

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 29, 2014

Volume 7 Issue 141

Market Overview



Signals Overview

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

Tonight's Research Points

- Wednesday's Fed day edge could be highly dependent on Tuesday's action.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I'm somewhat bullish also. Wednesday is a Fed Day (which are often bullish). I will be looking to get long if the market closes poorly on Tuesday, which could be especially bullish (for Wednesday).

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

Study Date	Description	Time span	Bias
Active - Short Term			
July 28, 2014	Unfilled gap dn from 50-high. Vol high.	1-5 days	Bullish
July 23, 2014	SPY new high with unfilled gap	1-5 days	Bullish
Active - Long Term			
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 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

The Evidence

The market saw mixed results on Monday. The SPX closed up less than 1 point while NASDAQ declined 0.1% and the Russell 2000 lost 0.5%. Breadth was negative as the NYSE Up Issues % came in at 44% and the Up Volume % was 41%. Total NYSE volume rose slightly from Friday's very low level.

Nothing of real significance triggered based on Monday's action. But Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 6/16/14 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$7,922.09	Profit Factor	1.36
Gross Profit	\$30,071.60	Gross Loss	(\$22,149.51)
Total Number of Trades	69	Percent Profitable	47.83%
Winning Trades	33	Losing Trades	34
Even Trades	2		
Avg. Trade Net Profit	\$114.81	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	\$911.26	Avg. Losing Trade	(\$651.46)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <= 75% of daily range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$13,888.50	Profit Factor		2.08
Gross Profit	\$26,710.49	Gross Loss		(\$12,821.99)
Total Number of Trades	38	Percent Profitable		57.89%
Winning Trades	22	Losing Trades		15
Even Trades	1			
Avg. Trade Net Profit	\$365.49	Ratio Avg. Win:Avg. Loss		1.42
Avg. Winning Trade	\$1,214.11	Avg. Losing Trade		(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade		(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - 4/1/2014.

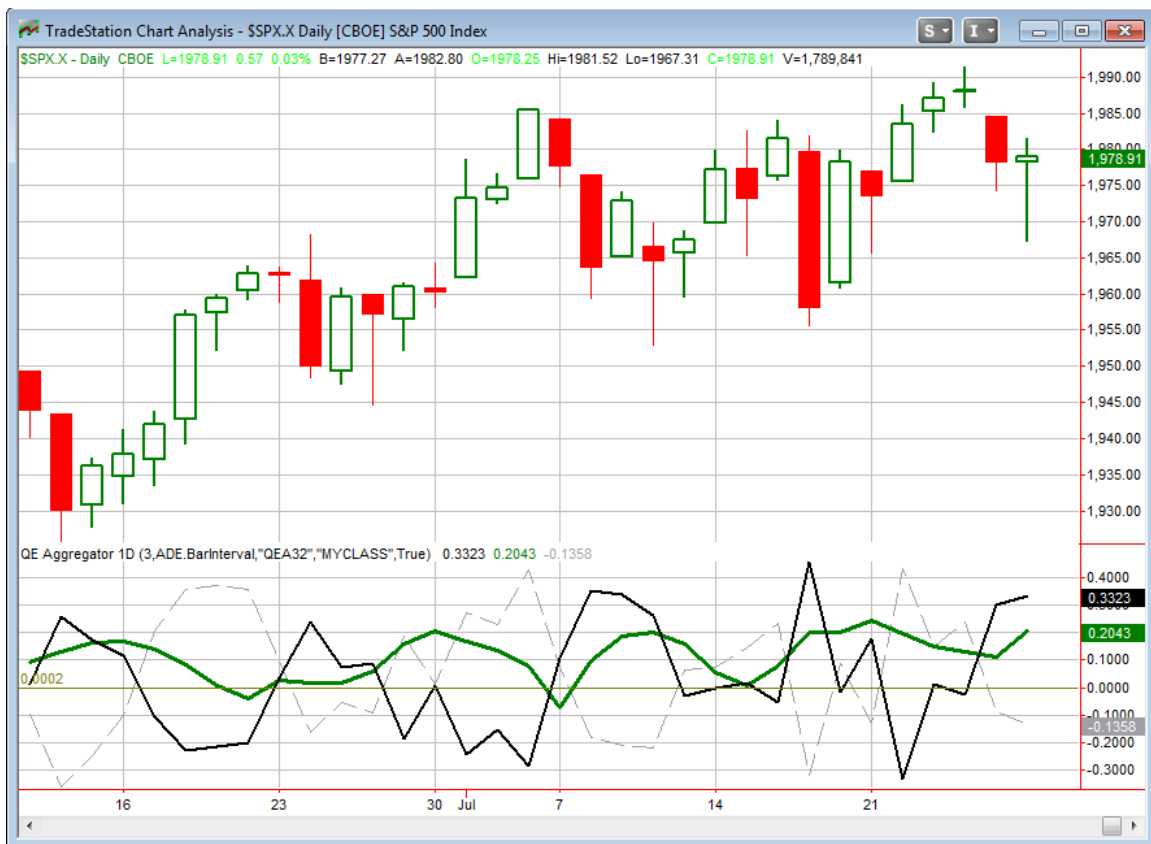
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$12,043.90	Profit Factor		2.76
Gross Profit	\$18,895.86	Gross Loss		(\$6,851.96)
Total Number of Trades	29	Percent Profitable		72.41%
Winning Trades	21	Losing Trades		8
Even Trades	0			
Avg. Trade Net Profit	\$415.31	Ratio Avg. Win:Avg. Loss		1.05
Avg. Winning Trade	\$899.80	Avg. Losing Trade		(\$856.50)
Largest Winning Trade	\$2,943.00	Largest Losing Trade		(\$2,066.62)

SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$20,552.27	Profit Factor		4.08
Gross Profit	\$27,234.96	Gross Loss		(\$6,682.69)
Total Number of Trades	35	Percent Profitable		74.29%
Winning Trades	26	Losing Trades		9
Even Trades	0			
Avg. Trade Net Profit	\$587.21	Ratio Avg. Win:Avg. Loss		1.41
Avg. Winning Trade	\$1,047.50	Avg. Losing Trade		(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade		(\$2,945.28)

What was true 4 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additionally volatility can be expected after the announcement, which introduces some more risk. Traders that look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

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



Without any new studies 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 also remained above 0. The positive Differential Line reading means the SPX is 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 remained 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 1997.31 on Tuesday. That is 0.9% above Monday's close. So it will take a strong move up on Tuesday to move from oversold back to overbought.

There is still a fair amount of room for the market to move up before it becomes overbought again. And evidence is still pointing higher. So the setup appears somewhat bullish again. But SPY still remains above its 10ma, so it is only short-term oversold versus recent expectations. The Fed Day is worth consideration, and with the Fed Day evidence we see tonight, plus the already bullish Aggregator, I will be interested in taking on long index exposure at Tuesday's close if SPY closes in the bottom half of its daily trading range.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/28 – slightly bullish

The intermediate-term outlook was last updated in the 7/28/14 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 \$198.00 LIMIT ON CLOSE IF SPY ALSO CLOSSES IN BOTTOM ½ OF INTRADAY RANGE. Based on the short-term outlook above. If filled, I may take a quick exit on this one prior to Wednesday’s Fed announcement.

Current Open Trade Ideas

None

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