

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 16, 2014

Volume 7 Issue 196

Market Overview



Signals Overview

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

Tonight's Research Points

- The VIX again spiked to suggest a bounce is near.
- SPX closing < its lower Bollinger Band for 5 days suggests an upside edge.
- SPY's gap down and partial reversal also appears bullish,

Short-term Outlook

The Bottom Line

Wednesday was another down day and more lows. Studies continue to point northward. I am long and looking for a bounce.

Summary of Recent Active Studies (see Letters from listed dates for details) – not updated tonight 10/16

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
Active - Short Term						
October 15, 2014	SPY close bottom 25% 4 days in row	1-5 days	Bullish			
October 15, 2014	Bounce from 50-low on high volume	1-4 days	Bullish			
October 14, 2014	Dn 3 days. Today is Monday	1-4 days	Bullish			
October 14, 2014	CBI >= 10	1-5 days	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%
Active - Long Term						
October 14, 2014	CBI >= 11	1-20 days	Bullish			
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			

The Evidence

Wednesday started off poorly and things were bad all morning. But the afternoon saw a bit of a rally, leaving the major indices well off their lows of the day. Results were mostly negative, but not all. The SPX lost 0.8%, the NASDAQ fell 0.3% and the Russell 2000 gained 1.0%. Breadth was negative as the NYSE Up Issues % came in at 46% and the Up Volume % was 39%. Total NYSE volume rose to the highest level in a few weeks.

Once again there were a good number of studies that triggered in the Quantifinder. After examining them I chose the most compelling ones to discuss below.

Oversold continues to get more oversold as the market has been unable to muster a bounce. An unusual setup triggered on Wednesday that was last discussed in the 5/21/12 letter. It was the fifth day in a row in which the SPX closed below its lower Bollinger Band (using the standard 20, 2 configuration). I've updated the results of that study below.

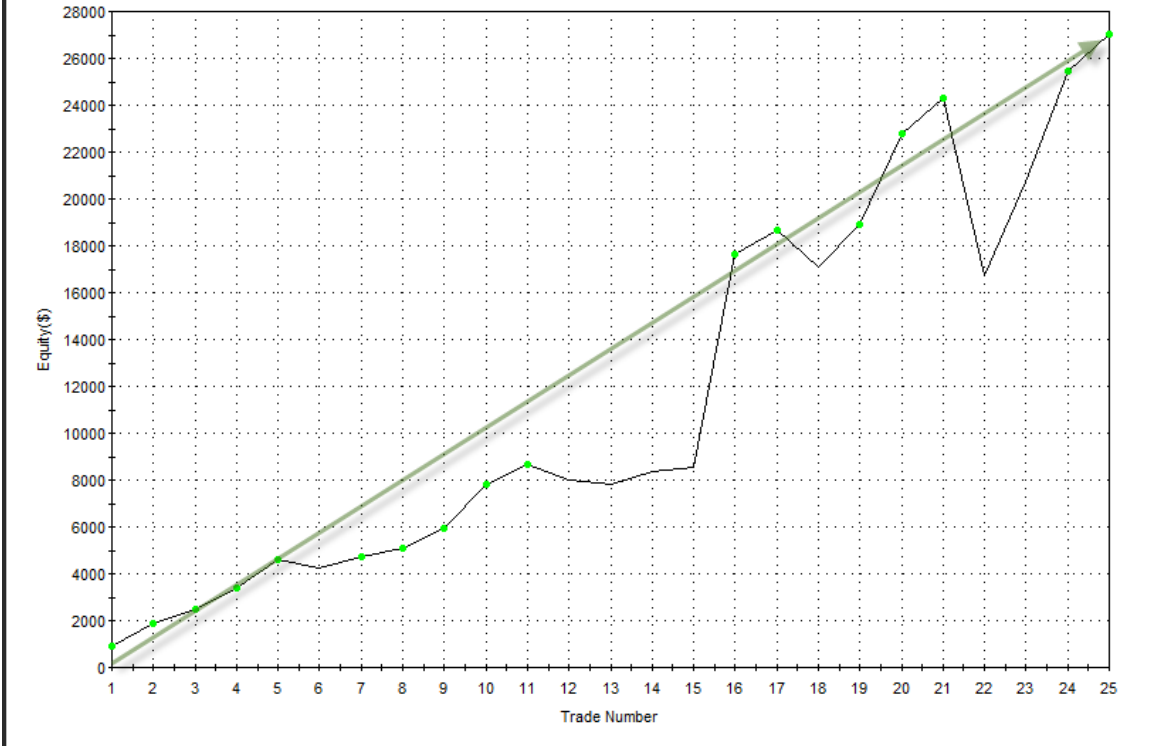
SPX closes below lower Bollinger Band for the 5th day in a row.
Buy on close. Sell X days later. \$100k/trade. 1960 - present.

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	1,358.46	25	13	12	52.00	2,348.01	7,739.42	-2,430.47	-7,787.10	0.97	1.05	54.34
4	10,679.62	25	15	10	60.00	1,720.27	5,439.43	-1,512.45	-4,582.40	1.14	1.71	427.18
3	27,343.61	25	21	4	84.00	1,456.24	4,806.58	-809.34	-2,176.00	1.80	9.45	1,093.74
2	18,548.88	25	20	5	80.00	1,465.29	4,819.24	-2,151.37	-8,657.72	0.68	2.72	741.96
1	27,034.24	25	20	5	80.00	1,867.54	9,089.88	-2,063.32	-7,577.02	0.91	3.62	1,081.37

**24 of 25 instances closed above the entry price at some point in the next 3 days.
The 1 outlier occurred on 7/25/75 and went on to lose nearly 7% over the next month.**

The results appear to suggest an upside edge, but the edge really only remains in effect for one day. The note at the bottom is interesting in that every time but one the market managed to bounce within three days. Below is an equity curve showing how the 1-day edge has played out.

SPX closes below lower Bollinger Band for the 5th day in a row.
Buy on close. Sell 1 day later. \$100k/trade. 1960 - present.



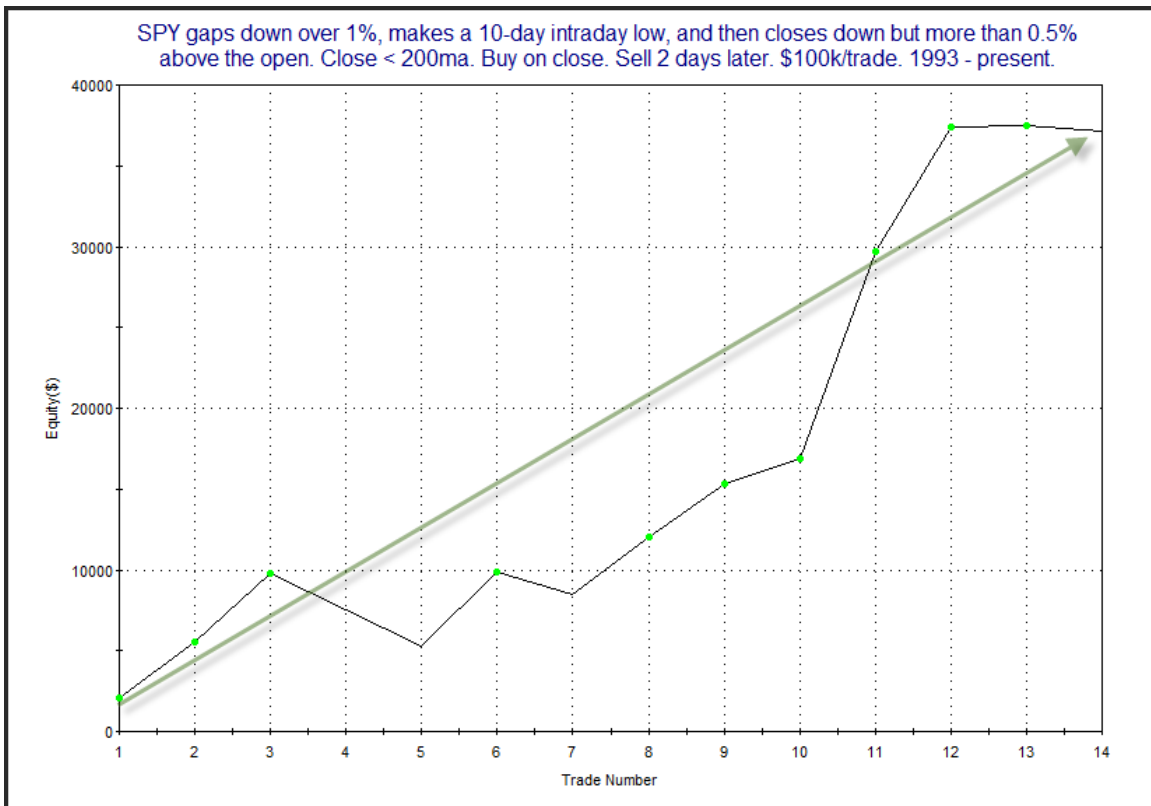
The curve is definitely choppy but it moves from lower left to upper right and it has generally remained on track for a long time.

The gap down and partial reversal for SPY also triggered a few studies. I refer to it as a “partial” reversal because SPY closed above the open but still did not make it back to positive on the day. The study below was last seen in the 4/8/13 letter.

SPY gaps down over 1%, makes a 10-day intraday low, and then closes down but more than 0.5% above the open. Close < 200ma. Buy on close. Sell X days later. 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	21,886.95	13	7	6	53.85	5,581.96	11,238.92	-2,864.47	-4,576.11	1.95	2.27	1,683.61
4	27,188.39	14	9	5	64.29	4,564.96	10,630.48	-2,779.26	-6,725.16	1.64	2.96	1,942.03
3	22,889.66	14	10	4	71.43	2,994.45	6,933.92	-1,763.72	-5,355.22	1.70	4.24	1,634.98
2	37,143.86	14	10	4	71.43	4,331.14	12,814.15	-1,541.88	-2,251.30	2.81	7.02	2,653.13
1	27,829.76	14	10	4	71.43	3,548.71	14,507.65	-1,914.32	-3,576.07	1.85	4.63	1,987.84

Instances are low but the gains have been large. So I also looked at the profit curve for confirmation.



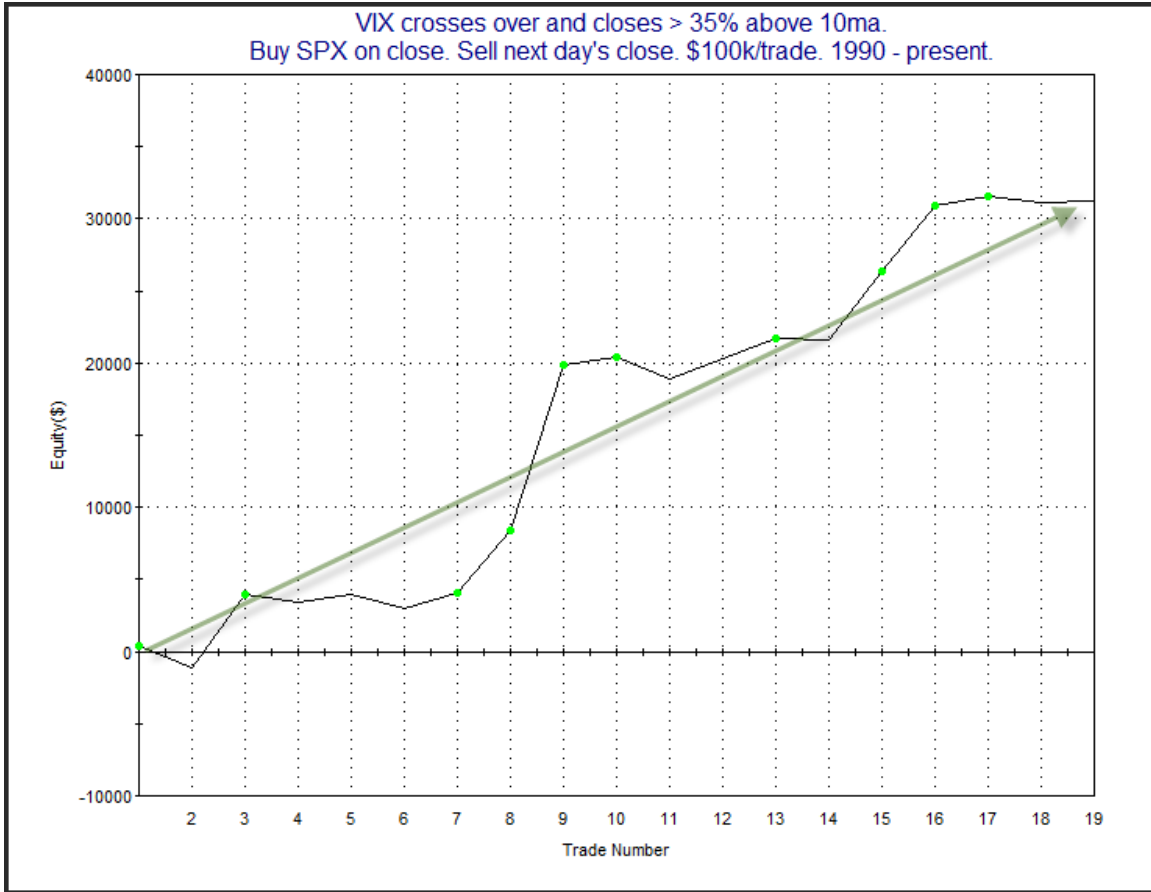
A little choppy but the curve has clearly been trending higher. I have included this study on the Active List tonight.

The VIX has been spiking, and that also continued on Wednesday, suggested fear is reaching a level where a reversal is likely. In fact, it closed nearly 37% above the 10ma. The study below was just 2 nights ago in the 10/14/14 subscriber letter. It examines spikes of at least 35% above the 10ma. Results are updated.

VIX crosses over and closes > 35% above 10ma.
Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.

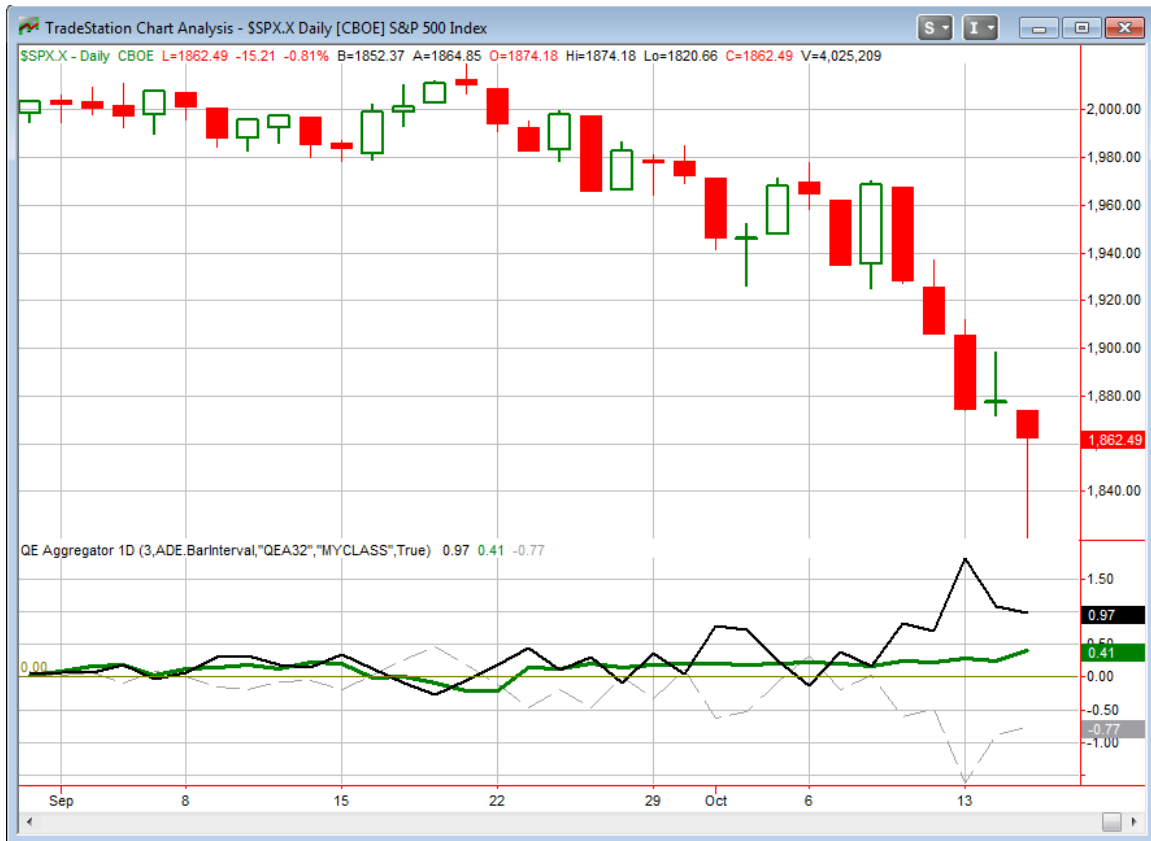
TradeStation Performance Summary Collapse ▲			
All Trades			
Total Net Profit	\$31,242.71	Profit Factor	7.12
Gross Profit	\$36,350.53	Gross Loss	(\$5,107.82)
Total Number of Trades	19	Percent Profitable	68.42%
Winning Trades	13	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$1,644.35	Ratio Avg. Win:Avg. Loss	3.28
Avg. Winning Trade	\$2,796.19	Avg. Losing Trade	(\$851.30)
Largest Winning Trade	\$11,558.43	Largest Losing Trade	(\$1,532.16)

A close this far above the 10ma is rare. It has frequently meant a market bounce the next day. Follow through after the initial bounce has been unreliable, though. Below is a profit curve.



The curve is fairly impressive also. This study seems worth consideration.

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



With tonight's studies taken into account the green Aggregator Line moved even 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 is still very 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 stayed long at the close.

Based on the current active studies, expectations are slated to remain bullish on Thursday. It would take very strong bearish evidence in order to change that. The Differential Pivot will be 1888.70 on Thursday. That is 1.4% above Wednesday's close. That is a sizable gain, but certainly doable in an environment as volatile as this one. So for SPX to move from oversold to overbought versus expectations on Thursday it will take a gain of at least 1.4%.

The market continues to ignore all bullish signs. That can only persist for so long. Tonight we see the extreme stretch below the Bollinger Bands, the partial SPY reversal and the spiking VIX all suggesting an upside edge. And this is in addition to all the evidence we have seen the last few days, including the very high CBI reading. Based on most other historical precedents, it appears Wednesday or Thursday should mark at least

a short-term bottom from where the market can rally for a few days. Of course, with abnormal market conditions like we are now seeing, the market is truly capable of anything. So going a bit longer without bouncing, while unprecedented by some measures, is certainly very possible. I have a good amount of long exposure at the moment. And while the selling could always increase and push the market even lower, I believe this is an opportune time to add my last lot of SPY if I can get a favorable fill. Details are in the Trade Ideas section down below.

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

The intermediate-term outlook was last updated in the 10/13/14 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

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) – 3rd & final trigger

NOV – 1/3 @ \$71.34 (bought)

NOV – 1/3 @ \$68.05 – (buy @ limit) 2nd lot

APC – 1/3 @ \$85.25 (buy @ limit) 1st lot

HAL – 1/3 @ \$50.26 (buy @ limit) 1st lot

WMB – 1/3 @ \$47.89 (buy @ limit) 1st lot

DVN – 1/3 @ \$56.56 (buy @ limit) 3rd lot

OXY – 1/3 @ \$86.55 – (buy @ limit) 1st lot

APC – 1/3 @ \$84.66 (buy @ limit) 2nd lot

HAL – 1/3 @ \$49.63 (buy @ limit) 2nd lot

DOW – 1/3 @ \$43.93 (buy @ limit) 1st lot

COP – 1/3 @ \$66.20 (buy @ limit) 1st lot

SLB – 1/3 @ \$88.96 (buy @ limit) 1st lot

New

OXY – 1/3 @ \$85.25 – (buy @ limit) 2nd lot

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 19/11(DVN-3, APA-3, F, NOV-2, APC-2, HAL-2, WMB, OXY-2, DOW, COP, SLB)

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 @ \$185.00 LIMIT. Based on the short-term outlook above. This is between Wednesday's closing price and Wednesday's low. I don't expect SPY to get all the way back to its Wednesday low on Thursday, but if it pulls back a bit here I will look to add my last piece of SPY.

OXY – buy 1/3 Catapult position @ \$85.25 LIMIT. From the Catapult section above. This is the 2nd 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	\$72.67	-14.97%		Catapult
DVN(1/3)	10/7/2014	\$64.51	\$55.14	-14.52%		Catapult
APA(1/3)	10/8/2014	\$83.77	\$72.67	-13.25%		Catapult
DVN(1/3)	10/8/2014	\$63.22	\$55.14	-12.78%		Catapult
F(1/3)	10/8/2014	\$14.07	\$13.62	-3.20%		Catapult
SPY(1/4)	10/8/2014	\$193.26	\$186.43	-3.53%		Aggregator
APA(1/3)	10/10/2014	\$81.48	\$72.67	-10.81%		Catapult
NOV(1/3)	10/10/2014	\$71.34	\$69.97	-1.92%		Catapult
SPY(1/4)	10/10/2014	\$190.54	\$186.43	-2.16%		Aggregator
APC(1/3)	10/14/2014	\$85.25	\$85.46	0.25%		Catapult
WMB(1/3)	10/14/2014	\$47.89	\$49.71	3.80%		Catapult
HAL(1/3)	10/14/2014	\$50.26	\$50.64	0.76%		Catapult
NOV(1/3)	10/14/2014	\$68.05	\$69.97	2.82%		Catapult
DVN(1/3)	10/14/2014	\$56.56	\$55.14	-2.51%		Catapult
SPY(1/4)	10/14/2014	\$187.50	\$186.43	-0.57%		Aggregator
HAL(1/3)	10/15/2014	\$49.27	\$50.64	2.78%		Catapult
APC(1/3)	10/15/2014	\$83.02	\$85.46	2.94%		Catapult
COP(1/3)	10/15/2014	\$63.79	\$66.25	3.86%		Catapult
DOW(1/3)	10/15/2014	\$43.04	\$44.09	2.44%		Catapult
OXY(1/3)	10/15/2014	\$85.32	\$85.25	-0.08%		Catapult
SLB(1/3)	10/15/2014	\$87.90	\$89.21	1.49%		Catapult

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