

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 24, 2014

Volume 7 Issue 138

Market Overview



Signals Overview

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

Tonight's Research Points

- The moderately increased volume that accompanied Wednesday's SPX breakout to a new closing high is not a bullish indication.

Short-term Outlook

The Bottom Line

The Aggregator is long, but the evidence is weak and the SPX is overbought by many measures. I am flat and waiting for a more opportune time to take on new index exposure.

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	
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 17, 2014	NR7 after high vol WR7 down	1-5 days	Bullish	2.20%

The Evidence

Wednesday was another up day and it led to a breakout to new highs for some indices. The SPX rose 0.2%, the NASDAQ gained 0.4% and the Russell 2000 rallied 0.2%. Breadth was mildly positive as the NYSE Up Issues % came in at 57% and the Up Volume % was 52%. Total NYSE volume rose a little from Tuesday's level.

Bulls always like to see new highs. And a new high after a multi-week base is often even more exciting. The breakout always has the potential to lead to the next leg up. The day the breakout occurs will sometimes leave clues as to the likelihood of a continued rally or a quick reversal. One clue that is often referenced, and nearly as often misunderstood, is volume. Most traders believe that rising volume is bullish and declining volume is troublesome. But this is simply not the case. In fact, lower volume is almost always preferable. I showed the study below in the 4/30/13 letter. It looks at breakouts from 2-week bases on lower volume than the day before.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	34,783.75	53	31	22	58.49	2,729.33	11,088.84	-2,264.79	-8,157.10	1.21	1.70	656.30
19	37,707.43	54	32	22	59.26	2,617.57	9,628.99	-2,093.40	-9,056.82	1.25	1.82	698.29
18	37,670.48	54	34	20	62.96	2,516.26	11,076.80	-2,394.12	-9,094.80	1.05	1.79	697.60
17	38,850.42	54	34	20	62.96	2,591.11	10,017.28	-2,462.37	-8,682.96	1.05	1.79	719.45
16	41,135.51	54	35	19	64.81	2,476.58	10,944.36	-2,397.09	-9,243.81	1.03	1.90	761.77
15	34,403.74	54	36	18	66.67	2,291.40	8,166.13	-2,671.47	-9,354.92	0.86	1.72	637.11
14	40,567.63	55	39	16	70.91	2,072.11	7,314.30	-2,515.30	-6,525.68	0.82	2.01	737.59
13	39,008.36	56	37	19	66.07	2,052.57	7,780.85	-1,944.04	-5,160.09	1.06	2.06	696.58
12	25,438.84	56	32	24	57.14	2,102.22	5,996.75	-1,743.00	-4,539.14	1.21	1.61	454.26
11	19,701.18	56	30	26	53.57	2,093.28	5,809.60	-1,657.59	-6,029.07	1.26	1.46	351.81
10	22,155.23	56	29	27	51.79	2,100.48	5,960.00	-1,435.50	-4,324.52	1.46	1.57	395.63
9	31,652.05	56	38	18	67.86	1,641.35	5,147.20	-1,706.63	-5,812.26	0.96	2.03	565.22
8	36,878.49	56	39	17	69.64	1,573.67	5,096.00	-1,440.86	-4,186.55	1.09	2.51	658.54
7	35,865.85	56	38	18	67.86	1,449.30	4,655.00	-1,067.09	-3,211.35	1.36	2.87	640.46
6	47,923.08	56	40	16	71.43	1,525.70	5,002.50	-819.07	-3,563.65	1.86	4.66	855.77
5	49,294.27	56	42	14	75.00	1,540.87	4,482.50	-1,101.60	-3,693.73	1.40	4.20	880.25
4	34,111.25	56	40	16	71.43	1,272.23	4,440.00	-1,048.62	-2,913.85	1.21	3.03	609.13
3	32,127.46	56	37	19	66.07	1,245.55	3,950.00	-734.64	-1,802.37	1.70	3.30	573.70
2	18,590.89	56	37	19	66.07	840.70	2,212.98	-658.68	-1,912.60	1.28	2.49	331.98
1	8,817.03	56	37	18	66.07	469.86	1,384.02	-475.98	-1,921.32	0.99	2.03	157.45

Returns going forward are generally positive. The first week shows the most impressive gains. After that it is not as consistent.

Now let's look at similar breakouts that came on rising volume (also last seen in the 4/30/13 Letter).

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	18,257.70	124	61	63	49.19	3,579.72	13,393.77	-3,176.27	-11,548.62	1.13	1.09	147.24
19	31,957.36	126	68	58	53.97	3,269.41	9,135.36	-3,282.11	-11,862.36	1.00	1.17	253.63
18	44,866.64	126	68	58	53.97	3,275.13	9,613.50	-3,066.25	-10,293.66	1.07	1.25	356.08
17	36,248.20	126	70	56	55.56	3,045.00	9,953.84	-3,158.97	-9,419.67	0.96	1.20	287.68
16	36,743.36	128	71	57	55.47	2,951.02	8,910.72	-3,031.21	-8,244.85	0.97	1.21	287.06
15	36,336.70	129	69	60	53.49	2,926.45	8,150.48	-2,759.81	-8,621.45	1.06	1.22	281.68
14	23,755.86	129	72	57	55.81	2,662.48	8,128.38	-2,946.37	-8,338.45	0.90	1.14	184.15
13	28,735.42	129	70	59	54.26	2,639.75	7,911.80	-2,644.86	-8,251.55	1.00	1.18	222.76
12	19,659.14	129	71	58	55.04	2,387.81	10,197.98	-2,584.05	-8,757.15	0.92	1.13	152.40
11	22,381.75	132	71	61	53.79	2,444.45	10,372.44	-2,478.26	-9,482.88	0.99	1.15	169.56
10	17,290.45	132	67	65	50.76	2,344.38	10,507.25	-2,150.51	-8,683.66	1.09	1.12	130.99
9	19,078.01	132	65	66	49.24	2,258.90	8,413.73	-1,935.62	-6,878.68	1.17	1.15	144.53
8	15,602.18	132	71	61	53.79	1,906.30	8,524.75	-1,963.03	-7,085.22	0.97	1.13	118.20
7	33,598.09	132	70	62	53.03	1,895.59	6,337.26	-1,598.27	-7,255.84	1.19	1.34	254.53
6	34,394.87	132	77	55	58.33	1,597.22	6,819.80	-1,610.74	-7,103.18	0.99	1.39	260.57
5	25,226.88	132	67	65	50.76	1,649.05	8,516.82	-1,311.68	-6,088.44	1.26	1.30	191.11
4	8,663.95	132	72	60	54.55	1,262.03	6,716.71	-1,370.04	-5,585.56	0.92	1.11	65.64
3	18,413.29	132	76	56	57.58	1,132.34	6,740.50	-1,207.94	-5,361.06	0.94	1.27	139.49
2	24,805.56	132	80	51	60.61	896.79	4,028.44	-920.34	-4,276.16	0.97	1.53	187.92
1	22,313.37	132	81	51	61.36	572.38	2,755.52	-471.56	-2,722.61	1.21	1.93	169.04

These numbers are not nearly as good. In fact, they only just barely above breakeven. So it appears the rise in volume Wednesday afternoon was not a positive.

Though this would seem to conflict with the belief that high volume is bullish, there is some nugget of truth to that belief. But it is not just a rise in volume that is needed. It is a volume extreme. The next study shows what happens when the breakout occurs in conjunction with a 20-day high in NYSE volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	18,537.77	40	22	18	55.00	3,632.58	8,953.20	-3,409.95	-8,308.32	1.07	1.30	463.44
19	13,673.22	40	23	17	57.50	3,409.30	8,942.40	-3,808.28	-7,980.00	0.90	1.21	341.83
18	24,585.12	40	23	17	57.50	3,674.68	9,613.50	-3,525.45	-7,323.36	1.04	1.41	614.63
17	20,649.33	40	24	16	60.00	3,275.47	9,069.84	-3,622.62	-8,144.90	0.90	1.36	516.23
16	25,573.17	40	23	17	57.50	3,530.42	8,048.82	-3,272.15	-8,109.35	1.08	1.46	639.33
15	20,273.46	40	23	17	57.50	3,402.51	7,668.00	-3,410.84	-8,358.20	1.00	1.35	506.84
14	21,205.47	40	23	17	57.50	3,302.09	8,128.38	-3,220.16	-8,338.45	1.03	1.39	530.14
13	25,650.88	40	24	16	60.00	3,054.51	7,478.64	-2,978.58	-8,251.55	1.03	1.54	641.27
12	21,993.63	40	23	17	57.50	2,796.62	7,352.31	-2,489.92	-8,757.15	1.12	1.52	549.84
11	28,400.61	40	26	14	65.00	2,515.78	6,782.40	-2,643.56	-6,975.70	0.95	1.77	710.02
10	31,150.21	40	24	16	60.00	2,488.03	6,199.20	-1,785.15	-3,730.08	1.39	2.09	778.76
9	27,905.27	40	24	15	60.00	2,272.93	6,429.15	-1,776.34	-3,113.22	1.28	2.05	697.63
8	29,665.76	40	24	16	60.00	2,245.65	6,220.34	-1,514.36	-2,943.34	1.48	2.22	741.64
7	30,416.32	40	25	15	62.50	2,016.71	5,275.20	-1,333.43	-2,946.00	1.51	2.52	760.41
6	33,604.40	40	28	12	70.00	1,752.67	4,689.44	-1,289.20	-3,093.30	1.36	3.17	840.11
5	29,878.19	40	26	14	65.00	1,655.33	4,765.28	-940.04	-2,562.72	1.76	3.27	746.95
4	21,210.45	40	26	14	65.00	1,266.45	3,176.11	-836.94	-1,948.21	1.51	2.81	530.26
3	17,553.76	40	26	14	65.00	1,085.48	2,983.04	-762.04	-2,188.15	1.42	2.65	438.84
2	27,503.41	40	27	12	67.50	1,180.94	3,813.53	-365.16	-1,259.60	3.23	7.28	687.59
1	15,101.62	40	29	11	72.50	648.02	2,755.52	-335.53	-1,292.50	1.93	5.09	377.54

These numbers are squarely positive, and nearly as strong as the 1st study that looked at declining volume.

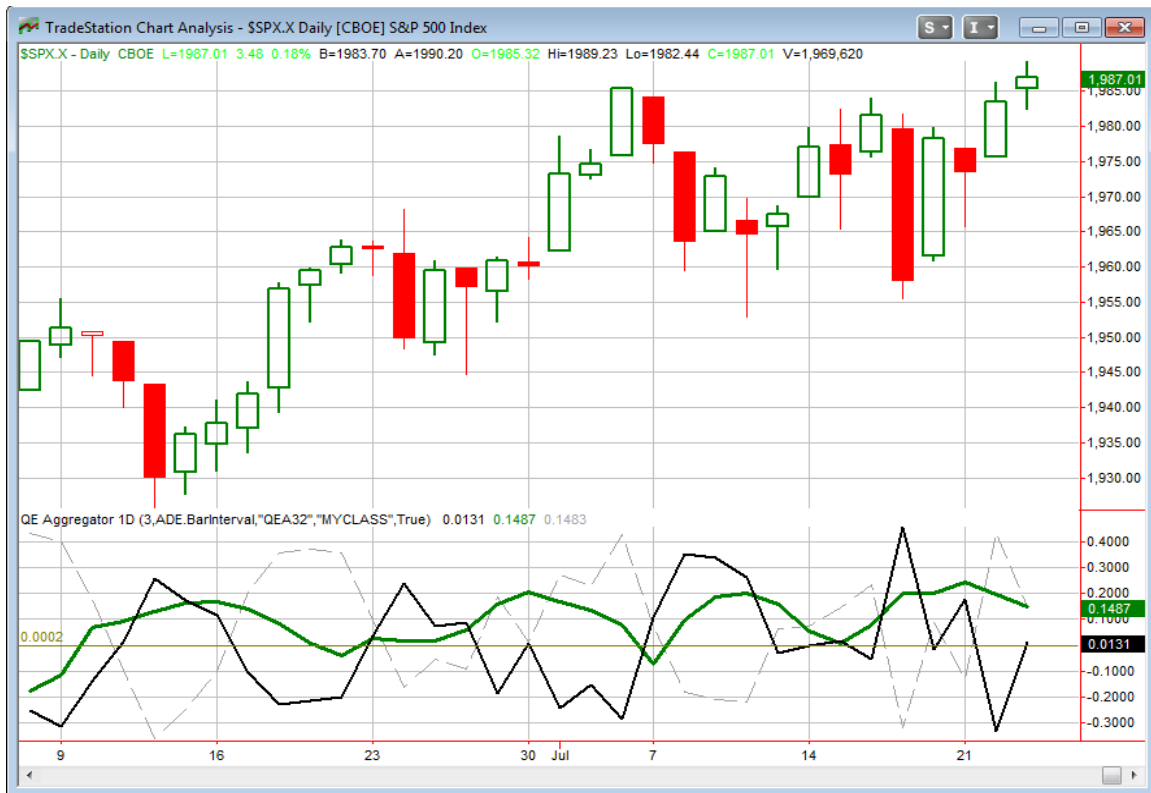
Unfortunately, while Wednesday saw a rise in volume, it did not hit an extreme. This is the worst case scenario and is what the market is left to deal with. This can be seen in the last study below.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	-11,533.84	89	41	48	46.07	3,490.77	13,393.77	-3,221.99	-11,548.62	1.08	0.93	-129.59
19	4,555.73	90	46	44	51.11	3,192.02	9,135.36	-3,233.57	-11,862.36	0.99	1.03	50.62
18	7,068.13	90	46	44	51.11	3,084.05	9,503.00	-3,063.59	-10,293.66	1.01	1.05	78.53
17	4,202.38	90	47	43	52.22	2,930.45	9,953.84	-3,105.32	-9,419.67	0.94	1.03	46.69
16	-508.61	92	49	43	53.26	2,682.54	8,910.72	-3,068.68	-9,482.88	0.87	1.00	-5.53
15	4,453.78	92	47	45	51.09	2,689.46	8,150.48	-2,710.02	-9,608.60	0.99	1.04	48.41
14	-8,150.55	92	50	42	54.35	2,372.25	7,702.40	-3,018.17	-10,120.46	0.79	0.94	-88.59
13	-7,836.25	92	47	45	51.09	2,411.92	7,911.80	-2,693.26	-9,725.34	0.90	0.94	-85.18
12	-13,505.91	92	49	43	53.26	2,184.79	10,197.98	-2,803.74	-9,878.00	0.78	0.89	-146.80
11	-6,018.83	92	45	47	48.91	2,403.23	10,372.44	-2,429.02	-9,482.88	0.99	0.95	-65.42
10	-13,859.73	92	43	49	46.74	2,264.21	10,507.25	-2,269.81	-8,683.66	1.00	0.88	-150.65
9	-8,827.25	92	41	51	44.57	2,250.70	8,413.73	-1,982.47	-6,878.68	1.14	0.91	-95.95
8	-14,063.59	92	47	45	51.09	1,733.01	8,524.75	-2,122.56	-7,085.22	0.82	0.85	-152.87
7	3,181.77	92	45	47	48.91	1,828.29	6,337.26	-1,682.80	-7,255.84	1.09	1.04	34.58
6	790.48	92	49	43	53.26	1,508.38	6,819.80	-1,700.47	-7,103.18	0.89	1.01	8.59
5	-4,651.32	92	41	51	44.57	1,645.06	8,516.82	-1,413.70	-6,088.44	1.16	0.94	-50.56
4	-12,546.52	92	46	46	50.00	1,259.53	6,716.71	-1,532.28	-5,585.56	0.82	0.82	-136.38
3	859.53	92	50	42	54.35	1,156.72	6,740.50	-1,356.58	-5,361.06	0.85	1.02	9.34
2	-2,697.85	92	53	39	57.61	752.03	4,028.44	-1,091.16	-4,276.16	0.69	0.94	-29.32
1	7,211.76	92	52	40	56.52	530.20	2,731.56	-508.97	-2,722.61	1.04	1.35	78.39

This does not suggest any substantial edge from Wednesday's breakout action. And since this is the current state of the market, I am not able to add any new studies to the Active List tonight.

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



With nothing new to add tonight the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line inched just barely above 0. The positive Differential Line reading means the SPX is now oversold versus recent expectations. Obviously it is highly unusual to be considered “oversold” on a day in which the index broke out to a new high. It needs to be remembered that we are not using a traditional overbought/oversold indicator here. We are measuring what the market has done over the last few days versus what the studies expected it to do. 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 quickly turned from flat back to long at the close.

Based on the current active studies, expectations are set to remain positive on Thursday. Of course this could change if bearish evidence emerges. The Differential Pivot will be *inverted at 1986.48* on Thursday. That is less than 1 point *below* Wednesday’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 slightly in order to remain oversold. Otherwise it will be considered overbought versus expectations.

If my intermediate-term outlook was more bullish, or if I had more compelling short-term evidence suggesting a move higher in the next few days then I might act on this long

Aggregator signal. But evidence is weak. We are only down to 1 study left on the Short-Term Active List. Additionally, though SPX is “oversold” as measured by the Differential Line, it is at a new high and overbought versus most traditional measures. In sum, the upside edge just does not appear compelling enough for me to take a position at this point. I would prefer to see the market pull back some and for that pullback to be accompanied by more bullish evidence. So I continue to play the waiting game.

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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