

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 23, 2014

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Market Overview



Signals Overview

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

Tonight's Research Points

- Under similar circumstances “Turnaround Tuesday” has acted more like “Continuation Tuesday”.

Short-term Outlook

The Bottom Line

The market is now short-term oversold but expectations remain lower. I consider this to be a neutral setup and am not looking to get involved in new positions just yet.

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 22, 2014	The weakest week	1-4 days	Bearish			
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%
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

Monday got the “weakest week” started out as would be expected – with a good amount of selling. The SPX fell 0.8%, the NASDAQ declined 1.1%, and the Russell 2000 dropped 1.5%. Breadth was negative as the NYSE Up Issues % came in at 17% and the Up Volume % was 15%. Total NYSE volume declined as it typically does following option expiration days.

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 I as I showed just last week in the 9/16/14 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.

SPX closes down for exactly the 2nd day in a row. Today is Monday. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.						
TradeStation Performance Summary						Collapse ↕
All Trades						
Total Net Profit	\$22,482.24	Profit Factor				1.83
Gross Profit	\$49,646.61	Gross Loss				(\$27,164.37)
Total Number of Trades	74	Percent Profitable				54.05%
Winning Trades	40	Losing Trades				34
Even Trades	0					
Avg. Trade Net Profit	\$303.81	Ratio Avg. Win:Avg. Loss				1.55
Avg. Winning Trade	\$1,241.17	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	(\$832.79)	Profit Factor	0.94
Gross Profit	\$13,596.22	Gross Loss	(\$14,429.01)
Total Number of Trades	41	Percent Profitable	46.34%
Winning Trades	19	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	(\$20.31)	Ratio Avg. Win:Avg. Loss	1.09
Avg. Winning Trade	\$715.59	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.

The negative closing TICK reading nearly triggered a bullish study based on our TICK TomOscillator indicator, but it did not quite get there. So despite the relatively strong selling that was seen on Monday, no substantial bullish evidence emerged.

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



Without any new bullish evidence appearing, the green Aggregator Line held firmly below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line jumped above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are negative but the SPX is already 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 turned flat.

Based on the current active studies, expectations are slated to remain bearish on Tuesday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 2009.15 on Tuesday. That is 0.75% above Monday’s close. So for SPX to move from oversold back to overbought it will need to close up at least 0.75% on Tuesday.

So after 2 days of selling the Aggregator is back to neutral. I did not manage to take advantage of the short signal while it was active. I have no plans to jump in at this point. More selling could easily generate some long studies in the next few days, but there is no indication yet that this selloff is over. So rather than put capital at risk I'll just wait for the next strong opportunity to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/22– slightly bullish

The intermediate-term outlook was last updated in the 9/22 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.

Current Open Trade Ideas

None

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