

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 19, 2014

Volume 7 Issue 177

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Flat

Tonight's Research Points

- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.

Short-term Outlook

The Bottom Line

The market is overbought and entering a weak seasonal period. So there appears to be a bit of a downside edge. I remain wary of the uptrend and the QE Buying Power Index. So I am not looking to short yet, but I may if additional bearish evidence emerges.

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 19, 2014	SPX top 10% of 10-day range. Opex Thu	1-4 days	Bearish	-1.40%	0.80%	1.50%
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			

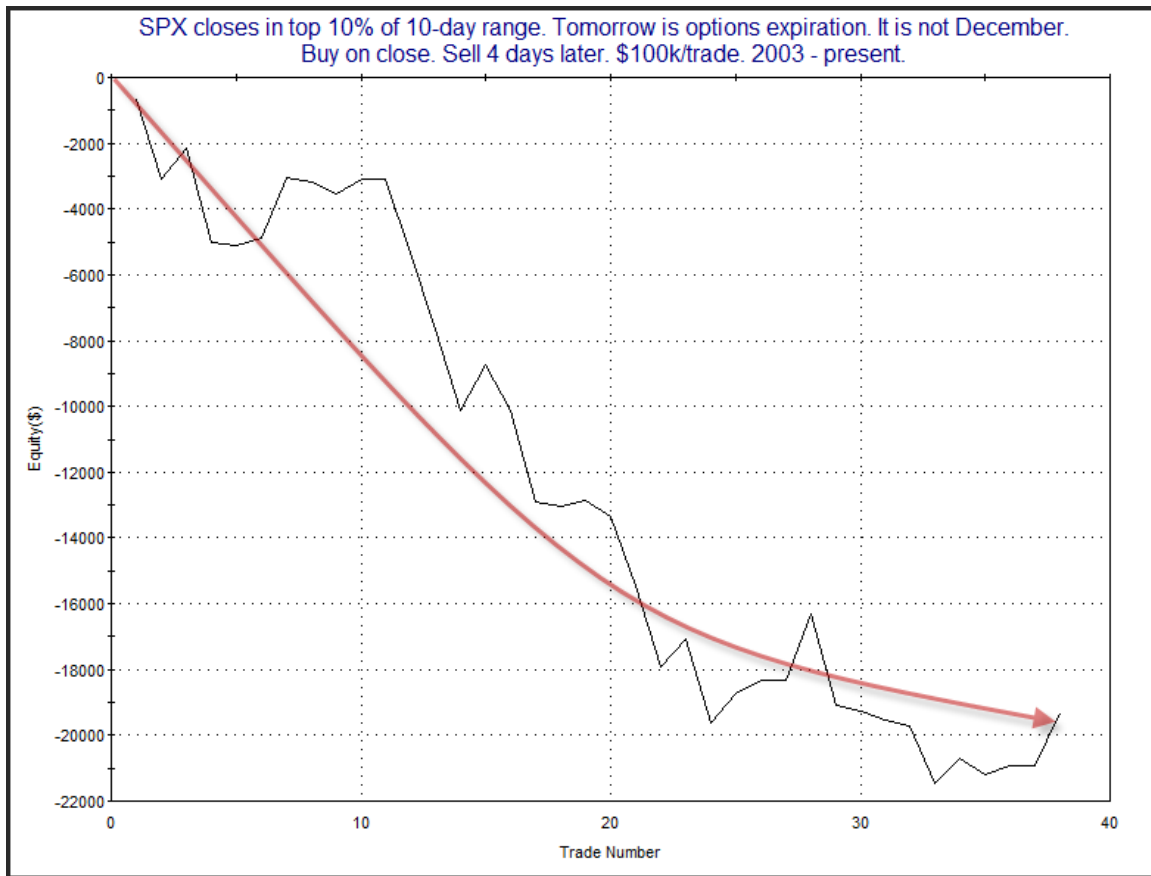
The Evidence

The market put in a strong day and made some new highs. The SPX rose 0.5%, the NASDAQ gained 0.7%, and the Russell 2000 closed up 0.5%. Breadth was negative as the NYSE Up Issues % came in at 38% and the Up Volume % was 31%. Total NYSE volume rose some from Wednesday's level.

The study below last appeared in the 8/15/14 Letter. It looks at times the market closed at a high level just before options expiration. (It also excludes December since the 2nd half of December is a seasonally strong period.) Opex Friday and the days that follow have generally been a bad time for an overbought market. The results below are all updated.

SPX closes in top 10% of 10-day range. Tomorrow is options expiration. It is not December. Buy on close. Sell X days later. \$100k/trade. 2003 - 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	-19,693.43	38	14	24	36.84	906.27	3,768.30	-1,349.22	-4,932.90	0.67	0.39	-518.25
4	-19,312.71	38	15	23	39.47	790.01	1,994.25	-1,354.91	-2,899.20	0.58	0.38	-508.23
3	-10,735.66	38	18	20	47.37	704.75	2,166.00	-1,171.06	-2,828.70	0.60	0.54	-282.52
2	-9,114.19	38	24	14	63.16	452.89	1,588.40	-1,427.40	-3,784.65	0.32	0.54	-239.85
1	-3,190.63	38	21	17	55.26	379.63	2,286.84	-656.64	-2,875.60	0.58	0.71	-83.96

Numbers here appear squarely bearish. Below is a profit curve that assumes a 4-day holding period.

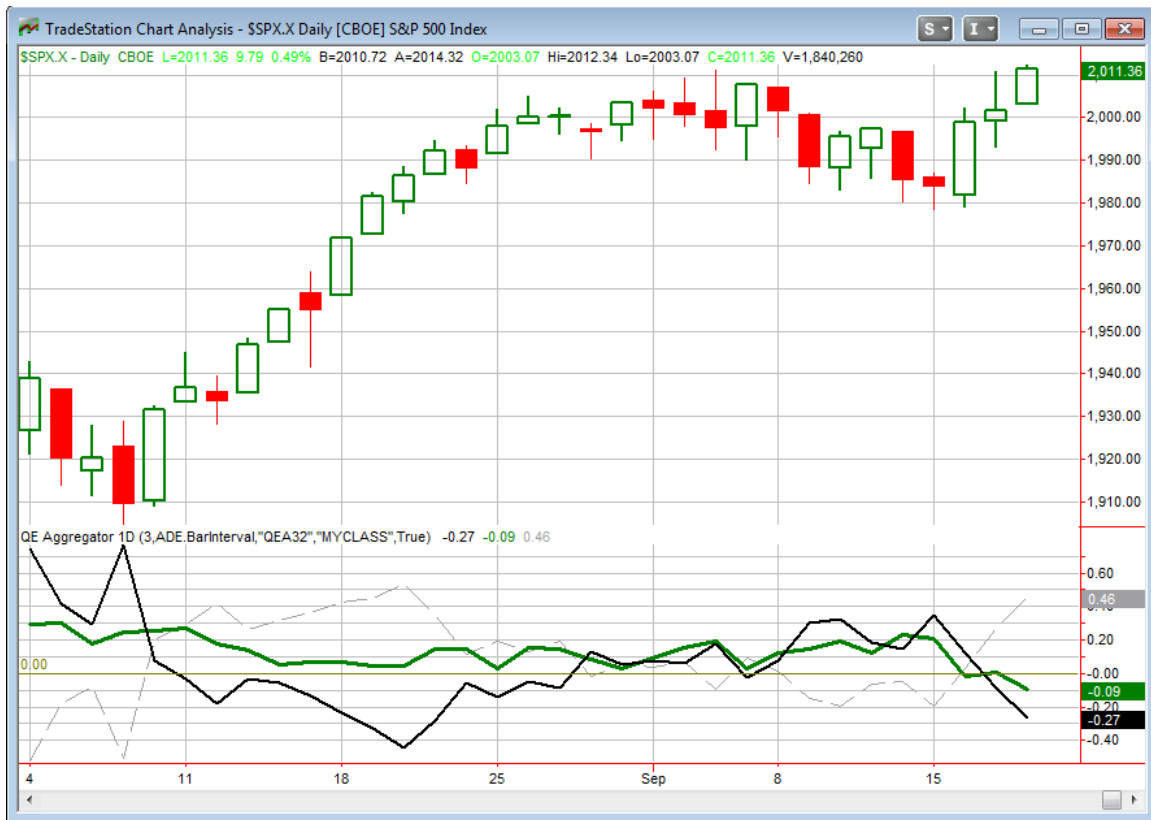


The August instance saw a pop upwards, but the overall curve still seems strong enough for the study to merit consideration. I have added this study to the Active List tonight.

In addition to the above, it is worth noting that the week after opex is September is the weakest seasonal week of the year. I showed this last year, and will cover it in detail again this weekend. Below is a link to a blog post I did about it last year:

<http://quantifiableedges.com/the-weakest-week-is-here-again/>

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



With tonight's bearish study factored in the green Aggregator Line dipped a little below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is also below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal turn short at the close.

Based on the current active studies, expectations are slated to remain bearish on Friday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2007.43 on Friday. That is 0.2% below Thursday's close. So for SPX to move from overbought back to oversold it will only need to close down about 0.2% on Friday.

The Aggregator is suggesting a bearish edge. And with the "weakest week" about to begin I would not be surprised to see a pullback ensue in the next few days. Of course I have been quite cautious about shorting since the beginning of 2013 when the latest round of QE began. And that caution has served me well. The uptrend has been extremely persistent and difficult to make much betting against it. I am not going to set up a short trade just yet. I may consider it for Monday if we see more bearish evidence emerge on Friday.

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

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.