

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 26, 2017

Volume 10 Issue 207

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- The unfilled gap pattern over the last couple of days set up a bearish trigger.
- The first drop below the 10ma in quite a while will often be followed by another leg up.

Short-term Outlook

The Bottom Line

The Aggregator is now bullish, and reward/risk now appears favorable enough that I will look to start scaling into a long position.

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 26, 2017	1st close < 10ma in 15+ days	1-5 days	Bullish			
October 26, 2017	Unfilled up. Unfilled down < 2 ago	1-2 days	Bearish			
October 24, 2017	5 up to 50-high. 1 down day.	1-4 days	Bullish			
October 24, 2017	SPX 20-high then clos bottom 10% rng	1-8 days	Bullish			
October 23, 2017	SPX up 6 days, 50-high. Large gain 2day	1-4 days	Bullish			
Active - Long Term						
October 24, 2017	SPX 20-high. NDX big drop	1-50 days	Bullish	6.30%	-2.80%	-5.50%
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 ofTops)	int term	Bearish			

The Evidence

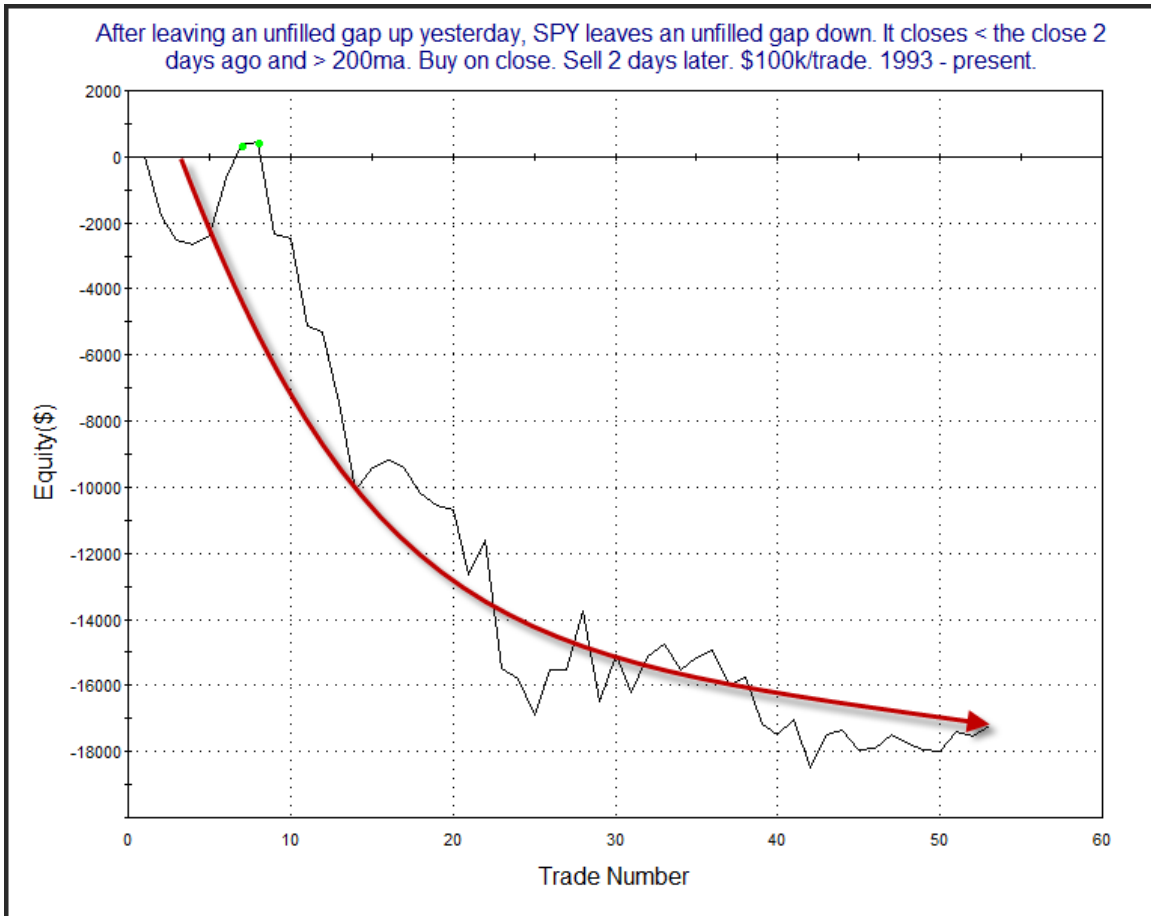
Wednesday was a down day, but things looked a lot worse around noon than they finished. The SPX, NASDAQ and Russell all finished down 0.5%. Breadth was negative as the NYSE Up Issues % was 26% and the Up Volume % came in at 23%. NYSE volume rose from Tuesday's level.

The Quantifinder showed a mix of studies tonight. There was one bearish study worth discussion. It was last seen in the 9/6/17 letter. It examines 2-day moves like SPY has just encountered, and it is updated below.

After leaving an unfilled gap up yesterday, SPY leaves an unfilled gap down. It closes < the close 2 days ago and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	7,049.66	50	27	23	54.00	1,308.59	3,949.59	-1,229.67	-3,791.20	1.06	1.25	140.99
4	5,977.78	51	24	27	47.06	1,433.86	3,637.58	-1,053.14	-4,926.08	1.36	1.21	117.21
3	-17,998.75	53	25	28	47.17	748.58	2,463.47	-1,311.18	-5,321.00	0.57	0.51	-339.60
2	-17,203.14	53	23	29	43.40	649.75	1,754.40	-1,108.53	-3,893.00	0.59	0.46	-324.59
1	-3,545.59	53	25	27	47.17	469.59	1,325.15	-566.12	-1,736.76	0.83	0.77	-66.90

The suggestion here is that more downside appears likely over the next few days. Of course I also examined the profit curves. Below is the 2-day.



While the curve has been a bit choppy, it still appears to be trending downwards. I believe this study is worth taking into consideration and have included it in the Aggregator.

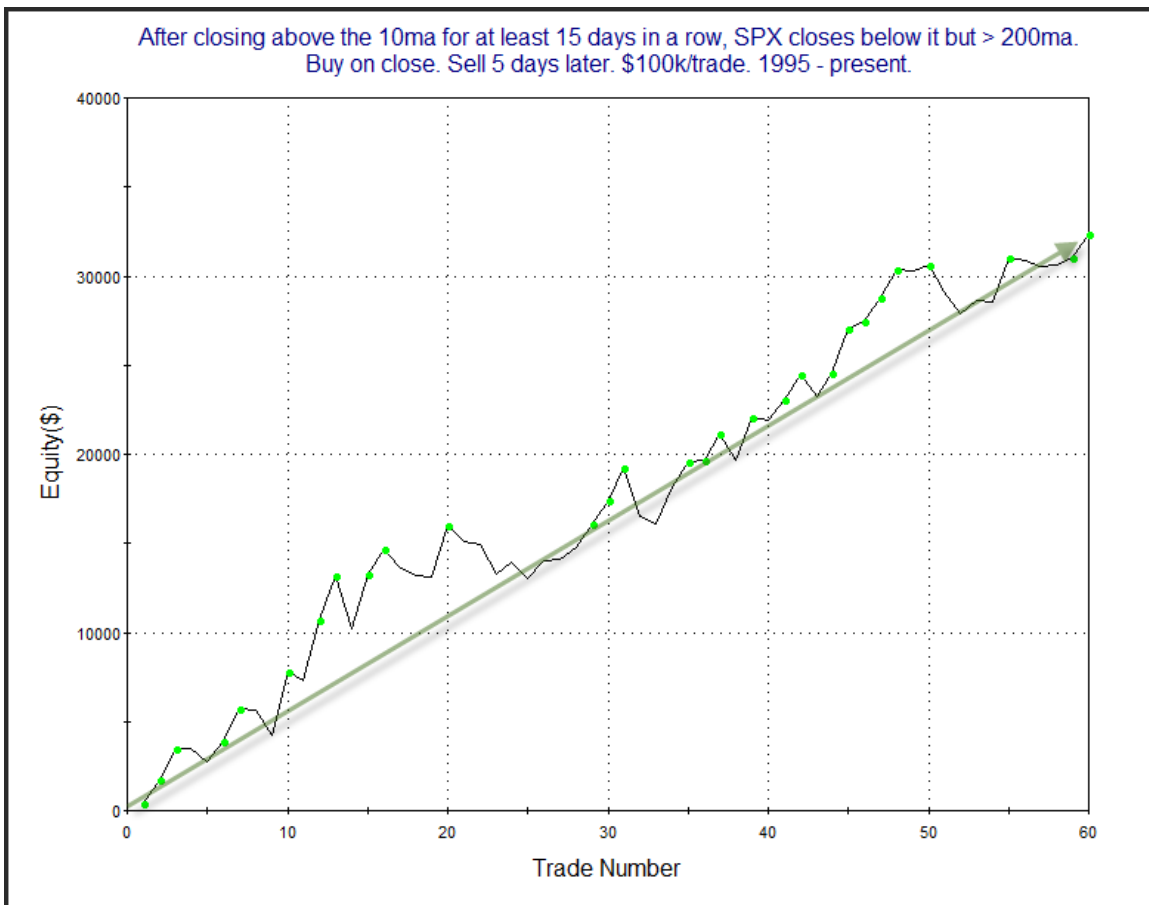
The persistent uptrend of late has kept SPX above its short-term moving averages for an extended period. Wednesday, after 20 consecutive closes above the 10ma, SPX dipped down and closed below it. In the 9/26/17 letter I looked at performance following other instances where SPX closed below its 10ma for the first time over 15 days. Results are updated below.

After closing above the 10ma for at least 15 days in a row, SPX closes below it 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
5	32,325.95	60	36	24	60.00	1,459.94	3,505.74	-843.00	-2,959.70	1.73	2.60	538.77
4	29,573.76	60	39	21	65.00	1,319.88	3,206.40	-1,042.92	-3,078.40	1.27	2.35	492.90
3	22,736.00	60	41	19	68.33	1,000.69	2,805.12	-962.75	-2,062.10	1.04	2.24	378.93
2	17,065.29	60	38	22	63.33	953.86	2,682.72	-871.89	-2,185.60	1.09	1.89	284.42
1	15,972.33	60	39	21	65.00	651.82	2,097.92	-449.93	-1,542.24	1.45	2.69	266.21

54 of 60 instances (90%) closed above the entry price at some point in the next week.

The numbers here all look solidly bullish over the next week. Below is the 5-day profit curve.



The strong upslope serves as some confirmation of the bullish edge.

I have updated the Aggregator chart below.



With the mix of studies tonight, 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 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 stayed long at the close.

Based on the current list of active studies, expectations are set to remain positive on Thursday. It would take some compelling bearish evidence to change this. The Differential Pivot will be 2578.43 on Thursday. That is 0.8% above Wednesday's close. So SPX would need to close up at least 0.8% on Thursday in order to flip from oversold to overbought vs expectations.

With the SPX finally pulling back a bit, reward/risk is improving. I am inclined to look to take advantage of the bullish Aggregator formation. Certainly, the mild pullback could have further to go. But the edge appears strong enough to begin scaling into an index position. So that is what I will do if I can get a decent fill on Thursday.

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)

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

New

BLK @ \$469.15 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 2(HAL-2, BLK)

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.

BLK – buy 1/3 Catapult position @ \$469.15 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for BLK.

SPY – buy ¼ index position @ \$255.29 LIMIT. Based on the short-term outlook, I will look to start scaling in to an index position if I can get filled at Wednesday’s closing price or better.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>KHC(1/3)</i>	<i>10/20/2017</i>	<i>\$76.47</i>	<i>\$76.73</i>	<i>0.34%</i>		<i>sold on open</i>
HAL(1/3)	10/20/2017	\$43.42	\$41.46	-4.51%		Catapult
HAL(1/3)	10/23/2017	\$42.51	\$41.46	-2.47%		Catapult

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