

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 12, 2014

Volume 7 Issue 150

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Long

Tonight's Research Points

- Strong days that close poorly will often be followed by buying in the next few days.

Short-term Outlook

The Bottom Line

I am still seeing signs that a further rally is the more probable scenario, but 2 days of rallying has numerous reversion measurements indicating the market is no longer oversold. This makes for an overall neutral outlook and suggests it could be a good time to exit some open long positions.

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 12, 2014	SPY closes up but in bottom 10% range	1-3 days	Bullish	1.30%	-0.50%	-0.90%
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			
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	System 110524 for SPY	1-7 days	Bullish			

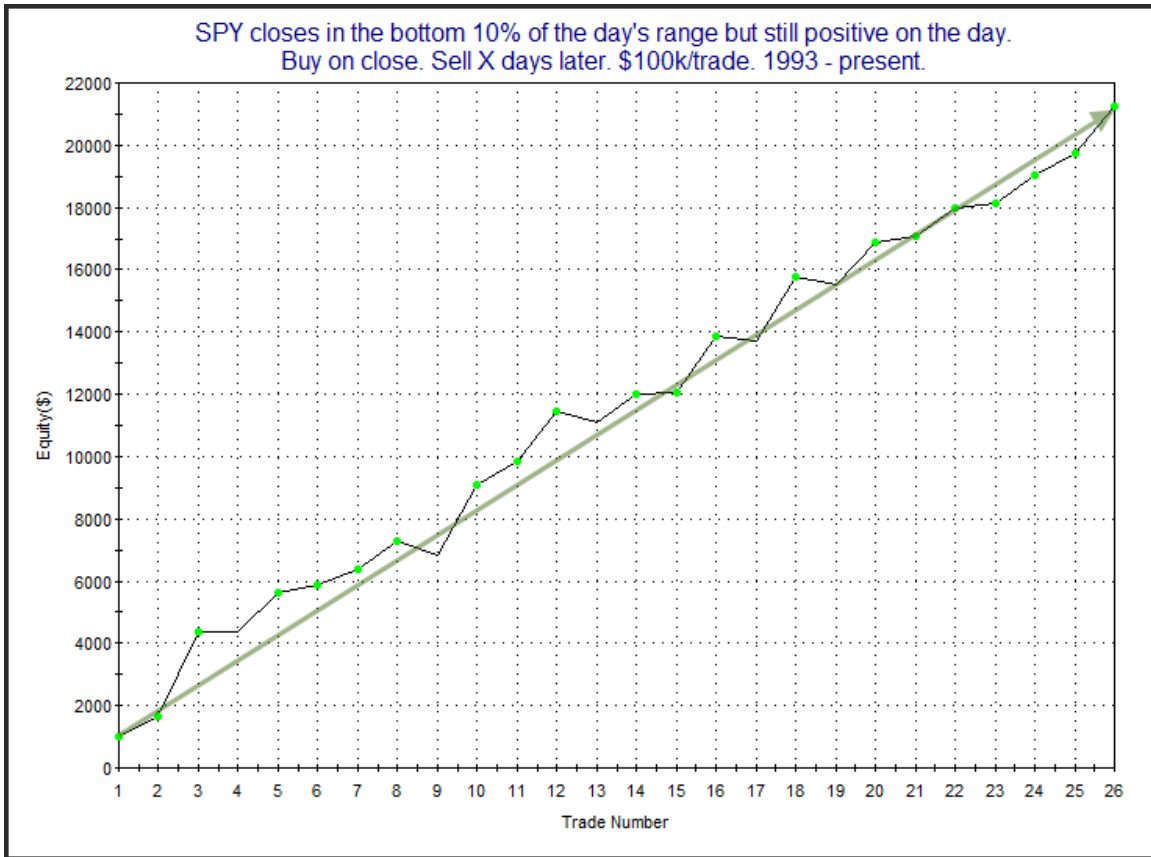
The Evidence

Monday looked like it was going to be a very strong day but some weakness in the afternoon kept the final numbers pretty mild. The SPX gained 0.3%, the NASDAQ rose 0.7% and the Russell 2000 rallied 0.9%. Breadth was squarely positive as the NYSE Up Issues % came in at 73% and the Up Volume % was 72%. Total NYSE volume declined for the 4th day in a row.

The late-day selling and weak close may have felt like a negative as we approached the close, but it triggered a study that has been very bullish over the years. SPY closing in the bottom 10% of its daily range, but still up on the day is something that doesn't occur very often. It is something I explored in the 1/4/12 letter. Results below are all updated.

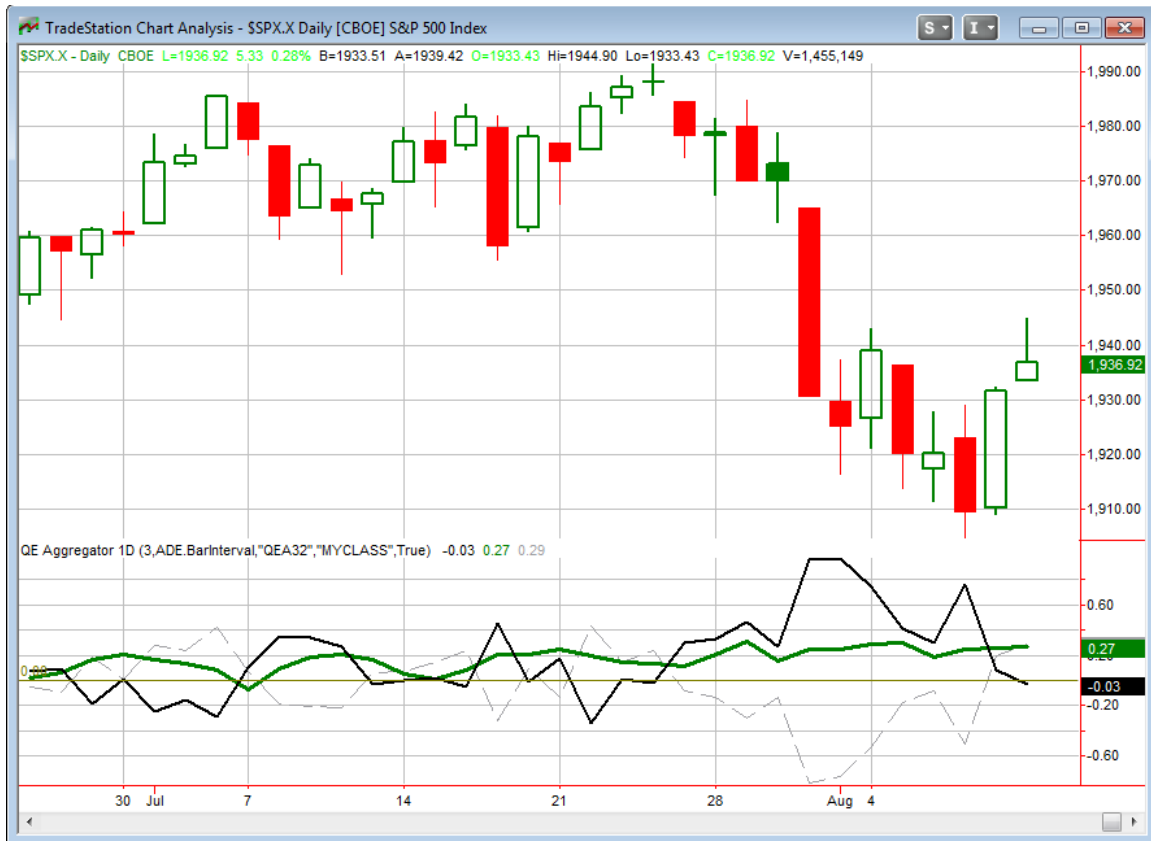
SPY closes in the bottom 10% of the day's range but still positive on the day. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	17,245.68	25	18	7	72.00	1,403.91	3,458.95	-1,146.38	-2,337.14	1.22	3.15	689.83
4	18,667.55	26	21	5	80.77	1,152.98	2,312.35	-1,109.01	-3,623.88	1.04	4.37	717.98
3	21,255.38	26	21	4	80.77	1,069.24	2,694.00	-299.67	-472.68	3.57	18.73	817.51
2	14,145.28	26	18	8	69.23	946.13	3,028.76	-360.63	-531.70	2.62	5.90	544.05
1	8,239.13	27	19	8	70.37	636.27	3,476.36	-481.25	-903.90	1.32	3.14	305.15
All 27 instances posted a close above the entry price at some point in the next 4 days.												

The numbers here are impressively bullish. I also ran a profit curve assuming a 3-day holding period.



This curve is almost as straight as the arrow, and acts as confirmation of the upside edge.

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 has now fallen below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is now overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal turned flat at the close.

Without any short-term bearish studies active, expectations are again set to remain positive on Tuesday. This is highly unlikely to change. The Differential Pivot will be 1923.24 on Tuesday. That is 0.7% below Monday's close. So SPX will need to close down at least this much on Tuesday to move from overbought back to oversold versus expectations.

I've been waiting for a bit of a bounce for several days now. And over the last 2 days we have gotten one. By some measures the reversion has already taken place and much of the upside has been realized. For instance, the Differential Line is now negative, the SPX closed above its 10ma, and the CBI dropped back into neutral territory (with a reading of 2). These are all exit signals that would trigger based on some recent studies/systems. The Differential Line closes out the Aggregator signal. The SPX close above the 10ma

triggers the exit for System 110524. And the CBI dropping back to neutral would be the exit signal after seeing it spike to 10 or above. The one recent study/system whose reversion has not yet been met is the QE Buying Power System that looks to exit when the SPX closes in the top half of its 10-day range. SPX fell just shy of that today. But with the other 3 exit signals all triggering this seems to be an opportune time to exit my SPY positions and await the next chance to re-enter the market.

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

The intermediate-term outlook was last updated in the 8/11 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)

MDLZ – 1/3 @ \$36.02 (bought @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2/1(MDLZ-2)

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	\$193.79	-1.60%		sell on open
SPY(1/4)	7/31/2014	\$193.09	\$193.79	0.36%		sell @ \$193.79 limit
MDLZ(1/3)	7/31/2014	\$36.62	\$35.76	-2.35%		Catapult
MDLZ(1/3)	8/1/2014	\$36.02	\$35.76	-0.72%		Catapult
UTX(1/3)	8/1/2014	\$104.92	\$106.57	1.57%		sold on open
F(1/3)	8/1/2014	\$17.02	\$17.17	0.88%		sold on close
UTX(1/3)	8/4/2014	\$104.75	\$106.57	1.74%		sold on open
SPY(1/4)	8/4/2014	\$192.25	\$193.79	0.80%		sell @ \$194.15 limit
MCD(1/3)	8/6/2014	\$93.39	\$93.53	0.15%		sell on open

MCD met its intraday target and will be sold at the open on Tuesday.

I intend to exit at least some of my SPY position. One lot I will sell at the 9:30 open. My 2nd lot I will only sell if I can get a fill \geq Monday's close of \$193.79. The last lot I will sell into a rally or a strong open that put's SPY around the midpoint of Monday's range.

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