

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 31, 2017

Volume 10 Issue 210

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>
Flat	50% Long XIV

## Tonight's Research Points

- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.
- The rest of the week looks seasonally strong.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral, but I expect it will be bullish on Tuesday if SPX has a pullback day.

***The Evidence***

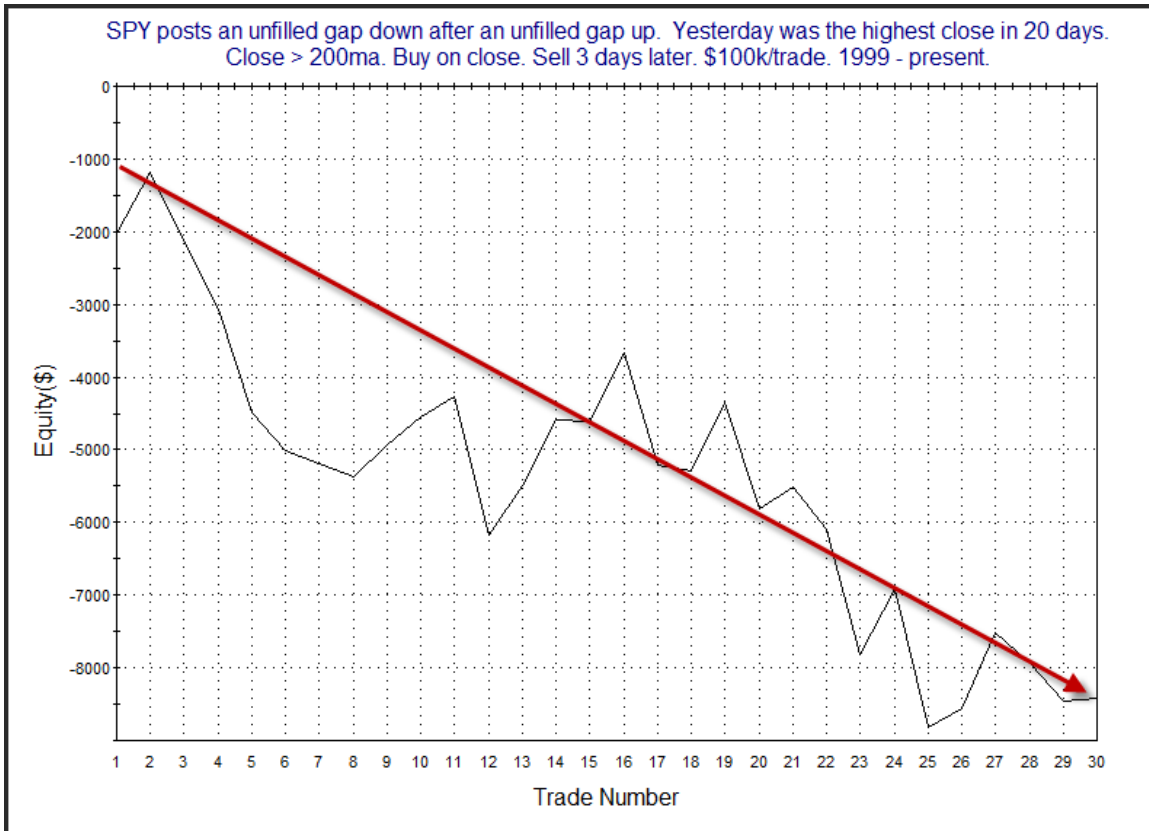
Monday was a pullback day. The SPX dipped 0.3%, NASDAQ lost 0.03% and Russell 2000 declined 1.15%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % came in at 36%. NYSE volume declined some from Friday’s level.

There was a mix of evidence that emerged on Monday. This first study considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 6/21/17 Subscriber Letter. Below are updated results.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days. Close > 200ma. Buy 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	-9,035.04	30	14	16	46.67	750.53	1,649.70	-1,221.40	-4,404.92	0.61	0.54	-301.17
4	-10,853.54	30	13	17	43.33	701.53	1,509.68	-1,174.91	-3,746.95	0.60	0.46	-361.78
3	-8,411.77	30	13	17	43.33	613.60	1,044.24	-964.03	-2,017.28	0.64	0.49	-280.39
2	-5,735.56	31	12	19	38.71	517.19	1,082.16	-628.52	-2,232.00	0.82	0.52	-185.02
1	-4,214.12	31	13	18	41.94	437.65	1,008.68	-550.20	-1,807.92	0.80	0.57	-135.94

The numbers here appear to suggest a downside edge. Let’s also take a look at a profit curve.



While the curve is choppy, it has persisted downwards. This serves as confirmation of the downside edge, and suggests we could see further selling over the next few days.

In last night's letter I showed a study suggesting bullish seasonality for the next of the week. I have copied that study below:

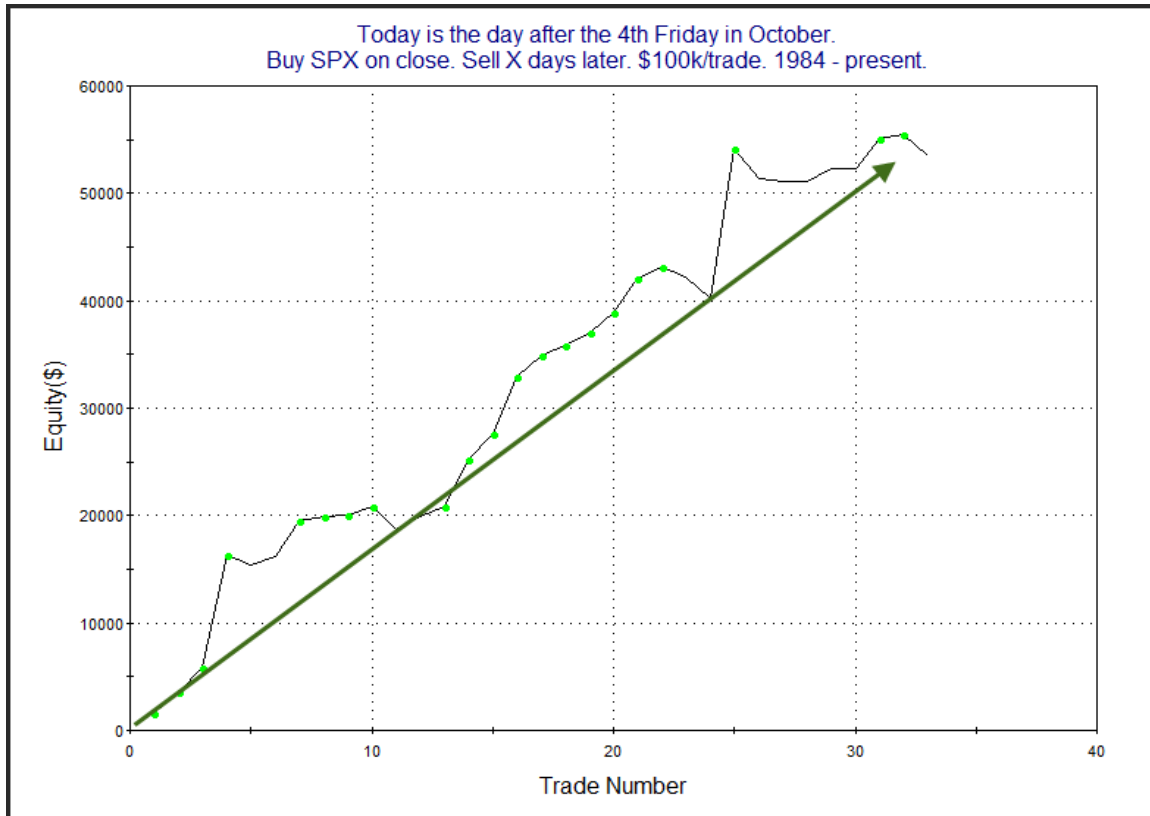
*But Tuesday through Friday have much more positive seasonality. This can be seen below.*

Today is the day after the 4th Friday in October.  
Buy SPX on close. Sell X days later. \$100k/trade. 1984 - 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
4	53,542.00	33	24	9	72.73	2,692.38	14,020.11	-1,230.56	-2,860.68	2.19	5.83	1,622.48
3	45,011.01	33	25	8	75.76	2,063.91	12,304.89	-823.34	-2,081.28	2.51	7.83	1,363.97
2	24,908.62	33	25	8	75.76	1,361.38	9,496.89	-1,140.73	-2,261.76	1.19	3.73	754.81
1	21,710.51	33	21	12	63.64	1,524.15	10,716.03	-858.05	-2,766.58	1.78	3.11	657.89

**30 of 33 instances (91%) closed above the entry price at some point in the next 4 days.**

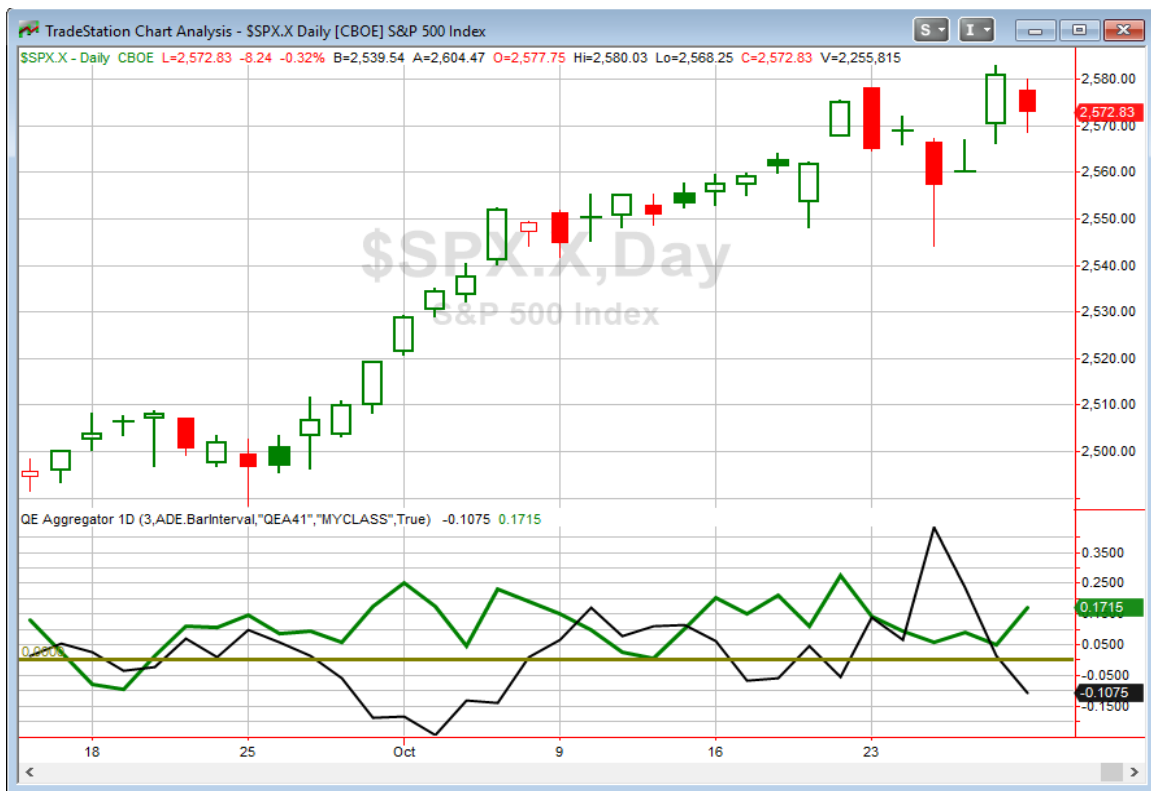
The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 4-day profit curve.



The curve has headed upwards for a long time. Long-term seasonality will see some changes as we enter November (Best 6 months & new Presidential Cycle year). But this short-term look at seasonality suggests the market could have some wind at its back this week.

In addition to the seasonality study above, we are likely to see some bullish short-term seasonality studies emerge for Wednesday. This is because 1) Wednesday is the 1<sup>st</sup> trading day of the new month, and 2) Wednesday is a Fed Day. Both of those things would suggest an upside edge on their own. Interestingly, they also both perform substantially better when the day before closes poorly (in the bottom half of the day's range). I'll be on the lookout for a weak close.

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 dipped 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 Tuesday. It would take some compelling bearish evidence to change this. The Differential Pivot will be 2566.47 on Tuesday. That is 0.25% below Monday's close. So SPX would need to close down at least 0.25% on Tuesday in order to flip from overbought to oversold versus expectations.

So there does not appear to be a substantial edge for Tuesday. But Wednesday has a lot going for it from a seasonality standpoint. And if the market sells off and has a weak close on Tuesday, I will look to take advantage of that seasonality with a short-term (probably less than 24 hr) trade.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 10/30– somewhat bullish*

### **Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

#### ***Open Catapult Triggers***

CELG @ \$99.99 (bought 1/3 @ limit)

CELG @ \$98.17 (buy 1/3 @ limit) – not filled – cancel for now

CVX @ \$113.54 (bought 1/3 @ limit)

*New*

KHC @ \$75.27 (buy 1/3 @ limit)

LLY @ \$82.65 (buy 1/3 @ limit)

***Broad Market Large Cap CBI – 5(CELG-2, CVX, KHC, LLY)***

### **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.*

**KHC – buy 1/3 Catapult position @ \$75.27 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots for KHC.

**LLY – buy 1/3 Catapult position @ \$82.65 LIMIT.** From the Catapult section above, this is the 1<sup>st</sup> of up to 3 possible lots for LLY.

**SPY – buy 1/4 index position @ \$256.00 LIMIT ON CLOSE if SPY also closes in the bottom half of the day's range.** Based on the intermediate-term outlook above, I will look to take advantage of the strong seasonality if SPY closes down a bit and in the lower half of its range. I will most likely be looking to close this trade out before the Fed announcement on Wednesday

## Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>HAL(1/3)</i>	<i>10/20/2017</i>	<i>\$43.42</i>	<i>\$42.49</i>	<i>-2.14%</i>		<i>sold on open</i>
<i>HAL(1/3)</i>	<i>10/23/2017</i>	<i>\$42.51</i>	<i>\$42.49</i>	<i>-0.05%</i>		<i>sold on open</i>
CELG(1/3)	10/27/2017	\$99.64	\$100.97	1.33%		Catapult
CVX(1/3)	10/30/2017	\$113.17	\$114.39	1.08%		Catapult

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