

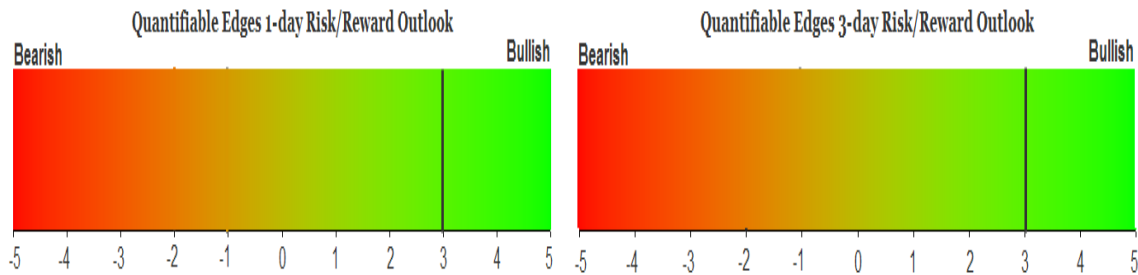
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 3, 2014

Volume 7 Issue 187

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The reversal pattern from the 20-day low suggests the bounce could last a few more days.

## *Short-term Outlook*

### *The Bottom Line*

Expectations remain positive and the market remains strongly oversold. I have some long exposure and may look to up it further if there is strong selling on Friday.

**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>						
October 3, 2014	Reversal from 20-day low > 200ma	1-6 days	Bullish	2.40%	-1.50%	-2.70%
October 2, 2014	Unfilled gap 10-intra low, down 3	1-2 days	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%
<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%
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 24, 2014	SPX 20-day low > 200ma	1-7 days	Bullish			

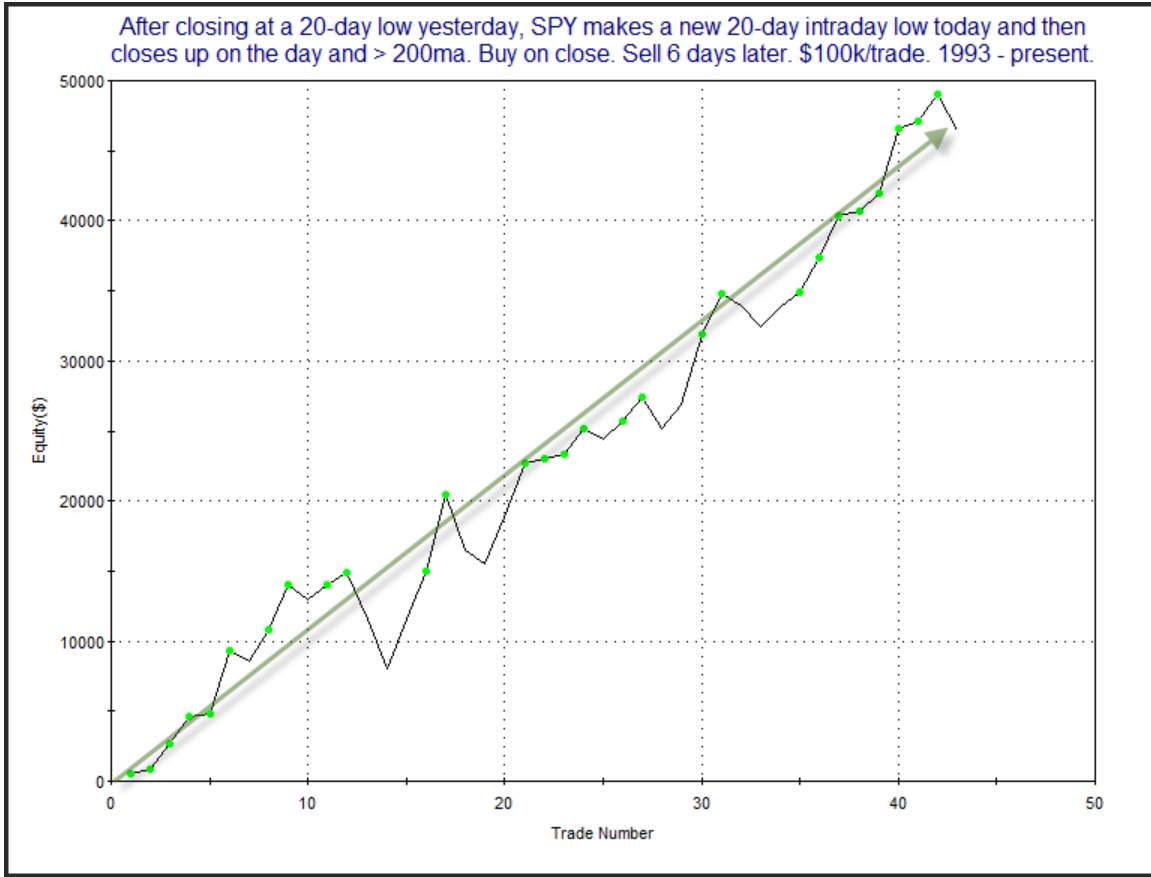
**The Evidence**

A big decline in the morning reversed and when the day was done the market was barely changed from the day before. The SPX “rose” 0.01 points, the NASDAQ gained 0.2% and the Russell 2000 rallied 1.0%. Breadth was strongly negative as the NYSE Up Issues % came in at 52% and the Up Volume % was 56%. Total NYSE volume declined from Wednesday.

The near breakeven SPX close Thursday did not inspire much in the Quantifinder. But the study below is worth an update and close look. It was last seen in the 9/25/14 Letter. It looks at reversals off a 20-day low. All stats are updated.

After closing at a 20-day low yesterday, SPY makes a new 20-day intraday low today and then closes up on the day and > 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
10	58,016.04	39	30	9	76.92	2,431.38	6,600.62	-1,658.37	-3,844.83	1.47	4.89	1,487.59
9	55,060.95	40	29	11	72.50	2,598.18	5,915.43	-1,844.20	-4,258.20	1.41	3.71	1,376.52
8	46,141.31	41	29	12	70.73	2,504.92	5,306.40	-2,208.44	-4,268.86	1.13	2.74	1,125.40
7	51,455.83	42	30	12	71.43	2,390.64	5,585.14	-1,688.61	-3,531.11	1.42	3.54	1,225.14
6	46,426.74	43	32	11	74.42	2,121.20	5,411.67	-1,950.16	-3,952.19	1.09	3.16	1,079.69
5	40,963.78	43	31	11	72.09	1,853.03	5,029.50	-1,498.19	-3,450.35	1.24	3.49	952.65
4	30,494.87	43	28	15	65.12	1,640.61	3,213.00	-1,029.47	-2,284.36	1.59	2.97	709.18
3	19,090.64	46	28	18	60.87	1,364.20	4,462.50	-1,061.50	-3,560.24	1.29	2.00	415.01
2	20,491.99	48	30	18	62.50	1,344.29	4,105.50	-1,102.04	-2,471.52	1.22	2.03	426.92
1	13,171.39	48	29	19	60.42	964.10	2,562.30	-778.30	-1,792.48	1.24	1.89	274.40
<b>89% of instances closed above the entry price at some point in the next week.</b>												

Results here seem to suggest a solid upside edge. Below is a profit curve using a 6-day exit strategy.



While the last instance obviously did not work out, this curve appears strong and steady, providing greater confidence in the results.

But on Thursday SPY only closed up a mere \$0.03, barely qualifying as an “up day”. In the 8/7/14 letter I decided to further filter the results above to examine instances that only closed up a small amount. I chose 0.25% as my limit. Those results are updated below.

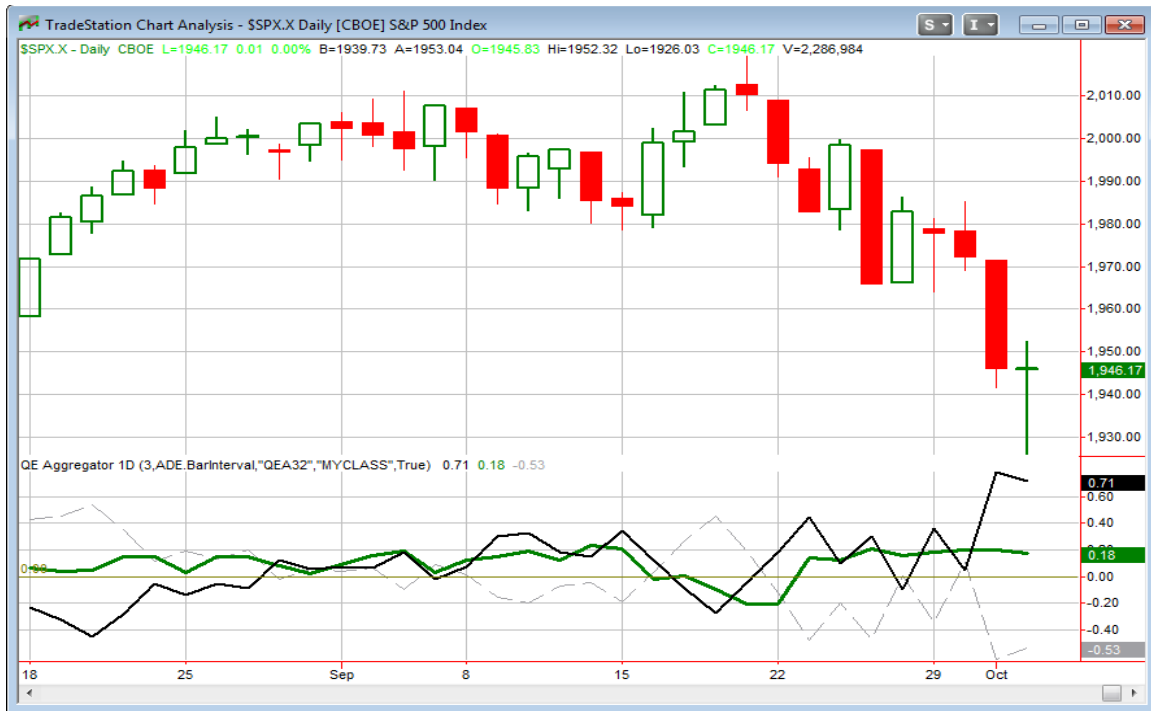
After closing at a 20-day low yesterday, SPY made a new 20-day intraday low today and then closed up < 0.25% on the day and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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
10	28,963.63	10	10	0	100.00	2,896.36	5,408.91	0.00	0.00	100.00	100.00	2,896.36
9	29,867.71	10	9	1	90.00	3,396.06	5,915.43	-696.87	-696.87	4.87	43.86	2,986.77
8	25,887.28	10	9	1	90.00	3,120.02	5,306.40	-2,192.92	-2,192.92	1.42	12.80	2,588.73
7	22,604.08	10	9	1	90.00	2,748.55	5,300.37	-2,132.84	-2,132.84	1.29	11.60	2,260.41
6	17,378.72	10	9	1	90.00	2,298.12	4,594.86	-3,304.40	-3,304.40	0.70	6.26	1,737.87
5	13,994.26	10	8	1	80.00	2,028.09	3,901.41	-2,230.47	-2,230.47	0.91	7.27	1,399.43
4	12,160.12	10	8	2	80.00	1,835.22	3,213.00	-1,260.82	-2,012.68	1.46	5.82	1,216.01
3	12,023.38	11	8	3	72.73	1,709.59	4,462.50	-551.11	-938.75	3.10	8.27	1,093.03
2	7,699.21	11	8	3	72.73	1,318.45	4,105.50	-949.47	-1,824.93	1.39	3.70	699.93
1	3,111.97	11	6	5	54.55	1,009.85	2,152.71	-589.43	-1,023.00	1.71	2.06	282.91

A bit low on instances, but the results with the extra filter are basically flawless. So at the very least it appears that the mild rise is not cause to doubt the setup. Below I have listed all the instances with their 10-day holding results.

After closing at a 20-day low yesterday, SPY made a new 20-day intraday low today and then closed up < 0.25% on the day and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/13/96	Buy	\$73.31	2.52%	\$3,846.48
12/30/96	Sell	\$75.16		(\$1,950.52)
08/02/99	Buy	\$133.06	0.52%	\$683.41
08/16/99	Sell	\$133.75		(\$4,551.06)
01/05/00	Buy	\$140.00	3.39%	\$5,419.26
01/20/00	Sell	\$144.75		(\$535.50)
03/24/04	Buy	\$109.55	4.64%	\$5,316.96
04/07/04	Sell	\$114.63		\$0.00
03/23/05	Buy	\$117.00	1.91%	\$1,930.04
04/07/05	Sell	\$119.24		(\$640.50)
06/27/05	Buy	\$119.15	2.61%	\$2,919.72
07/12/05	Sell	\$122.26		(\$746.71)
02/05/10	Buy	\$106.66	4.22%	\$4,610.04
02/22/10	Sell	\$111.16		(\$796.45)
06/13/11	Buy	\$127.70	0.19%	\$1,652.13
06/27/11	Sell	\$127.94		(\$1,182.33)
10/09/13	Buy	\$165.60	5.42%	\$6,228.99
10/23/13	Sell	\$174.57		\$0.00
08/06/14	Buy	\$192.07	3.57%	\$3,686.80
08/20/14	Sell	\$198.92		(\$790.40)

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



With tonight's study taken into account the green Aggregator Line again barely budged and held 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 is still extremely far above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is strongly 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 Friday. It would take strong bearish evidence in order to change that. The Differential Pivot will be 1982.33 on Friday. That is 1.9% above Thursday's close. It is highly unlikely we will see that achieved on Friday. A more likely scenario for working off the oversold condition would be a multi-day bounce or consolidation.

I believe a bounce is likely here. And tonight's evidence lends more credence to that idea. This is why I am still long. But the CBI did not budge today. No Catapults triggered. And as I discussed last night, I am not inclined to up my exposure any further until we get some capitulative selling levels among individual issues. That could happen as early as Friday. And if there is a strong selloff then it almost certainly will. In fact, we could see several Catapults trigger if there is a strong selloff on Friday. So in anticipation of that I will look to add more exposure if Friday turns out to be another sizable down day.

**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 @ \$192.88 LIMIT ON CLOSE.** If SPY sells off big on Friday there are several stocks that will likely trigger Catapult signals. In anticipation of this, I will look to buy if SPY closes down \$1.50 or more. This would be the 3<sup>rd</sup> of 4 possible lots.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/24/2014	\$198.01	\$194.38	-1.83%		Aggregator
SPY(1/4)	10/1/2014	\$196.70	\$194.38	-1.18%		Aggregator

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