

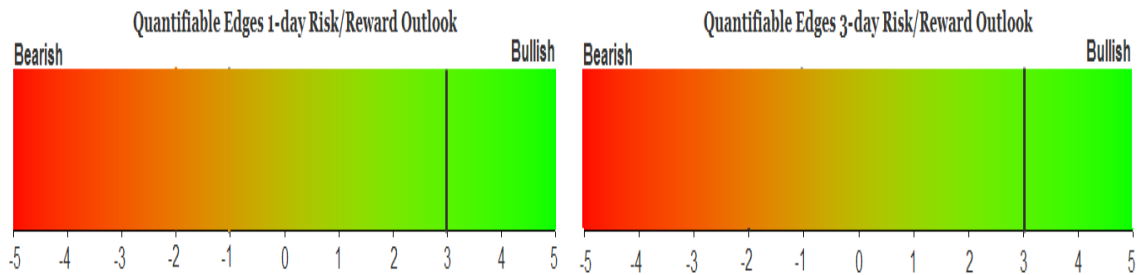
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 18, 2014

Volume 7 Issue 134

Market Overview



Signals Overview

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

Tonight's Research Points

- The QE Buying Power System is signaling a buy.
- 20% VIX spikes are often followed by a rise in the SPX the next day.
- Moving from a 7-day high to a 7-day low in just 1 day has led to additional selling in the past.

Short-term Outlook

The Bottom Line

The strong selloff on Thursday triggered a number of studies. Not all pointed higher, but most did. And with the market quickly moving to an oversold state there now appears to be a bit of 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 18, 2014	VIX rises > 20% in 1 day	1 day	Bullish	
July 18, 2014	QE Buying Power Long	1-6 days	Bullish	
July 18, 2014	7 high to 7-low in 1 day	1-2 days	Bearish	
July 17, 2014	NR7 after high vol WR7 down	1-5 days	Bullish	2.20%
Active - Long Term				
July 9, 2014	2 unfilled gaps dn > 200ma	1-10 days	Bullish	2.50%
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

The market suffered its worst down day in quite a while on Thursday. The SPX dropped 1.2%, the NASDAQ declined 1.4%, and the Russell 2000 lost 1.6%. Breadth was strongly negative as the NYSE Up Issues % came in at 20% and the Up Volume % was 14%. Total NYSE volume rose from Wednesday's level.

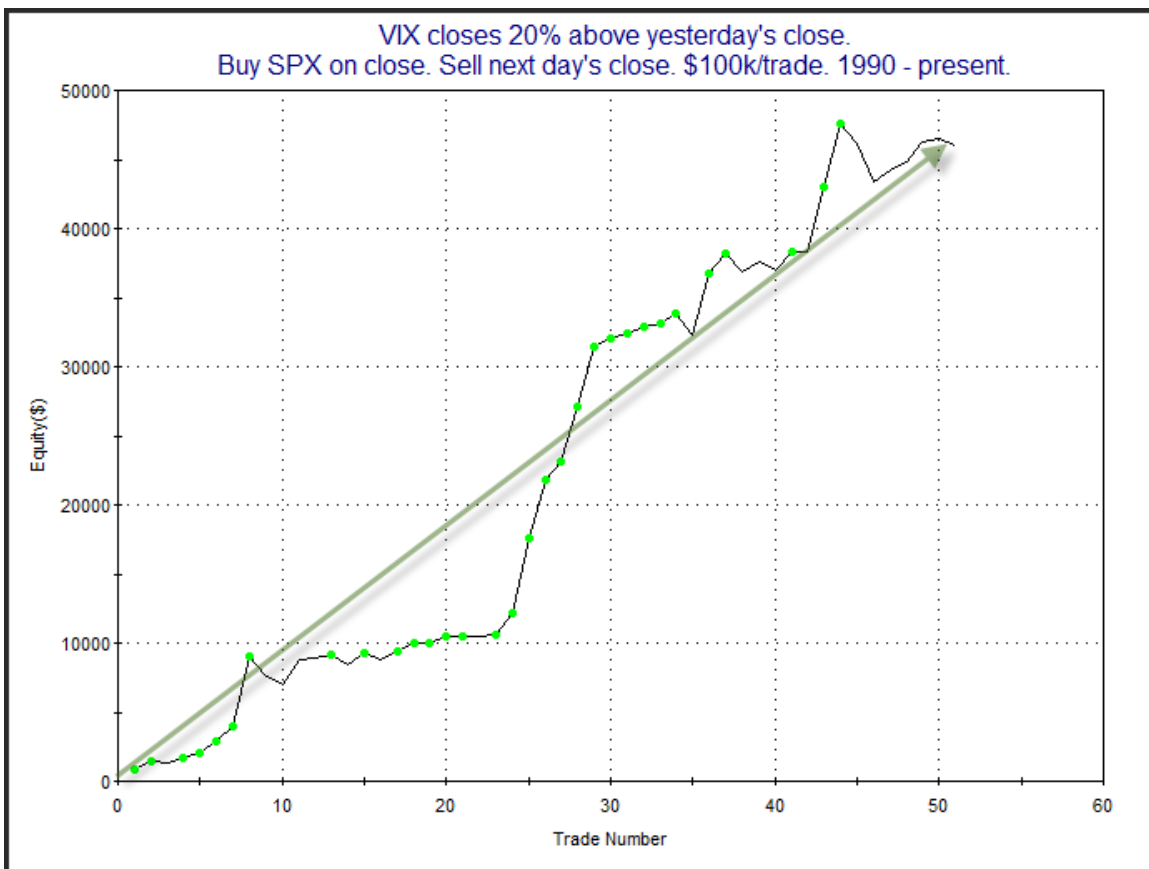
There were quite a few interesting things to look at tonight. It was the first 10-day low close for SPX since April after going 65 trading days without posting one. SPX has only managed 4 other streaks of this length since 1960. In the 8/15/13 Letter I looked at what happened after streaks of 30 or more days comes to an end. The bottom line there was that there seemed to be an upside edge when the 14-day ADX > 20. But when ADX has been below 20, then there has not been an upside edge. With the ADX finishing at 19.6, and plenty else to examine today I won't rehash that study. But subscribers may find it [in the archives](#) in the 8/15/13 letter.

One index that showed an especially extreme move was the VIX. It spiked up over 32% on Thursday as fear struck options traders. (In large part thanks to an increased event-risk perception following the shooting down of the airliner near the Ukraine.) In the past I have shown how spikes of 20% or greater have generally suggested an upside edge. I've rerun that study tonight, which last appeared in the 2/26/13 letter.

VIX closes 20% above yesterday's close.
 Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.


TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$46,027.09	Profit Factor	4.95	
Gross Profit	\$57,675.17	Gross Loss	(\$11,648.08)	
Total Number of Trades	51	Percent Profitable	74.51%	
Winning Trades	38	Losing Trades	13	
Even Trades	0			
Avg. Trade Net Profit	\$902.49	Ratio Avg. Win:Avg. Loss	1.69	
Avg. Winning Trade	\$1,517.77	Avg. Losing Trade	(\$896.01)	
Largest Winning Trade	\$5,394.60	Largest Losing Trade	(\$2,766.58)	

Next day stats suggest a solid upside tendency. Below is a profit curve.

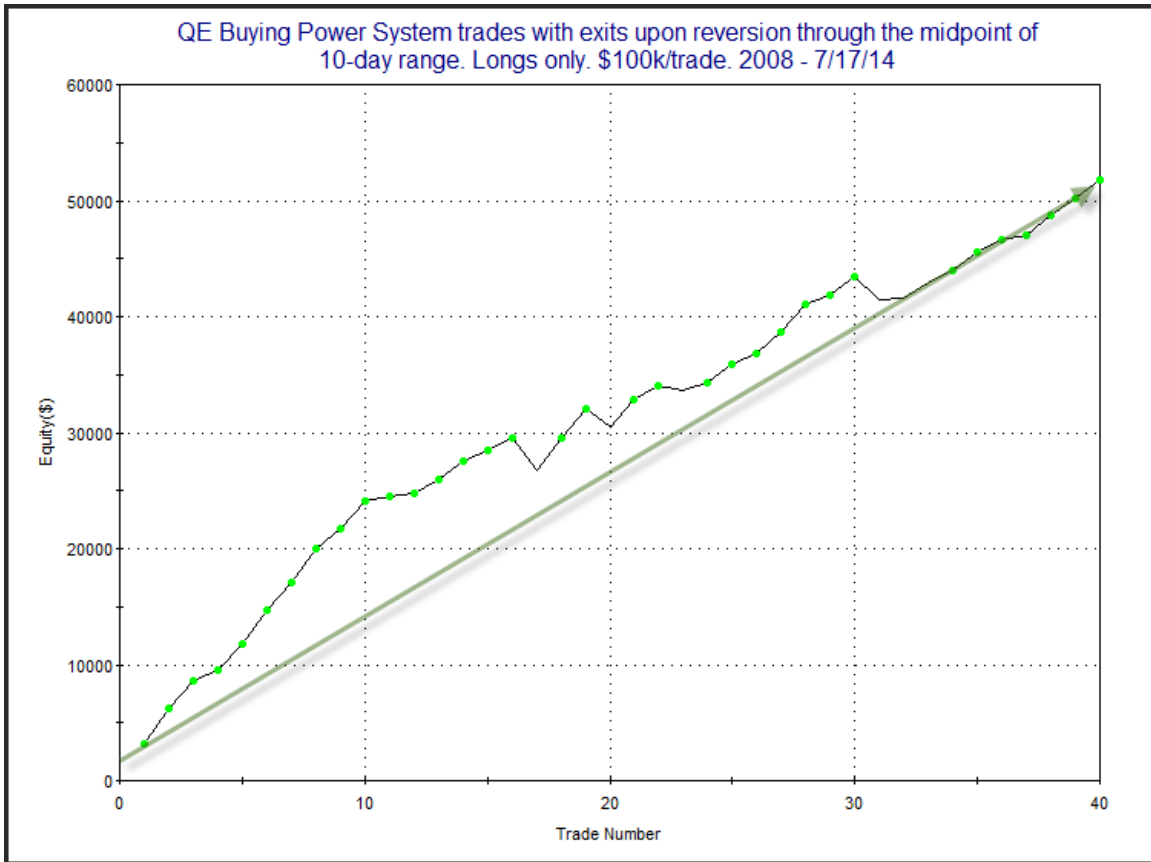


The upslope appears strong and serves to confirm the bullish edge.

The low close on Thursday also helped to trigger a long in the QE Buying Power System. This system looks to get long any time SPX closes in the bottom 20% if the 10-day range and the QE Buying Power Index is ≥ 3 (the index is can be found on the charts page and has been maxed out at 5 for a long time). It shorts whenever the QE Buying Power Index ≤ 0 and SPX closes in the top 20% of the 10-day range. Below are long-only results for the simplified version of the system that just looks to exit when the index closes back above the midpoint of its (then current) 10-day range.

QE Buying Power System trades with exits upon reversion through the midpoint of 10-day range. Longs only. \$100k/trade. 2008 - 7/17/14			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	\$51,763.00	Profit Factor	8.84
Gross Profit	\$58,368.61	Gross Loss	(\$6,605.61)
Total Number of Trades	40	Percent Profitable	90.00%
Winning Trades	36	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,294.08	Ratio Avg. Win:Avg. Loss	0.98
Avg. Winning Trade	\$1,621.35	Avg. Losing Trade	(\$1,651.40)
Largest Winning Trade	\$3,160.20	Largest Losing Trade	(\$2,750.44)

Some very strong stats here. This suggests a substantial upside edge in buying pullbacks when you have also had strong liquidity. And here is a look at the profit curve.



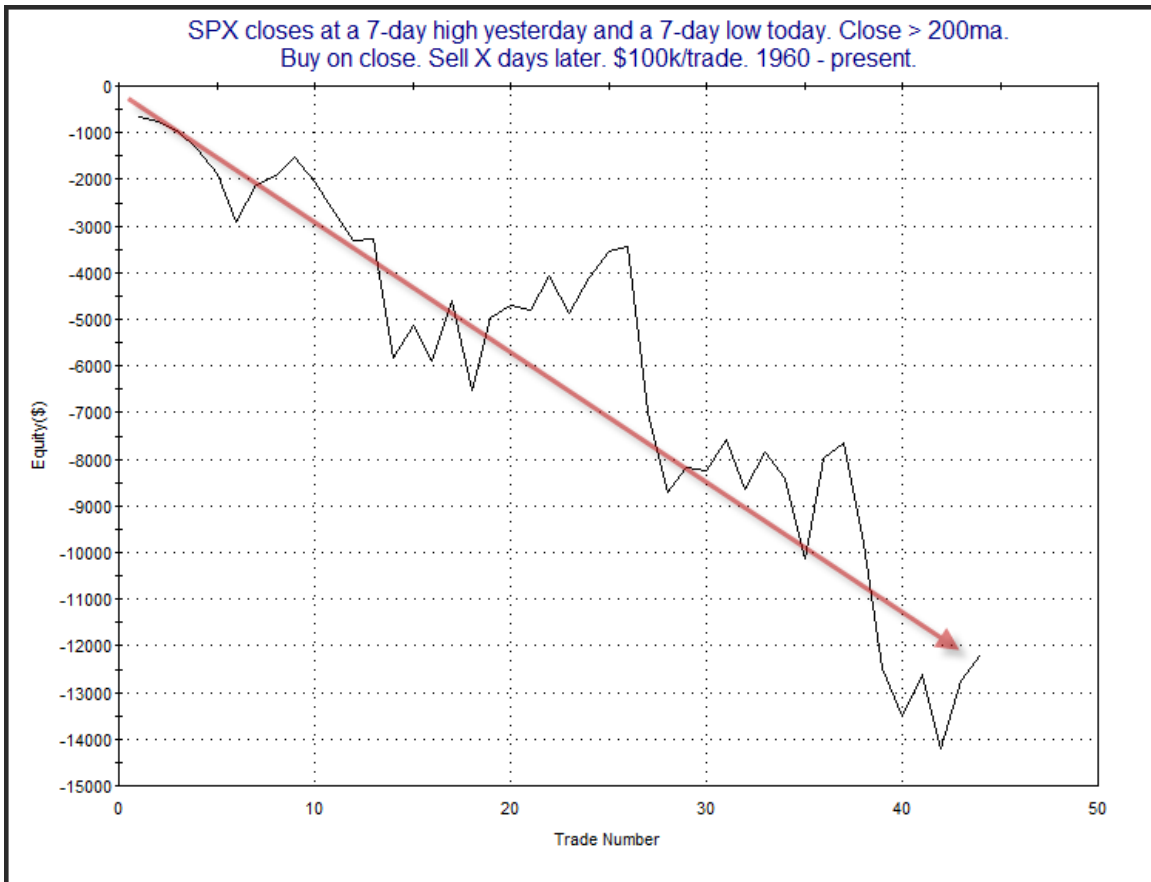
The curve is as impressive as the stats, and serves as confirmation of the upside edge. Of course, as I have discussed many times in recent weeks and months, POMO flows are getting lighter. So this setup will have to be watched closely to make sure it is maintaining its effectiveness. So far, it is showing no sign of weakening. The last 9 trades, and 16 of the last 17, have finished with positive results. This is the 6th signal that has triggered since the beginning of 2014 when the Fed began tapering. At this point I feel I should give this setup the benefit of the doubt until signs of weakening do appear.

But there was also a bearish study. The move from a 7-day high to a 7-day low is something that has been met with further selling in the past. This was last seen in the 5/7/14 letter. Results are updated.

SPX closes at a 7-day high yesterday and a 7-day low today. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1960 - present.

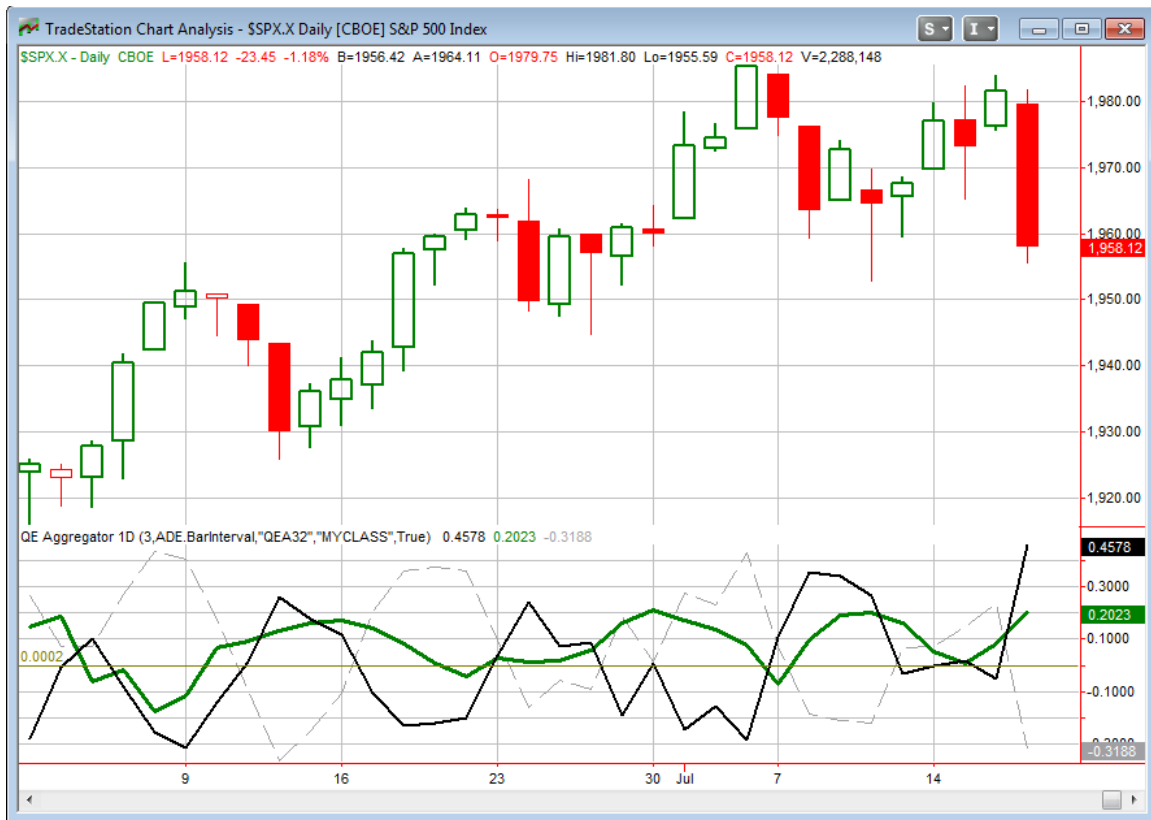
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-8,089.99	43	21	22	48.84	1,344.18	3,594.32	-1,650.80	-4,884.75	0.81	0.78	-188.14
4	-9,127.89	44	19	25	43.18	1,394.37	2,873.88	-1,424.84	-3,895.76	0.98	0.74	-207.45
3	-12,184.32	44	20	24	45.45	736.52	2,159.82	-1,121.45	-3,520.36	0.66	0.55	-276.92
2	-10,246.66	44	19	25	43.18	680.11	2,437.50	-926.75	-3,611.48	0.73	0.56	-232.88
1	-4,879.32	44	20	24	45.45	614.74	2,002.36	-715.59	-3,794.40	0.86	0.72	-110.89

Numbers here are still bearish. Below is the equity curve.



Not bad for a bearish edge in an uptrend.

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



With tonight's mix of studies now factored in the green Aggregator Line moved further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line spiked back above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is now 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 set to remain positive on Friday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1977.39 on Friday. That is nearly 1.0% above Thursday's close. This means that SPX will need to bounce back and close up at least 1% on Friday in order to move from oversold to overbought versus expectations.

So the Aggregator is suggesting a bit of an upside edge. Evidence is fairly compelling, but not unanimous. It may be a little early to get quickly ramped up here. The selloff is really just 1 day old. But with the short-term bullish outlook the Aggregator is suggesting I am comfortable beginning to scale in to a long index position. I will look to take on a small amount of exposure on Friday as long as SPY does not post an unfilled gap up and run away from me.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/14 – slightly bullish

The intermediate-term outlook was last updated in the 7/14/14 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 at \$195.71 LIMIT. Based on the short-term outlook above, I will begin scaling in to a long position if I can get a fill equal to Thursday's closing price.

Current Open Trade Ideas

None

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