

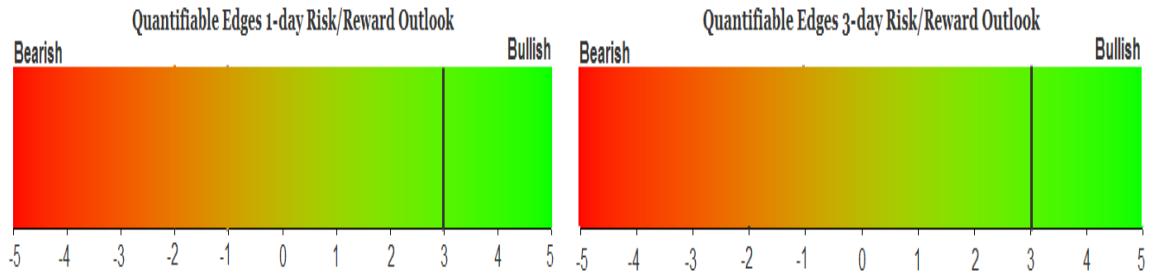
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 16, 2014

Volume 7 Issue 174

Market Overview



Signals Overview

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

Tonight's Research Points

- Wednesday's Fed day edge could be highly dependent on Tuesday's action.
- Under similar circumstances "Turnaround Tuesday" has acted more like "Continuation Tuesday".

Short-term Outlook

The Bottom Line

Evidence is again leaning bullish and the market remains oversold. I am long and looking to possibly get longer.

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 15, 2014	QE Buying Power System Long Signal	1-6 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%
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 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%

The Evidence

Monday was mostly lower for the market. The SPX lost 0.1%, but the NASDAQ dropped harder, closing down 1.1%, and the Russell 2000 declined 1.2%. Breadth was negative as the NYSE Up Issues % came in at 34% and the Up Volume % was 40%. Total NYSE volume declined some from Friday's level.

As I laid out in the "Turnaround Tuesday" study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. But as I showed in the 3/25/14 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row and it was Monday. Here are those results.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$21,739.74	Profit Factor	1.80
Gross Profit	\$48,904.11	Gross Loss	(\$27,164.37)
Total Number of Trades	73	Percent Profitable	53.42%
Winning Trades	39	Losing Trades	34
Even Trades	0		
Avg. Trade Net Profit	\$297.80	Ratio Avg. Win:Avg. Loss	1.57
Avg. Winning Trade	\$1,253.95	Avg. Losing Trade	(\$798.95)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)

The win rate is just above 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (*unlike* now).

SPX closes down for exactly the 2nd day in a row. Today is Monday. SPX < 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	\$23,315.03	Profit Factor	2.83
Gross Profit	\$36,050.39	Gross Loss	(\$12,735.36)
Total Number of Trades	33	Percent Profitable	63.64%
Winning Trades	21	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$706.52	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,716.69	Avg. Losing Trade	(\$1,061.28)

We see here just under half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	(\$1,575.29)	Profit Factor	0.89
Gross Profit	\$12,853.72	Gross Loss	(\$14,429.01)
Total Number of Trades	40	Percent Profitable	45.00%
Winning Trades	18	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	(\$39.38)	Ratio Avg. Win:Avg. Loss	1.09
Avg. Winning Trade	\$714.10	Avg. Losing Trade	(\$655.86)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn't fit here. In fact, the tendency for a while appeared to slightly favor a continuation of the 2-day pullback. Recent instances have turned the stats

close to breakeven, so I am not really convinced of an edge in either direction at this point. But I am convinced that “Turnaround Tuesday” does not seem to provide a strong bullish edge under these circumstances.

Also notable is that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 7/29/14 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in top 25% of daily range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$7,922.09	Profit Factor	1.36
Gross Profit	\$30,071.60	Gross Loss	(\$22,149.51)
Total Number of Trades	69	Percent Profitable	47.83%
Winning Trades	33	Losing Trades	34
Even Trades	2		
Avg. Trade Net Profit	\$114.81	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	\$911.26	Avg. Losing Trade	(\$651.46)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <= 75% of daily range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$13,888.50	Profit Factor	2.08
Gross Profit	\$26,710.49	Gross Loss	(\$12,821.99)
Total Number of Trades	38	Percent Profitable	57.89%
Winning Trades	22	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	\$365.49	Ratio Avg. Win:Avg. Loss	1.42
Avg. Winning Trade	\$1,214.11	Avg. Losing Trade	(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - 4/1/2014.

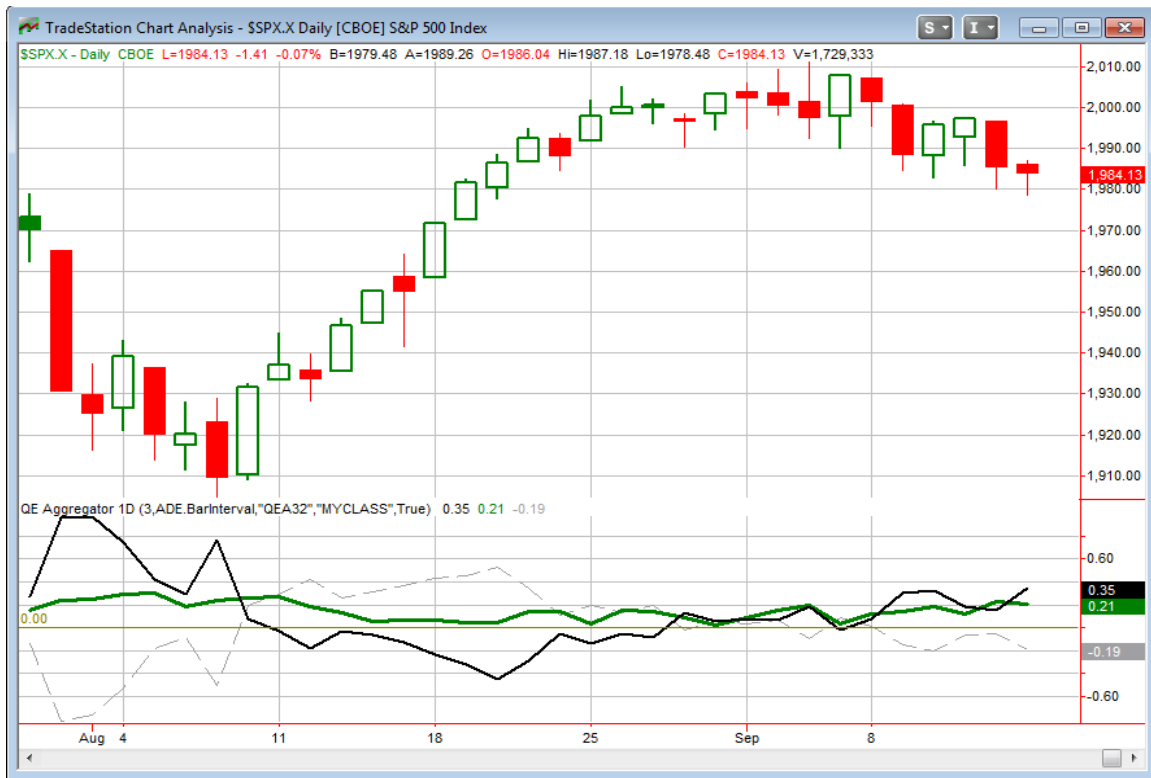
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$12,043.90	Profit Factor	2.76
Gross Profit	\$18,895.86	Gross Loss	(\$6,851.96)
Total Number of Trades	29	Percent Profitable	72.41%
Winning Trades	21	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$415.31	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$899.80	Avg. Losing Trade	(\$856.50)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

SPY closes in the bottom 25% of the daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$20,567.48	Profit Factor	4.08
Gross Profit	\$27,250.17	Gross Loss	(\$6,682.69)
Total Number of Trades	36	Percent Profitable	75.00%
Winning Trades	27	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$571.32	Ratio Avg. Win:Avg. Loss	1.36
Avg. Winning Trade	\$1,009.27	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 4 ½ years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additionally volatility can be expected after the announcement, which introduces some more risk. Traders that look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

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



A few short-term studies expired tonight but nothing new was added to the Active List. This allowed the green Aggregator Line to post another reading 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 Tuesday. Of course this could change if substantial bearish evidence emerges. The Differential Pivot will be 2006.42 on Tuesday. That is 1.2% above Monday's close. So for SPX to move from oversold to overbought on Tuesday it is going to need to close up at least 1.2%. 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 again appears to be a bullish edge. And if SPY closes in the lower part of its range on Tuesday then that could set up nicely for a Fed Day rally on Wednesday. I am already partially long and looking to take advantage of the anticipated bounce. If SPY closes weakly on Tuesday I will look to my long exposure – though I may make a quick exit with this 2nd lot if profits are available leading up to the Fed Day announcement on Wednesday.

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

The intermediate-term outlook was last updated in the 9/15 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.

COST – went unfilled and is now cancelled.

SPY – buy ¼ index position on SPY close in bottom ½ of daily range. Based on the short-term outlook above and the bullish implications of a weak close before a Fed Day. I may look to take quick profits on this positions Wednesday if they are available prior to the Fed announcement.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/10/2014	\$199.32	\$198.98	-0.17%		<i>Aggregator</i>
HPQ	9/10/2014	\$36.79	\$36.25	-1.47%		<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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