

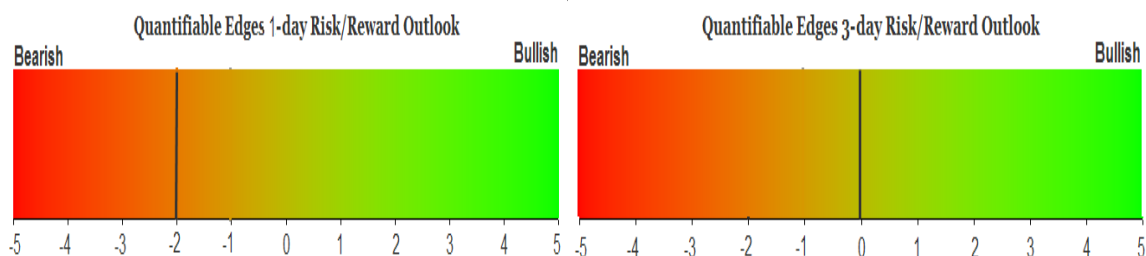
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 4, 2017

Volume 10 Issue 191

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>
<b>Flat</b>	<b>50% Long XIV</b>

## Tonight's Research Points

- SPY's mild up close near the top of its range suggests a bearish 1-day edge.
- VIX rising on a day that SPX hits a new 50-day has often led to a decline the next day.
- RSI(2) crossing above 99 bodes well for the intermediate-term.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is still neutral, and I am too.

### ***The Evidence***

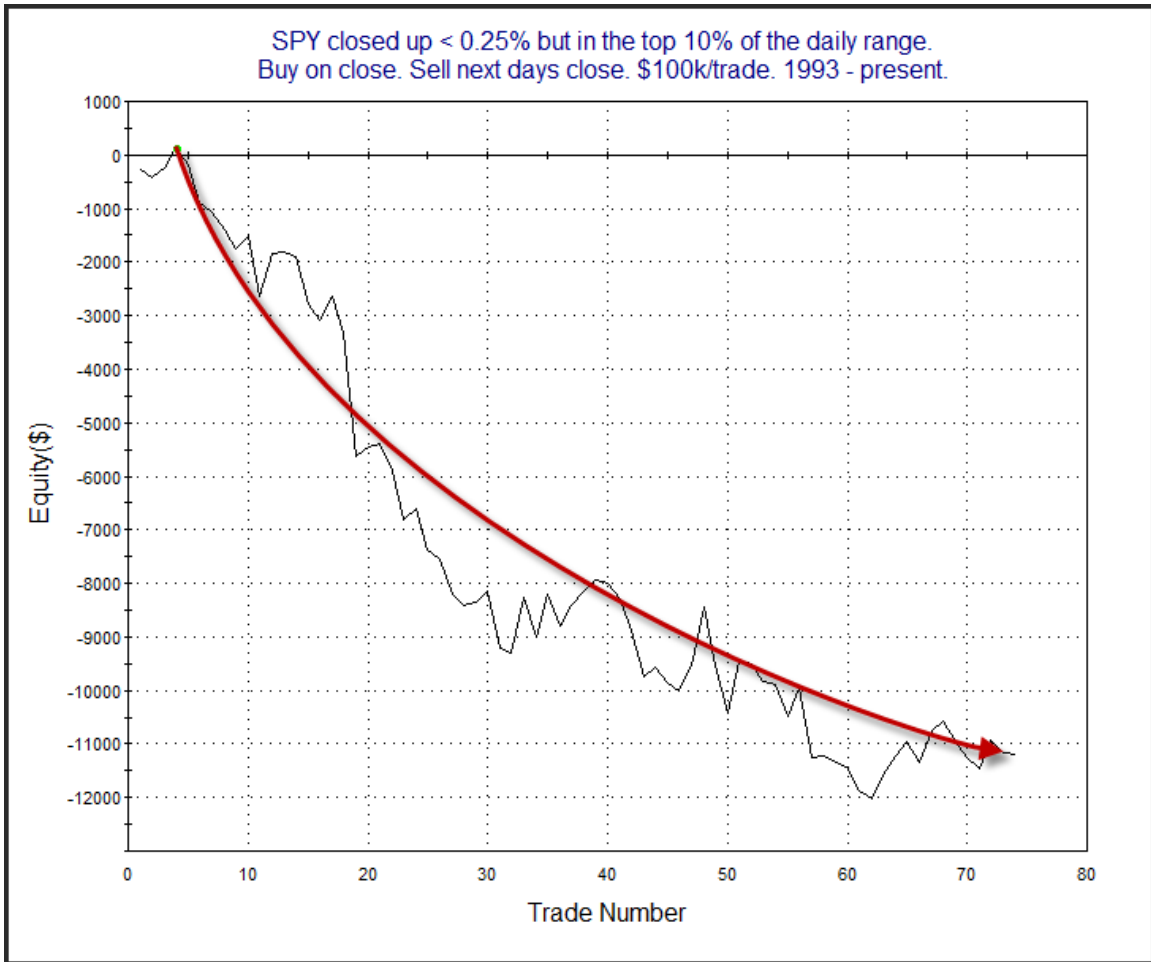
Tuesday was another positive close the indices. The SPX, NASDAQ and Russell 2000 all rose 0.2%. All also made new all-time highs. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 67%. NYSE volume declined some from Monday's level.

One interesting study to appear in the Quantifinder was the one below, which was last seen in the 9/14/17 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closed up < 0.25% but in the top 10% of the daily range.  
Buy on close. Sell next days close. \$100k/trade. 1993 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$11,204.74)	Profit Factor	0.50
Gross Profit	\$11,119.20	Gross Loss	(\$22,323.94)
Total Number of Trades	74	Percent Profitable	37.84%
Winning Trades	28	Losing Trades	46
Even Trades	0		
Avg. Trade Net Profit	(\$151.42)	Ratio Avg. Win:Avg. Loss	0.82
Avg. Winning Trade	\$397.11	Avg. Losing Trade	(\$485.30)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



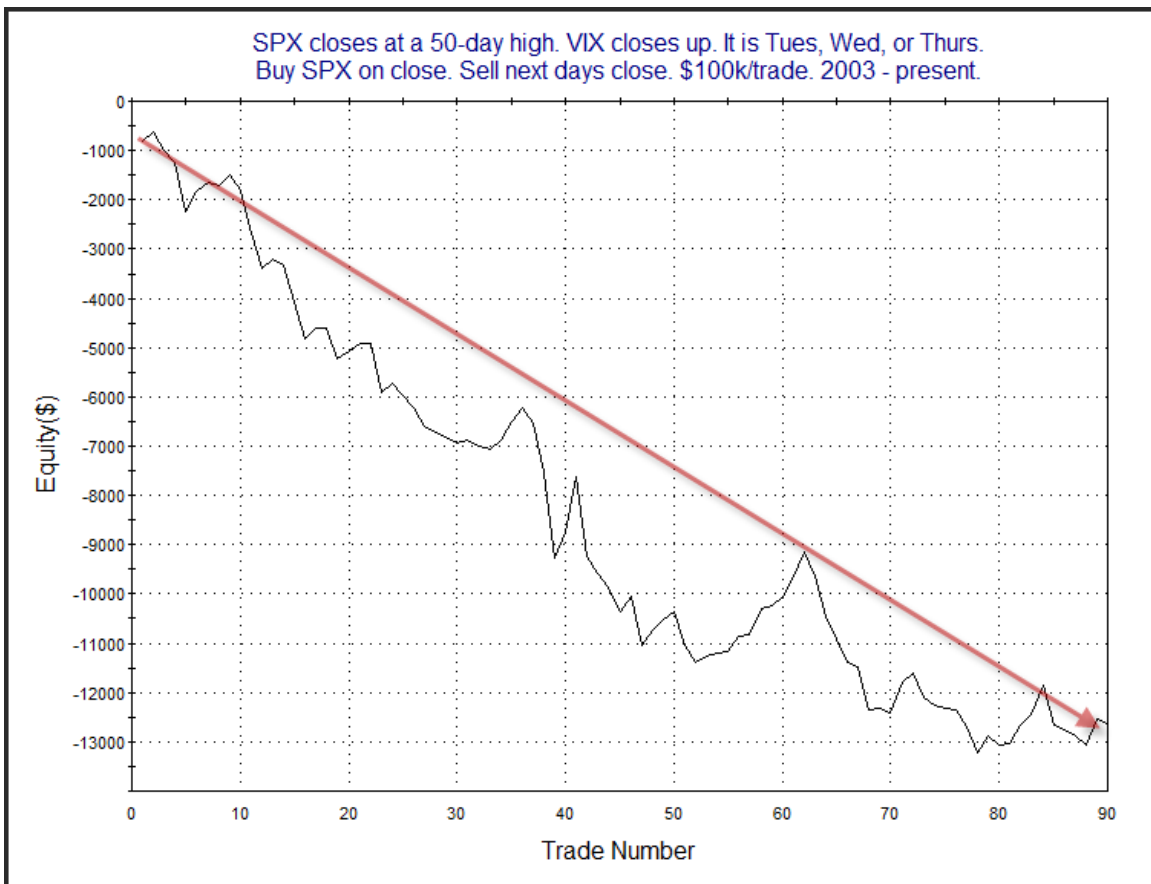
It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day.

The study below was last seen in the 9/20/17 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 <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$12,583.29)	Profit Factor	0.46
Gross Profit	\$10,687.78	Gross Loss	(\$23,271.07)
Total Number of Trades	91	Percent Profitable	43.96%
Winning Trades	40	Losing Trades	51
Even Trades	0		
Avg. Trade Net Profit	(\$138.28)	Ratio Avg. Win:Avg. Loss	0.59
Avg. Winning Trade	\$267.19	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.

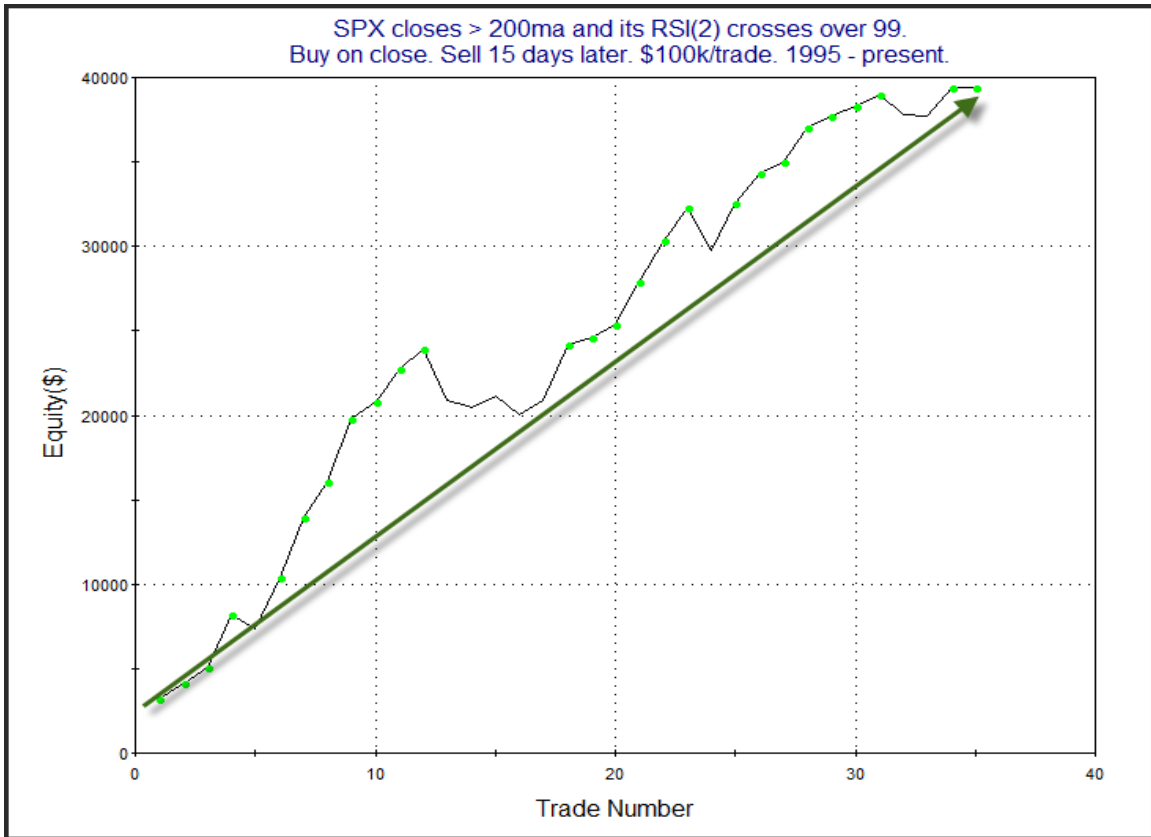


The strong, steady downslope supports the bearish thesis.

The rally over the last several days has been impressive, and it has left the market short-term overbought. Of course short-term overbought often triggers some studies that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below from the 7/20/17 Letter, which uses RSI(2).

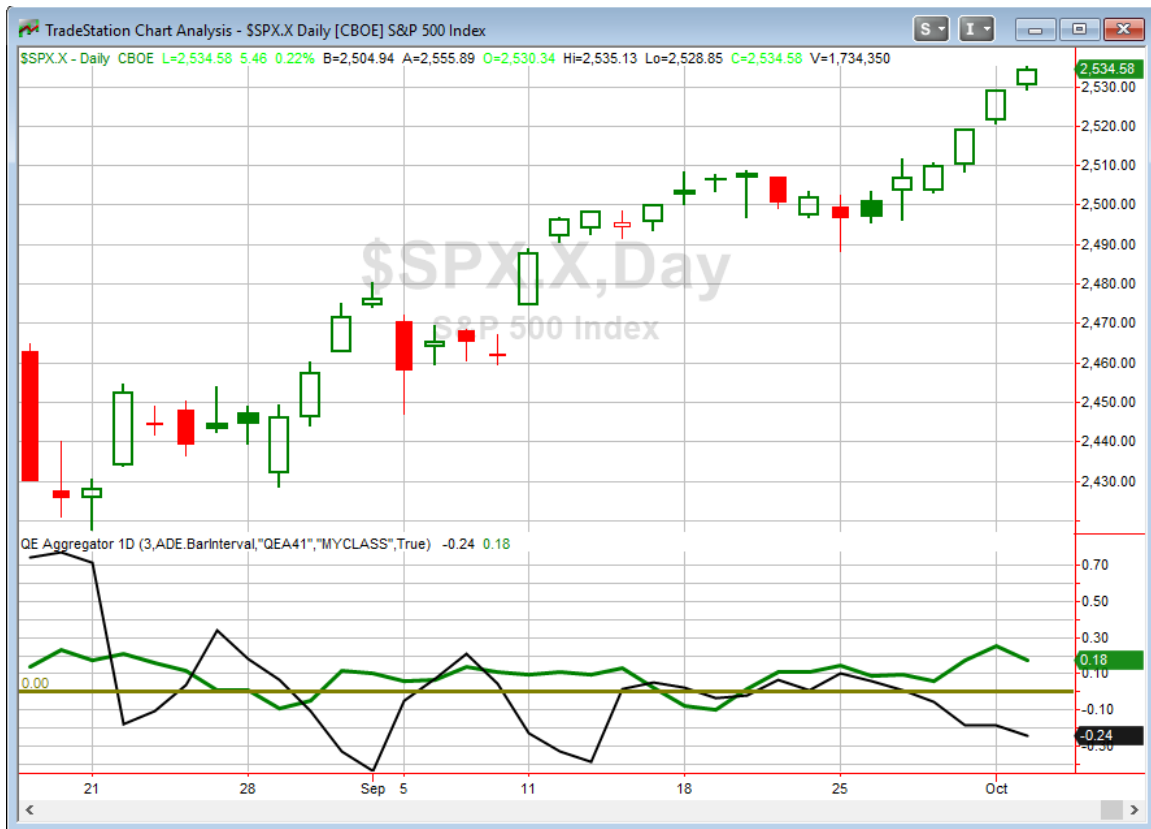
SPX closes > 200ma and its RSI(2) crosses over 99. Buy on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	39,392.29	35	28	7	80.00	1,738.77	3,782.11	-1,327.63	-3,063.60	1.31	5.24	1,125.49
14	33,857.29	35	27	8	77.14	1,672.65	4,461.36	-1,413.04	-2,699.52	1.18	4.00	967.35
13	34,027.62	36	29	7	80.56	1,561.12	3,989.82	-1,606.42	-3,320.01	0.97	4.03	945.21
12	32,347.83	36	28	8	77.78	1,510.18	4,058.61	-1,242.16	-3,175.53	1.22	4.26	898.55
11	34,930.53	36	28	8	77.78	1,612.15	4,106.40	-1,276.22	-2,523.21	1.26	4.42	970.29
10	27,997.75	37	28	9	75.68	1,439.57	3,770.55	-1,367.79	-2,793.28	1.05	3.27	756.70
9	24,424.97	37	27	10	72.97	1,347.87	3,453.27	-1,196.74	-3,440.07	1.13	3.04	660.13
8	25,258.82	37	25	12	67.57	1,438.53	3,547.80	-892.03	-3,460.32	1.61	3.36	682.67
7	18,488.41	38	24	14	63.16	1,279.71	3,564.39	-873.19	-4,153.62	1.47	2.51	486.54
6	9,872.61	38	24	14	63.16	1,074.00	2,634.36	-1,135.96	-5,296.92	0.95	1.62	259.81
5	6,370.45	38	25	13	65.79	855.51	1,782.39	-1,155.19	-3,596.40	0.74	1.42	167.64
4	5,365.76	38	26	12	68.42	810.21	2,442.90	-1,308.30	-3,039.18	0.62	1.34	141.20
3	-747.81	39	23	16	58.97	699.90	1,982.20	-1,052.84	-2,880.45	0.66	0.96	-19.17
2	1,234.23	39	23	16	58.97	630.08	1,998.39	-828.59	-2,348.76	0.76	1.09	31.65
1	1,674.14	39	20	19	51.28	554.68	2,096.10	-495.77	-3,515.37	1.12	1.18	42.93

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously this study does not help us with the short-term, but I have added it to the intermediate-term list.

I have updated the Aggregator chart below.



With tonight's new 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 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 Wednesday. Of course, this could easily change if compelling new bearish evidence emerges. The Differential Pivot will be 2527.68 on Wednesday. That is 0.3% below Tuesday's close. Therefore, SPX would need to close down at least 0.3% in order to move from overbought to oversold versus expectations.

While the Aggregator is again flat, and 3-day expectations are positive, the 1-day expectations are actually negative. This is thanks to the two 1-day studies we saw tonight. I don't look to take advantage of such short-term edges in the subscriber letter, but I thought it was worth mentioning. I remained patiently awaiting the next strongly favorable reward/risk opportunity.

*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	\$77.82	0.39%		Catapult

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