

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 27, 2014

Volume 7 Issue 161

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 unfilled up gaps and a 50-day high are a short-term positive.
- Positive days that close poorly will often be followed by buying in the next few days.

Short-term Outlook

The Bottom Line

Some more evidence for the bulls tonight doesn't really change anything. I remain neutral with the market overbought and my research saying it could continue higher.

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 27, 2014	2 unfilled gaps up & a 50-day high	1-3 days	Bullish	0.90%	-0.65%	-1.25%
August 27, 2014	SPY up but in bottom 10% daily range	1-3 days	Bullish	1.30%	-0.50%	-0.90%
August 26, 2014	Low vol 20 x2. SPX > 10 & > 200	1-2 days	Bearish			
August 26, 2014	VIX up. SPX 50-high. Monday.	1-2 days	Bearish			
August 26, 2014	SPY > 5ma 10 days & 10-day high	1-2 days	Bearish			
August 25, 2014	Biggest drop in 10 days after 50-high	1-4 days	Bullish	1.20%	-0.80%	-1.60%
August 22, 2014	50-low to 50-high in 2 weeks	1-5 days	Bullish	2.80%	-0.90%	-1.90%
Active - Long Term						
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			

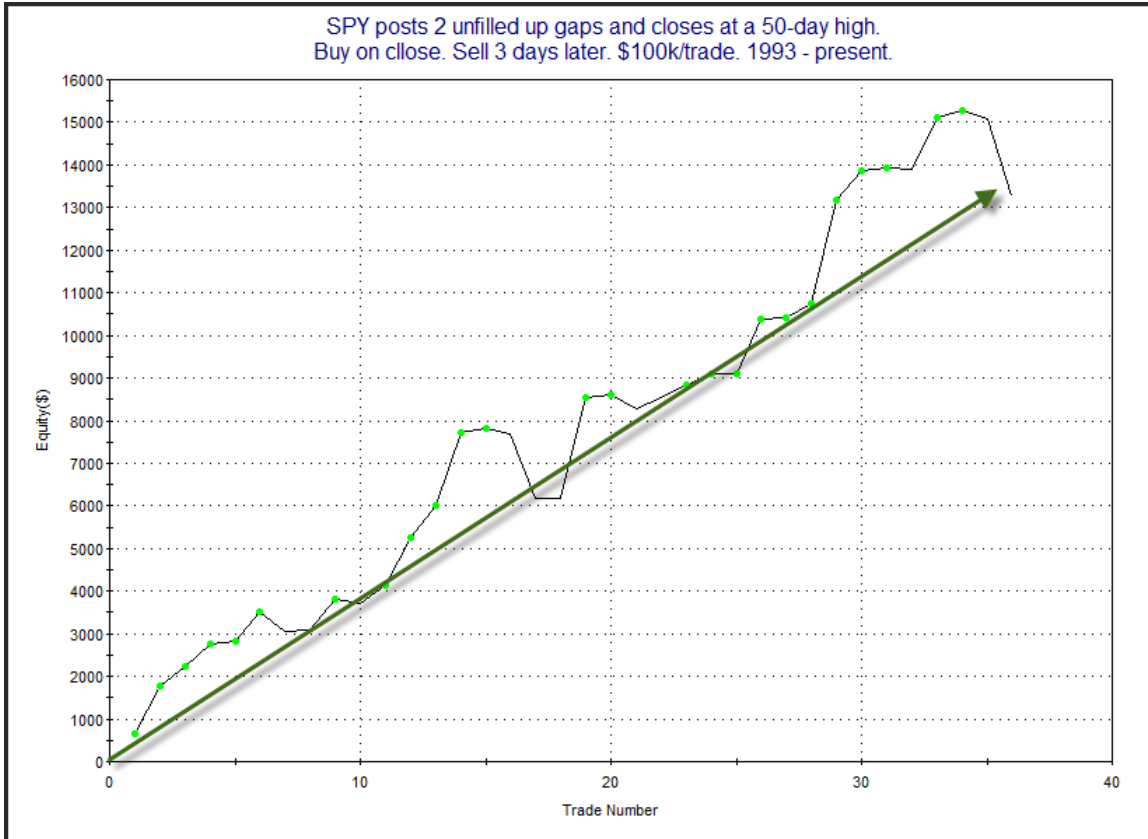
The Evidence

Tuesday was another day of low volume and modest gains. The SPX finished up 0.1%, the NASDAQ rose 0.3% and the Russell 2000 rallied 0.9%. Breadth was positive as the NYSE Up Issues % came in at 66% and the Up Volume % was 68%. Total NYSE volume rose a little from Monday's level but was again low.

One interesting aspect of today's action is the SPY gapped up above Monday's close, and never filled that gap. This made the 2nd day in a row with an unfilled up gap. The study below is one that was seen in the 12/10/13 letter. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

SPY posts 2 unfilled up gaps and closes at a 50-day high. 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	11,788.44	36	26	10	72.22	918.10	2,013.72	-1,208.21	-4,508.40	0.76	1.98	327.46
4	15,532.68	36	27	9	75.00	925.12	2,475.56	-1,049.51	-2,720.25	0.88	2.64	431.46
3	13,280.61	36	27	9	75.00	659.28	2,419.84	-502.21	-1,801.77	1.31	3.94	368.91
2	7,558.55	36	25	10	69.44	540.50	1,858.87	-595.39	-1,476.68	0.91	2.27	209.96
1	91.79	42	23	19	54.76	343.11	1,156.32	-410.52	-1,942.24	0.84	1.01	2.19
39 of 42 instances (93%) closed above the entry price at some point in the next week.												

The size of the follow-through isn't terribly large, but it has been very consistent that some follow through was achieved in the next few days. Below is the 3-day profit curve.



Despite the last 2 instances the upward inclination appears to be in place. This study seems well worth consideration, and I have included on the Active List.

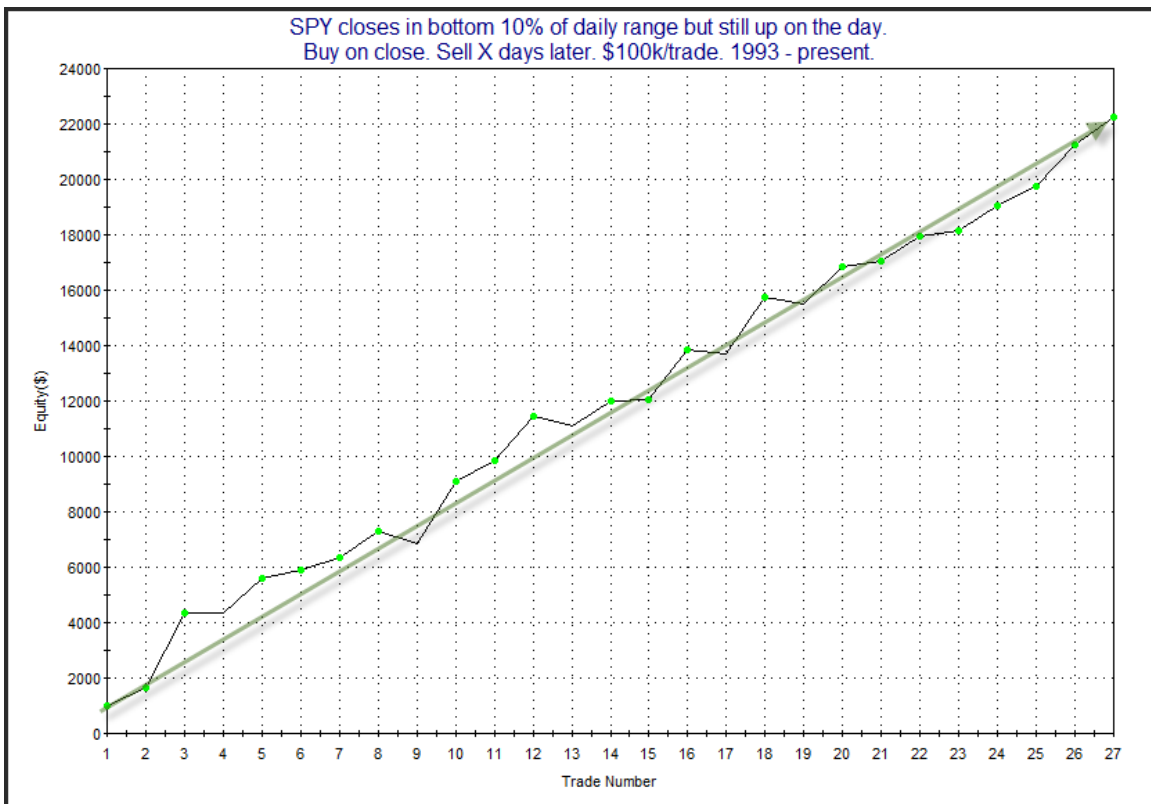
The late-day selling and weak close may have felt like a negative as we approached the close, but it triggered a study that has been very bullish over the years. SPY closing in the bottom 10% of its daily range, but still up on the day is something that doesn't occur very often. It is something I explored in the 8/12/14 letter. Results below are all updated.

SPY closes in bottom 10% of daily range but still up on the day.
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	19,087.80	26	19	7	73.08	1,426.97	3,458.95	-1,146.38	-2,337.14	1.24	3.38	734.15
4	19,663.43	27	22	5	81.48	1,145.84	2,312.35	-1,109.01	-3,623.88	1.03	4.55	728.28
3	22,271.90	27	22	4	81.48	1,066.85	2,694.00	-299.67	-472.68	3.56	19.58	824.89
2	14,687.08	27	19	8	70.37	924.85	3,028.76	-360.63	-531.70	2.56	6.09	543.97
1	8,104.97	28	19	9	67.86	636.27	3,476.36	-442.68	-903.90	1.44	3.03	289.46

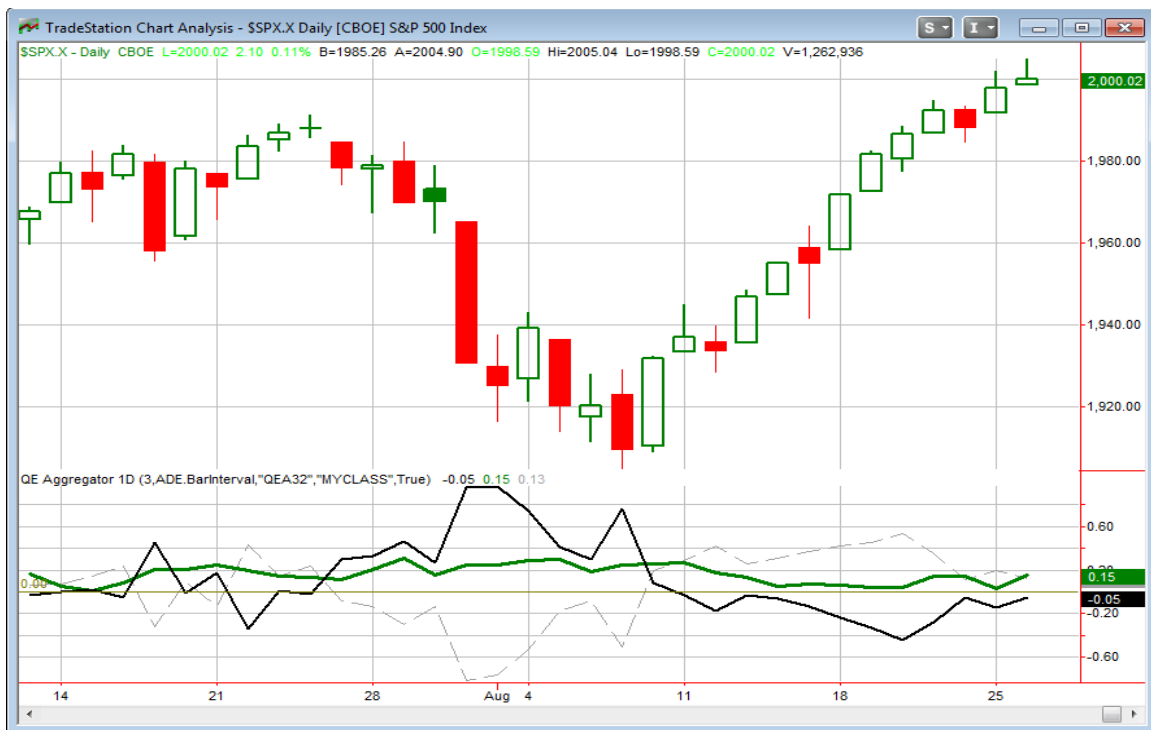
All 28 instances posted a close above the entry price at some point in the next 4 days.

The numbers here are impressively bullish. I also ran a profit curve assuming a 3-day holding period.



This curve is almost as straight as the arrow, and acts as confirmation of the upside edge. So we saw a bit more bullish evidence tonight.

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



With the bullish studies tonight the green Aggregator Line managed to move a little further 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 under 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are again positive but the SPX is still a little 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 1995.04 on Wednesday. That is only about 0.25% below Tuesday's close. So despite posting its first close ever above 2000, SPX will turn "oversold" versus recent expectations with just a moderate down close on Wednesday.

This has been a great couple of weeks if you are a trend trader, but swing traders have needed to show great patience. Much of my trading is swing-based, and it is important to recognize that there is not sizable (swing-based) edge here. Therefore I am better off keeping my capital intact until I do have a sizable edge. So I will remain sidelined and patiently awaiting the next favorable opportunity.

I'd also point traders to a great post written on Tuesday by Dr. Brett Steenbarger that discusses further the importance of patience in trading. I believe it is one to bookmark.

<http://traderfeed.blogspot.com/2014/08/why-quiet-markets-can-be-hazardous-to.html>

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/25 – slightly bullish

The intermediate-term outlook was last updated in the 8/25/14 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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