

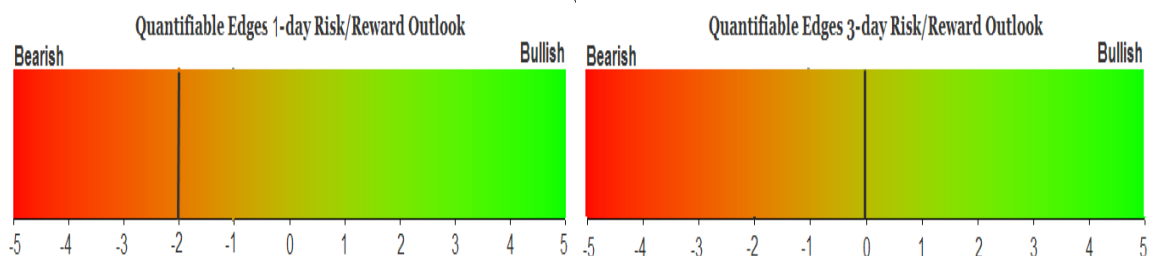
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 18, 2017

Volume 10 Issue 201

## 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.
- The sizable move up in the VIX with SPX hitting a new high suggests bearish implications for the next 1-2 days.

## *Short-term Outlook*

### *The Bottom Line*

Bears may have a small edge on Wednesday, but the 3-day outlook is neutral. I am still waiting for a better reward/risk setup before committing to new index trades.

*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
<b>Active - Short Term</b>						
October 18, 2017	SPY up < 0.25%. Top 10% daily range	1 day	Bearish			
October 18, 2017	VIX up 2.5%. SPX 50-day high.	1-2 days	Bearish			
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%
<b>Active - Long Term</b>						
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**

Tuesday's action was again a tight range and mild change. The SPX finished up 0.1%, the NASDAQ fell 0.01%, and the Russell 2000 declined 0.3%. Breadth was negative as the NYSE Up Issues % was 42% and the Up Volume % came in at 45%. NYSE volume declined some from Monday's level.

The tightness in which the market is trading is fairly astonishing. The 5-day Avg True Range for SPY is 0.25% of SPY's value. That is the lowest reading ever for SPY. And the 10-day ATR on a % basis is also at an all-time low. (SPY dates back to 1993.)

One interesting study to appear in the Quantifinder was the one below, which was last seen in the 10/12/17 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 day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				Expai
Total Net Profit	(\$11,235.20)	Profit Factor	0.50	
Gross Profit	\$11,237.70	Gross Loss	(\$22,472.90)	
Total Number of Trades	76	Percent Profitable	38.16%	
Winning Trades	29	Losing Trades	47	
Even Trades	0			
Avg. Trade Net Profit	(\$147.83)	Ratio Avg. Win:Avg. Loss	0.81	
Avg. Winning Trade	\$387.51	Avg. Losing Trade	(\$478.15)	
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.

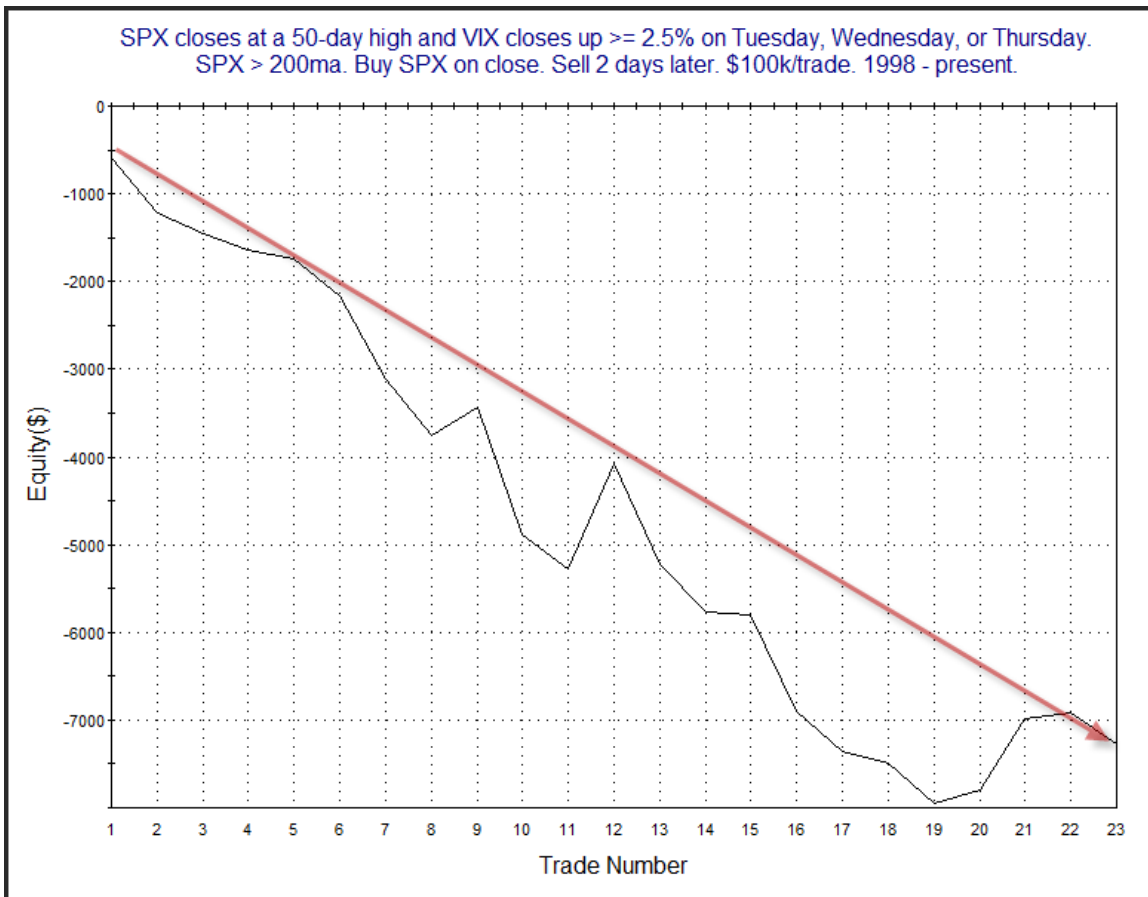
There were also a few studies related to VIX action that appeared in the Quantifinder. The one below was the most compelling. It last appeared in the 11/4/15 letter. New readers may wonder why I use a day-of-week filter with this study. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Because of this I typically separate out those days from the rest of the week when conducting VIX-based studies. This particular study looks at large mid-week rises in the VIX during times the SPX is closing at a 50-day high. All results are updated.

SPX closes at a 50-day high and VIX closes up  $\geq 2.5\%$  on Tuesday, Wednesday, or Thursday.  
 SPX > 200ma. Buy SPX n close. Sell X days later. \$100k/trade. 1998 - 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	-12,944.85	23	9	14	39.13	785.56	2,108.40	-1,429.64	-4,149.36	0.55	0.35	-562.82
4	-11,826.29	23	8	15	34.78	667.18	1,629.60	-1,144.25	-4,240.48	0.58	0.31	-514.19
3	-9,660.18	23	10	13	43.48	534.68	1,271.55	-1,154.39	-4,423.40	0.46	0.36	-420.01
2	-7,269.50	23	5	18	21.74	510.36	1,192.71	-545.63	-1,461.48	0.94	0.26	-316.07
1	-2,277.68	27	13	14	48.15	285.26	1,108.05	-427.58	-1,008.70	0.67	0.62	-84.36

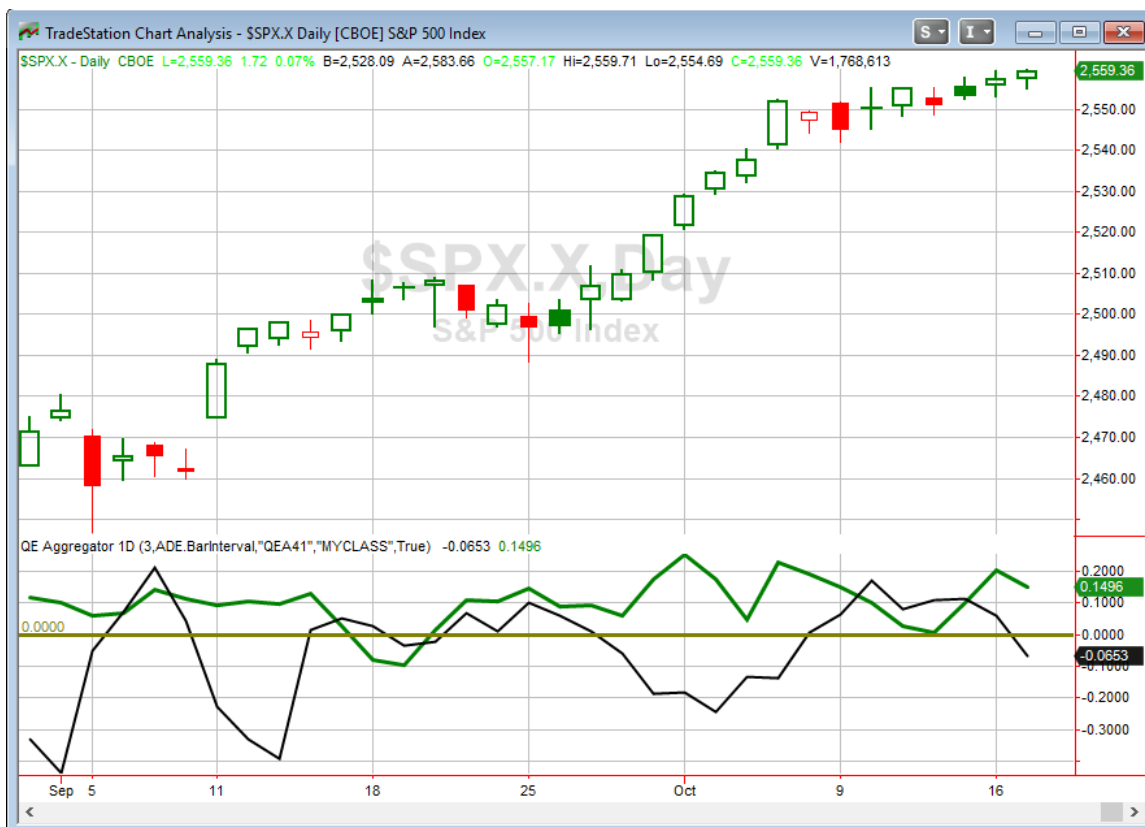
The only instance that did NOT close above the entry price at some point in the next 4 days triggered on 12/7/16.

Instances are a bit low, but the numbers are quite lopsided. Below is a profit curve assuming a 2-day exit strategy.



That is a persistent decline. I see nothing here that would cause me to doubt the downside edge.

I have updated the Aggregator chart below.



Even with tonight's bearish evidence, 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 dropped 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 turned flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Wednesday. Of course, this could change if more new bearish evidence emerges. The Differential Pivot will be 2556.61 on Wednesday. That is 0.1% below Tuesday's close. So SPX will only need to close down about 0.1% in order to move from overbought back to oversold.

The Aggregator is now neutral, and I am not seeing a compelling reason to take on new index exposure just yet. I will note that while 3-day expectations are bullish, the 1-day are bearish. This is why the 1-day Risk/Reward at the top of the letter has a -2 reading. Nimble traders could try and take advantage of this downside edge tomorrow. Of course that is too short-term and not a large enough opportunity for me to concern myself with in the letter. While it won't take much for the market to turn back to oversold, I also do not anticipate immediately buying if we do get a pullback on Wednesday. Coming off this high level, I would prefer to see a multi-day pullback before committing long.

*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)

C - @ \$71.77 (buy @ limit) – not filled – cancel for now

#### ***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.*

**None tonight.**

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
C(1/3)	10/16/2017	\$71.38	\$72.19	1.13%		Catapult

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