

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 23, 2014

Volume 7 Issue 137

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Flat

Tonight's Research Points

- SPY hitting the first closing high in a while along with an unfilled gap up sets up a bullish scenario.

Short-term Outlook

The Bottom Line

The Aggregator is quickly back to neutral with Tuesday's rally turning the market overbought. I am not looking to take on new exposure at this point.

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 23, 2014	SPY new high with unfilled gap	1-5 days	Bullish	
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	
Dropped Tonight				
July 18, 2014	7 high to 7-low in 1 day	1-2 days	Bearish	

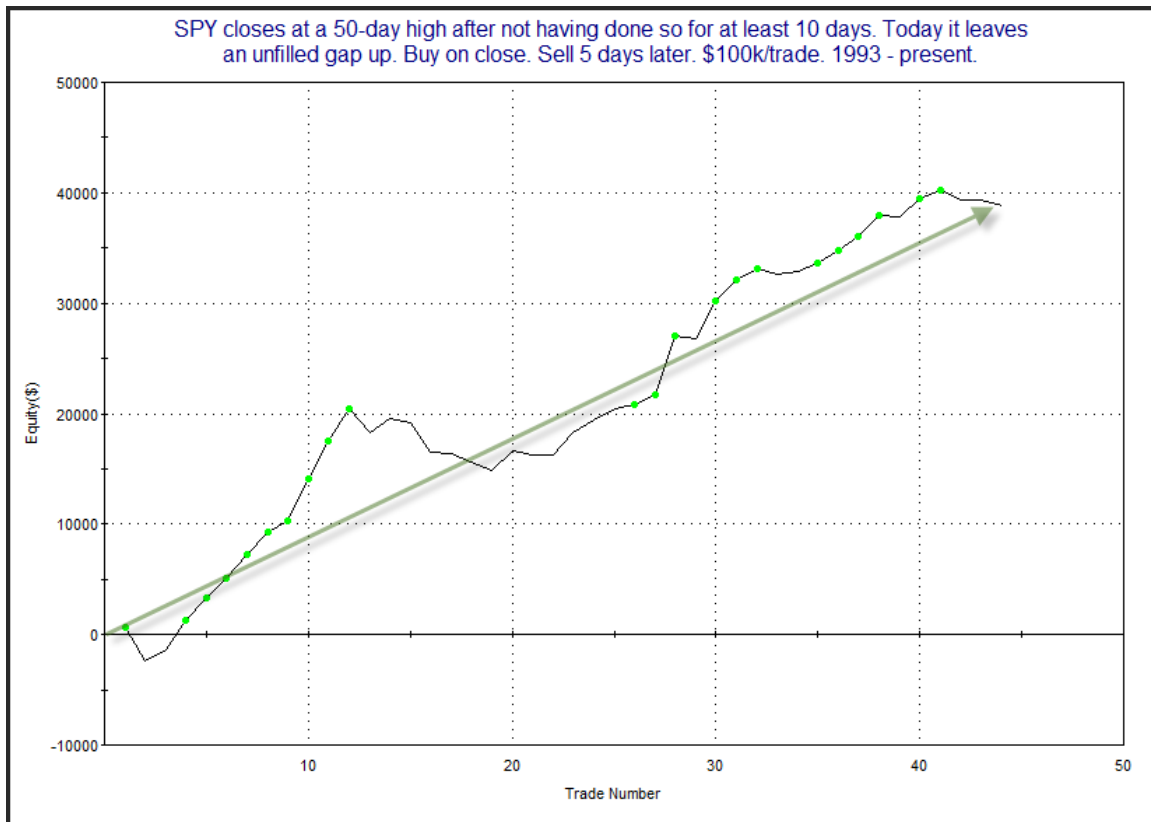
The Evidence

Tuesday the market showed strength from the start and finished with solid gains. The SPX rose 0.5%, the NASDAQ gained 0.7% and the Russell 2000 rallied 0.8%. Breadth was squarely positive as the NYSE Up Issues % came in at 68% and the Up Volume % was 70%. Total NYSE volume rose a little from Monday's level.

The strong open meant that SPY left an unfilled gap up. And though SPX did not manage to close at a new high, SPY matched its July 3rd closing high exactly. In the 5/13/14 subscriber letter I looked at the importance of an unfilled upside gap on new high closes. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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
5	38,850.51	44	31	13	70.45	1,664.83	5,434.00	-981.48	-3,093.12	1.70	4.04	882.97
4	25,041.24	44	31	13	70.45	1,271.09	3,637.92	-1,104.81	-3,267.84	1.15	2.74	569.12
3	19,524.21	44	30	14	68.18	1,115.35	3,992.56	-995.44	-2,538.18	1.12	2.40	443.73
2	14,582.23	44	29	15	65.91	836.93	2,545.92	-645.91	-2,293.20	1.30	2.51	331.41
1	5,433.70	44	31	13	70.45	510.25	1,816.10	-798.77	-2,591.68	0.64	1.52	123.49
40 of 44 instances (91%) closed above the entry price at some point in the next week.												

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The nice upslope on the equity curve confirms the bullish inclinations.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was nearly the same. This study also appeared in the 5/13/14 letter.

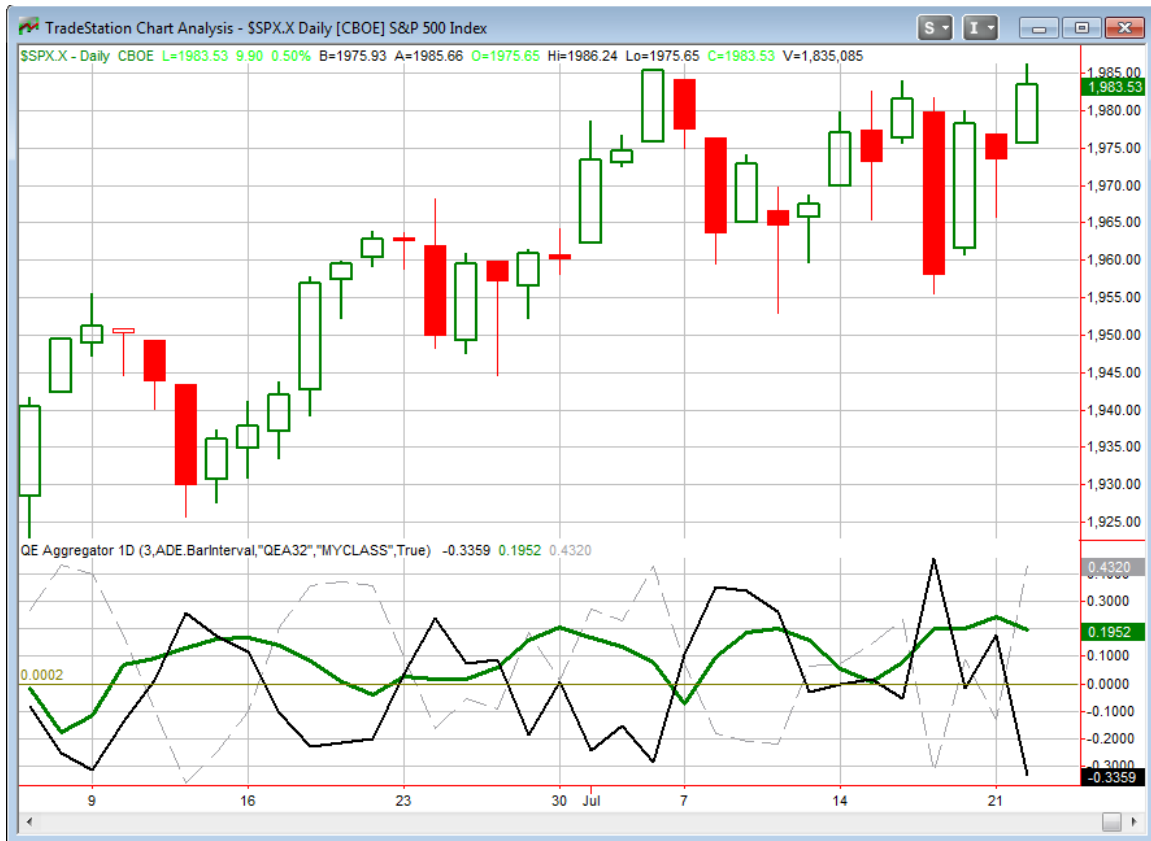
SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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
5	169.83	40	23	17	57.50	1,039.15	2,671.20	-1,395.93	-4,285.26	0.74	1.01	4.25
4	-4,919.70	40	20	20	50.00	1,066.83	2,072.07	-1,312.81	-4,518.34	0.81	0.81	-122.99
3	477.76	40	21	19	52.50	1,100.02	2,927.90	-1,190.67	-5,133.72	0.92	1.02	11.94
2	-2,831.73	40	19	21	47.50	699.52	2,324.90	-767.74	-3,640.86	0.91	0.82	-70.79
1	1,199.90	40	21	18	52.50	485.00	1,586.97	-499.17	-2,448.72	0.97	1.13	30.00

As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.

So the unfilled gap up today appears to be a positive. Of course there is a bit of an asterisk next to this instance since SPY just matched its closing high and SPX came in below a new closing high. But I have added this study to the Active List anyway.

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



With tonight's study included 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 took a dive down below 0. The negative Differential Line reading means the SPX is now overbought versus recent expectations. So expectations are positive but the SPX is now overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal quickly turned from long back to flat at the close.

Based on the current active studies, expectations are set to remain positive on Wednesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *inverted* at 1987.78 on Wednesday. That is 0.2% *above* Tuesday'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 up at least 0.2% in order to remain overbought. Otherwise it will be considered oversold versus expectations.

The Aggregator is neutral and so am I. And though it could very easily turn back to bullish on Wednesday, I am not likely to look long unless we get a bit of a pullback. Markets like this can be a test of patience. I missed out on some recent entries due to unfilled gaps in my direction. But I am not inclined to loosen my approach and take on

additional risk. I'd rather wait for a high probability setup with strong reward/risk possibilities than to jump in prematurely and risk hard earned profits.

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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