

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 30, 2014

Volume 7 Issue 142

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 looks strong based on Tuesday's weak close.
- The extremely weak closing TICK suggests an up day on Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is still bullish. More evidence tonight is helping is look more bullish – for Wednesday at least. I now have some long exposure and will add to it on Wednesday if the market closes down much more.

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 30, 2014	100-day low TICK. 5-day low SPX	1 day	Bullish	
July 30, 2014	Poor close before a Fed Day	1 day	Bullish	
July 28, 2014	Unfilled gap dn from 50-high. Vol high.	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 23, 2014	SPY new high with unfilled gap	1-5 days	Bullish	

The Evidence

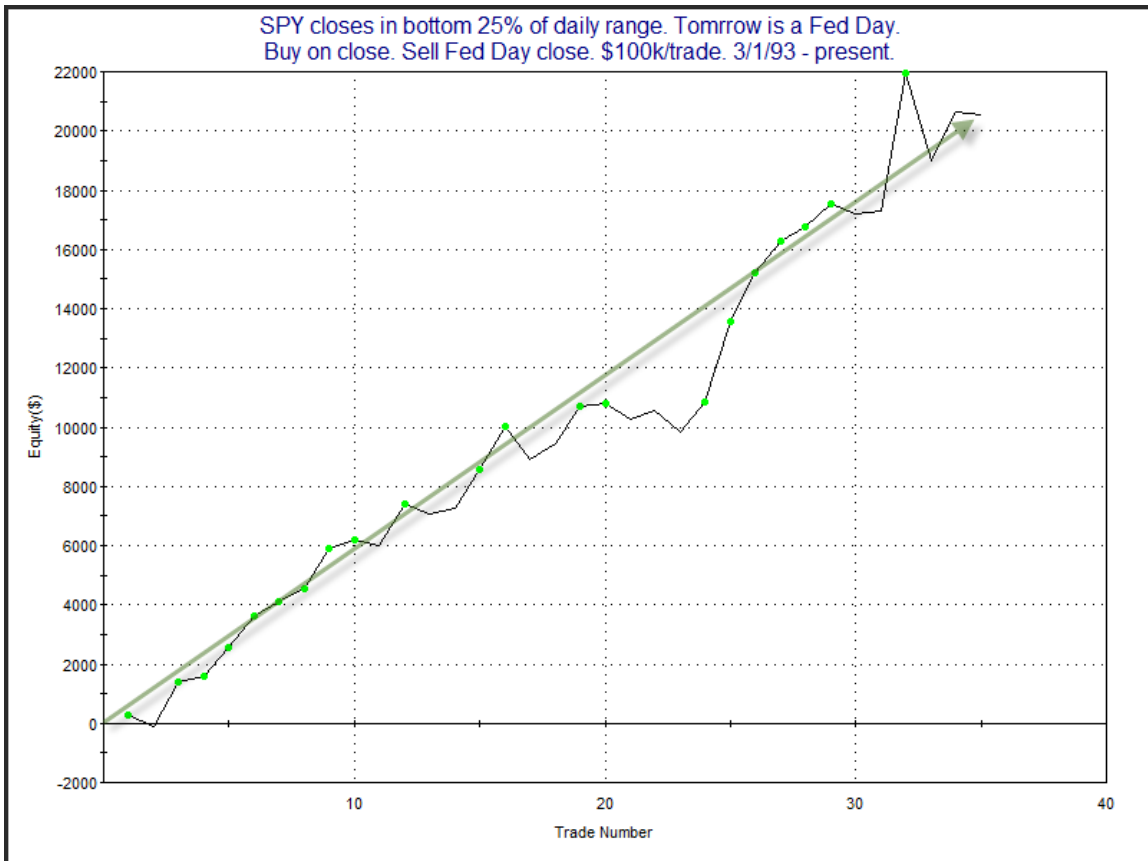
The market saw mixed results again on Tuesday. The SPX fell 0.5%, the NASDAQ declined 0.1% and the Russell 2000 gained 0.2%. Breadth was negative as the NYSE Up Issues % came in at 39% and the Up Volume % was 35%. Total NYSE volume rose from Monday's level.

In last night's letter I broke down Fed Day expectations based on what quartile SPY finished in on the day before the Fed Day. The bottom line was that the worse the close the better the results for the ensuing Fed Day. The poor close on Tuesday meant a close in the bottom quartile. Below are the results that I showed last night for that quartile.

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)

Tonight I also decided to show the profit curve.



The strong steady upslope is as appealing as the numbers.

I also mentioned 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.

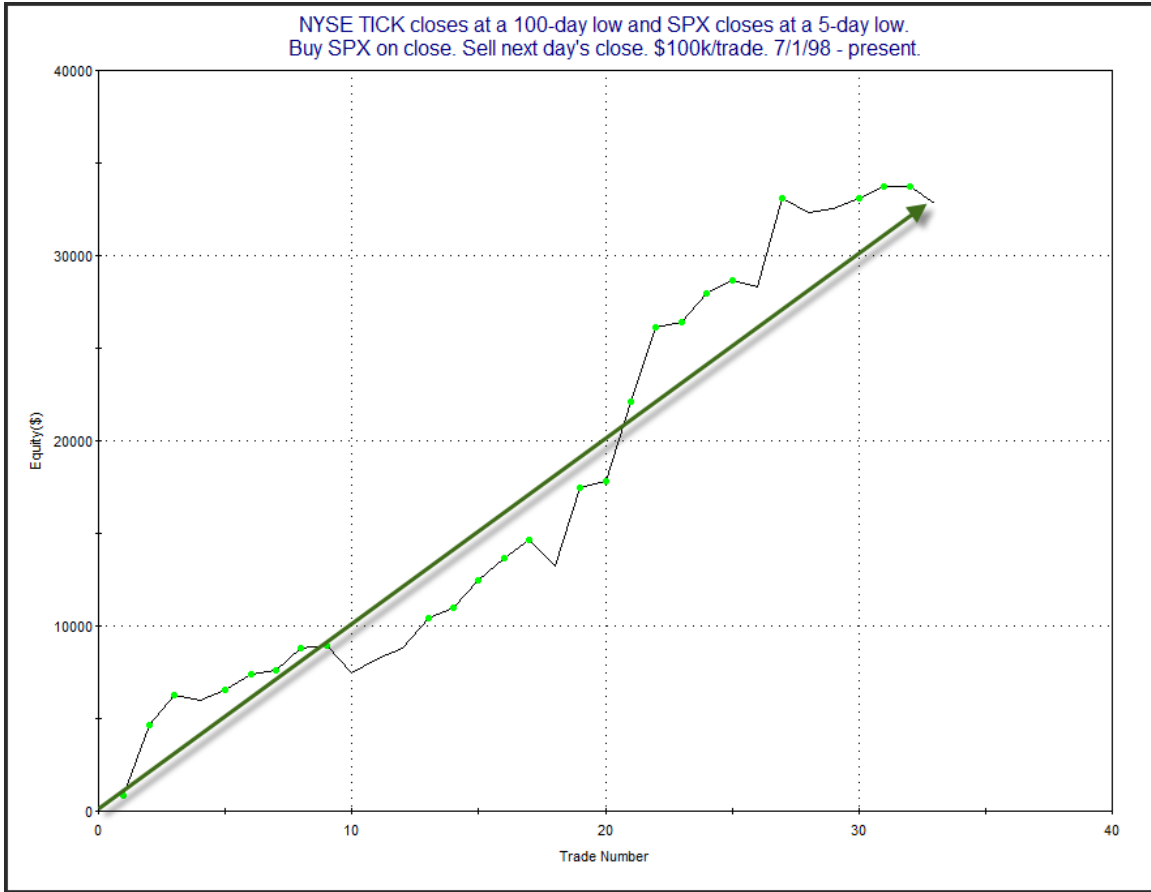
My friend and colleague, Tom McClellan (<http://www.mcoscillator.com/>), taught me a while back that closing TICK values can be used as a valuable indicator. Closing TICK values tend to do a good job of representing end of day order imbalances. When the closing TICK is very weak that means there are a lot of sell orders at the end of the day. A strong closing TICK would indicate lots of buy orders coming in at the end of the day. The final flurry of buying or selling, and market participants' willingness to hold positions overnight, can act as a good sentiment gauge.

On Tuesday the NYSE closing TICK was -838. This is an extremely low reading and it represents the lowest reading since 11/25/11. The study below was last seen in the 4/11/14 Subscriber Letter. It looks at short-term SPX lows in conjunction with long-term closing TICK lows. Results have been updated.

NYSE TICK closes at a 100-day low and SPX closes at a 5-day low.
Buy SPX on close. Sell next day's close. \$100k/trade. 7/1/98 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$32,820.44	Profit Factor	7.36
Gross Profit	\$37,978.97	Gross Loss	(\$5,158.53)
Total Number of Trades	33	Percent Profitable	81.82%
Winning Trades	27	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$994.56	Ratio Avg. Win:Avg. Loss	1.64
Avg. Winning Trade	\$1,406.63	Avg. Losing Trade	(\$859.75)
Largest Winning Trade	\$4,723.23	Largest Losing Trade	(\$1,506.56)

Everything above suggests a strong upside edge for the next day. Below is an equity curve to see how the edge has played out over time.



The strong steady upslope acts as confirmation of the setup's bullish tendencies.

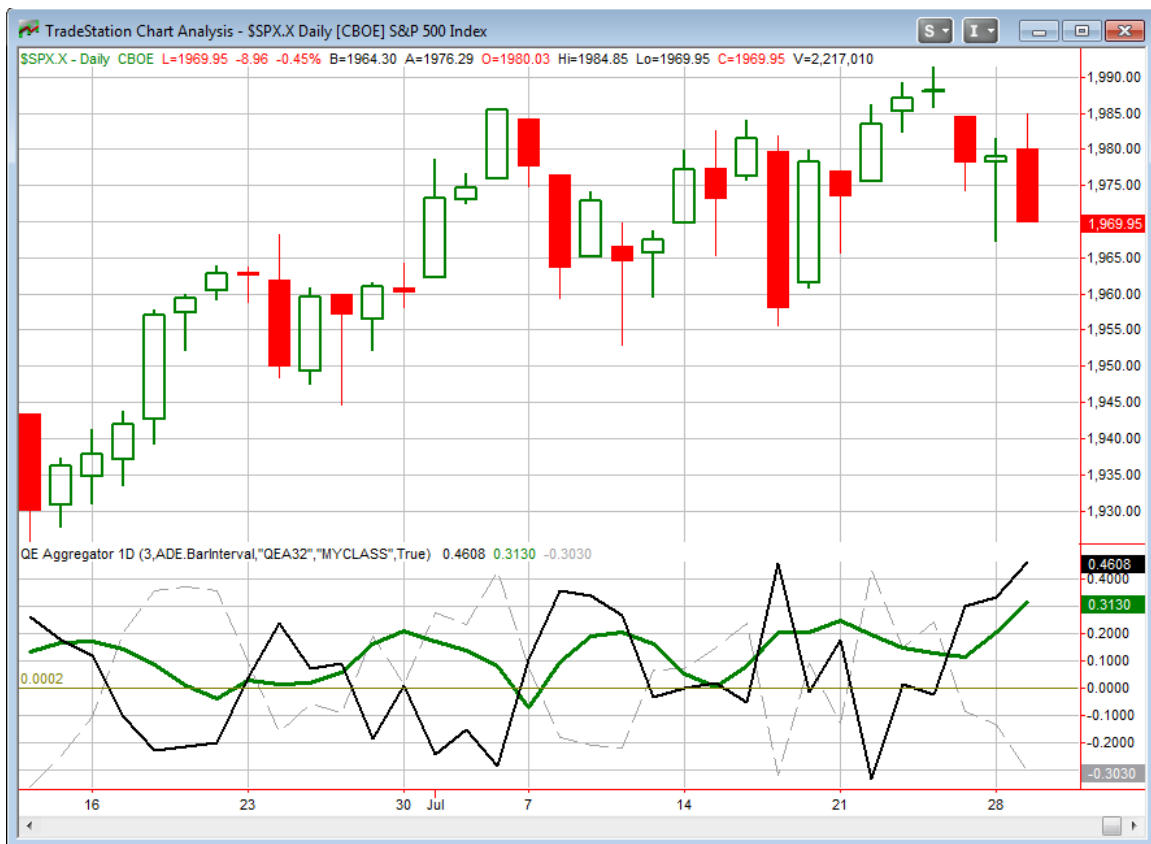
In the 7/28/11 letter I also included a filter to see the instances that occurred while the SPX was above the 200ma. Below are those stats (updated).

NYSE TICK closes at a 100-day low and SPX closes > 200ma but at a 5-day low.
Buy SPX on close. Sell next day's close. \$100k/trade. 7/1/98 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$7,850.09	Profit Factor	3.08
Gross Profit	\$11,619.82	Gross Loss	(\$3,769.73)
Total Number of Trades	20	Percent Profitable	75.00%
Winning Trades	15	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	\$392.50	Ratio Avg. Win:Avg. Loss	1.03
Avg. Winning Trade	\$774.65	Avg. Losing Trade	(\$753.95)
Largest Winning Trade	\$1,569.26	Largest Losing Trade	(\$1,506.56)

While the stats here remain strong, they are not quite as impressive as without the filter. The reduced volatility during uptrends vs downtrends seems to have dampened the averages some. The average trade here gains about \$400 instead of \$1,000. Still, I decided this TICK study was worth including in the Active Studies List.

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



With tonight's 2 bullish studies being added the green Aggregator Line moved further 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 rose more above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are strongly positive and the SPX is quite 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 Wednesday. Of course this could change if more bearish evidence emerges. The

Differential Pivot will be 1985.99 on Wednesday. That is 0.8% above Tuesday's close. So it will take a strong move up on Wednesday to move from oversold to overbought versus expectations.

I like the current setup. Evidence appears strong with a diverse group of active short-term studies. They look at price action & volume, seasonality, and sentiment (via the TICK). Of course the Fed can be a real wildcard and it increases the risk substantially. I took some long exposure near the close on Tuesday based on a bullish Aggregator and the strong seasonality associated with Fed Days. I will not look to add more before the announcement, but I will look to take on more exposure if the Fed reaction is poor and the market suffers again on Wednesday. Rarely do Fed announcements mark long-term turning points. I suspect a selloff would generate a number of bullish studies and I will up my exposure at that point if Wednesday turns out to be a tough one for the market.

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 \$196.25 LIMIT ON CLOSE. Based on the short-term outlook above. I will up my exposure if we get much of a selloff on Wednesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/29/2014	\$196.95	\$196.95	0.00%		bought on close

I will look to exit my SPY position at a limit of \$198.55 any time leading up to 2pm EST. If not filled by then I will hold until the close. I will sell at the close using the same \$198.55 limit price.

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