

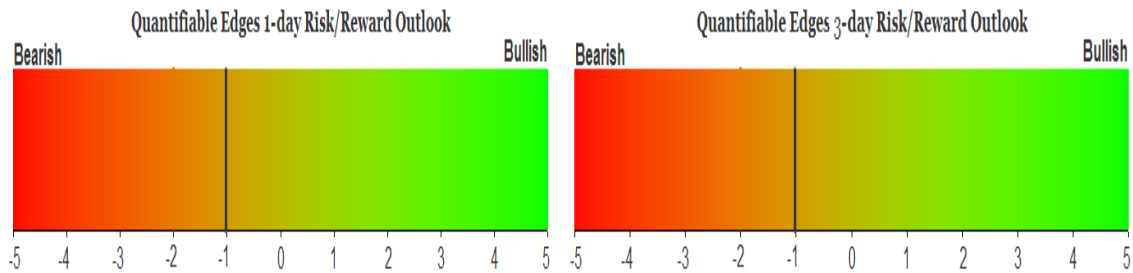
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 22, 2014

Volume 7 Issue 200

Market Overview



Signals Overview

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

Tonight's Research Points

- Tuesday's IBD Follow Through Day had some positive characteristics.
- The dollar rising in conjunction with the SPX has been a bearish short-term sign in the past.
- The strong move over the last 4 days from a 50-day low suggests more upside.

Short-term Outlook

The Bottom Line

The Aggregator is still bearish, but that is only expected to last through Wednesday. Some bullish evidence tonight is set to turn expectations positive after that. I am now sidelined and awaiting a better opportunity to jump back into the market.

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 22, 2014	SPX up 1%. UUP up 0.5%	1-2 days	Bearish	0.90%	-2.50%	
October 22, 2014	FTD low vol strong breadth	1-10 days	Bullish	4.10%	-2.80%	-4.30%
October 22, 2014	4 up from 50-low. RSI rises 85	1-4 days	Bullish	2.90%	-2.60%	-5.00%
October 21, 2014	Low vol, low range > 10 < 200ma	1-4 days	Bearish			
October 21, 2014	SPX up 3 from 50-low. Close < 200ma	1-3 days	Bullish			
October 20, 2014	SPY low Vol opex. VIX low 5.	1-4 days	Bearish			
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 15, 2014	SPY close bottom 25% 4 days in row	1-5 days	Bullish			
October 21, 2014	VIX down 15%. SPX < 200ma	1 day	Bearish			

The Evidence

The market put in another strong rally day on Tuesday. The SPX gained 2.0%, the NASDAQ rose 2.4% and, the Russell 2000 rallied 1.6%. Breadth was strongly positive as the NYSE Up Issues % came in at 81% and the Up Volume % was 83%. Total NYSE volume rose from Monday's level, but was still somewhat light.

There were a number of studies of interest that appeared based on Tuesday's action. I will focus on the most compelling evidence.

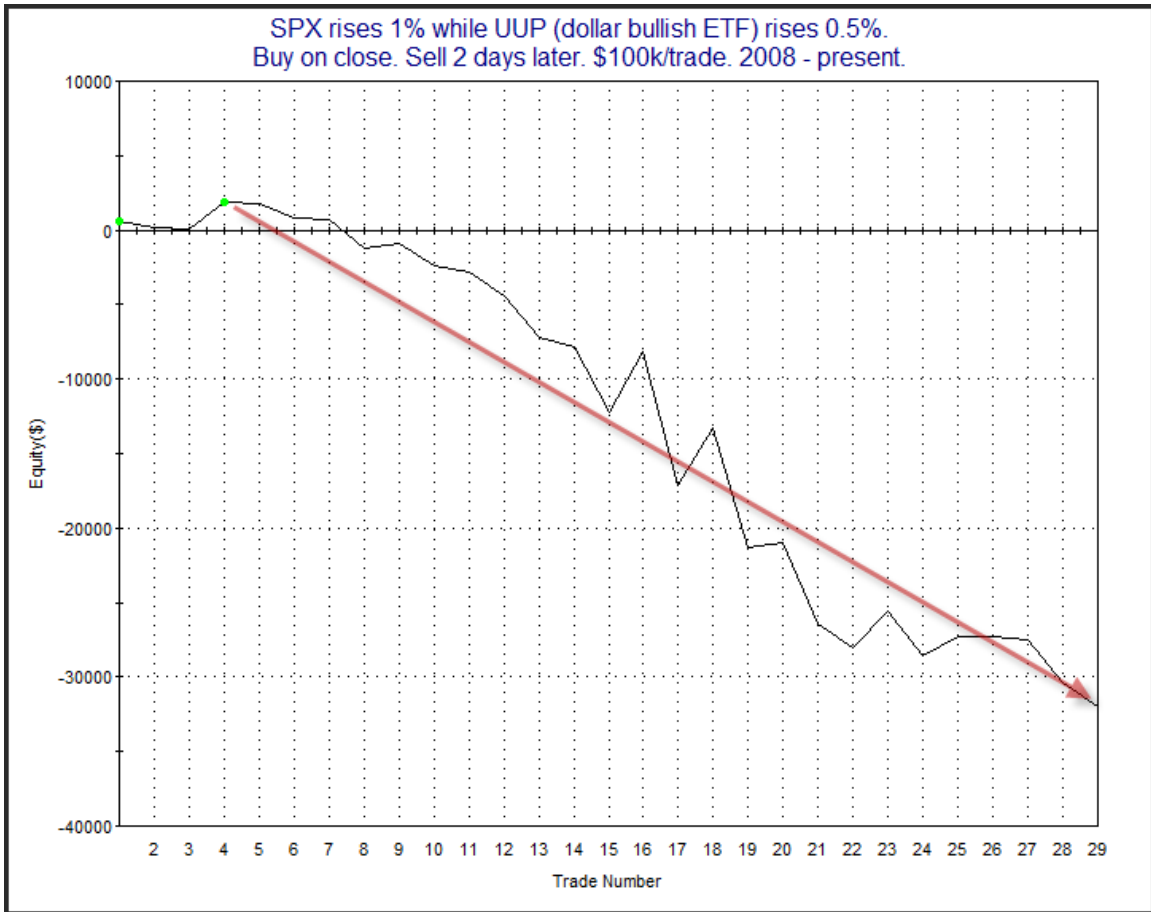
It was noted by the Quantifinder that the dollar rose along with the market. This triggered a study from the 8/10/09 subscriber letter that looked at other times SPX rose at least 1% while UUP (dollar bullish fund) rose at least 0.5%. It suggested bearish short-term implications since 2008. Below I have updated the results.

SPX rises 1% while UUP (dollar bullish ETF) rises 0.5%.
Buy on close. Sell X days later. \$100k/trade. 2008 - 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	-45,070.30	22	10	12	45.45	1,917.08	3,672.20	-5,353.42	-14,309.75	0.36	0.30	-2,048.65
9	-44,984.18	23	7	16	30.43	2,197.41	4,014.81	-3,772.88	-13,855.85	0.58	0.25	-1,955.83
8	-60,190.65	23	8	15	34.78	1,729.41	4,063.17	-4,935.06	-22,706.90	0.35	0.19	-2,616.98
7	-55,227.84	24	10	14	41.67	1,511.54	3,968.31	-5,024.52	-21,797.40	0.30	0.21	-2,301.16
6	-54,636.08	25	8	17	32.00	1,142.74	3,087.21	-3,751.65	-15,420.70	0.30	0.14	-2,185.44
5	-43,482.00	26	9	17	34.62	1,192.81	2,946.30	-3,189.25	-14,461.05	0.37	0.20	-1,672.38
4	-43,571.41	26	8	18	30.77	1,376.33	2,964.84	-3,032.34	-9,304.95	0.45	0.20	-1,675.82
3	-26,279.11	28	10	18	35.71	1,168.13	3,403.82	-2,108.91	-6,151.13	0.55	0.31	-938.54
2	-31,998.37	29	9	20	31.03	1,624.22	4,091.85	-2,330.82	-8,950.62	0.70	0.31	-1,103.39
1	-16,225.58	30	13	17	43.33	601.18	1,664.53	-1,414.17	-4,686.30	0.43	0.33	-540.85

93% of instances closed below the entry price at some point in the next week.

The stats appear to suggest a downside edge. A good portion of the downside was quickly realized in the first couple of days. Below is a profit curve that assumes a 2-day holding period.



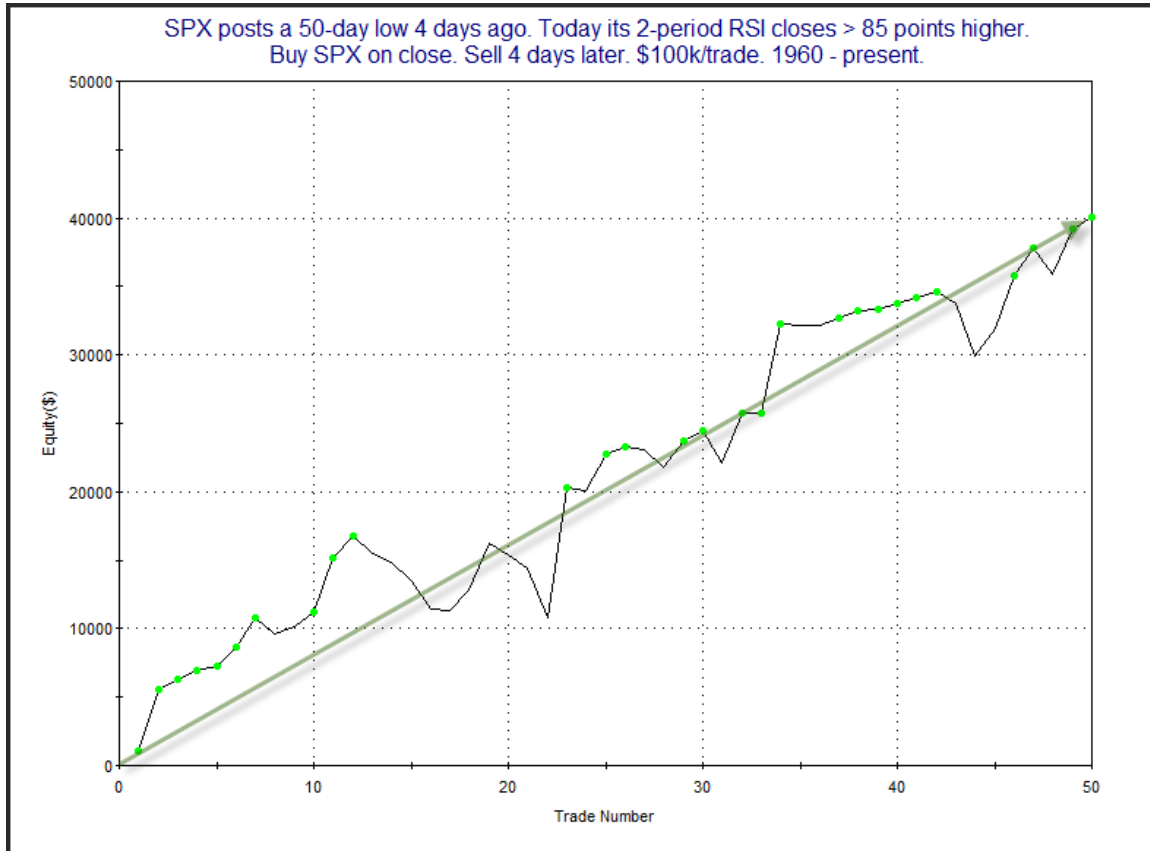
The strong, steady downslope appears to confirm the downside edge. I have included this study on the Active List tonight.

Another interesting study was from the 11/21/12 subscriber letter. It looked at other times that the market made a 50-day low, and then 4 days later its 2-day RSI was over 85 points higher. I have updated the results from that study below.

SPX posts a 50-day low 4 days ago. Today its 2-period RSI closes > 85 points higher.
Buy SPX 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	18,555.44	50	28	22	56.00	2,069.64	11,988.81	-1,790.66	-7,143.96	1.16	1.47	371.11
4	40,044.10	50	32	18	64.00	1,965.47	9,526.41	-1,269.50	-3,853.92	1.55	2.75	800.88
3	26,720.43	50	33	17	66.00	1,389.90	7,448.76	-1,126.24	-4,353.44	1.23	2.40	534.41
2	23,983.67	53	37	16	69.81	1,193.23	4,893.68	-1,260.38	-8,004.64	0.95	2.19	452.52
1	19,561.07	63	38	24	60.32	854.42	2,903.78	-537.78	-1,687.84	1.59	2.52	310.49

Numbers here appear bullish. Below is an equity curve using a 4-day holding period.



The strong steady upslope serves as confirmation of the bullish tendency. When strong bounces occur from oversold intermediate-term lows it can often create a short-term overbought condition that becomes even more overbought in the following days

But perhaps the most notable bit of evidence that emerged on Tuesday was the fact that it qualified as an IBD Follow Through Day (FTD). I have done a lot of research on FTDs over the years. Much of that research can be found on the blog. Here is a link.

<http://quantifiableedges.com/category/ibd-follow-through-day/>

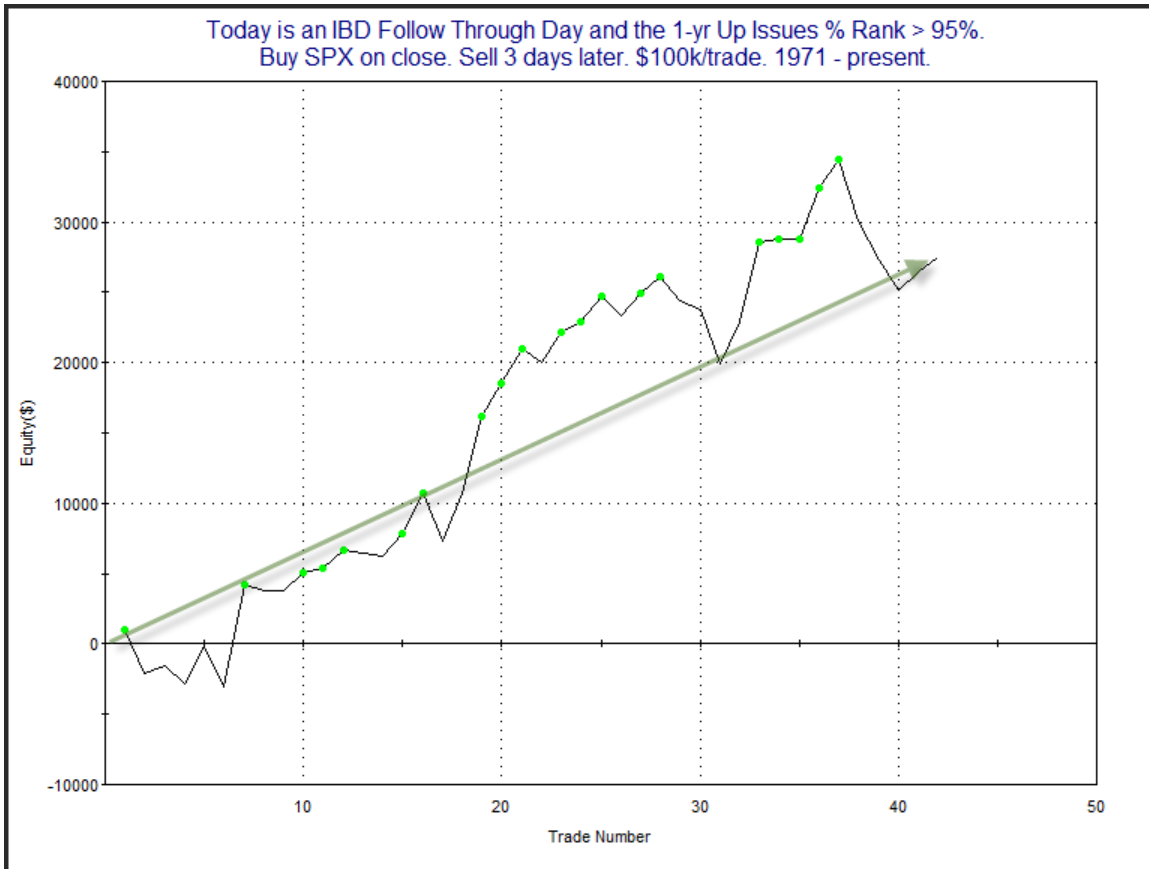
A couple of filters that have appeared useful in examining FTDs are breadth and volume. Tuesday's FTD was accompanied by strong breadth, but only moderate volume. Let's

look at those factors individually, and then I will show how the combination has played out over time.

In the 10/19/11 letter I noted that when very strong breadth accompanied a FTD it increased the chances of success – both short and intermediate-term. Below I have updated that study.

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank > 95%. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	28,820.77	42	24	18	57.14	2,981.58	10,921.96	-2,374.29	-11,137.06	1.26	1.67	686.21
9	27,881.18	42	25	17	59.52	2,790.79	10,571.08	-2,464.04	-9,568.46	1.13	1.67	663.84
8	20,240.81	42	22	20	52.38	3,147.36	8,372.32	-2,450.05	-9,554.20	1.28	1.41	481.92
7	25,842.85	42	23	19	54.76	3,114.65	9,599.94	-2,410.22	-9,340.30	1.29	1.56	615.31
6	20,607.36	42	26	16	61.90	2,403.31	7,431.05	-2,617.43	-7,343.90	0.92	1.49	490.65
5	21,556.63	42	26	16	61.90	2,218.71	4,977.83	-2,258.11	-5,401.13	0.98	1.60	513.25
4	28,782.50	42	26	16	61.90	2,319.55	5,800.13	-1,970.37	-4,823.42	1.18	1.91	685.30
3	27,478.51	42	27	15	64.29	2,105.57	7,252.08	-1,958.13	-4,359.81	1.08	1.94	654.25
2	22,879.93	42	26	16	61.90	1,746.97	5,367.23	-1,408.83	-4,195.25	1.24	2.02	544.76
1	18,406.32	42	25	17	59.52	1,132.31	3,903.99	-582.44	-1,673.25	1.94	2.86	438.25
36 of 42 instances (86%) closed above the entry price at some point in the next week.												

Results here still appear strong. Below is the 3-day profit curve.



Not the smoothest curve, but the overall slope remains up and it appears to suggest a long-side edge. So the strong breadth appears to be a positive. For comparison, I also ran the study to show times when breadth was not that strong.

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank < 95%.
Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	5,507.55	44	24	20	54.55	3,318.95	8,961.33	-3,707.37	-24,546.70	0.90	1.07	125.17
9	-3,309.11	44	22	22	50.00	3,431.69	10,112.58	-3,582.10	-18,395.06	0.96	0.96	-75.21
8	9,552.37	44	24	20	54.55	3,114.23	9,347.15	-3,259.46	-17,469.28	0.96	1.15	217.10
7	6,670.34	44	25	19	56.82	2,803.40	9,614.11	-3,337.61	-12,495.16	0.84	1.11	151.60
6	22,237.73	44	28	16	63.64	2,812.45	9,598.49	-3,531.93	-9,023.28	0.80	1.39	505.40
5	10,861.65	44	26	18	59.09	2,631.01	8,344.26	-3,196.92	-7,789.18	0.82	1.19	246.86
4	3,088.00	44	22	22	50.00	2,566.07	7,217.86	-2,425.71	-7,745.95	1.06	1.06	70.18
3	-2,896.62	44	21	23	47.73	2,111.41	6,990.39	-2,053.75	-5,299.32	1.03	0.94	-65.83
2	-3,582.69	44	20	24	45.45	1,852.37	5,134.01	-1,692.92	-8,433.70	1.09	0.91	-81.42
1	2,619.31	44	18	26	40.91	1,150.93	4,708.01	-696.06	-2,475.86	1.65	1.14	59.53

As you can see, there is no discernible short-term edge here. From an intermediate-term perspective, I would also note that breadth seemed to play a part there as well. When the

Up Issues % Rank was > 95% then 22 of 42 instances (52%) managed to post successful rallies. When breadth was not as strong on a FTD, then only 19 of 44 instances (43%) went on to successful rallies.

The second filter worth examining was volume. In the 6/13/12 letter I looked at whether NYSE volume came in above or below its 10-day average. First let's look at times like Tuesday when volume was not particularly strong.

Today is an IBD Follow Through Day. NYSE volume is under its 10ma. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	-3,950.38	34	21	13	61.76	2,981.72	10,921.96	-5,120.49	-24,546.70	0.58	0.94	-116.19
9	-18,253.71	34	19	15	55.88	2,535.94	10,571.08	-4,429.10	-18,395.06	0.57	0.73	-536.87
8	-18,621.82	34	17	17	50.00	2,533.16	8,027.20	-3,628.56	-17,469.28	0.70	0.70	-547.70
7	-10,286.80	34	16	18	47.06	2,536.77	9,599.94	-2,826.39	-12,495.16	0.90	0.80	-302.55
6	-2,088.84	34	19	15	55.88	2,347.54	6,965.80	-3,112.80	-9,023.28	0.75	0.96	-61.44
5	-6,044.89	34	17	17	50.00	2,396.68	4,663.62	-2,752.26	-7,789.18	0.87	0.87	-177.79
4	-6,948.45	34	14	20	41.18	2,691.30	7,124.13	-2,231.33	-7,745.95	1.21	0.84	-204.37
3	-13,262.06	34	13	21	38.24	2,269.08	5,692.12	-2,036.20	-5,299.32	1.11	0.69	-390.06
2	-20,865.75	34	14	20	41.18	1,366.17	5,323.24	-1,999.60	-8,433.70	0.68	0.48	-613.70
1	748.75	34	16	18	47.06	954.40	2,860.08	-806.76	-2,475.86	1.18	1.05	22.02

Only 12 of 34 FTDs (35%) went on to successful rallies.

As you can see, short-term results were poor, and intermediate term results were even worse. Let's now compare this to times when volume came in strong.

Today is an IBD Follow Through Day. NYSE volume is > its 10ma. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	38,278.70	52	27	25	51.92	3,281.37	8,961.33	-2,012.73	-11,137.06	1.63	1.76	736.13
9	42,825.78	52	28	24	53.85	3,467.29	10,112.58	-2,260.77	-9,568.46	1.53	1.79	823.57
8	48,414.99	52	29	23	55.77	3,479.99	9,347.15	-2,282.81	-9,554.20	1.52	1.92	931.06
7	42,800.01	52	32	20	61.54	3,160.43	9,614.11	-2,916.68	-10,238.55	1.08	1.73	823.08
6	44,933.91	52	35	17	67.31	2,760.90	9,598.49	-3,041.04	-7,343.90	0.91	1.87	864.11
5	38,463.18	52	35	17	67.31	2,438.54	8,344.26	-2,757.99	-6,557.14	0.88	1.82	739.68
4	38,818.93	52	34	18	65.38	2,325.99	7,217.86	-2,236.93	-5,213.25	1.04	1.96	746.52
3	37,843.93	52	35	17	67.31	2,048.35	7,252.08	-1,991.07	-3,938.55	1.03	2.12	727.77
2	40,163.00	52	32	20	61.54	1,979.45	5,367.23	-1,158.97	-3,630.44	1.71	2.73	772.37
1	20,276.88	52	27	25	51.92	1,250.15	4,708.01	-539.09	-2,008.49	2.32	2.50	389.94

29 of 52 FTDs (56%) went on to successful rallies.

This appears to be a much more favorable setup.

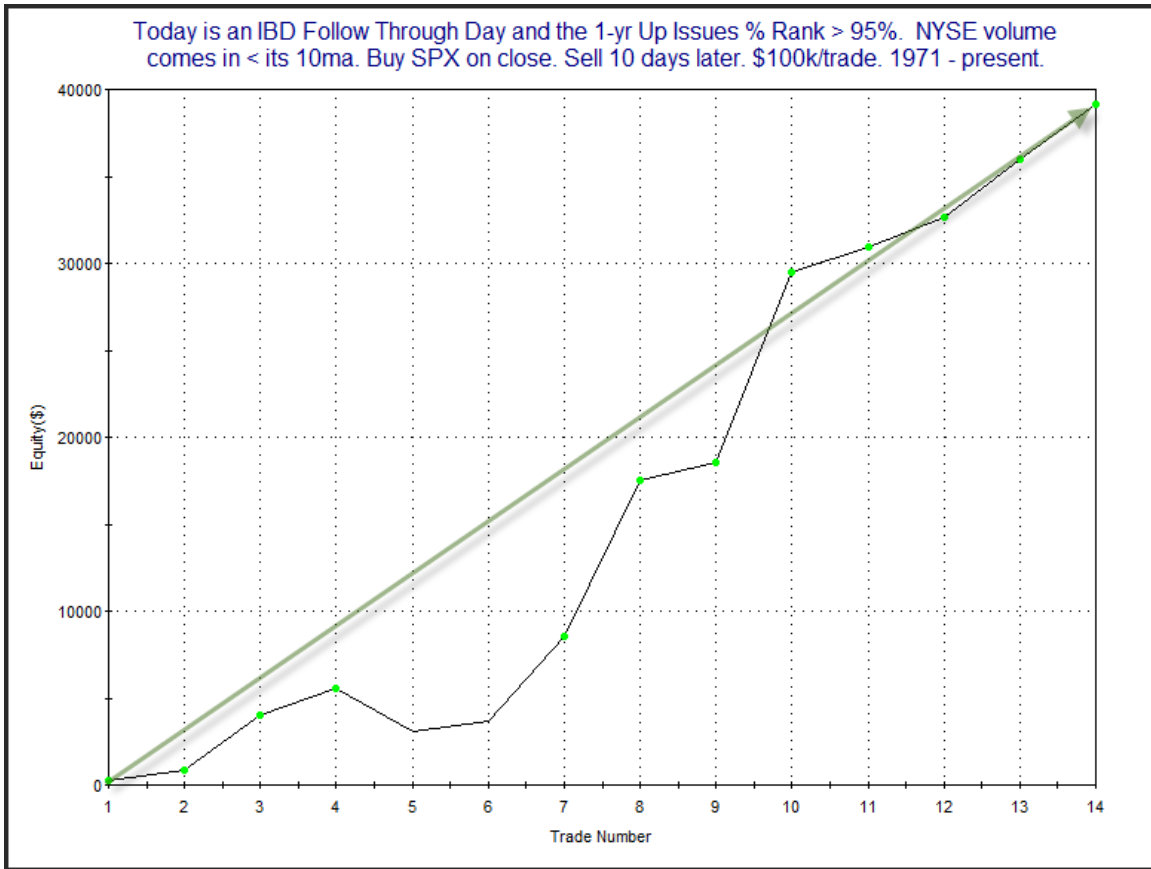
So the strong breadth appears to be a positive, but the moderate volume appears to be a negative. The last thing I decided to look at was the combination of a FTD that was accompanied by strong breadth, but moderate volume (like Tuesday). Those results are below.

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank > 95%. NYSE volume comes in < its 10ma. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	39,107.96	14	13	1	92.86	3,199.94	10,921.96	-2,491.20	-2,491.20	1.28	16.70	2,793.43
9	31,567.56	14	12	2	85.71	2,870.87	10,571.08	-1,441.44	-1,707.84	1.99	11.95	2,254.83
8	18,080.94	14	8	6	57.14	3,480.05	8,027.20	-1,626.58	-3,207.39	2.14	2.85	1,291.50
7	17,233.69	14	7	7	50.00	3,907.91	9,599.94	-1,445.96	-3,470.40	2.70	2.70	1,230.98
6	11,073.73	14	8	6	57.14	2,887.62	6,965.80	-2,004.54	-3,473.28	1.44	1.92	790.98
5	12,025.73	14	8	6	57.14	2,827.91	4,428.90	-1,766.25	-3,884.79	1.60	2.13	858.98
4	11,063.43	14	7	7	50.00	3,217.67	5,800.13	-1,637.18	-3,310.58	1.97	1.97	790.24
3	7,155.00	14	7	7	50.00	2,740.41	5,692.12	-1,718.27	-4,359.81	1.59	1.59	511.07
2	6,069.31	14	8	6	57.14	1,906.33	5,323.24	-1,530.22	-4,195.25	1.25	1.66	433.52
1	5,085.55	14	8	6	57.14	1,071.74	2,860.08	-581.39	-1,673.25	1.84	2.46	363.25

12 of 14 FTDs (56%) went on to successful rallies.

There have only been 14 such instances. Over the first few days there does not appear to be a strong consensus. But the further out you look over the next two weeks, the better the numbers become. 10 days out 13 of 14 instances were trading higher and the average instance had gained 2.8%. That is quite impressive. Below is a look at a 10-day profit curve.



The strong study upslope appears to confirm the upside edge. I am viewing Tuesday's FTD as a positive for both the short and intermediate term.

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



With tonight's studies taken into account the green Aggregator Line again 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 also below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal remained short at the close.

Based on the current active studies, expectations are slated to turn bullish on Wednesday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 1901.26 on Wednesday. That is 2.1% below Tuesday's close. That is a very large drop, and highly unlikely to occur on Wednesday. A more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

It is also notable that the CBI has returned to zero. This cluster of catapult trades was larger than most, and it contained a few big losers, but like most catapult clusters in the past it worked out well overall. I intend to take the last couple of catapult positions off on Wednesday at the open.

The Aggregator is suggesting a bit of a downside edge, but I am less than enthused. Unless more bearish evidence emerges, the downside edge will only last for one day. With only one day to possibly profit, that does not set up a highly favorable risk/reward scenario in my view. At this point, I intend to step aside, examine what evidence appears in the next few days, and await the next strongly favorable trading opportunity.

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

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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	\$75.53	-11.62%		<i>sold on close</i>
APA(1/3)	10/8/2014	\$83.77	\$75.53	-9.84%		<i>sold on close</i>
APA(1/3)	10/10/2014	\$81.48	\$75.53	-7.30%		sell on open
SPY(1/4)	10/16/2014	\$183.06	\$191.68	4.71%		<i>sold on open</i>
MDLZ(1/3)	10/17/2014	\$32.04	\$33.23	3.71%		sell on open

2 lots of APA were sold at the close as per the intraday update sent to subscribers. The last lot along with MDLZ will be exited at the open on Wednesday.

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