

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 17, 2014

Volume 7 Issue 175

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long	Flat

Tonight's Research Points

- Fed Days are generally bullish, though this one does not appear to have as strong of an upside edge as most.
- A gap up and reversal down followed by a gap down and reversal up suggests a bearish short-term edge when SPY is uptrending.

Short-term Outlook

The Bottom Line

Evidence is pointing slightly downward, but the market is still a little oversold. That is leaving me with a neutral outlook. Either of these conditions could easily flip on Wednesday after the Fed releases its statement.

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 17, 2014	Strong close prior to Fed Day	1 day	Bullish			
September 17, 2014	Gap & reverse up after gap & reverse dn	1 day	Bearish			
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 15, 2014	QE Buying Power System Long Sig	1-6 days	Bullish			

The Evidence

Tuesday saw a big bounce back and broad market gains. The SPX and NASDAQ each rallied 0.75%, and the Russell 2000 rose 0.4%. Breadth was positive as the NYSE Up Issues % came in at 64% and the Up Volume % was 73%. Total NYSE volume rose some from Monday's level.

In last night's letter I showed that the lower in the daily range that SPY closes on the day before a Fed Day, the greater the upside edge for the Fed Day. On Tuesday SPY closed strongly, meaning the upside Fed Day edge was reduced. Below is the study I showed Sunday night that looked at closes in the top quartile.

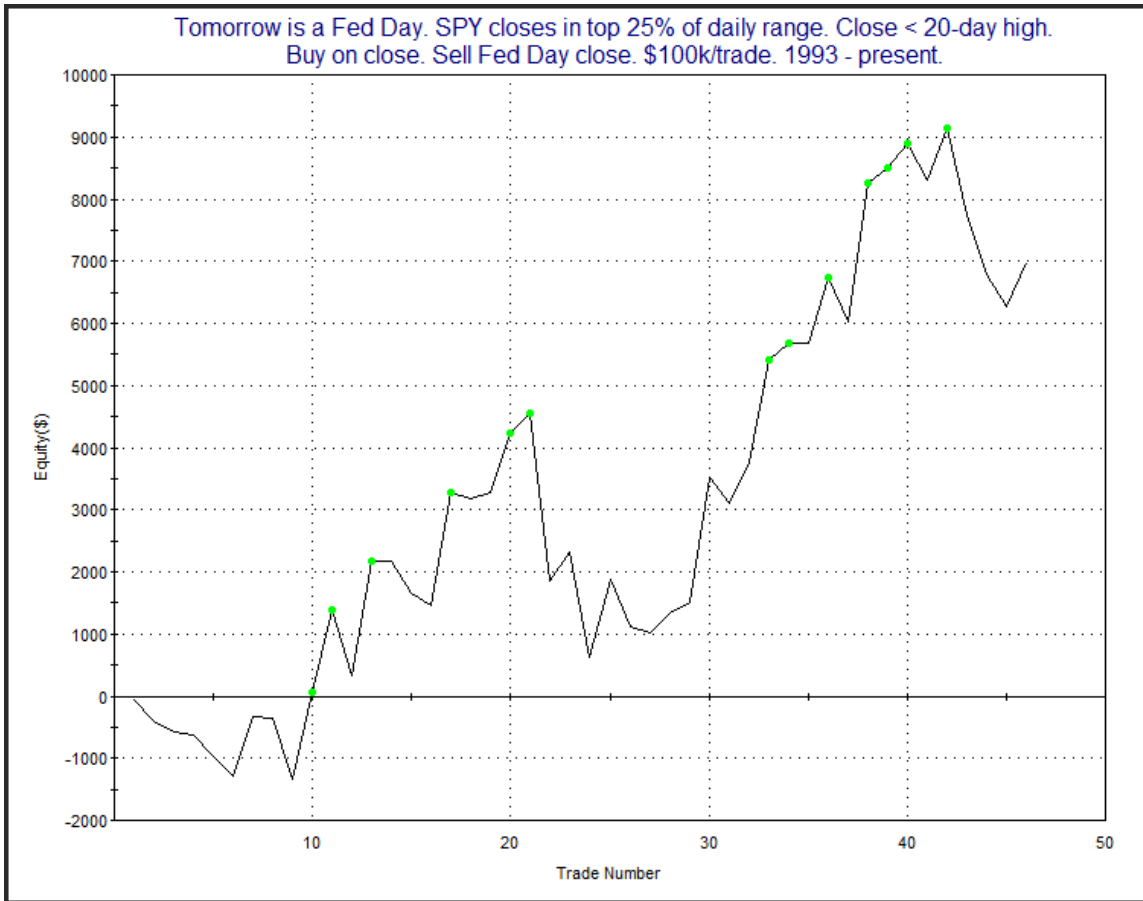
TradeStation Performance Summary Collapse ^						
All Trades						
Total Net Profit	\$7,922.09	Profit Factor				1.36
Gross Profit	\$30,071.60	Gross Loss				(\$22,149.51)
Total Number of Trades	69	Percent Profitable				47.83%
Winning Trades	33	Losing Trades				34
Even Trades	2					
Avg. Trade Net Profit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

I've shown in the past that the upside Fed Day has not held over the years when the market has closed at an intermediate term high the day before. Today we did not close at

a 20 day high. The study below, from the 6/18/14 letter combines this concept with the one from the first study. Results are updated.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$6,992.26	Profit Factor	1.50
Gross Profit	\$21,006.83	Gross Loss	(\$14,014.57)
Total Number of Trades	46	Percent Profitable	47.83%
Winning Trades	22	Losing Trades	23
Even Trades	1		
Avg. Trade Net Profit	\$152.01	Ratio Avg. Win:Avg. Loss	1.57
Avg. Winning Trade	\$954.86	Avg. Losing Trade	(\$609.33)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,683.80)

The average win to loss ratio isn't bad but the winning percentage is below breakeven. Below is a profit curve showing how the trades have played out over time.



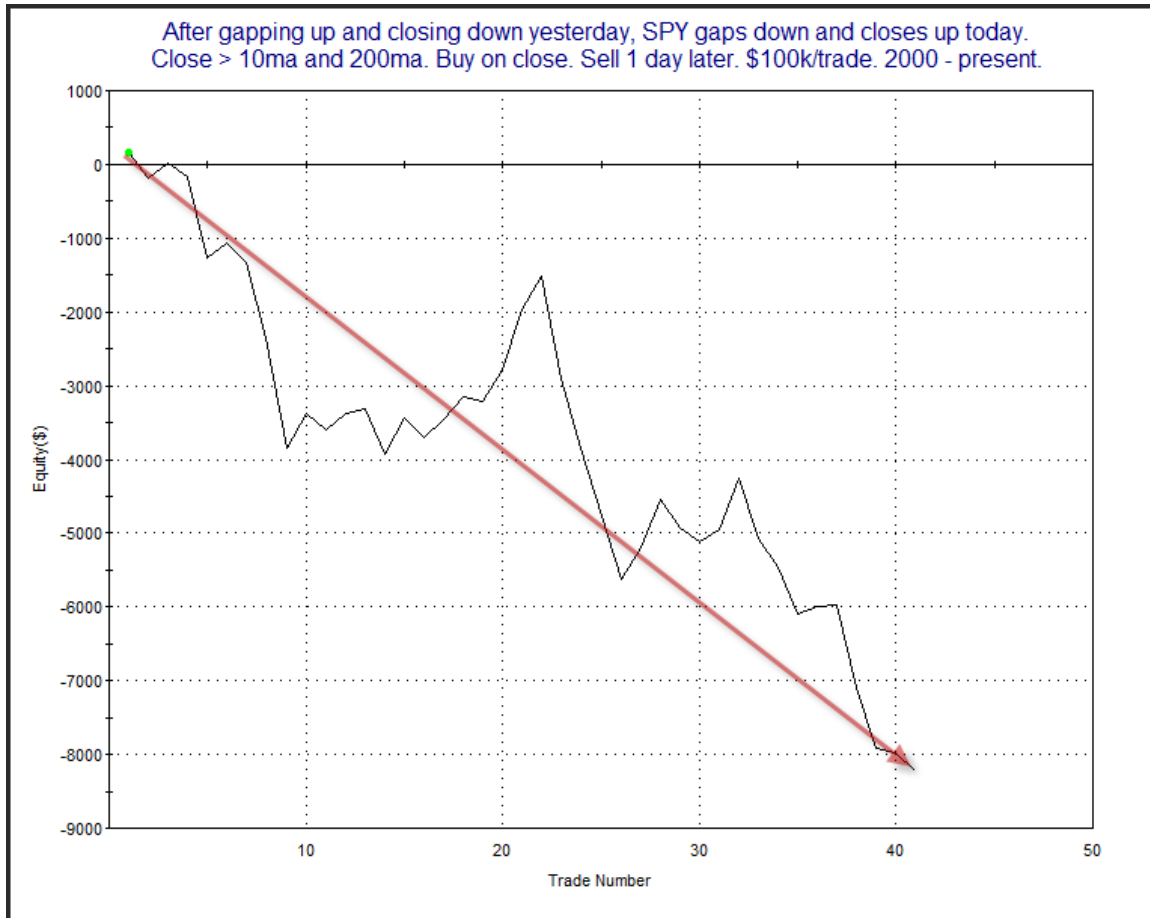
Not a terribly smooth curve, and recent instances have not helped the cause at all. It seems there may be a mild bullish seasonal edge, but not a terribly reliable one.

Additionally, the way SPY has gapped and reversed the last couple of days is reminiscent of a study I showed in the 6/30/14 letter. I re-ran the stats for that gap and reverse study and posted them below.

After gapping up and closing down yesterday, SPY gaps down and closes up today.
Close > 10ma and 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.

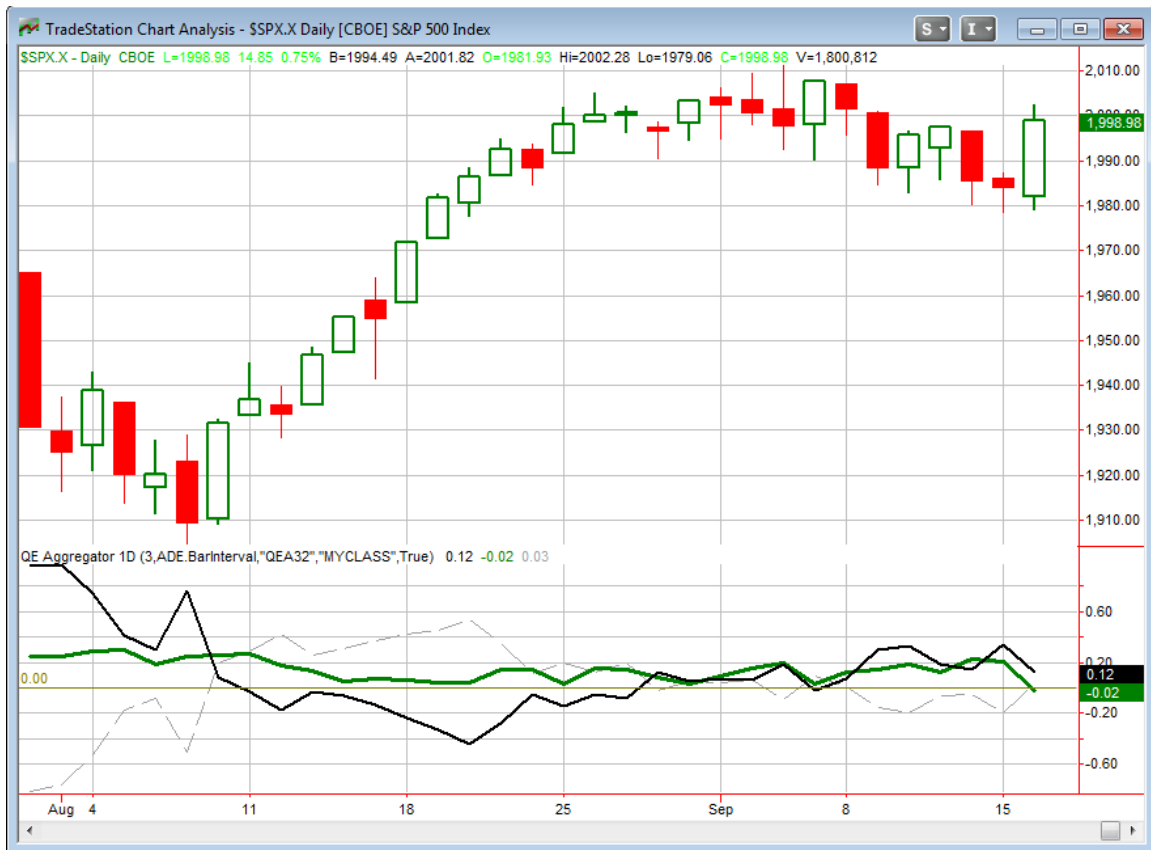
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-7,875.20	37	20	17	54.05	840.34	1,775.87	-1,451.88	-4,262.13	0.58	0.68	-212.84
4	-10,465.73	38	16	22	42.11	899.72	1,803.51	-1,130.06	-3,226.86	0.80	0.58	-275.41
3	-7,679.13	39	17	22	43.59	801.16	1,784.12	-968.13	-2,098.04	0.83	0.64	-196.90
2	-8,907.64	41	18	22	43.90	610.17	1,935.96	-904.13	-3,107.14	0.67	0.55	-217.26
1	-8,227.50	41	18	23	43.90	338.88	805.00	-622.92	-1,485.70	0.54	0.43	-200.67

The edge isn't huge but risk/reward has seemed to favor the bears under these circumstances. Much of the downside has been realized by the end of day 1, so I elected to show the profit curve for that holding period below.



No one would call this a smooth curve, but it does seem to be working its way lower. I decided to include it on the Active List again tonight.

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



The mix of studies tonight caused the green Aggregator Line to dip slightly below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remained above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are negative but the SPX is still oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal changed to flat at the close.

With both short-term studies set to expire on Wednesday, expectations would end up bullish based on the intermediate-term evidence. Of course this could change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 1996.25 on Wednesday. That is 0.1% *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX will need to close down at least 0.1% in order to remain oversold. Otherwise it will be considered "overbought" versus recent expectations.

The Aggregator is neutral and so am I. The mix of studies tonight only looks out until Wednesday's close. We could easily see expectations turn positive. And with an inverted pivot, we could easily see the Differential line turn negative (signaling an overbought market). The Fed announcement also adds an extra element of risk to the equation. I will look to take profits on my SPY position if I can get out \geq Tuesday's close. I may also use an intraday stop to protect against a strong negative news reaction in the afternoon.

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.

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	\$200.48	0.58%		<i>sell @ \$200.48 limit</i>
HPQ	9/10/2014	\$36.79	\$36.26	-1.44%		<i>System 11111</i>

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

If the SPY limit price is not filled early in the morning, I may place a stop below the low of the morning range to protect against a late-day selloff. If so, I will send out an intraday update.

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