

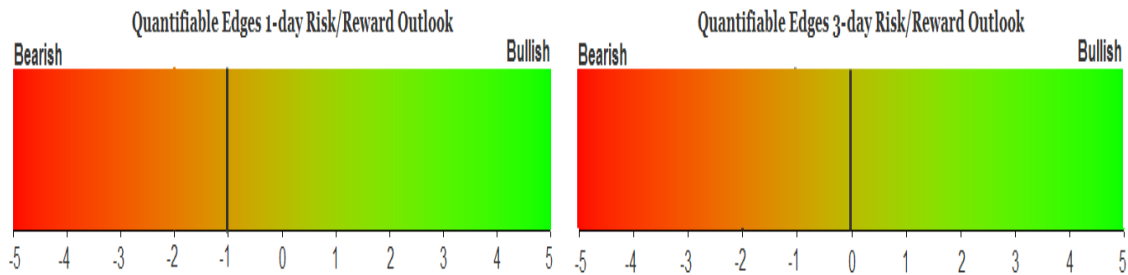
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 22, 2014

Volume 7 Issue 158

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 10 days above the 5ma and a new 10-day high suggest the market is due for a brief pullback.
- Thursday's moderately higher volume is not encouraging on a breakout day.
- The SPX has moved from a 50-day low to a 50-day high in just 2 short weeks. Past occurrences have led to bullish returns over the short and intermediate-term.

## *Short-term Outlook*

### *The Bottom Line*

Mixed evidence tonight leaves the overall estimates still pointing higher. And SPX remains overbought. And that leaves me short-term neutral.

**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
<b>Active - Short Term</b>						
August 22, 2014	SPY > 5ma 10 days & 10-day high	1-2 days	Bearish			
August 22, 2014	50-low to 50-high in 2 weeks	1-5 days	Bullish	2.80%	0.90%	-1.90%
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%
<b>Active - Long Term</b>						
August 22, 2014	50-low to 50-high in 2 weeks	1-17 days	Bullish	5.40%	0.90%	-1.90%
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			
<b>Dropped Tonight</b>						
August 15, 2014	SPY top 10% 10-day range Opex Thurs	1-4 days	Bearish	-1.40%	0.70%	1.50%

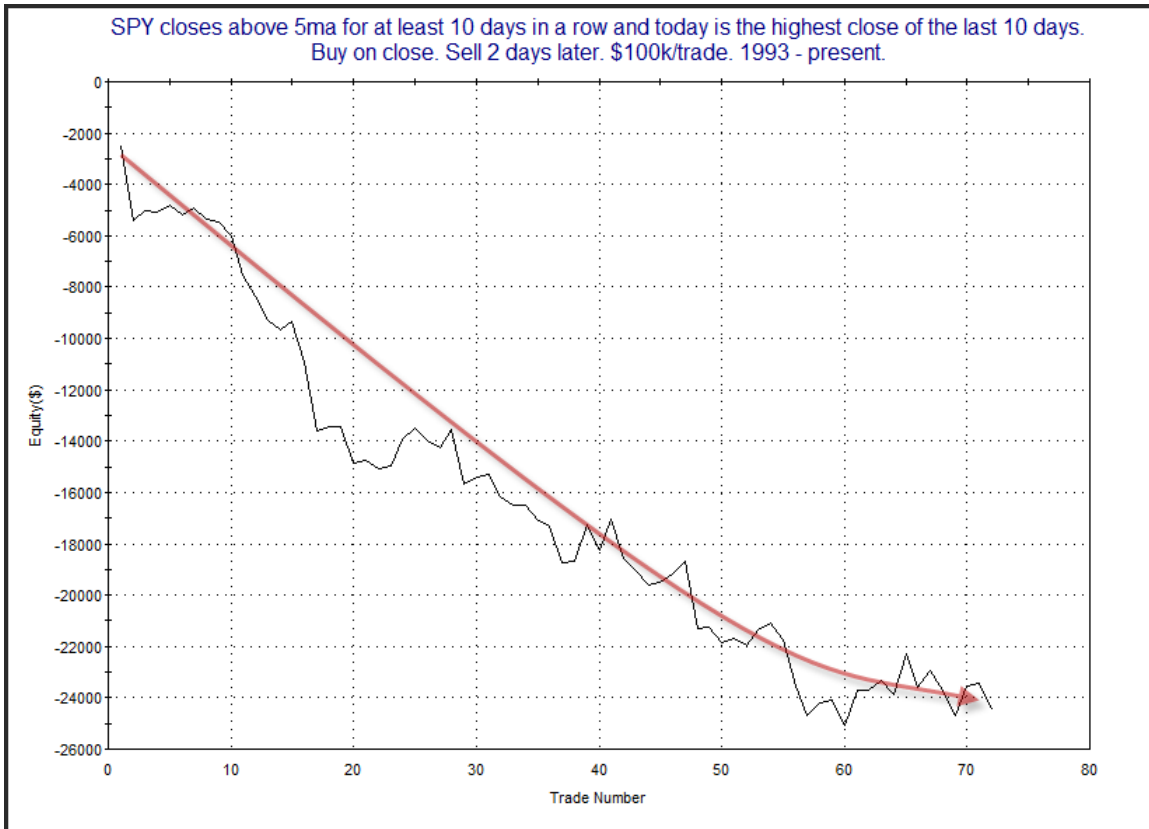
**The Evidence**

Thursday saw the market continue higher and make new highs. The SPX rose 0.3%, the NASDAQ gained 0.1% and the Russell 2000 closed up 0.2%. Breadth was positive as the NYSE Up Issues % came in at 59% and the Up Volume % was 60%. Total NYSE volume rose from Wednesday's level, but was not particularly high.

SPY has now gone 10 days without closing below its 5ma. The study below was last seen in the 6/9/14 subscriber letter. It looks at other instances in which the market traded above the 5ma for at least 2 weeks and closed at a 10-day high. It triggered again and I have updated the results.

SPY closes above 5ma for at least 10 days in a row and today is the highest close of the last 10 days. 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	-12,660.13	47	25	22	53.19	730.54	2,516.52	-1,405.62	-4,014.40	0.52	0.59	-269.36
4	-18,521.85	52	21	31	40.38	700.44	1,428.90	-1,071.97	-3,723.20	0.65	0.44	-356.19
3	-18,799.32	60	24	36	40.00	671.56	1,790.80	-969.91	-3,235.65	0.69	0.46	-313.32
2	-24,493.31	72	32	39	44.44	465.88	1,608.38	-1,010.29	-2,870.40	0.46	0.38	-340.18
1	-21,290.29	102	45	57	44.12	334.30	1,361.25	-637.43	-2,817.32	0.52	0.41	-208.73

In the past this setup has commonly been followed by a short-term pullback. The downside edge doesn't last long, though. It seems to pretty much play itself out over the first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



The line may be flattening out a bit here, but I think it is too soon to throw away this study. It has generally headed from upper left to lower right for a long time and certainly appears worthy of consideration. I have added this study to the Active List tonight.

In last night's letter I discussed the SPY breakout, and showed how it would have been a more powerful setup if it occurred with an unfilled up gap. Thursday we saw SPX breakout to new highs. One measurement that can provide clues when SPX breaks out to a new high after a basing period is volume. I've discussed volume on breakouts a number of times in the past, including in the 2/28/14 letter. For a breakout to have a good chance of success you generally want volume to come in either 1) lower than the day before, or 2) extremely high. Moderate but increasing volume is the worst scenario. And unfortunately that is what we are faced with. To see why I say this, take a look at the 3 studies below. The first one examines new breakouts that occur on declining volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	34,783.75	53	31	22	58.49	2,729.33	11,088.84	-2,264.79	-8,157.10	1.21	1.70	656.30
19	37,707.43	54	32	22	59.26	2,617.57	9,628.99	-2,093.40	-9,056.82	1.25	1.82	698.29
18	37,670.48	54	34	20	62.96	2,516.26	11,076.80	-2,394.12	-9,094.80	1.05	1.79	697.60
17	38,850.42	54	34	20	62.96	2,591.11	10,017.28	-2,462.37	-8,682.96	1.05	1.79	719.45
16	41,135.51	54	35	19	64.81	2,476.58	10,944.36	-2,397.09	-9,243.81	1.03	1.90	761.77
15	34,403.74	54	36	18	66.67	2,291.40	8,166.13	-2,671.47	-9,354.92	0.86	1.72	637.11
14	40,567.63	55	39	16	70.91	2,072.11	7,314.30	-2,515.30	-6,525.68	0.82	2.01	737.59
13	39,008.36	56	37	19	66.07	2,052.57	7,780.85	-1,944.04	-5,160.09	1.06	2.06	696.58
12	25,438.84	56	32	24	57.14	2,102.22	5,996.75	-1,743.00	-4,539.14	1.21	1.61	454.26
11	19,701.18	56	30	26	53.57	2,093.28	5,809.60	-1,657.59	-6,029.07	1.26	1.46	351.81
10	22,155.23	56	29	27	51.79	2,100.48	5,960.00	-1,435.50	-4,324.52	1.46	1.57	395.63
9	31,652.05	56	38	18	67.86	1,641.35	5,147.20	-1,706.63	-5,812.26	0.96	2.03	565.22
8	36,878.49	56	39	17	69.64	1,573.67	5,096.00	-1,440.86	-4,186.55	1.09	2.51	658.54
7	35,865.85	56	38	18	67.86	1,449.30	4,655.00	-1,067.09	-3,211.35	1.36	2.87	640.46
6	47,923.08	56	40	16	71.43	1,525.70	5,002.50	-819.07	-3,563.65	1.86	4.66	855.77
5	49,294.27	56	42	14	75.00	1,540.87	4,482.50	-1,101.60	-3,693.73	1.40	4.20	880.25
4	34,111.25	56	40	16	71.43	1,272.23	4,440.00	-1,048.62	-2,913.85	1.21	3.03	609.13
3	32,127.46	56	37	19	66.07	1,245.55	3,950.00	-734.64	-1,802.37	1.70	3.30	573.70
2	18,590.89	56	37	19	66.07	840.70	2,212.98	-658.68	-1,912.60	1.28	2.49	331.98
1	8,817.03	56	37	18	66.07	469.86	1,384.02	-475.98	-1,921.32	0.99	2.03	157.45

Numbers here appear pretty solid, with add-on buying typically coming in during the next week. Next let's look at times where there was extremely strong volume (20-day high volume).

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	18,537.77	40	22	18	55.00	3,632.58	8,953.20	-3,409.95	-8,308.32	1.07	1.30	463.44
19	13,673.22	40	23	17	57.50	3,409.30	8,942.40	-3,808.28	-7,980.00	0.90	1.21	341.83
18	24,585.12	40	23	17	57.50	3,674.68	9,613.50	-3,525.45	-7,323.36	1.04	1.41	614.63
17	20,649.33	40	24	16	60.00	3,275.47	9,069.84	-3,622.62	-8,144.90	0.90	1.36	516.23
16	25,573.17	40	23	17	57.50	3,530.42	8,048.82	-3,272.15	-8,109.35	1.08	1.46	639.33
15	20,273.46	40	23	17	57.50	3,402.51	7,668.00	-3,410.84	-8,358.20	1.00	1.35	506.84
14	21,205.47	40	23	17	57.50	3,302.09	8,128.38	-3,220.16	-8,338.45	1.03	1.39	530.14
13	25,650.88	40	24	16	60.00	3,054.51	7,478.64	-2,978.58	-8,251.55	1.03	1.54	641.27
12	21,993.63	40	23	17	57.50	2,796.62	7,352.31	-2,489.92	-8,757.15	1.12	1.52	549.84
11	28,400.61	40	26	14	65.00	2,515.78	6,782.40	-2,643.56	-6,975.70	0.95	1.77	710.02
10	31,150.21	40	24	16	60.00	2,488.03	6,199.20	-1,785.15	-3,730.08	1.39	2.09	778.76
9	27,905.27	40	24	15	60.00	2,272.93	6,429.15	-1,776.34	-3,113.22	1.28	2.05	697.63
8	29,665.76	40	24	16	60.00	2,245.65	6,220.34	-1,514.36	-2,943.34	1.48	2.22	741.64
7	30,416.32	40	25	15	62.50	2,016.71	5,275.20	-1,333.43	-2,946.00	1.51	2.52	760.41
6	33,604.40	40	28	12	70.00	1,752.67	4,689.44	-1,289.20	-3,093.30	1.36	3.17	840.11
5	29,878.19	40	26	14	65.00	1,655.33	4,765.28	-940.04	-2,562.72	1.76	3.27	746.95
4	21,210.45	40	26	14	65.00	1,266.45	3,176.11	-836.94	-1,948.21	1.51	2.81	530.26
3	17,553.76	40	26	14	65.00	1,085.48	2,983.04	-762.04	-2,188.15	1.42	2.65	438.84
2	27,503.41	40	27	12	67.50	1,180.94	3,813.53	-365.16	-1,259.60	3.23	7.28	687.59
1	15,101.62	40	29	11	72.50	648.02	2,755.52	-335.53	-1,292.50	1.93	5.09	377.54

Numbers here are quite similar, with the first week getting solid follow-through buying once again. But now let's look at the current set-up: rising but moderate volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	-11,558.84	90	41	49	45.56	3,490.77	13,393.77	-3,156.74	-11,548.62	1.11	0.93	-128.43
19	4,285.23	91	46	45	50.55	3,192.02	9,135.36	-3,167.72	-11,862.36	1.01	1.03	47.09
18	6,304.63	91	46	45	50.55	3,084.05	9,503.00	-3,012.48	-10,293.66	1.02	1.05	69.28
17	2,604.88	91	47	44	51.65	2,930.45	9,953.84	-3,071.06	-9,419.67	0.95	1.02	28.63
16	-2,100.11	93	49	44	52.69	2,682.54	8,910.72	-3,035.10	-9,482.88	0.88	0.98	-22.58
15	2,439.28	93	47	46	50.54	2,689.46	8,150.48	-2,694.90	-9,608.60	1.00	1.02	26.23
14	-10,813.55	93	50	43	53.76	2,372.25	7,702.40	-3,009.91	-10,120.46	0.79	0.92	-116.27
13	-10,340.75	93	47	46	50.54	2,411.92	7,911.80	-2,689.16	-9,725.34	0.90	0.92	-111.19
12	-16,276.91	93	49	44	52.69	2,184.79	10,197.98	-2,802.99	-9,878.00	0.78	0.87	-175.02
11	-9,890.83	93	45	48	48.39	2,403.23	10,372.44	-2,459.08	-9,482.88	0.98	0.92	-106.35
10	-17,198.23	93	43	50	46.24	2,264.21	10,507.25	-2,291.18	-8,683.66	0.99	0.85	-184.93
9	-12,167.25	93	41	52	44.09	2,250.70	8,413.73	-2,008.57	-6,878.68	1.12	0.88	-130.83
8	-16,464.59	93	47	46	50.54	1,733.01	8,524.75	-2,128.61	-7,085.22	0.81	0.83	-177.04
7	88.77	93	45	48	48.39	1,828.29	6,337.26	-1,712.18	-7,255.84	1.07	1.00	0.95
6	-2,026.52	93	49	44	52.69	1,508.38	6,819.80	-1,725.85	-7,103.18	0.87	0.97	-21.79
5	-5,498.32	93	41	52	44.09	1,645.06	8,516.82	-1,402.80	-6,088.44	1.17	0.92	-59.12
4	-13,399.52	93	46	47	49.46	1,259.53	6,716.71	-1,517.83	-5,585.56	0.83	0.81	-144.08
3	454.53	93	50	43	53.76	1,156.72	6,740.50	-1,334.45	-5,361.06	0.87	1.01	4.89
2	-3,131.35	93	53	40	56.99	752.03	4,028.44	-1,074.72	-4,276.16	0.70	0.93	-33.67
1	7,260.26	93	53	40	56.99	521.11	2,731.56	-508.97	-2,722.61	1.02	1.36	78.07

This does not appear to suggest any edge over the next 1-4 weeks. It puts a little damper on the breakout enthusiasm.

But there was one thing about this breakout that was remarkable and worth noting. That is the fact that Thursday's 50-day high close came just 2 weeks after SPX closed at a 50-day low. That's quite rare to see. The last time we saw a move from a 50-day low to a 50-day high occur so quickly was in October of 2011. The study below is from the 10/17/11 letter and it examines such sharp moves. All stats are updated.

SPX rallies from a 50-day closing low to a 50-day closing high within 10 days. Buy on close. Sell X days later. \$100k/trade. 1950 - 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
20	18,905.18	6	6	0	100.00	3,150.86	8,380.32	0.00	0.00	100.00	100.00	3,150.86
19	20,175.55	6	6	0	100.00	3,362.59	8,424.52	0.00	0.00	100.00	100.00	3,362.59
18	21,344.18	6	6	0	100.00	3,557.36	9,503.00	0.00	0.00	100.00	100.00	3,557.36
17	26,273.64	6	6	0	100.00	4,378.94	9,953.84	0.00	0.00	100.00	100.00	4,378.94
16	25,730.27	6	6	0	100.00	4,288.38	8,910.72	0.00	0.00	100.00	100.00	4,288.38
15	23,641.70	6	6	0	100.00	3,940.28	8,150.48	0.00	0.00	100.00	100.00	3,940.28
14	21,334.94	6	6	0	100.00	3,555.82	7,027.80	0.00	0.00	100.00	100.00	3,555.82
13	20,720.78	6	6	0	100.00	3,453.46	7,911.80	0.00	0.00	100.00	100.00	3,453.46
12	15,861.39	6	4	2	66.67	4,109.81	8,106.28	-288.92	-510.30	14.22	28.45	2,643.57
11	17,364.58	6	6	0	100.00	2,894.10	7,372.56	0.00	0.00	100.00	100.00	2,894.10
10	19,590.84	6	5	1	83.33	3,922.03	8,530.60	-19.30	-19.30	203.21	1,016.07	3,265.14
9	18,422.80	6	6	0	100.00	3,070.47	6,409.00	0.00	0.00	100.00	100.00	3,070.47
8	13,271.87	6	6	0	100.00	2,211.98	4,623.32	0.00	0.00	100.00	100.00	2,211.98
7	13,623.01	6	5	1	83.33	2,759.34	5,728.32	-173.70	-173.70	15.89	79.43	2,270.50
6	13,038.12	6	6	0	100.00	2,173.02	4,689.44	0.00	0.00	100.00	100.00	2,173.02
5	11,708.57	6	6	0	100.00	1,951.43	4,765.28	0.00	0.00	100.00	100.00	1,951.43
4	6,703.61	6	4	2	66.67	1,948.85	4,888.52	-545.90	-744.39	3.57	7.14	1,117.27
3	6,641.12	6	4	2	66.67	1,991.73	4,031.04	-662.90	-1,190.70	3.00	6.01	1,106.85
2	5,573.71	6	5	1	83.33	1,138.49	2,913.52	-118.72	-118.72	9.59	47.95	928.95
1	2,754.71	6	3	3	50.00	1,877.28	2,755.52	-959.04	-1,921.32	1.96	1.96	459.12

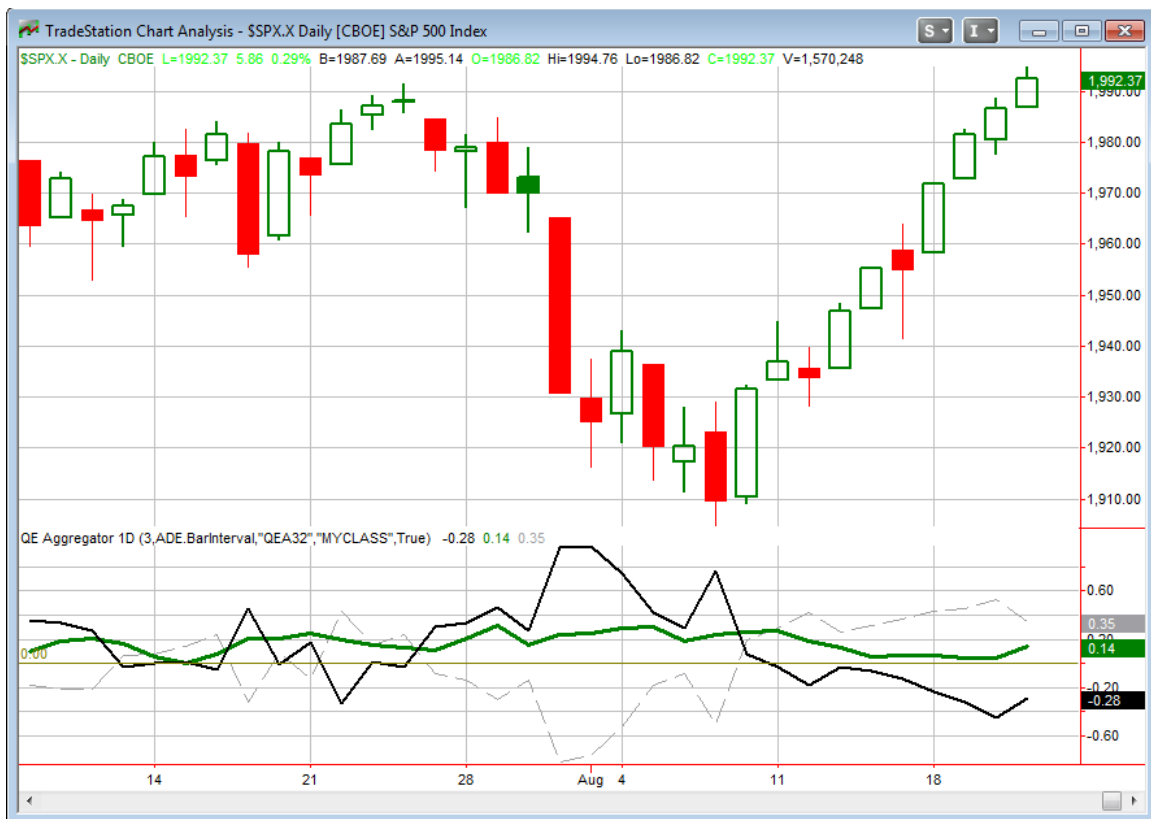
There have only been 6 occurrences but the stats are overwhelmingly bullish over the next month. The profit maxes out on day 17 in the table above. To getting a better feel for the instances I have listed them all below along with their 17-day stats.

SPX rallies from a 50-day closing low to a 50-day closing high within 10 days. Buy on close. Sell 17 days later. \$100k/trade. 1950 - present.					
Type	Date/Time	Signal	Price	% Profit	Run-up Drawdown
Buy	08/01/61	Buy	\$67.37	0.33%	\$1,587.88
Sell	08/24/61	Sell	\$67.59		(\$638.12)
Buy	06/17/76	Buy	\$103.61	1.99%	\$3,059.05
Sell	07/13/76	Sell	\$105.67		(\$1,167.65)
Buy	08/20/82	Buy	\$113.02	9.96%	\$10,440.04
Sell	09/15/82	Sell	\$124.28		(\$928.20)
Buy	08/02/84	Buy	\$157.99	5.35%	\$6,831.92
Sell	08/27/84	Sell	\$166.44		\$0.00
Buy	06/24/98	Buy	\$1,132.89	4.52%	\$5,076.72
Sell	07/20/98	Sell	\$1,184.10		(\$465.52)
Buy	10/14/11	Buy	\$1,224.58	4.19%	\$5,514.48
Sell	11/08/11	Sell	\$1,275.92		(\$2,681.10)
<b>Avg Run-Up: 5.42% Avg Drawdown: -0.98%</b>					

Six instances is the absolute minimum I will allow to consider a study – and only if it is unanimous. The stats above are incredibly lopsided, so it seems it may be worth some consideration. The average run-up of the 6 instances is over 5x the size of the average drawdown, and every instance saw a run-up of at least 2x its drawdown. That’s impressive.

Overall, this breakout is less than ideal. There was no breakaway gap for SPY on Wednesday, and the NYSE volume pattern was weak on Thursday. But the momentum certainly appears to favor the bull case. After seeing the CBI spike to 11 in early August the market has shown the kind of strength that often begets more strength. This was first seen in the strong initial move off the 20-day low (to a 4-day high in one day). The sharp reversal in the VIX, the SPX RSI(2) moving over 99, and now the quick trip from a 50-day low to a 50-day high are all giving the same message: the strength appears real and is likely to remain a while longer.

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



The green Aggregator Line moved a little higher tonight and is now firmly 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 Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1985.06 on Friday. That is 0.4% below Thursday's close. So for SPX to move from overbought to oversold versus expectations on Friday it is going to need to close down at least 0.4%.

Evidence, while mixed, continues to point higher. Of course I prefer waiting for pullbacks to get long for my swing trading. So although I have not been able to that for several days, the continued bullish clues have kept me from attempting to short. And I am becoming less and less inclined to consider shorts with momentum as strong as it has been. So I'll remain in a neutral state and awaiting a better entry position before taking on new exposure.

***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*

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2014 Hanna Capital Management, LLC.