

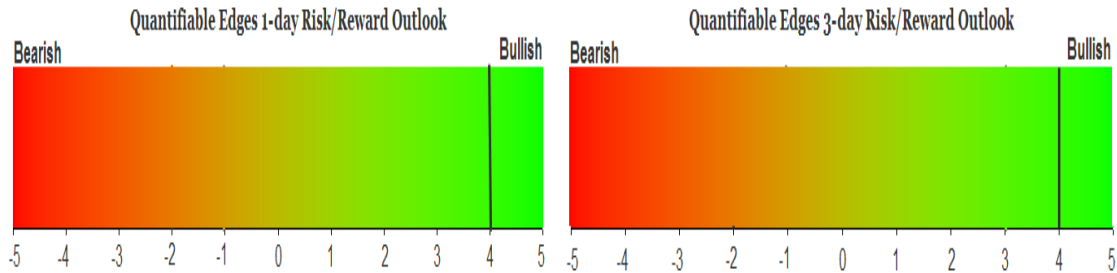
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 13, 2014

Volume 7 Issue 193

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- October op-ex Monday has been seasonally bullish.
- The high CBI reading is suggesting a bounce is likely.
- The stretched VIX is suggesting a bounce as well.

## Short-term Outlook

### The Bottom Line

The market is strongly oversold and there is solid evidence that a bounce is likely in the next few days. But action has been a bit abnormal and the intermediate-term outlook is just neutral. I am partially long and intend to hold my position. I may add to it if the market declines further and additional bullish evidence emerges – but not on Monday.

**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 13, 2014           | VIX 25% > 10ma.                         | 1-2 days  | Bullish |            |            |                        |
| October 13, 2014           | CBI = 7 and SPX > 200ma                 | 1-5 days  | Bullish |            |            |                        |
| October 13, 2014           | Opex Monday in October                  | 1 day     | Bullish |            |            |                        |
| October 10, 2014           | SPX dn 1.5% 2nd time in 5. Close > 200  | 1-7 days  | Bullish | 3.40%      | -2.20%     | -4.70%                 |
| October 10, 2014           | QE Buying Power Swing Long              | 1-6 days  | Bullish |            |            |                        |
| 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%                 |
| <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 10, 2014           | VIX up 20%                              | 1 day     | Bullish |            |            |                        |
| October 10, 2014           | 20 low. Up day. 20-low. Close > 200     | 1 day     | Bullish |            |            |                        |

**The Evidence**

The market got slammed again on Friday, finishing off a wild week. The SPX fell 1.2%, the NASDAQ dropped 2.3% and the Russell 2000 declined 1.4%. Breadth was extremely negative as the NYSE Up Issues % came in at 20% and the Up Volume % was 15%. Total NYSE volume rose a little from Thursday.

There were a good number of studies that appeared in the Quantifinder. They were related mostly to the oversold condition or the spike in fear (via the VIX). Many of them were repeats and already “active”. I have chosen the most compelling new studies below to highlight.

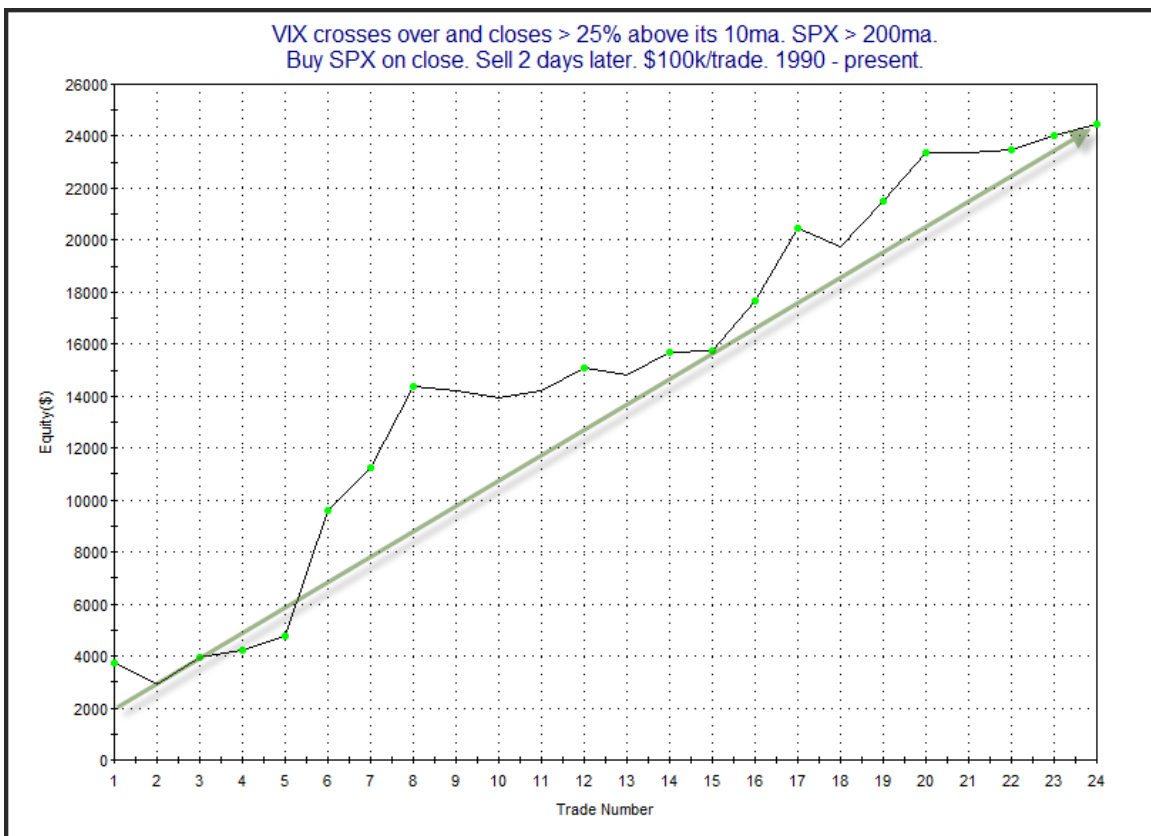
While the SPX declined sharply, the VIX index rose sharply. In fact it closed 27% above its 10-day moving average. In the 8/1/14 letter I examined stretches of 25% or more. I have updated that study below.

VIX crosses over and closes > 25% above its 10ma. SPX > 200ma.  
Buy SPX on close. Sell 2 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 |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5      | 25,366.16       | 24                | 14                  | 10                 | 58.33             | 2,497.32               | 7,070.28               | -959.63               | -1,759.84             | 2.60                | 3.64              | 1,056.92       |
| 4      | 32,487.65       | 24                | 18                  | 6                  | 75.00             | 2,076.69               | 4,690.50               | -815.45               | -1,776.42             | 2.55                | 7.64              | 1,353.65       |
| 3      | 22,371.29       | 24                | 18                  | 6                  | 75.00             | 1,502.14               | 3,940.55               | -777.88               | -1,067.49             | 1.93                | 5.79              | 932.14         |
| 2      | 24,469.31       | 24                | 18                  | 6                  | 75.00             | 1,486.45               | 4,809.66               | -381.12               | -835.20               | 3.90                | 11.70             | 1,019.55       |
| 1      | 17,830.79       | 24                | 19                  | 5                  | 79.17             | 1,125.63               | 5,117.46               | -711.25               | -1,519.76             | 1.58                | 6.01              | 742.95         |

23 of 24 instances (96%) closed above the entry price at some point in the next week.

Very impressive consistency. Sizable bounces seem to have been the norm under these circumstances. Below is a profit curve that assumes a 2-day exit strategy.

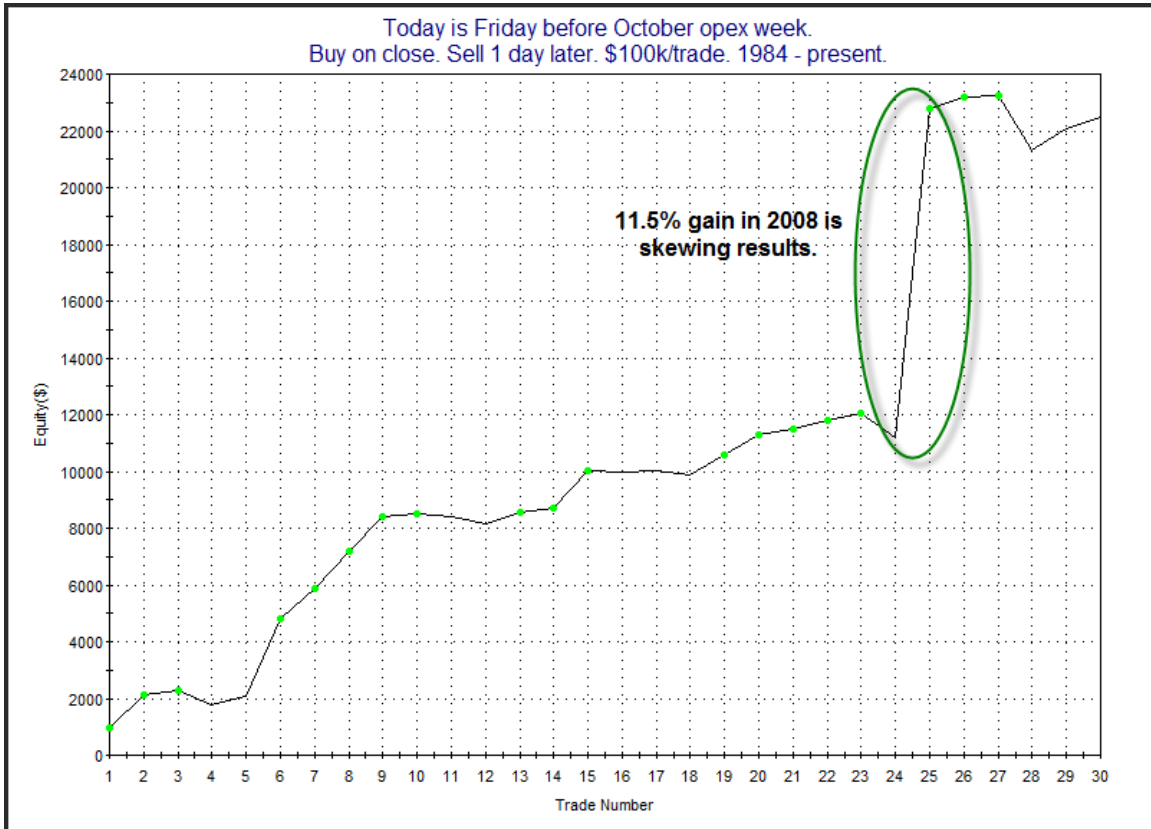


Impressive steadiness. I have included this study to the Active List today.

From a seasonal standpoint option expiration week is often a pretty good week for the market. October is one of those months where it has been especially good over the years. I last showed the table below in the 10/14/13 Subscriber Letter. It examines performance during October op-ex week.


| Today is Friday before October opex week.<br>Buy on close. Sell X days later. \$100k/trade. 1984 - 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   | 25,130.48       | 30                | 22                  | 8                  | 73.33             | 2,338.11               | 7,282.10               | -3,288.50             | -9,109.98             | 0.71                | 1.96              | 837.68         |
| 4   | 31,960.54       | 30                | 21                  | 9                  | 70.00             | 2,302.61               | 6,383.20               | -1,821.58             | -4,169.79             | 1.26                | 2.95              | 1,065.35       |
| 3   | 13,497.57       | 30                | 20                  | 10                 | 66.67             | 1,328.83               | 2,976.32               | -1,307.90             | -3,734.78             | 1.02                | 2.03              | 449.92         |
| 2   | 26,227.70       | 30                | 20                  | 10                 | 66.67             | 1,651.33               | 10,965.69              | -679.89               | -1,737.36             | 2.43                | 4.86              | 874.26         |
| 1   | 22,495.64       | 30                | 23                  | 7                  | 76.67             | 1,147.69               | 11,558.43              | -557.31               | -1,921.32             | 2.06                | 6.77              | 749.85         |

As you can see, returns have generally been quite good. But much of the upside edge has been thanks to the strong Monday. Below is an equity curve showing Monday's performance over the years.



The strongly oversized gains in 2008 obviously skew the results. But even without 2008 there has been a decent upside tendency. So to generate a more realistic estimate I reran the results excluding 2008.

Today is Friday before October opex week.  
Buy on close. Sell 1 day later. \$100k/trade. 1984 - present. (Excluding 2008.)

| TradeStation Performance Summary |             | Collapse  |              |
|----------------------------------|-------------|--|--------------|
| <b>All Trades</b>                |             |  |              |
| Total Net Profit                 | \$10,937.21 | Profit Factor  | 3.80         |
| Gross Profit                     | \$14,838.38 | Gross Loss   | (\$3,901.17) |
| Total Number of Trades           | 29          | Percent Profitable   | 75.86%       |
| Winning Trades                   | 22          | Losing Trades  | 7            |
| Even Trades                      | 0           |  |              |
| Avg. Trade Net Profit            | \$377.15    | Ratio Avg. Win:Avg. Loss   | 1.21         |
| Avg. Winning Trade               | \$674.47    | Avg. Losing Trade  | (\$557.31)   |
| Largest Winning Trade            | \$2,753.79  | Largest Losing Trade   | (\$1,921.32) |

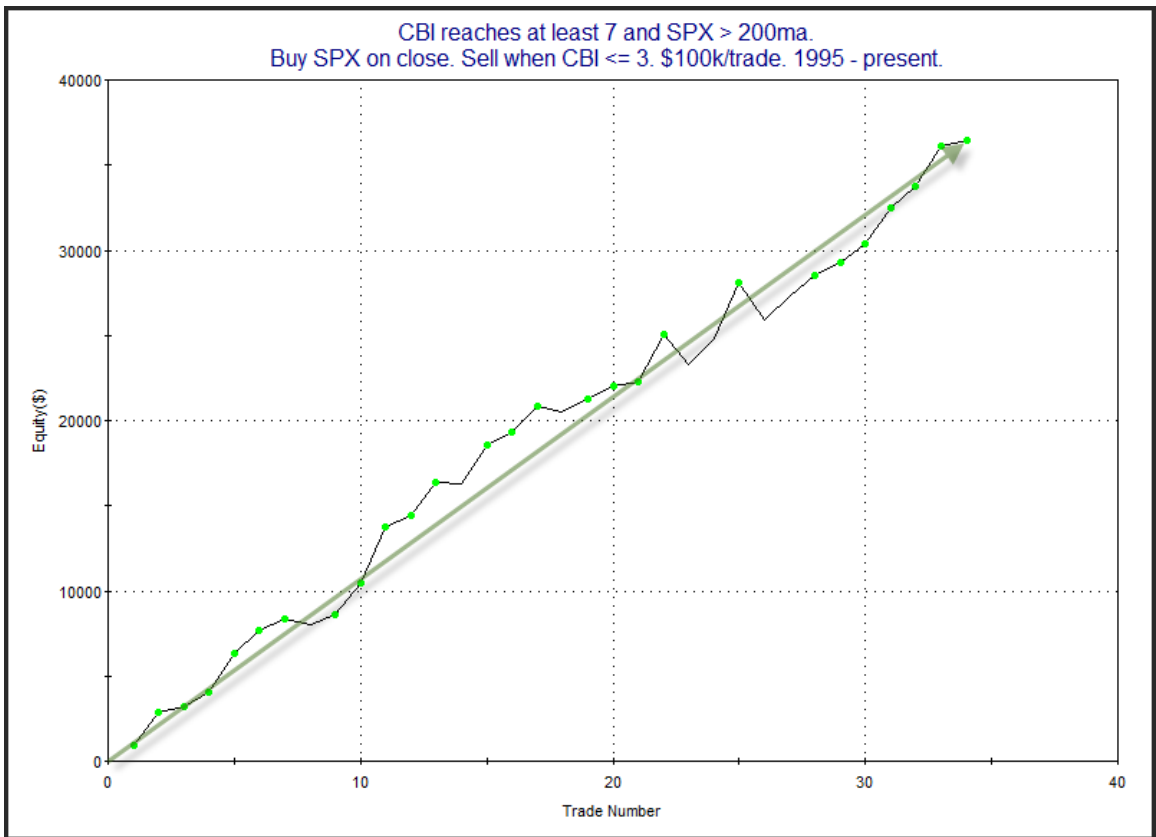
Numbers here are still good. The average gain was nearly 0.4%. I included this seasonal study on the active list for today.

One tool I have found to be especially helpful over the years is the Quantifiable Edges Capitulative Breadth Indicator (CBI). [I have published a good number of studies about it on the blog over the years.](#) CBI readings of 10 or higher have been strong indications that a bottom is likely to occur within a matter of days. But most CBI readings of 10 or higher have occurred when SPX is in a long-term downtrend. When SPX is above its 200ma, lower readings will often be enough to signal a nearby bounce. In the study below I examined times SPX was above the 200ma and the CBI reached 7 or higher as it did on Thursday.

CBI reaches at least 7 and SPX > 200ma.  
 Buy SPX on close. Sell when CBI <= 3. \$100k/trade. 1995 - present.

| TradeStation Performance Summary <span style="float: right;">Collapse ^</span> |             |                          |              |
|--|-------------|--------------------------|--------------|
| All Trades   |             |                          |              |
| Total Net Profit   | \$36,416.01 | Profit Factor            | 8.80         |
| Gross Profit   | \$41,087.25 | Gross Loss               | (\$4,671.24) |
| Total Number of Trades   | 34          | Percent Profitable       | 85.29%       |
| Winning Trades   | 29          | Losing Trades            | 5            |
| Even Trades  | 0           |                          |              |
| Avg. Trade Net Profit  | \$1,071.06  | Ratio Avg. Win:Avg. Loss | 1.52         |
| Avg. Winning Trade   | \$1,416.80  | Avg. Losing Trade        | (\$934.25)   |
| Largest Winning Trade  | \$3,278.50  | Largest Losing Trade     | (\$2,178.16) |

The numbers here appear strongly bullish. I also ran a profit curve.



The strong, steady upslope serves as confirmation of the upside edge. Lastly, I also looked at the reaction over the next several days after this setup has occurred.

| CBI reaches at least 7 and SPX > 200ma.<br>Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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   | 38,357.20       | 34                | 26                  | 8                  | 76.47             | 1,699.95               | 3,614.80               | -730.20               | -2,217.68             | 2.33                | 7.57              | 1,128.15       |
| 4   | 30,562.23       | 34                | 24                  | 10                 | 70.59             | 1,528.43               | 3,172.16               | -612.02               | -1,144.48             | 2.50                | 5.99              | 898.89         |
| 3   | 16,072.98       | 34                | 25                  | 9                  | 73.53             | 1,045.02               | 3,278.50               | -1,116.95             | -3,490.90             | 0.94                | 2.60              | 472.73         |
| 2   | 9,687.79        | 34                | 21                  | 13                 | 61.76             | 961.51                 | 2,137.76               | -808.00               | -2,290.68             | 1.19                | 1.92              | 284.94         |
| 1   | 8,701.91        | 34                | 22                  | 12                 | 64.71             | 762.88                 | 1,612.80               | -673.45               | -1,939.20             | 1.13                | 2.08              | 255.94         |

No matter how I slice it, the CBI of 7 appears to be a substantial positive.

If the market sells off much more in the next few days there is a good chance we will see the CBI reach 10 or higher. Levels of 10 or higher have provided very strong bounce indications. Of course if that happens SPX will almost certainly be below the 200ma at the time. Here's what the setup would look like if that were to occur:

| CBI reaches at least 10 and SPX < 200ma.<br>Buy SPX on close. Sell when CBI <= 3. \$100k/trade. 1995 - present. |             |                          |              |
|---|-------------|--------------------------|--------------|
| TradeStation Performance Summary  |             |                          | Collapse ^   |
| All Trades  |             |                          |              |
| Total Net Profit  | \$61,412.00 | Profit Factor            | 9.12         |
| Gross Profit  | \$68,972.72 | Gross Loss               | (\$7,560.72) |
| Total Number of Trades  | 19          | Percent Profitable       | 84.21%       |
| Winning Trades  | 16          | Losing Trades            | 3            |
| Even Trades   | 0           |                          |              |
| Avg. Trade Net Profit   | \$3,232.21  | Ratio Avg. Win:Avg. Loss | 1.71         |
| Avg. Winning Trade  | \$4,310.80  | Avg. Losing Trade        | (\$2,520.24) |
| Largest Winning Trade   | \$18,981.60 | Largest Losing Trade     | (\$4,214.00) |

The "Percent Profitable" and "Profit Factor" are very similar to the CBI7 > 200ma study. The Avg Trade is much higher though due to the increased volatility that often accompanies this setup. Anyway, this suggests the CBI is a strong positive now. And if the market collapses further in the next few days, that may just increase the size of the potential rebound when the bounce does occur.

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



With tonight's studies taken into account the green Aggregator Line held firmly 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 closed far 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 Monday. It would take very strong bearish evidence in order to change that. The Differential Pivot will be 1978.41 on Monday. That is a whopping 3.8% above Friday's close. It is extremely unlikely the market will rally that much on Monday. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

The current setup appears primed for a bounce. The market is strongly oversold and we have ample evidence suggesting an upside edge. But we have seen a few bullish studies get run over in the last week. This suggests the market is acting a bit "abnormally". This happens sometimes. Eventually, historical tendencies will start playing out again. The market will bounce at some point. And more "normal" behavior will eventually follow. But while the market is in the midst of an "abnormal" episode, risk is elevated. The CBI

has been my favorite timing indicator when the market undergoes abnormally strong selloffs. But even it is not infallible. And though a temporary bottom has been reached within 3 days every time the CBI has reached 10 or more, those 1-3 days have sometimes seen some very scary selling. ([Click here for a supporting study on this.](#)) Of course it isn't even at 10 yet.

At the close on Friday I scaled further into a long index position. I'm at about 50% of my max index position at this point. I will not look to add more on Monday. Between the recent abnormal movement and the fact that I am only neutral on the market from an intermediate-term standpoint, I intend to take a slow, cautious approach. I am interested to see what emerges in the next few days if the market continues to fall. If it is more bullish evidence, then I could look to scale in further as early as Tuesday. I am not seeing any evidence at this point that would compel me to exit all, or even part, of my current long position.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 10/13 – neutral***

| <b>Combo #1</b> | <b>Combo #2</b> | <b>Combo #3</b> |
|-----------------|-----------------|-----------------|
| Flat            | Flat            | Flat            |

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.)

Friday's selling left the SPX down 5.2% on the week. That is the worst 1-week performance for the index since 5/18/12. And the index closed just barely above its 200-day moving average. The 200-day moving average is not a magic line. It is a pretty good determination of long-term trend. And many of the studies I look at consider whether the market is trading above or below that line. Markets trading below their 200ma are generally struggling markets. They are characterized by higher volatility. They bounce less reliably. And shorting a short-term overbought reading becomes a more appealing setup than when the market is locked in a long-term uptrend. So while it is not a magic line, a sustained move below it will likely mean numerous changes in character versus what many market participants have become used to. So traders will need to adjust their strategies. Quantifiable Edges' studies are generally designed to adapt and recognize

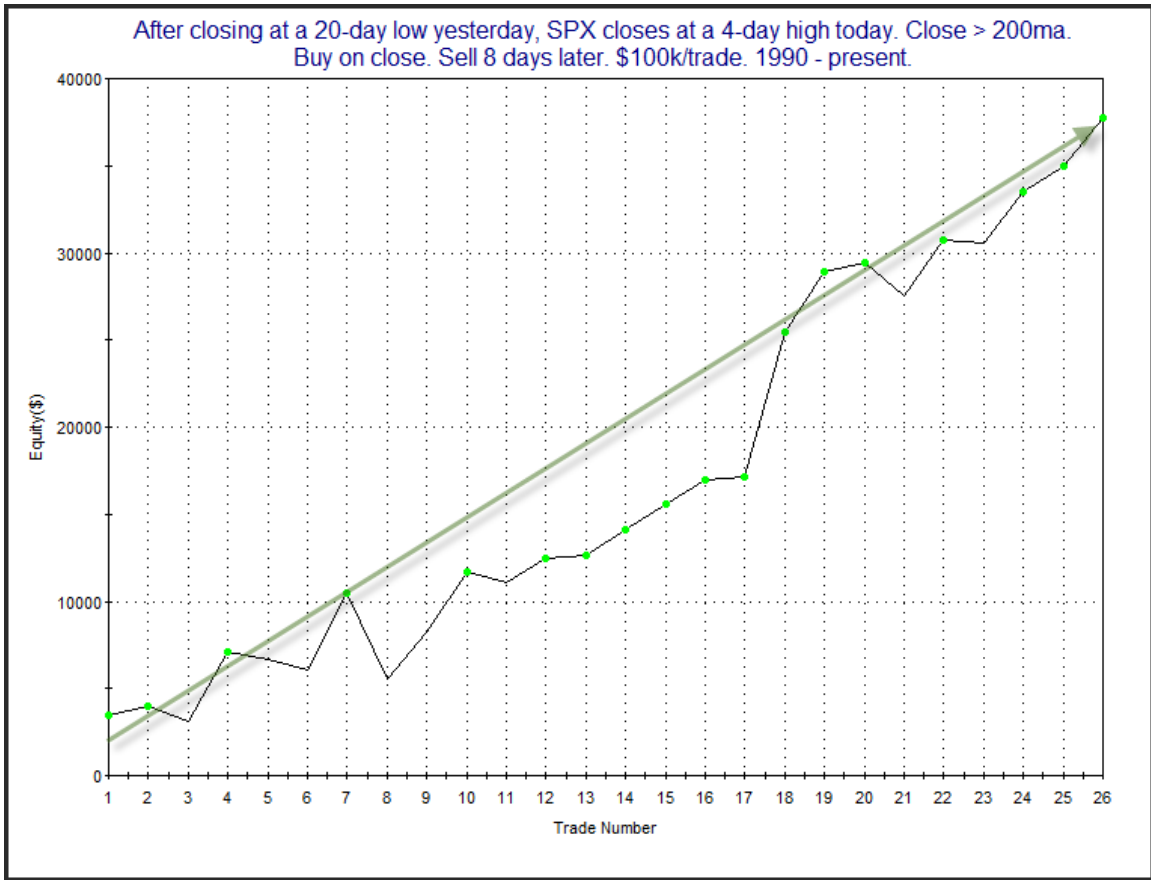
these changes. A downtrend offers different kinds of trading opportunities. But it still offers plenty of opportunities – both on the long and the short side of the market.

There was one study that emerged during the week that was added to the intermediate-term Active List. It was from the 10/9 letter. I have copied it below.

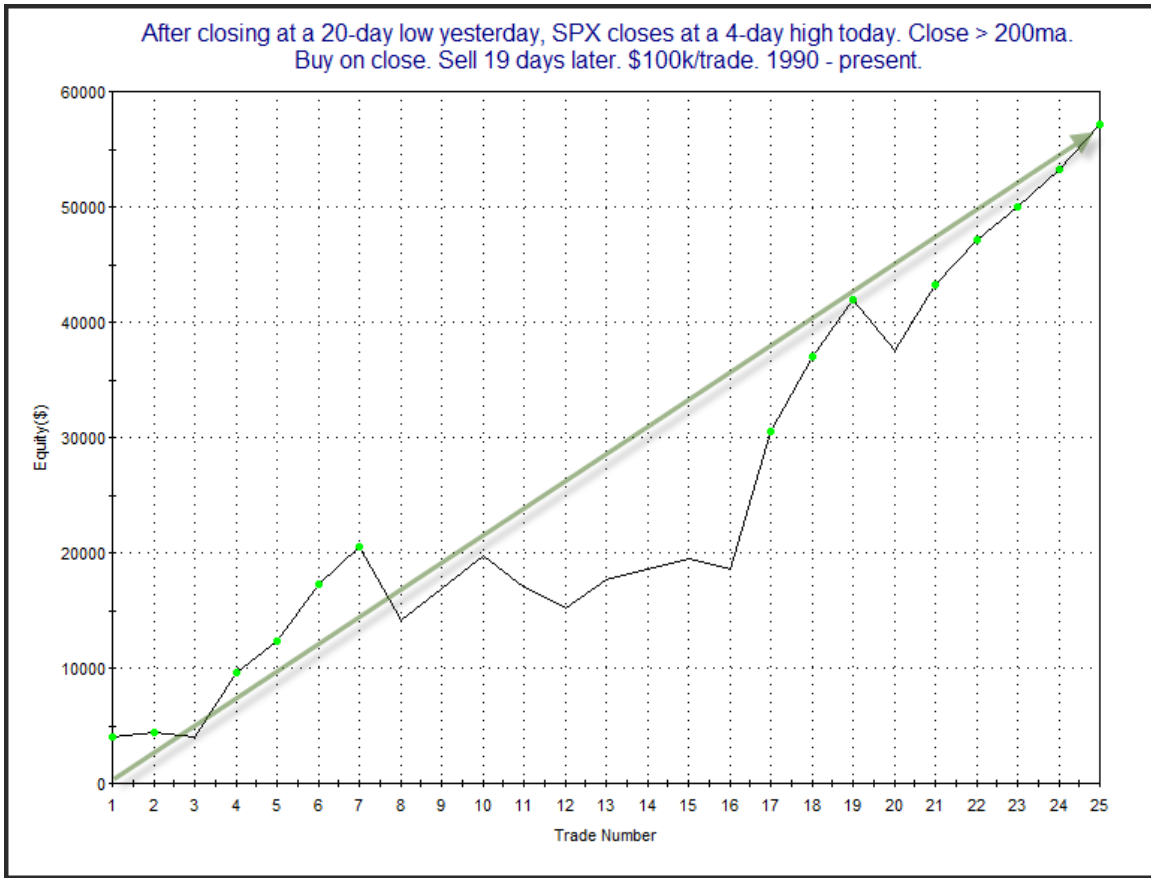
*Wednesday was a strong enough move that we saw SPX go from closing at a 20-day low on Tuesday to closing at a 6-day high on Wednesday. In the 8/11/14 letter I looked at other times in which the market put in a strong thrust off a 20-day low. There I required a close of at least a 4-day high. I have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

| After closing at a 20-day low yesterday, SPX closes at a 4-day high today. Close > 200ma.<br>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.

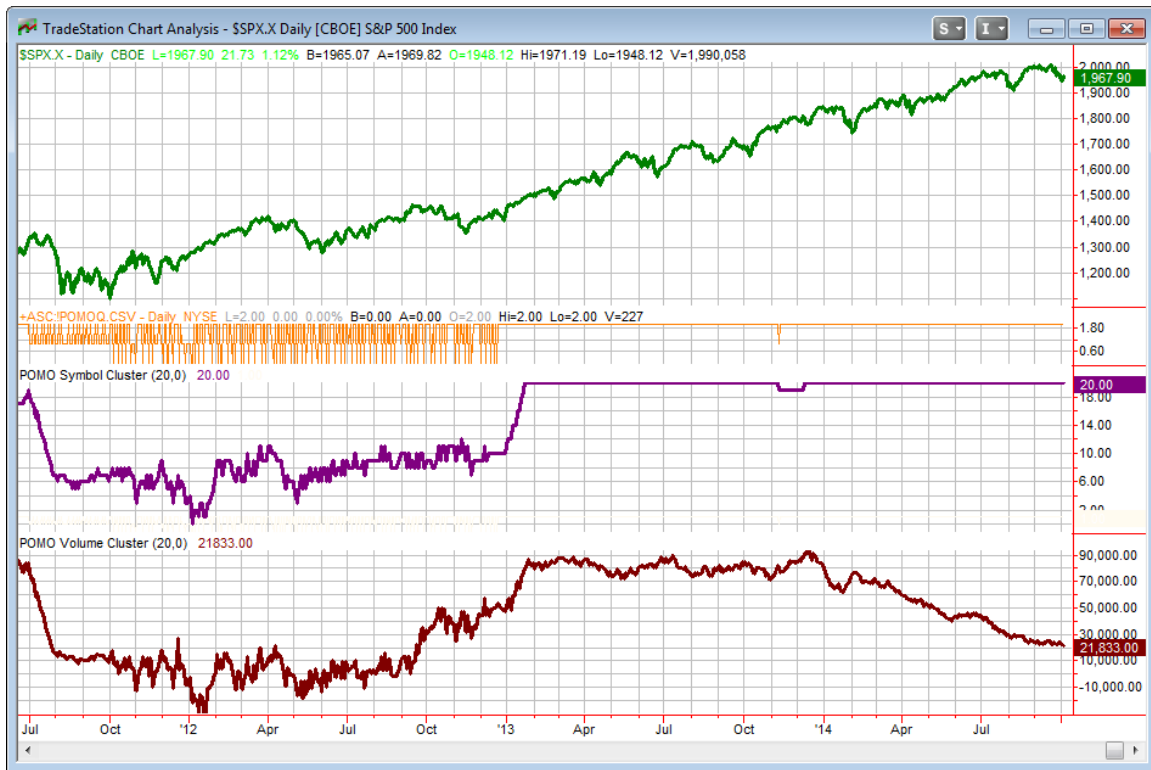
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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 update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

*POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators.*

*The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.*



The POMO/AMBS days indicator is still riding along at 20, where it spent most of 2013 and 2014 so far. The volume indicator has resumed its descent as October flows are lower than September and previous months. We estimate net inflows this past week to have been a little under \$3.0 billion. That is the lowest we have seen since 2012. It could put a damper on the size of the next bounce.

This upcoming week will again be a light one for Fed liquidity flows. The bond market is closed on Monday, so there will be no purchases done then. The rest of the week will total about \$3.1 billion. So liquidity is relatively light right now and will remain so until we get into next week, when it will ramp up to over \$5 billion.

The bulls are hanging by a thread here. The reversal from the 20-day low study this week provides some hope. And there are a couple of other recent price action studies pointing higher as well. Additionally, the Golden Cross is still in effect. And Fed liquidity is positive, but perhaps not positive enough. So I am viewing that as neutral. On the bearish side, the Study of Tops breadth indicators divergence leaves the door open for a major correction to emerge. Also, seasonality is bearish. (Though the market will enter a bullish period in November.) I moved to neutral a couple of weeks ago. I don't see compelling reasons to change that at this point. I will continue to look for trading opportunities on both sides of the market, but I do not anticipate trading too aggressively in either direction without very strong short-term evidence to back up my position.

## **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(bought)

APA – 1/3 @ \$84.21 (bought)

F – 1/3 @\$14.10 (bought)

APA – 1/3 @ \$81.88 (bought) – 3<sup>rd</sup> & final trigger

NOV – 1/3 @ \$71.34 (bought)

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

None

***Broad Market Large Cap CBI – 7/4(DVN-2, APA-3, F, NOV)***

## **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**

| Symbol   | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes           |
|----------|------------|-------------|---------------|-------------|------|-----------------|
| APA(1/3) | 10/7/2014  | \$85.46     | \$79.91       | -6.49%      |      | Catapult        |
| DVN(1/3) | 10/7/2014  | \$64.51     | \$59.42       | -7.89%      |      | Catapult        |
| APA(1/3) | 10/8/2014  | \$83.77     | \$79.91       | -4.61%      |      | Catapult        |
| DVN(1/3) | 10/8/2014  | \$63.22     | \$59.42       | -6.01%      |      | Catapult        |
| F(1/3)   | 10/8/2014  | \$14.07     | \$13.79       | -1.99%      |      | Catapult        |
| SPY(1/4) | 10/8/2014  | \$193.26    | \$190.54      | -1.41%      |      | Aggregator      |
| APA(1/3) | 10/10/2014 | \$81.48     | \$79.91       | -1.93%      |      | Catapult        |
| NOV(1/3) | 10/10/2014 | \$71.34     | \$70.32       | -1.43%      |      | Catapult        |
| SPY(1/4) | 10/10/2014 | \$190.54    | \$190.54      | 0.00%       |      | bought on close |

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