

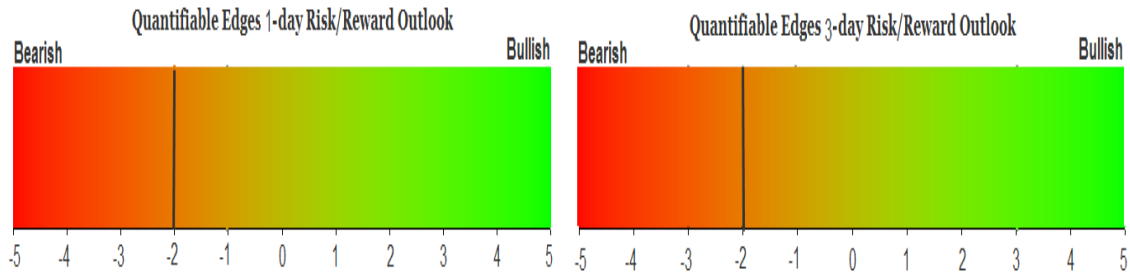
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 21, 2014

Volume 7 Issue 199

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Flat

Tonight's Research Points

- 3 days up from a 50-day low is often followed by more rallying.
- The low range and volume during a downtrend are indicative of more selling.
- The big 1-day drop in the VIX is a sign that Tuesday could be a difficult one for the market.

Short-term Outlook

The Bottom Line

The Aggregator is now bearish. I believe we are in a dangerous environment to short here, but I will be looking to exit the rest of my index long position, get flat, and be ready for the next strong opportunity.

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 20, 2014	SPY low Vol opex. VIX low 5.	1-4 days	Bearish			
October 20, 2014	SPY unfilled gap up from 50-low	1 day	Bearish			
October 17, 2014	Close 1% > open but still down. < 10ma	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	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 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%
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			
Dropped Tonight						
October 14, 2014	Dn 3 days. Today is Monday	1-4 days	Bullish			
October 16, 2014	Gap dn 1%. Close up but < yesterday	1-2 days	Bullish			

The Evidence

Monday saw the bounce continue nicely. The SPX gained 0.9%, the NASDAQ rose 1.4% and, the Russell 2000 rallied 1.2%. Breadth was positive as the NYSE Up Issues % came in at 70% and the Up Volume % was also 70%. Total NYSE volume came in very light, though – the lightest we have seen since August.

There were quite a few studies that triggered in the Quantifinder today. And there was not a clear consensus between them as both bullish and bearish evidence emerged. Let's cover some of the most compelling studies, beginning with the bullish ones.

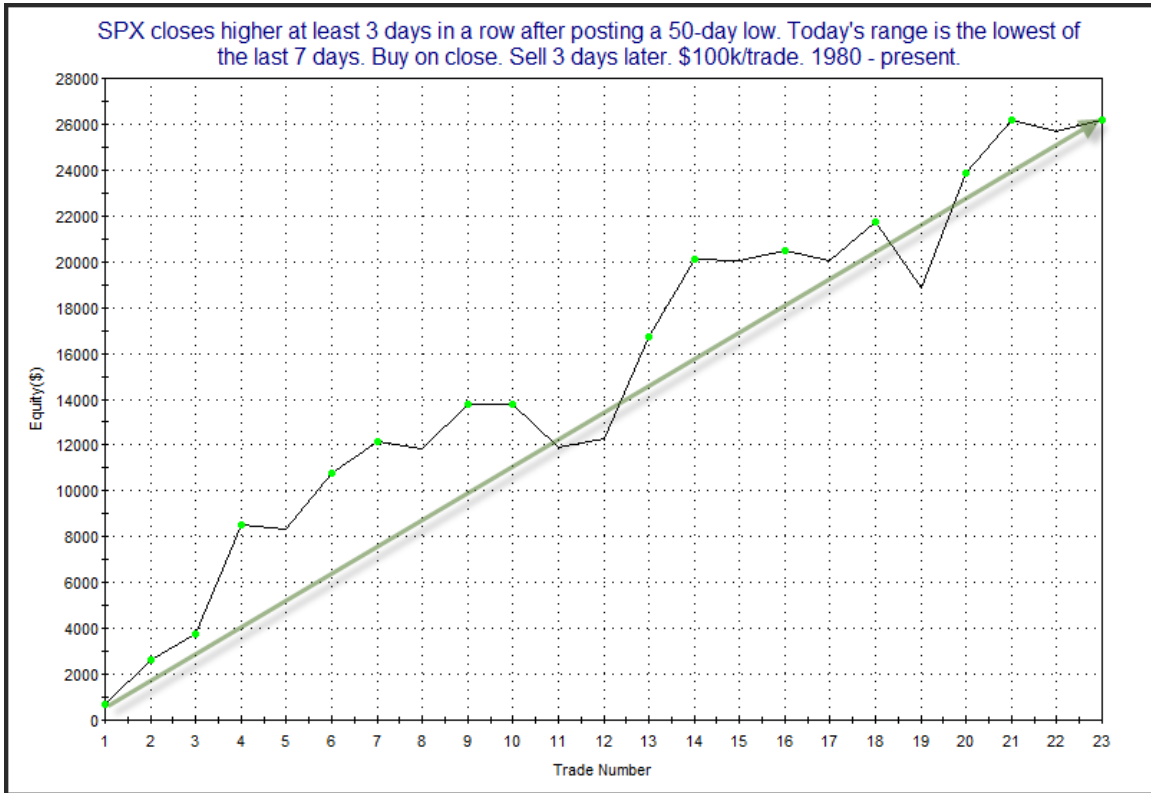
This first study was last seen in the 11/23/12 letter. It examined what happened other times the SPX posted 3 up days from its 50-day low and underwent a volatility contraction.

SPX closes higher at least 3 days in a row after posting a 50-day low. Today's range is the lowest of the last 7 days. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	21,966.51	23	16	7	69.57	2,264.62	6,877.04	-2,038.20	-3,446.97	1.11	2.54	955.07
4	18,797.61	23	16	7	69.57	1,889.06	5,068.10	-1,632.49	-5,663.22	1.16	2.64	817.29
3	26,214.17	23	16	7	69.57	2,031.77	4,989.60	-899.15	-2,830.50	2.26	5.16	1,139.75
2	12,351.82	24	17	7	70.83	1,361.95	2,947.84	-1,543.05	-5,264.73	0.88	2.14	514.66
1	1,454.54	29	19	10	65.52	844.10	4,699.94	-1,458.34	-8,883.33	0.58	1.10	50.16

28 of 29 instances (96%) closed above the entry price at some point in the next 5 days. All 29 did within 6 days.

Results here appear quite compelling. The incredible consistency noted at the bottom of the table is especially impressive. Below is a profit curve that assumes a 3-day holding strategy.



The consistency of the curve serves as confirmation of the bullish edge.

If we do not concern ourselves with the tight range, then you'll see that 3 up days from a 50-day low below the 200ma has also produced strong results over the last 13 years. The study below was last seen in the 10/7/11 letter. Stats are updated.

SPX closes up for exactly the 3rd day in a row but < 200ma. It closed at a 50-day low just prior to the rally. Buy on close. Sell X days later. \$100k/trade. 7/1/2001 - 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	30,723.35	12	10	2	83.33	3,272.74	7,515.60	-1,002.01	-1,775.70	3.27	16.33	2,560.28
4	23,739.14	12	9	3	75.00	2,837.28	5,800.13	-598.80	-995.28	4.74	14.21	1,978.26
3	18,188.82	12	9	3	75.00	2,611.50	4,890.00	-1,771.57	-4,776.88	1.47	4.42	1,515.73
2	19,982.22	12	12	0	100.00	1,665.18	4,506.60	0.00	0.00	100.00	100.00	1,665.18
1	14,358.26	12	8	4	66.67	1,921.72	4,699.94	-253.87	-808.35	7.57	15.14	1,196.52

Prior to 2001 the setup did not appear to suggest any edge.

It has been quite a hot streak since 2001 with these setups. Prior to that no edge was evident in either direction. I also decided to list below all instances assuming a 2-day exit strategy.

SPX closes up for exactly the 3rd day in a row but < 200ma.
 It closed at a 50-day low just prior to the rally.
 Buy on close. Sell X days later. \$100k/trade. 7/1/2001 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
07/27/01	Buy	\$1,205.82	0.45%	\$1,387.44
07/31/01	Sell	\$1,211.23		(\$443.62)
10/14/02	Buy	\$841.44	2.21%	\$4,699.94
10/16/02	Sell	\$860.02		\$0.00
01/02/03	Buy	\$909.03	2.20%	\$2,501.40
01/06/03	Sell	\$929.01		(\$655.60)
03/14/03	Buy	\$833.27	3.98%	\$4,040.40
03/18/03	Sell	\$866.45		(\$732.00)
07/29/04	Buy	\$1,100.43	0.56%	\$735.30
08/02/04	Sell	\$1,106.62		(\$312.30)
08/17/04	Buy	\$1,081.71	0.88%	\$1,238.32
08/19/04	Sell	\$1,091.23		(\$255.76)
11/29/07	Buy	\$1,469.72	0.18%	\$1,306.96
12/03/07	Sell	\$1,472.41		\$0.00
07/18/08	Buy	\$1,260.66	1.30%	\$1,324.04
07/22/08	Sell	\$1,277.01		(\$934.57)
11/25/08	Buy	\$857.39	4.53%	\$4,507.76
11/28/08	Sell	\$896.24		(\$1,858.32)
03/12/09	Buy	\$750.74	0.42%	\$3,164.07
03/16/09	Sell	\$753.89		(\$1,101.24)
07/08/10	Buy	\$1,070.25	0.79%	\$979.29
07/12/10	Sell	\$1,078.75		(\$199.95)
10/06/11	Buy	\$1,164.97	2.57%	\$2,544.90
10/10/11	Sell	\$1,194.89		(\$1,250.35)

Circled instances are those that saw their volume decline the last 2 days.

There were some studies in the Quantifinder that suggested the decline in volume over the past 2 days may be a concern. In relation to this particular study, that does not appear to be the case. There were 5 such instances of 2 days of declining volume. They are all circled above.

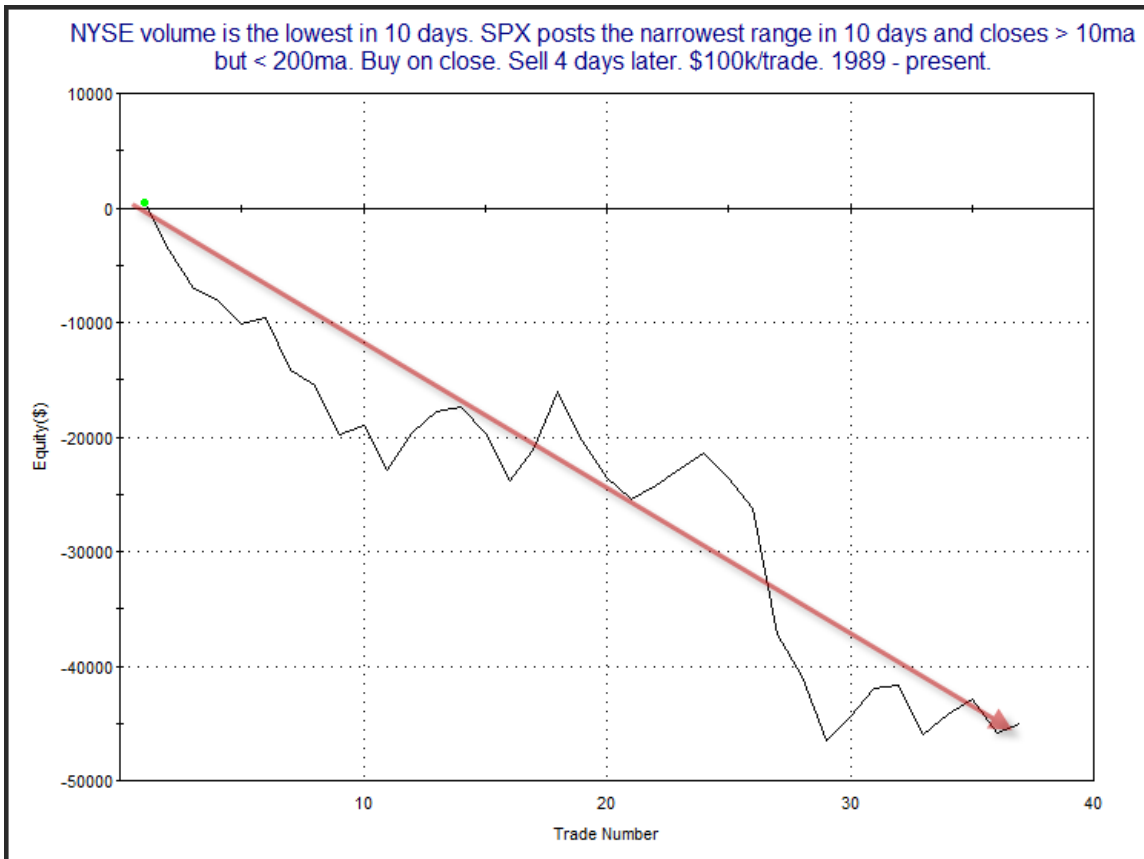
But like I mentioned earlier, not all evidence pointed higher. This next study was last seen in the 11/15/11 subscriber letter. It considers the low volume, tight range, and the position of the market.

NYSE volume is the lowest in 10 days. SPX posts the narrowest range in 10 days and closes > 10ma but < 200ma. Buy on close. Sell X days later. \$100k/trade. 1989 - 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	-42,826.43	37	13	24	35.14	2,498.04	6,877.04	-3,137.54	-13,784.48	0.80	0.43	-1,157.47
4	-45,063.15	37	17	20	45.95	1,631.60	5,068.10	-3,640.02	-10,971.63	0.45	0.38	-1,217.92
3	-36,002.73	38	14	24	36.84	1,820.62	4,455.68	-2,562.14	-7,806.29	0.71	0.41	-947.44
2	-31,273.75	38	15	23	39.47	1,337.30	3,238.08	-2,231.88	-8,950.62	0.60	0.39	-822.99
1	-19,471.77	39	15	24	38.46	1,081.53	4,699.94	-1,487.28	-8,883.33	0.73	0.45	-499.28

87% of instances closed below the entry price at some point in the next week.

Results here appear solidly negative. Below is a profit curve that illustrates how the edge has played out over time.



For the 4-day holding period you can see that the downside edge has been choppy, but the inclination has still remained down throughout.

Results here are indicative of a bearish edge over the next few days. But we already know that short-side risk is elevated due to the fact that the market is in an initial thrust off a potential intermediate-term low. In the 7/12/10 letter I ran this test and also filtered to see only those instances where the 5-day low was equal to the 50-day low. Those updated results are below.

NYSE volume is the lowest in 10 days. SPX posts the narrowest range in 10 days and closes > 10ma but < 200ma. SPX 5-day closing low = 50-day closing low. Buy on close. Sell X days later. \$100k/trade. 1989 - 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	-9,190.47	8	1	7	12.50	6,877.04	6,877.04	-2,295.36	-5,856.00	3.00	0.43	-1,148.81
4	-4,041.92	8	4	4	50.00	2,030.38	5,068.10	-3,040.86	-4,264.32	0.67	0.67	-505.24
3	-1,681.91	8	4	4	50.00	1,929.53	4,455.68	-2,350.00	-4,608.00	0.82	0.82	-210.24
2	400.55	8	5	3	62.50	1,223.89	2,192.44	-1,906.30	-2,961.60	0.64	1.07	50.07
1	2,966.97	8	5	3	62.50	1,352.47	4,699.94	-1,265.13	-1,646.40	1.07	1.78	370.87

I wouldn't base any short trades on these results all by themselves. What they do suggest is that the results of the previous study may be useful and should not be discarded.

With these bearish studies not so much different than the earlier bullish ones, it can be a bit confusing determining which ones to put faith in. The primary difference between the studies is that the bullish ones also take into account the 3-day winning streak, whereas the bearish ones do not. Rather than worry too much about which one may be right and what might be wrong, I threw them all into the Aggregator calculation for tonight.

Another notable bit of action today was the large drop in the VIX, which declined over 15.50% and triggered a study from 10/11/13 that looked at drops of 15% or more. There I also broke down the 15% drop in the VIX by the long-term trend of the SPX. I've also updated that research. First let's look at times where SPX was in a long-term uptrend.

VIX closes down at least 15% today. SPX > 200ma.
Buy SPX on close. Sell 1 day later. \$100k/trade. 1998 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$4,024.50	Profit Factor	2.23
Gross Profit	\$7,306.32	Gross Loss	(\$3,281.82)
Total Number of Trades	17	Percent Profitable	47.06%
Winning Trades	8	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$236.74	Ratio Avg. Win:Avg. Loss	2.50
Avg. Winning Trade	\$913.29	Avg. Losing Trade	(\$364.65)
Largest Winning Trade	\$2,536.10	Largest Losing Trade	(\$1,421.28)

No strong edge is apparent here.

But when below the 200ma...

VIX closes down at least 15% today. SPX < 200ma.
Buy SPX on close. Sell 1 day later. \$100k/trade. 1998 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$14,572.38)	Profit Factor	0.10
Gross Profit	\$1,699.99	Gross Loss	(\$16,272.37)
Total Number of Trades	14	Percent Profitable	14.29%
Winning Trades	2	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	(\$1,040.88)	Ratio Avg. Win:Avg. Loss	0.63
Avg. Winning Trade	\$849.99	Avg. Losing Trade	(\$1,356.03)
Largest Winning Trade	\$1,295.04	Largest Losing Trade	(\$4,400.45)

...here the edge is clear. Stats don't get much more lopsided than these. I have also added this study to the Active List tonight.

So with a good amount of new evidence to consider I have updated the [Aggregator](#) chart below.



With tonight's studies taken into account the green Aggregator Line held just a little below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is now also below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is now overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal turned short at the close.

Based on the current active studies, expectations are slated to stay bearish on Tuesday. Of course that could change if new short-term bullish evidence emerges. The Differential Pivot will be 1882.29 on Tuesday. That is 1.1% below Monday's close. That is a sizable drop, but certainly possible in this environment. If SPX does close down that much, the it will move from overbought to oversold versus recent expectations.

This market remains very interesting. Evidence tonight is filled with crosswinds. There is not a consistent story making a directional play obvious. It is leaning bearish, and the market is a little overbought here. But after 3 up days from a 50-day low, it seems quite risky to begin taking on short positions – especially with the CBI still at 4 and the Fed still pumping. So I have no desire to short here. I do wish to exit the rest of my long index position though.

I did discuss a bit last night that you'd often have made out better in the past by waiting for the CBI to drop all the way to 3 before exiting your long index positions. And the current CBI of 4 has not quite made it there. But MDLZ missed its exit target by just \$0.01 on Monday. Any close higher for MDLZ on Tuesday will drop the CBI to 3 (unless new Catapults emerge). So I do not think it is wise to be stubborn with regards to sizable index trades when the CBI missed turning neutral by only 1 penny in 1 stock.

I exited 3 of my 4 SPY lots on Monday, and will strive to exit the last one on Tuesday if I can get a fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/20 – neutral

The intermediate-term outlook was last updated in the 10/20/14 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

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

APA – 1/3 @ \$84.21 (bought)

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

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

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 4/2(APA-3, 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.

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	\$72.93	-14.66%		Catapult
APA(1/3)	10/8/2014	\$83.77	\$72.93	-12.94%		Catapult
SPY(1/4)	10/8/2014	\$193.26	\$188.50	-2.46%		<i>sold @ limit</i>
APA(1/3)	10/10/2014	\$81.48	\$72.93	-10.49%		Catapult
SPY(1/4)	10/10/2014	\$190.54	\$189.00	-0.81%		<i>sold @ limit</i>
SPY(1/4)	10/14/2014	\$187.50	\$190.30	1.49%		<i>sold @ close</i>
SPY(1/4)	10/16/2014	\$183.06	\$190.30	3.95%		<i>sell @ \$189.80 limit</i>
MDLZ(1/3)	10/17/2014	\$32.04	\$32.94	2.81%		<i>sell on close >- \$32.95</i>

I placed the exit limit for SPY below the closing price in case of an unfilled gap down.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2014 Hanna Capital Management, LLC.