

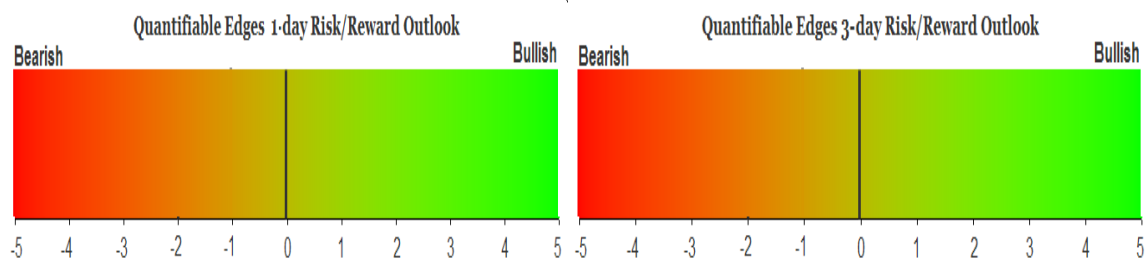
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 6, 2017

Volume 10 Issue 193

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- 8 consecutive up days and a 50-day high suggests momentum so strong that it often continues higher over the next several days.
- A big move higher to a new high after the market is already extended upwards has consistently been followed by further gains in the past.

Short-term Outlook

The Bottom Line

Expectations are weakly positive. The market is slightly overbought. Either of these conditions could easily change on Thursday. But for now, there is not a compelling case for either direction.

The Evidence

Thursday was a strong rally day that put the major indices at all-time highs once again. The SPX rose 0.6%, the NASDAQ gained 0.8%, and the Russell 2000 climbed 0.3%. Breadth was a positive as the NYSE Up Issues % was 60% and the Up Volume % came in at 68%. NYSE volume rose a little from Wednesday’s level.

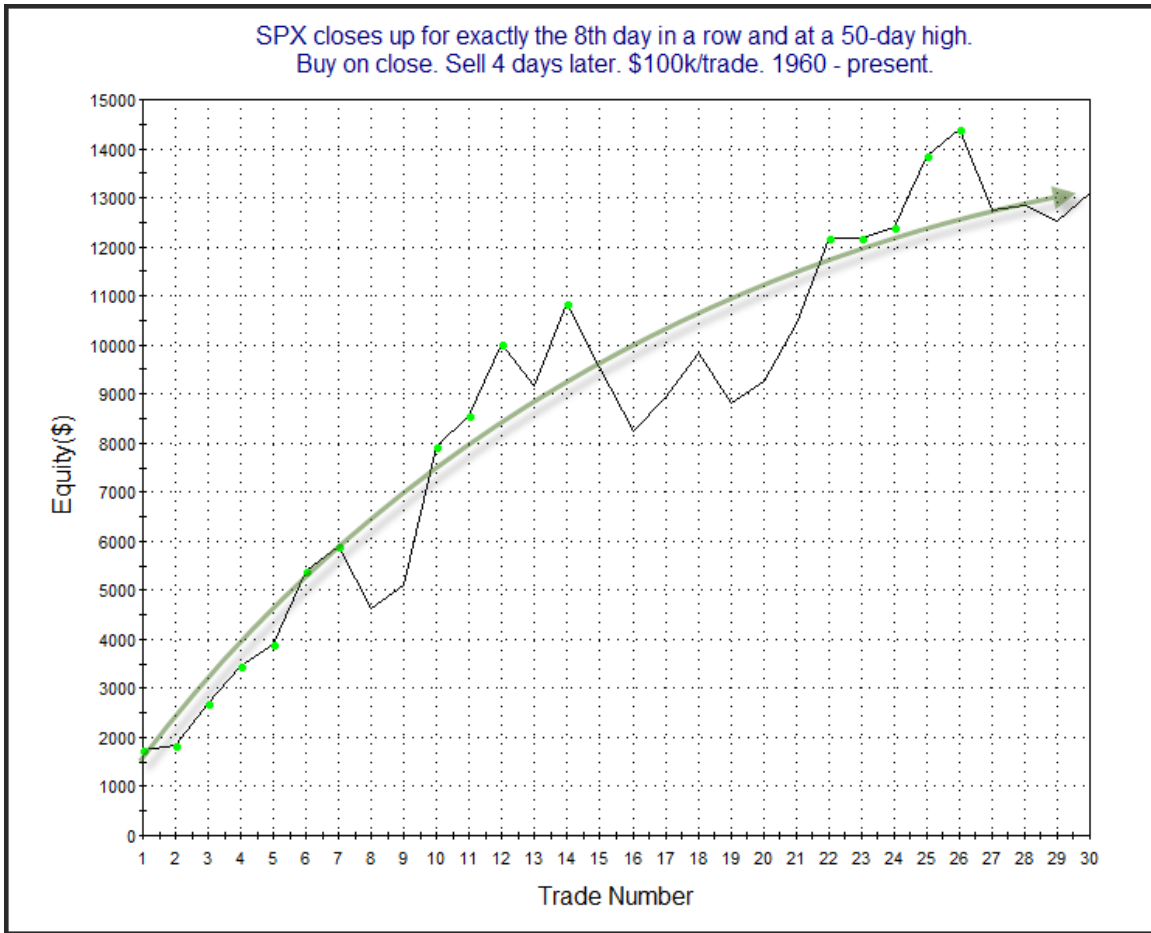
I discussed recently that overbought conditions will often trigger some bearish studies. But when overbought becomes extremely overbought, then that momentum will often create an upside edge. The was a Quantifinder study tonight that exemplified this. It was last seen in the 1/28/13 letter and looked at other instances where SPX rose 8 days in a row and closed at a 50-day high. I have updated the results below.

**SPX closes up for exactly the 8th day in a row 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	9,787.40	30	19	11	63.33	1,145.95	2,331.00	-1,089.60	-2,562.72	1.05	1.82	326.25
4	13,099.71	30	23	7	76.67	903.37	2,823.21	-1,096.82	-1,653.85	0.82	2.71	436.66
3	10,964.05	30	19	11	63.33	767.89	2,274.57	-329.63	-924.56	2.33	4.02	365.47
2	6,611.44	30	19	11	63.33	565.36	1,634.49	-375.49	-1,020.39	1.51	2.60	220.38
1	1,788.37	30	18	12	60.00	398.35	1,191.36	-448.50	-1,088.70	0.89	1.33	59.61

**27 of 30 instances (90%) closed above the entry price
at some point in the next week.**

The net numbers are not all that powerful from an average trade standpoint, but the consistency is very impressive. This makes sense as it would be difficult to spark a big move up when the market is already so overbought. Below is an equity curve that assumes a 4-day holding period.



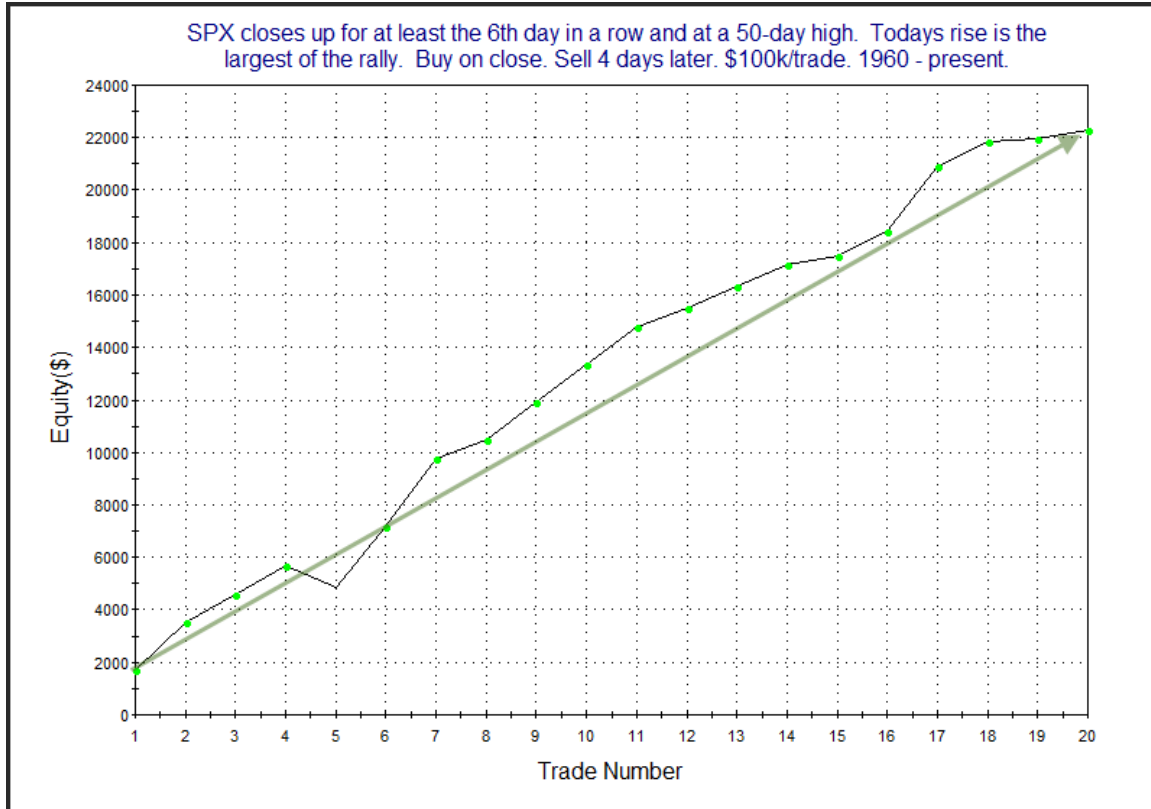
Perhaps not quite as strong as it once appeared but the slope certainly remains up.

What I found even more interesting about Thursday's action was that it was actually the strongest move up of the entire 8 days. Strong thrusts after the market is already extended are unusual. I decided to examine what this might mean, and generated the following test.

SPX closes up for at least the 6th day in a row and at a 50-day high. Today's rise is the largest of the rally. 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	22,098.89	20	18	2	90.00	1,305.83	3,303.82	-703.02	-1,210.23	1.86	16.72	1,104.94
4	22,285.07	20	19	1	95.00	1,217.86	2,589.96	-854.28	-854.28	1.43	27.09	1,114.25
3	20,202.22	21	19	2	90.48	1,086.14	2,484.17	-217.25	-376.29	5.00	47.50	962.01
2	15,166.27	21	19	2	90.48	820.15	2,370.68	-208.24	-223.26	3.94	37.41	722.20
1	11,264.89	26	19	7	73.08	661.57	2,206.75	-186.41	-438.48	3.55	9.63	433.27

Those are some extremely impressive numbers. It strongly suggests that a market as strong as the current one will often see its momentum continue a bit further. Below is a look at the equity curve.



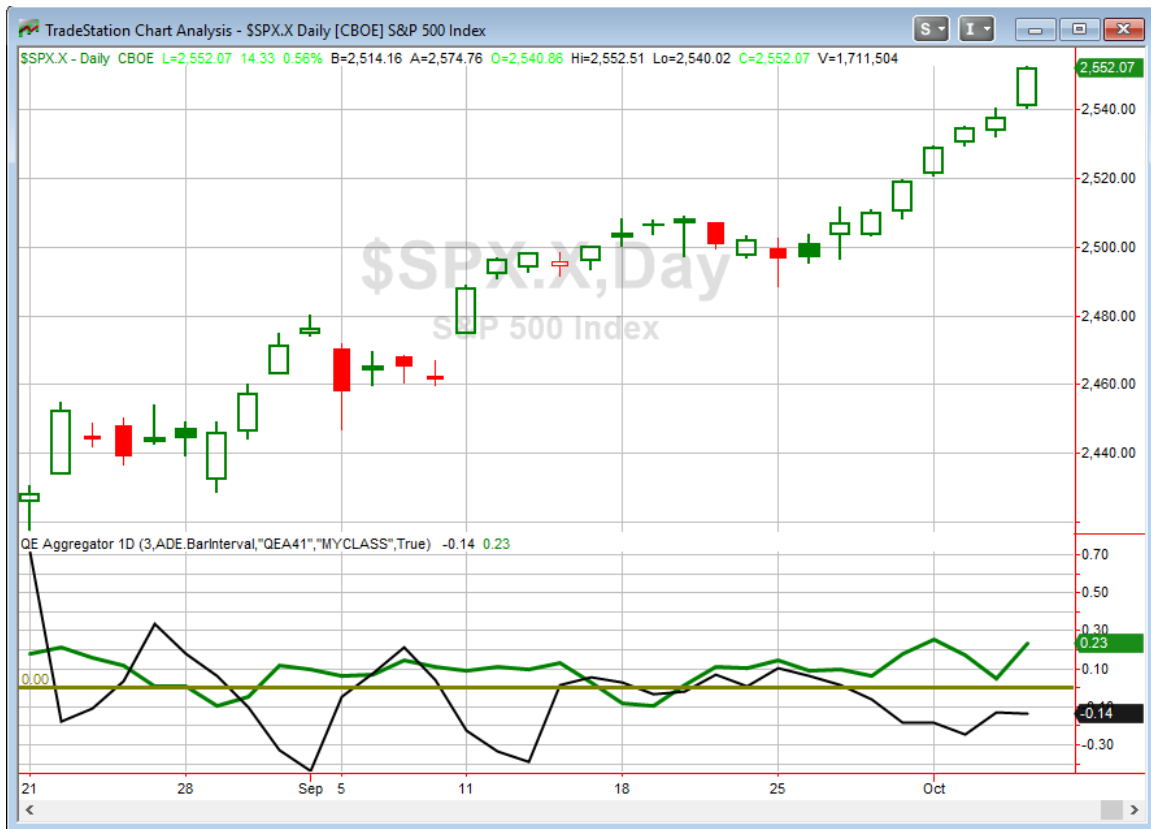
This is also very impressive as the distribution of gains was fairly tight. But there was one thing that concerned me a little about the results. And that is that very few of the instances occurred in recent times. This can be seen in the trade list below.

SPX closes up for at least the 6th day in a row and at a 50-day high. Today's rise is the largest of the rally. Buy on close. Sell 4 days later. \$100k/trade. 1960 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/27/1961	Buy	\$61.24	1.73%	\$1,729.92
2/2/1961	Sell	\$62.30		\$0.00
11/6/1961	Buy	\$70.01	1.80%	\$1,799.28
11/13/1961	Sell	\$71.27		\$0.00
7/1/1964	Buy	\$82.27	1.03%	\$1,567.35
7/8/1964	Sell	\$83.12		(\$218.70)
4/30/1969	Buy	\$103.69	1.13%	\$1,744.84
5/6/1969	Sell	\$104.86		(\$915.80)
11/7/1969	Buy	\$98.26	-0.85%	\$986.49
11/13/1969	Sell	\$97.42		(\$1,728.90)
8/21/1970	Buy	\$79.24	2.32%	\$3,808.22
8/27/1970	Sell	\$81.08		\$0.00
11/30/1970	Buy	\$87.20	2.59%	\$3,094.20
12/4/1970	Sell	\$89.46		(\$1,249.14)
1/21/1971	Buy	\$94.19	0.74%	\$2,302.37
1/27/1971	Sell	\$94.89		(\$244.03)
4/6/1971	Buy	\$101.51	1.45%	\$2,413.25
4/13/1971	Sell	\$102.98		(\$374.30)
3/1/1972	Buy	\$107.35	1.42%	\$2,206.47
3/7/1972	Sell	\$108.87		(\$670.32)
10/3/1989	Buy	\$354.70	1.44%	\$1,449.96
10/9/1989	Sell	\$359.80		\$0.00
5/11/1990	Buy	\$352.00	0.70%	\$1,817.60
5/17/1990	Sell	\$354.46		(\$17.04)
6/19/1995	Buy	\$545.20	0.83%	\$1,074.21
6/23/1995	Sell	\$549.71		(\$323.91)
9/5/1995	Buy	\$569.17	0.83%	\$1,046.50
9/11/1995	Sell	\$573.91		(\$29.75)
9/13/1996	Buy	\$680.54	0.36%	\$867.24
9/19/1996	Sell	\$683.00		(\$216.08)
10/2/1996	Buy	\$694.01	0.96%	\$1,692.00
10/8/1996	Sell	\$700.64		(\$321.12)
11/20/1998	Buy	\$1,163.54	2.47%	\$2,500.70
11/27/1998	Sell	\$1,192.28		\$0.00
9/2/2003	Buy	\$1,021.99	0.94%	\$1,010.74
9/8/2003	Sell	\$1,031.64		(\$368.60)
11/4/2004	Buy	\$1,161.67	0.11%	\$791.20
11/10/2004	Sell	\$1,162.91		(\$112.66)
7/11/2013	Buy	\$1,675.02	0.35%	\$574.07
7/17/2013	Sell	\$1,680.91		(\$187.62)

Half of the instances occurred in the 60s and 70s. And Thursday was only the 4th occurrence since the turn of the century. I would certainly prefer to see more instances in recent times, but the overall results are so strong that I decided they are worth consideration. So I have included this study on the Active List.

I have updated the Aggregator chart below.



With tonight's evidence 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 Friday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2549.94 on Friday. That is just 0.1% below Thursday's close. So despite what seems to be a very overbought condition, it won't take much selling on Friday to turn the SPX oversold versus recent (bullish) expectations.

The song remains the same. The Aggregator is neutral. The SPX is too strong to short and too extended to safely buy. So I will remain sidelined and waiting for the next substantial trading opportunity to emerge.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KHC(1/3)	9/25/2017	\$77.52	\$78.25	0.94%		Sell on open

KHC achieved its exit trigger, and will be exited at the open on Friday.

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