

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 20, 2014

Volume 7 Issue 156

Market Overview



Signals Overview

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

Tonight's Research Points

- RSI(2) crossing above 99 bodes well for the intermediate-term.

Short-term Outlook

The Bottom Line

Again no change tonight. The market remains overbought while evidence is mixed but leaning bullish. No strong edge apparent. I am sidelined and waiting for a better short-term setup.

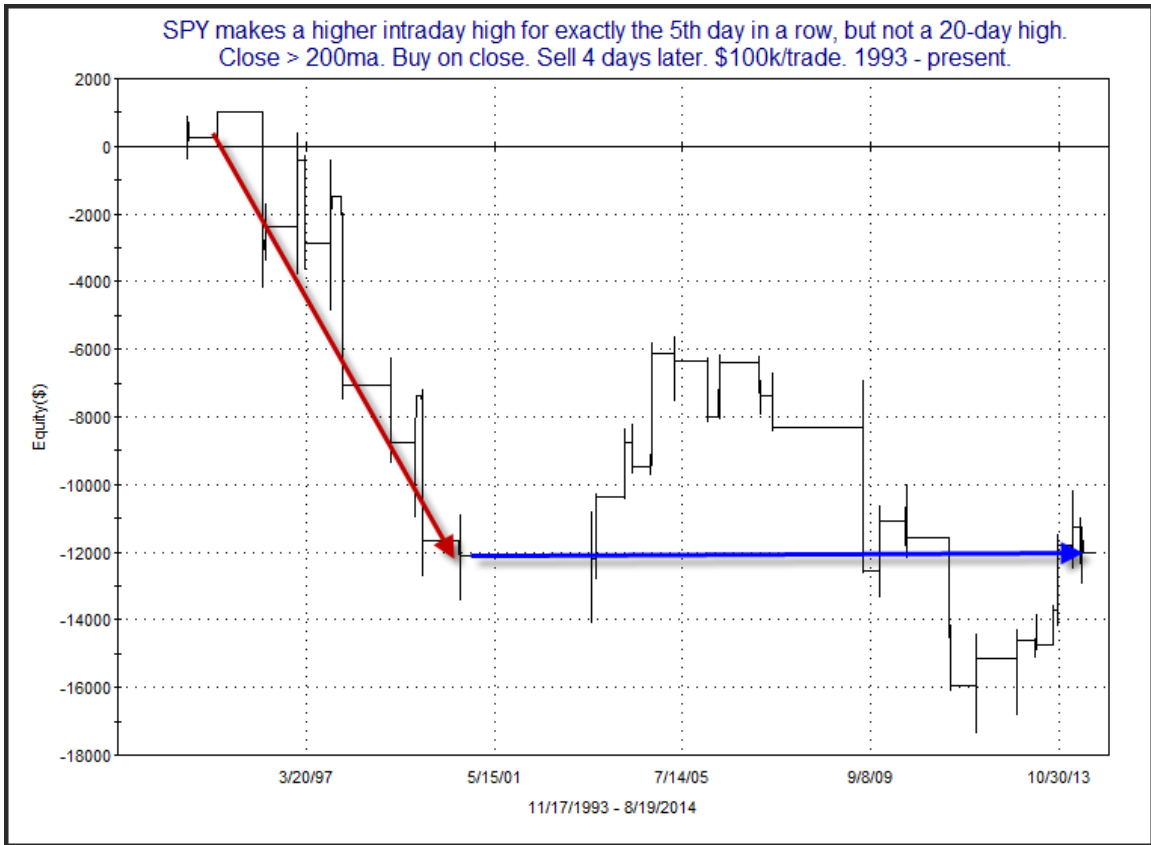
Summary of Recent Active Studies (see Letters from listed dates for details)

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%
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 11, 2014	4-high after 20-low > 200ma	1-8 days	Bullish	2.40%	-1.30%	-2.50%

The Evidence

Tuesday was another day of gains for the market. The SPX rose 0.5%, and the NASDAQ and Russell 2000 each gained 0.4%. Breadth was positive as the NYSE Up Issues % came in at 63% and the Up Volume % was 69%. Total NYSE volume rose gently from Monday's level.

There were again some seemingly bearish studies that appeared and seemed to suggest a possible short-term downside edge. But, like yesterday, upon closer examination it appears they have not held to their previous bearish form in recent years. The study below examines situations with five higher highs. It was last seen in the 9/10/13 Letter. In that letter it appeared the 1-4 day time frame suggested possible bearish inclinations.



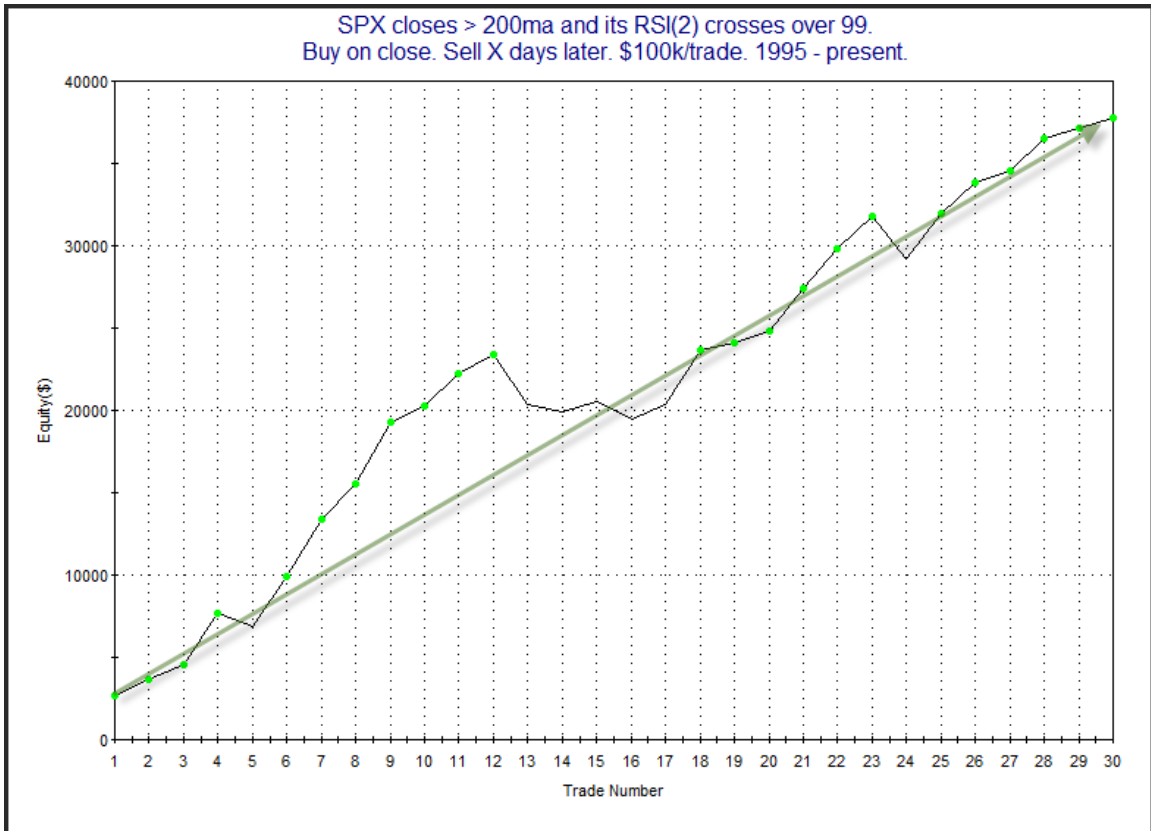
The curl up in the curve since that letter has really changed the look of it. At this point there has been nothing but chop since 2000. Most holding periods show similar patterns. So I have elected to suspend this study for the time being.

Of course short-term overbought often triggers some studies that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It was noted as a possibility in the stretched VXO study from Sunday night. It is also exemplified in the study below, which uses RSI(2) and was last seen in the 6/9/14 Letter.

SPX closes > 200ma and its RSI(2) crosses over 99.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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
15	37,767.93	30	25	5	83.33	1,830.19	3,782.11	-1,597.39	-3,063.60	1.15	5.73	1,258.93
14	30,766.96	30	23	7	76.67	1,789.59	4,461.36	-1,484.79	-2,699.52	1.21	3.96	1,025.57
13	29,974.82	31	25	6	80.65	1,630.71	3,989.82	-1,798.84	-3,320.01	0.91	3.78	966.93
12	27,963.95	31	24	7	77.42	1,561.60	4,058.61	-1,359.21	-3,175.53	1.15	3.94	902.06
11	29,565.11	31	24	7	77.42	1,654.50	4,106.40	-1,448.99	-2,523.21	1.14	3.91	953.71
10	24,539.21	32	23	9	71.88	1,602.15	3,770.55	-1,367.79	-2,793.28	1.17	2.99	766.85
9	20,334.11	32	22	10	68.75	1,468.25	3,453.27	-1,196.74	-3,440.07	1.23	2.70	635.44
8	22,154.10	32	21	11	65.63	1,557.97	3,547.80	-960.29	-3,460.32	1.62	3.10	692.32
7	14,718.37	33	19	14	57.58	1,415.65	3,564.39	-869.93	-4,153.62	1.63	2.21	446.01
6	6,281.07	33	19	14	57.58	1,168.05	2,634.36	-1,136.57	-5,296.92	1.03	1.39	190.34
5	2,840.63	33	21	12	63.64	857.92	1,782.39	-1,264.65	-3,596.40	0.68	1.19	86.08
4	2,966.64	33	22	11	66.67	836.89	2,442.90	-1,404.09	-3,039.18	0.60	1.19	89.90
3	-1,423.71	34	20	14	58.82	749.50	1,982.20	-1,172.41	-2,880.45	0.64	0.91	-41.87
2	-643.87	34	19	15	55.88	661.16	1,998.39	-880.39	-2,348.76	0.75	0.95	-18.94
1	1,169.52	34	18	16	52.94	572.94	2,096.10	-571.46	-3,515.37	1.00	1.13	34.40

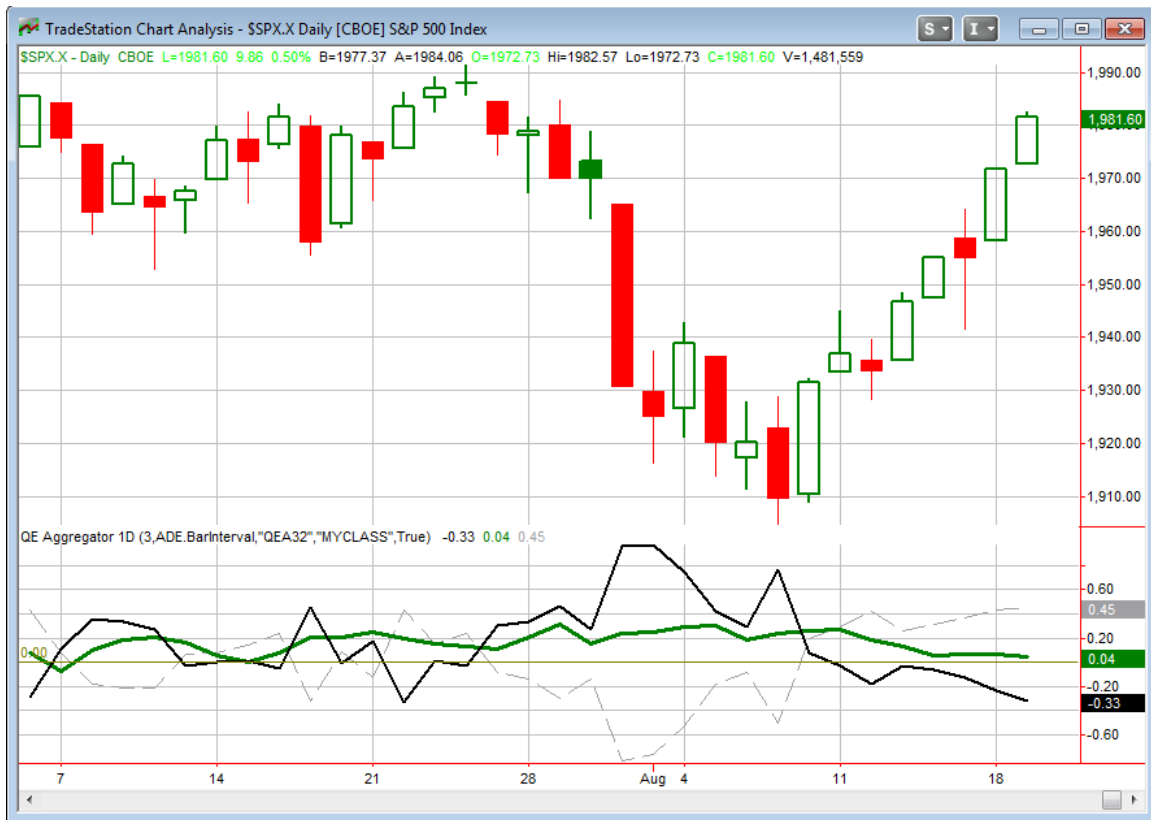
The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously this study does not help us with the short-term, but I have added it to the intermediate-term list.

I'll also note that the August 11th study that looked at strong reversals from 20-day lows has been removed from the Active List early tonight because it has reached its target.

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



Despite dropping a bullish study early, 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 under 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 Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1959.91 on Wednesday. That is 1.1% below Tuesday's close. It's quite unlikely that SPX will see that kind of a decline on Wednesday. A more likely scenario to work off the overbought condition would be a multi-day pullback or consolidation.

None of this changes my outlook from the last couple of nights. More upside could definitely be in the cards based on the evidence at hand, but the market is simply too overbought for me to have any desire to get involved. I'll continue to wait for a more favorable reward/risk situation before putting on new trades.

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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