

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 11, 2014

Volume 7 Issue 149

Market Overview



Signals Overview

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

Tonight's Research Points

- A bounce from a 20-day low to a 4-day high has often been an initiation of further gains.

Short-term Outlook

The Bottom Line

It appears a bounce may have begun on Friday. It also appears that there is a good chance that bounce has further to go over the next few days. I am long and looking to benefit from further market gains.

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

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
August 11, 2014	4-high after 20-low > 200ma	1-8 days	Bullish	2.40%	-1.30%	-2.50%
August 8, 2014	Outside day. Bottom 10% 10-day rng.	1-6 days	Bullish	2.40%		
August 6, 2014	20 low. Up day. 20 low. Close > 200ma	1-6 days	Bullish			
August 1, 2014	System 110524 for SPY	1-7 days	Bullish			
Active - Long Term						
August 11, 2014	4-high after 20-low > 200ma	1-19 days	Bullish	3.80%	-1.90%	-4.20%
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			
Dropped Tonight						
August 1, 2014	QE Buying Power System long signal	1-6 days	Bullish			

The Evidence

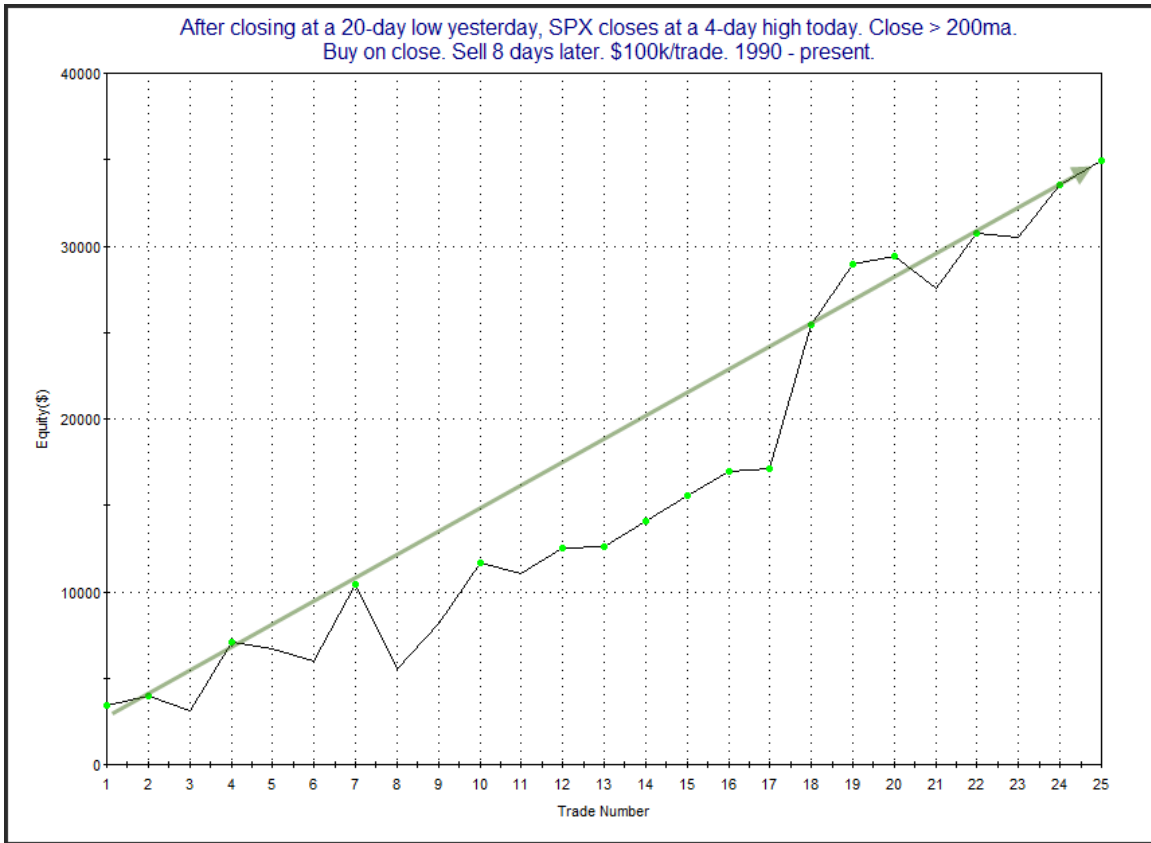
Friday we saw a strong bounce arrive. The SPX gained 1.2%, the NASDAQ rose 0.8% and the Russell 2000 rallied 1.0%. Breadth was strongly positive as the NYSE Up Issues % came in at 76% and the Up Volume % was 82%. Total NYSE volume declined for the 3rd day in a row.

I've been anticipating a bounce for a few days now, and this one seemed a little slow to arrive. But Friday put in a strong move, and we saw SPX go from closing at a 20-day low on Thursday to closing at a 4-day high on Friday. I decided to look at other times in which the market put in a strong thrust off a 20-day low. Here are the results.

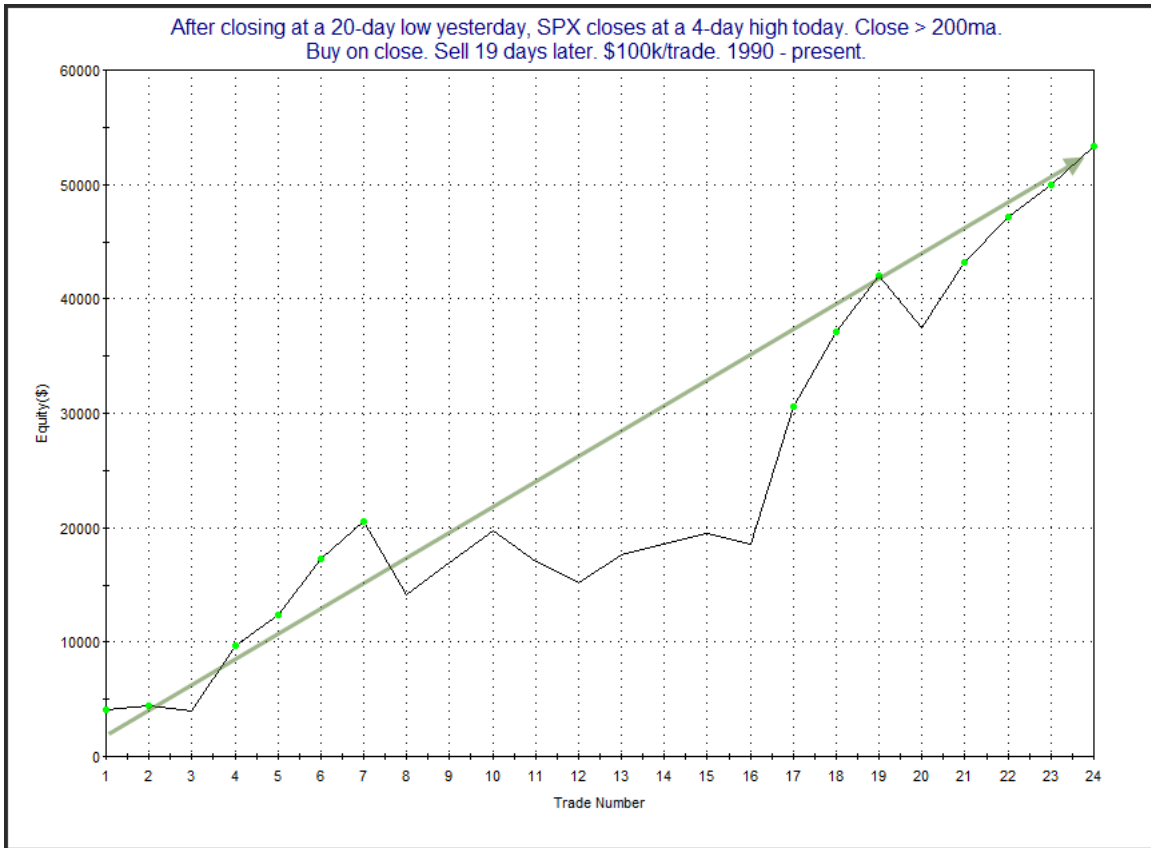
After closing at a 20-day low yesterday, SPX closes at a 4-day high today. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

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
20	52,871.33	24	19	5	79.17	3,670.29	11,665.50	-3,372.85	-6,379.08	1.09	4.14	2,202.97
19	53,308.82	24	18	6	75.00	3,898.73	12,037.30	-2,811.38	-6,347.80	1.39	4.16	2,221.20
18	46,770.17	25	20	5	80.00	3,071.04	10,563.30	-2,930.13	-4,148.97	1.05	4.19	1,870.81
17	45,202.46	25	19	6	76.00	3,211.47	11,183.70	-2,635.90	-4,247.96	1.22	3.86	1,808.10
16	43,463.48	25	18	7	72.00	3,219.78	11,506.00	-2,070.35	-4,320.78	1.56	4.00	1,738.54
15	41,134.91	25	17	8	68.00	3,265.15	11,173.80	-1,796.58	-4,723.96	1.82	3.86	1,645.40
14	39,046.69	25	19	6	76.00	2,920.95	9,507.30	-2,741.90	-7,897.52	1.07	3.37	1,561.87
13	34,830.92	25	19	6	76.00	2,646.54	9,427.00	-2,575.55	-7,363.04	1.03	3.25	1,393.24
12	34,637.60	25	18	7	72.00	2,666.48	8,151.00	-1,908.42	-5,686.84	1.40	3.59	1,385.50
11	40,759.23	25	20	5	80.00	2,555.76	8,642.70	-2,071.18	-5,722.20	1.23	4.94	1,630.37
10	36,750.98	25	19	6	76.00	2,605.33	8,924.30	-2,125.04	-8,745.48	1.23	3.88	1,470.04
9	34,941.63	25	18	7	72.00	2,484.47	8,603.10	-1,396.97	-6,371.60	1.78	4.57	1,397.67
8	34,945.56	25	18	7	72.00	2,471.75	8,276.40	-1,363.71	-4,917.08	1.81	4.66	1,397.82
7	24,778.85	25	17	8	68.00	2,220.07	5,832.20	-1,620.29	-3,822.96	1.37	2.91	991.15
6	22,298.59	25	15	10	60.00	2,221.58	5,888.30	-1,102.51	-3,349.68	2.02	3.02	891.94
5	20,291.39	25	15	10	60.00	1,989.72	5,508.80	-955.45	-1,644.72	2.08	3.12	811.66
4	18,583.56	25	17	8	68.00	1,694.25	4,326.30	-1,277.33	-2,340.25	1.33	2.82	743.34
3	16,005.99	25	17	8	68.00	1,502.75	4,365.90	-1,192.59	-2,180.76	1.26	2.68	640.24
2	12,866.27	26	19	7	73.08	1,115.82	3,479.30	-1,190.62	-2,876.50	0.94	2.54	494.86
1	896.82	26	12	14	46.15	721.14	2,536.10	-554.06	-1,480.36	1.30	1.12	34.49

Day 1 is a bit iffy, but after that there appears to be a strong and consistent edge over the next 4 weeks. This suggests a good chance that Friday's rally was the beginning of a continued move higher. I also produced profit curves for the 8-day and 19-day holding periods highlighted above.



The strong, steady upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 19-day curve.



This one is a little choppy, but it sure has been strong lately, with 7 of the last 8 instances all closing higher. But I also wanted to check one more thing. We know that 20-day lows in uptrends are often followed by a rally. So I also looked at bounces that did *not* reach 4-day highs the 1st day.

After closing at a 20-day low yesterday, SPX closes up but below a 4-day high today.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1990 - 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
20	89,024.06	72	51	21	70.83	3,152.68	12,927.20	-3,417.27	-9,587.72	0.92	2.24	1,236.45
19	77,127.78	72	50	22	69.44	2,933.09	13,564.52	-3,160.31	-12,375.24	0.93	2.11	1,071.22
18	86,638.12	74	50	24	67.57	3,092.54	13,895.61	-2,832.87	-13,625.69	1.09	2.27	1,170.79
17	77,460.10	75	50	25	66.67	3,001.92	13,554.35	-2,905.44	-10,959.00	1.03	2.07	1,032.80
16	77,971.28	75	50	25	66.67	2,989.47	11,842.40	-2,860.09	-9,466.89	1.05	2.09	1,039.62
15	78,011.16	77	49	28	63.64	3,001.14	11,759.91	-2,465.87	-7,655.72	1.22	2.13	1,013.13
14	72,446.77	77	53	24	68.83	2,550.92	10,449.11	-2,614.67	-7,789.32	0.98	2.15	940.87
13	73,153.12	79	50	29	63.29	2,647.39	10,954.22	-2,041.95	-6,510.77	1.30	2.24	925.99
12	40,311.41	81	47	34	58.02	2,535.15	11,243.50	-2,318.84	-8,570.72	1.09	1.51	497.67
11	50,585.91	84	52	32	61.90	2,424.08	10,913.54	-2,358.32	-8,225.72	1.03	1.67	602.21
10	39,613.83	86	52	34	60.47	2,338.15	10,577.93	-2,410.88	-11,602.12	0.97	1.48	460.63
9	59,889.98	88	56	32	63.64	2,226.79	8,067.07	-2,025.33	-6,195.44	1.10	1.92	680.57
8	62,239.34	91	62	29	68.13	2,025.61	8,124.70	-2,184.44	-7,580.04	0.93	1.98	683.95
7	89,030.15	93	66	27	70.97	2,091.89	7,734.85	-1,816.09	-5,195.64	1.15	2.82	957.31
6	80,640.41	96	68	28	70.83	1,954.32	6,520.10	-1,866.19	-5,822.32	1.05	2.54	840.00
5	64,908.48	100	66	34	66.00	1,918.83	6,560.78	-1,815.72	-5,937.53	1.06	2.05	649.08
4	50,943.93	108	71	37	65.74	1,487.81	5,650.00	-1,478.12	-5,345.28	1.01	1.93	471.70
3	43,200.97	114	74	40	64.91	1,172.44	3,939.79	-1,088.99	-6,154.38	1.08	1.99	378.96
2	36,743.77	126	77	49	61.11	1,026.27	3,644.28	-862.84	-2,742.74	1.19	1.87	291.62
1	22,595.63	126	77	49	61.11	752.01	2,937.71	-720.60	-2,525.60	1.04	1.64	179.33

Results here are pretty good and also seem to favor more upside. But if you compare the “Avg Trade” column on the far right you’ll find that from Day 2 – Day 19 the Avg Trade here was about half the Avg Trade when the 1st day jumped SPX up to a 4-day high. Overall, the 1st study above appears worthy of both the short and intermediate-term Active Lists.

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



Tonight's study helped the green Aggregator Line again stay 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 is positive. The positive Differential Line reading means the SPX is oversold versus recent expectations. It is not surprise that the Differential Line shows SPX is much *less* oversold now than it was before Friday's big rally. So expectations are positive and the SPX is still a bit 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.

Without any short-term bearish studies active, expectations are again set to remain positive on Monday. This is highly unlikely to change. The Differential Pivot will be 1934.97 on Monday. That is less than 0.2% above Friday's close. So SPX won't need to close much higher on Monday to move from oversold to overbought versus expectations.

SPX has had a hard time generating a serious bounce. But Friday's action suggests it is now off to a decent start and there is a good chance at more upside in the days and weeks to come. I am long and looking to take advantage of further upside. I will start scaling out of my long index position if SPX manages to close above the Differential Pivot on Monday. Still, I am at least looking for a move above the 10-day moving average before taking off my entire position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/11 – slightly bullish

Combo #1	Combo #2	Combo #3
Flat	Long	Long

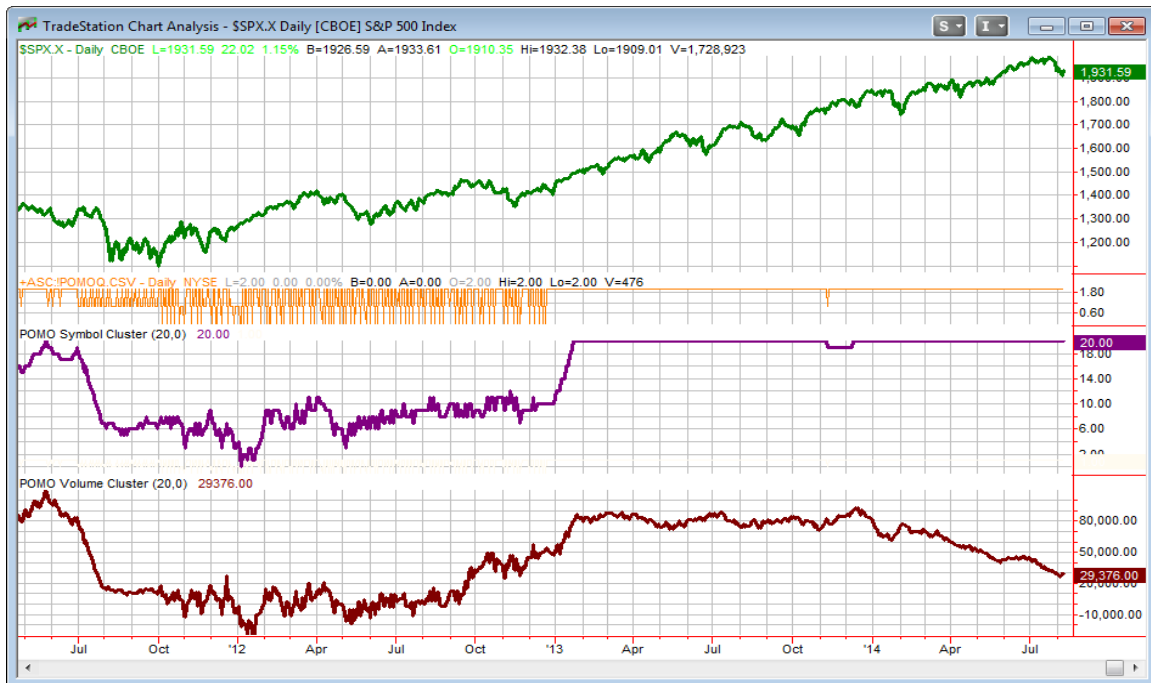
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in [Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 1/1/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.)

In the short-term section above we saw the strong move from a 20-day low to a 4-day high has generally boded well for the intermediate-term. No other new studies of intermediate-term significance emerged this week.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators.

The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS days indicator is still riding along at 20, where it spent most of 2013 and 2014 so far. The volume indicator is continuing to head lower since purchase amounts continue to be tapered. We estimate net inflows this past week to have been about \$7.4 billion. That is the highest level we expect to see in August, and it could serve to provide fuel over the next few days.

This upcoming week we expect inflows to decline to about \$5.6 billion. That is about as low as we have seen for any week since 2012, but it is about where we expect the rest of August to come in at. It is not clear whether it will be enough to sustain a continued rally, but it may at least help from allowing a decline to gain a lot of steam.

While the reduced flows have not had an obvious negative intermediate-term impact up to this point, I am still of the opinion that the market is likely to struggle sometime between here and when they hit 0, or at the very least, shortly after they hit 0. This struggle may already have begun. Flat or negative flows have led to market selloffs at least back until 2003 when the Fed began publishing its POMO flows.

The leading NASDAQ is still providing a plus. The market is still above long-term moving averages. The CBI study from last week and the bounce from the 20-day low study this week are also providing some upside evidence. So the bulls have some things in their favor. The bears are still banking on the shrinking New High % divergence and the weak seasonality (and at some point in the next few months the lack of Fed stimulus.) No change for me again this week. I am keeping my outlook at slightly bullish, and I will use some caution on both sides of the market, but will continue to favor longs over shorts.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

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

MDLZ – 1/3 @ \$36.02 (bought @ limit)

F – 1/3 @ \$17.02 (bought @ limit)

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

MCD – 1/3 @ \$93.43 (bought @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 5/3(MDLZ-2, F-2, 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	\$193.24	-1.88%		Aggregator
SPY(1/4)	7/31/2014	\$193.09	\$193.24	0.08%		Aggregator
MDLZ(1/3)	7/31/2014	\$36.62	\$35.48	-3.11%		Catapult
UTX(1/3)	7/31/2014	\$105.79	\$105.96	0.16%		sold on close
MDLZ(1/3)	8/1/2014	\$36.02	\$35.48	-1.50%		Catapult
UTX(1/3)	8/1/2014	\$104.92	\$105.96	0.99%		sell on open
F(1/3)	8/1/2014	\$17.02	\$17.09	0.41%		Catapult
WMB(1/3)	8/4/2014	\$55.45	\$56.25	1.44%		sold on close
UTX(1/3)	8/4/2014	\$104.75	\$105.96	1.16%		sell on open
SPY(1/4)	8/4/2014	\$192.25	\$193.24	0.51%		Aggregator
MCD(1/3)	8/6/2014	\$93.39	\$93.55	0.17%		Catapult

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