

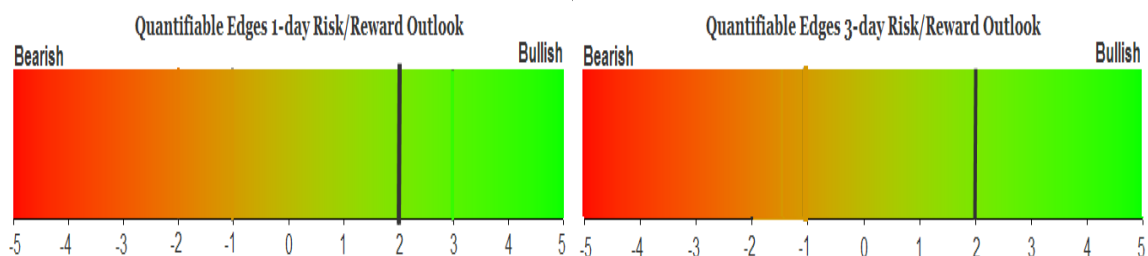
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 26, 2017

Volume 10 Issue 185

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- The first drop below the 10ma in quite a while will often be followed by another leg up.
- A gap down to a short-term low followed by further selling during a long-term uptrend has often led to higher prices in the next few days.

Short-term Outlook

The Bottom Line

Bullish evidence is building and the SPX is a little oversold. This is leaving the Aggregator in a bullish formation. I am looking for a bounce 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 26, 2017	Gap to 5 low then close < open	1-4 days	Bullish	1.80%	-1.10%	-2.30%
September 26, 2017	1st close < 10ma in > 15 days	1-5 days	Bullish	1.40%	-0.95%	-1.95%
September 22, 2017	Relatively big drop from 50-high	1-3 days	Bullish			
September 20, 2017	100-day high on Fed Day	1-8 days	Bullish	1.80%	-0.95%	-1.60%
Active - Long Term						
September 25, 2017	SOMA reduction about to begin	int term	Bearish			
September 19, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

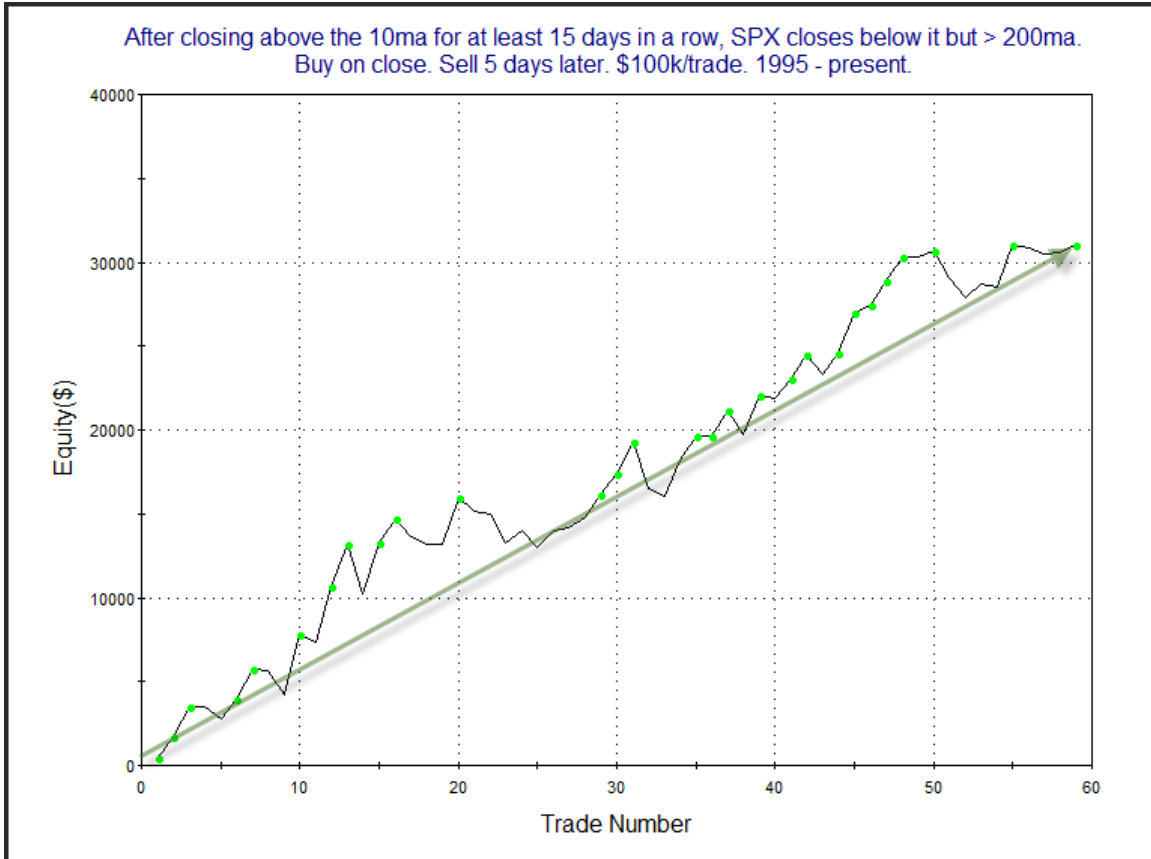
The Evidence

Monday saw most indices lower, with the NASDAQ 100 getting hit the worst. The SPX declined 0.2%, the Nasdaq lost 0.9%, and the Russell 2000 actually rose 0.1%. Breadth was positive as the NYSE Up Issues % was 55.8% and the Up Volume % came in at 56.0%. NYSE volume rose some from Friday's level.

The persistent uptrend of late has kept SPX above its short-term moving averages for an extended period. Monday, after 19 consecutive closes above the 10ma, SPX dipped down and closed below it. In the 12/2/16 letter I looked at performance following other instances where SPX closed below its 10ma for the first time over 15 days. Results are updated below.

After closing above the 10ma for at least 15 days in a row, SPX closes below it 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
5	31,027.55	59	35	24	59.32	1,464.56	3,505.74	-843.00	-2,959.70	1.74	2.53	525.89
4	28,665.76	59	38	21	64.41	1,330.71	3,206.40	-1,042.92	-3,078.40	1.28	2.31	485.86
3	22,200.00	59	40	19	67.80	1,012.30	2,805.12	-962.75	-2,062.10	1.05	2.21	376.27
2	16,650.09	59	37	22	62.71	968.42	2,682.72	-871.89	-2,185.60	1.11	1.87	282.20
1	15,965.13	59	38	21	64.41	668.78	2,097.92	-449.93	-1,542.24	1.49	2.69	270.60
53 of 59 instances (90%) closed above the entry price at some point in the next week.												

The numbers here all look solidly bullish over the next week. Below is the 5-day profit curve.



The strong upslope serves as some confirmation of the bullish edge.

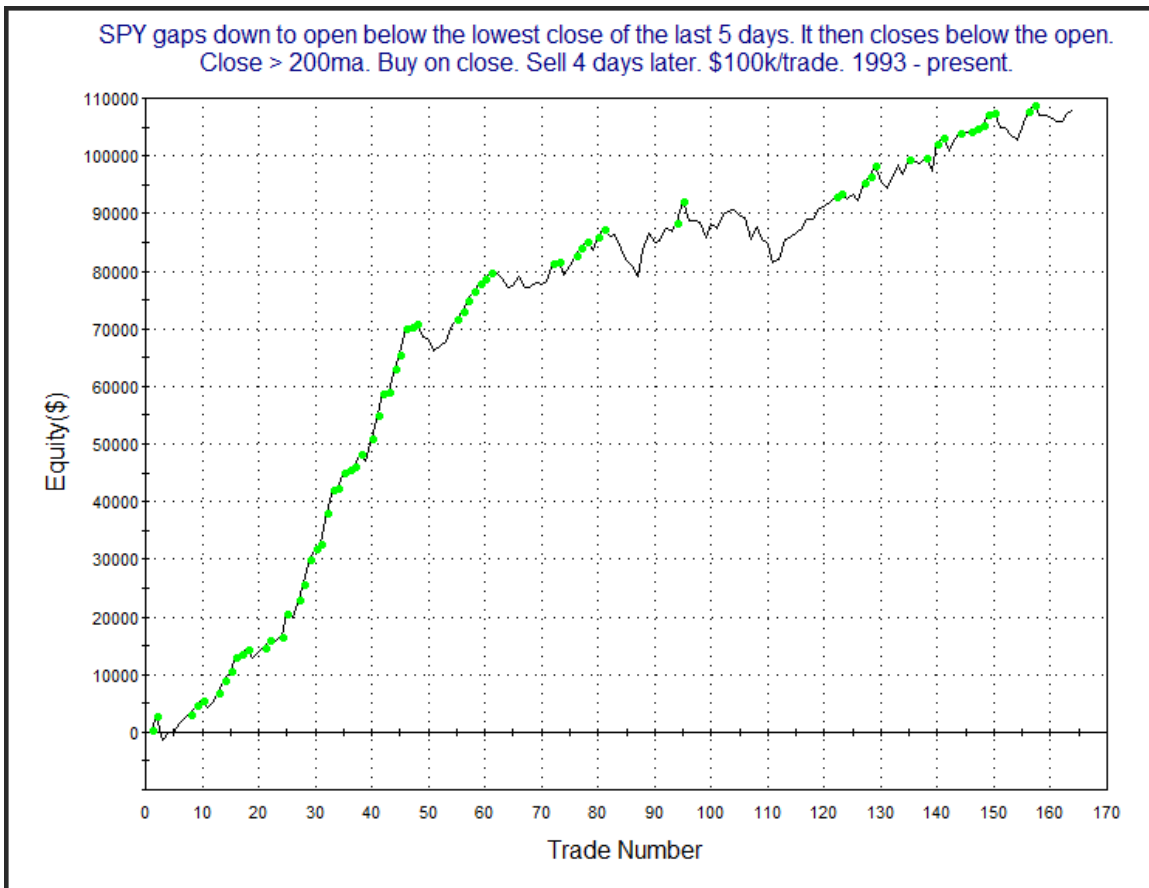
Also interesting about Monday was the gap down and continued selloff. The study below was seen in the 6/5/15 letter. It considers the fact that the gap down on Monday put SPY at a short-term low immediately and then the selling continued from there.

SPY gaps down to open below the lowest close of the last 5 days. It then closes below the open.
Close > 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
10	132,025.41	136	88	48	64.71	2,587.45	9,282.24	-1,993.12	-14,007.15	1.30	2.38	970.78
9	143,398.80	144	94	50	65.28	2,523.36	7,585.77	-1,875.94	-10,036.80	1.35	2.53	995.83
8	136,060.10	146	100	45	68.49	2,275.86	7,858.26	-2,033.92	-14,030.10	1.12	2.49	931.92
7	116,663.14	152	99	53	65.13	2,055.03	8,324.13	-1,637.44	-8,047.80	1.26	2.34	767.52
6	121,379.80	155	107	48	69.03	1,849.64	7,873.02	-1,594.41	-7,910.10	1.16	2.59	783.10
5	110,866.73	156	104	51	66.67	1,727.43	8,239.74	-1,348.74	-4,103.46	1.28	2.61	710.68
4	107,785.53	164	109	55	66.46	1,664.66	5,581.02	-1,339.32	-4,096.40	1.24	2.46	657.23
3	98,056.09	170	108	61	63.53	1,516.49	5,117.85	-1,077.45	-4,085.40	1.41	2.49	576.80
2	85,126.94	183	118	62	64.48	1,181.02	5,477.88	-874.72	-2,614.66	1.35	2.57	465.17
1	58,361.79	199	129	70	64.82	817.11	5,764.38	-672.08	-3,772.68	1.22	2.24	293.28

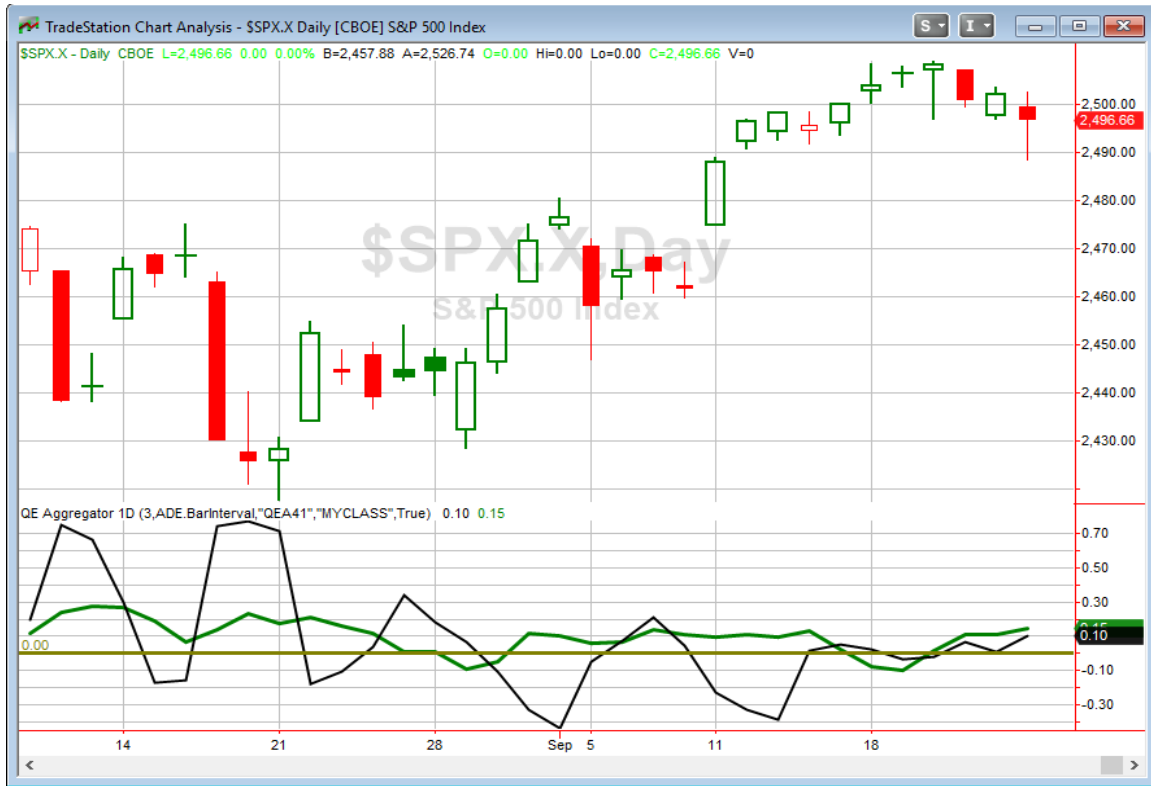
90% of instances closed above the entry price at some point in the next 5 days.

There are a sizable number of occurrences and the numbers all appear squarely positive. Below is a look at a profit curve that assumes a 4-day holding period.



While not quite as steep as it once was, the curve has continued to move higher and again near new highs. I have also added this study to the Active List tonight.

I have updated the Aggregator chart below.



With tonight's studies considered, the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are set to remain positive on Tuesday. Of course, this could change if new bearish evidence emerges. The Differential Pivot will be 2501.32 on Tuesday. That is just 0.2% above Monday's close. Therefore, SPX will only need to close up 0.2% on Tuesday in order to be considered "overbought" versus recent expectations.

So the Aggregator is suggesting a bullish edge. And we have a little more potential reward baked in vs the last couple of days. But there still is not a lot of room to the upside before SPX would turn overbought. I do think we are more likely to see a move higher in the next few days than a move lower. So I will look to dip my toe into some long exposure if I can get filled about midway between Monday's close and Monday's low. I am looking for a better fill here to help improve my reward/risk on the trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/25– neutral

The intermediate-term outlook was last updated in the 6/1/15 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

KHC @ \$77.52 (bought @ limit)

Broad Market Large Cap CBI – 1(KHC)

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.

SPY – buy ¼ index position @ \$248.50. Based on the short-term outlook above, I will look to take on a small amount of long index exposure if I can get a favorable fill on Tuesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KHC(1/3)	9/25/2017	\$77.52	\$78.42	1.16%		Catapult

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.