

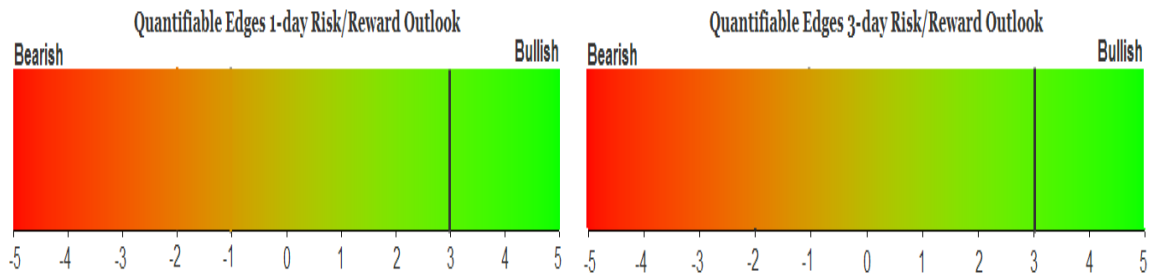
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 5, 2014

Volume 7 Issue 146

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Low-volume bounces when the SPX has been extremely oversold short-term have outperformed rising-volume bounces substantially.

## *Short-term Outlook*

### *The Bottom Line*

The bounce looks ok so far. Evidence suggests there should be more to come. Still, the edge is not as strong as last night, and if it bounces much further on Tuesday I'll be looking to take part of my position off.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
August 4, 2014	CBI >= 10. SPX > 200ma.	1-4 days	Bullish	
August 1, 2014	VIX 25% above 10ma	1-4 days	Bullish	
August 1, 2014	QE Buying Power System long signal	1-6 days	Bullish	
August 1, 2014	System 110524 for SPY	1-7 days	Bullish	
July 31, 2014	SPX double reverse. Close > 200 < 10ma	1-5 days	Bullish	
<b>Active - Long Term</b>				
August 4, 2014	CBI >= 11.	1-20 days	Bullish	4.00%
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**

The market put in an oversold bounce on Monday. The SPX and NASDAQ each gained 0.7% and the Russell 2000 rose 0.9%. Breadth was positive as the NYSE Up Issues % came in at 62% and the Up Volume % was 71%. Total NYSE volume came in quite a bit below the levels of the last few days.

The fact that volume came in lower on the bounce than it did during the previous day's selling is sometimes pointed to as a negative. This can be a misnomer. The lower volume is often a good thing. This can be seen in the studies below that look at bounces from strongly oversold short-term conditions. They were last seen in the 3/18/14 letter. To measure short-term oversold in this case a 2-period RSI calculation is used. This first one examines higher-volume bounces, unlike the one we saw on Monday.

Yesterday SPX RSI(2) < 5. Today SPX closes up on <b>higher</b> NYSE volume. Close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1997 - 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	2,086.93	22	12	10	54.55	1,353.20	3,532.25	-1,415.14	-2,969.64	0.96	1.15	94.86
4	324.36	23	14	9	60.87	1,053.42	2,587.95	-1,602.61	-2,541.13	0.66	1.02	14.10
3	-5,355.93	23	9	14	39.13	1,419.25	3,939.79	-1,294.94	-2,517.13	1.10	0.70	-232.87
2	-4,140.89	24	11	13	45.83	900.38	2,794.56	-1,080.39	-1,962.36	0.83	0.71	-172.54
1	-3,399.31	24	10	14	41.67	633.49	2,536.10	-695.30	-1,774.60	0.91	0.65	-141.64

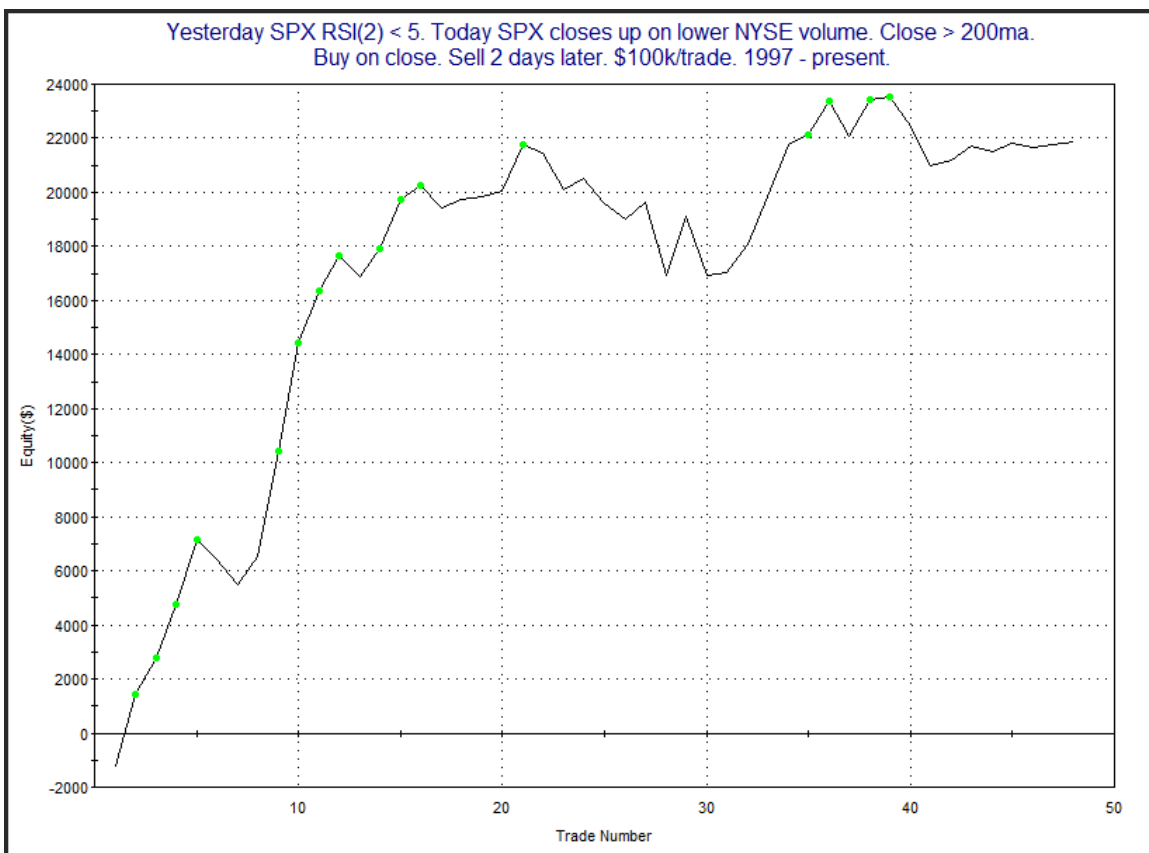
As you can see, high volume bounces have *not* done a good job of following through in the next few days. The next study looks at the same setup, except that volume comes in lower like we saw on Monday.

Yesterday SPX RSI(2) < 5. Today SPX closes up on lower NYSE volume. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1997 - present.

QE Finder Tester: daysin	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	23,133.42	45	25	20	55.56	2,196.13	5,396.71	-1,588.49	-8,178.56	1.38	1.73	514.08
4	22,828.12	47	29	18	61.70	1,694.01	4,223.34	-1,461.01	-2,783.55	1.16	1.87	485.70
3	16,115.65	48	27	21	56.25	1,393.34	4,457.43	-1,024.02	-3,490.90	1.36	1.75	335.74
2	21,866.14	48	32	16	66.67	1,209.29	4,001.40	-1,051.95	-2,735.64	1.15	2.30	455.54
1	12,731.39	48	29	19	60.42	908.95	2,842.84	-717.28	-2,782.56	1.27	1.93	265.24

89% of instances closed above the entry price at some point in the next week.

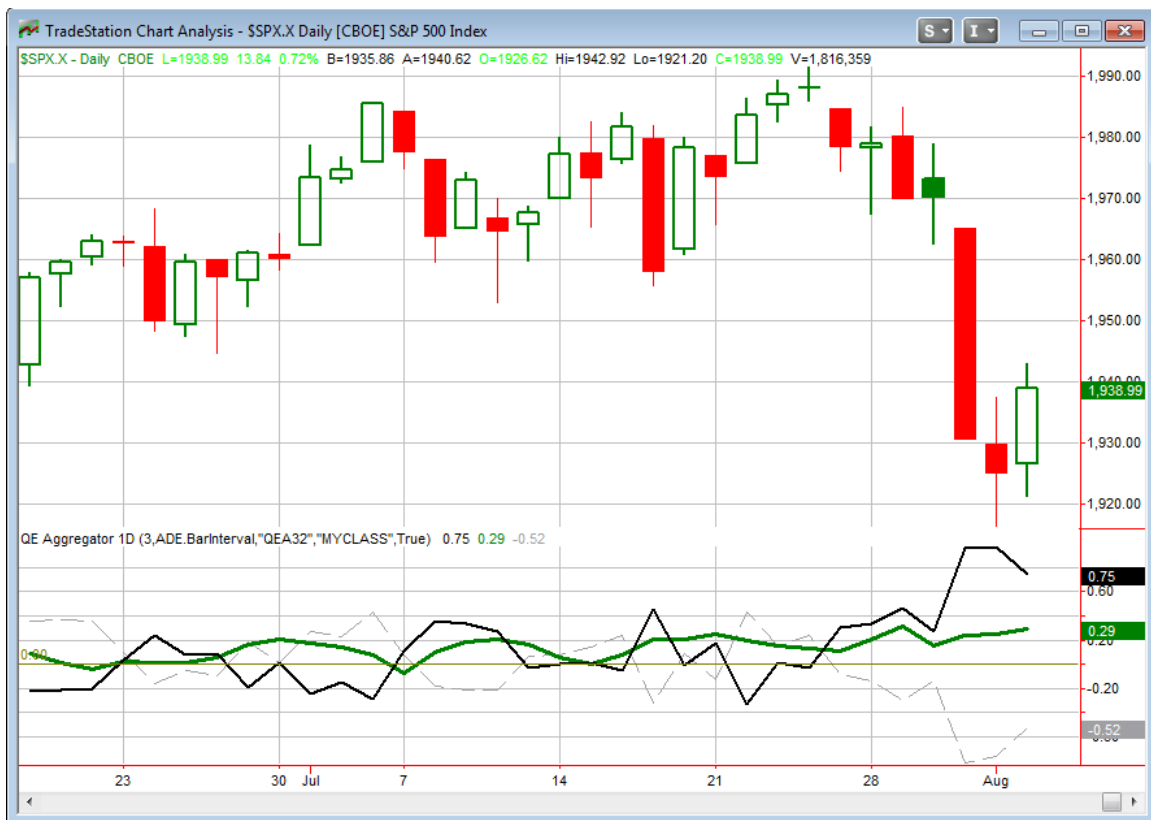
The numbers here are all fairly impressive. Most of the profits appear to have been realized in the first 2 days. Below is a profit curve assuming a 2-day holding period.



While the numbers look good, the profit curve is not nearly as impressive. In fact all the profit curves over the 1-5 day period have flattened out quite a bit. Because of this I am not inclined to count this study as bullish on the Active List. But while I don't

necessarily view the study as bullish at this point, it certainly appears that the lower volume is preferable to rising volume. It would seem that the low volume bounces may suggest that people need convincing and are not rushing back in. But over the next few days, their willingness to commit capital and their desire not let the bounce get too far away from them helps to propel the bounce further.

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



The green Aggregator Line did not move much tonight and remains 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 remained highly elevated. The positive Differential Line reading means the SPX is still very 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. This is highly unlikely to change. The Differential Pivot will be 1944.40 on Tuesday.

That is 0.3% above Monday's close. The oversold condition is set to wear off fairly quickly as measured by the Differential Line if SPX continues its bounce.

The bounce seems to have arrived as we were expecting. The question now is will it be as potent as expected? The Differential Pivot is now close by, and the edge certainly is not as strong as it was Friday afternoon. So I want to be long, but I am starting to think about reducing my exposure some. No more Catapults triggered on Monday. In fact, NOV, which had a 2-lot count, met its exit target. This means the CBI is dropping from 11 to 9. I will therefore be looking to take profits in this, and possibly on some of my SPY position if SPY closes higher again on Tuesday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 8/4 – slightly bullish***

The intermediate-term outlook was last updated in the 8/4/14 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***

*MDLZ – 1/3 @ \$36.97 (bought @ \$36.62)*

*UTX – 1/3 @ \$106.38 (bought @ \$105.79)*

*MDLZ – 1/3 @ \$36.02 (bought @ limit)*

*UTX – 1/3 @ \$105.15 (bought @ limit)*

*F – 1/3 @ \$17.02 (bought @ limit)*

*KO – 1/3 @ \$39.29 (bought @ limit) – 1<sup>st</sup> lot*

*WMB – 1/3 @ \$55.55 (bought @ limit) – 1<sup>st</sup> lot*

*UTX – 1/3 @ \$104.75 (bought @ limit) – 3<sup>rd</sup> lot*

*F – 1/3 @ \$16.81 – (not filled – cancel order for now)*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 9/5(,MDLZ-2,UTX-3,F-2,KO,WMB)***

### 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. One lot of F was not filled from last night. I will not be looking to take that on Tuesday and will cancel that order for the time being.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/29/2014	\$196.95	\$193.88	-1.56%		Aggregator
SPY(1/4)	7/31/2014	\$193.09	\$193.88	0.41%		Aggregator
NOV(1/3)	7/31/2014	\$81.30	\$82.88	1.94%		sell on open
MDLZ(1/3)	7/31/2014	\$36.62	\$36.45	-0.46%		Catapult
UTX(1/3)	7/31/2014	\$105.79	\$105.05	-0.70%		Catapult
NOV(1/3)	8/1/2014	\$80.53	\$82.88	2.92%		sell on open
MDLZ(1/3)	8/1/2014	\$36.02	\$36.45	1.19%		Catapult
UTX(1/3)	8/1/2014	\$104.92	\$105.05	0.12%		Catapult
F(1/3)	8/1/2014	\$17.02	\$17.02	0.00%		Catapult
KO(1/3)	8/4/2014	\$39.29	\$39.40	0.28%		Bought @ limit
WMB(1/3)	8/4/2014	\$55.45	\$56.20	1.35%		Bought on open
UTX(1/3)	8/4/2014	\$104.75	\$105.05	0.29%		Bought @ limit
SPY(1/4)	8/4/2014	\$192.25	\$193.88	0.85%		Bought @ limit

I will sell 2 lots of SPY on a close  $\geq$  \$194.50. I will hold the third lot at least until the CBI closes  $\leq$  3 or SPY closes above the mid-point of its 10-day trading range.

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