

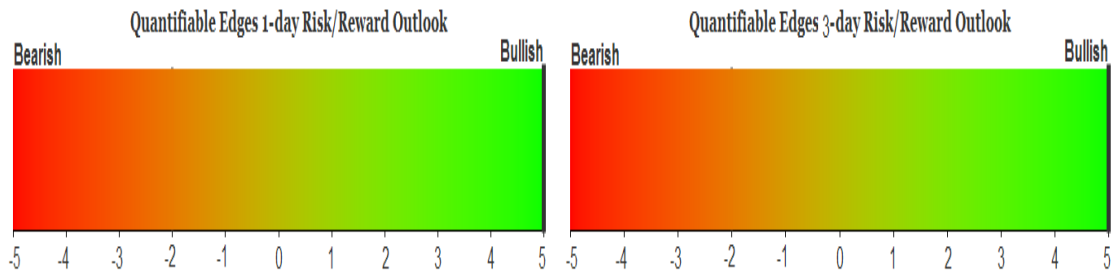
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 17, 2014

Volume 7 Issue 197

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY's moved up > 1% from open to close and still finished negative – a bullish sign in the past.

Short-term Outlook

The Bottom Line

No real change from the last few days. Plenty of indications that a bounce is likely. It simply has not arrived yet. I am long and looking to take advantage of the anticipated 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
Active - Short Term						
October 17, 2014	Close 1% > open but still down. < 10ma	1-2 days	Bullish			
October 16, 2014	Gap dn 1%. Close up but < yesterday	1-2 days	Bullish			
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%
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

If you just looked at the closing numbers, Thursday would have appeared to have been a dull day. The SPX gained less than 1 point (while SPY finished *down* \$0.16), the NASDAQ rose 0.05% and the Russell 2000 fell 0.02%. Breadth was positive as the NYSE Up Issues % came in at 70% and the Up Volume % was 60%. Total NYSE volume dipped a little from Wednesday's level.

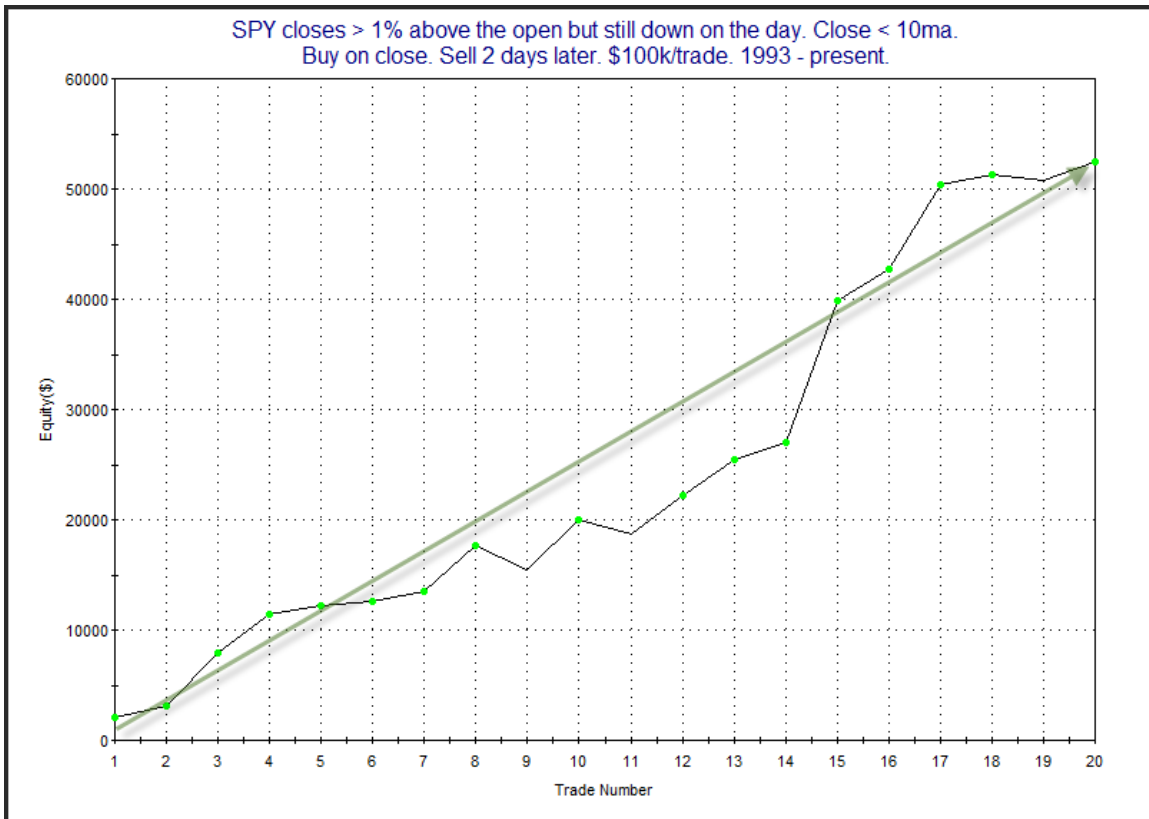
There were several studies that triggered in the Quantifinder that again suggested SPY's big gap down and partial reversal could be a positive over the next few days. The study below is one I last showed in the 3/16/11 subscriber letter. It examined times when SPY rose over 1% from open to close but still finished down on the day. Since then I also added a filter requiring SPY closed below its 10ma. All results are updated.

SPY closes > 1% above the open but still down on the day. Close < 10ma.
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
10	47,299.09	17	12	5	70.59	5,020.08	12,037.05	-2,588.38	-4,065.60	1.94	4.65	2,782.30
9	54,230.34	17	15	2	88.24	3,838.26	10,793.37	-1,671.76	-2,059.71	2.30	17.22	3,190.02
8	56,135.17	17	13	4	76.47	4,853.15	10,774.35	-1,738.96	-3,155.60	2.79	9.07	3,302.07
7	64,828.57	17	14	3	82.35	4,980.00	15,348.76	-1,630.46	-2,787.78	3.05	14.25	3,813.45
6	59,338.95	17	14	3	82.35	4,628.56	11,639.99	-1,820.28	-2,442.90	2.54	11.87	3,490.53
5	43,069.32	19	13	6	68.42	4,529.31	11,238.92	-2,635.29	-6,614.24	1.72	3.72	2,266.81
4	45,472.88	20	14	6	70.00	4,114.72	10,630.48	-2,022.21	-6,725.16	2.03	4.75	2,273.64
3	29,590.54	20	14	6	70.00	2,920.95	6,933.92	-1,883.80	-5,355.22	1.55	3.62	1,479.53
2	52,505.46	20	17	3	85.00	3,331.93	12,814.15	-1,379.14	-2,251.30	2.42	13.69	2,625.27
1	40,004.64	20	15	5	75.00	3,253.57	14,507.65	-1,759.77	-3,547.32	1.85	5.55	2,000.23

The only instance that went more than 4 days before closing above the entry price was 9/17/2001. That was the day the market re-opened after the 9/11/2001 attacks.

The numbers here all look fantastic. The inclination to bounce has been both reliable and strong. Much of the gains have been realized in the first 2 days. Below is an equity curve for the 2-day holding period.



The profit curve looks as nice as the numbers, with a strong, steady upslope.

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



With tonight's study 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 is still well 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 Friday. It is highly unlikely that will change. The Differential Pivot will be 1891.66 on Friday. That is 1.6% above Thursday'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 Friday it will take a close higher of at least 1.6%.

Nothing substantial occurred to change my outlook tonight. Everything we have seen in the past several days has indicated a bounce is overdue. This includes price action, oversold readings, sentiment via the VIX, breadth via the Quantifiable Edges CBI, and more. I look on my final lot for my index position at the open on Thursday. At this point I am simply waiting for the bounce to emerge to take my exit.

There was some notable action among the Catapults. Four of them reached their exit targets, and one new one emerged. This led the CBI to drop from 19 to 14. This is still a very high reading suggesting a short-term bullish edge. Several of the Catapult positions put in solid gains on Thursday. If the market rallies strongly on Friday there is a good chance we could see the CBI drop quite a bit. I will post to Twitter the CBI reading near the end of the day. You may [follow me on Twitter](#) or simply check the Twitter feed box near on the Quantifiable Edges homepage. I may also send out another intraday update on Friday if action is particularly notable.

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)

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

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

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

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

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

New

MDLZ – 1/3 @ \$32.10 – (buy @ limit) 1st lot

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 14/8(DVN-3, APA-3, HAL-2, OXY-2, DOW, COP, SLB, MDLZ)

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.

MDLZ – buy 1/3 Catapult position @ \$32.10 LIMIT. From the Catapult section above. This is the 1st 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	\$73.23	-14.31%		Catapult
DVN(1/3)	10/7/2014	\$64.51	\$56.54	-12.35%		Catapult
APA(1/3)	10/8/2014	\$83.77	\$73.23	-12.58%		Catapult
DVN(1/3)	10/8/2014	\$63.22	\$56.54	-10.57%		Catapult
F(1/3)	10/8/2014	\$14.07	\$13.95	-0.85%		Sell on open
SPY(1/4)	10/8/2014	\$193.26	\$186.27	-3.62%		Aggregator
APA(1/3)	10/10/2014	\$81.48	\$73.23	-10.13%		Catapult
NOV(1/3)	10/10/2014	\$71.34	\$71.21	-0.18%		Sell on open
SPY(1/4)	10/10/2014	\$190.54	\$186.27	-2.24%		Aggregator
APC(1/3)	10/14/2014	\$85.25	\$89.57	5.07%		sold on close
WMB(1/3)	10/14/2014	\$47.89	\$51.05	6.60%		sold on close
HAL(1/3)	10/14/2014	\$50.26	\$51.17	1.81%		Catapult
NOV(1/3)	10/14/2014	\$68.05	\$71.21	4.64%		Sell on open
DVN(1/3)	10/14/2014	\$56.56	\$56.54	-0.04%		Catapult
SPY(1/4)	10/14/2014	\$187.50	\$186.27	-0.66%		Aggregator
HAL(1/3)	10/15/2014	\$49.27	\$51.17	3.86%		Catapult
APC(1/3)	10/15/2014	\$83.02	\$89.57	7.89%		sold on close
COP(1/3)	10/15/2014	\$63.79	\$66.93	4.92%		Catapult
DOW(1/3)	10/15/2014	\$43.04	\$44.76	4.00%		Catapult
OXY(1/3)	10/15/2014	\$85.32	\$86.44	1.31%		Catapult
SLB(1/3)	10/15/2014	\$87.90	\$90.64	3.12%		Catapult
OXY(1/3)	10/16/2014	\$83.55	\$86.44	3.46%		Catapult
SPY(1/4)	10/16/2014	\$183.06	\$186.27	1.75%		Aggregator

APC and WMB positions were exited at the close as was indicated in the intraday update sent to subscribers Thursday morning. At the close, NOV and F also reached their exit triggers. So they will be sold at the open on Friday. (Of course traders should handle all trade ideas however they best see fit.)

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