

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 9, 2014

Volume 7 Issue 169

Market Overview



Signals Overview

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

Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.

Short-term Outlook

The Bottom Line

Monday's relatively sizable down day from a 50-day high suggests a bounce in the next few days. But there has not been a substantial pullback in about a month. With a deeper pullback likely due, I am less inclined towards optimism than I would otherwise be.

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 9, 2014	Big drop from 50-day high	1-4 days	Bullish	1.20%	-0.80%	-1.60%
September 8, 2014	Gap dn & recerse to high studies	1-2 days	Bearish			
September 5, 2014	1st close < 10ma in > 15 days	1-3 days	Bullish			
September 5, 2014	3 days down. 3/10 HV < 0.25	1-3 days	Bullish			
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	End of month at high of month	1-5 days	Bullish			

The Evidence

Monday saw the market put in a mixed performance. The SPX fell 0.2% while the NASDAQ and Russell 2000 gained 0.3% each. Breadth was negative as the NYSE Up Issues % came in at 38% and the Up Volume % was 31%. Total NYSE volume rose a little from Friday's level.

The range over the last 2 weeks has been especially tight. SPY has only moved about 1.1% between the high of the last 10 trading days versus the low of the last 10 trading days. This is extremely unusual. In fact there has only been one other instance where SPY traded in a range tighter than 1.25% while also making a 200-day closing high during the 10-day measured period. The other instance met these conditions on 1/24/94 – over 20 years ago. In that instance we saw the market breakout out to a new high and rise about 2% over the next week. But that marked a top that was followed by a multi-month decline, with SPY not reaching new highs again until early 1995. You don't want to read anything into the performance of just one instance, but I do find the very tight range to be fairly remarkable and worth noting.

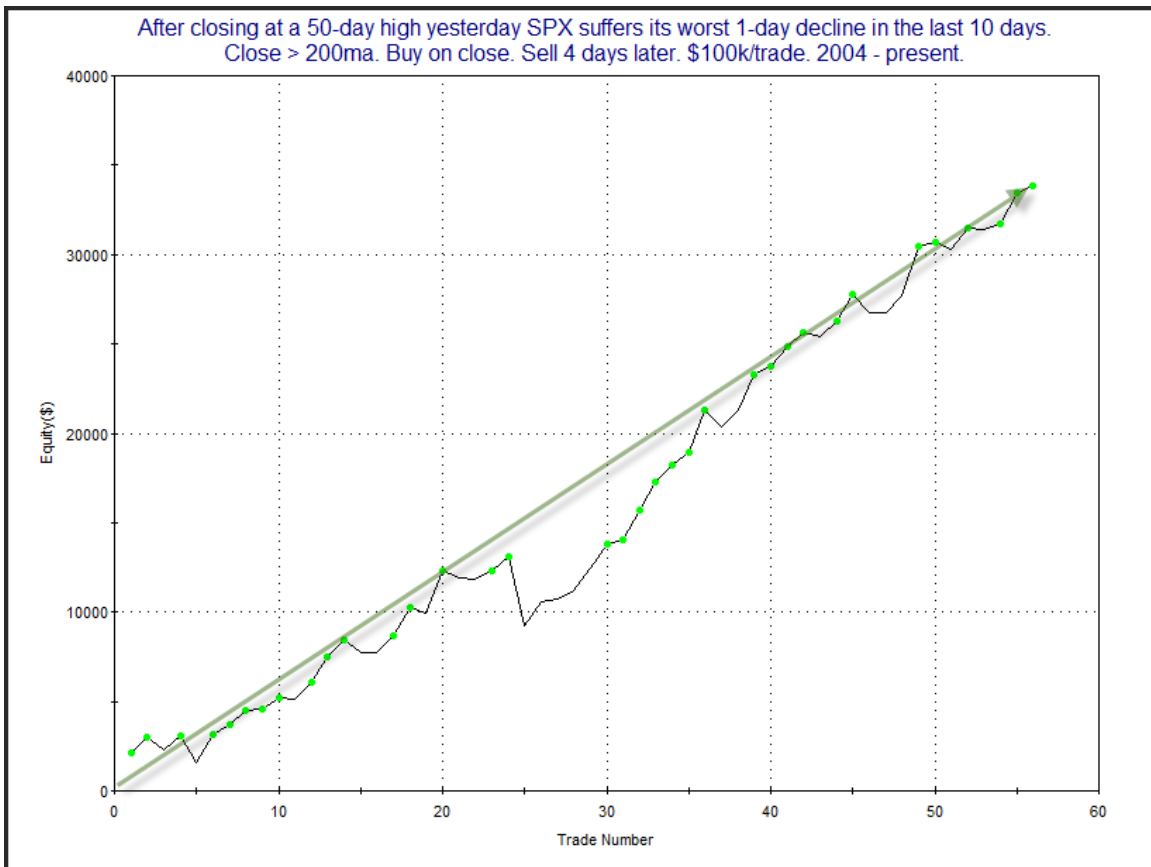
Only one study triggered in the Quantifinder this evening and it suggested bullish inclinations. It examined relatively large drops from intermediate-term highs. I have updated the results below.

After closing at a 50-day high yesterday SPX suffers its worst 1-day decline in the last 10 days.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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	30,642.30	52	38	14	73.08	1,291.86	3,149.37	-1,317.74	-3,454.00	0.98	2.66	589.28
4	33,880.99	56	41	15	73.21	1,077.30	2,725.38	-685.88	-3,895.76	1.57	4.29	605.02
3	24,233.18	57	42	15	73.68	837.48	2,192.40	-729.41	-1,808.21	1.15	3.21	425.14
2	14,709.81	58	34	24	58.62	819.43	2,437.50	-547.95	-1,777.55	1.50	2.12	253.62
1	6,907.08	58	34	24	58.62	553.92	1,521.72	-496.92	-1,354.59	1.11	1.58	119.09

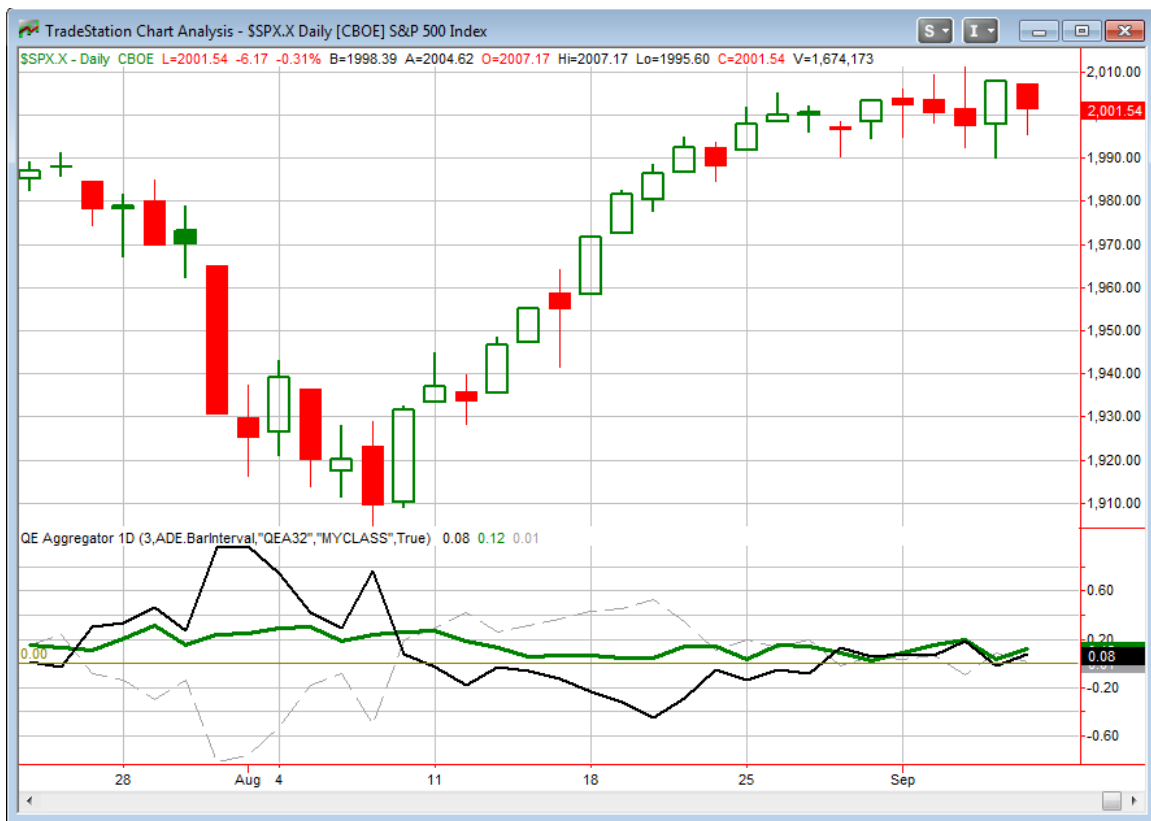
54 of 58 instances (93%) closed above the entry price at some point in the next week.

Over the last 10.5 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



The steady upslope seems to confirm the bullish inclination.

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



With tonight's bullish study now included the green Aggregator Line rose 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 moved back above 0. The positive Differential Line reading means the SPX is now 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 turned long at the close.

Based on the current Active Studies, expectations are set to remain positive on Tuesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 2006.41 on Tuesday. That is 0.2% above Monday's close. So SPX will only need to close up this much in order to move back to an overbought condition.

According to the Aggregator, there appears to be a bit of an upside edge at the moment. But Monday also marked the 20th day in a row that SPY closed above its 10-day moving average. I have found in the past that such extended moves carry a bit more risk. So I will use a bit more patience here than I might otherwise. Rather than just buying today's mild decline, I'd prefer to see a deeper pullback. Therefore, I plan to give it another day or so before getting involved again.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/8– 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)</i>	<i>9/5/2014</i>	<i>\$200.17</i>	<i>\$201.11</i>	<i>0.47%</i>		<i>sold @ \$201.11 limit</i>

SPY was sold at the limit price shown in last night's letter.

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