

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 8, 2014

Volume 7 Issue 190

## 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.
- When the VIX has hit 100-day highs without the SPX making 100-day lows, that has often led to a market rally.

## *Short-term Outlook*

### *The Bottom Line*

Tuesday's selloff has the market oversold. Meanwhile fear is spiking and we are seeing indications of a likely bounce.

**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			

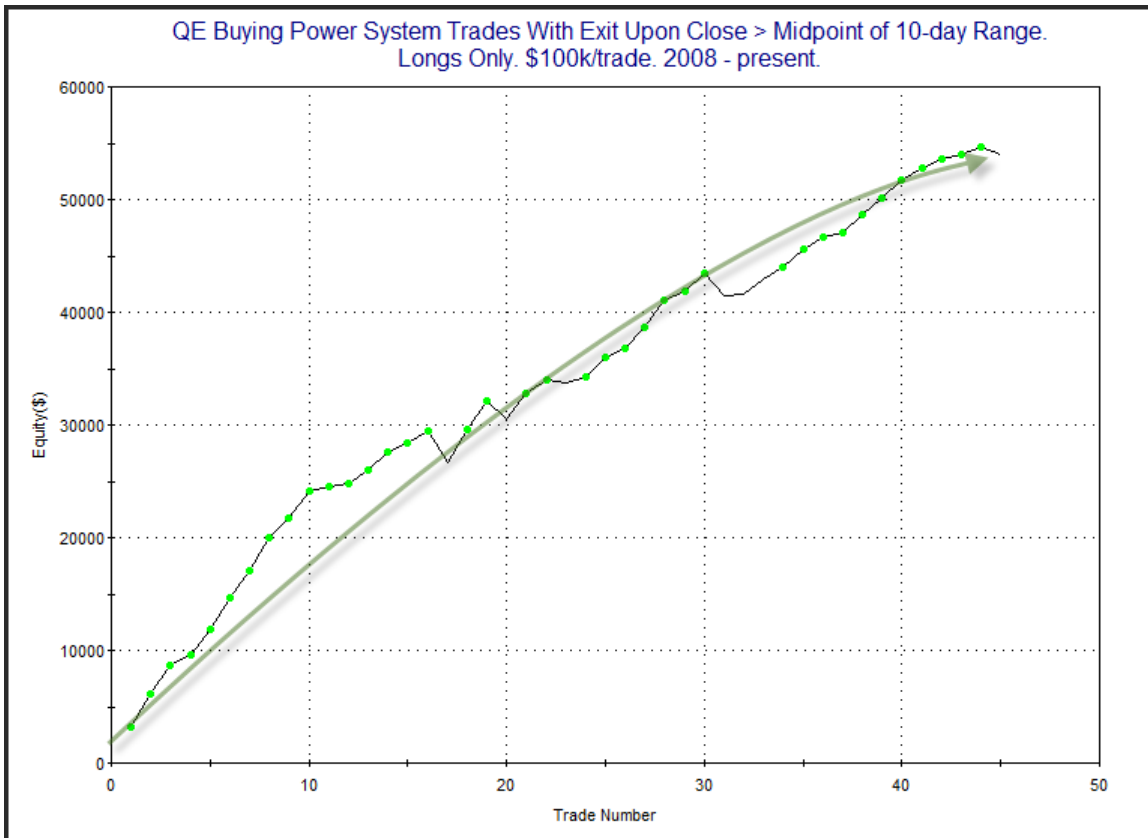
**The Evidence**

Tuesday was another difficult day for the market. SPX declined 1.5%, the NASDAQ fell 1.6% and the Russell 2000 lost 1.7%. Breadth was weak as the NYSE Up Issues % came in at 23% and the Up Volume % was 19%. Total NYSE volume rose a little from Monday's level.

The selloff triggered another long in the QE Buying Power System. 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 Exit Upon Close > Midpoint of 10-day Range. Longs Only. \$100k/trade. 2008 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$53,985.65	Profit Factor	8.35
Gross Profit	\$61,334.76	Gross Loss	(\$7,349.11)
Total Number of Trades	45	Percent Profitable	88.89%
Winning Trades	40	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	\$1,199.68	Ratio Avg. Win:Avg. Loss	1.04
Avg. Winning Trade	\$1,533.37	Avg. Losing Trade	(\$1,469.82)
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.



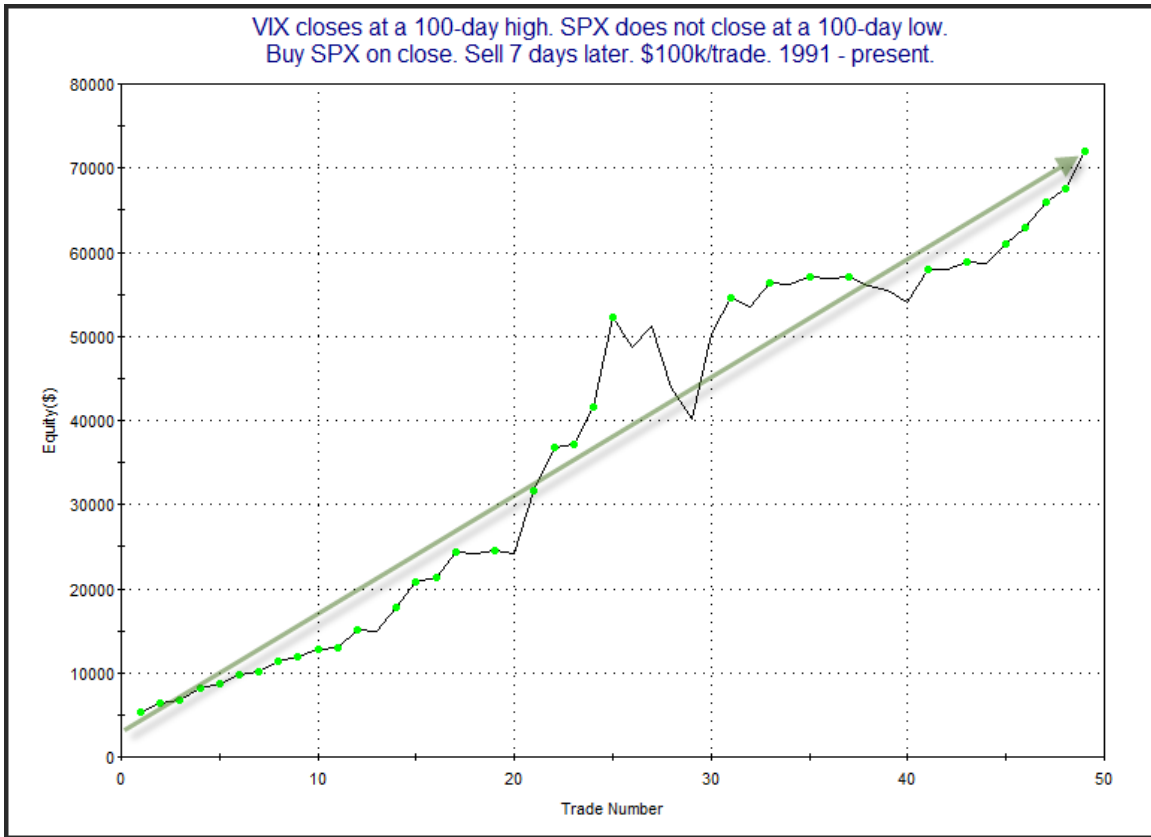
The curve is as impressive as the stats, and serves as confirmation of the upside edge. Of course, as I have discussed many times in recent weeks and months, POMO flows are

getting lighter. So this setup will have to be watched closely to make sure it is maintaining its effectiveness. Aside from the last instance, it is showing no sign of weakening. Thirteen of the last fourteen trades, and 20 of the last 22, have finished with positive results. This is the 11th 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 become more evident.

The VIX also provided some notable action today. The VIX is often referred to as the fear index. When VIX levels are relatively high, that often suggests fear and uncertainty among market participants. Relative highs can be measured a number of ways. Often I will show VIX levels compared to short-term moving averages. But an interesting study tonight looked at 100-day VIX highs that occurred when the SPX was not making 100-day lows. In other words, relatively extreme fear in a market that is not making long-term lows. The study was last seen in the 2/4/14 Subscriber Letter. I have updated it below.

VIX closes at a 100-day high. SPX does not close at a 100-day low. Buy SPX 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
15	87,082.61	42	33	9	78.57	3,470.48	13,488.65	-3,049.25	-11,992.24	1.14	4.17	2,073.40
14	82,486.76	42	33	9	78.57	3,430.31	12,644.94	-3,412.62	-11,498.24	1.01	3.69	1,963.97
13	77,445.04	42	32	10	76.19	3,591.43	15,243.90	-3,748.09	-16,254.16	0.96	3.07	1,843.93
12	75,685.23	43	31	12	72.09	3,766.34	13,656.44	-3,422.61	-13,950.56	1.10	2.84	1,760.12
11	64,876.79	43	29	14	67.44	3,578.57	12,236.77	-2,778.69	-11,048.96	1.29	2.67	1,508.76
10	62,914.71	45	29	16	64.44	3,420.56	13,815.90	-2,267.60	-7,532.72	1.51	2.73	1,398.10
9	68,540.14	45	34	11	75.56	2,856.67	11,486.80	-2,598.79	-6,727.63	1.10	3.40	1,523.11
8	65,656.34	48	34	14	70.83	2,854.74	11,382.35	-2,243.19	-9,154.20	1.27	3.09	1,367.84
7	71,998.91	49	35	14	71.43	2,624.83	10,706.80	-1,419.31	-7,304.57	1.85	4.62	1,469.37
6	63,112.96	51	39	12	76.47	2,404.68	10,082.80	-2,555.78	-9,712.78	0.94	3.06	1,237.51
5	58,494.57	52	34	18	65.38	2,647.25	9,157.20	-1,750.67	-11,533.34	1.51	2.86	1,124.90
4	55,393.22	56	39	17	69.64	2,322.93	8,810.76	-2,070.66	-9,828.00	1.12	2.57	989.16
3	48,681.52	59	44	15	74.58	1,731.23	8,432.34	-1,832.85	-6,956.04	0.94	2.77	825.11
2	49,931.54	65	42	23	64.62	1,732.72	5,049.00	-993.17	-5,441.80	1.74	3.19	768.18
1	44,706.25	83	52	30	62.65	1,451.91	5,117.46	-1,026.43	-5,829.81	1.41	2.45	538.63

The stats seem to suggest a bullish edge that persists for three weeks or more. Much of that edge is realized over the first 1-7 days. Below is a profit curve showing a 7-day holding strategy.



The curve is a little choppy, but the upside persistence here is impressive and it is continuing to hot new highs. This study also seems to be worth taking into consideration.

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



With tonight's studies taken into account the green Aggregator Line held strongly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the selloff Tuesday caused the black Differential Line to jump back above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is now oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close on above 0. Therefore the Aggregator signal turned long at the close.

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 1978.86 on Wednesday. That is a whopping 2.3% above Tuesday's close. So for SPX to move from oversold to overbought versus expectations on Wednesday it will need to close up at least 2.3%. That's highly unlikely. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

We have some more evidence suggesting an upside edge. And Tuesday's selloff put the market back in a strongly oversold state. With positive liquidity and spiking fear tis pullback looks appealing. Additionally, the CBI increased to 5. Much higher will give

us more strong evidence of a bounce. So this seems like a good time to start scaling back into a long index position. I'll look to do that on Wednesday.

***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***

*DVN – 1/3 @ \$64.82 (bought @ \$64.51)*

*APA – 1/3 @ \$86.19 (bought @ \$85.46)*

***New***

*DVN – 1/3 @ \$63.61 (buy @ limit)*

*APA – 1/3 @ \$84.21 (buy @ limit)*

*F – 1/3 @ \$14.10 (buy @ limit)*

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

*None*

***Broad Market Large Cap CBI – 5/3 (DVN-2, APA-2, F)***

### **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 @ \$193.26 LIMIT.** Based on the short-term outlook above, I will begin scaling in to a long position.

**DVN – buy 1/3 Catapult position @ \$63.61 LIMIT.** From the Catapult section above. This is the 2<sup>nd</sup> of a possible 3 lots.

**APA – Buy 1/3 Catapult position @ \$84.21 LIMIT.** From the Catapult section above. This is the 2<sup>nd</sup> of a possible 3 lots.

**F – Buy 1/3 Catapult position @ \$14.10 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
APA(1/3)	10/7/2014	\$85.46	\$84.21	-1.46%		bought on open
DVN(1/3)	10/7/2014	\$64.51	\$63.61	-1.40%		bought on open

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