

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 2, 2017

Volume 10 Issue 212

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.
- The CBI is at 9, which is a 1st when SPX is hitting new intermediate-term highs.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a mild bullish edge. I am looking to take advantage of potential upside through some Catapult positions.

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						
November 2, 2017	Up 2 < 3 ago.	1-2 days	Bullish			
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 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			

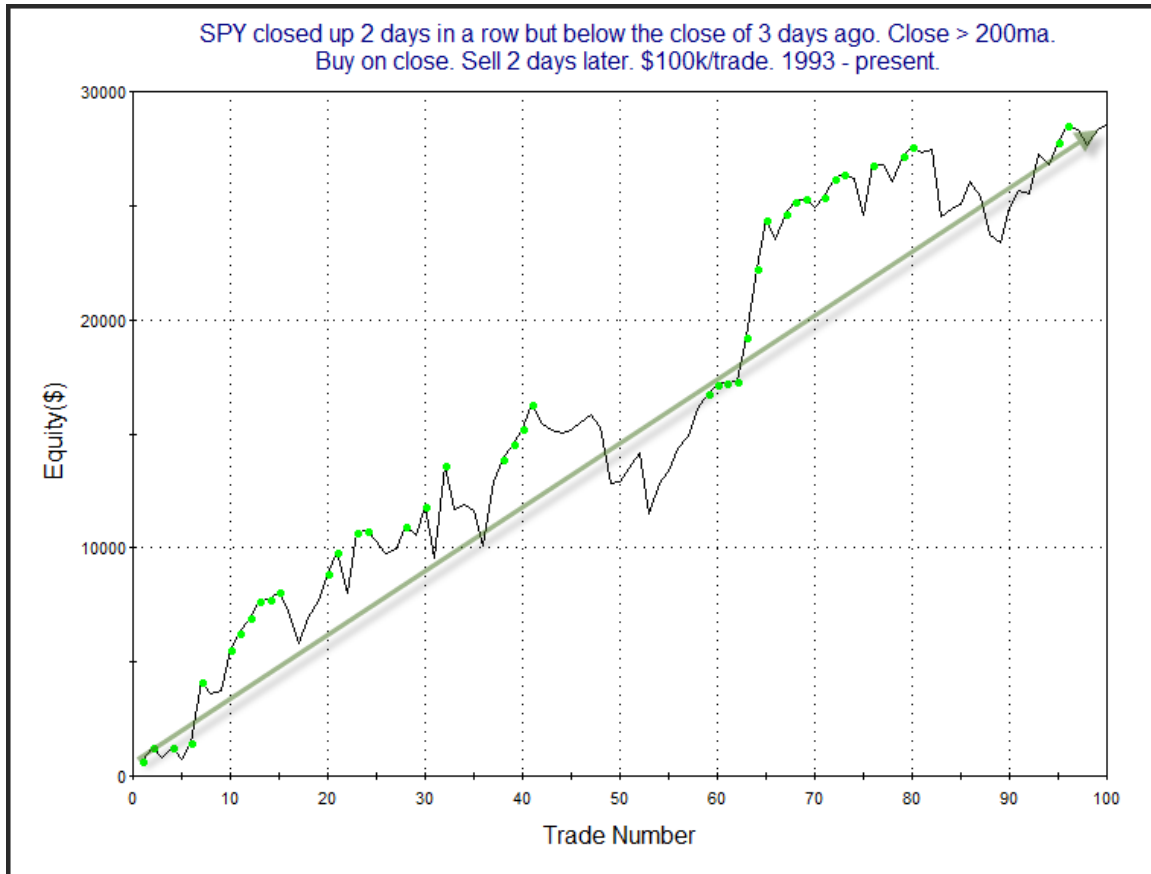
The Evidence

The market was mixed on Wednesday. The SPX rose 0.2%, NASDAQ fell 0.2% and Russell 2000 declined 0.7%. Breadth was positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 57%. NYSE volume declined some from Tuesday's level.

The mild action did not do much to trigger new studies. There was one study I found worth reviewing though, from the 7/5/17 Letter. It looked at times that SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. I have updated the results below.

SPY closed up 2 days in a row but below the close of 3 days ago. Close > 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	20,021.01	97	56	40	57.73	1,480.42	4,717.70	-1,572.06	-6,549.84	0.94	1.32	206.40
4	25,700.85	99	64	35	64.65	1,281.61	4,698.60	-1,609.21	-4,384.89	0.80	1.46	259.60
3	22,719.69	100	64	36	64.00	1,137.82	3,000.00	-1,391.68	-4,092.24	0.82	1.45	227.20
2	28,508.90	100	66	34	66.00	905.44	4,088.25	-919.12	-2,932.22	0.99	1.91	285.09
1	10,196.95	100	55	42	55.00	639.08	3,732.75	-594.11	-1,777.90	1.08	1.41	101.97

The stats appear to suggest a bit of an upside edge over the 1st 2 days. Below is an equity curve using a 2-day exit strategy.

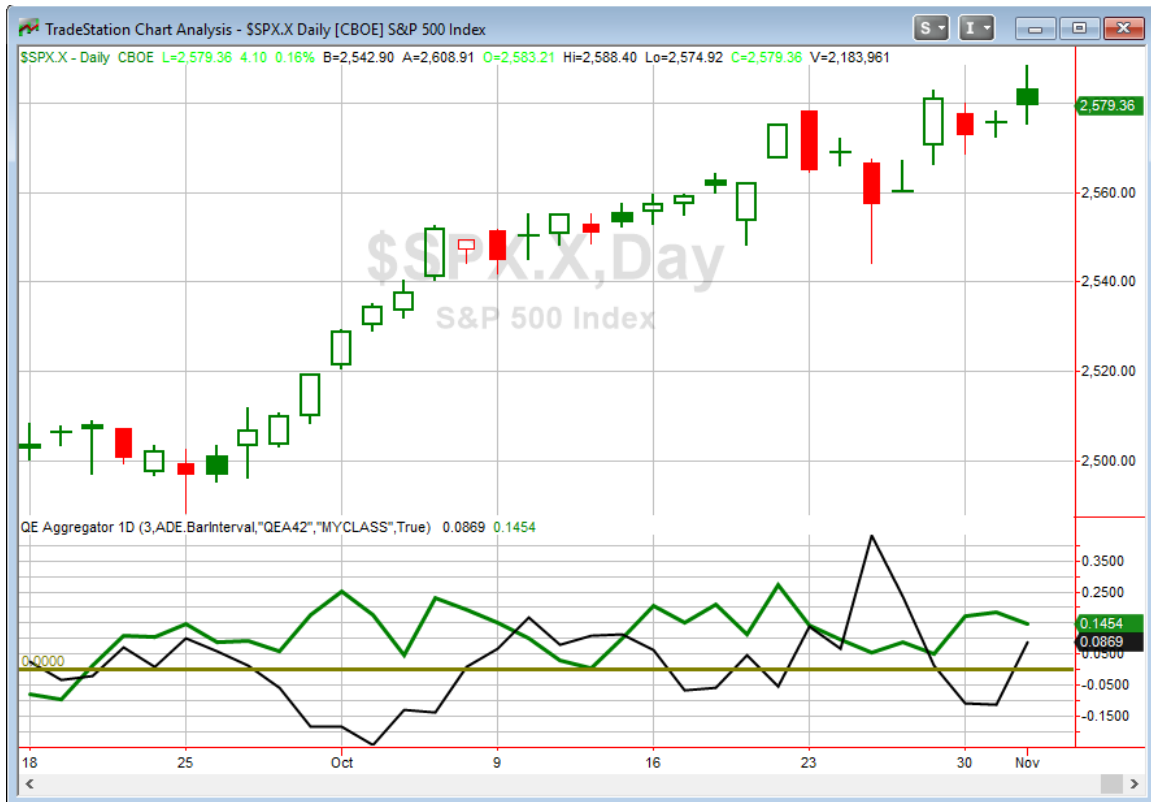


There have been a few dips in the curve but overall it seems good enough to include the study on the Active List. I will also note that I considered the fact that SPY made a new intraday long-term high, and I wondered whether that might serve as an interesting filter. There have only been 2 other instances where the setup occurred on a day that SPY made a 20-day intraday high. The both closed higher 2 days later, but I am not inclined to read anything into just 2 instances.

I received a note from a subscriber today that asked about the high CBI reading with the market also at a high level. This is very unusual. Historically, a reading of 9 or greater like we see tonight has been followed by gains in the next few days on a fairly consistent basis. This is especially true when the SPX is trading above its 200ma. But when we also consider the fact that SPX made a new intraday high today, we are in uncharted territory. Never before (with CBI history starting in 1995) has the CBI reached 9 on a day that SPX made a 20-day intraday high. To me this suggests a split market environment. And while the Catapults do seem primed to bounce, they do not have the “oversold” market on their side like they usually do. And while they could help the market to rally in the coming days,

I am not as enthused about the high CBI reading as I would be if the SPX was making new lows instead of new highs.

I have updated the Aggregator chart below.



With tonight's study 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 Thursday. It would take some compelling bearish evidence to change this. The Differential Pivot will be 2580.82 on Thursday. That is about 0.5 points above Wednesday's close. So SPX will be considered "oversold" on any down close, and overbought on almost any up close on Thursday.

While the Differential Line is showing that SPX is oversold vs expectations, that is about the only metric that would view the SPX as oversold. And with just about any higher close turning it overbought, potential upside appears limited. So I am not overly enthused about taking on new index trades. But as I noted above, there are a sizable number of open Catapult triggers. At this point I would rather utilize them to provide me some long exposure.

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)

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

LLY @ \$81.94 (buy 1/3 @ limit) – not filled – cancel for now

New

ABT @ \$54.00 (buy 1/3 @ limit)

PM @ \$103.75 (buy 1/3 @ limit)

Broad Market Large Cap CBI – 9(CELG-2, CVX, KHC, LLY-2, ABT-2, PM)

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 @ \$54.00 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots for ABT.

PM – buy 1/3 Catapult position @ \$103.75 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots for PM.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CELG(1/3)	10/27/2017	\$99.64	\$100.53	0.89%		Catapult
CVX(1/3)	10/30/2017	\$113.17	\$115.90	2.41%		Catapult
LLY(1/3)	10/31/2017	\$82.65	\$82.89	0.29%		Catapult
ABT(1/3)	11/1/2017	\$53.89	\$54.00	0.20%		Catapult

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