

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 9, 2014

Volume 7 Issue 191

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A bounce from a 20-day low to a 4-day high has often been an initiation of further gains.

## *Short-term Outlook*

### *The Bottom Line*

Wednesday saw a very strong bounce. It appears it could have further to go. And since the market is still on overbought, I am somewhat bullish for the short-term. This has me long and holding for more gains.

**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 9, 2014	20-day low then 4-day high	1-8 days	Bullish	2.40%	-1.30%	-2.50%
October 8, 2014	VIX 100-high. SPX > 100-low	1-7 days	Bullish	3.00%	-2.30%	-4.90%
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%
<b>Active - Long Term</b>						
October 9, 2014	20-day low then 4-day high	1-19 days	Bullish	2.40%	-1.30%	-2.50%
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			
<b>Dropped Tonight</b>						
October 8, 2014	QE Buying Power Swing Long	1-6 days	Bullish			

**The Evidence**

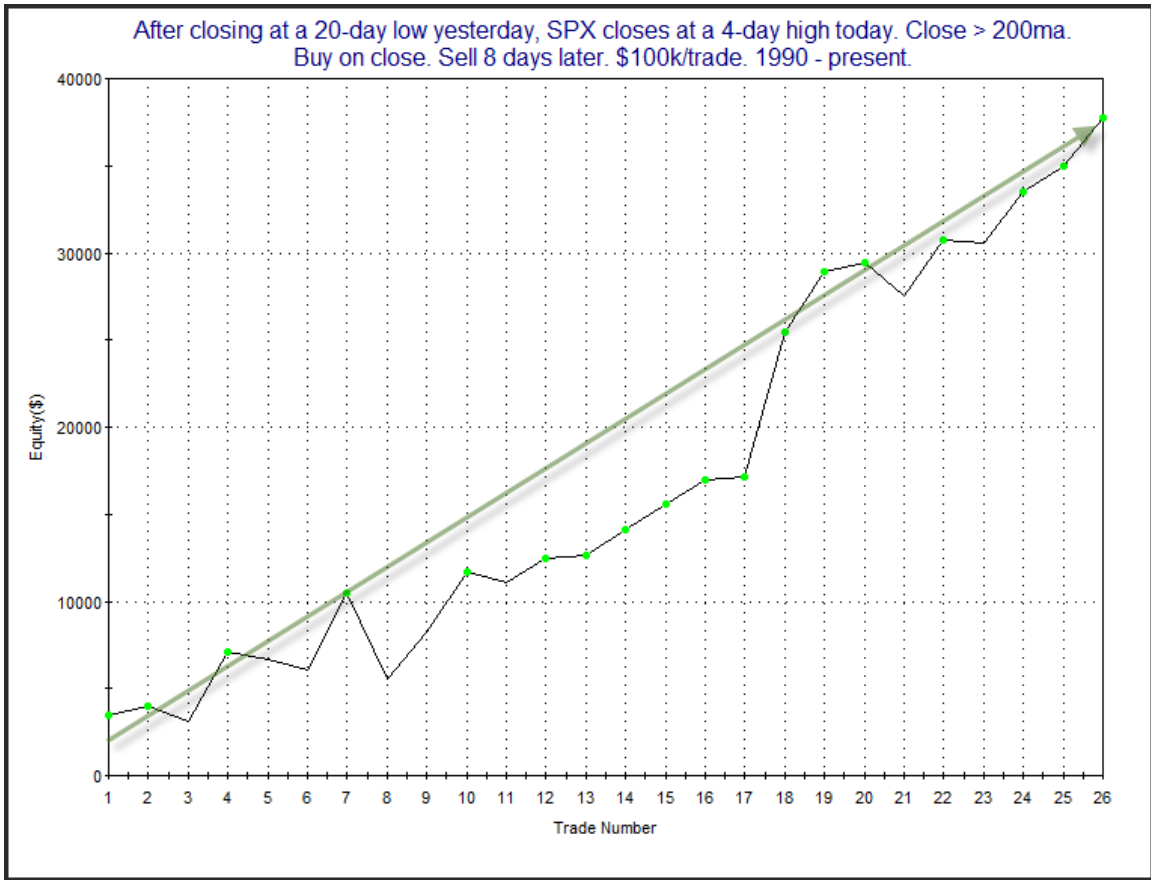
The market rallied hard on Wednesday. SPX jumped 1.75%, while the NASDAQ and the Russell 2000 each gained 1.9%. Breadth was strong as the NYSE Up Issues % came in at 78% and the Up Volume % was 80%. Total NYSE volume came in at the highest level since September opex Friday.

Wednesday was a strong enough move that we saw SPX go from closing at a 20-day low on Tuesday to closing at a 6-day high on Wednesday. In the 8/11/14 letter I looked at other times in which the market put in a strong thrust off a 20-day low. There I required a close of at least a 4-day high. I have updated the results below.

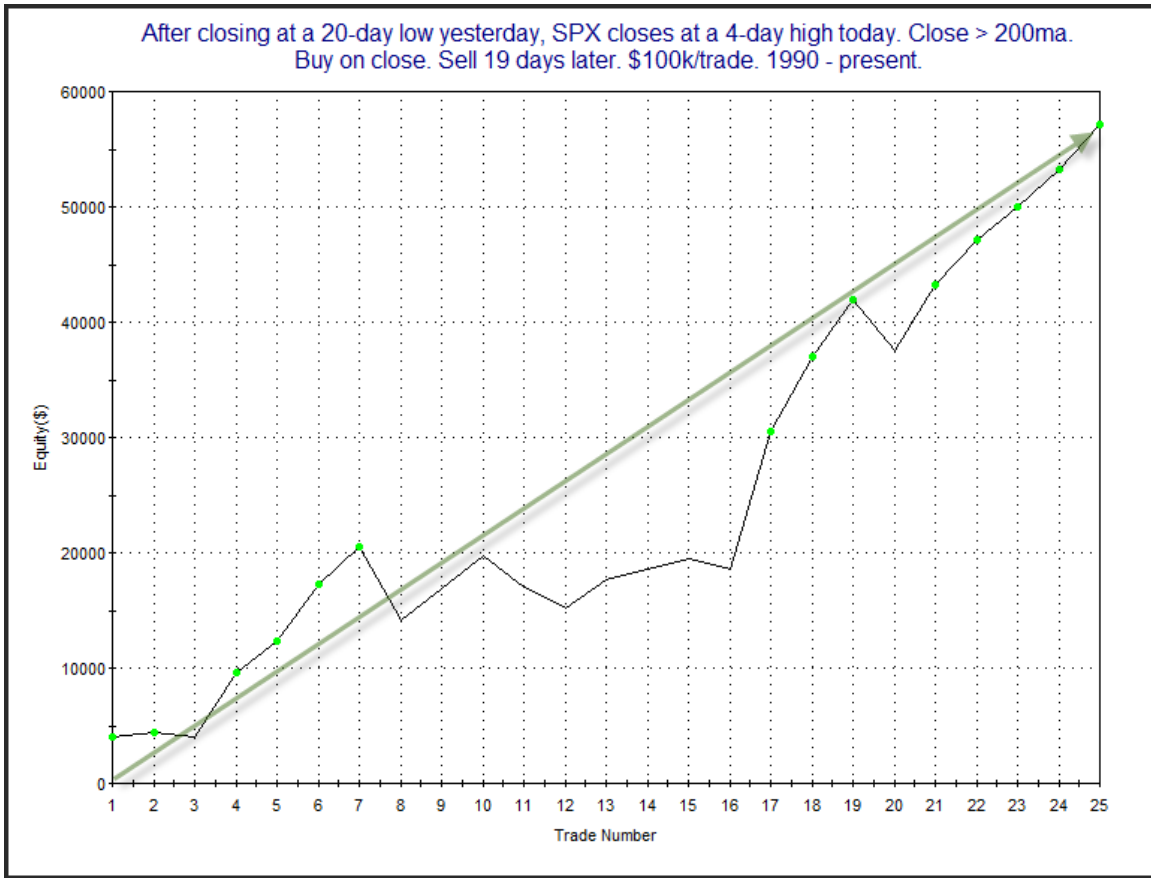
After closing at a 20-day low yesterday, SPX closes at a 4-day high today. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

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
20	56,438.79	25	20	5	80.00	3,665.15	11,665.50	-3,372.85	-6,379.08	1.09	4.35	2,257.55
19	57,190.94	25	19	6	76.00	3,897.85	12,037.30	-2,811.38	-6,347.80	1.39	4.39	2,287.64
18	50,139.22	26	21	5	80.77	3,085.23	10,563.30	-2,930.13	-4,148.97	1.05	4.42	1,928.43
17	48,728.09	26	20	6	76.92	3,227.18	11,183.70	-2,635.90	-4,247.96	1.22	4.08	1,874.16
16	47,068.67	26	19	7	73.08	3,240.06	11,506.00	-2,070.35	-4,320.78	1.56	4.25	1,810.33
15	44,795.69	26	18	8	69.23	3,287.13	11,173.80	-1,796.58	-4,723.96	1.83	4.12	1,722.91
14	42,369.33	26	20	6	76.92	2,941.04	9,507.30	-2,741.90	-7,897.52	1.07	3.58	1,629.59
13	38,325.95	26	20	6	76.92	2,688.96	9,427.00	-2,575.55	-7,363.04	1.04	3.48	1,474.08
12	38,127.53	26	19	7	73.08	2,709.82	8,151.00	-1,908.42	-5,686.84	1.42	3.85	1,466.44
11	44,142.05	26	21	5	80.77	2,595.14	8,642.70	-2,071.18	-5,722.20	1.25	5.26	1,697.77
10	39,648.29	26	20	6	76.92	2,619.93	8,924.30	-2,125.04	-8,745.48	1.23	4.11	1,524.93
9	38,041.41	26	19	7	73.08	2,516.85	8,603.10	-1,396.97	-6,371.60	1.80	4.89	1,463.13
8	37,746.48	26	19	7	73.08	2,489.08	8,276.40	-1,363.71	-4,917.08	1.83	4.95	1,451.79
7	27,329.36	26	18	8	69.23	2,238.43	5,832.20	-1,620.29	-3,822.96	1.38	3.11	1,051.13
6	24,346.24	26	16	10	61.54	2,210.71	5,888.30	-1,102.51	-3,349.68	2.01	3.21	936.39
5	21,488.36	26	16	10	61.54	1,940.18	5,508.80	-955.45	-1,644.72	2.03	3.25	826.48
4	19,786.65	26	18	8	69.23	1,666.96	4,326.30	-1,277.33	-2,340.25	1.31	2.94	761.03
3	16,777.62	26	18	8	69.23	1,462.13	4,365.90	-1,192.59	-2,180.76	1.23	2.76	645.29
2	12,976.43	27	20	7	74.07	1,065.54	3,479.30	-1,190.62	-2,876.50	0.89	2.56	480.61
1	1,168.65	27	13	14	48.15	686.57	2,536.10	-554.06	-1,480.36	1.24	1.15	43.28

Day 1 is a bit iffy, but after that there appears to be a strong and consistent edge over the next 4 weeks. This suggests a good chance that Wednesday's rally was the beginning of a continued move higher. I produced profit curves for the 8-day and 19-day holding periods highlighted above. First, the 8 day...



The strong, steady upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 19-day curve.



This one is a little choppier, but it sure has been strong lately, with 8 of the last 9 instances all closing higher. I also wanted to check one more thing. We know that 20-day lows in uptrends are often followed by a rally. So I also looked at bounces that did *not* reach 4-day highs the 1<sup>st</sup> day.

After closing at a 20-day low yesterday, SPX closes up but < 4-day high today. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1990 - 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
20	92,251.86	73	52	21	71.23	3,154.13	12,927.20	-3,417.27	-9,587.72	0.92	2.29	1,263.72
19	80,411.16	73	51	22	69.86	2,939.96	13,564.52	-3,160.31	-12,375.24	0.93	2.16	1,101.52
18	89,583.37	75	51	24	68.00	3,089.65	13,895.61	-2,832.87	-13,625.69	1.09	2.32	1,194.44
17	80,577.73	76	51	25	67.11	3,004.19	13,554.35	-2,905.44	-10,959.00	1.03	2.11	1,060.23
16	81,083.81	76	51	25	67.11	2,991.89	11,842.40	-2,860.09	-9,466.89	1.05	2.13	1,066.89
15	81,016.60	78	50	28	64.10	3,001.22	11,759.91	-2,465.87	-7,655.72	1.22	2.17	1,038.67
14	74,966.68	78	54	24	69.23	2,550.35	10,449.11	-2,614.67	-7,789.32	0.98	2.19	961.11
13	75,875.49	80	51	29	63.75	2,648.86	10,954.22	-2,041.95	-6,510.77	1.30	2.28	948.44
12	42,734.94	82	48	34	58.54	2,532.82	11,243.50	-2,318.84	-8,570.72	1.09	1.54	521.16
11	52,759.02	85	53	32	62.35	2,419.35	10,913.54	-2,358.32	-8,225.72	1.03	1.70	620.69
10	39,813.58	88	53	35	60.23	2,325.55	10,577.93	-2,384.01	-11,602.12	0.98	1.48	452.43
9	57,549.55	90	57	33	63.33	2,202.11	8,067.07	-2,059.71	-6,195.44	1.07	1.85	639.44
8	61,391.02	93	63	30	67.74	2,006.57	8,124.70	-2,167.42	-7,580.04	0.93	1.94	660.12
7	87,904.38	95	67	28	70.53	2,066.55	7,734.85	-1,805.51	-5,195.64	1.14	2.74	925.31
6	77,766.67	98	68	30	69.39	1,954.32	6,520.10	-1,837.57	-5,822.32	1.06	2.41	793.54
5	62,195.91	102	66	36	64.71	1,918.83	6,560.78	-1,790.19	-5,937.53	1.07	1.97	609.76
4	50,802.15	110	72	38	65.45	1,483.24	5,650.00	-1,473.45	-5,345.28	1.01	1.91	461.84
3	41,611.40	116	74	42	63.79	1,172.44	3,939.79	-1,074.98	-6,154.38	1.09	1.92	358.72
2	36,394.42	129	78	51	60.47	1,025.31	3,644.28	-854.51	-2,742.74	1.20	1.84	282.13
1	21,835.86	129	78	51	60.47	756.58	2,937.71	-728.97	-2,525.60	1.04	1.59	169.27

Results here are pretty good and also seem to favor more upside. But if you compare the “Avg Trade” column on the far right you’ll find that from Day 2 – Day 19 the Avg Trade here was about *half* the Avg Trade when the 1<sup>st</sup> day jumped SPX up to a 4-day high. Overall, the 1st study above appears worthy of both the short and intermediate-term Active Lists.

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 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 stayed long at the close.

Based on the current active studies, expectations are slated to remain bullish on Thursday. It would take strong bearish evidence in order to change that. The Differential Pivot will be 1976.34 on Thursday. That is 0.4% above Wednesday's close. So for SPX to move from oversold to overbought by the close on Thursday it is going to need to close up at least 0.4%.

Bottom line is that Wednesday's bounce was strong, and it did not produce any studies suggesting an immediate reversal back down. In fact, the evidence we saw suggested prices are more likely to continue to rise over the coming days (and weeks). The CBI remained at 5. While all of the Catapult positions posted gains on the day, none were strong enough to reach any target levels. This implies they (and the market) should have further to rise. Additionally, SPX has another 0.4% to go on Thursday before turning overbought. So I intend to ride my long positions a little longer. If the market rallies further on Thursday and SPX manages to close above its Differential Pivot, then I will look to take profits on my SPY position at the close.

***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)*

*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.*

**None tonight**

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
APA(1/3)	10/7/2014	\$85.46	\$85.43	-0.04%		Catapult
DVN(1/3)	10/7/2014	\$64.51	\$63.95	-0.87%		Catapult
APA(1/3)	10/8/2014	\$83.77	\$84.43	0.79%		bought on open
DVN(1/3)	10/8/2014	\$63.22	\$63.95	1.15%		bought on open
F(1/3)	10/8/2014	\$14.07	\$14.21	1.00%		bought on open
SPY(1/4)	10/8/2014	\$193.26	\$196.64	1.75%		sell on SPX close > 1976.33

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