

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 10, 2014

Volume 7 Issue 170

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The QE Buying Power System is signaling a buy.
- SPY has closed at a 5-day low for the 1<sup>st</sup> time in over 2 weeks. This suggests a short-term upside edge.
- When the market has moved from a 50-day high to an 8-day low in just 2 days it has commonly been followed by a bounce.

## *Short-term Outlook*

### *The Bottom Line*

Tuesday's drop left the market short-term oversold and triggered more evidence that a bounce is likely. I intend to look to try and take advantage of this by taking on some long exposure.

**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>						
September 10, 2014	50-high to 8-low in 2 days	1-4 days	Bullish	1.50%	-1.00%	-1.80%
September 10, 2014	QE Buying Power System	1-6 days	Bullish			
September 10, 2014	1st 5-day low in over 10 days	1-4 days	Bullish	1.50%	-1.30%	-2.60%
September 9, 2014	Big drop from 50-day high	1-4 days	Bullish	1.20%	-0.80%	-1.60%
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			
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
September 8, 2014	Gap dn & recerse to high studies	1-2 days	Bearish			

**The Evidence**

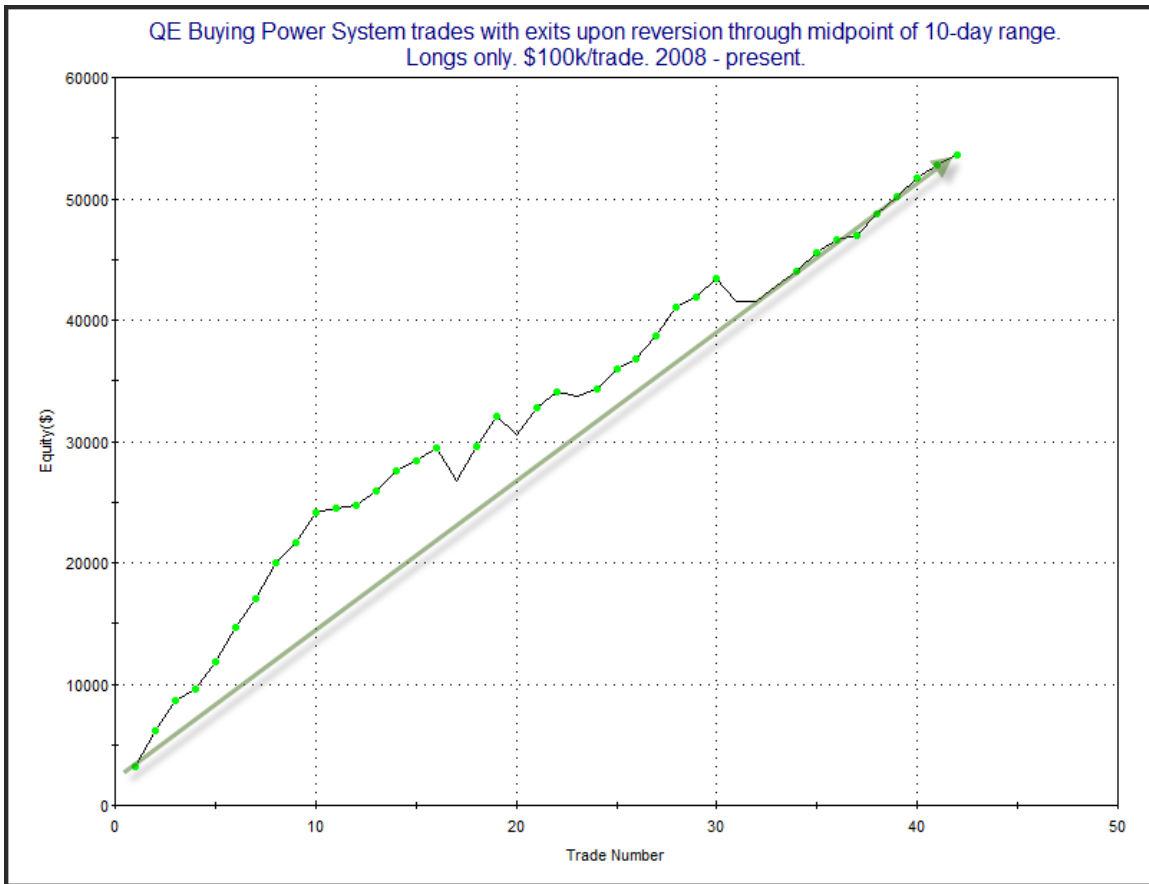
Tuesday was a fairly rough day for the market. The SPX fell 0.7%, the NASDAQ lost 0.9% and the Russell 2000 declined 1.2%. Breadth was negative as the NYSE Up Issues % came in at 23% and the Up Volume % was 21%. Total NYSE volume declined a little from Monday's level.

The negative action on Tuesday helped to trigger a long in the QE Buying Power System. This system looks to get long any time SPX closes in the bottom 20% of the 10-day range and the QE Buying Power Index is  $\geq 3$  (the index is can be found on the charts page and has been maxed out at 5 for a long time). It shorts whenever the QE Buying Power Index  $\leq 0$  and SPX closes in the top 20% of the 10-day range. (Note: more information on the QE Buying Power Index and System can be found on the [QE Buying Power Index Information Page](#).) Below are long-only results for the simplified version of the system that just looks to exit when the index closes back above the midpoint of its (then current) 10-day range.

QE Buying Power System trades with exits upon reversion through midpoint of 10-day range.  
 Longs only. \$100k/trade. 2008 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$53,606.65	Profit Factor	9.12
Gross Profit	\$60,212.26	Gross Loss	(\$6,605.61)
Total Number of Trades	42	Percent Profitable	90.48%
Winning Trades	38	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,276.35	Ratio Avg. Win:Avg. Loss	0.96
Avg. Winning Trade	\$1,584.53	Avg. Losing Trade	(\$1,651.40)
Largest Winning Trade	\$3,160.20	Largest Losing Trade	(\$2,750.44)

Some very strong stats here. This suggests a substantial upside edge in buying pullbacks when you have also had strong liquidity. And here is a look at the profit curve.



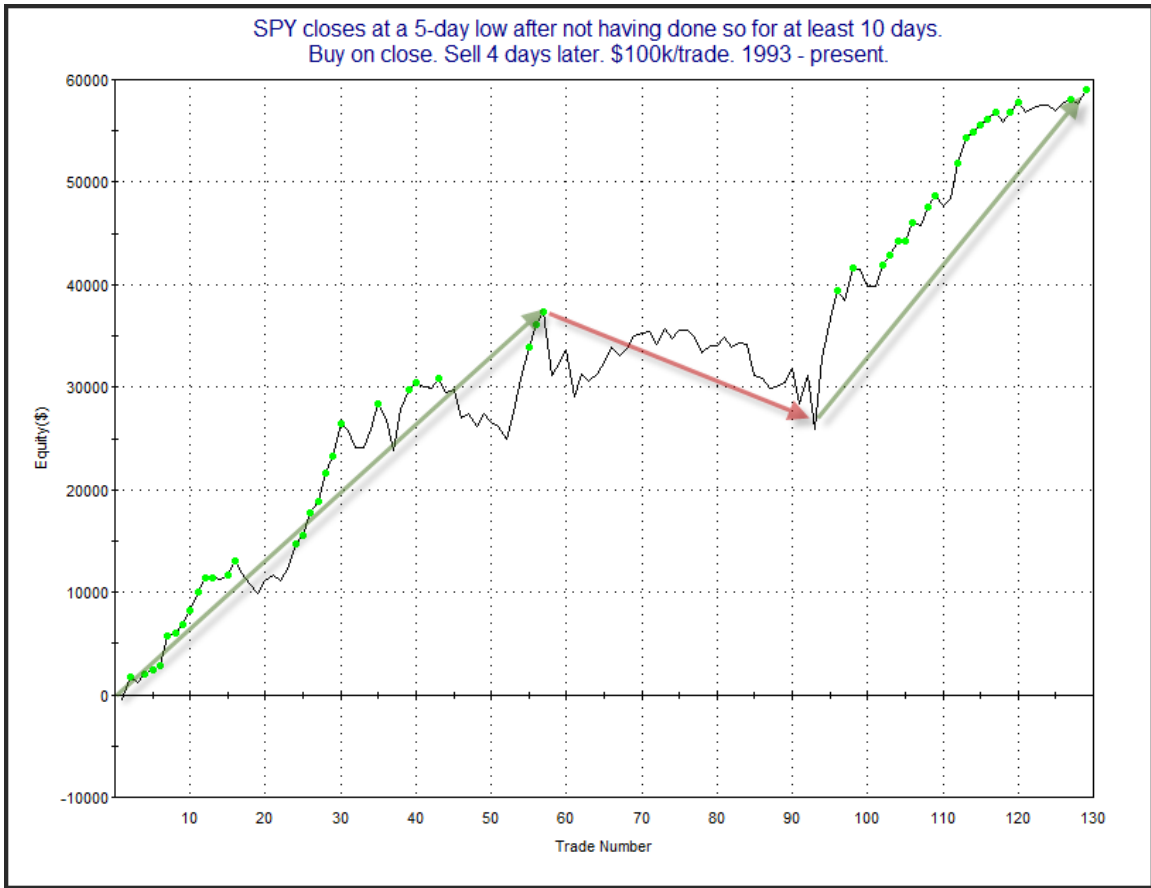
The curve is as impressive as the stats, and serves as confirmation of the upside edge. Of course, as I have discussed many times in recent weeks and months, POMO flows are getting lighter. So this setup will have to be watched closely to make sure it is maintaining its effectiveness. So far, it is showing no sign of weakening. The last 11 trades, and 18 of the last 19, have finished with positive results. This is the 8th signal that has triggered since the beginning of 2014 when the Fed began tapering. At this point I feel I should give this setup the benefit of the doubt until signs of weakening do appear.

Tuesday was the 1<sup>st</sup> time SPY has closed at even a 5-day low in over 4 weeks. In the 6/13/14 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1<sup>st</sup> time in over 2 weeks. I have updated that study below.

SPY closes at a 5-day low after not having done so for at least 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	46,085.70	129	80	48	62.02	1,509.47	6,103.89	-1,555.66	-4,906.44	0.97	1.62	357.25
4	58,996.81	129	85	44	65.89	1,373.38	6,941.43	-1,312.29	-6,244.56	1.05	2.02	457.34
3	35,894.81	129	78	51	60.47	1,242.17	5,888.16	-1,195.96	-5,295.84	1.04	1.59	278.25
2	20,495.91	129	71	57	55.04	1,075.15	3,809.72	-979.64	-3,737.28	1.10	1.37	158.88
1	13,287.68	129	71	58	55.04	809.10	2,812.20	-761.35	-3,909.03	1.06	1.30	103.01

**112 of 129 instances (87%) closed above the entry price at some point in the next week.**

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 35 trades or so the edge seems to have reasserted itself. The lesson with this study seems to be that persistent uptrends normally wither before they die, rather than turn on a dime.

Another interesting study from the Quantifinder looked at relatively sharp selloffs from intermediate-term highs. It showed that there has been a strong tendency for situations like the current one to bounce. The study was last seen in the 12/12/13 Letter. I have updated the results below.

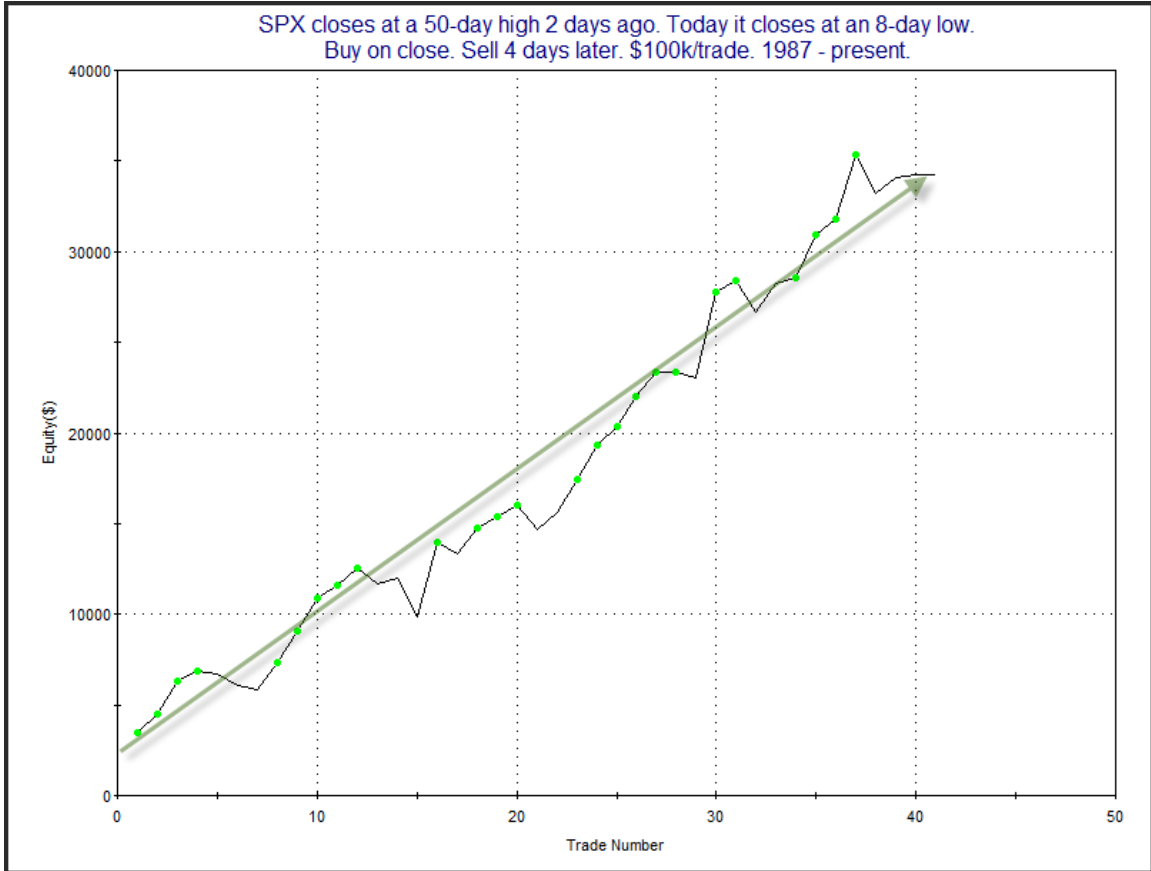
SPX closes at a 50-day high 2 days ago. Today it closes at an 8-day low.  
Buy on close. Sell X days later. \$100k/trade. 1987 - present.

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	33,325.60	41	28	13	68.29	1,884.55	4,726.48	-1,495.53	-3,502.11	1.26	2.71	812.82
4	34,211.28	41	30	11	73.17	1,481.72	4,732.80	-930.94	-2,147.75	1.59	4.34	834.42
3	14,447.06	41	26	15	63.41	1,123.73	2,985.55	-984.67	-2,866.27	1.14	1.98	352.37
2	7,803.06	41	23	18	56.10	1,011.06	3,515.34	-858.41	-2,051.10	1.18	1.51	190.32
1	8,309.46	43	25	18	58.14	757.58	2,002.36	-590.56	-2,200.08	1.28	1.78	193.24

88% of instances closed above the entry price at some point in the next week.

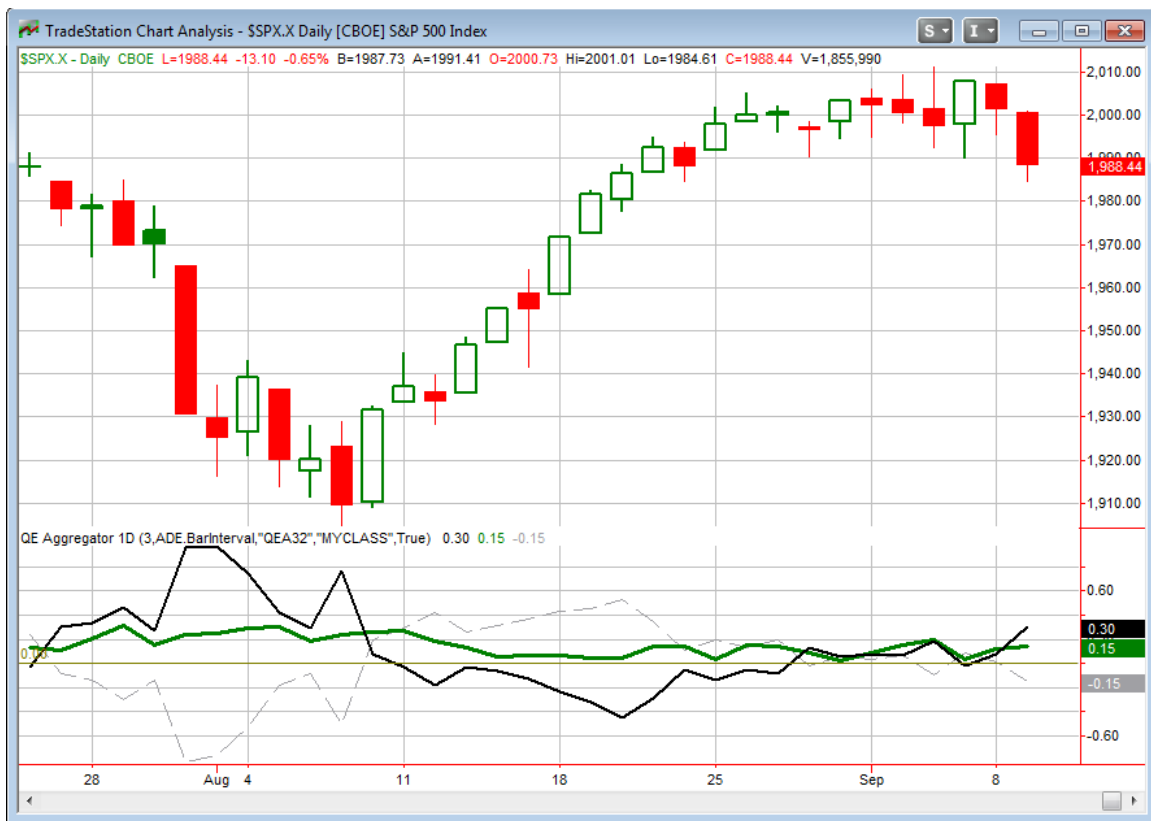
The stats all suggest an upside edge over the next 1-4 days. Below I have produced a profit curve using a 4-day exit strategy.

SPX closes at a 50-day high 2 days ago. Today it closes at an 8-day low.  
Buy on close. Sell 4 days later. \$100k/trade. 1987 - present.



The strong, steady upslope is quite impressive and makes the study all the more compelling.

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



With tonight's bullish studies now included the green Aggregator Line rose 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 is now clearly 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 remained long at the close.

Based on the current Active Studies, expectations are set to remain positive on Wednesday. This is unlikely to change unless strong bearish evidence emerges. The Differential Pivot will be 2015.11 on Wednesday. That is 1.3% above Tuesday's close. It is very unlikely we will see a 1-day move of that magnitude in this environment. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

The Aggregator is suggesting a bullish edge, and I am now feeling the edge is strong enough to look to take advantage of it. By a number of measures, this is as “oversold” as the market has been in several weeks. While it can always get more oversold, this does help to swing risk/reward in my favor. I also like the current upside evidence. Of course it has only had a 2-day decline, and it is not very far from the high of a couple of days ago. And while the Aggregator leaned bullish last night I am not terribly surprised that we saw a deeper pullback on Tuesday.

As I discussed in the intermediate-term section of this past weekend’s letter, Fed liquidity flows were very low last week. Impact of the flows often has a few day delay, and I felt early this week would be about the most opportune time the bears would have from a liquidity standpoint to push the market lower. Liquidity is now ramping up and it could help to provide support in the upcoming days. This is the idea behind the QE Buying Power System discussed above, and it provides more fuel for the bulls in the upcoming days with which to generate a bounce. So I will look to take advantage of this anticipated bounce.

I am not going to jump in with both feet. Instead, I will look to begin scaling in on Wednesday if I can get a fill equal to or better than Tuesday’s closing price. Details are in the Trade Ideas section, where I also share a numbered system trade for HPQ.

***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.*

**SPY – buy ¼ index position @ \$199.32 LIMIT.** Based on the short-term outlook above, I will look to start scaling in to a long index position.

**HPQ – buy @ \$36.79 LIMIT.** This is based on System 11111. (Rules can be found on [the 11111 System Page](#).) System 11111 has done fairly well across the S&P 100 components over the years. For HPQ since 1999 the record is unblemished. Below is a list of all the triggers.

System 11111 triggers for HPQ.  
\$100k/trade. \$0.01/share commission. 1999 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/26/99	Buy	\$36.70	4.47%	\$4,467.36
05/26/99	Sell	\$38.34		(\$1,116.84)
12/15/99	Buy	\$42.29	3.38%	\$3,491.32
12/16/99	Sell	\$43.72		(\$3,939.53)
06/16/03	Buy	\$20.99	3.10%	\$3,287.16
06/17/03	Sell	\$21.64		(\$857.52)
06/26/03	Buy	\$20.70	2.90%	\$3,268.76
06/26/03	Sell	\$21.30		(\$1,922.80)
12/01/04	Buy	\$20.00	2.60%	\$2,650.00
12/01/04	Sell	\$20.52		\$0.00
12/14/04	Buy	\$20.70	1.69%	\$1,738.80
12/16/04	Sell	\$21.05		(\$966.00)
06/09/05	Buy	\$22.39	1.65%	\$2,451.90
06/09/05	Sell	\$22.76		(\$44.58)
09/07/06	Buy	\$35.45	2.03%	\$2,036.70
09/08/06	Sell	\$36.17		(\$697.50)
01/31/11	Buy	\$45.41	2.44%	\$2,614.43
02/01/11	Sell	\$46.52		(\$615.16)
01/30/13	Buy	\$16.48	0.79%	\$1,638.09
02/05/13	Sell	\$16.61		(\$2,730.15)
03/22/13	Buy	\$22.32	5.91%	\$6,227.20
03/26/13	Sell	\$23.64		\$0.00

If filled, I will manage this as a 11111 trade and exit when the 11111 exit criteria is met.

**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.