

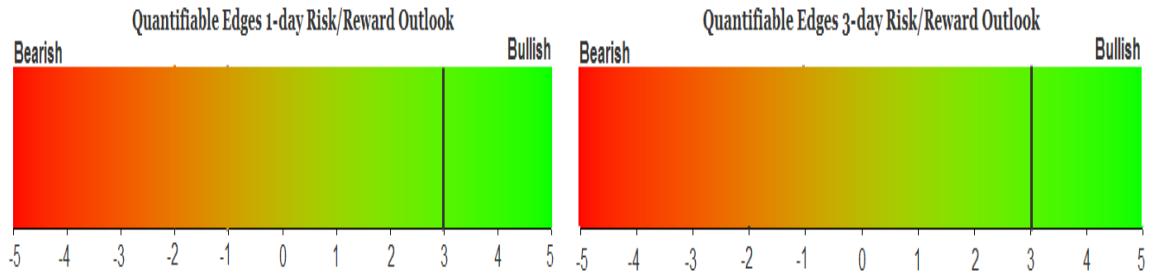
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 15, 2014

Volume 7 Issue 173

## 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.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is again leaning bullish. And Friday's selling kept SPX in an oversold state. I am already partially long. I may add a small amount more of individual stock exposure here, but will give it another day before I take on more index 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 15, 2014	QE Buying Power System Long Signal	1-6 days	Bullish			
September 12, 2014	SPY up 2 days but < close 3 days ago	1-2 days	Bullish			
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%
<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%
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 12, 2014	SPY up < 0.25%. Top 10% daily ran	1 day	Bearish			
September 9, 2014	Big drop from 50-day high	1-4 days	Bullish	1.20%	-0.80%	-1.60%

**The Evidence**

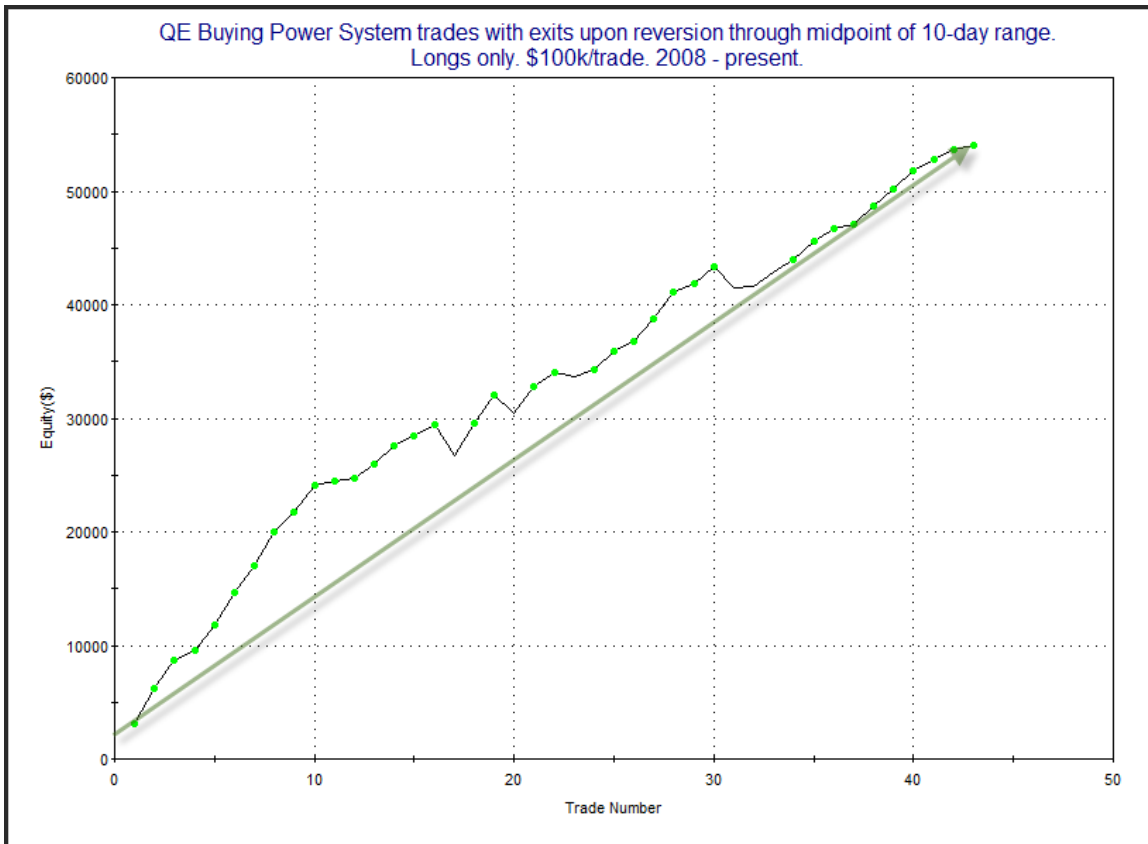
The market took a bit of a tumble on Friday. The SPX lost 0.6%, the NASDAQ dropped 0.5%, and the Russell 2000 declined 1.0%. Breadth was negative as the NYSE Up Issues % came in at 21% and the Up Volume % was 26%. Total NYSE volume hit the highest level in nearly a month.

The selloff on Friday triggered another long in the QE Buying Power System. (The 2<sup>nd</sup> one in a week.) 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			
All Trades			
Total Net Profit	\$54,057.15	Profit Factor	9.18
Gross Profit	\$60,662.76	Gross Loss	(\$6,605.61)
Total Number of Trades	43	Percent Profitable	90.70%
Winning Trades	39	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,257.14	Ratio Avg. Win:Avg. Loss	0.94
Avg. Winning Trade	\$1,555.46	Avg. Losing Trade	(\$1,651.40)
Largest Winning Trade	\$3,160.20	Largest Losing Trade	(\$2,750.44)

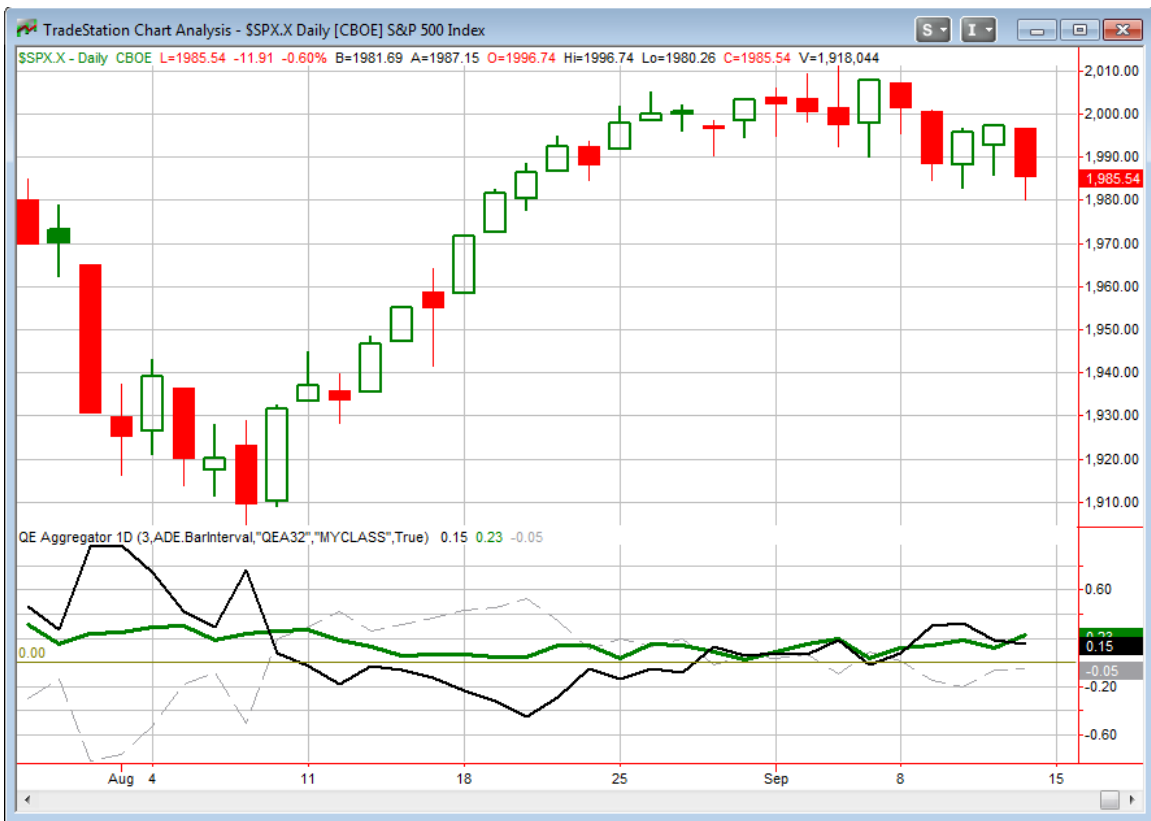
Some very strong stats here. This suggests a substantial upside edge in buying pullbacks when you have also had strong liquidity. And here is a look at the profit curve.



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 12 trades, and 19 of the last 20, have finished with positive results. This is the 9th 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.

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



With the QE Buying Power System triggering again the green Aggregator Line posted a reading strongly 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 Monday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 2004.70 on Monday. That is almost 1.0% below Friday's close. So for SPX to move from oversold to overbought on Monday it is going to need to close up at least 1.0%. That is a bit of a tall order in this market. It is more likely that the oversold condition would be worked off by a multi-day rally or consolidation.

There appears to be a decent upside edge here. I am already partially positioned to take advantage of it. (Unfortunately, my exit limit was not reached Friday morning before the selling ensued. If it was, I would be looking to get back in here.) I am not inclined to add more index exposure at this level. I may in the next day or so if the market continues to pull back. I may add some individual stock exposure on Monday with new long positions in stocks that are triggering some of the [Quantifiable Edges numbered systems](#).

***Intermediate-term Outlook (2 weeks – 2 months) – updated 9/15– slightly bullish***

Combo #1	Combo #2	Combo #3
Flat	Long	Long

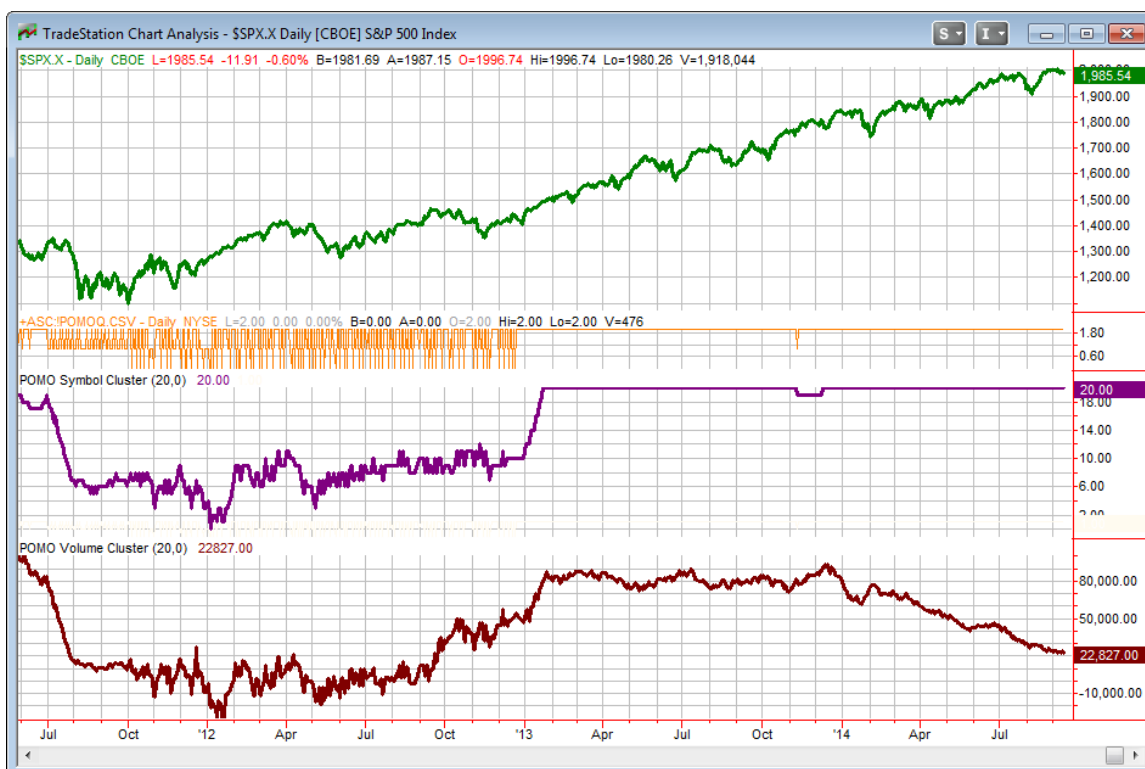
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in [Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 1/1/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.)

After 5 up weeks in a row, SPX pulled back a little this week. It closed at its lowest level in over two weeks on Friday, but is still only about 1.1% below the 9/5/14 closing high. So it really has not been much of a pullback up to this point. There were no new studies that emerged this week with intermediate-term implications.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

*POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators.*

The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS days indicator is still riding along at 20, where it spent most of 2013 and 2014 so far. The volume indicator has flattened out here as September flows are about equal to August. We estimate net inflows this past week to have been about \$6.2 billion. That is likely the strongest week of buying we are going to see for a very long time. It could help to facilitate a bounce this upcoming week.

Buying levels this upcoming week are expected to be about \$6.0 billion. That is nearly as strong as this past week. So we could continue to see positive liquidity helping the market for a bit longer.

Of course the big news with regards to liquidity is due to come out on Wednesday at the conclusion of the Fed's 2-day meeting. It is expected that they are going to reduce the

QE purchase amounts in October by another \$10 billion. That would leave stimulus for October at about \$15 billion, down from \$85 billion/month that we saw in 2013.

My stance remains the same as it has over the last several months. Since 2003 any time there has been a lack of Fed stimulus, the market has struggled. I expect this will be the case when the Fed stimulus does end, and we could very well see repercussions prior to that as the market anticipates the end. So far the slowing stimulus has not had a negative market impact.

Overall, the total evidence still seems to be leaning bullish. The leading NASDAQ is still providing a plus. The market is still above long-term moving averages, and price & momentum studies look bullish. So the bulls have some things in their favor. The bears are still banking on the shrinking New High % divergence and the weak seasonality (and at some point in the next few months the lack of Fed stimulus.) No change for me again this week. I am keeping my outlook at slightly bullish, and I will use some caution on both sides of the market, but will continue to favor longs over shorts.

### **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.

**COST – buy @ \$125.37 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 COST since 1999 the record has been especially strong. Stats and triggers are below.

System 11111 hypothetical performance for COST. \$100k/trade. \$0.01/share commission. 1993 - present.			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	\$16,445.99	Profit Factor	9.64
Gross Profit	\$18,348.73	Gross Loss	(\$1,902.74)
Total Number of Trades	12	Percent Profitable	91.67%
Winning Trades	11	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$1,370.50	Ratio Avg. Win:Avg. Loss	0.88
Avg. Winning Trade	\$1,668.07	Avg. Losing Trade	(\$1,902.74)
Largest Winning Trade	\$4,717.69	Largest Losing Trade	(\$1,902.74)

System 11111 hypothetical performance for COST.  
\$100k/trade. \$0.01/share commission. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/17/99	Buy	\$36.41	0.41%	\$930.58
11/24/99	Sell	\$36.56		(\$5,556.11)
12/09/99	Buy	\$39.09	2.25%	\$3,760.26
12/13/99	Sell	\$39.97		(\$2,302.20)
10/25/04	Buy	\$38.57	4.20%	\$6,116.97
10/26/04	Sell	\$40.19		(\$593.63)
11/11/04	Buy	\$41.90	2.00%	\$2,266.70
11/15/04	Sell	\$42.74		(\$1,455.46)
03/27/06	Buy	\$47.52	0.38%	\$1,616.23
04/04/06	Sell	\$47.70		(\$1,196.43)
06/05/07	Buy	\$48.83	0.37%	\$956.45
06/08/07	Sell	\$49.01		(\$1,994.30)
05/09/08	Buy	\$63.65	4.76%	\$5,075.82
05/12/08	Sell	\$66.68		(\$233.55)
09/25/09	Buy	\$50.43	(1.90%)	\$19.82
10/02/09	Sell	\$49.47		(\$4,023.46)
10/13/10	Buy	\$56.20	0.89%	\$1,348.24
10/15/10	Sell	\$56.70		(\$514.46)
05/05/11	Buy	\$73.05	0.55%	\$1,189.29
05/06/11	Sell	\$73.45		(\$929.56)
07/24/12	Buy	\$87.39	1.74%	\$1,990.56
07/26/12	Sell	\$88.91		(\$1,361.36)
01/14/13	Buy	\$100.28	0.87%	\$1,615.14
01/15/13	Sell	\$101.15		(\$578.26)

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

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/10/2014	\$199.32	\$199.13	-0.10%		<i>Aggregator</i>
HPQ	9/10/2014	\$36.79	\$36.56	-0.63%		<i>System 11111</i>

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

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