

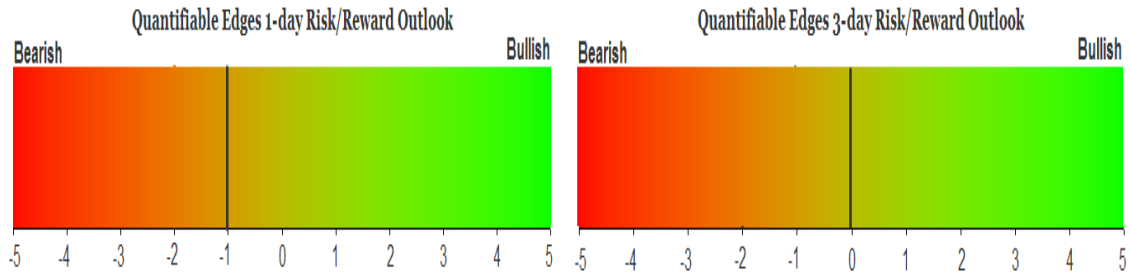
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 21, 2014

Volume 7 Issue 157

Market Overview



Signals Overview

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

Tonight's Research Points

- Without the benefit of an unfilled gap up, the breakout in SPY shows no bullish short-term tendency.

Short-term Outlook

The Bottom Line

I'm starting to feel like a broken record, but the market remains overbought and expectations are still saying more gains appear more likely than losses. So risk/reward is weak and I am sidelined awaiting a better opportunity..

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 14, 2014	VIX 10% > 10ma to 10% < in 4 days	1-8 days	Bullish	2.60%	-1.00%	-2.00%
Active - Long Term						
August 20, 2014	SPX RSI(2) crosses over 99	1-15 days	Bullish	2.40%	-1.50%	-2.90%
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 15, 2014	SPY top 10% 10-day range Opex Thurs	1-4 days	Bearish	-1.40%	0.70%	1.50%

The Evidence

Wednesday was a mixed day for the market. The SPX rose 0.25%, but the NASDAQ declined about 1 point and the Russell 2000 fell 0.4%. Breadth was also split as the NYSE Up Issues % came in at 47% and the Up Volume % was 67%. Total NYSE volume declined from Monday's level.

SPX fell just short of a new all-time high. But interestingly, both ES (S&P futures) and SPY made new highs. SPY's breakout to a new high triggered some studies in the Quantifinder from the 5/13/14 Letter. In that letter I separated breakouts to new highs by whether they were accompanied by an unfilled gap up to start the day or not. I found this simple filter to have a large impact on short-term prospects. Wednesday's breakout started with a gap down, so there was NOT an unfilled gap up. But let's first examine instances where there WAS an unfilled gap up.

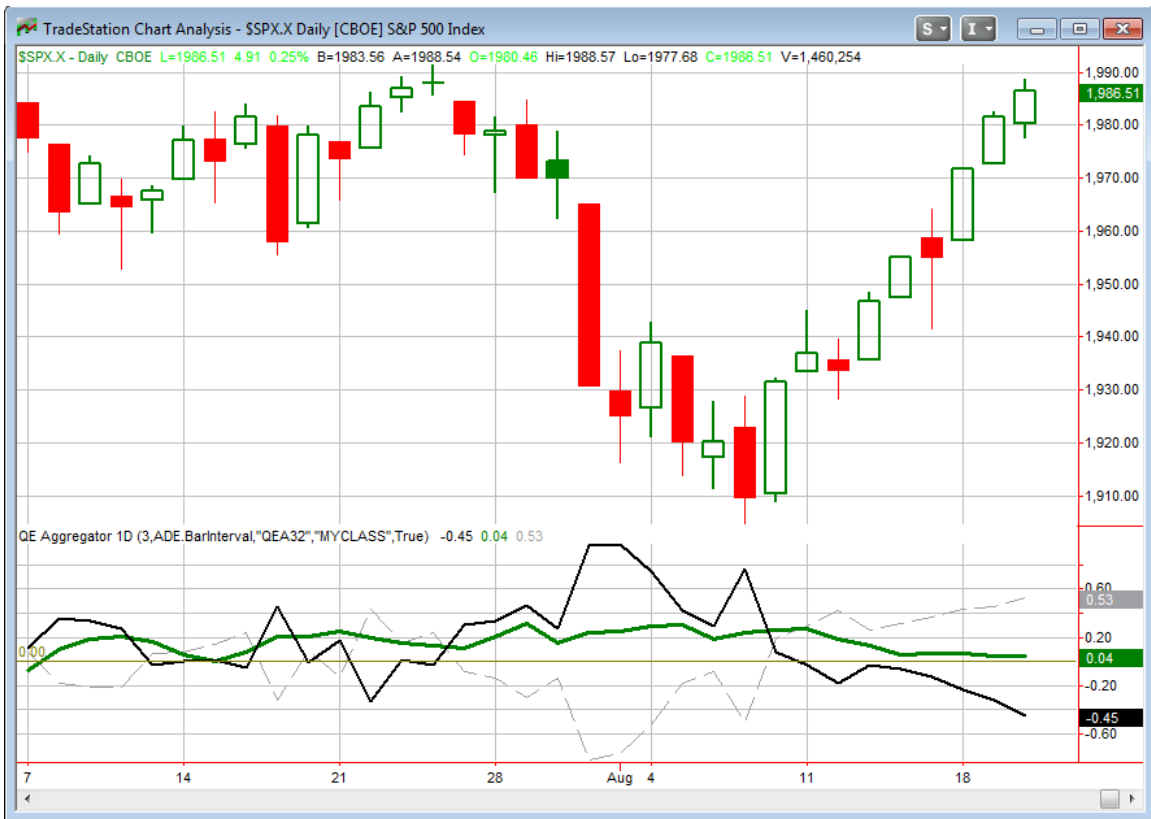
SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	38,220.51	45	31	14	68.89	1,664.83	5,434.00	-956.38	-3,093.12	1.74	3.85	849.34
4	24,839.64	45	31	14	68.89	1,271.09	3,637.92	-1,040.29	-3,267.84	1.22	2.71	551.99
3	19,282.29	45	30	15	66.67	1,115.35	3,992.56	-945.21	-2,538.18	1.18	2.36	428.50
2	14,809.03	45	30	15	66.67	816.59	2,545.92	-645.91	-2,293.20	1.26	2.53	329.09
1	5,655.46	45	32	13	71.11	501.23	1,816.10	-798.77	-2,591.68	0.63	1.54	125.68
41 of 45 instances (91%) closed above the entry price at some point in the next week.												

The numbers here look strong and suggest more follow through would be likely under these circumstances. But this is NOT the current setup. Without the benefit of an unfilled gap up, this is what the results have been.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. 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	169.83	40	23	17	57.50	1,039.15	2,671.20	-1,395.93	-4,285.26	0.74	1.01	4.25
4	-4,919.70	40	20	20	50.00	1,066.83	2,072.07	-1,312.81	-4,518.34	0.81	0.81	-122.99
3	477.76	40	21	19	52.50	1,100.02	2,927.90	-1,190.67	-5,133.72	0.92	1.02	11.94
2	-2,831.73	40	19	21	47.50	699.52	2,324.90	-767.74	-3,640.86	0.91	0.82	-70.79
1	1,199.90	40	21	18	52.50	485.00	1,586.97	-499.17	-2,448.72	0.97	1.13	30.00

The number of instances is nearly the same, but the results certainly aren't. Without the unfilled gap up (also known as a "breakaway gap") there does not seem to be any edge at all.

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



The green Aggregator Line barely moved tonight and 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 Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1975.43 on Thursday. That is 0.6% below Wednesday's close. So for SPX to move from overbought to oversold versus expectations on Thursday it is going to need to close down at least 0.6%.

Once again my outlook is pretty much the same. 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.

I will note that the 1-day risk/reward at the top of the letter is skewed negative instead of neutral. This is because expectations are actually slightly negative for Thursday. But the next 2 days they are positive. So while our 3-day (and overall short-term) expectations suggest more upside, Thursday is looking slightly bearish. This very-short-term kind of edge is not of the sort that I would look to take advantage of in the subscriber letter. But those subscribers that are adept day traders may want to keep Thursday's mild negative expectation in mind when considering your approach.

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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