

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 31, 2014

Volume 7 Issue 143

Market Overview



Signals Overview

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

Tonight's Research Points

- The SPX price pattern the last 2 days suggests a failure by the bears. Bulls have a chance to take charge over the next few days.

Short-term Outlook

The Bottom Line

The Aggregator remains bullish and tonight's evidence points higher once again. I am partially long and looking to possibly get longer on Thursday.

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 31, 2014	SPX double reverse. Close > 200 < 10ma	1-5 days	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 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	

The Evidence

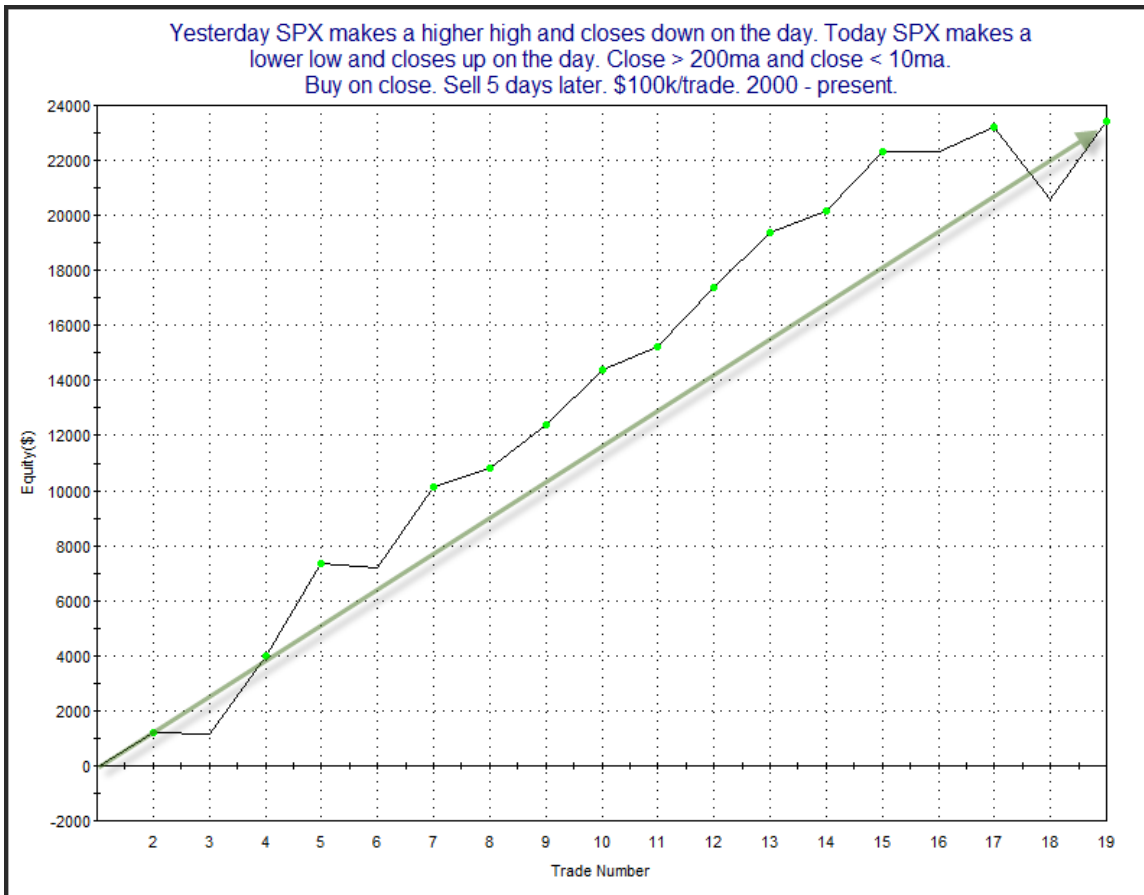
The market saw mixed results again on Wednesday. The SPX came in just barely above breakeven while the NASDAQ and the Russell 2000 gained 0.4%. The Dow was a small loser. Breadth was negative as the NYSE Up Issues % came in at 39% and the Up Volume % was 46%. Total NYSE volume rose for the 2nd day in a row.

On Tuesday the bulls tried to make a move higher and failed, making for a higher high and a lower close. On Wednesday the opposite happened. The bears failed in their attempt at a move lower. In the 2/27/13 Subscriber Letter I looked at two-day moves like this. I found results to be substantially different based on whether the market is near the top or the bottom of its short-term range. When the pattern occurs in the lower end of the short-term range it has been consistently bullish over the next 4-5 days. This can be seen in the below test, which I have updated.

Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and close < 10ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	23,411.84	19	14	5	73.68	1,875.37	3,344.64	-568.66	-2,608.20	3.30	9.23	1,232.20
4	17,888.75	19	16	3	84.21	1,404.17	2,345.07	-1,525.98	-2,618.70	0.92	4.91	941.51
3	6,283.31	19	13	6	68.42	1,142.57	2,224.32	-1,428.34	-3,490.90	0.80	1.73	330.70
2	5,232.16	19	12	7	63.16	1,173.39	2,967.00	-1,264.07	-2,226.32	0.93	1.59	275.38
1	5,378.69	19	11	8	57.89	895.42	1,712.28	-558.87	-1,180.27	1.60	2.20	283.09

The only instance NOT to close above the entry price at some point in the next week was the 1st one on 1/25/00.

Odds strongly favor a move higher and the win:loss ratio and profit factors are very impressive. Below is an equity curve using a 5-day exit strategy to see how the edge has played out over time.



The strong, steady rise is impressive. The failure of the bears to take control when the market pressed downward and made a lower low on Wednesday has opened the door for the bulls.

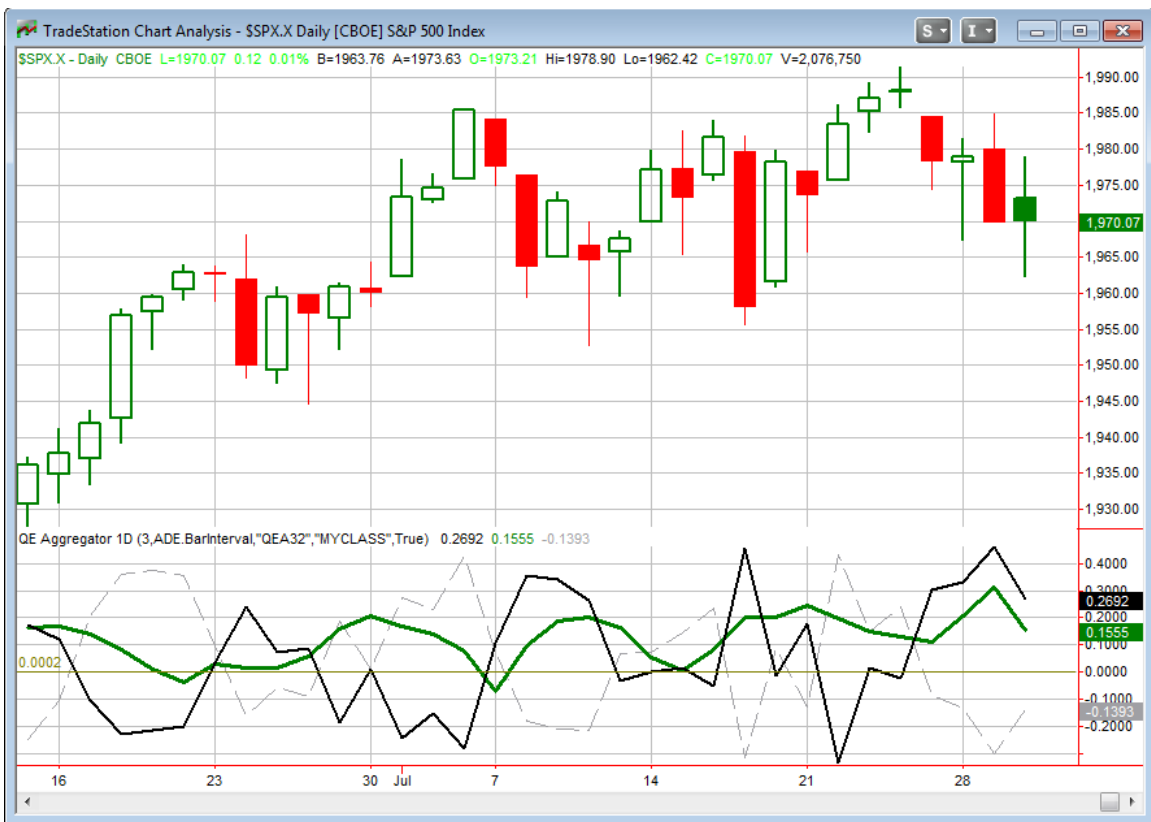
While not applicable to the current situation, I thought I'd also show the results when the pattern occurred and the SPX closed above the 10ma. This table is updated from the 2/27/13 letter as well.

Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and close > 10ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-4,013.14	39	23	16	58.97	893.38	2,143.70	-1,535.06	-3,770.60	0.58	0.84	-102.90
4	-9,666.47	43	23	20	53.49	803.11	1,984.54	-1,406.90	-4,575.48	0.57	0.66	-224.80
3	-7,430.23	43	21	22	48.84	845.46	1,918.21	-1,144.76	-2,726.23	0.74	0.70	-172.80
2	-976.08	44	25	19	56.82	557.90	1,844.90	-785.45	-2,362.36	0.71	0.93	-22.18
1	-2,223.07	44	21	23	47.73	488.46	1,063.14	-542.64	-1,275.95	0.90	0.82	-50.52

We see here that the winning % is a tossup and the downside risk has outsized the upside reward. In this case implications are not bullish. With the 50% winning % and the fairly mild average decline I'm not sure I'd call it bearish either.

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



With tonight's bullish study being added the green Aggregator Line stayed well 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 Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1987.65 on Wednesday. That is 0.9% above Wednesday's close. So it will take a strong move up on Thursday to move from oversold to overbought versus expectations.

I still like the long side. Evidence is pointing higher and the bounce has not yet arrived. My position at this point is fairly small. I will look to increase it if SPY closes down a fair amount on Thursday. Friday will bring a new month and a new jobs report. New months have been bullish for a long time. Employment days have been bullish for the last 2 years. I will examine both of those things in more detail in tomorrow's letter.

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

New

NOV – 1/3 @ \$81.73 (buy @ limit)

MDLZ – 1/3 @ \$36.97 (buy @ limit)

UTX – 1/3 @ \$106.38 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(NOV,MDLZ,UTX)

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 @ \$196.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add more exposure if the market closes down this much on Thursday.

NOV – Buy 1/3 Catapult position @ \$81.73 LIMIT. From the Catapult section above. This is the first of a possible 3 lots.

MDLZ – Buy 1/3 Catapult position @ \$36.97 LIMIT. From the Catapult section above. This is the first of a possible 3 lots.

UTX – Buy 1/3 Catapult position @ \$106.38 LIMIT. From the Catapult section above. This is the first of a possible 3 lots.

Subscribers that are new to Catapults or would like to learn more about this strategy should check out the [Catapult System page](#) on the website. There is a link to a detailed video about the system there near the top of the page, as well as other resources.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/29/2014	\$196.95	\$196.98	0.02%		Aggregator

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