

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 12, 2014

Volume 7 Issue 172

Market Overview



Signals Overview

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

Tonight's Research Points

- Thursday's mild up close near the top of its range suggests a bearish 1-day edge.
- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.

Short-term Outlook

The Bottom Line

Evidence tonight is mixed but leaning bullish. SPX remains oversold but it will need to sell off further in order to remain "oversold" on Friday. I am looking to take profits on my index position at this point.

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 12, 2014 | SPY up 2 days but < close 3 days ago | 1-2 days | Bullish | | | |
| September 12, 2014 | SPY up < 0.25%. Top 10% daily range. | 1 day | Bearish | | | |
| September 10, 2014 | 50-high to 8-low in 2 days | 1-4 days | Bullish | 1.50% | -1.00% | -1.80% |
| 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% |
| 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% |
| 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 10, 2014 | QE Buying Power System | 1-6 days | Bullish | | | |

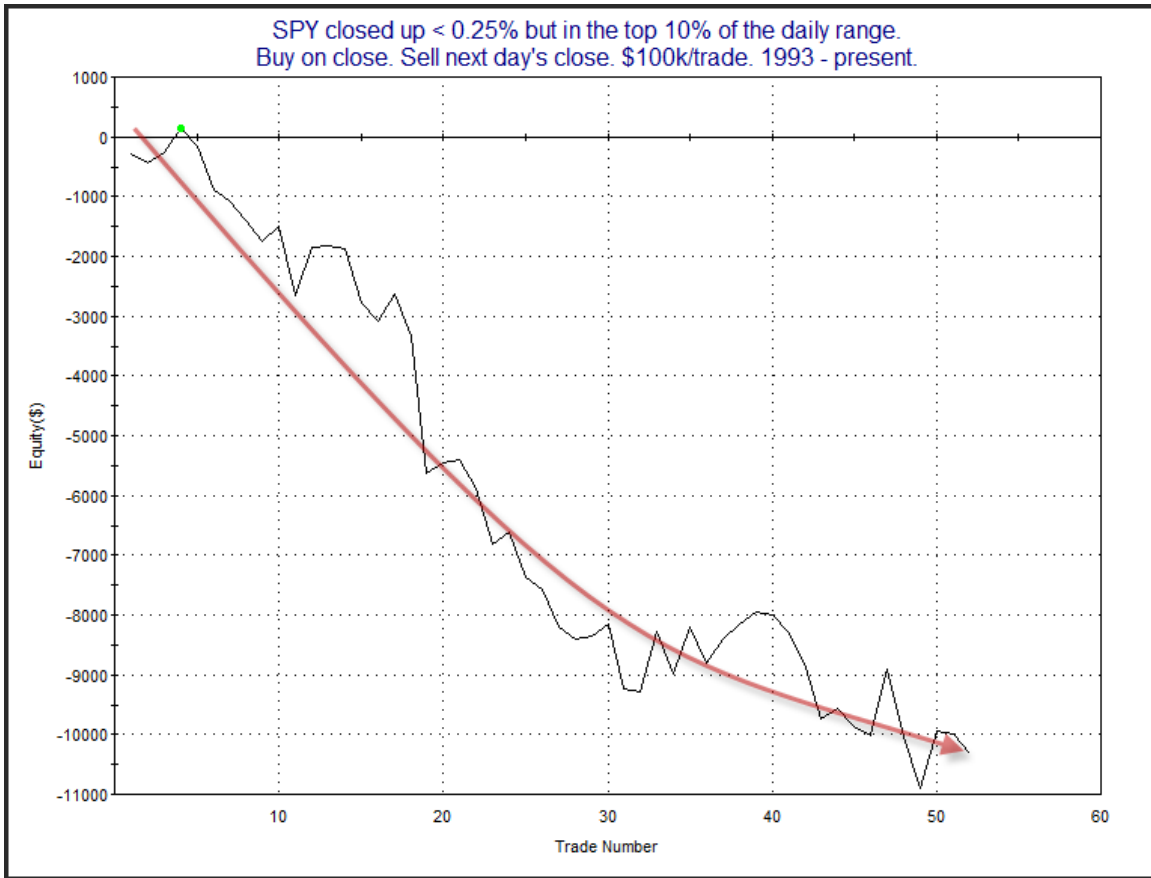
The Evidence

Thursday was the 2nd day in a row where a weak start rebounded and the market managed to post gains. The SPX and NASDAQ each gained 0.1% and the Russell 2000 rose 0.6%. Breadth was mildly positive as the NYSE Up Issues % came in at 52% and the Up Volume % was 64%. Total NYSE volume declined a little from Wednesday's level.

Though the action was fairly mild, we did see a few interesting studies appear in the Quantifinder. The first study was last seen in the 6/30/14 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

| SPY closed up < 0.25% but in the top 10% of the daily range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present. | | | |
|--|---------------|--------------------------|---------------|
| TradeStation Performance Summary | | | Collapse ^ |
| All Trades | | | |
| Total Net Profit | (\$10,330.56) | Profit Factor | 0.43 |
| Gross Profit | \$7,710.00 | Gross Loss | (\$18,040.56) |
| Total Number of Trades | 52 | Percent Profitable | 36.54% |
| Winning Trades | 19 | Losing Trades | 33 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | (\$198.66) | Ratio Avg. Win:Avg. Loss | 0.74 |
| Avg. Winning Trade | \$405.79 | Avg. Losing Trade | (\$546.68) |
| Largest Winning Trade | \$1,093.35 | Largest Losing Trade | (\$2,290.72) |

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



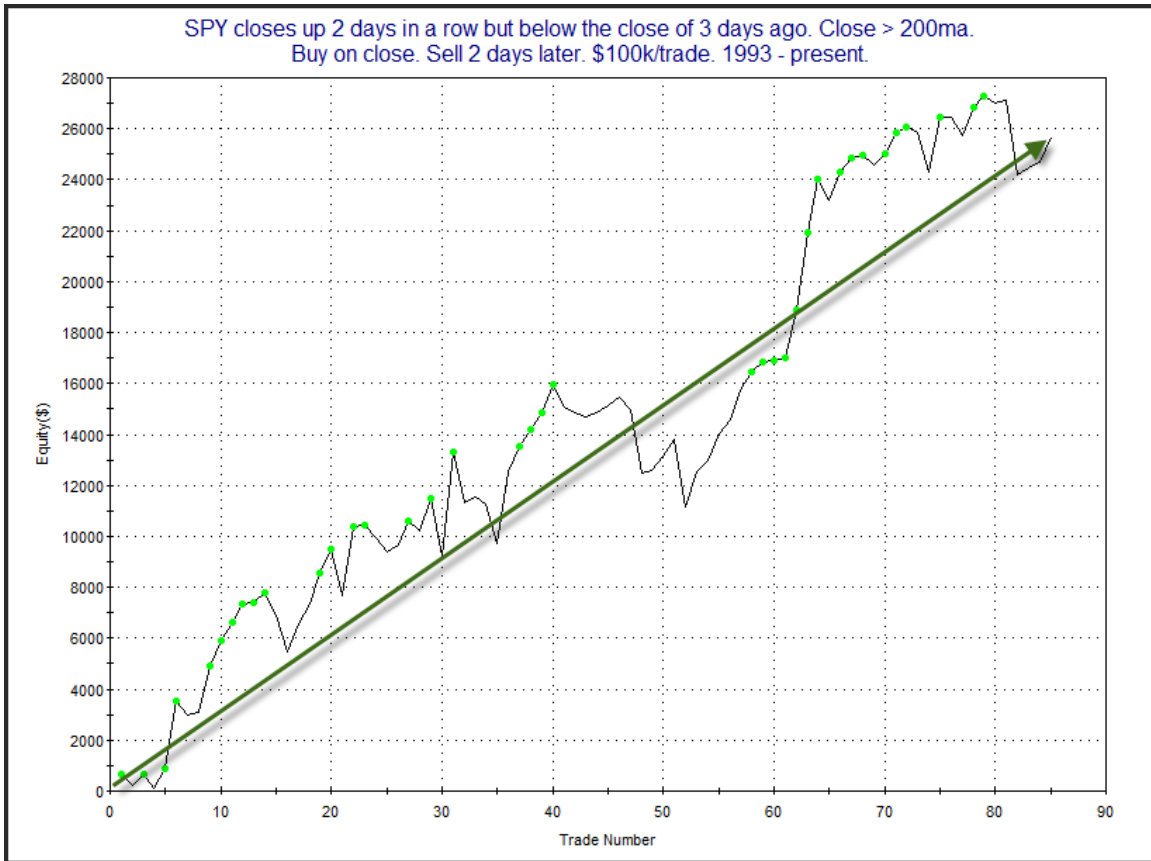
It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. The bearish edge here too may be waning a bit, but I have included this study on the Active List for tonight.

There was also a bullish price action-based study. It was last seen in the 6/17/14 Letter. It looked at times that SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. I have updated the study below.

SPY closes up 2 days in a row but below the close of 3 days ago. Close > 200ma.
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 | 16,817.91 | 83 | 49 | 33 | 59.04 | 1,479.89 | 4,717.70 | -1,687.77 | -6,549.84 | 0.88 | 1.30 | 202.63 |
| 4 | 20,379.95 | 84 | 54 | 30 | 64.29 | 1,320.08 | 4,698.60 | -1,696.81 | -4,384.89 | 0.78 | 1.40 | 242.62 |
| 3 | 14,693.49 | 85 | 52 | 33 | 61.18 | 1,212.53 | 3,000.00 | -1,465.39 | -4,092.24 | 0.83 | 1.30 | 172.86 |
| 2 | 25,704.14 | 85 | 58 | 27 | 68.24 | 910.48 | 4,088.25 | -1,003.84 | -2,932.22 | 0.91 | 1.95 | 302.40 |
| 1 | 6,082.47 | 85 | 48 | 35 | 56.47 | 620.42 | 3,732.75 | -677.08 | -1,777.90 | 0.92 | 1.26 | 71.56 |

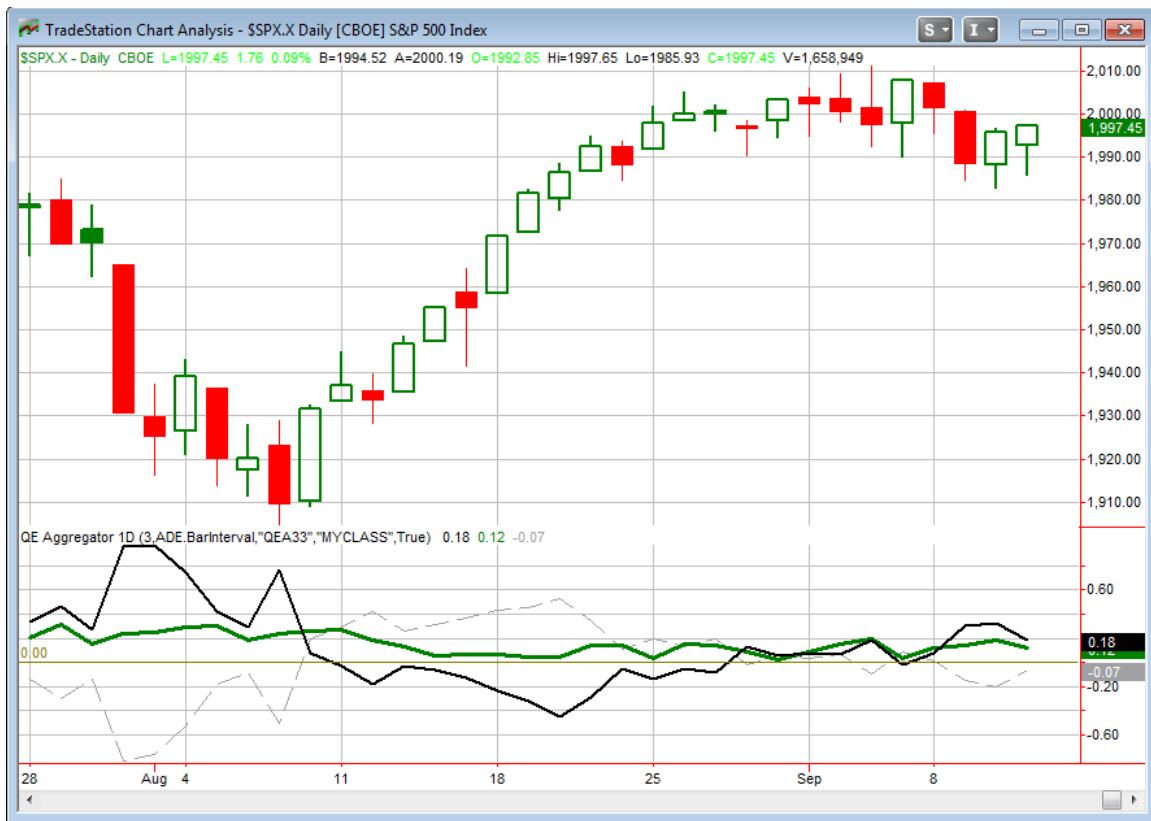
The stats appear to suggest a bit of an upside edge over the 1st 2 days. Below is an equity curve using a 2-day exit strategy.



There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

There was one study removed from the Short-Term Active List, and that was the QE Buying Power System signal. With SPX closing in the top half of its 10-day range, this signal was closed out. It was the 12th signal in a row – dating back to last year – that turned out to be a winner.

So evidence tonight is mixed. That is not unusual, and it is why I use the Aggregator as a tool. I have updated the [Aggregator](#) chart below.



The green Aggregator Line again posted a reading squarely 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 remained well 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 Friday. This is unlikely to change unless strong bearish evidence emerges. The Differential Pivot will be *inverted at 1994.37* on Friday. That is 0.15% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down at least 0.15% in order to remain oversold versus expectations. Otherwise it will move to "overbought".

If I am in a position I often view inverted pivots as a good time to look to take profits. At this point upside is limited. Evidence from tonight shows a mixed outlook for Friday. And with the QE Buying Power System signal now flat the upside edge is somewhat reduced. I won't sell into an unfilled gap down. If that occurs then there is a good chance that the long signal will remain active on Friday afternoon. But I will take profits in SPY if it manages any kind of gap up or gain during the day. Details in the Trade Ideas section down below.

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 |
|----------|------------|-------------|---------------|-------------|------|------------------------------|
| SPY(1/4) | 9/10/2014 | \$199.32 | \$200.30 | 0.49% | | <i>sell @ \$200.31 limit</i> |
| HPQ | 9/10/2014 | \$36.79 | \$36.76 | -0.08% | | <i>System 11111</i> |
| | | | | | | |

If SPY fails to hit its exit price, it will be sold at the close if SPX closes ≥ 1994.37 (the Differential Pivot). Otherwise, I will hold it over the weekend.

HPQ will be sold at the close if it meets the System 11111 exit criteria. ([Found here for subscribers.](#))

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