

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 11, 2014

Volume 7 Issue 129

Market Overview



Signals Overview

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

Tonight's Research Points

- Despite the huge, unfilled gap down no new compelling evidence emerged on Thursday.

Short-term Outlook

The Bottom Line

No new evidence has emerged the last couple of days, but there still appears to be an upside edge.

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

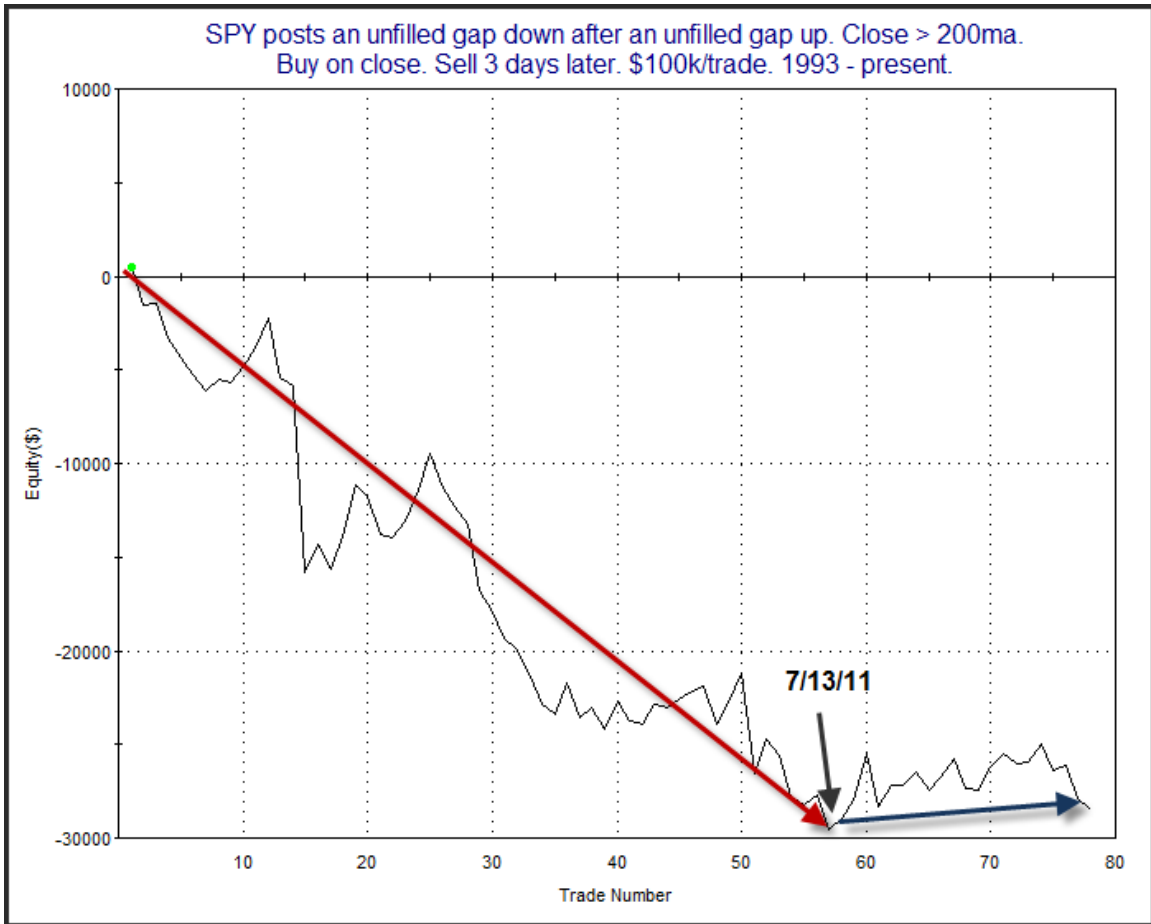
Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
July 9, 2014	2 unfilled gaps dn > 200ma	1-5 days	Bullish	1.70%
Active - Long Term				
July 9, 2014	2 unfilled gaps dn > 200ma	1-10 days	Bullish	2.50%
June 24, 2014	5 up to 50-high then down	1-10 days	Bullish	
June 2, 2014	NASDAQ 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	

The Evidence

Thursday started off bad, but by the end of the day a big portion of the losses had been made up for. Still, the indices all closed lower. The SPX fell 0.4%, the NASDAQ dropped 0.5% and the Russell 2000 closed down 1.0%. Breadth was negative as the NYSE Up Issues % came in at 30% and the Up Volume % was 28%. Total NYSE volume rose a little from Wednesday's level.

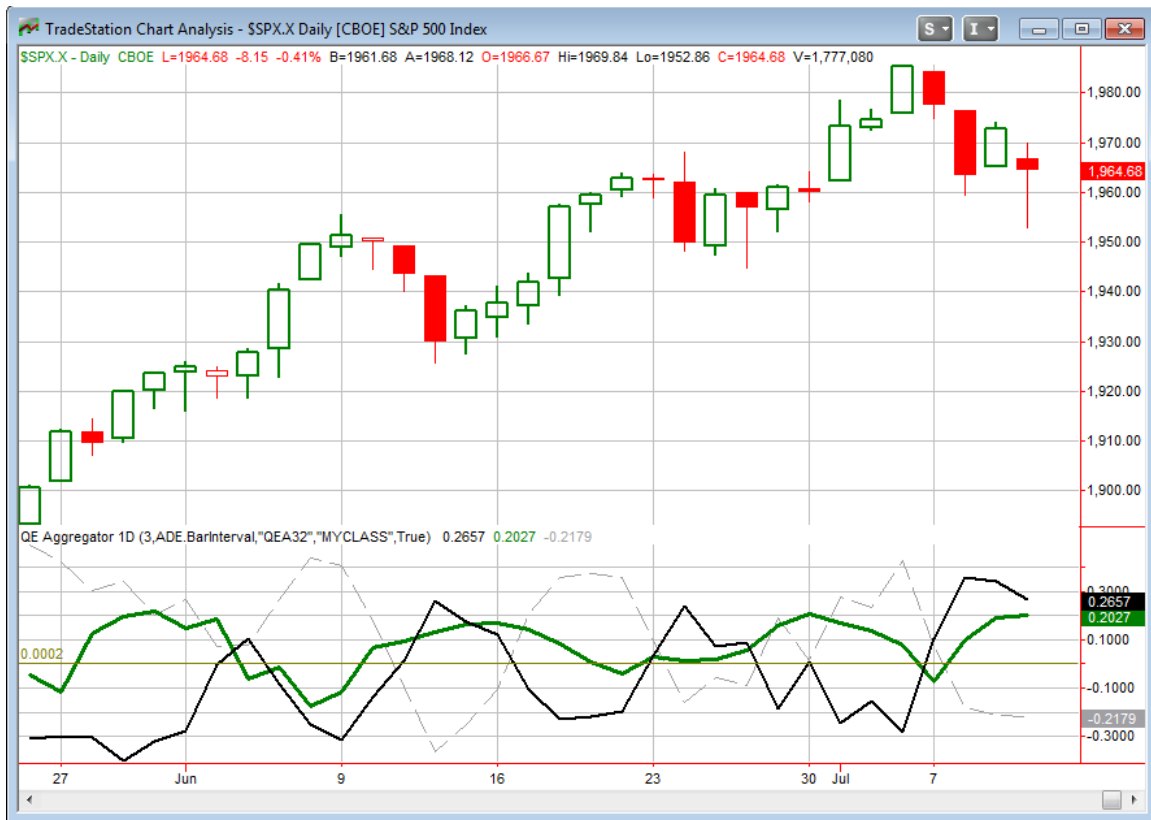
The gap down of 19.75 points in ES to open the day was the largest gap down since December of 2012. This inspired me to run some studies around exceptionally large gaps down and what the implications might be going forward. Unfortunately, I found nothing of real consequence there for anything beyond an overnight timeframe.

The unfilled gap down following an unfilled gap up triggered an old Quantifinder study from the 11/27/12 letter. But a closer look convinced me that study was not worth considering at this point in time. For one, the profit curve bottomed out about 20 instances and 3 years ago. Since then it has failed to make any downward progress. This can be seen below.



With this in mind, I have decided to suspend that particular study from consideration. Unfortunately, this left us without any new and compelling evidence to consider tonight. Estimates are therefore being generated based on previous studies.

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



The Aggregator Line held squarely above 0 on Wednesday. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also 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 stayed long at the close.

Based on the current active studies, expectations are slated to stay positive on Friday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1965.70 on Friday. That is about 1 point above Thursday's close. So SPX will only need to close up a small amount to move from oversold to overbought versus expectations.

There still appears to be an upside edge. But the upside is somewhat capped with the Differential Pivot so close by. So rather than take on a big index position I decided to take on a small stock position in a numbered system trade that appears to have more upside potential. 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.

SLB – buy @ \$115.40 LIMIT. This is based on System 11111. System 11111 has done fairly well over the years. And while instances are low, SLB had done better with it than most stocks. This can be seen in the results below.

SLB hypothetical performance for system 11111. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$19,442.66	Profit Factor	7.39
Gross Profit	\$22,484.83	Gross Loss	(\$3,042.17)
Total Number of Trades	9	Percent Profitable	88.89%
Winning Trades	8	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$2,160.30	Ratio Avg. Win:Avg. Loss	0.92
Avg. Winning Trade	\$2,810.60	Avg. Losing Trade	(\$3,042.17)
Largest Winning Trade	\$3,778.18	Largest Losing Trade	(\$3,042.17)

Stats here appear strong despite the small sample size. Below is a list of all the individual instances.

SLB hypothetical performance for system 11111.
\$100k/trade. \$0.01/share commissions. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/11/95	Buy	\$15.81	3.80%	\$4,156.02
05/16/95	Sell	\$16.41		(\$944.55)
03/01/96	Buy	\$18.22	3.24%	\$4,116.00
03/06/96	Sell	\$18.81		(\$878.08)
01/22/97	Buy	\$27.94	(3.04%)	\$2,326.35
01/29/97	Sell	\$27.09		(\$4,939.02)
01/05/04	Buy	\$27.10	2.40%	\$2,487.44
01/05/04	Sell	\$27.75		(\$402.38)
02/06/04	Buy	\$30.42	2.14%	\$3,221.26
02/09/04	Sell	\$31.07		\$0.00
02/19/04	Buy	\$31.50	2.35%	\$2,380.50
02/24/04	Sell	\$32.24		(\$380.88)
07/09/04	Buy	\$31.20	1.86%	\$2,019.15
07/14/04	Sell	\$31.78		(\$1,378.15)
11/17/10	Buy	\$72.74	3.79%	\$4,425.84
11/18/10	Sell	\$75.50		(\$218.56)
07/29/13	Buy	\$81.11	3.01%	\$3,159.80
08/01/13	Sell	\$83.55		(\$378.20)

I don't see any warning signs here. SLB appears to have an upside edge that I will look to take advantage of.

Current Open Trade Ideas

None

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