

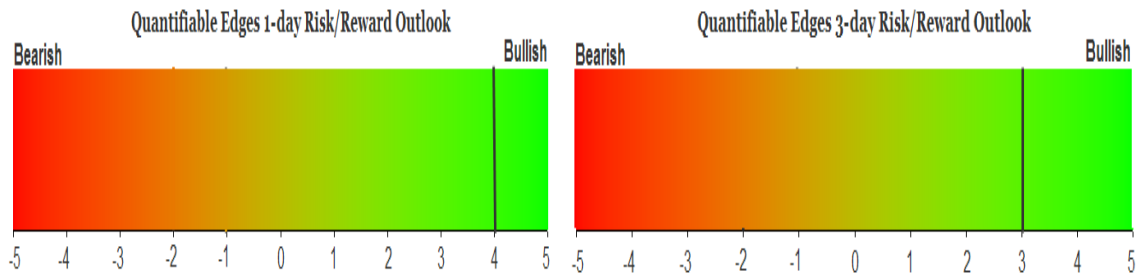
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 6, 2014

Volume 7 Issue 147

Market Overview



Signals Overview

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

Tonight's Research Points

- Monday's bounce failed. Historically such failed bounces have quickly been followed by another bounce attempt.

Short-term Outlook

The Bottom Line

Tuesday's decline did nothing to make the evidence look bearish. In fact, more bullish evidence was added. I am quite long already. I will not be taking on new index exposure at this point, but there is a new Catapult trigger that interests me..

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
August 6, 2014	20 low. Up day. 20 low. Close > 200ma	1 day	Bullish	
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	
Active - Long Term				
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

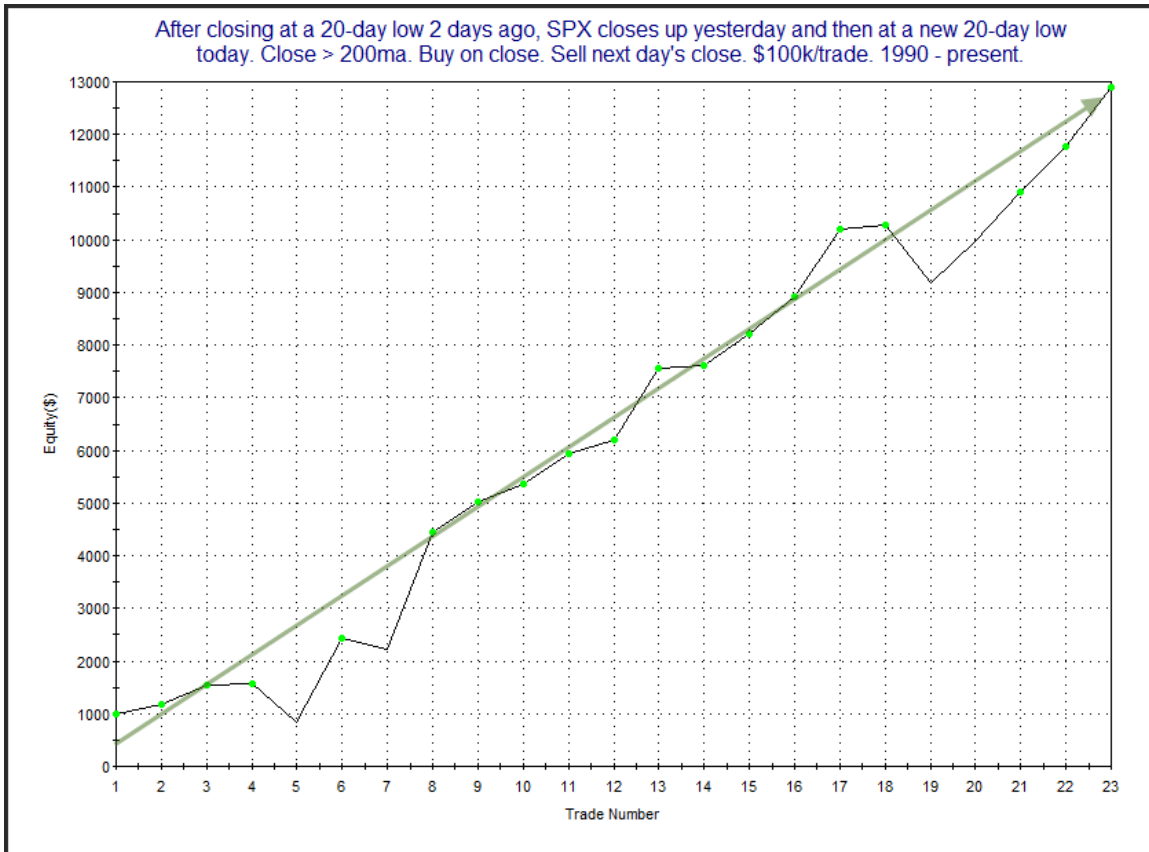
Monday's bounce rolled right over and failed on Tuesday. The SPX lost 1.0%, the NASDAQ dropped 0.7% and the Russell 2000 declined 0.3%. Breadth was negative as the NYSE Up Issues % came in at 28% and the Up Volume % was 21%. Total NYSE volume rose a little from Monday's level.

The drop on Tuesday did not trigger anything new and compelling in the Quantifinder. But it got me to wondering...it seems fairly rare that a bounce off a low fails so quickly. How has the market responded under similar circumstances in the past? For the study below, I look at times when a 20-day low was followed by a 1-day bounce and then another 20-day low (when above the 200ma). Results since 1990 can be seen below.

After closing at a 20-day low 2 days ago, SPX closes up yesterday and then at a new 20-day low today. Close > 200ma.
Buy on close. Sell next day's close. \$100k/trade. 1990 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$12,887.37	Profit Factor	7.38	
Gross Profit	\$14,906.11	Gross Loss	(\$2,018.74)	
Total Number of Trades	23	Percent Profitable	86.96%	
Winning Trades	20	Losing Trades	3	
Even Trades	0			
Avg. Trade Net Profit	\$560.32	Ratio Avg. Win:Avg. Loss	1.11	
Avg. Winning Trade	\$745.31	Avg. Losing Trade	(\$672.91)	
Largest Winning Trade	\$2,225.00	Largest Losing Trade	(\$1,097.92)	

The numbers here look very solid and suggest a bullish edge for Wednesday. Below is a profit curve to see how the edge has played out over time.



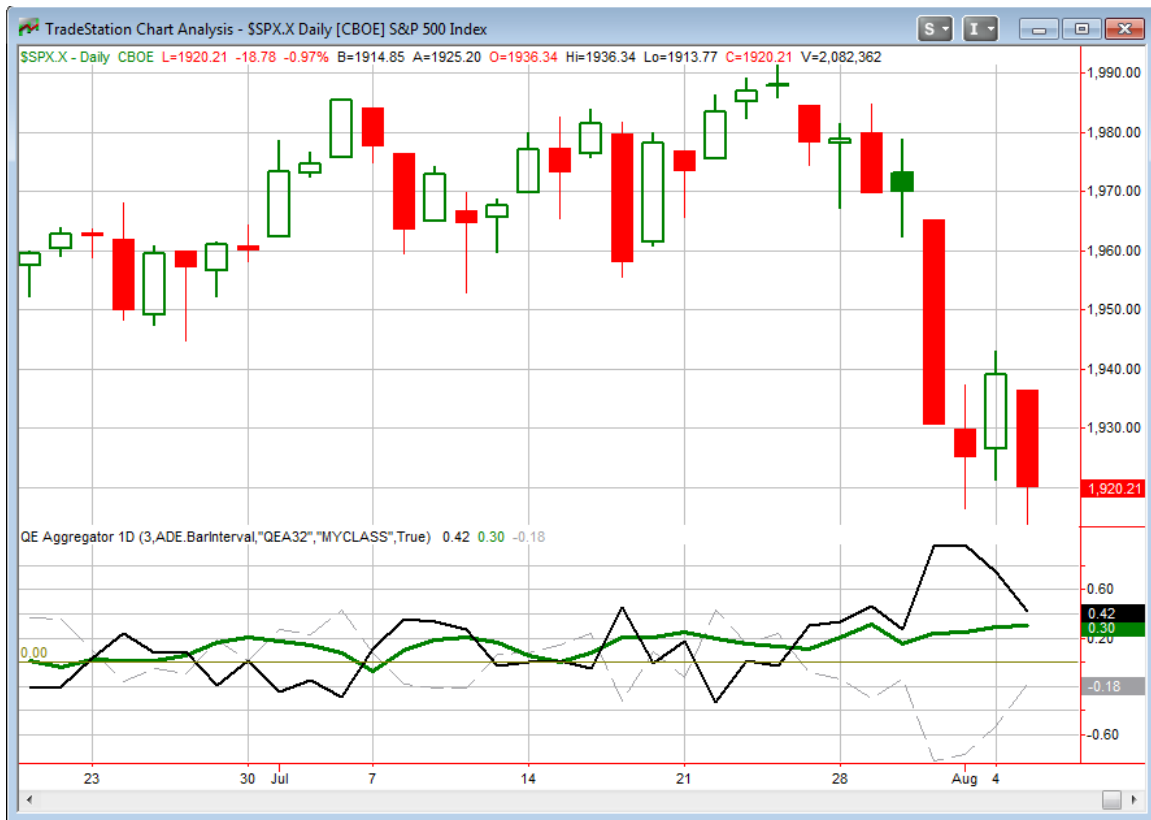
The strong, steady upslope is impressive and appears to confirm the upside edge. It has been especially strong since 2000 (after instance #6). Below I listed all of those trades.

After closing at a 20-day low 2 days ago, SPX closes up yesterday and then at a new 20-day low today. Close > 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/30/03	Buy	\$995.97	2.23%	\$2,225.00
10/01/03	Sell	\$1,018.22		\$0.00
03/15/04	Buy	\$1,104.43	0.57%	\$845.10
03/16/04	Sell	\$1,110.70		(\$163.80)
07/08/04	Buy	\$1,109.10	0.33%	\$582.30
07/09/04	Sell	\$1,112.81		\$0.00
01/13/05	Buy	\$1,177.44	0.60%	\$652.68
01/14/05	Sell	\$1,184.51		\$0.00
03/24/05	Buy	\$1,171.42	0.24%	\$721.65
03/28/05	Sell	\$1,174.28		\$0.00
03/29/05	Buy	\$1,165.36	1.38%	\$1,375.30
03/30/05	Sell	\$1,181.41		\$0.00
08/18/05	Buy	\$1,219.02	0.06%	\$496.92
08/19/05	Sell	\$1,219.71		\$0.00
08/26/05	Buy	\$1,205.10	0.60%	\$752.76
08/29/05	Sell	\$1,212.28		(\$292.74)
07/31/07	Buy	\$1,455.27	0.72%	\$891.48
08/01/07	Sell	\$1,465.81		(\$1,066.24)
02/08/10	Buy	\$1,056.74	1.30%	\$2,118.76
02/09/10	Sell	\$1,070.52		\$0.00
06/10/11	Buy	\$1,270.98	0.07%	\$472.68
06/13/11	Sell	\$1,271.83		(\$416.52)
05/11/12	Buy	\$1,353.39	(1.11%)	\$0.00
05/14/12	Sell	\$1,338.35		(\$1,224.94)
10/12/12	Buy	\$1,428.59	0.81%	\$877.68
10/15/12	Sell	\$1,440.13		(\$93.15)
06/24/13	Buy	\$1,573.09	0.95%	\$1,304.10
06/25/13	Sell	\$1,588.03		\$0.00
08/21/13	Buy	\$1,642.80	0.86%	\$1,005.00
08/22/13	Sell	\$1,656.96		\$0.00
01/29/14	Buy	\$1,774.20	1.13%	\$1,375.92
01/30/14	Sell	\$1,794.19		\$0.00

Quite a hot streak here, with 15 of 16 closing higher the next day. I have included this study on the Active List tonight. I will also note that the stats have been substantially less impressive when SPX has been below its 200ma. This edge has only been prevalent during long-term uptrends.

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



Tonight's study helped the green Aggregator Line inch 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 is still positive, but not to the same degree. The positive Differential Line reading means the SPX is still 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 Wednesday. This is highly unlikely to change. The Differential Pivot will be 1937.37 on Wednesday. That is 0.9% above Tuesday's close. So for SPX to move from oversold to overbought versus expectations on Wednesday would take a strong move higher. A multi-day rally or consolidation is probably a more likely way to work off the oversold condition.

The first bounce attempt was a flop. But we still have a fair amount of evidence suggesting a bounce remains likely. And I am still not seeing anything favoring more short-term downside. Of course that does not mean this selloff can't get worse. Over the years I have seen numerous setups that have "always" done something in the past fail for the first time. So while I believe the odds strongly favor a bounce at this point, the odds don't always play out as expected. If your method is right 90% of the time and wrong

10% of the time, it is important not to let your account get decimated when a 10% probability is realized. At the same time, when there is a lot pointing in one direction, it is generally a good idea to place a big enough bet to take advantage of it. So I like the long side. And while I am not “all-in”, I do have a good amount of exposure right now. I am not looking to add any more index exposure right here, but there was one new Catapult that I will look to play. Details are in the Trade Ideas section down below.

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) – 1st lot

WMB – 1/3 @ \$55.55 (bought @ limit) – 1st lot

UTX – 1/3 @ \$104.75 (bought @ limit) – 3rd lot

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

New

MCD – 1/3 @ \$93.43 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 10/6(,MDLZ-2,UTX-3,F-2,KO,WMB,MCD)

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.

MCD – Buy 1/3 Catapult position @ \$93.43 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	\$192.01	-2.51%		Aggregator
SPY(1/4)	7/31/2014	\$193.09	\$192.01	-0.56%		Aggregator
NOV(1/3)	7/31/2014	\$81.30	\$82.29	1.22%		sold on open
MDLZ(1/3)	7/31/2014	\$36.62	\$35.96	-1.80%		Catapult
UTX(1/3)	7/31/2014	\$105.79	\$105.02	-0.73%		Catapult
NOV(1/3)	8/1/2014	\$80.53	\$82.29	2.19%		sold on open
MDLZ(1/3)	8/1/2014	\$36.02	\$35.96	-0.17%		Catapult
UTX(1/3)	8/1/2014	\$104.92	\$105.02	0.10%		Catapult
F(1/3)	8/1/2014	\$17.02	\$16.87	-0.88%		Catapult
KO(1/3)	8/4/2014	\$39.29	\$39.18	-0.28%		Catapult
WMB(1/3)	8/4/2014	\$55.45	\$55.01	-0.79%		Catapult
UTX(1/3)	8/4/2014	\$104.75	\$105.02	0.26%		Catapult
SPY(1/4)	8/4/2014	\$192.25	\$192.01	-0.12%		Aggregator

I will sell 1 lot of SPY on a close >= \$194.00.

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