

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 1, 2014

Volume 7 Issue 185

Market Overview



Signals Overview

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

Tonight's Research Points

- Turn of the month is offering some bullish evidence.
- Consolidations like we have seen the last 3 days after making new 20-day lows have shown a mild upside edge.

Short-term Outlook

The Bottom Line

Expectations remain positive. The market is oversold, and Wednesday is a strong seasonal day. I like the outlook for the next few days. I am long and looking to 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						
October 1, 2014	SPY closes bottom 1/2 range last of mo	1 day	Bullish			
October 1, 2014	EOM < 10ma and > 200ma	1-5 days	Bullish	2.15%	-1.25%	-3.20%
October 1, 2014	20-day low then 3-day pause	1-5 days	Bullish	1.90%	-1.30%	-2.80%
September 26, 2014	4 lower lows & 20-low > 200	1-8 days	Bullish	2.40%	-1.50%	-2.70%
September 25, 2014	Reversal from 20-day low > 200ma	1-6 days	Bullish	2.40%	-1.50%	-2.70%
September 24, 2014	QE Buying Power System Long	1-6 days	Bullish			
September 24, 2014	SPX 20-day low > 200ma	1-7 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%
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

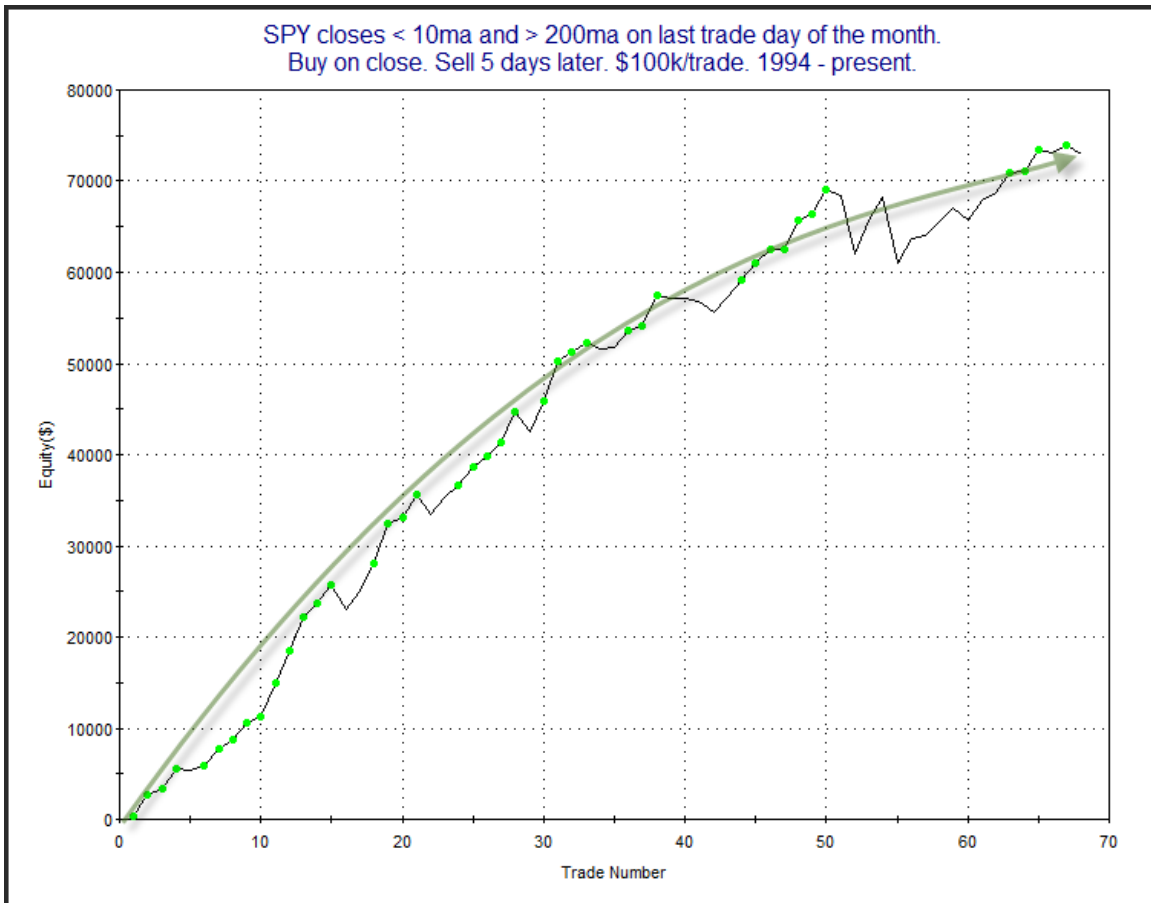
Tuesday started with a gap up but the market could not hold those gains and the major indices suffered losses. The SPX and NASDAQ closed down 0.3%, and the Russell 2000 each fell 1.5%. Breadth was negative as the NYSE Up Issues % came in at 37% and the Up Volume % was 30%. Total NYSE volume rose quite a bit with some mutual fund rebalancing at the end of the day.

Several studies related to turn of the month triggered in the Quantifinder. Beginnings of new months often arrive with seasonal strength. This has especially been true 1) during long-term uptrends, and 2) when the market is not already short-term overbought. The study below was last seen in the 9/3/13 subscriber letter. It uses moving averages to take these concepts into account. All stats are updated.

SPY closes < 10ma and > 200ma on last trade day of the month. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	72,921.00	68	54	14	79.41	1,845.69	4,435.97	-1,910.46	-7,153.30	0.97	3.73	1,072.37
4	65,465.84	68	53	15	77.94	1,656.63	3,838.00	-1,489.04	-7,100.17	1.11	3.93	962.73
3	46,027.84	68	46	22	67.65	1,627.33	3,709.44	-1,310.42	-3,492.36	1.24	2.60	676.88
2	39,320.34	68	51	17	75.00	1,203.39	3,442.32	-1,297.20	-4,320.06	0.93	2.78	578.24
1	39,546.28	68	52	16	76.47	969.02	3,119.10	-677.66	-2,559.62	1.43	4.65	581.56

63 of 68 instances (93%) closed above the entry price at some point in the next 5 days.

Day 1 has obviously provided strong numbers, but even beyond that there appears to be some follow through over the next few days. Below is a profit curve for the 5-day holding period.



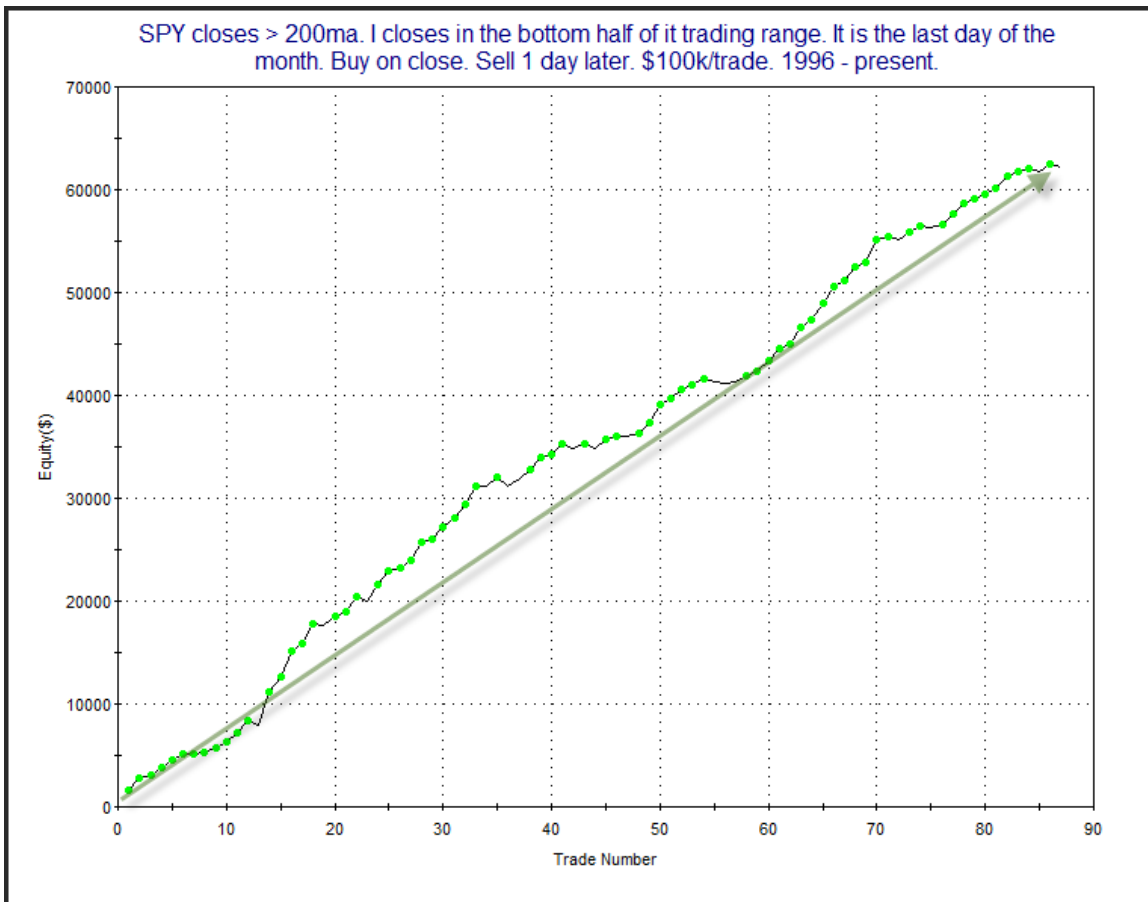
The curve struggled a bit between instances 50-60, but seems to be mostly back on track now.

I also showed a compelling turn of the month study in the 3/3/14 Letter that triggered. It broke out stats when SPY closed in the top half of its daily range versus the bottom half, and found that weak closes on the last day of the month led to much better returns on the 1st day of the next month. Below are stats for this scenario.

SPY closes > 200ma. I closes in the bottom half of it trading range. It is the last day of the month. Buy on close. Sell 1 day later. \$100k/trade. 1996 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$62,165.59	Profit Factor	15.18
Gross Profit	\$66,548.40	Gross Loss	(\$4,382.81)
Total Number of Trades	87	Percent Profitable	83.91%
Winning Trades	73	Losing Trades	14
Even Trades	0		
Avg. Trade Net Profit	\$714.55	Ratio Avg. Win:Avg. Loss	2.91
Avg. Winning Trade	\$911.62	Avg. Losing Trade	(\$313.06)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$885.28)

The stats here are phenomenal. Gains absolutely blow away losses in every category. Gross gains are over 15x the size of gross losses. And the *average* win is actually bigger than the *largest* loss. That's an incredible stat when you are looking at a sample size of 87 instances. And the profit curve...

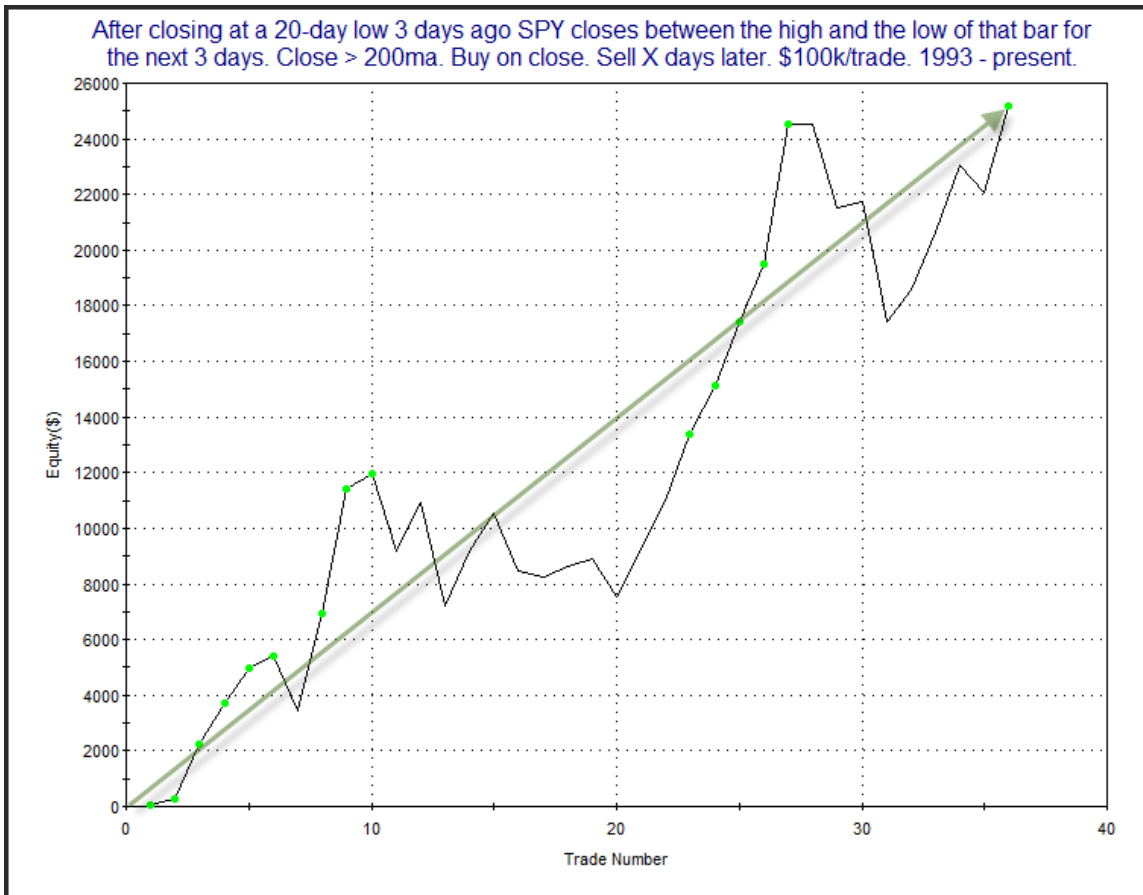


You will be hard pressed to find a long-term profit curve much straighter and more impressive than this one.

After last Thursday's sharp selloff the market has floundered around. The Friday bounce did not follow through the last few days. Neither bulls nor bears have been able to gain traction. So we have seen a consolidation. It is often said that consolidations resolve in the direction of the trend. Many would say that means down, since we are around 20-day lows. Others could claim that the trend is up, since SPX is still well above its 200ma. I refer back to the study below, which last appeared in the 9/3/13 Letter.

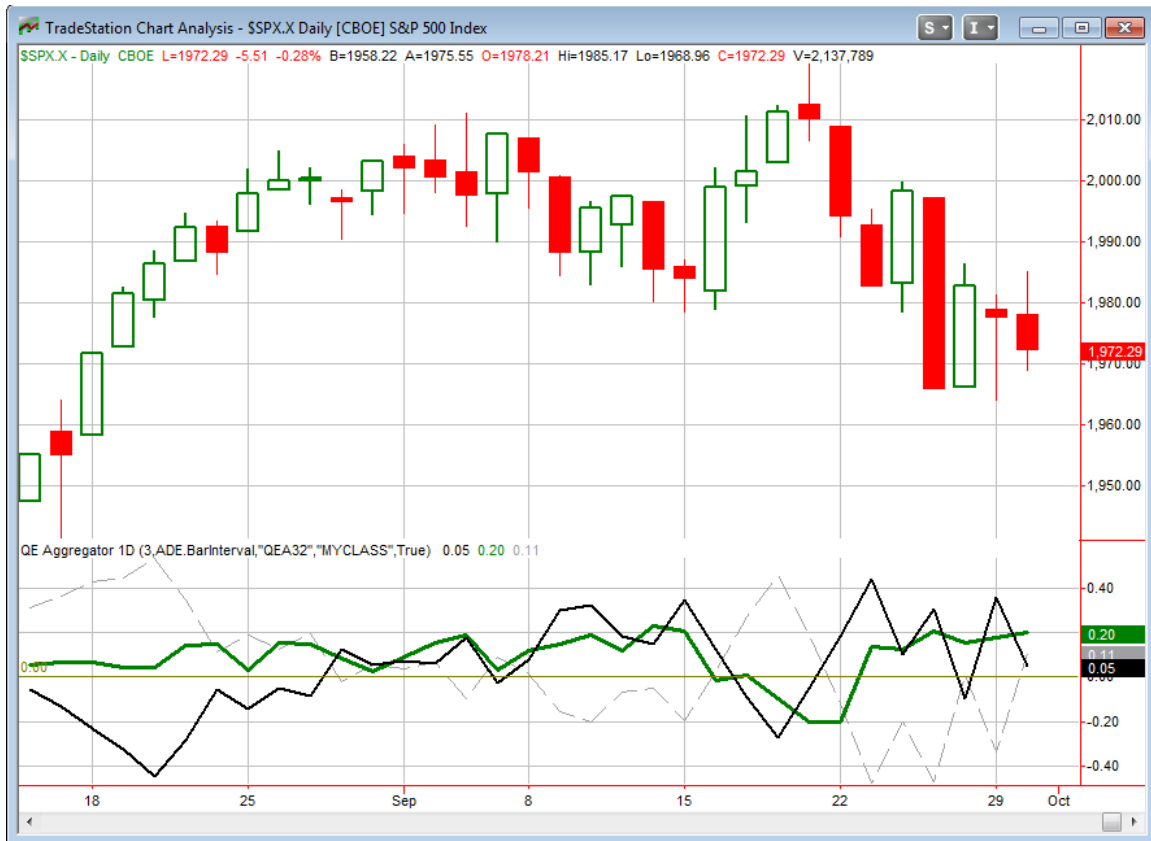
After closing at a 20-day low 3 days ago SPY closes between the high and the low of that bar for the next 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	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	25,205.21	36	26	9	72.22	1,751.75	4,984.19	-2,260.02	-4,326.19	0.78	2.24	700.14
4	20,023.36	36	25	11	69.44	1,655.65	4,855.07	-1,942.53	-4,345.88	0.85	1.94	556.20
3	18,204.44	36	22	14	61.11	1,692.70	4,577.32	-1,359.65	-4,248.64	1.24	1.96	505.68
2	13,341.02	37	23	14	62.16	1,332.56	4,932.84	-1,236.27	-2,818.42	1.08	1.77	360.57
1	12,478.09	39	24	13	61.54	934.71	2,355.32	-765.76	-2,101.88	1.22	2.25	319.95

Closing between the high and low of the bar that put us at a 20-day low means 1) the selloff day was probably pretty large, and 2) the market has been moving sideways since. Results here seem to favor the bull case. And even though the size of the gains is not great, the % Profitable appears pretty good. I also examined the profit curves. The 5-day can be found below.



The curve has certainly been choppy. But has continued to move from lower left to upper right and is again making new highs. I decided to include this study on the Active List tonight as well.

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



With tonight's bullish studies taken into account the green Aggregator Line remains well 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 held 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.

Based on the current active studies, expectations are slated to remain bullish on Wednesday. It would take strong bearish evidence in order to change that. The Differential Pivot will be 1992.48 on Wednesday. That is just over 1% above Tuesday's close. So for SPX to move from oversold to overbought it is going to need close at least 1% higher on Wednesday – a fairly tall order.

With the Differential Pivot far off there is plenty of room to profit from a bounce. And the evidence tonight appears compelling, especially in conjunction with evidence we were already seeing. With my intermediate-term outlook now just neutral I am not inclined to get too aggressive here. But I will look to scale into a 2nd lot of SPY if I can get an ok fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/29 – neutral

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 @ \$197.00 LIMIT. Based on the short-term outlook above, I will look to take on a 2nd lot of SPY if I can get a decent fill price.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/24/2014	\$198.01	\$197.02	-0.50%		Aggregator

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