

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 29, 2014

Volume 7 Issue 205

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Flat

Tonight's Research Points

- The Fed Day setup is not nearly as strong as you would see under most circumstances.

Short-term Outlook

The Bottom Line

Expectations remain positive, but the market is still overbought. I am neutral and will see what emerges after the Fed Day on Wednesday before considering new positions.

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 28, 2014	Tues-Fri after 4th Fri in October	1-4 days	Bullish			
October 23, 2014	3 higher highs, lows, closes. Down close.	1-4 days	Bullish	1.40%	-0.75%	-1.50%
October 22, 2014	FTD low vol strong breadth	1-10 days	Bullish	4.10%	-2.80%	-4.30%
Active - Long Term						
October 27, 2014	NASDAQ leading SPX	int term	Bullish			
October 22, 2014	Follow Through Day on Strong Breadth	int term	Bullish			
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 28, 2014	VXO > 15% below 10ma 3 days in row	1 day	Bearish			

The Evidence

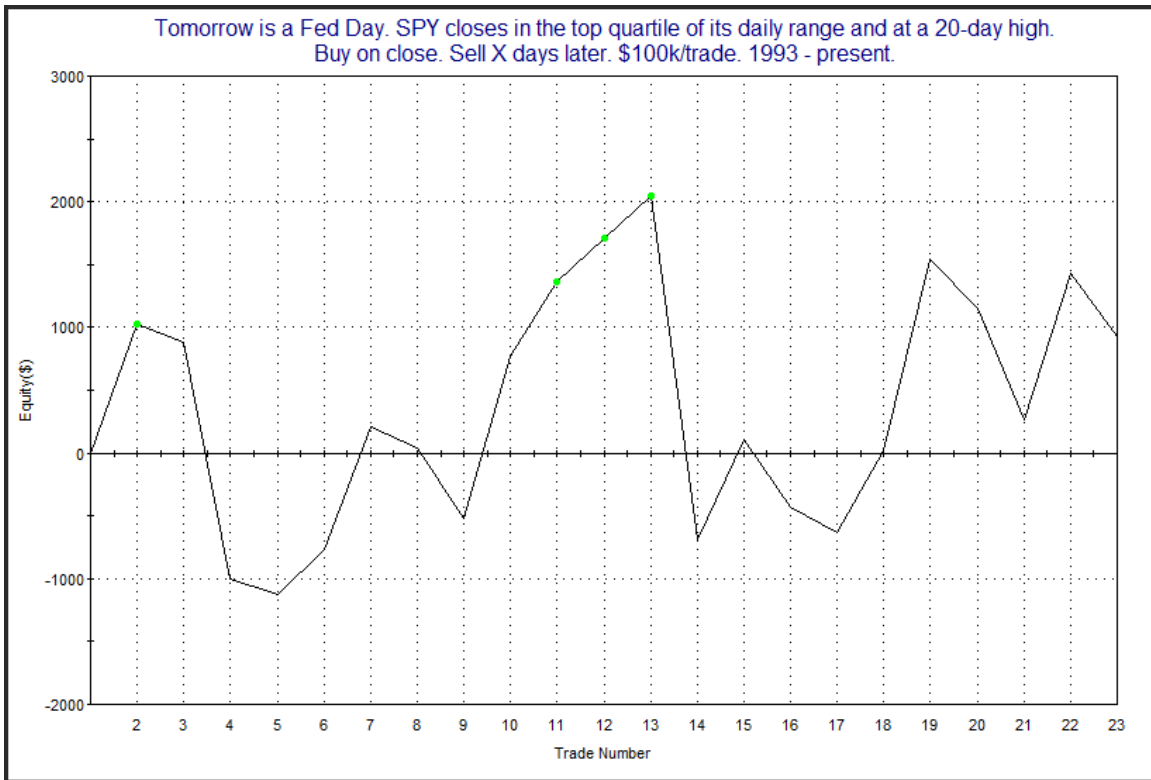
The market had a strong up day on Tuesday ahead of Wednesday's Fed meeting. The SPX gained 1.2%, the NASDAQ rose 1.8% and, the Russell 2000 rallied 2.9%. Breadth was positive as the NYSE Up Issues % came in at 81% and the Up Volume % was 86%. Total NYSE volume rose a little from Monday's level.

Wednesday is a Fed Day, with the Fed finishing their meeting and making a policy announcement in the afternoon. In general Fed Days have been strongly positive days. But both closes in the upper part of the daily range, and at intermediate-term highs can reduce that upside edge. Last night I showed how closes in the top quartile have failed to perform as well as other Fed Days. In the 9/18/13 subscriber letter I looked at the combination of a close in the upper end of the daily range along with a 20-day closing high. I have updated that study below.

Tomorrow is a Fed Day. SPY closes in the top quartile of its daily range and at a 20-day high. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$929.83	Profit Factor		1.11
Gross Profit	\$9,064.77	Gross Loss		(\$8,134.94)
Total Number of Trades	23	Percent Profitable		47.83%
Winning Trades	11	Losing Trades		11
Even Trades	1			
Avg. Trade Net Profit	\$40.43	Ratio Avg. Win:Avg. Loss		1.11
Avg. Winning Trade	\$824.07	Avg. Losing Trade		(\$739.54)
Largest Winning Trade	\$1,522.40	Largest Losing Trade		(\$2,739.69)

The numbers here are nearly breakeven and not compelling. Below is the profit curve.



Same story here. I see nothing that would get me excited about this Fed Day setup.

While I examined several other ideas, there was simply nothing tonight that suggested to me a strong directional edge.

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



With tonight's studies taken into account the green Aggregator Line again stayed 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 below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are slated to remain bullish on Wednesday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 1969.21 on Wednesday. That is 0.8% below Tuesday's close. So for the SPX to move from overbought to oversold versus expectations on Wednesday it is going to need to close down at least 0.8%.

The market is clearly overbought short-term. But it is also lacking any convincing short-term bearish evidence. So shorting overbought here appears dangerous. And going long strongly overbought is a dangerous approach also. And both are even more dangerous when the Fed is about to release a new policy statement that could swing the market strongly. I did not get the pullback on Tuesday that I was hoping to buy into in last night's letter. Tonight I don't see a clear edge to trade. I'd prefer to watch the reaction to the Fed announcement, see what edges emerge, and then look to possibly take advantage of them.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/27 – somewhat bullish

The intermediate-term outlook was last updated in the 10/27 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

None

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