

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 3, 2017

Volume 10 Issue 213

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- SPX up 3 days but below the close of 4 days ago is often followed by more upside.
- The employment report could bring some interesting action tomorrow but it has not provided a consistent edge over the years.

Short-term Outlook

The Bottom Line

Similar to last night, the Aggregator is suggesting a mild bullish edge. I am still just 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 3, 2017	Up 3 < 4 ago	1 day	Bullish			
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			
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			

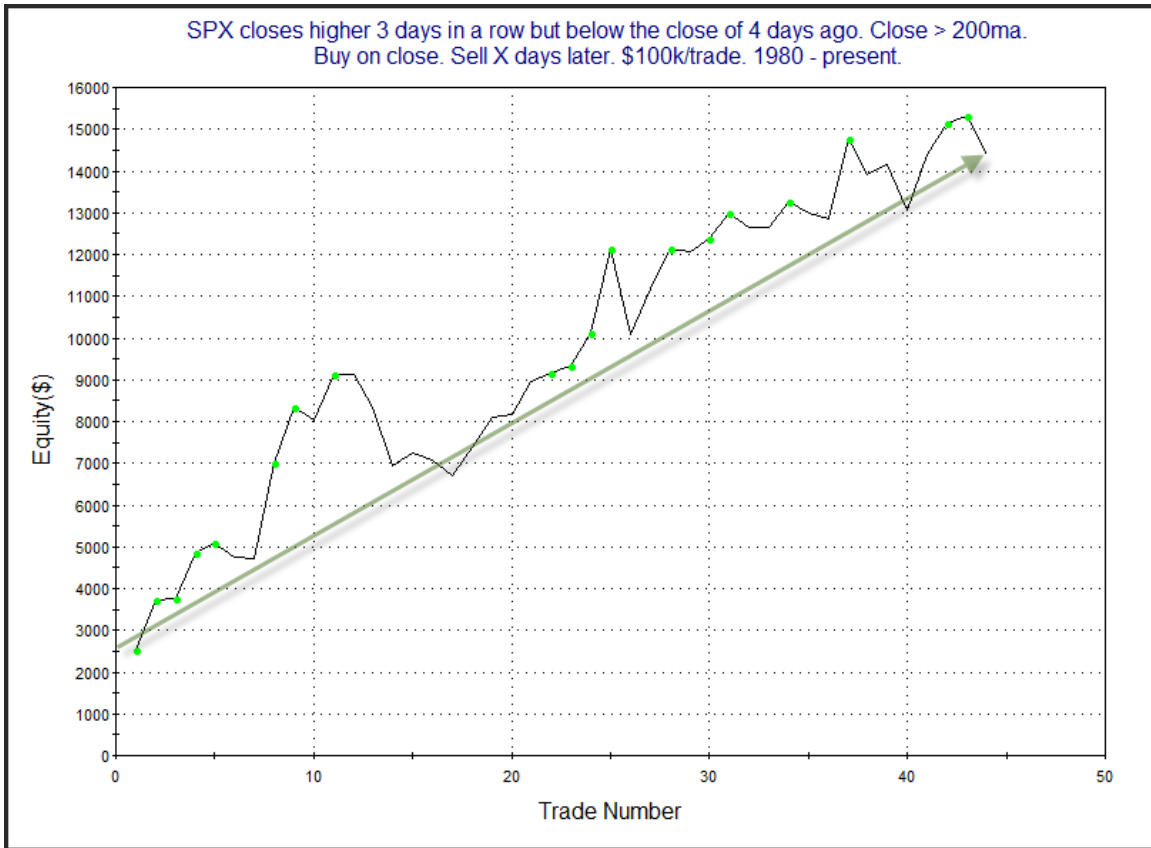
The Evidence

The market was mixed and mild on Thursday. The SPX rose 0.02%, the NASDAQ fell 0.02% and Russell 2000 gained 0.25%. Breadth was negative as the NYSE Up Issues % was 48% and the Up Volume % came in at 42%. NYSE volume rose some from Wednesday's level.

Mild moves don't often lead to very compelling studies. One study from the Quantifinder tonight that I thought was worth considering was last shown in the 7/6/17 Subscriber Letter. It looked at 3-day rallies that could not overcome the 1-day drop that occurred 4 days ago. I have updated the results below.

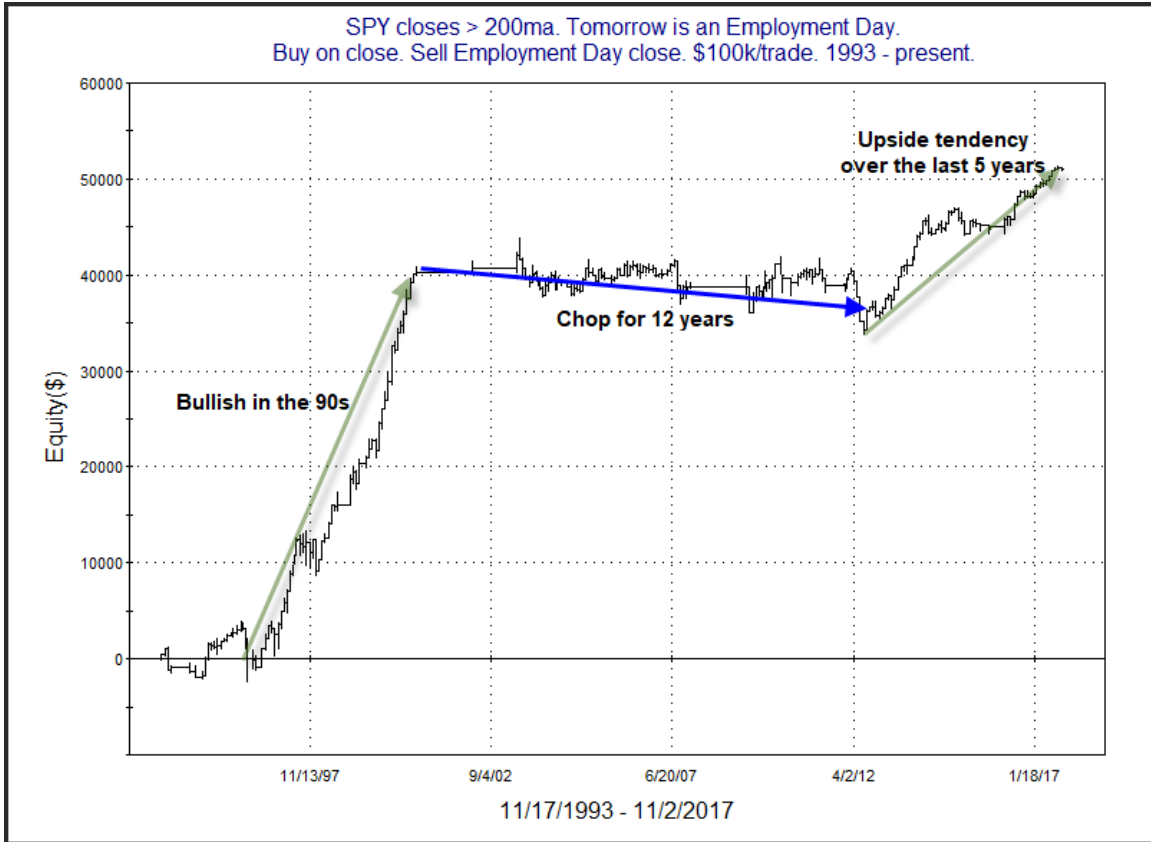
SPX closes higher 3 days in a row but below the close of 4 days ago. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	17,403.73	44	26	18	59.09	1,627.42	6,422.84	-1,383.84	-3,864.28	1.18	1.70	395.54
4	19,076.64	44	29	15	65.91	1,477.47	4,938.89	-1,584.67	-4,304.58	0.93	1.80	433.56
3	13,933.47	44	26	18	59.09	1,432.11	4,482.29	-1,294.52	-4,052.24	1.11	1.60	316.67
2	13,652.79	44	28	16	63.64	1,007.27	3,980.03	-909.43	-2,257.55	1.11	1.94	310.29
1	14,396.29	44	28	15	63.64	841.98	2,534.13	-611.95	-2,068.30	1.38	2.57	327.19

I found it interesting that despite the fact the market had already risen for 3 days in a row, the fourth day showed gains nearly 2/3 of the time. This even held true over the 1-4 day period, although most of the gains were realized on day 1. To see how this potential edge has played out over time I ran an equity curve using a 1-day hold.



The equity curve appears fairly steady and solid. I have included this study on the Active List tonight.

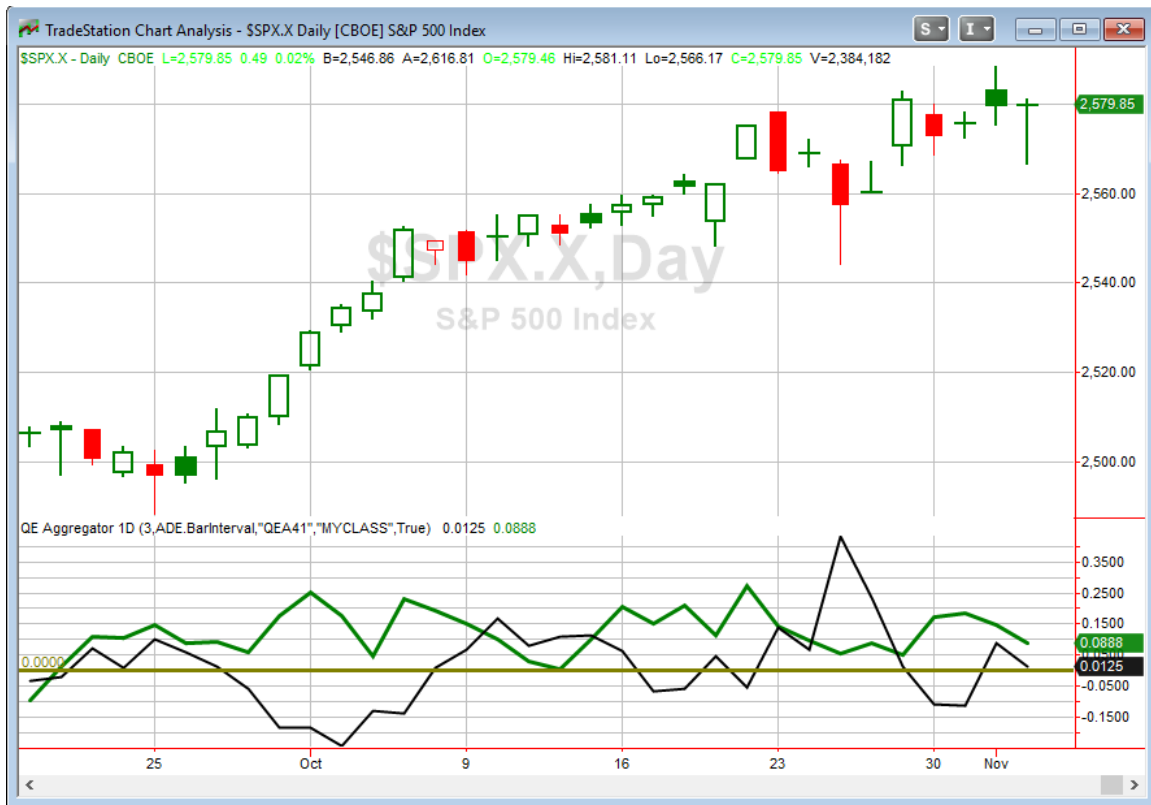
It is also notable that tomorrow will be the release of the BLS Employment Report. Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPY performance on Employment Days. I posted this chart in the 8/4/17 subscriber letter. For this equity curve I filtered to only include days where SPY was > its 200ma. Each trade was a fictional \$100k.



What I find interesting about the chart is that Employment Days in uptrends have shown such streaky performance – and the streaks lasted a long time. While it’s a bit unusual to see such abrupt changes in market dynamics, it does serve as a nice reminder that such changes are always possible.

I will also note that the 3/10 Offset HV indicator for SPX came in with a very low reading. That means that the historical volatility over the last 3 days has been very small compared to the previous 10. This type of volatility contraction is often followed by a volatility expansion. The employment report could serve to act as a catalyst for a volatility expansion tomorrow. I will note that the indicator is not useful in predicting direction. For that I use the studies and the Aggregator,

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 held just barely 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.

All of the current short-term active studies are set to expire on Friday. With the intermediate-term outlook leaning bullish, expectations are currently set to remain bullish on Friday. Of course expectations could be greatly impacted by any new studies that emerge. The Differential Pivot will be 2585.76 on Friday. That is 0.2% above Thursday's close. So it will only take a 0.2% gain to turn SPX from oversold to overbought on Friday.

My outlook is much the same as it was last night. There does appear to be a moderate upside edge. I am not terribly enthused about taking on new index exposure with the indices at or near new all-time highs, and would prefer a pullback for a lower-risk entry point. There are several Catapults that are active, and I am looking to realize gains in those individual positions rather than making an index bet with a setup that appears borderline for index bets.

*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)

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

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

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

New

PM @ \$102.80 (buy 1/3 @ limit)

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

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.

PM – buy 1/3 Catapult position @ \$103.75 LIMIT. From the Catapult section above, this is the 2nd 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	\$98.20	-1.45%		Catapult
CVX(1/3)	10/30/2017	\$113.17	\$115.33	1.91%		Catapult
LLY(1/3)	10/31/2017	\$82.65	\$83.13	0.58%		Catapult
ABT(1/3)	11/1/2017	\$53.89	\$54.37	0.89%		Catapult
ABT(1/3)	11/2/2017	\$54.00	\$54.37	0.69%		Catapult
PM(1/3)	11/2/2017	\$103.71	\$102.80	-0.88%		Catapult

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