

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 7, 2014

Volume 7 Issue 189

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 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 are still positive but the market is no longer oversold on a short-term basis. I am neutral on the outlook for the next few days.

**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 7, 2014	20-day low then 3-day pause	1-5 days	Bullish	1.90%	-1.30%	-2.80%
October 6, 2014	2 days up < 3 ago after 20-day low	1-4 days	Bullish	2.10%	-1.00%	-1.90%
October 3, 2014	Reversal from 20-day low > 200ma	1-6 days	Bullish	2.40%	-1.50%	-2.70%
October 1, 2014	EOM < 10ma and > 200ma	1-5 days	Bullish	2.15%	-1.25%	-3.20%
September 26, 2014	4 lower lows & 20-low > 200	1-8 days	Bullish	2.40%	-1.50%	-2.70%
<b>Active - Long Term</b>						
October 3, 2014	Reversal from 20-day low > 200ma	1-10 days	Bullish	3.60%	-1.10%	-2.45%
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			

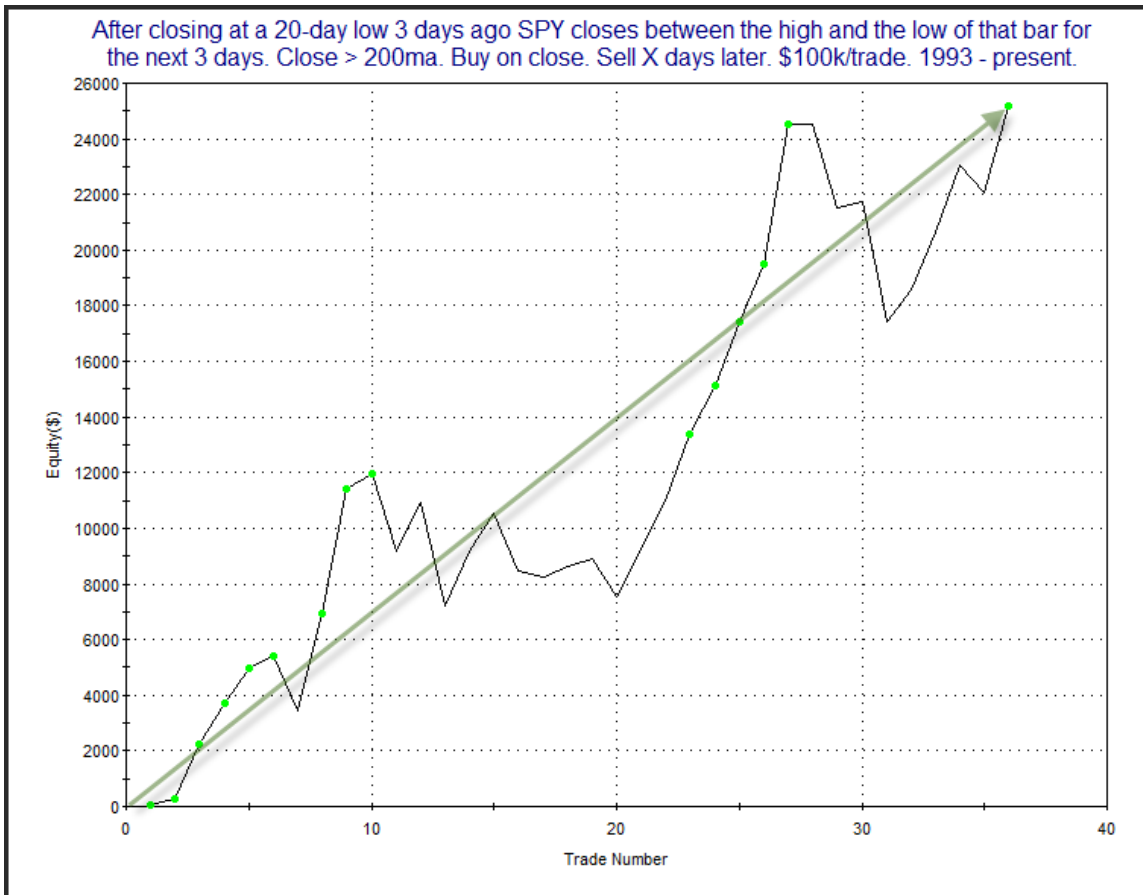
**The Evidence**

Monday started strong but the early rally could not hold. At the end of the day SPX was down 0.2%, the NASDAQ fell 0.5% and the Russell 2000 lost 0.9%. Breadth was mixed as the NYSE Up Issues % came in at 49.7% and the Up Volume % was 51.9%. Total NYSE volume declined for the 3<sup>rd</sup> day in a row.

After last Wednesday’s sharp selloff the market has floundered around. 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 appeared just last week in the 10/1/14 letter.

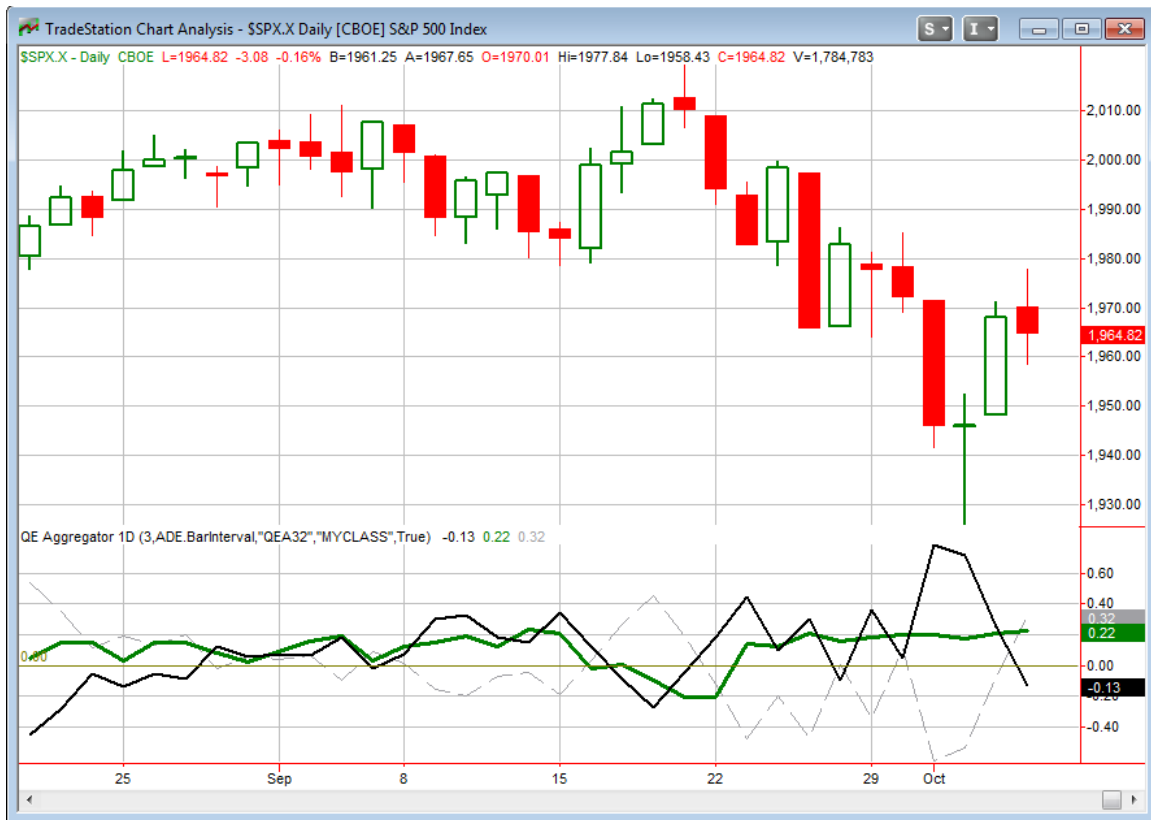
After closing at a 20-day low 3 days ago SPY closes between the high and the low of that bar for the next 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	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	19,653.25	37	25	12	67.57	1,655.65	4,855.07	-1,811.50	-4,345.88	0.91	1.90	531.17
3	17,950.94	37	22	15	59.46	1,692.70	4,577.32	-1,285.90	-4,248.64	1.32	1.93	485.16
2	12,002.54	38	23	15	60.53	1,332.56	4,932.84	-1,243.09	-2,818.42	1.07	1.64	315.86
1	11,124.40	40	24	14	60.00	934.71	2,355.32	-807.76	-2,101.88	1.16	1.98	278.11

Closing 3x 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. I decided to include this study on the Active List tonight.

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



With tonight's study taken into account the green Aggregator Line inched a little further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line took a dive down below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is now "overbought". 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 at the close.

Based on the current active studies, expectations are slated to remain bullish on Tuesday. It would take strong bearish evidence in order to change that. The Differential Pivot will be 1957.34 on Tuesday. That is 0.4% below Monday's close. So for SPX to move from overbought to oversold versus expectations on Tuesday it will need to close down at least 0.4%.

The Aggregator is now back to neutral. I don't see a strong edge and I have taken off my index exposure for the time being. Interestingly, as you will see below, the CBI has finally woken up with 2 Catapults triggering on Monday. From an index standpoint I will wait for the next favorable opportunity to arrive. But I'll look to get a little bit of long exposure by scaling in to the Catapults here.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 10/6 – neutral***

The intermediate-term outlook was last updated in the 10/6Letter. 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***

*New*

*DVN – 1/3 @ \$64.82 (buy @ limit)*

*APA – 1/3 @ \$86.19 (buy @ limit)*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 2(DVN,APA)***

**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.*

**DVN – buy 1/3 Catapult position @ \$62.82 LIMIT.** From the Catapult section above. This is the first of a possible 3 lots.

**APA – Buy 1/3 Catapult position @ \$86.19 LIMIT.** From the Catapult section above. This is the first of a possible 3 lots.

*Subscribers that are new to Catapults or would like to learn more about this strategy should check out the [Catapult System page](#) on the website. There is a link to a detailed video about the system there near the top of the page, as well as other resources.*

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/24/2014	\$198.01	\$196.29	-0.87%		<b>sold on close</b>
SPY(1/4)	10/1/2014	\$196.70	\$197.34	0.33%		<b>sold on open</b>

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