

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
Flat	50% Long XIV	Flat

Tonight's Research Points

- The rising volume rally over the last few days to a new high appears to be a positive.
- The sizable move up in the VIX with SPX hitting a new high suggests bearish implications for the next 1-2 days.

Short-term Outlook

The Bottom Line

The Aggregator is back to neutral and so am I. As of last night I felt short-term evidence was weak. Tonight we see to conflicting studies hit the Active List. Such crosswinds don't help to suggest a strong edge. So I remain in wait and see mode.

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

Active - Short Term				
July 25, 2014	50-high. 3 up days on rising volume.	1-2 days	Bullish	
July 25, 2014	SPX 50-high. VIX up 2.5% midweek.	1-2 days	Bearish	
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	

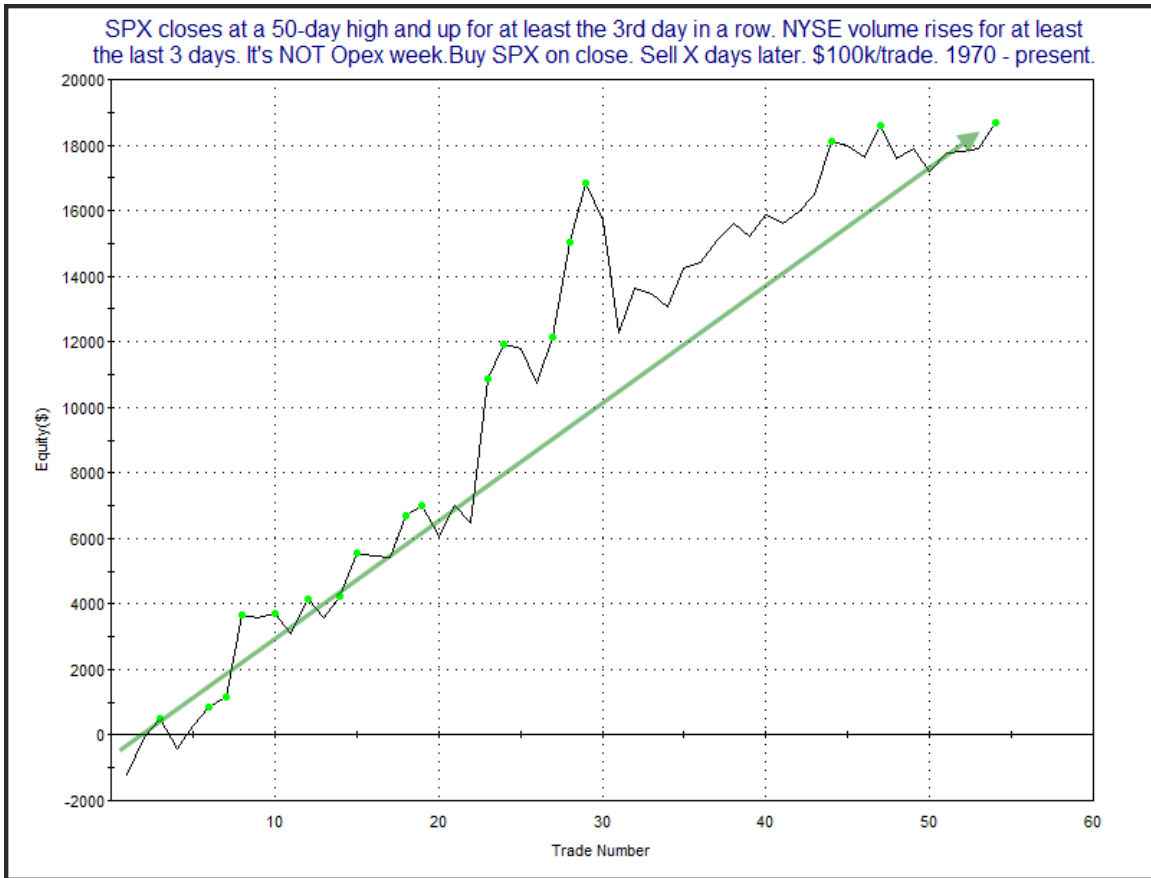
The Evidence

Thursday was pretty close to a breakeven day. The SPX rose less than a point, and the NASDAQ and the Russell 2000 each fell less than 2 points. Breadth was mixed as the NYSE Up Issues % came in at 46% and the Up Volume % was 56%. Total NYSE volume rose a little from Wednesday’s level.

There was a mix of studies that appeared in the Quantifinder tonight. The first one below was from the 2/19/13 Letter. It examined new 50-day highs that occurred in conjunction with 3 increasing volume up days. All stats are updated.

SPX closes at a 50-day high and up for at least the 3rd day in a row. NYSE volume rises for at least the last 3 days. It's NOT Opex week. 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
5	20,440.73	54	33	21	61.11	1,406.26	4,765.28	-1,236.48	-3,827.55	1.14	1.79	378.53
4	10,665.67	54	34	20	62.96	1,083.48	6,138.16	-1,308.63	-3,898.65	0.83	1.41	197.51
3	16,061.41	54	35	19	64.81	986.52	4,376.64	-971.95	-4,388.45	1.02	1.87	297.43
2	18,662.03	54	33	21	61.11	993.14	4,399.92	-671.98	-3,412.80	1.48	2.32	345.59
1	12,054.64	61	38	23	62.30	579.61	2,755.52	-433.50	-1,071.43	1.34	2.21	197.62

The numbers suggest bullish implications. I used to include opex week in this study. My colleague Tom McClellan of [McClellan Financial Publications](#) mentioned to me that excluding opex weeks from the pattern might make for more consistent results, since opex weeks often have screwy volume patterns. When I added this filter I found it to be a useful one. Below is a look at the profit curve assuming a 2-day holding period.



There has certainly been chop along the way, but it still looks fairly healthy and the study seems worth consideration.

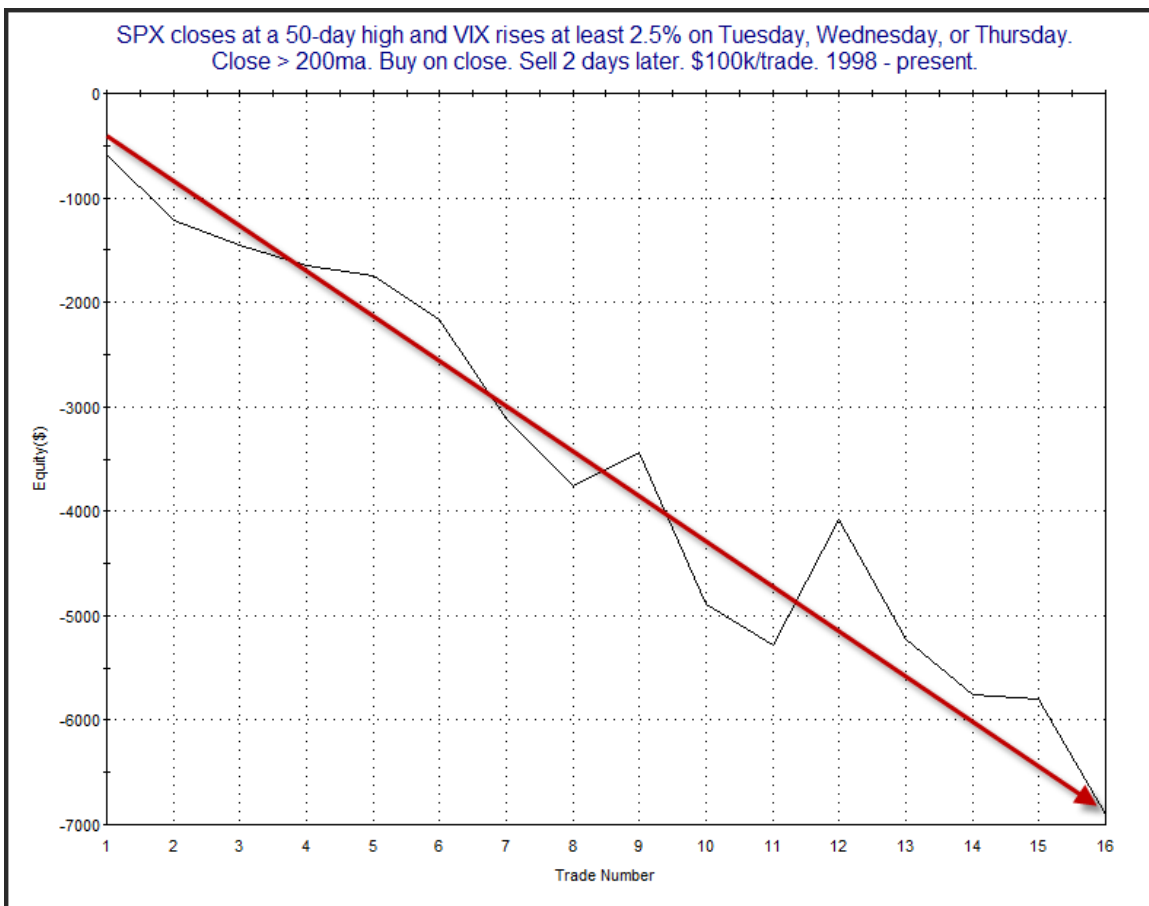
There were also a few studies related to VIX action that appeared in the Quantifinder. The one below was the most compelling. It last appeared in the 2/14/13 letter. New readers may wonder why I use a day-of-week filter with this study. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Because of this I typically separate out those days from the rest of the week when conducting VIX-based studies. This particular study looks at large mid-week rises in the VIX during times the SPX is closing at a 50-day high. All results are updated.

SPX closes at a 50-day high and VIX rises at least 2.5% on Tuesday, Wednesday, or Thursday.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-7,131.41	16	6	10	37.50	870.34	2,108.40	-1,235.35	-4,149.36	0.70	0.42	-445.71
4	-10,296.53	16	4	12	25.00	737.63	1,629.60	-1,103.92	-4,240.48	0.67	0.22	-643.53
3	-9,448.84	16	6	10	37.50	567.35	1,271.55	-1,285.30	-4,423.40	0.44	0.26	-590.55
2	-6,896.41	16	2	14	12.50	757.10	1,192.71	-600.76	-1,461.48	1.26	0.18	-431.03
1	-2,243.50	19	10	9	52.63	257.99	1,108.05	-535.94	-1,008.70	0.48	0.53	-118.08

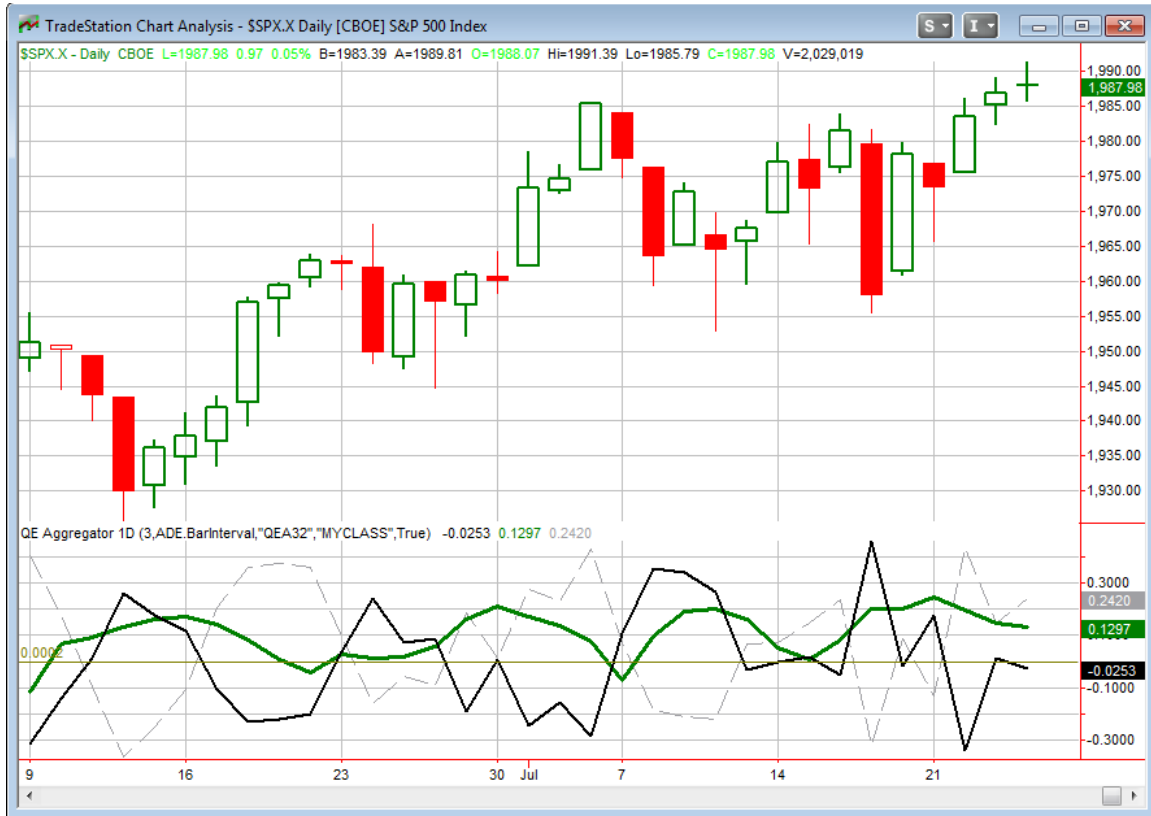
100% of instances closed below the entry price at some point in the next 4 days.

Instances are a bit low, but the numbers are quite lopsided. Below is a profit curve assuming a 2-day exit strategy.



Nice, steady decline. I see nothing here that would cause me to doubt the downside edge.

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



With 1 bullish and 1 bearish study being added 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 dipped back below 0. The negative Differential Line reading means the SPX is now overbought versus recent expectations. So expectations are positive but the SPX is 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 Friday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *inverted* at 1996.30 on Friday. That is 0.4% *above* Thursday'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 0.4% in order to remain overbought. Otherwise it will be considered oversold versus expectations.

So the Aggregator is back to neutral. Which is basically where I already was. It could easily set up for a long signal on Friday, since expectations are positive and the Differential Pivot is inverted. But I am not going to jump the gun and put out any trade ideas just yet. Like last night, I'd like to see a bit of a pullback until I would consider jumping in on the long side. Or more bearish evidence if I am going to consider a short.

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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