

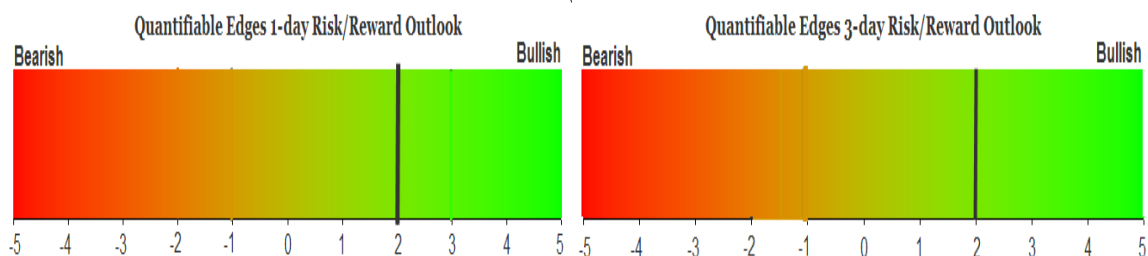
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 17, 2017

Volume 10 Issue 200

Market Overview



Signals Overview

| | |
|-------------------|-----------------------|
| Aggregator | Aggressive VIX |
| Long | 100% Long XIV |

Tonight's Research Points

- When the Russell has fallen for 3 days while SPX has closed at a 3-day high then the market has rallied over the next couple of days and weeks.
- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

Short-term Outlook

The Bottom Line

The Aggregator is still bullish, but SPX is near “overbought”. I am not inclined to take on new index exposure right here.

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 17, 2017 | VIX up. SPX 50-high to start week | 1-2 days | Bearish | | | |
| October 17, 2017 | RUT down 3 days. SPX 3-day high | 1-4 days | Bullish | | | |
| October 16, 2017 | October Opex Week Bullish | 1-4 days | Bullish | 1.80% | -1.30% | -2.80% |
| Active - Long Term | | | | | | |
| October 17, 2017 | RUT down 3 days. SPX 3-day high | 1-10 days | Bullish | | | |
| October 9, 2017 | 5 up & 50-high, then 1 down | 1-10 days | Bullish | 1.90% | -1.00% | -2.20% |
| October 4, 2017 | RSI(2) crosses over 99 | 1-15 days | Bullish | 2.30% | -1.40% | -2.70% |
| 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 | | | |

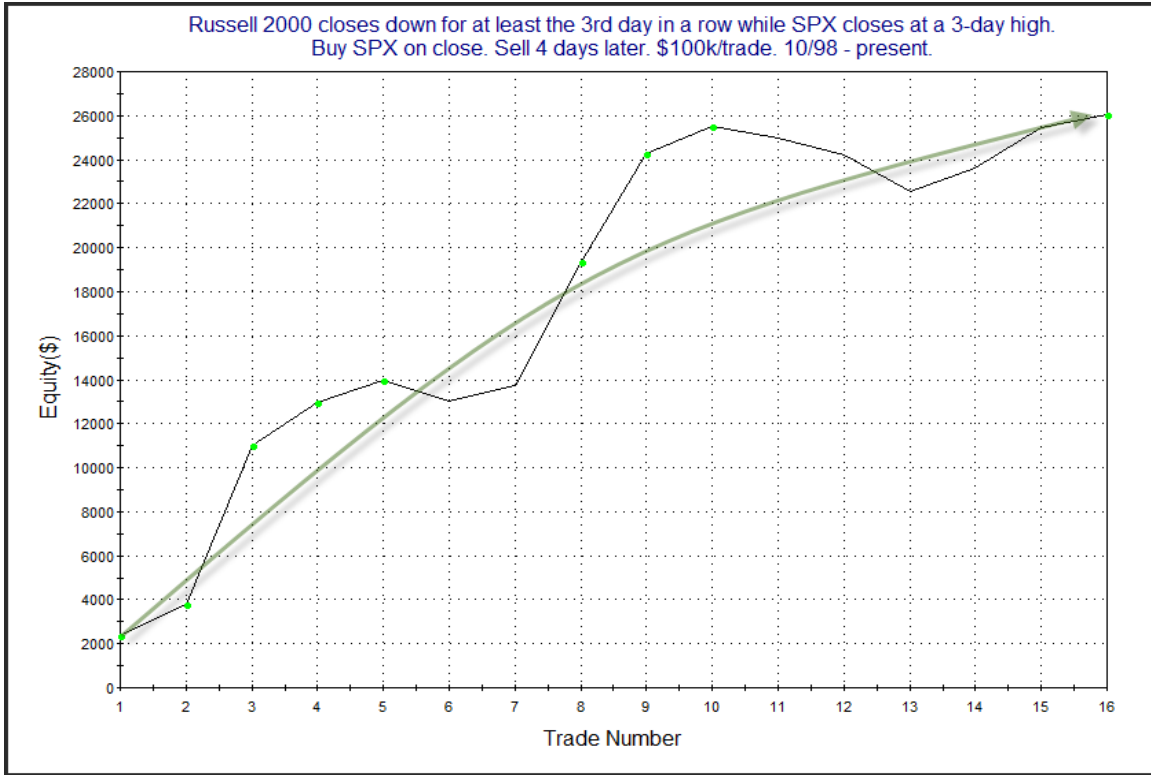
The Evidence

Monday's action was like almost every other day recently. Tight ranges ended with mild upward changes. The SPX finished up 0.2%, the NASDAQ rose 0.3%, and the Russell 2000 was basically breakeven with a 0.02 point gain. Breadth was slightly negative as the NYSE Up Issues % was 48% and the Up Volume % came in at 49.99%. NYSE volume declined some from Friday's level.

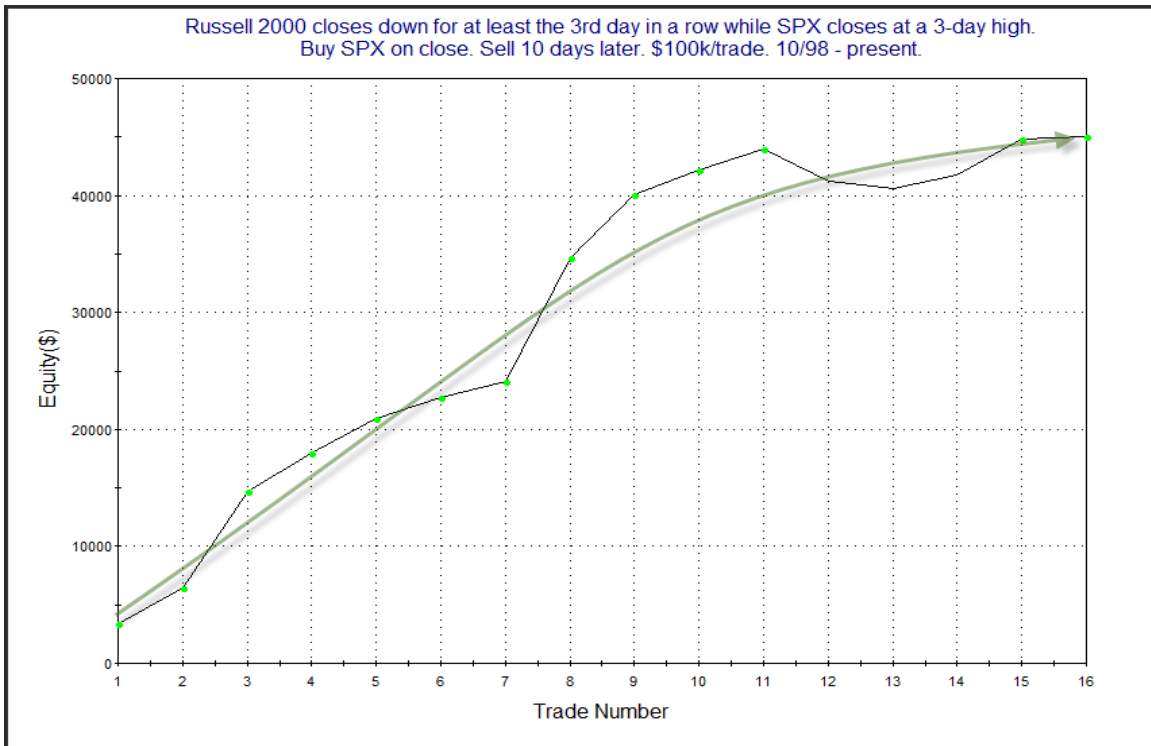
One aspect of recent market action that is interesting and suggestive of an upside edge is the fact that despite the rise in the SPX, the Russell 2000 closed lower for the third day in a row. The study below was last seen in the 2/27/17 Subscriber Letter. Stats are updated.

| Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 10/98 - 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 | 44,991.70 | 16 | 14 | 2 | 87.50 | 3,452.26 | 10,577.93 | -1,669.96 | -2,723.00 | 2.07 | 14.47 | 2,811.98 |
| 9 | 37,634.77 | 16 | 12 | 4 | 75.00 | 3,400.94 | 8,209.02 | -794.13 | -2,674.70 | 4.28 | 12.85 | 2,352.17 |
| 8 | 35,027.82 | 16 | 12 | 4 | 75.00 | 3,140.30 | 9,347.15 | -663.94 | -1,463.00 | 4.73 | 14.19 | 2,189.24 |
| 7 | 35,561.44 | 16 | 11 | 5 | 68.75 | 3,607.64 | 9,614.11 | -824.52 | -2,783.20 | 4.38 | 9.63 | 2,222.59 |
| 6 | 31,218.50 | 16 | 12 | 4 | 75.00 | 3,132.15 | 9,598.49 | -1,591.81 | -3,491.60 | 1.97 | 5.90 | 1,951.16 |
| 5 | 25,795.67 | 16 | 12 | 4 | 75.00 | 2,683.80 | 7,700.66 | -1,602.48 | -2,075.04 | 1.67 | 5.02 | 1,612.23 |
| 4 | 26,069.93 | 16 | 12 | 4 | 75.00 | 2,502.90 | 7,217.86 | -991.23 | -1,680.10 | 2.53 | 7.58 | 1,629.37 |
| 3 | 20,742.71 | 16 | 12 | 4 | 75.00 | 1,916.73 | 4,839.33 | -564.51 | -887.22 | 3.40 | 10.19 | 1,296.42 |
| 2 | 18,658.92 | 16 | 12 | 4 | 75.00 | 1,653.42 | 5,134.01 | -295.52 | -551.73 | 5.59 | 16.78 | 1,166.18 |
| 1 | 12,260.21 | 17 | 12 | 5 | 70.59 | 1,176.35 | 4,708.01 | -371.19 | -764.46 | 3.17 | 7.61 | 721.19 |

As you can see, stats are overwhelmingly bullish right off the bat, and they stay strong through the first two weeks. Instances are a little bit low, but the stats at this point are very impressive. Below is a profit curve using a 4-day exit.



This looks pretty solid. I also produced a profit curve for a 10-day holding period.

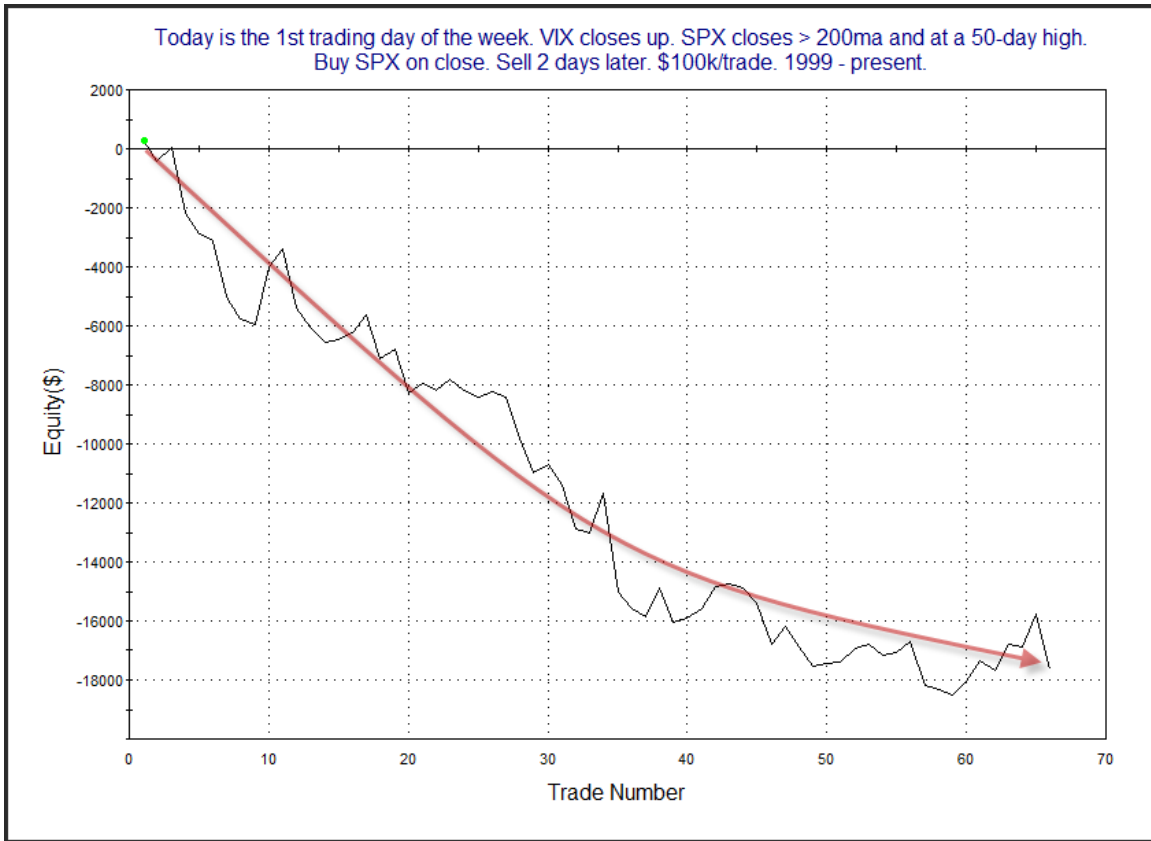


The move up has been impressive. I have included this study on both the short-term and the intermediate-term active list.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 6/7/16 letter. Results are all updated.

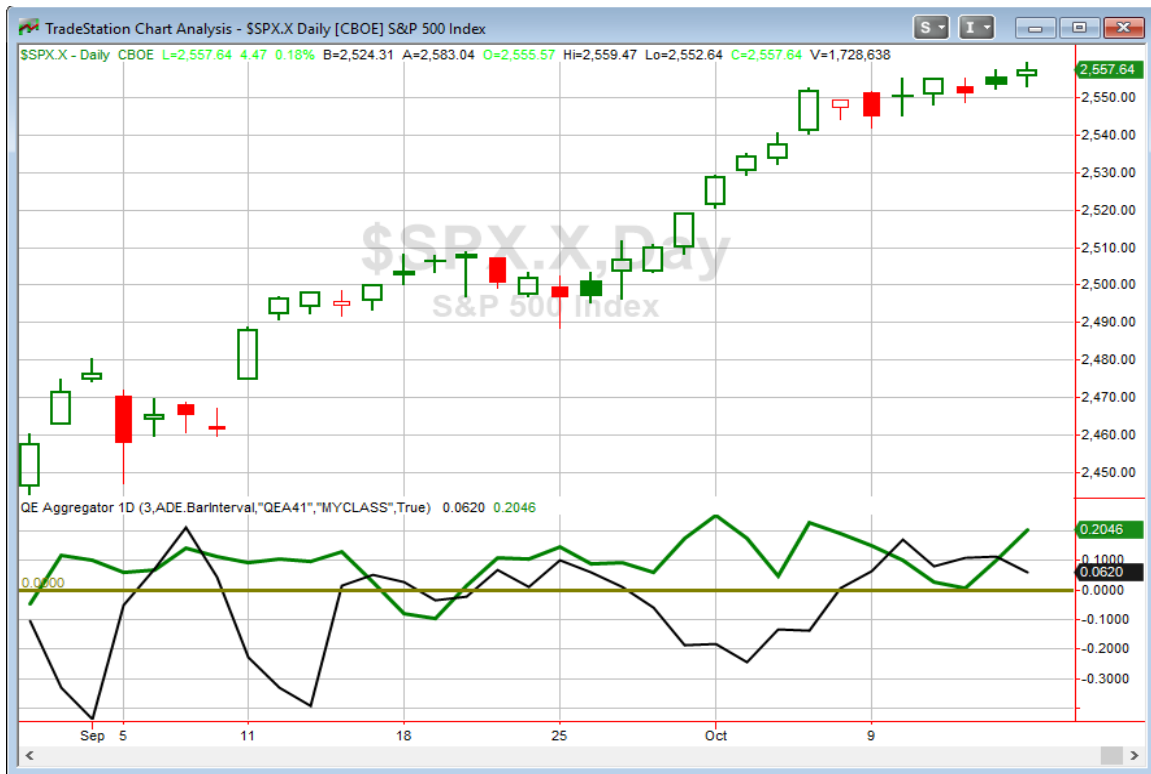
| Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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 | -12,584.65 | 60 | 28 | 32 | 46.67 | 1,095.70 | 3,260.25 | -1,352.01 | -5,048.68 | 0.81 | 0.71 | -209.74 |
| 4 | -7,020.13 | 66 | 32 | 34 | 48.48 | 918.02 | 2,953.65 | -1,070.49 | -4,271.52 | 0.86 | 0.81 | -106.37 |
| 3 | -8,848.19 | 66 | 31 | 35 | 46.97 | 726.04 | 2,641.80 | -895.87 | -3,887.84 | 0.81 | 0.72 | -134.06 |
| 2 | -17,630.32 | 66 | 29 | 37 | 43.94 | 490.28 | 1,981.72 | -860.77 | -3,372.16 | 0.57 | 0.45 | -267.13 |
| 1 | -7,423.52 | 66 | 24 | 42 | 36.36 | 337.78 | 769.70 | -369.77 | -1,580.04 | 0.91 | 0.52 | -112.48 |

Results here appear fairly bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has flattened out a bit lately, but the downward edge still appears intact. This study seems worthy of consideration and I have included it on the Active List.

I have updated the Aggregator chart below.



With tonight's mix of studies under consideration, 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 but 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 list of 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 *inverted* at 2554.35 on Tuesday. That is 0.1% *below* Monday's close. AN inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX is going to need to close down a little over 0.1% in order to remain "oversold" versus expectations. Anything other than that will leave SPX "overbought" as of Tuesday's close.

Continued highs have generated more bullish evidence than bearish. So expectations have remained positive. But upside appears limited. The market is already overbought based on many traditional measures. And without a pullback on Tuesday, even the Aggregator will consider it overbought. I rarely like to take on new index exposure with the Differential Pivot inverted. And tonight is no exception. So I will remain patient with

taking on new index exposure. I will note that a 2nd Catapult signal triggered for C that I will be looking to take on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/16– somewhat bullish

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

Open Catapult Triggers

C - @ \$72.11 (bought @ limit)

New

C - @ \$71.77 (buy @ limit)

Broad Market Large Cap CBI – 2(C-2)

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.

C – buy 1/3 Catapult position @ \$71.77. This is from the Catapult & CBI section above. It is the 2nd of 3 possible lots.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|--------|------------|-------------|---------------|-------------|------|----------|
| C(1/3) | 10/16/2017 | \$71.38 | \$71.77 | 0.55% | | Catapult |
| | | | | | | |
| | | | | | | |
| | | | | | | |

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