

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 24, 2017

Volume 10 Issue 227

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Short	100% Short SPY

Tonight's Research Points

- Low volume on Thanksgiving Wednesday has often been followed by a pullback in the few days.

Short-term Outlook

The Bottom Line

Evidence is now pointing a little lower and the market is overbought. So there appears to be a bit of a downside edge. It does not appear strong enough to interest me in a short 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						
November 24, 2017	Thanksgiving Wed low volume	1-2 days	Bearish			
November 22, 2017	Thanksgiving Wed-Fri bullish	1-2 days	Bullish			
November 17, 2017	Unfilled gap dn 2x. 5-low > 200ma.	1-6 days	Bullish			
Active - Long Term						
November 15, 2017	1st 10-low in 30 days	1-10 days	Bullish	3.10%	-1.90%	-4.30%
November 14, 2017	SPX top 25% 20day rng. RUT bottom 25	1-40 days	Bullish	5.60%	-2.80%	-5.50%
November 13, 2017	Hindenburg Omen Cluster	1-35 days	Bearish			
November 10, 2017	1st 5-low in 10 days. 20-high yesterday	1-11 days	Bullish			
November 8, 2017	5 higher 50-day, 1 day down	1-10 days	Bullish			
October 24, 2017	SPX 20-high. NDX big drop	1-50 days	Bullish	6.30%	-2.80%	-5.50%
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

Wednesday was a quiet and mixed day for the market. The SPX and Russell 2000 each lost 0.1%, and the NASDAQ rose 0.1%. Breadth was positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 58%. NYSE volume came in at the lowest level since 10/18.

Low volume, especially on up days, can be a sign of complacency, so it will commonly trigger studies with bearish edges. But Wednesday's volume came one day ahead of Thanksgiving. So perhaps it wasn't so much a sign of complacency, but rather a sign of people taking off early ahead of the holiday. Often when volume comes in extremely light on or just in front of a holiday I will simply dismiss low-volume studies. But there was one low-volume study from the 11/25/16 letter that specifically examined low volume on the day before Thanksgiving. And it had interesting results. So I updated it below.

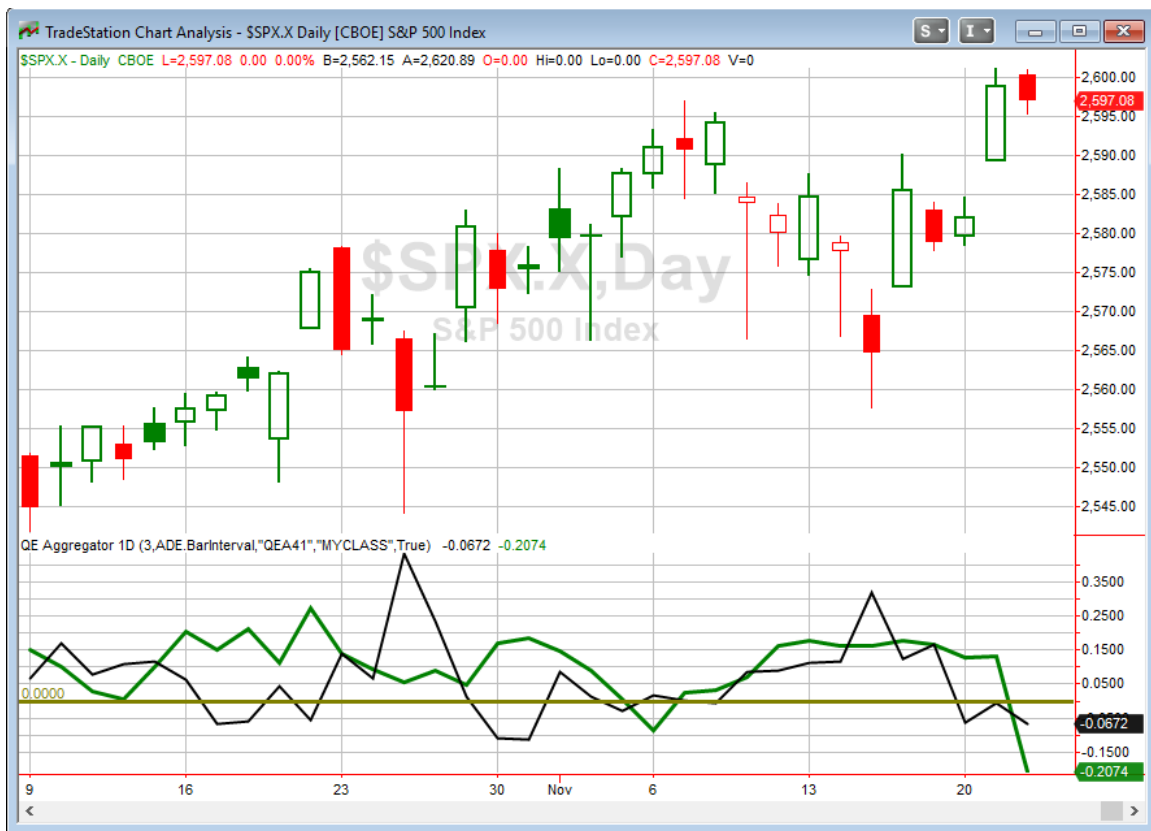
Wednesday before Thanksgiving posts the lowest NYSE volume in 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-6,384.14	14	6	8	42.86	1,473.59	3,685.24	-1,903.21	-7,726.01	0.77	0.58	-456.01
4	-968.07	14	6	8	42.86	1,243.49	3,610.64	-1,053.63	-4,359.94	1.18	0.89	-69.15
3	-6,400.85	14	4	10	28.57	1,397.13	3,468.90	-1,198.94	-4,948.90	1.17	0.47	-457.20
2	-12,818.29	14	2	12	14.29	667.85	1,096.98	-1,179.50	-5,644.20	0.57	0.09	-915.59
1	-3,458.60	14	6	8	42.86	313.64	746.00	-667.56	-1,721.70	0.47	0.35	-247.04
<p style="text-align: center;">The 1st instance (1982) was the only one that did not close below Wednesday's close on either Friday or Monday.</p>												

In the last 47 years there have been 14 instances where Wednesday marked a 20-day volume low. This isn't as common as some might suspect but it's about 4 times higher than you'd get looking at any random day. Interesting is how poorly the SPX has performed over the next 2 days when volume has come in low. The number of instances is low, but I also took a deeper look at the results. Below are all the instances.

Wednesday before Thanksgiving posts the lowest NYSE volume in 20 days. Buy SPX on close. Sell 2 days later. \$100k/trade. 1970 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/24/1982	Buy	\$133.88	0.24%	\$1,051.86
11/29/1982	Sell	\$134.20		(\$141.74)
11/25/1987	Buy	\$244.10	-5.65%	\$4.09
11/30/1987	Sell	\$230.30		(\$7,496.97)
11/23/1988	Buy	\$269.00	-0.14%	\$0.00
11/28/1988	Sell	\$268.63		(\$942.34)
11/24/1993	Buy	\$462.36	-0.10%	\$533.52
11/29/1993	Sell	\$461.90		(\$114.48)
11/25/1998	Buy	\$1,186.86	-1.96%	\$512.40
11/30/1998	Sell	\$1,163.62		(\$1,952.16)
11/24/1999	Buy	\$1,417.08	-0.65%	\$571.20
11/29/1999	Sell	\$1,407.83		(\$905.10)
11/26/2003	Buy	\$1,058.45	1.10%	\$1,129.88
12/1/2003	Sell	\$1,070.12		(\$157.92)
11/24/2004	Buy	\$1,181.76	-0.27%	\$435.12
11/29/2004	Sell	\$1,178.57		(\$788.76)
11/22/2006	Buy	\$1,406.09	-1.72%	\$0.00
11/27/2006	Sell	\$1,381.96		(\$1,750.15)
11/25/2009	Buy	\$1,110.63	-1.35%	\$0.00
11/30/2009	Sell	\$1,095.63		(\$2,420.10)
11/24/2010	Buy	\$1,198.35	-0.88%	\$0.00
11/29/2010	Sell	\$1,187.76		(\$2,050.93)
11/26/2014	Buy	\$2,072.83	-0.94%	\$140.64
12/1/2014	Sell	\$2,053.44		(\$1,116.48)
11/25/2015	Buy	\$2,088.87	-0.41%	\$232.18
11/30/2015	Sell	\$2,080.41		(\$397.62)
11/23/2016	Buy	\$2,204.72	-0.14%	\$388.35
11/28/2016	Sell	\$2,201.72		(\$196.20)

I don't see any red flags here (other than the low number of instances). With the Average Drawdown 4x the size of the Avg Run-Up, and also larger than the Max Run-up, reward/risk has favored the bears. Results appear skewed enough to the downside and the study seems worth some consideration. I have included it on the Active List tonight.

I have updated the Aggregator chart below.



With tonight's bearish study, the green Aggregator Line dropped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line held below 0. The negative Differential Line reading means SPX is "overbought" versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal turned short at the close.

Based on the current list of active studies, expectations are slated to remain negative on Friday. Of course, this could change if compelling new bullish evidence emerges. The Differential Pivot will be 2594.31 on Friday. That is just 0.1% below Wednesday's close. So SPX would only need to close down 0.1% in order to flip from overbought to oversold as of Friday's close.

The Aggregator is suggesting a bearish edge. But it does not appear to be strong enough to interest me in taking on a short position. I say this because 1) we really only have one short-term study pointing down, 2) the intermediate-term remains “somewhat bullish”, and 3) potential reward is limited since any close down of even 0.1% on Friday would turn the Aggregator signal back to flat or long. So while the market may have a moderate downside edge, it is not compelling enough for me to take action on it. I will wait for a more favorable reward/risk opportunity to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/20– somewhat bullish

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

Open Catapult Triggers

UTX @ \$117.07 (bought 1/3 @ limit)

COP @ \$51.23(bought 1/3 @ limit)

COP @ \$50.49 (bought 1/3 @ limit)

COP @ \$50.22 (bought 1/3 @ limit)

Broad Market Large Cap CBI – 4(UTX, COP-3)

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MON(1/3)	11/6/2017	\$119.87	\$118.38	-1.24%		<i>sold on open</i>
MON(1/3)	11/10/2017	\$117.02	\$118.38	1.16%		<i>sold on open</i>
UTX(1/3)	11/14/2017	\$117.07	\$116.73	-0.29%		Catapult
COP(1/3)	11/15/2017	\$50.74	\$50.22	-1.02%		<i>sell on open</i>
COP(1/3)	11/16/2017	\$50.40	\$50.22	-0.36%		<i>sell on open</i>
EMR(1/3)	11/16/2017	\$58.05	\$60.75	4.65%		<i>sold on open</i>
COP(1/3)	11/17/2017	\$50.22	\$50.22	0.00%		<i>sell on open</i>
EMR(1/3)	11/17/2017	\$58.86	\$60.75	3.21%		<i>sold on open</i>

COP reached its exit target and will be closed out at Friday's open.

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