

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 24, 2014

Volume 7 Issue 180

## 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.
- The extremely low TICK Tomoscillator is suggesting a short-term bounce.
- A 20-day closing low in an uptrend often marks a decent buying area.

## *Short-term Outlook*

### *The Bottom Line*

The market is quite oversold on a short-term basis and evidence is now pointing higher. I like this setup and am now looking to take on some long 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 24, 2014	QE Buying Power System Long	1-6 days	Bullish			
September 24, 2014	SPX 20-day low > 200ma	1-7 days	Bullish			
September 24, 2014	TICK Tomosc < -200. SPX 5-low	1-2 days	Bullish			
September 22, 2014	The weakest week	1-4 days	Bearish			
<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%
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 19, 2014	SPX top 10% of 10-day range. Opex	1-4 days	Bearish	-1.40%	0.80%	1.50%

**The Evidence**

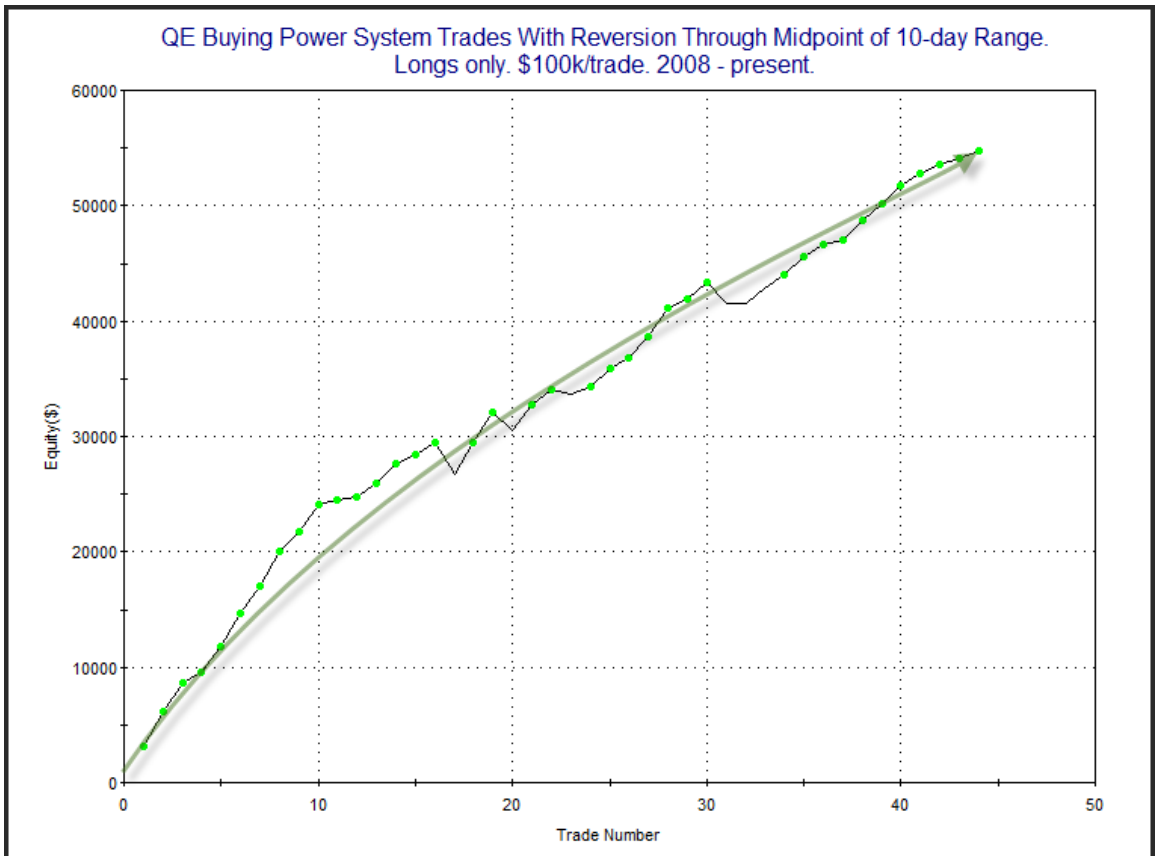
Tuesday was another rough day for the market. The SPX fell 0.6%, the NASDAQ declined 0.4%, and the Russell 2000 dropped 0.9%. Breadth was negative as the NYSE Up Issues % came in at 28% and the Up Volume % was 27%. Total NYSE volume fell a little from Monday's level.

The selloff triggered another long in the QE Buying Power System. (The 3<sup>rd</sup> one this month.) 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 Reversion Through Midpoint of 10-day Range.  
 Longs only. \$100k/trade. 2008 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$54,729.15	Profit Factor	9.29
Gross Profit	\$61,334.76	Gross Loss	(\$6,605.61)
Total Number of Trades	44	Percent Profitable	90.91%
Winning Trades	40	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,243.84	Ratio Avg. Win:Avg. Loss	0.93
Avg. Winning Trade	\$1,533.37	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 13 trades, and 20 of the last 21, have finished with positive results. This is the 10th 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.

SPX closed at a new 20-day low for the 1<sup>st</sup> time since August. Intermediate-term lows during a long-term uptrend will often suggest an upside edge. The study below was last seen in the 12/12/13 Letter. It looked at times the SPX closed at a 20-day low, but still above the 200ma. I have updated the results table.

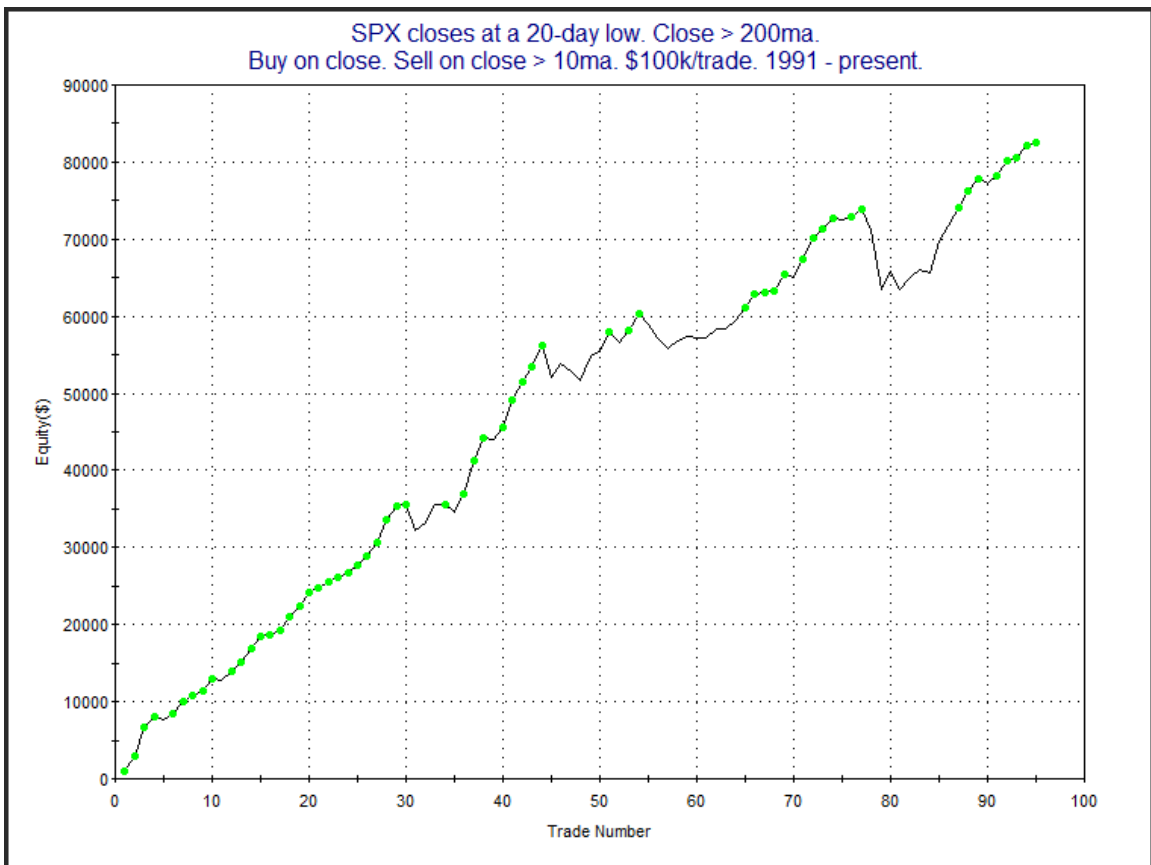
SPX closes at a 20-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	76,558.51	94	63	31	67.02	2,348.93	5,656.16	-2,304.01	-13,993.88	1.02	2.07	814.45
9	85,299.15	95	64	31	67.37	2,268.19	5,167.64	-1,931.12	-10,059.36	1.17	2.42	897.89
8	88,208.97	102	71	31	69.61	2,207.70	5,982.72	-2,210.90	-14,092.68	1.00	2.29	864.79
7	94,303.54	104	74	30	71.15	2,027.68	5,454.72	-1,858.15	-8,018.76	1.09	2.69	906.76
6	83,560.13	107	71	36	66.36	1,985.79	5,461.44	-1,595.31	-7,966.32	1.24	2.45	780.94
5	81,043.69	115	69	46	60.00	1,920.33	4,608.35	-1,118.67	-5,114.56	1.72	2.57	704.73
4	52,856.89	124	75	49	60.48	1,542.38	4,690.50	-1,282.08	-3,994.08	1.20	1.84	426.27
3	42,566.07	140	86	54	61.43	1,244.79	5,471.10	-1,194.18	-6,688.99	1.04	1.66	304.04
2	49,498.43	163	100	63	61.35	1,075.52	4,259.29	-921.48	-4,320.06	1.17	1.85	303.67
1	22,895.72	227	136	90	59.91	757.22	5,117.46	-889.85	-6,826.40	0.85	1.29	100.86

The stats since 1991 all appear to suggest an upside edge. The edge seems to persist for between 1-2 weeks. Another thing I did in that letter was to examine results using a reversion-based exit rather than a time-based exit. To do this I simply said that the trade would be held until SPX closed above its 10ma. Results of this "system" are below.

SPX closes at a 20-day low. Close > 200ma.  
 Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary				Collapse ^
<b>All Trades</b>				
Total Net Profit	\$82,465.12	Profit Factor	3.60	
Gross Profit	\$114,155.14	Gross Loss	(\$31,690.02)	
Total Number of Trades	95	Percent Profitable	78.95%	
Winning Trades	75	Losing Trades	20	
Even Trades	0			
Avg. Trade Net Profit	\$868.05	Ratio Avg. Win:Avg. Loss	0.96	
Avg. Winning Trade	\$1,522.07	Avg. Losing Trade	(\$1,584.50)	
Largest Winning Trade	\$4,277.94	Largest Losing Trade	(\$7,630.40)	

The winning percentage and profit factor are both impressive, and with the average trade making nearly 0.9% this study appears worth further consideration. Below is an equity curve showing how the edge has played out over time.



What I see here is a curve that suggests a strong, persistent edge over a long period of time. There as a dip in 2011 but the curve now appears to be squarely back on track.

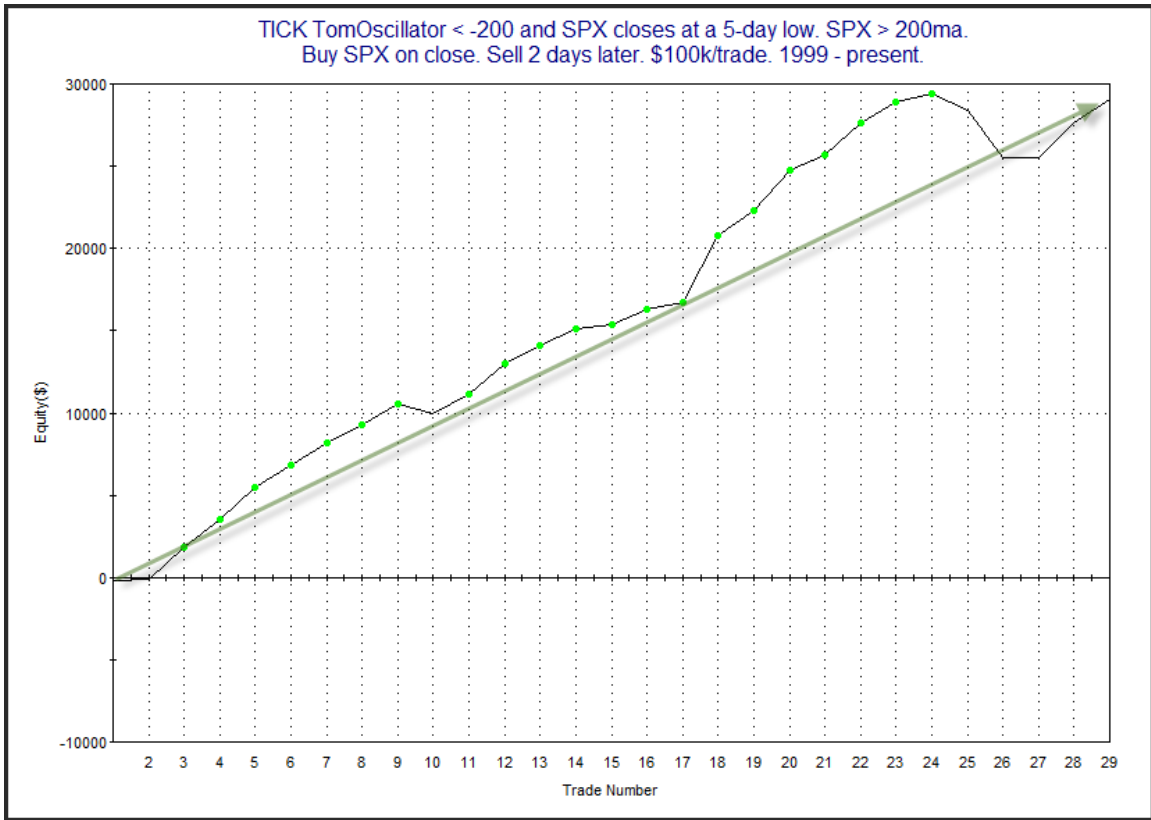
There was also a study that used the TICK TomOscillator. The TICK TomOscillator is an indicator that uses recent closing TICK values to determine buying and selling interest at the end of the day. It was developed by Tom McClellan (<http://www.mcoscillator.com/>) and I made a minor % Rank adjustment for 1 type of readings. For those who would like to learn more about the TICK TomOscillator, including exactly how to calculate it, the link below is a good place to start.

<http://quantifiableedges.blogspot.com/2011/05/how-nyse-closing-tick-can-be-utilized.html>

The study below looks for an extremely low reading in conjunction with a short-term oversold price condition during a long-term uptrend. It last appeared in the 8/19/13 letter. I have updated it below.

TICK TomOscillator < -200 and SPX closes at a 5-day low. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	20,056.38	24	17	7	70.83	1,842.76	3,456.11	-1,610.08	-3,385.80	1.14	2.78	835.68
4	17,044.26	24	16	8	66.67	1,748.20	4,190.40	-1,365.86	-3,863.84	1.28	2.56	710.18
3	28,182.65	28	21	7	75.00	1,796.01	5,471.10	-1,361.94	-2,558.68	1.32	3.96	1,006.52
2	29,073.63	29	25	4	86.21	1,351.63	4,041.90	-1,179.25	-2,943.71	1.15	7.16	1,002.54
1	23,182.06	35	26	9	74.29	1,156.74	4,396.50	-765.92	-1,953.32	1.51	4.36	662.34

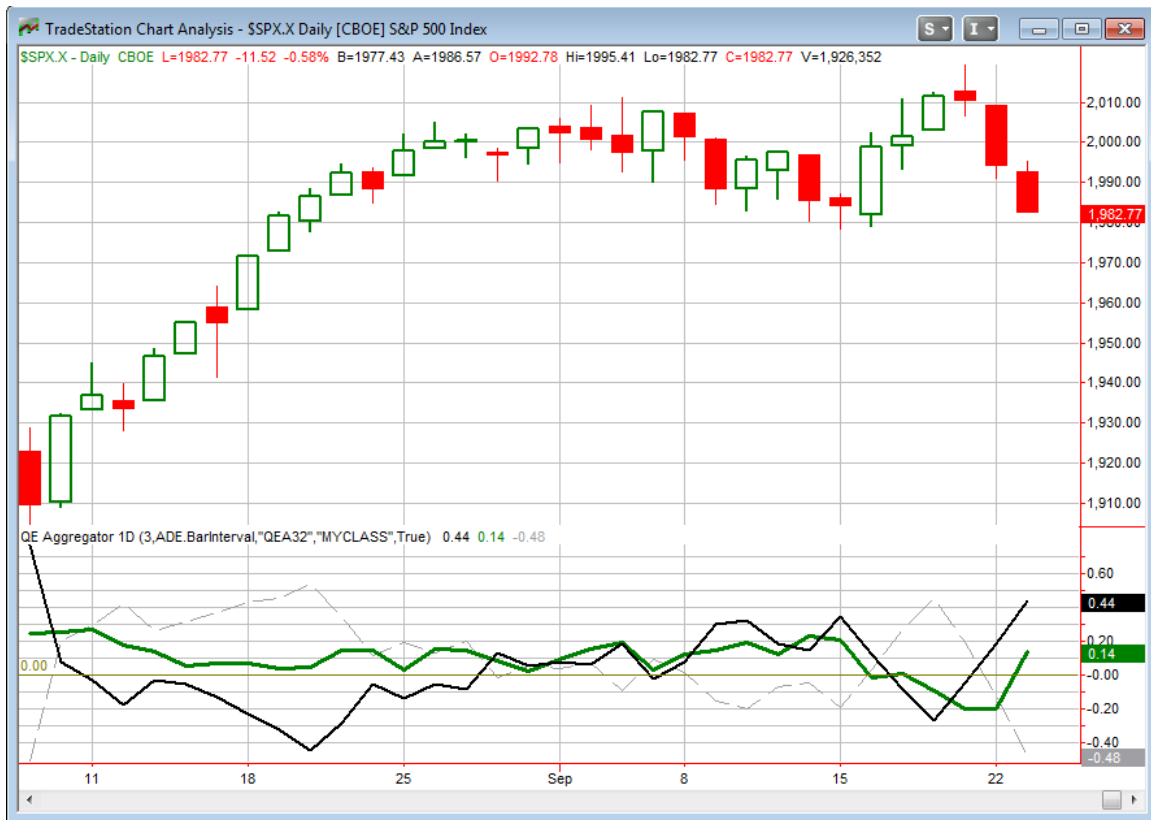
There has been a strong propensity for the market to bounce over the next 2 days. Below is an equity curve that shows how the edge has played out over time.



After an incredibly steady upslope, there were a few little stumbles in recent times. The last couple of instances have been successful though. I believe this study warrants consideration and have included on the Active List tonight.

Subscribers that are Tradestation users and would like to place the TICK TomOscillator on their own charts may find it among the [QE Indicators/Functions for Tradestation](#). [code](#).

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



With the bullish studies tonight the green Aggregator Line jumped 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 closed 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 turned long.

Based on the current active studies, expectations are slated to remain bullish on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2004.33 on Wednesday. That is 1.1% above Tuesday's close. So for SPX to move from oversold back to overbought it will need to close up at least 1.1% on Tuesday. That is a pretty tall order. A more likely way to work off the oversold condition would be a multi-day rally or consolidation.

Three days of selling has left the market short-term oversold and helped to generate ample evidence suggesting a probable bounce. I will look to take advantage of this bounce by taking on some long exposure Wednesday (if I can get a good fill). Details are in the Trade Ideas section down below.

***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.*

**SPY – buy ¼ index position @ \$198.01 limit.** Based on short-term outlook above I will begin scaling in to a long position if I can get filled at Tuesday's closing price or better.

**Current Open Trade Ideas**

*None*

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