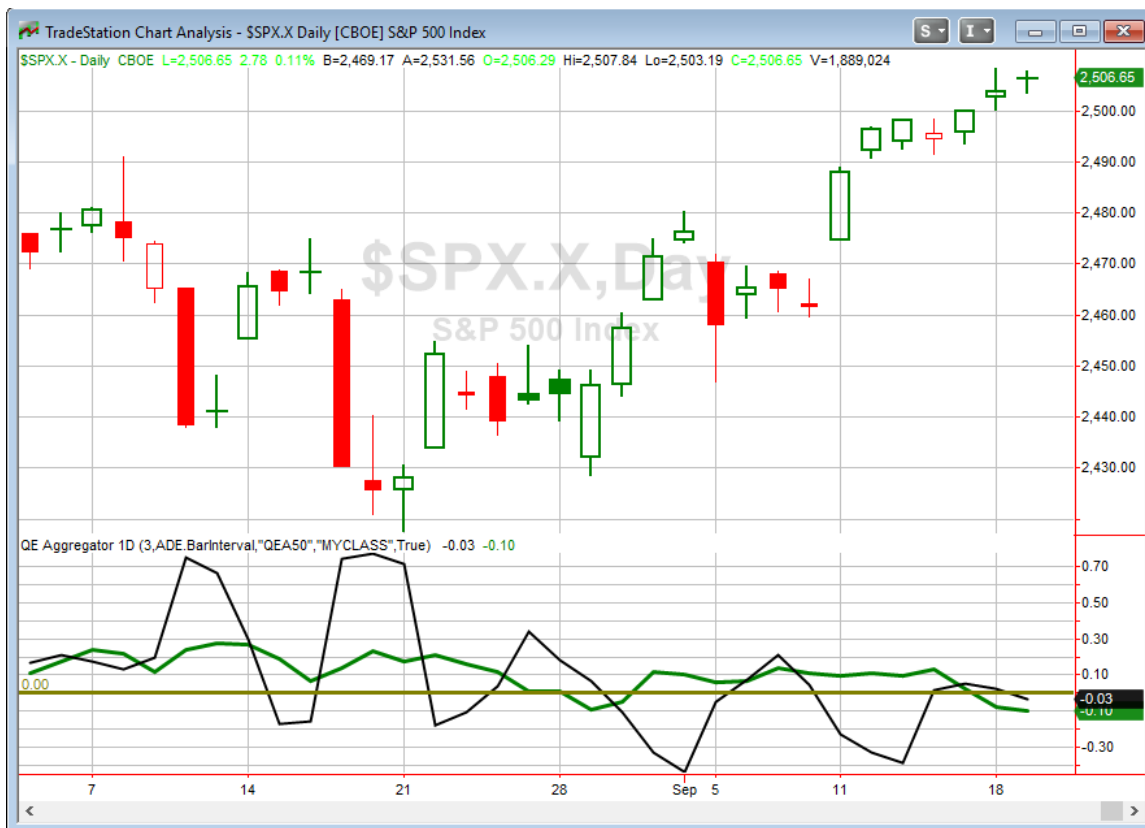
The strong, steady downslope supports the bearish thesis.

As I mentioned last night, Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. I have documented this tendency in great detail over the last few years, with the most complete documentation coming in *The Quantifiable Edges Guide to Fed Days*. Based on what the market did Tuesday, this does not seem to be the most favorable Fed Day setup. A big reason for this is that SPX closed at a 20-day high on Tuesday. Fed Day bullishness has often occurred when a Fed announcement has helped to alleviate market stress. When the market closes at a 20-day high, it typically means there isn't a lot of worry present. Under these circumstances, the upside inclination has also not been present. I last showed this in the 7/26/17 subscriber letter. Below are charts that compare Fed Days that close below 20-day highs to those that close at 20-day highs.



The new high on Tuesday appears to eliminate, or greatly reduce, the bullish Fed Day edge. Another consideration with regards to the Fed Day is that the core part of the Fed Day edge has occurred prior to the announcement. After the announcement, results have been more volatile (as you would expect) and more random.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line remained 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 a little 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 turned short at the close.

Based on the current active studies, expectations are set to remain negative on Wednesday. Of course, this could change if new bullish evidence emerges. The Differential Pivot will be 2506.60 on Wednesday. That is basically breakeven, with it being just 0.05 points below Tuesday's close. So SPX will be considered "overbought" on any up close, and "oversold" on basically any down close on Wednesday.

The Aggregator is bearish, but it is not yet a compelling setup in my eyes. The intermediate-term outlook is still somewhat bullish, SPX will turn overbought on any close higher, and the market is would tight and could see a volatility expansion (up or down) in reaction to the Fed announcement on Wednesday. So I remain sidelined and awaiting a more favorable reward/risk setup.

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

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