

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 7, 2014

Volume 7 Issue 148

Market Overview



Signals Overview

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

Tonight's Research Points

- The reversal pattern from the 20-day low suggests the bounce could last a few more days.

Short-term Outlook

The Bottom Line

Evidence still points up. The market is still oversold. The bounce has been slow to materialize, but long still appears to be the better bet. I have a fairly sizable long position since I am looking to take advantage of the anticipated bounce.

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

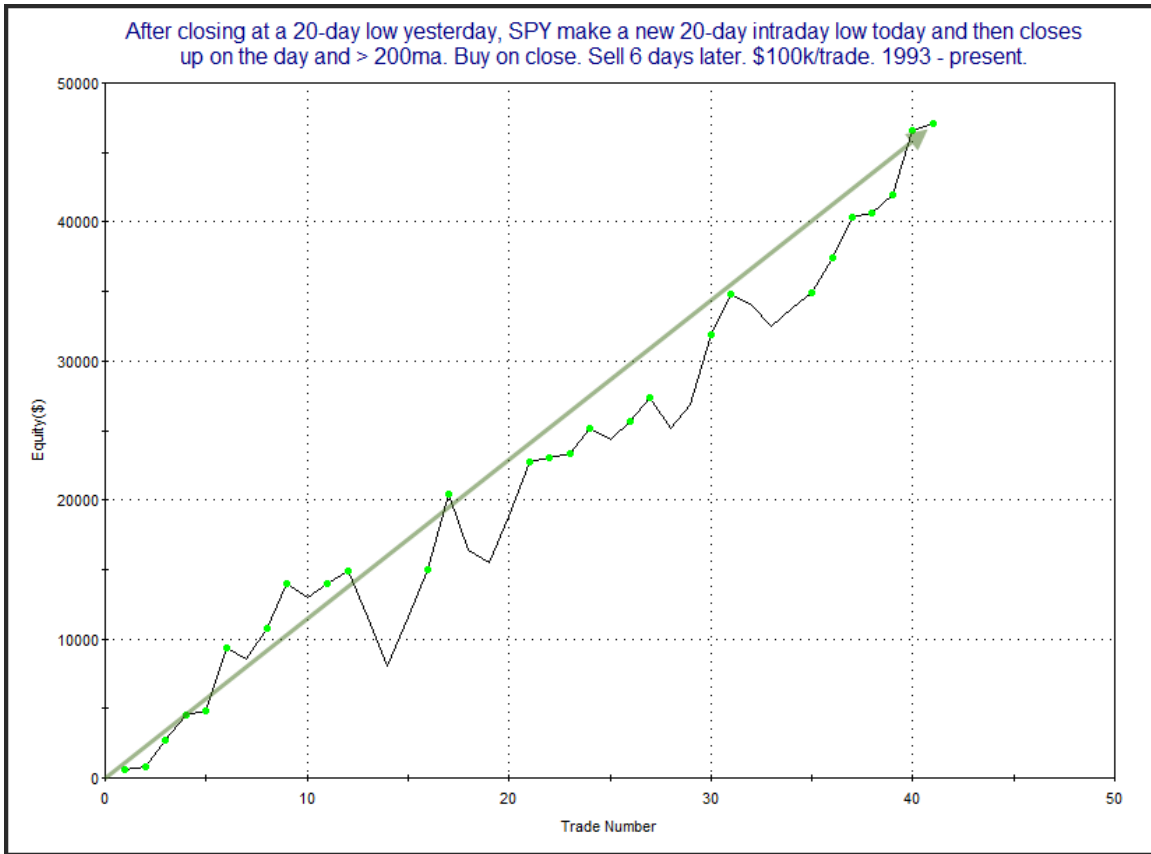
Very little progress was made on Tuesday. The SPX gained 0.03 points, the NASDAQ rose 0.05% and the Russell 2000 inched up 0.004%. Breadth was moderately positive as the NYSE Up Issues % came in at 60% and the Up Volume % was 50%. Total NYSE volume sank a little from Tuesday's level.

The near breakeven close today did not inspire much in the Quantifinder. But the study below is worth an update and close look. It was last seen in the 8/29/13 Letter. It looks at reversals off a 20-day low. All stats are updated.

After closing at a 20-day low yesterday, SPY make a new 20-day intraday low today and then closes up on the day and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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
10	54,454.04	38	29	9	76.32	2,392.39	6,600.62	-1,658.37	-3,844.83	1.44	4.65	1,433.00
9	51,774.55	39	28	11	71.79	2,573.60	5,915.43	-1,844.20	-4,258.20	1.40	3.55	1,327.55
8	43,390.51	40	28	12	70.00	2,496.13	5,306.40	-2,208.44	-4,268.86	1.13	2.64	1,084.76
7	49,557.83	41	29	12	70.73	2,407.62	5,585.14	-1,688.61	-3,531.11	1.43	3.45	1,208.73
6	47,103.13	41	31	10	75.61	2,127.73	5,411.67	-1,885.66	-3,952.19	1.13	3.50	1,148.86
5	42,133.59	41	30	10	73.17	1,866.78	5,029.50	-1,386.98	-3,450.35	1.35	4.04	1,027.65
4	31,008.21	41	27	14	65.85	1,673.25	3,213.00	-1,012.11	-2,284.36	1.65	3.19	756.30
3	19,208.26	44	27	17	61.36	1,381.60	4,462.50	-1,064.41	-3,560.24	1.30	2.06	436.55
2	20,715.25	46	29	17	63.04	1,369.66	4,105.50	-1,117.94	-2,471.52	1.23	2.09	450.33
1	15,325.41	46	29	17	63.04	964.10	2,562.30	-743.15	-1,792.48	1.30	2.21	333.16

90% of instances closed above the entry price at some point in the next week.

Results here seem to suggest a solid upside edge. Below is a profit curve using a 6-day exit strategy.



This curve appears strong and steady, providing greater confidence in the results.

But one concern I had this evening when examining this study is that SPY closed up a mere \$0.06, barely qualifying as an “up day”. I decided to further filter the results to examine instances that only closed up a small amount. I chose 0.25% as my limit. Those results are below.

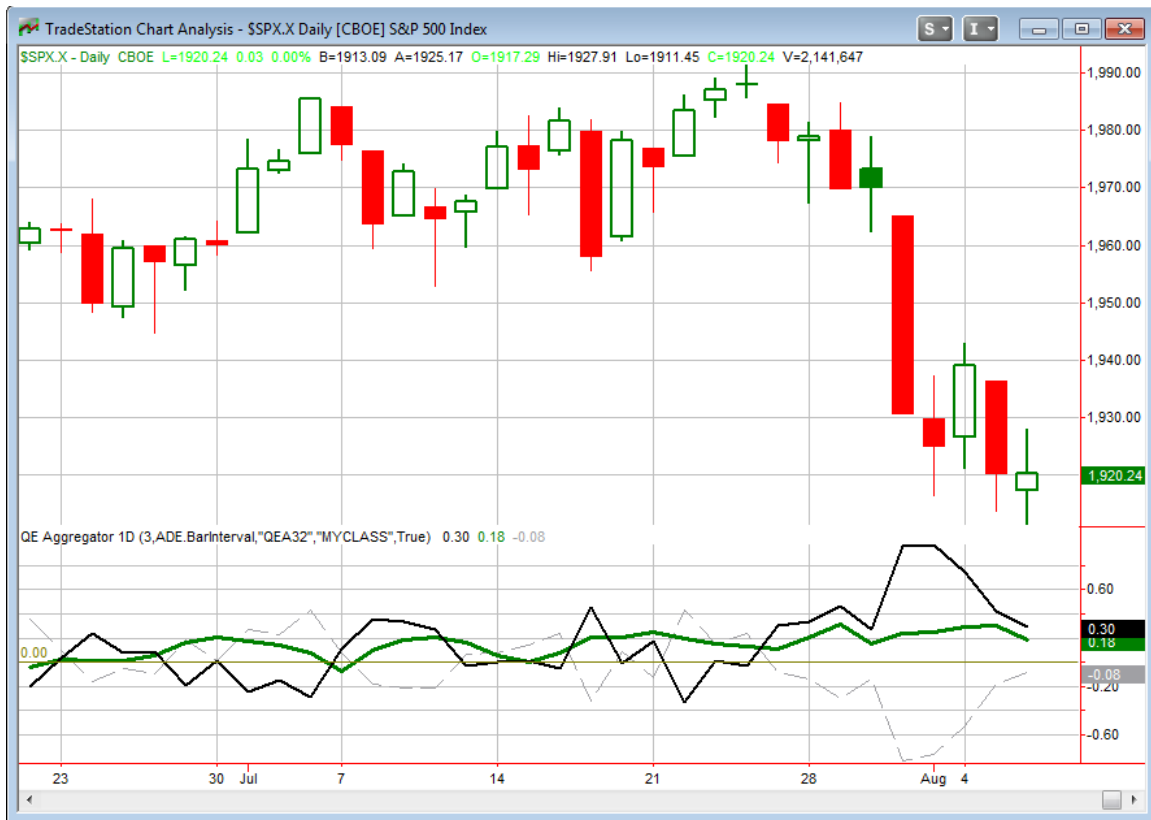
After closing at a 20-day low yesterday, SPY make a new 20-day intraday low today and then closes up < 0.25% on the day and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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
10	25,401.63	9	9	0	100.00	2,822.40	5,408.91	0.00	0.00	100.00	100.00	2,822.40
9	26,581.31	9	8	1	88.89	3,409.77	5,915.43	-696.87	-696.87	4.89	39.14	2,953.48
8	23,136.48	9	8	1	88.89	3,166.18	5,306.40	-2,192.92	-2,192.92	1.44	11.55	2,570.72
7	20,706.08	9	8	1	88.89	2,854.86	5,300.37	-2,132.84	-2,132.84	1.34	10.71	2,300.68
6	15,459.92	9	8	1	88.89	2,345.54	4,594.86	-3,304.40	-3,304.40	0.71	5.68	1,717.77
5	12,553.86	9	7	1	77.78	2,112.05	3,901.41	-2,230.47	-2,230.47	0.95	6.63	1,394.87
4	11,400.92	9	7	2	77.78	1,988.94	3,213.00	-1,260.82	-2,012.68	1.58	5.52	1,266.77
3	11,128.98	10	7	3	70.00	1,826.04	4,462.50	-551.11	-938.75	3.31	7.73	1,112.90
2	7,090.81	10	7	3	70.00	1,419.89	4,105.50	-949.47	-1,824.93	1.50	3.49	709.08
1	3,652.77	10	6	4	60.00	1,009.85	2,152.71	-601.59	-1,023.00	1.68	2.52	365.28

A bit low on instances, but the results with the extra filter are nearly flawless. So at the very least it appears that the mild rise is not cause to doubt setup. Below I have listed all the instances with their 10-day holding results.

After closing at a 20-day low yesterday, SPY make a new 20-day intraday low today and then closes up < 0.25% on the day and > 200ma. Buy on close. Sell 10 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/13/96	Buy	\$73.31	2.52%	\$3,846.48
12/30/96	Sell	\$75.16		(\$1,950.52)
08/02/99	Buy	\$133.06	0.52%	\$683.41
08/16/99	Sell	\$133.75		(\$4,551.06)
01/05/00	Buy	\$140.00	3.39%	\$5,419.26
01/20/00	Sell	\$144.75		(\$535.50)
03/24/04	Buy	\$109.55	4.64%	\$5,316.96
04/07/04	Sell	\$114.63		\$0.00
03/23/05	Buy	\$117.00	1.91%	\$1,930.04
04/07/05	Sell	\$119.24		(\$640.50)
06/27/05	Buy	\$119.15	2.61%	\$2,919.72
07/12/05	Sell	\$122.26		(\$746.71)
02/05/10	Buy	\$106.66	4.22%	\$4,610.04
02/22/10	Sell	\$111.16		(\$796.45)
06/13/11	Buy	\$127.70	0.19%	\$1,652.13
06/27/11	Sell	\$127.94		(\$1,182.33)
10/09/13	Buy	\$165.60	5.42%	\$6,228.99
10/23/13	Sell	\$174.57		\$0.00

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



Tonight's study helped the green Aggregator Line hold firm 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 Thursday. This is highly unlikely to change. The Differential Pivot will be 1953.80 on Thursday. That is 1.75% above Wednesday's close. So for SPX to move from oversold to overbought versus expectations on Wednesday would take a very 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. We now have another attempt underway. And though it appears meek at this point, the odds still appear to suggest a short-term rally is the more likely course of action. I am not looking to add more exposure at this point. Other than 1 Catapult that hit its target I am still waiting for the market to play out as the studies have suggested.

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)

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)

MCD – 1/3 @ \$93.43 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 9/5(MDLZ-2,UTX-3,F-2,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.

None tonight

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/29/2014	\$196.95	\$192.07	-2.48%		Aggregator
SPY(1/4)	7/31/2014	\$193.09	\$192.07	-0.53%		Aggregator
MDLZ(1/3)	7/31/2014	\$36.62	\$35.65	-2.65%		Catapult
UTX(1/3)	7/31/2014	\$105.79	\$103.79	-1.89%		Catapult
MDLZ(1/3)	8/1/2014	\$36.02	\$35.65	-1.03%		Catapult
UTX(1/3)	8/1/2014	\$104.92	\$103.79	-1.08%		Catapult
F(1/3)	8/1/2014	\$17.02	\$16.98	-0.24%		Catapult
KO(1/3)	8/4/2014	\$39.29	\$39.92	1.60%		Sell on open
WMB(1/3)	8/4/2014	\$55.45	\$55.18	-0.49%		Catapult
UTX(1/3)	8/4/2014	\$104.75	\$103.79	-0.92%		Catapult
SPY(1/4)	8/4/2014	\$192.25	\$192.07	-0.09%		Aggregator
MCD(1/3)	8/6/2014	\$93.39	\$93.47	0.09%		Catapult

KO reached its Catapult exit target and will be sold at the open..

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