

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 22, 2014

Volume 7 Issue 136

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The choppy, tightening action over the last few days has failed to generate studies with compelling edges.

## *Short-term Outlook*

### *The Bottom Line*

Evidence remains up and the market is now oversold. So the Aggregator is suggesting an upside edge. But the window of opportunity appears quite small. So I am not inclined to try and take advantage of it.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
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%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
July 21, 2014	Unfilled up gap inside day > 200	1 day	Bearish	

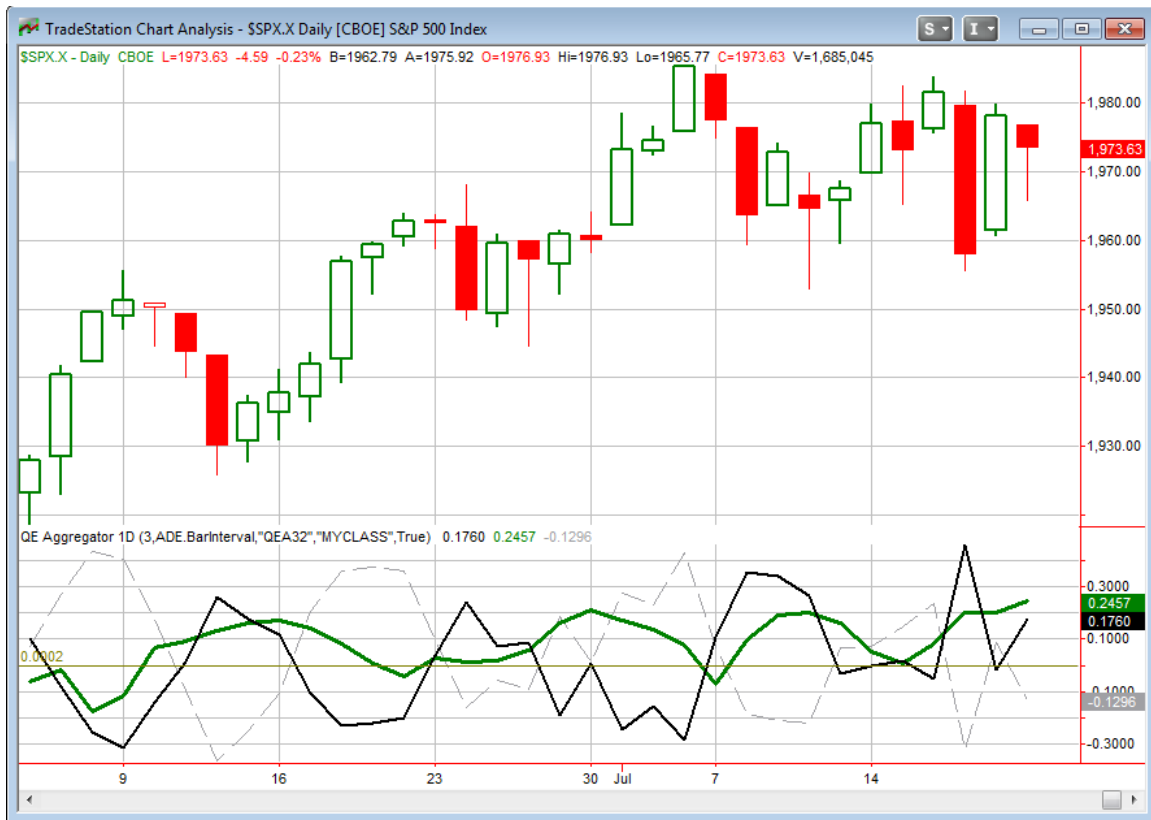
**The Evidence**

Monday saw the market decline a bit. The SPX and the NASDAQ each fell 0.2% while the Russell 2000 dropped 0.4%. Breadth was a bit weak as the NYSE Up Issues % came in at 38% and the Up Volume % was 39%. Total NYSE volume came in very light.

There were some seemingly interesting aspects to Monday's action. For one, it was an unfilled gap down following an unfilled gap up. It was also the 2<sup>nd</sup> inside day in a row. But these things did not help to provide compelling evidence. The gap down after a gap up I looked at a few weeks back in the 7/11/14 letter and found that while it used to suggest a downside edge, it had not shown any edge since 2011. Therefore, while I sliced and dices things a few different ways, none of my observations appeared fruitful.

That happens sometimes. It is just part of taking a researched approach. So I am not terribly surprised nor disappointed that the back and forth chop over the last few days is not producing strong directional evidence. That is rarely something that lasts for long, and I'm sure we'll see some new and compelling evidence emerge in the next few days.

Without anything new to add to the Active List I have updated the [Aggregator](#) chart below.



With one bearish study expiring on Monday the green Aggregator Line remained strongly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line jumped back up above 0. The positive Differential Line reading means the SPX is now 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 quickly turned from flat back to long at the close.

Based on the current active studies, expectations are set to remain positive on Tuesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *inverted at 1963.65* on Tuesday. That is 0.5% *below* Monday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close down at least 0.5% in order to remain oversold. Otherwise it will be considered overbought versus expectations.

So the Aggregator is suggesting a bullish edge. But the inverted pivot means that the potential reward is quite limited. This is because any move higher Tuesday will cause the signal to come off. Meanwhile a big down close could keep the long signal active. Therefore, a losing trade could continue to get worse, but a winner (or even a small loser) would be quickly exited. So there is not much time to let profits run. Therefore, I do not

consider inverted pivots to be especially compelling times to take on new exposure. I don't intend to try and take advantage of the apparent longside edge the Aggregator is suggesting. Instead I will continue to wait until a more compelling opportunity arises.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 7/21 – slightly bullish***

The intermediate-term outlook was last updated in the 7/21/14 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.*

***None tonight.***

**Current Open Trade Ideas**

*None*

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