

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 19, 2014

Volume 7 Issue 155

Market Overview



Signals Overview

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

Tonight's Research Points

- The big VXO stretch we are now seeing has not been as bearish in recent times as it appeared prior to that.

Short-term Outlook

The Bottom Line

No change from last night. The market appears marginally overbought while evidence is mixed but leaning bullish. No strong edge apparent. I am sidelined and waiting for a better short-term setup.

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 18, 2014	SPX up 1%-2% opex week	1-5 days	Bearish	-1.40%	0.80%	1.60%
August 15, 2014	SPY top 10% 10-day range Opex Thurs	1-4 days	Bearish	-1.40%	0.70%	1.50%
August 14, 2014	VIX 10% > 10ma to 10% < in 4 days	1-8 days	Bullish	2.60%	-1.00%	-2.00%
August 11, 2014	4-high after 20-low > 200ma	1-8 days	Bullish	2.40%	-1.30%	-2.50%
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 18, 2014	VXO 15% under 10ma for 3 days	1 day	Bearish			
August 18, 2014	SPX dn. RSI(2) > 90.	1-2 days	Bullish	0.85%	-0.54%	-0.87%

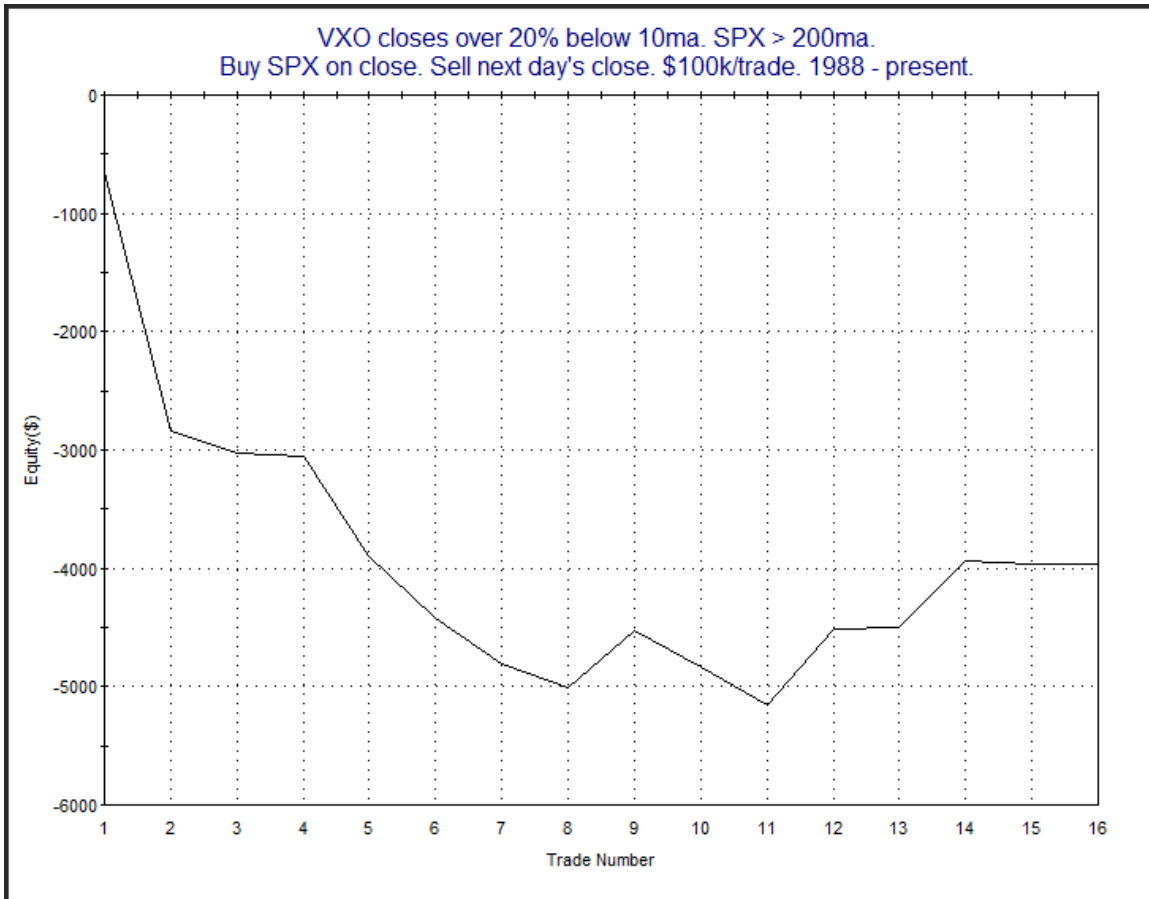
The Evidence

The market gapped up strongly on Monday morning and added some to those gains during the day. The SPX rose 0.9%, the NASDAQ gained 1.0%, the Russell 2000 rallied 1.5%. Breadth was positive as the NYSE Up Issues % came in at 78% and the Up Volume % was 82%. Total NYSE dropped quite a bit from Friday's level.

A few new studies emerged that examined the stretched VXO (and VIX). But in looking closer at them this evening they simply have not held up well recently. The one below was from the 10/18/13 letter. It looked at times VXO closed more than 20% below its 10ma.

VXO closes over 20% below 10ma. SPX > 200ma. Buy SPX on close. Sell next day's close. \$100k/trade. 1988 - present.			
TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	(\$3,967.35)	Profit Factor	0.30
Gross Profit	\$1,709.44	Gross Loss	(\$5,676.79)
Total Number of Trades	16	Percent Profitable	25.00%
Winning Trades	4	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	(\$247.96)	Ratio Avg. Win:Avg. Loss	0.90
Avg. Winning Trade	\$427.36	Avg. Losing Trade	(\$473.07)
Largest Winning Trade	\$646.95	Largest Losing Trade	(\$2,176.20)

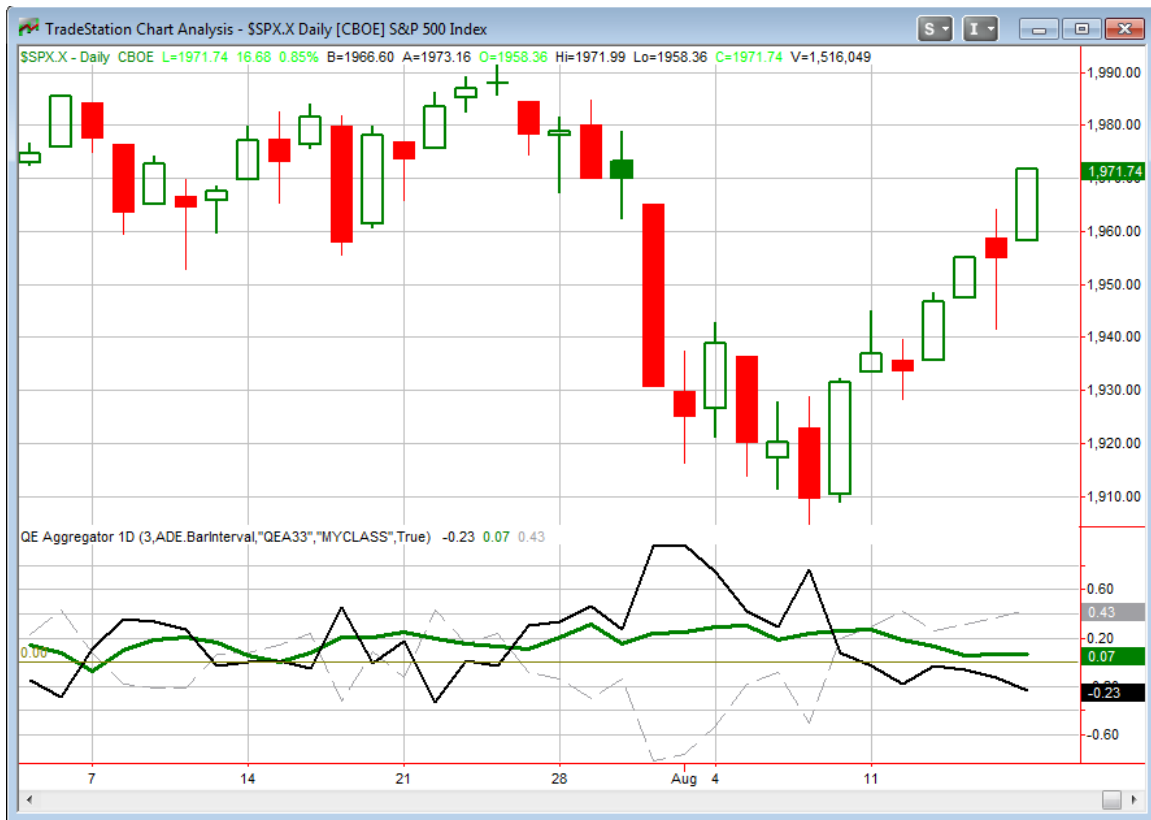
The numbers still look fairly bearish. But the profit curve is less appealing.



As you can see, there has been no downward progress for the last half of this graph. I'm suspending this study for the time being. I'll keep an eye on it but will not rely upon it at this point.

We did see another VXO stretch study in last night's letter. The note at the bottom of that study indicated that there have been 5 times when the setup was not followed by a lower close within 2 days. In every instance the market then went at least a month without posting a close below the close of the study day. So SPX will need to reverse all of Monday's gains on Tuesday to prevent the bullish scenario from triggering.

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



The green Aggregator Line remained modestly 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 just 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.

Based on the current active studies, expectations are again set to remain positive on Monday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1962.33 on Tuesday. That is 0.5% below Monday's close. So SPX will need to close down at least this much if it is going to move from overbought to oversold versus expectations.

I'm not seeing strong reasons to get involved in this market on a swing-term basis. Overbought with moderately bullish evidence just doesn't make for an overly impressive reward/risk setup. So I will continue to wait for a more favorable setup to emerge before jumping back in.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/18 – slightly bullish

The intermediate-term outlook was last updated in the 8/18/14 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

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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

None

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