

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 4, 2014

Volume 7 Issue 166

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX new high on a day the NDX suffers a relatively large decline is unusual – but has led to positive intermediate-term results in the past,

Short-term Outlook

The Bottom Line

(Repeat.) SPX is again not overbought versus expectations and the short-term evidence is still leaning bullish. Like last night, I believe there is a small upside edge here, but after such an extended move up I'd prefer a bit of a 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						
September 2, 2014	End of month at high of month	1-5 days	Bullish	2.10%	-1.00%	-2.30%
September 2, 2014	Labor Day week after 4-week rise	1-4 days	Bearish	-1.50%	1.20%	2.20%
Active - Long Term						
September 4, 2014	SPX 20-day high. NDX biggest loss in 20	1-50 days	Bullish	6.50%	-2.70%	-5.10%
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%
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						
September 2, 2014	10 days > 5ma & 10-day high	1-2 days	Bearish			

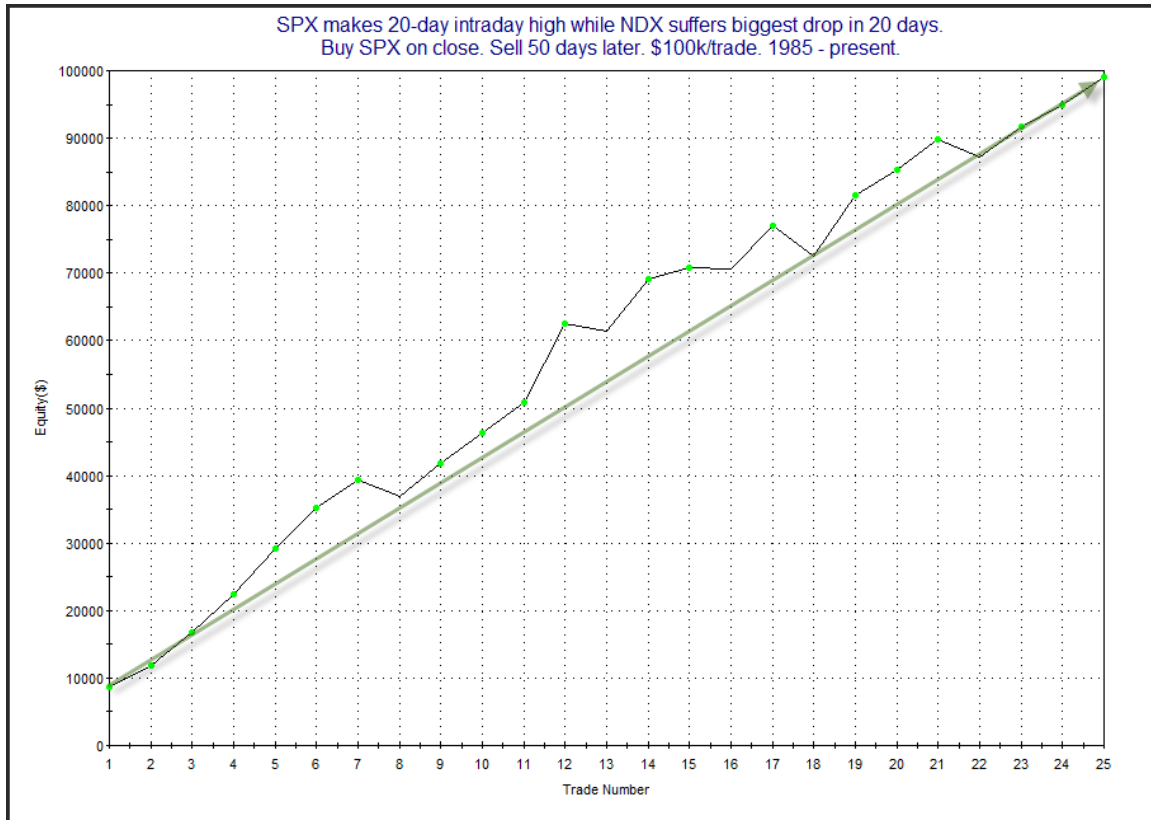
The Evidence

The market started off with a strong gap higher but faded during the day and the major indices mostly closed lower. The SPX finished down 0.1% while the NASDAQ and the Russell 2000 each fell 0.6%. Breadth was mixed as the NYSE Up Issues % came in at 46% and the Up Volume % was 51%. Total NYSE volume sank a little from Tuesday's level.

One interesting aspect of Wednesday's action is that the NDX suffered its worst decline in at least 20 days while SPX made a 20-day intraday high. This is something I last looked at in the 4/7/14 Letter. When I examined other instances of this back then I found little in terms of short-term implications, but the intermediate-term implications appeared strong. Below I have updated those results.

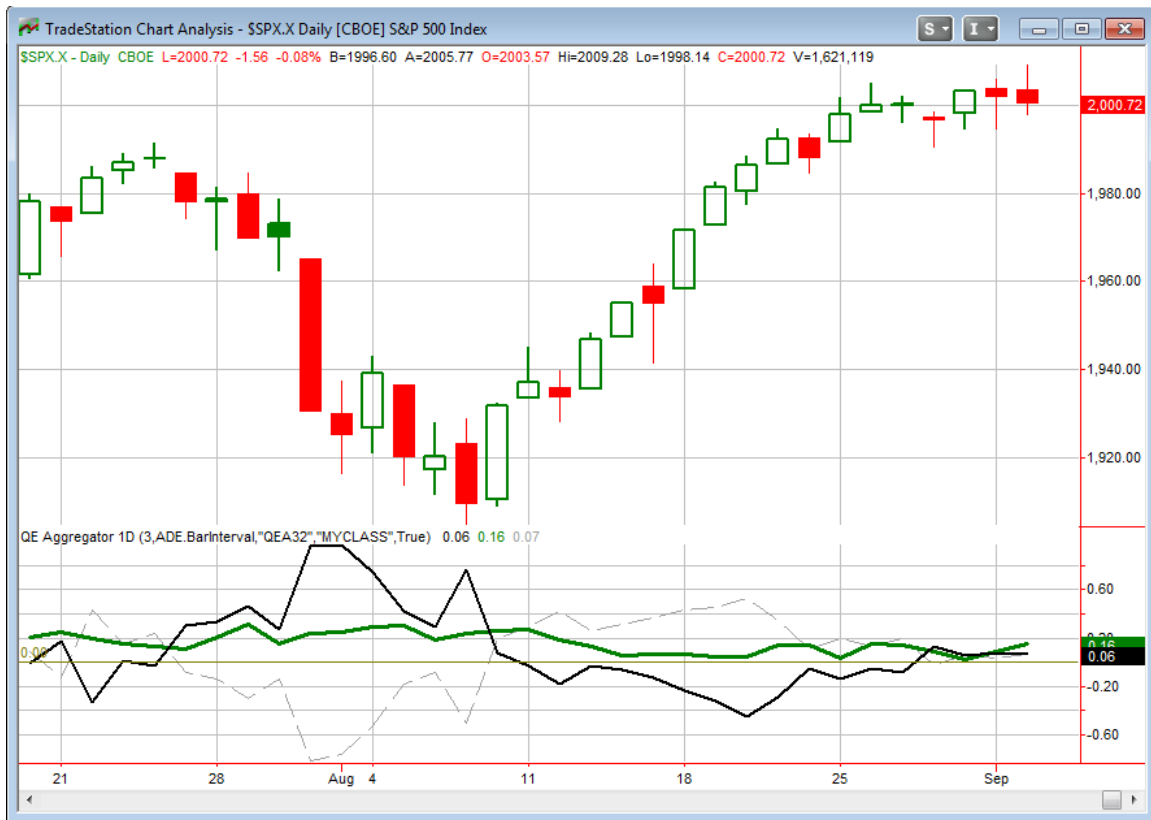
SPX makes 20-day intraday high while NDX suffers biggest drop in 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
50	98,964.27	25	20	5	80.00	5,486.46	11,736.48	-2,152.97	-4,474.24	2.55	10.19	3,958.57
45	83,717.42	25	19	6	76.00	5,310.81	13,076.25	-2,864.66	-5,533.44	1.85	5.87	3,348.70
40	65,200.07	26	20	6	76.92	4,373.83	9,682.40	-3,712.74	-9,804.11	1.18	3.93	2,507.69
35	59,484.21	27	19	8	70.37	4,328.24	8,919.96	-2,844.05	-5,508.07	1.52	3.61	2,203.12
30	55,069.11	27	20	7	74.07	4,130.60	9,146.60	-3,934.69	-9,849.67	1.05	3.00	2,039.60
25	43,029.15	28	20	8	71.43	3,678.70	7,045.95	-3,818.11	-9,670.78	0.96	2.41	1,536.76
20	38,248.21	28	20	8	71.43	2,920.97	7,296.33	-2,521.40	-5,098.24	1.16	2.90	1,366.01
15	37,427.53	28	21	7	75.00	2,421.22	7,393.84	-1,916.86	-3,229.81	1.26	3.79	1,336.70
10	23,251.79	29	19	10	65.52	1,675.68	4,119.18	-858.62	-2,561.28	1.95	3.71	801.79
5	13,023.43	30	17	13	56.67	1,411.76	4,189.92	-844.35	-2,618.20	1.67	2.19	434.11

Results here appear pretty strong throughout. The big NDX drop during an intermediate-term move higher for SPX has rarely derailed the rally. Most of the time it has been followed by additional gains. Below is a profit curve for the 50-day holding period.



The strong, steady upslope is quite impressive, and serves as confirmation of the apparent upside edge. I have added this study to the intermediate-term Active List.

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



With just the 1 intermediate-term study being added tonight the green Aggregator Line managed rise 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 also held above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal stayed long at the close.

Expectations are set to remain positive on Thursday. Of course this could easily change if strong new bearish evidence emerges. The Differential Pivot will be 2008.50 on Thursday. That is 0.4% above Wednesday's close. So for SPX to move from oversold to overbought it is going to need to close at least 0.4% on Thursday

I am starting to feel like a broken record here. Evidence still seems to be leaning higher, and we could certainly see the market continue to rise. But it has now been 18 days in a row that SPY has closed above its 5-day moving average. The record is 19. And I would like to see a pullback before I am going to get involved in new long positions. I certainly want to see a close below the 5ma, and most likely below the 10ma before adding long exposure. So I will continue to watch and wait. No new trade ideas for me tonight.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/2– 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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