

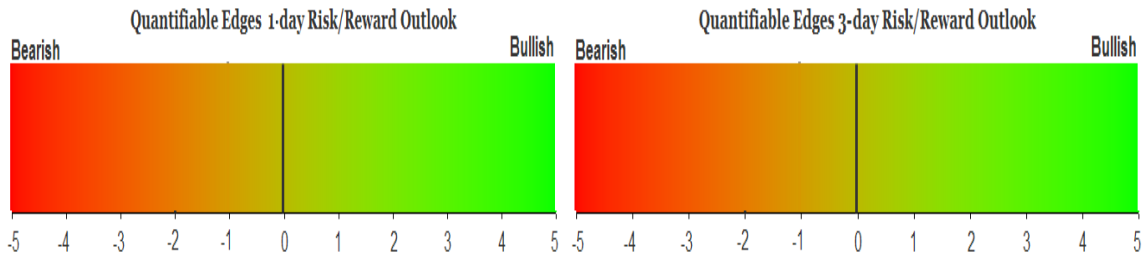
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 3, 2017

Volume 10 Issue 190

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- Overbought in a strong uptrend makes for a tough entry spot.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, and I am too.

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						
October 2, 2017	Close month at high of month	1-5 days	Bullish			
Active - Long Term						
October 2, 2017	NASDAQ leading	int term	Bullish			
October 2, 2017	SOMA reduction begins	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			
Dropped Tonight						
September 26, 2017	1st close < 10ma in > 15 days	1-5 days	Bullish	1.40%	-0.95%	-1.95%
September 20, 2017	100-day high on Fed Day	1-8 days	Bullish	1.80%	-0.95%	-1.60%

The Evidence

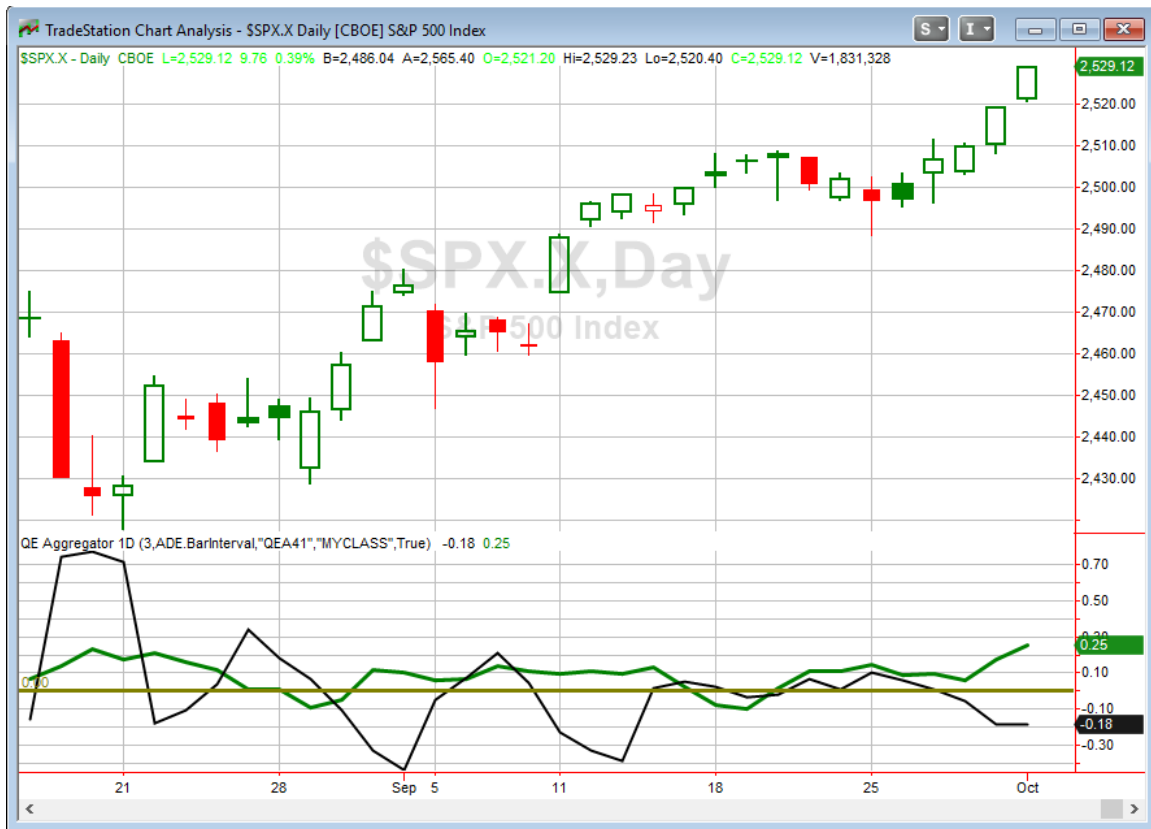
Monday was another positive close the indices. The SPX rose 0.4%, the Nasdaq gained 0.3%, and the Russell 2000 rallied 1.25%. All made new all-time highs. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 66%. NYSE volume declined some from Friday's level.

Monday was the 5th day in a row that SPX closed higher. And with it closing at an all-time high, it is overbought by many measures. Overbought in a strong uptrend is a tough place to enter a new trade. The overbought nature means the market is susceptible to a pullback at any time. It also means additional gains are often muted. So reward/risk for longs is generally poor. But it is very difficult trying to pick tops or make money shorting during a strong uptrend. The study below is from the 1/11/10 letter. It examines other times SPX closed up 5 days in a row (short-term overbought) and closed at a 50-day high (long-term uptrend).

SPX closes up 5 days in a row. Close > 200ma and at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1960 - 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	44,993.50	147	94	52	63.95	1,160.22	3,434.08	-1,232.07	-5,401.92	0.94	1.70	306.08
4	28,960.88	147	90	57	61.22	966.70	3,217.32	-1,018.28	-3,254.50	0.95	1.50	197.01
3	16,516.91	147	87	60	59.18	777.55	2,810.19	-852.17	-3,128.00	0.91	1.32	112.36
2	4,915.45	147	79	68	53.74	658.11	3,061.60	-692.28	-2,403.45	0.95	1.10	33.44
1	-1,376.05	147	74	73	50.34	413.01	2,135.28	-437.52	-1,763.20	0.94	0.96	-9.36

As you can see, the numbers are mildly bullish, but not suggestive of a strong edge or very favorable reward/risk for bulls. This is not a study that will be added to the Active List. But hopefully it makes the point.

I have updated the Aggregator chart below.



Without any new studies making the cut tonight, 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 held 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 Tuesday. Of course, this could easily change if compelling new bearish evidence emerges. The Differential Pivot will be 2516.08 on Tuesday. That is 0.5% below Monday's close. Therefore, SPX would need to close down at least 0.5% in order to move from overbought to oversold versus expectations.

So the Aggregator is again neutral. And the market is too strong to try and short, and too overbought to try and buy. So it is a matter of patience for me until the next strong setup emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/2– slightly bullish

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KHC(1/3)	9/25/2017	\$77.52	\$77.85	0.43%		Catapult

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