

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 9, 2014

Volume 7 Issue 127

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.

Short-term Outlook

The Bottom Line

Bullish evidence arrived on Tuesday and the market is now relatively oversold on a short-term basis. I intend to slowly begin scaling in to a long position.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
July 9, 2014	2 unfilled gaps dn > 200ma	1-5 days	Bullish	1.70%
July 8, 2014	Weak drop on very poor breadth fr 50h	1-2 days	Bearish	
July 2, 2014	Low vol breakout	1-5 days	Bullish	1.40%
Active - Long Term				
July 9, 2014	2 unfilled gaps dn > 200ma	1-10 days	Bullish	2.50%
June 24, 2014	5 up to 50-high then down	1-10 days	Bullish	
June 2, 2014	NASDAQ leading SPX	int term	Bullish	
April 28, 2014	Sell in May	6 months	Bearish	
December 23, 2013	QE Tapering	int term	Neutral	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
July 8, 2014	Unfill gap up, 20-high. Unfilled gap	1 day	Bearish	

The Evidence

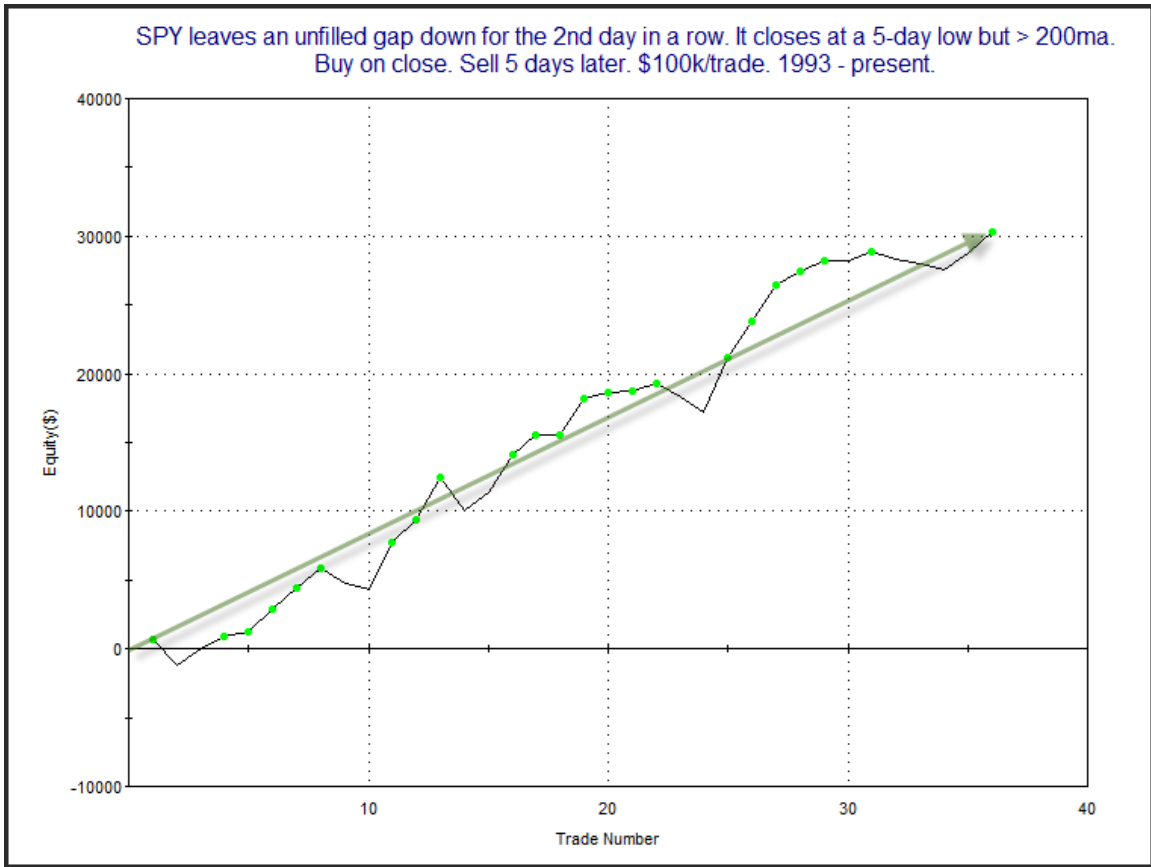
More selling hit the market on Tuesday. The SPX lost 0.7%, the NASDAQ fell 1.4% and the Russell 2000 dropped 1.2%. Breadth was weak as the NYSE Up Issues % came in at 39% and the Up Volume % was 27%. Total NYSE volume rose slightly from Monday.

Notable about the price action over the last 2 days is that both Monday and Tuesday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 6/13/14 letter. Results are updated.

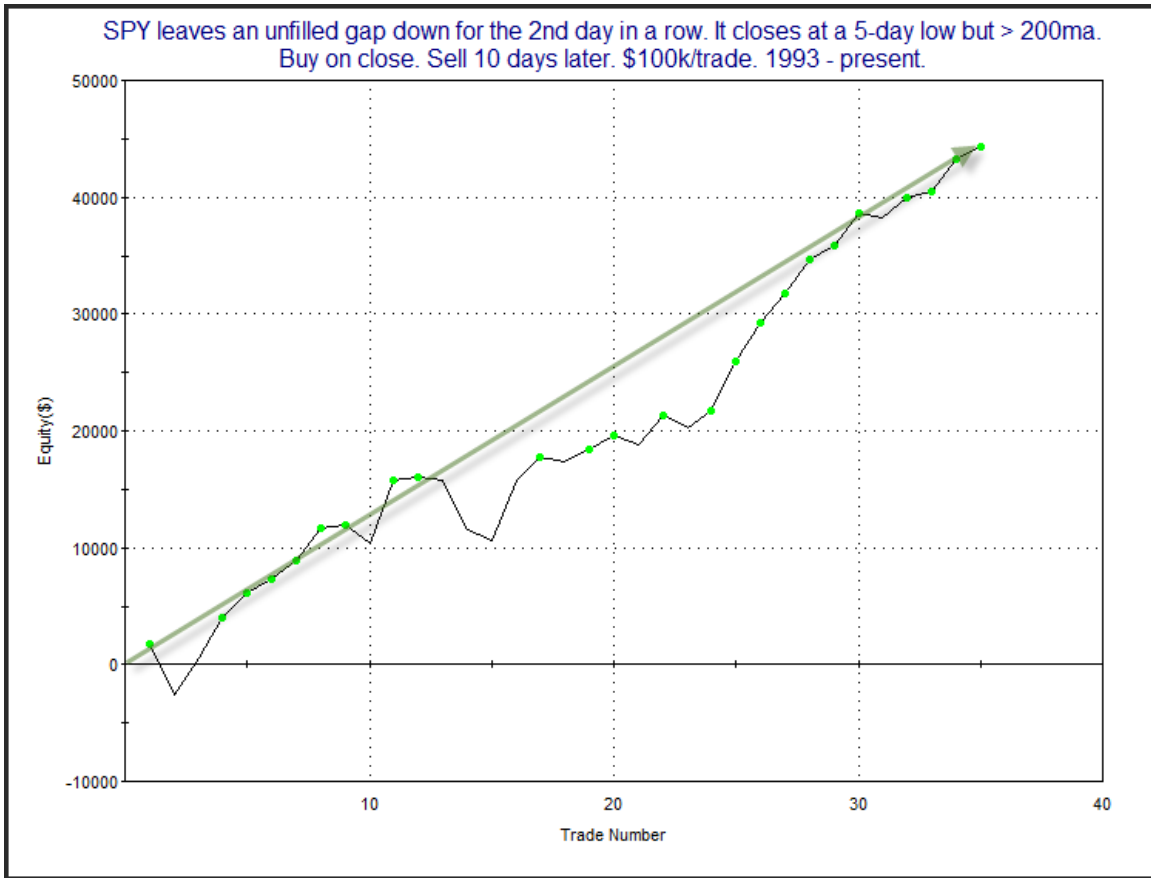
SPY leaves an unfilled gap down for the 2nd day in a row. It closes at a 5-day low but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	44,257.45	35	26	9	74.29	2,236.58	5,325.39	-1,543.73	-4,353.36	1.45	4.19	1,264.50
9	40,797.56	36	29	7	80.56	2,019.84	4,882.41	-2,539.69	-6,273.96	0.80	3.29	1,133.27
8	33,723.21	36	26	9	72.22	1,988.52	4,574.25	-1,997.60	-4,801.50	1.00	2.88	936.76
7	23,376.80	36	25	10	69.44	1,908.68	4,429.74	-2,434.02	-5,057.58	0.78	1.96	649.36
6	28,925.28	36	27	9	75.00	1,627.43	3,828.72	-1,668.36	-3,734.50	0.98	2.93	803.48
5	30,293.85	36	26	10	72.22	1,518.44	3,940.02	-918.56	-2,465.95	1.65	4.30	841.50
4	24,557.49	36	28	8	77.78	1,166.27	4,388.28	-1,012.26	-1,920.60	1.15	4.03	682.15
3	12,870.73	36	22	14	61.11	1,032.58	3,325.14	-703.29	-1,645.38	1.47	2.31	357.52
2	8,402.28	36	22	14	61.11	881.19	2,948.14	-784.56	-2,436.12	1.12	1.76	233.40
1	4,226.36	37	22	15	59.46	687.83	1,974.15	-727.06	-1,849.26	0.95	1.39	114.23

Only 1 instance failed to close above the entry price at some point in the next 6 days. It triggered on 9/14/99.

The numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 5-day holding period.

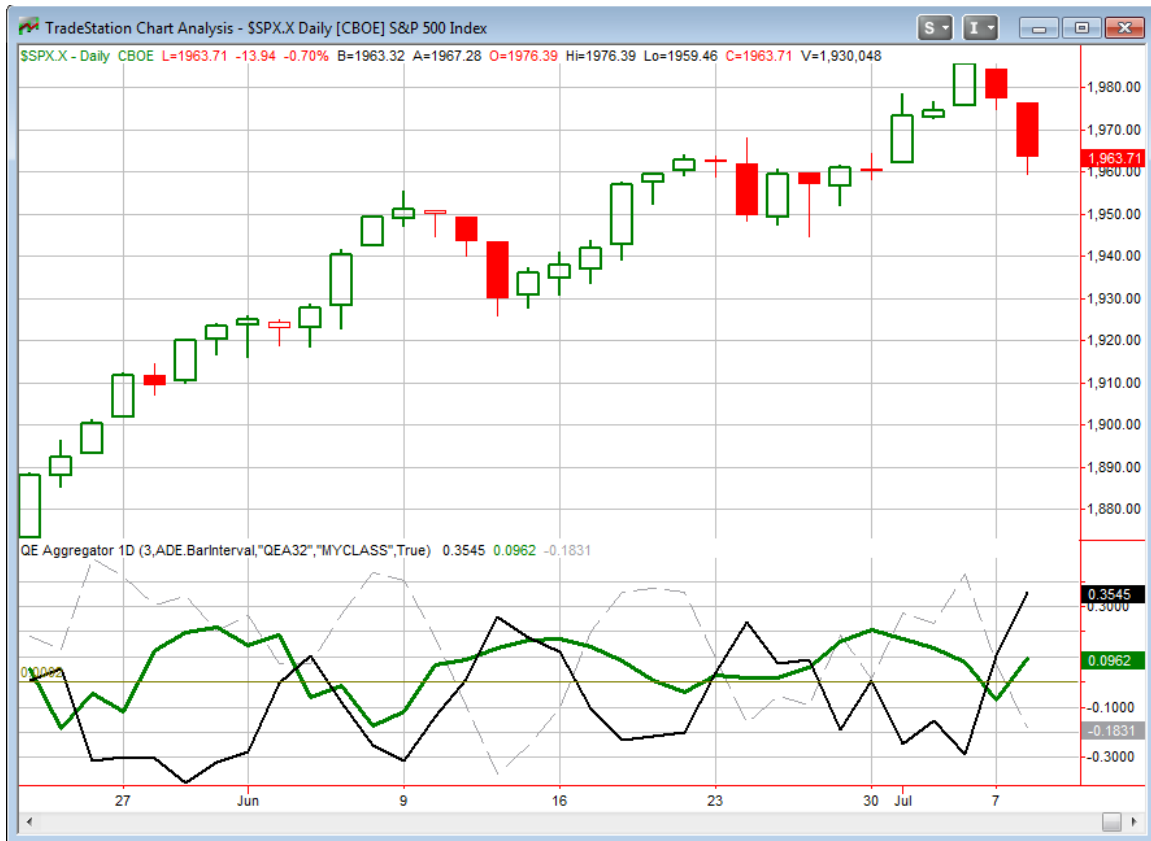


The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.



This is also very strong. I have included this study on both the Short and Intermediate-term Active Lists tonight.

I have updated the [Aggregator](#) chart below.



The bullish study tonight helped push the Aggregator Line squarely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the 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 active studies, expectations are slated to stay positive on Wednesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1992.80 on Wednesday. That is 1.5% above Tuesday's close. With the low volatility environment we are in, it is highly unlikely we will see a rally of that magnitude occur on Wednesday. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is now suggesting a bullish edge. I like the long side here. I do not LOVE the long side though. While it's oversold as measured by the Differential Line, the SPX is barely below its 10ma. There is certainly room for it to fall further before a bounce ensues. Still, I like the bullish evidence, and the market has not been providing deep pullbacks. So you often need to start scaling in on shallow pullbacks if you are

going to take advantage of the bounce. I intend to begin taking on some long exposure here in anticipation of a bounce. Details are in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/7 – slightly bullish

The intermediate-term outlook was last updated in the 7/7/14 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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.

SPY – buy ¼ index position @ \$196.24 Limit. Based on the short-term outlook above. I will look to begin scaling in to an index position if I can get a fill.

Current Open Trade Ideas

None

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