

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 1, 2017

Volume 10 Issue 211

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- Turn of the month and Fed Days both typically suggest an upside edge. But with the market already extended upwards, the bullish edge does not appear to remain.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, and so am I.

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 31, 2017	Tues-Fri Aft 4th Fri in Oct	1-4 days	Bullish			
October 31, 2017	Unfilled up. Unfilled down from 20 high	1-3 days	Bearish			
October 30, 2017	2 unfilled gaps up and 50-high	1-3 days	Bullish			
October 26, 2017	1st close < 10ma in 15+ days	1-5 days	Bullish			
October 24, 2017	SPX 20-high then clos bottom 10% rng	1-8 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 of Tops)	int term	Bearish			

The Evidence

The market posted some gains on Tuesday. The SPX rose 0.1%, NASDAQ climbed 0.4% and Russell 2000 rallied 0.8%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 54%. NYSE volume rose to the highest level in a while.

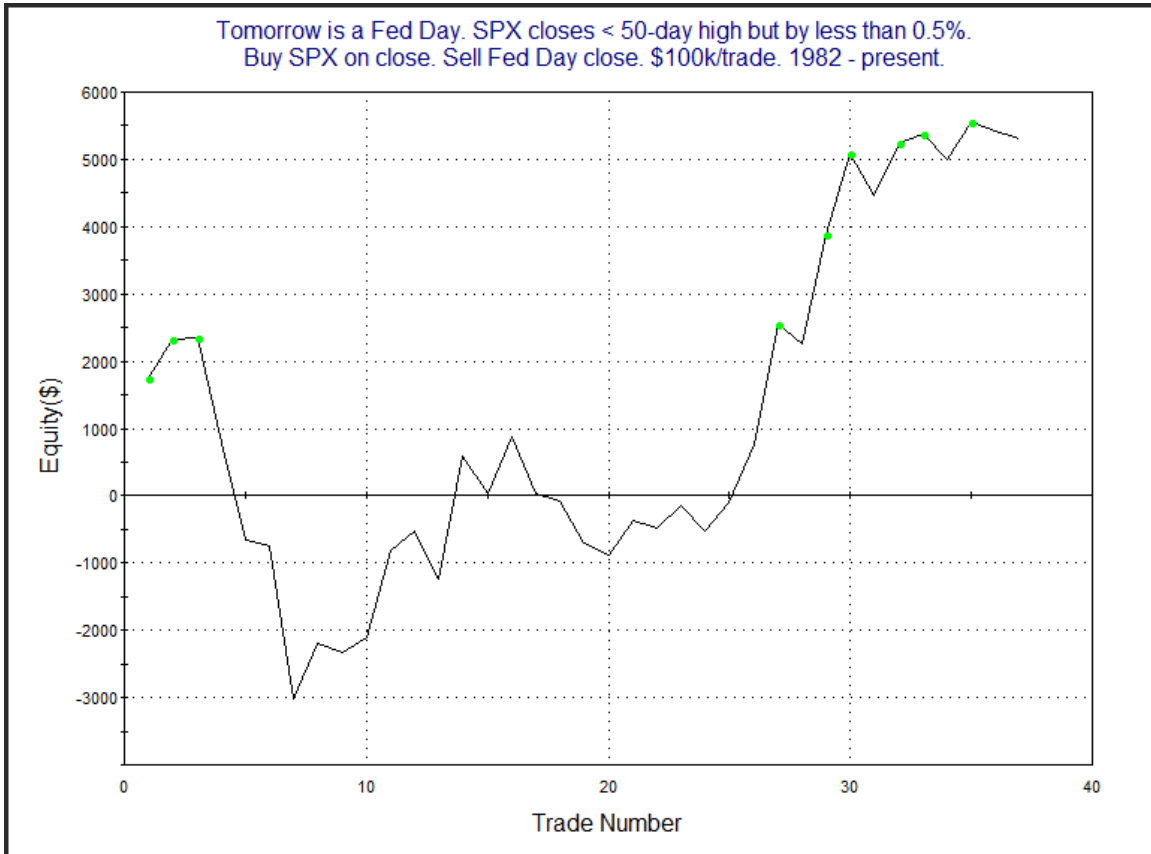
Wednesday is the 2nd day of the Fed meeting and they will make their policy announcement around 2pm. As I have documented many times, Fed Days have historically contained a substantial upside edge. One theory behind the Fed Day edge is that the Fed is able to exert a strong influence on the market for at least the announcement day. The optimism that is often seen around Fed Days is desired, and that is especially true during uncertain times. The Fed often tries to carefully balance economic expectations through both monetary policy and their statements. They don't want panic to ensue during difficult times and they don't want the economy to overheat during good times. During good times they will focus more on risks in their statements and will keep a bit of a lid on the excitement. During tough times they will focus more on positives. A panicky public is not good for either the market or the economy so they will act as the voice of reason when it appears panic may set in. And during those times when it seems neither overheating nor panicking is much of a danger, they simply look to instill confidence. Confidence in the economy, the market, the government, and their own abilities.

So when is the market least in need of a confidence boost? Perhaps when it is at or near an intermediate-term high. In the past I showed that the Fed Day edge was basically non-existent when the market closes at a 20-day high. In the 3/19/14 letter took a slightly different approach. I looked at times where the SPX did NOT close at a 50-day high, but in fact closed less than 0.5% below it. So although it is not a new high, the environment still appears generally positive. I've updated those results tonight.

Tomorrow is a Fed Day. SPX closes < 50-day high but by less than 0.5%.
 Buy SPX on close. Sell Fed Day close. \$100k/trade. 1982 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$5,302.61	Profit Factor	1.50
Gross Profit	\$15,831.81	Gross Loss	(\$10,529.20)
Total Number of Trades	37	Percent Profitable	51.35%
Winning Trades	19	Losing Trades	18
Even Trades	0		
Avg. Trade Net Profit	\$143.31	Ratio Avg. Win:Avg. Loss	1.42
Avg. Winning Trade	\$833.25	Avg. Losing Trade	(\$584.96)
Largest Winning Trade	\$1,820.44	Largest Losing Trade	(\$2,267.20)

Results here are only slightly better than breakeven, suggesting perhaps the Fed Day edge doesn't apply when the market is already strong. Below is a look at the profit curve.



Very choppy and inconsistent. It has done ok recently, but the overall picture is simply not compelling and not a strong enough edge at this point for me to take it under serious consideration.

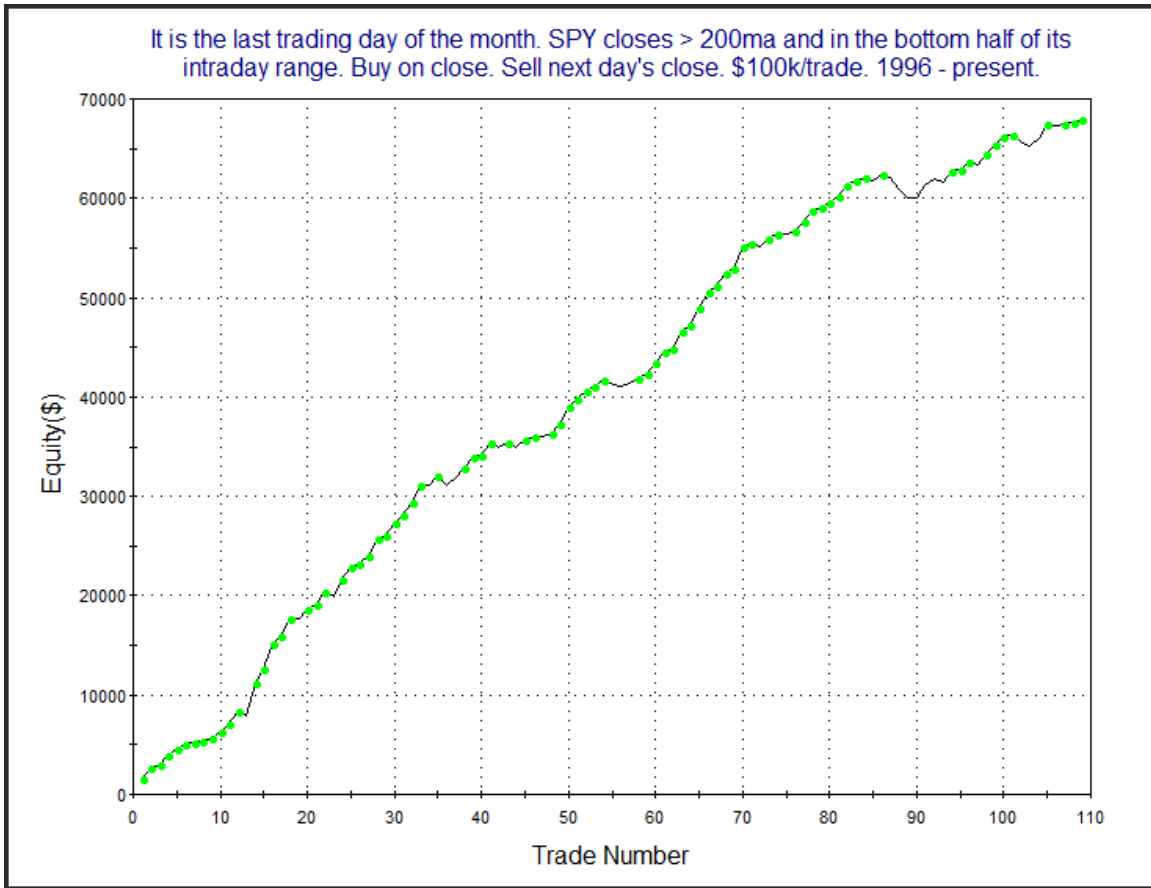
It is also notable that Wednesday is the 1st trading day of the month. The study below is copied from the 10/2/17 subscriber letter, and it examines turn of the month.

It looked at all 1st days of the month and broke them down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$67,887.65	Profit Factor	9.04
Gross Profit	\$76,326.83	Gross Loss	(\$8,439.18)
Total Number of Trades	109	Percent Profitable	79.82%
Winning Trades	87	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	\$622.82	Ratio Avg. Win:Avg. Loss	2.29
Avg. Winning Trade	\$877.32	Avg. Losing Trade	(\$383.60)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 9x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 109 instances. Below is a profit curve.

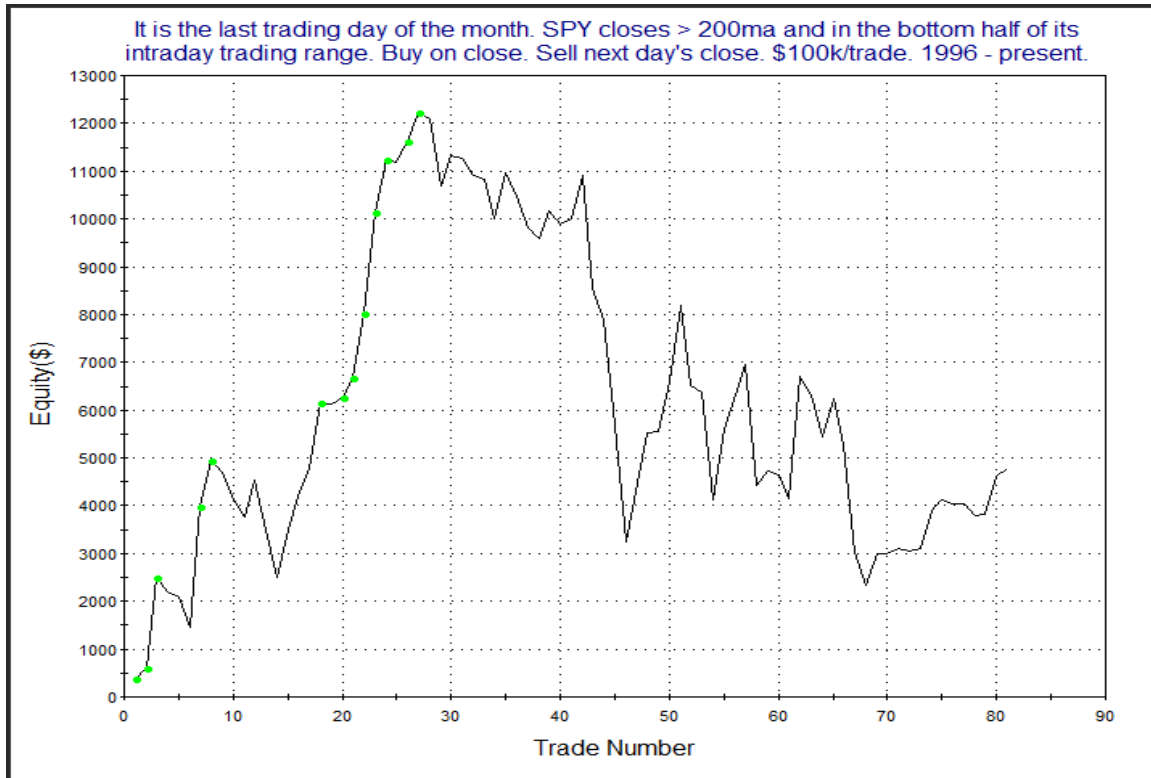


The long and persistent upslope is impressive, and serves to confirm the numbers. But SPY closed in the upper half of its range on Friday. So let's look at the implications of that finish.

It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$4,770.23	Profit Factor	1.16
Gross Profit	\$33,989.54	Gross Loss	(\$29,219.31)
Total Number of Trades	81	Percent Profitable	53.09%
Winning Trades	43	Losing Trades	38
Even Trades	0		
Avg. Trade Net Profit	\$58.89	Ratio Avg. Win:Avg. Loss	1.03
Avg. Winning Trade	\$790.45	Avg. Losing Trade	(\$768.93)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

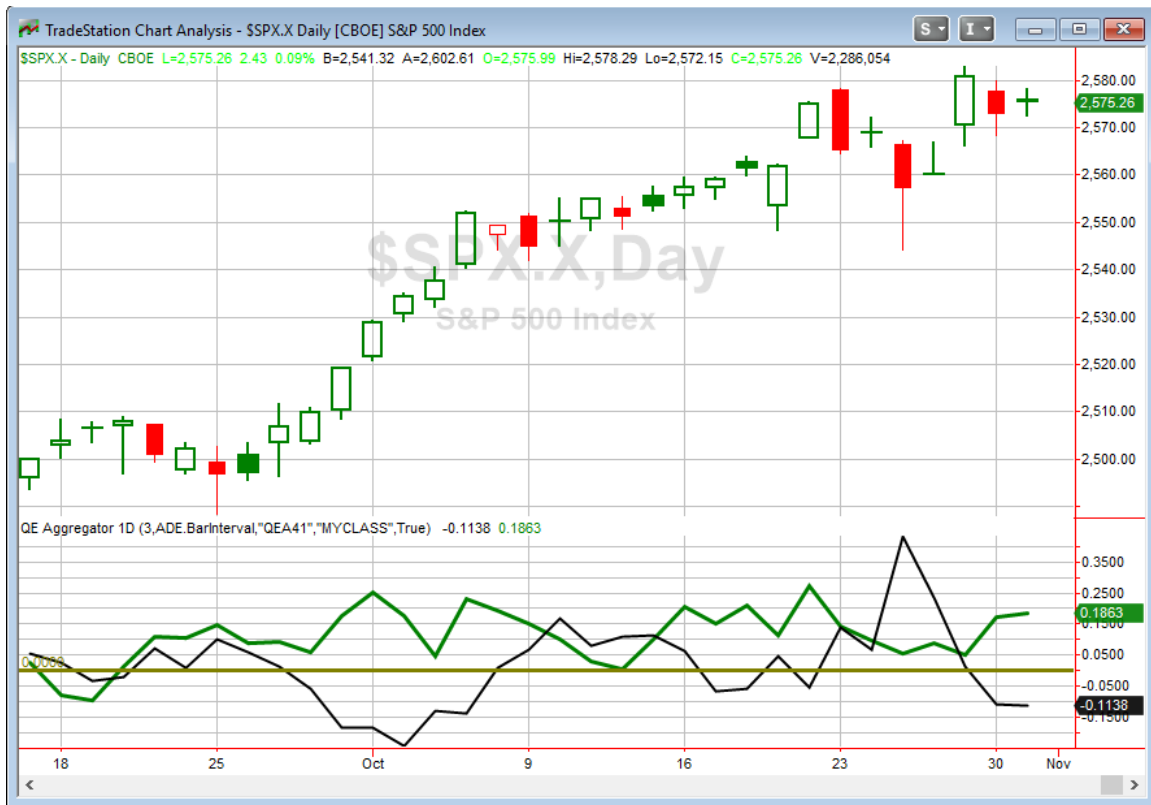
We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.



This paints an even bleaker picture.

So there are no new studies that I found worthy of adding to the Active List tonight.

I have updated the Aggregator chart below.



Without any new studies making the cut 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 stayed flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Wednesday. It would take some compelling bearish evidence to change this. The Differential Pivot will be *inverted* at 2586.07 on Wednesday. That is 0.4% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX will need to close up at least 0.4% in order to remain overbought. Anything less than that and it will be considered "oversold" versus recent expectations.

The Aggregator remains neutral and I do not see a compelling reason to take on new index exposure ahead of the Fed announcement on Wednesday. The reaction is sometimes strong. If that is the case, then we could see some new evidence emerge that would tip us off as to the next short-term move. I'm in wait-and-see mode for now. There were some new Catapults again, and I will look to take advantage of them.

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)

KHC @ \$75.27 (buy 1/3 @ limit) – not filled – cancel for now

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

New

ABT @ \$54.23 (buy 1/3 @ limit)

LLY @ \$81.94 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 7(CELG-2, CVX, KHC, LLY-2, ABT)

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.

ABT – buy 1/3 Catapult position @ \$54.23LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for ABT.

LLY – buy 1/3 Catapult position @ \$81.94 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for LLY.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CELG(1/3)	10/27/2017	\$99.64	\$100.97	1.33%		Catapult
CVX(1/3)	10/30/2017	\$113.17	\$115.89	2.40%		Catapult
LLY(1/)	10/31/2017	\$82.65	\$81.94	-0.86%		Catapult

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