

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 14, 2014

Volume 7 Issue 152

Market Overview



Signals Overview

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

Tonight's Research Points

- When the VIX moves from 10% above the 10ma to 10% below the 10ma in less than a week it has been typically been followed by gains.

Short-term Outlook

The Bottom Line

I am seeing more evidence that the bounce is a good one that stands a strong chance to continue. But with the market still overbought I remain overall neutral on the short-term.

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 14, 2014	VIX 10% > 10ma to 10% < in 4 days	1-8 days	Bullish	2.60%	-1.00%	-2.00%
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			

The Evidence

The bounce resumed on Wednesday, and it had some strength behind it. The SPX gained 0.7%, the NASDAQ rallied 1.0% and the Russell 2000 rose 0.8%. Breadth was positive as the NYSE Up Issues % came in at 69% and the Up Volume % was 67%. Total NYSE volume rose some from Tuesday's level.

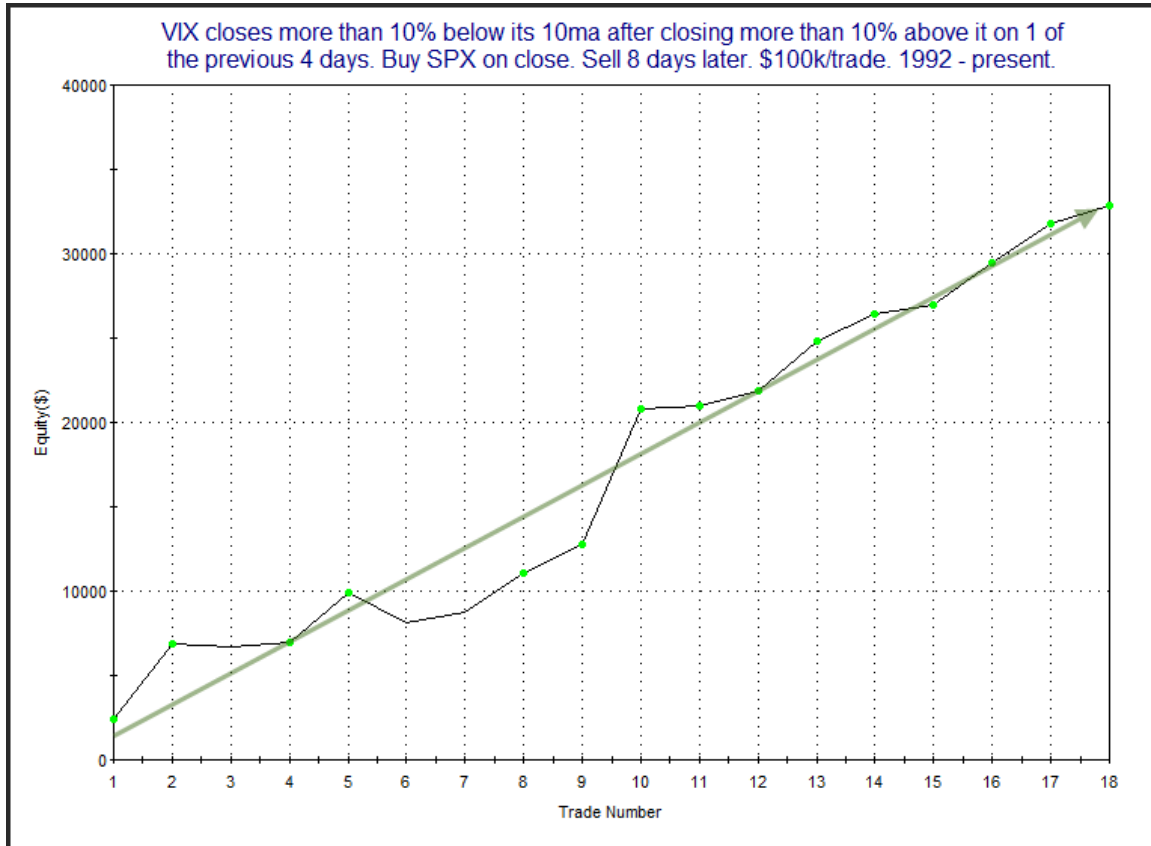
After a few strong days you will often find some bearish studies appearing. But the Quantifinder provided no bearish evidence. Just the bullish one below. It considered the sharp drop in the VIX over the last couple of days after a sharp rise the previous few. It was last seen in the 4/21/14 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. Buy SPX on close. Sell X days later. \$100k/trade. 1992 - 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	31,255.58	18	15	3	83.33	2,566.10	8,115.80	-2,411.98	-3,412.50	1.06	5.32	1,736.42
9	31,208.11	18	14	4	77.78	2,419.17	8,397.40	-665.05	-2,173.08	3.64	12.73	1,733.78
8	32,828.44	18	16	2	88.89	2,172.16	8,076.20	-963.09	-1,733.94	2.26	18.04	1,823.80
7	30,830.61	18	15	3	83.33	2,227.65	7,749.50	-861.37	-1,872.78	2.59	12.93	1,712.81
6	26,723.20	18	13	5	72.22	2,290.19	5,305.30	-609.84	-1,280.71	3.76	9.76	1,484.62
5	24,317.96	18	12	6	66.67	2,328.85	5,361.40	-604.70	-1,159.86	3.85	7.70	1,351.00
4	14,849.73	18	14	4	77.78	1,458.44	4,981.90	-1,392.11	-2,303.32	1.05	3.67	824.99
3	8,287.73	19	12	7	63.16	1,155.90	3,799.40	-797.58	-1,683.22	1.45	2.48	436.20
2	6,894.79	19	10	9	52.63	1,241.46	3,839.00	-613.31	-1,767.90	2.02	2.25	362.88
1	5,930.60	19	11	8	57.89	811.78	2,952.40	-374.88	-1,582.62	2.17	2.98	312.14

All 19 instances closed above the entry price at some point in the next 4 days.

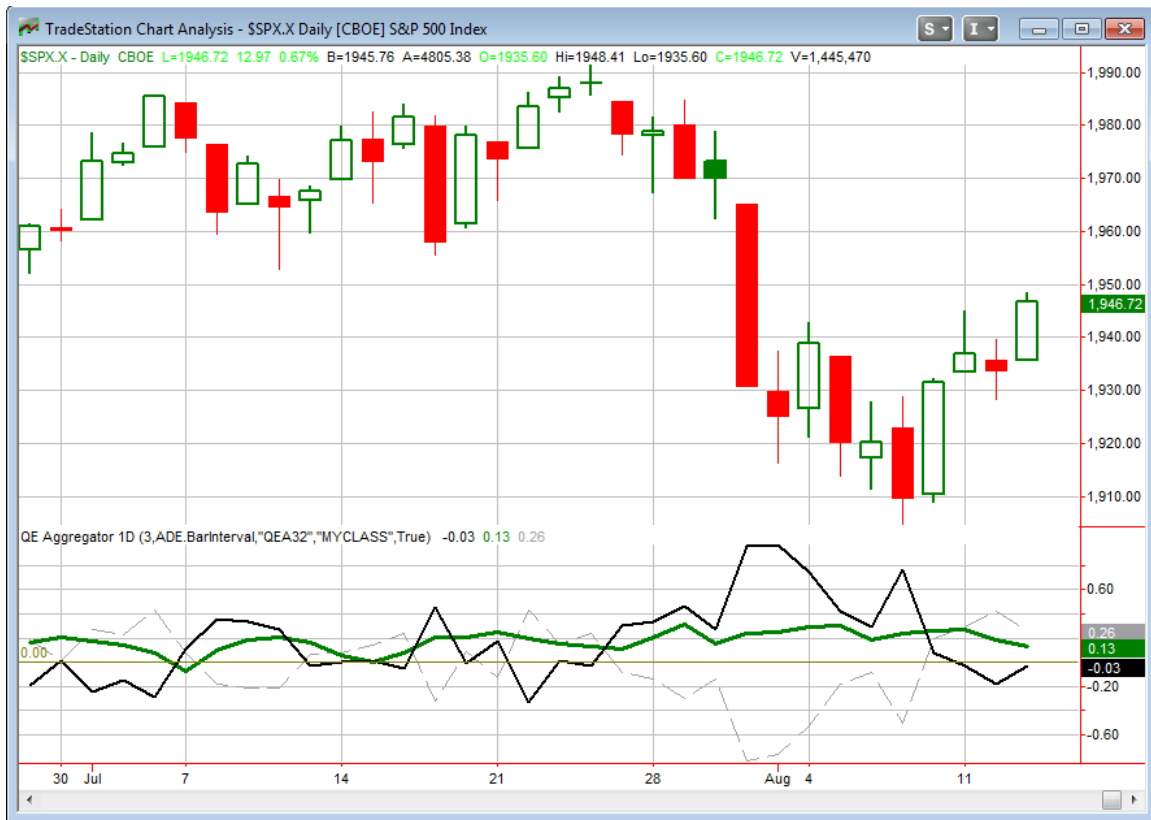
The market condition that would typically accompany such VIX movement is one where you see a strong rebound from a sharp decline during a long-term uptrend, which is what

we are currently looking at. Results over the first 2-3 days are not terribly consistent, but once you get out beyond that the bounce becomes more reliable and more powerful. Below I have provided the profit curve assuming an 8 day holding period.



This curve appears very strong and steady, and seems to support the idea of an upside edge. I have included this study on the Active List tonight.

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



The green Aggregator Line again remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line stayed below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is 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 stayed flat at the close.

Without any short-term bearish studies active, expectations are again set to remain positive on Thursday. This is highly unlikely to change. The Differential Pivot will be *inverted* at 1951.81 on Thursday. That is 0.3% *above* Wednesday's close. An inverted pivot means that the Differential Line will cross zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.3% in order to remain "overbought" versus expectations. Otherwise it will be considered oversold.

While we see a nice bullish study appearing above, it doesn't do anything to change the outlook from last night. Short-term expectations remain positive. SPX remains overbought. And the Differential Pivot is inverted for the 2nd night in a row. Again SPX is at a point where a long opportunity could easily emerge. But again I am not inclined to get ahead of myself. I'll continue to wait for a better risk/reward setup before putting any new capital to work.

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
MDLZ(1/3)	7/31/2014	\$36.62	\$35.80	-2.24%		Catapult
MDLZ(1/3)	8/1/2014	\$36.02	\$35.80	-0.61%		Catapult

MDLZ only needs to touch \$35.88 on Thursday in order to meet the Catapult exit criteria. The standard exit in that case would be to sell at Friday's open. That is my plan at the moment, though I may send out an intraday update that would place a stop below a support level if \$35.88 is hit. That would protect me against a strong intraday reversal.

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