

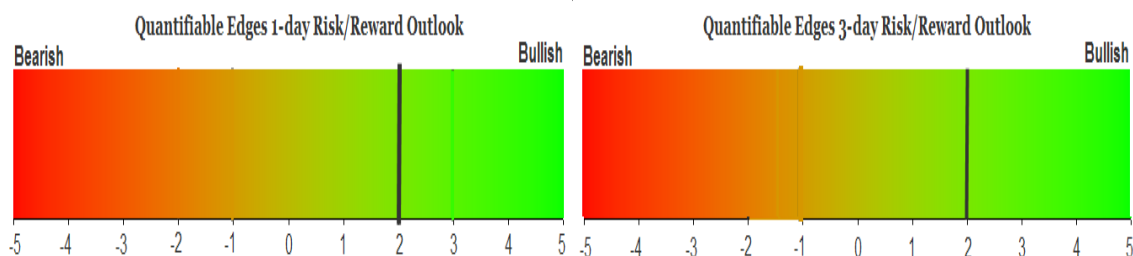
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 24, 2017

Volume 10 Issue 205

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- When SPX has posted a 20-day high and a poor close in the past it has led to short-term gains.
- SPX new high on a day the NDX suffers a relatively large decline is unusual – but has led to positive intermediate-term results in the past.

Short-term Outlook

The Bottom Line

There appears to be a bit of an upside edge. But with the market having gone so long without a pullback, I would like to see more than 1 down day before committing to the long side.

Summary of Recent Active Studies (see Letters from listed dates for details) – list not updated tonight

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
October 23, 2017	SPX up 6 days, 50-high. Large gain 2day	1-4 days	Bullish			
October 19, 2017	Unfill up. 20-high. Close < open.	1-3 days	Bullish			
Active - Long Term						
October 17, 2017	RUT down 3 days. SPX 3-day high	1-10 days	Bullish			
October 4, 2017	RSI(2) crosses over 99	1-15 days	Bullish	2.30%	-1.40%	-2.70%
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			

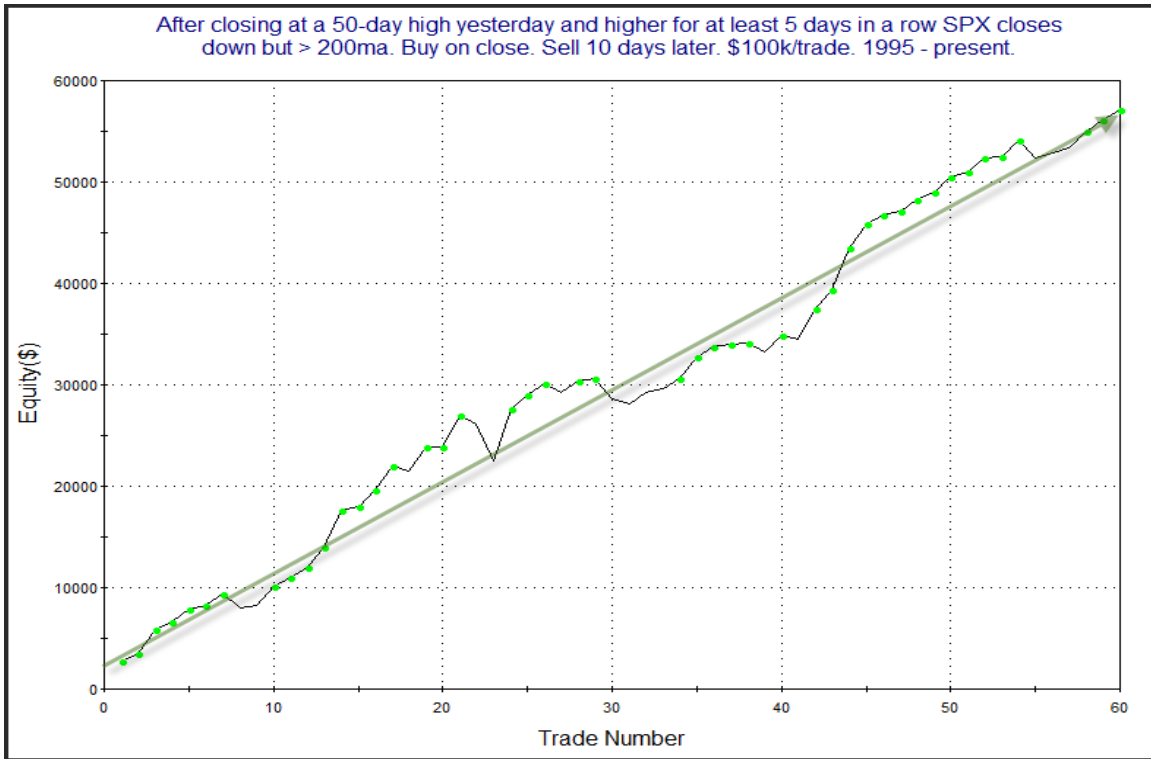
The Evidence

Monday was a rare down day for the market. SPX finished down 0.4%, the NASDAQ lost 0.6%, and the Russell 2000 dropped 0.8%. Breadth was negative as the NYSE Up Issues % was 35% and the Up Volume % came in at 25%. NYSE volume came in lower as it typically does on Monday after options expiration.

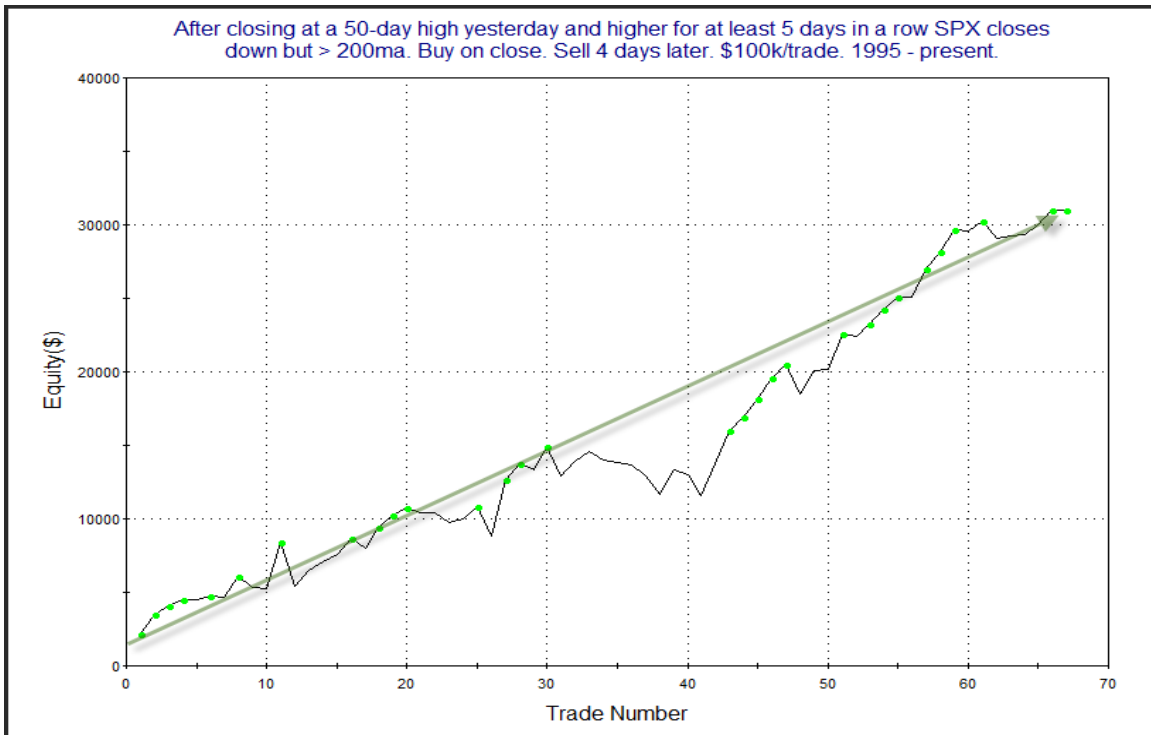
One compelling study that triggered Monday suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 10/9/17 Letter. I have updated the stats in the table below.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but > 200ma. 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
10	57,079.22	60	50	10	83.33	1,400.10	5,131.35	-1,292.59	-3,672.90	1.08	5.42	951.32
9	56,417.67	63	52	11	82.54	1,376.87	5,023.20	-1,379.97	-4,151.40	1.00	4.72	895.52
8	49,373.93	64	46	18	71.88	1,559.26	4,878.08	-1,241.79	-4,874.10	1.26	3.21	771.47
7	37,542.29	65	45	20	69.23	1,398.54	3,874.76	-1,269.59	-3,912.48	1.10	2.48	577.57
6	38,005.89	67	47	20	70.15	1,284.50	4,307.20	-1,118.27	-3,637.71	1.15	2.70	567.25
5	29,342.93	67	43	24	64.18	1,126.42	4,252.50	-795.56	-2,466.75	1.42	2.54	437.95
4	31,026.12	67	43	24	64.18	1,140.19	3,843.00	-750.09	-3,003.39	1.52	2.72	463.08
3	20,131.83	67	44	23	65.67	862.44	2,472.85	-774.59	-1,992.34	1.11	2.13	300.48
2	18,711.79	67	47	20	70.15	727.74	2,437.50	-774.59	-2,614.95	0.94	2.21	279.28
1	10,473.58	67	43	23	64.18	511.11	1,751.19	-500.18	-1,744.10	1.02	1.91	156.32

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 4-day timeframe suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 4-day exit profit curves. First, the 10 day:



The strong upslope appears to confirm the bullish edge. Next let's look at the 4-day curve.



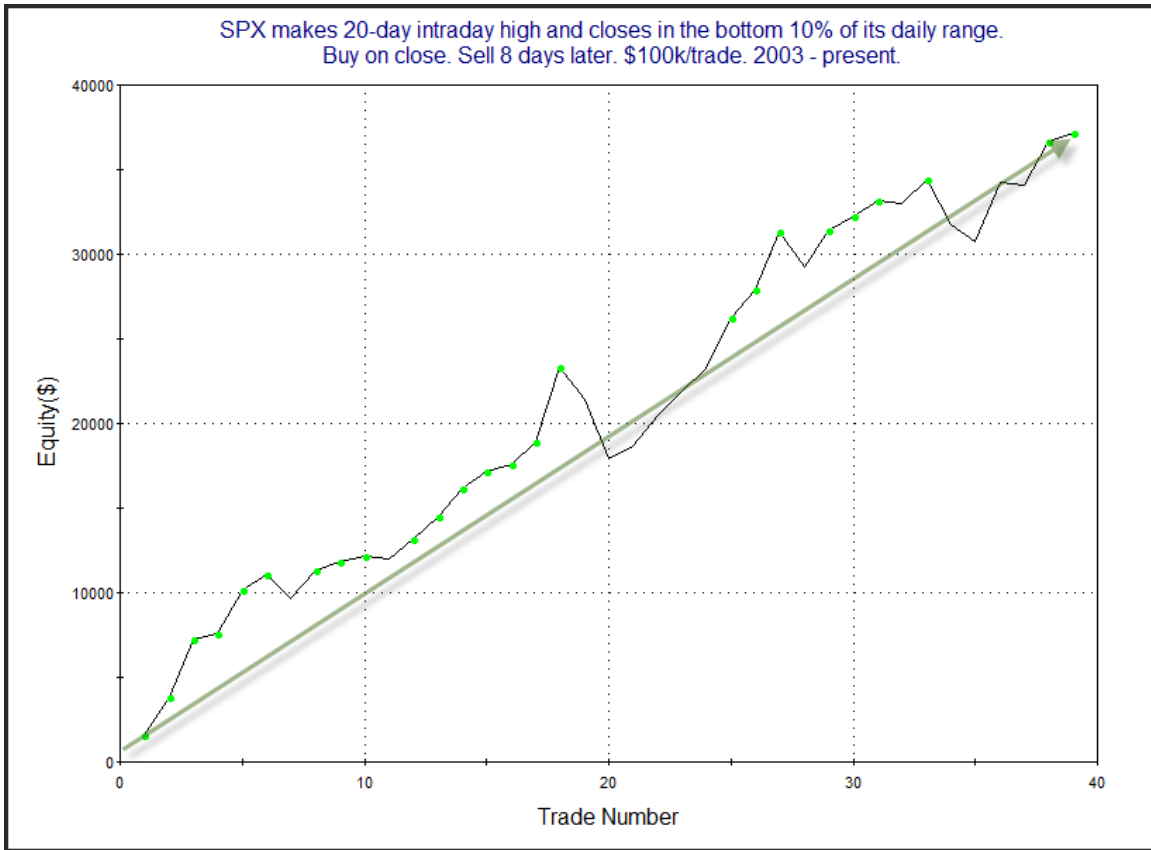
Results are a bit choppy. But even with more whipsaws this one appears worthy of consideration. I have included this study on both the short-term and intermediate-term active lists.

Before spending much of the day selling off, the SPX managed to make a new intraday all-time high. The new high followed by a poor and downward close triggered the study below, which was last seen in the 12/1/16 subscriber letter. Results are all updated.

SPX makes 20-day intraday high and closes in the bottom 10% of its daily range. Buy on close. Sell X days later. \$100k/trade. 2003 - 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	37,797.11	38	28	10	73.68	1,835.17	4,119.18	-1,358.78	-3,210.80	1.35	3.78	994.66
9	36,702.31	38	29	9	76.32	1,688.84	3,613.36	-1,363.77	-3,775.10	1.24	3.99	965.85
8	37,162.67	39	30	9	76.92	1,678.42	4,483.84	-1,465.54	-3,543.84	1.15	3.82	952.89
7	27,645.15	39	30	9	76.92	1,513.65	3,761.94	-1,973.81	-4,159.32	0.77	2.56	708.85
6	26,098.53	40	31	9	77.50	1,294.41	3,331.38	-1,558.67	-2,942.40	0.83	2.86	652.46
5	15,150.97	40	28	12	70.00	992.87	2,693.34	-1,054.11	-3,566.84	0.94	2.20	378.77
4	10,628.94	42	27	15	64.29	948.05	2,531.61	-997.90	-2,332.44	0.95	1.71	253.07
3	13,287.02	42	28	14	66.67	838.70	2,159.82	-728.33	-2,091.82	1.15	2.30	316.36
2	8,995.34	42	24	18	57.14	805.33	3,288.48	-574.03	-1,575.22	1.40	1.87	214.17
1	6,301.27	43	29	14	67.44	495.10	1,710.72	-575.47	-1,194.83	0.86	1.78	146.54

41 of 43 instances (95%) closed above the entry price at some point in the next week. The 2 that failed triggered on 12/30/04 and 12/31/04.

Results here seem to suggest an upside edge over the next 1-2 weeks. Below is a profit curve assuming an 8-day holding period.



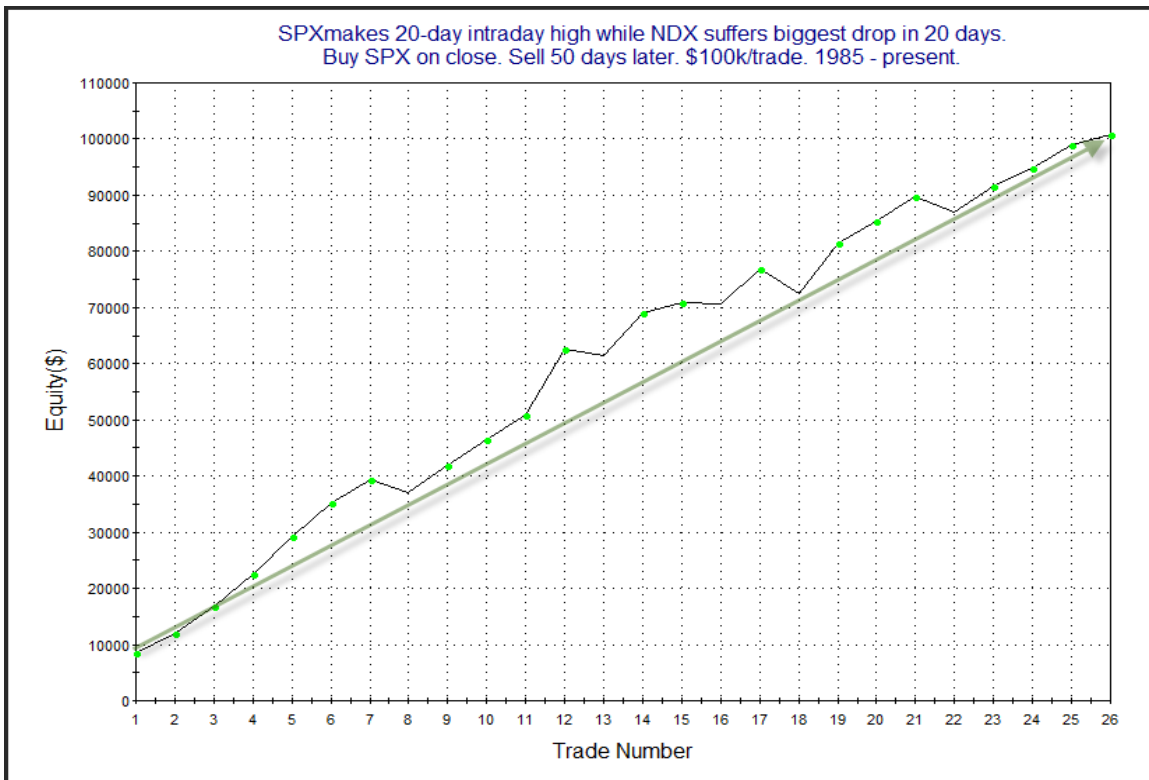
The persistent upslope appears to confirm the upside edge suggested by the statistics. I have added this study to the Active List.

Another interesting aspect of Monday's action is that the NDX suffered its worst decline in at least 20 days while SPX made a 20-day intraday high. This is something I last looked at in the 11/11/16 Letter. When I examined other instances of this back then I found little in terms of short-term implications, but the intermediate-term implications appeared strong. Below I have updated results for a 50-day holding period.

SPX makes 20-day intraday high while NDX suffers biggest drop in 20 days.
Buy SPX on close. Sell 50 days later. \$100k/trade. 1985 - present.

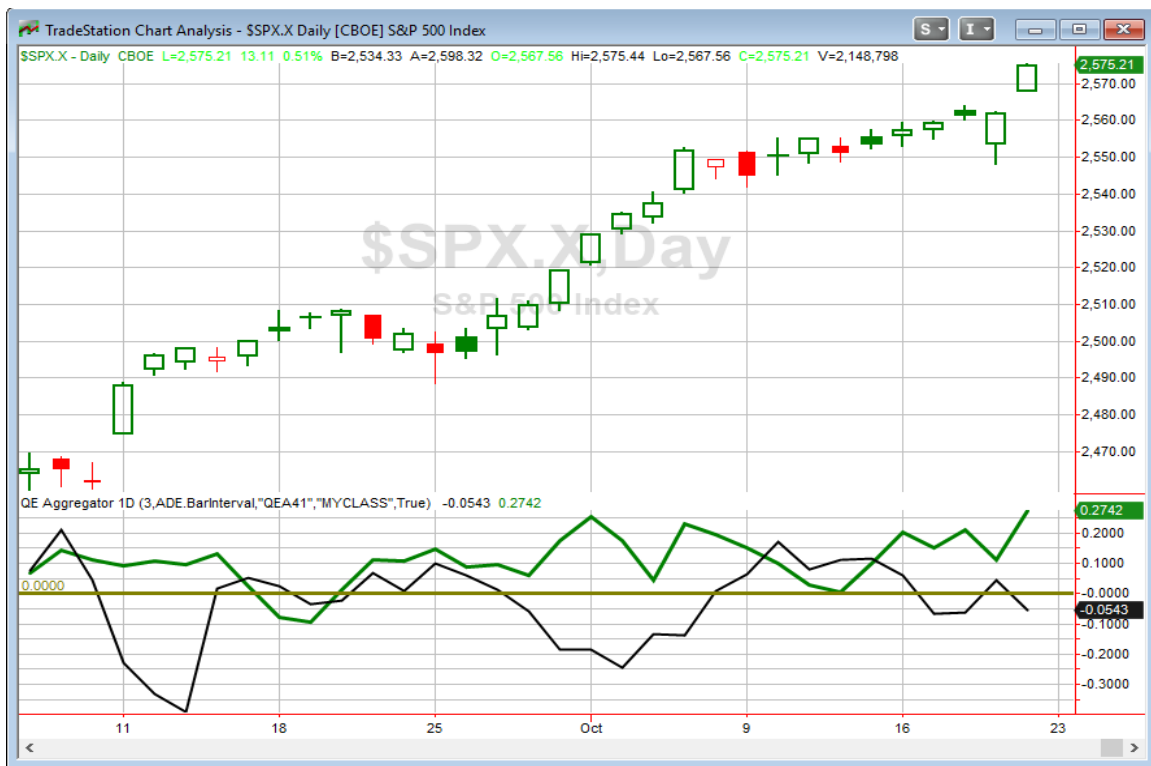
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$100,778.94	Profit Factor	10.36
Gross Profit	\$111,543.81	Gross Loss	(\$10,764.87)
Total Number of Trades	26	Percent Profitable	80.77%
Winning Trades	21	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	\$3,876.11	Ratio Avg. Win:Avg. Loss	2.47
Avg. Winning Trade	\$5,311.61	Avg. Losing Trade	(\$2,152.97)
Largest Winning Trade	\$11,736.48	Largest Losing Trade	(\$4,474.24)

As you can see, the numbers all look solidly bullish. The big NDX drop during an intermediate-term move higher for SPX has rarely derailed the rally. Most of the time it has been followed by additional gains. Below is the profit curve.



The strong, steady upslope is quite impressive, and serves as confirmation of the apparent upside edge. I have added this study to the intermediate-term Active List.

I have updated the Aggregator chart below.



With today'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 moved above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and 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 turned long at the close.

Based on the current list of active studies, expectations are set to remain positive on Tuesday. It would take some very compelling bearish evidence to change this. The Differential Pivot will be 2574.19 on Tuesday. That is 0.4% above Monday's close. So SPX would need to close up at least 0.4% on Tuesday in order to flip from oversold to overbought vs expectations.

So the Aggregator is now bullish. As I mentioned the last few nights, I am not inclined to get long on the 1st down day after such an extended move. Even after Monday's decline, SPX has still closed above its 10ma for 19 days in a row. I am going to give it another day here. If SPX moves down below its 10ma and bearish evidence does not emerge, then there is a good chance I will look to start getting long index exposure on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/23– neutral

The intermediate-term outlook was last updated in the 10/23 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

HAL @ \$43.42 (bought 1/3 @ limit)

KHC @ \$76.47 (bought 1/3 @ limit)

HAL @ \$43.33 (bought 1/3 @ limit)

Broad Market Large Cap CBI – 3(HAL-2, 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)	10/20/2017	\$76.47	\$77.06	0.77%		Catapult
HAL(1/3)	10/20/2017	\$43.42	\$42.24	-2.72%		Catapult
HAL(1/3)	10/23/2017	\$42.51	\$42.24	-0.64%		Catapult

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