

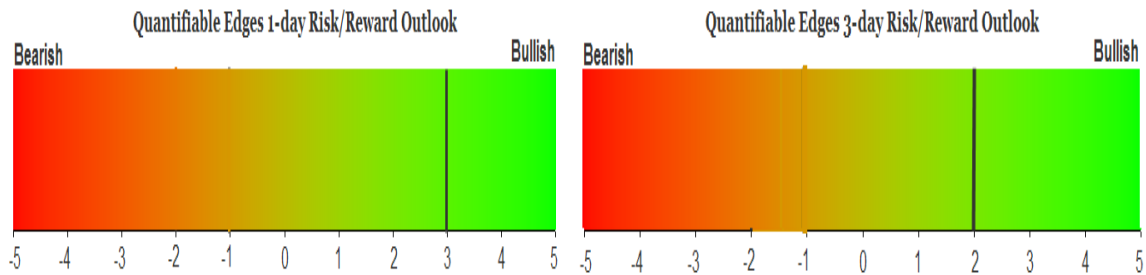
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 29, 2014

Volume 7 Issue 163

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- The Friday before Labor Day has been seasonally strong.

Short-term Outlook

The Bottom Line

SPX is no longer overbought. The short-term evidence is still leaning bullish, but it is set to expire on Friday. I believe there is a small upside edge here, but after such an extended move up I'd prefer a larger pullback before I start getting long.

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 30, 2014	Fri before Labor Day bullish	1 day	Bullish			
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%
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			
Dropped Tonight						
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%

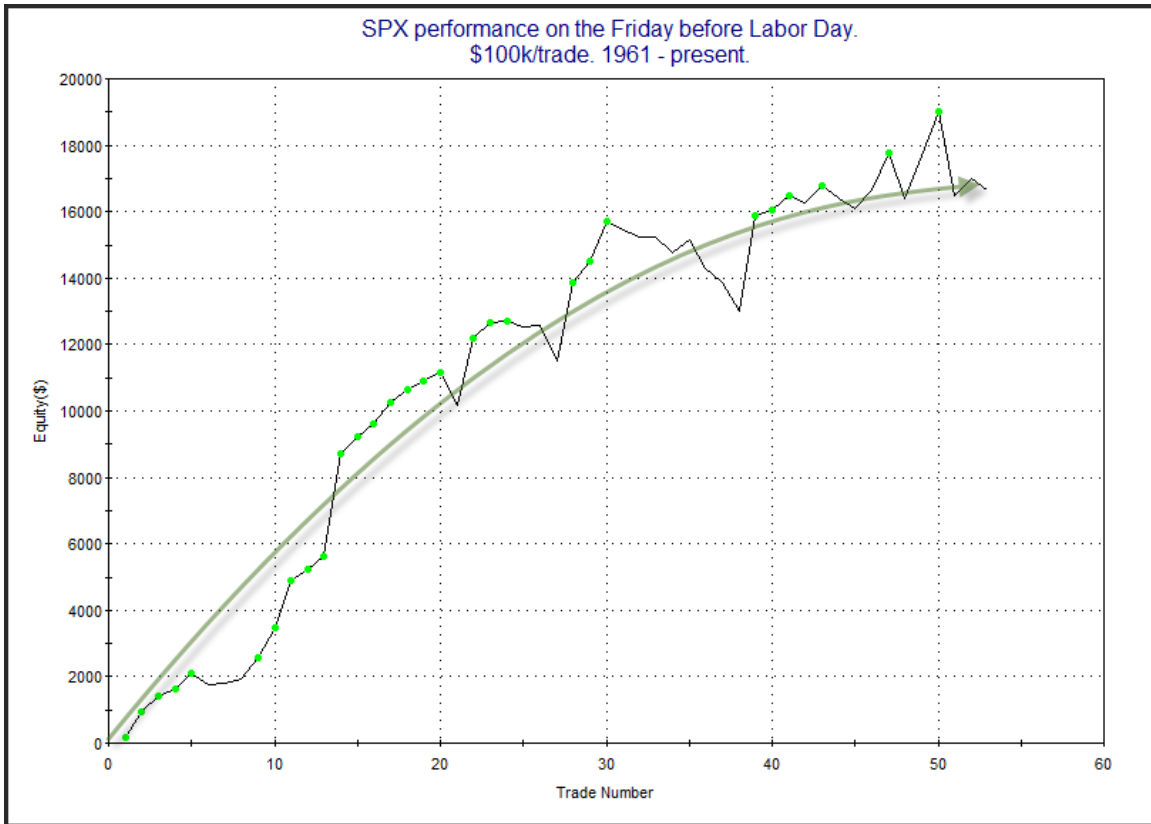
The Evidence

The market took a drop in the morning but by the end of the day the damage was mostly erased. The SPX finished down 0.2%, the NASDAQ declined 0.3% and the Russell 2000 lost 0.6%. Breadth was negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 37%. Total NYSE hit a new multi-month low again on Thursday.

The small movement triggered little of consequence in the Quantifinder, but a bullish seasonal study did appear. The Friday before Labor Day has long been a strong day for the market. Below is a stats table based on buying the Thursday before Labor Day and selling the close on Friday. This study last appeared in the 8/30/13 Letter and is updated.

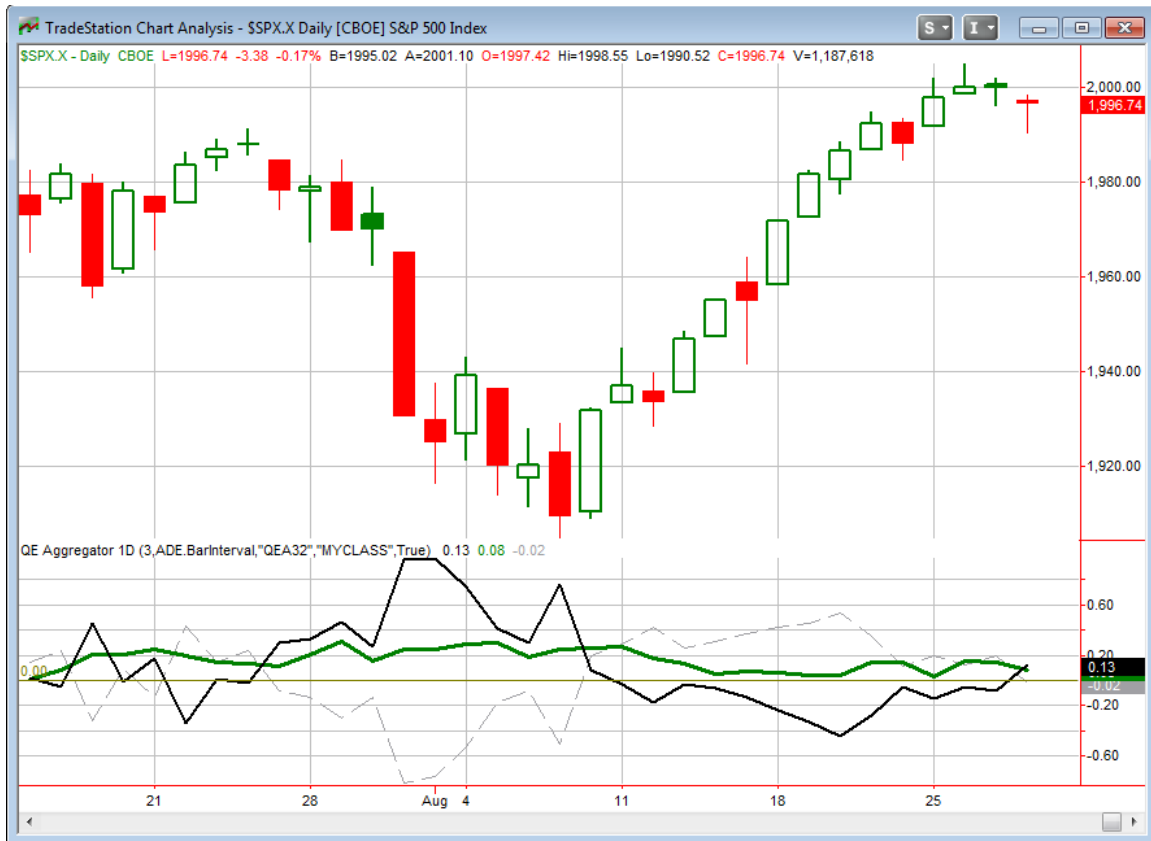
SPX performance on the Friday before Labor Day. \$100k/trade. 1961 - present			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$16,661.07	Profit Factor	2.55
Gross Profit	\$27,393.20	Gross Loss	(\$10,732.13)
Total Number of Trades	53	Percent Profitable	69.81%
Winning Trades	37	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	\$314.36	Ratio Avg. Win:Avg. Loss	1.10
Avg. Winning Trade	\$740.36	Avg. Losing Trade	(\$670.76)
Largest Winning Trade	\$3,084.48	Largest Losing Trade	(\$2,527.35)

With 70% of the days finishing higher, a profit factor of over 2.5, and an average trade of 0.3% the stats are quite compelling. Below you can see how the edge has evolved over time.



While the 60s and 70s look a little stronger the upside edge still appears to be intact. I have included this study on the Active List tonight.

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



The green Aggregator Line managed to hold 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 edged above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is now oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal turned long at the close.

Expectations are set to remain positive on Friday, but with all the short-term studies expiring this is largely dependent on what new studies emerge. The Differential Pivot will be 2006.66 on Friday. That is 0.5% above Thursday's close. So for SPX to move from oversold to overbought it is going to need to close up at least 0.5%.

There appears to be a bit of a bullish edge. But with the market having been overbought for so long, I am not inclined to start buying after just one down day. If the bullish edge plays out on Friday then it will likely turn the SPX back to overbought. If it does not play out on Friday, and we see a further decline, then there is a good chance I will begin buying again on Tuesday. But I'll want a little more short-term bullish evidence to emerge since all of the current short-term studies are set to expire on Friday. So no new

trade ideas here tonight, but I may be getting close to looking long with some more selling.

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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