

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 31, 2015

Volume 8 Issue 146

Market Overview



Signals Overview

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

Tonight's Research Points

- Friday's action could provide a strong hint for Monday's potential edge.

Short-term Outlook

The Bottom Line

Expectations remain bullish but the market is again overbought. I am slightly bullish but will turn neutral if Friday finishes strong.

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						
July 29, 2015	Unfillgap up from 10lo. C>O. C<10ma	1-4 days	Bullish	1.80%	-1.20%	-2.30%
July 27, 2015	1% drop 4th Fri.	1-6 days	Bullish			
Active - Long Term						
July 27, 2015	CBI reaches 11+	1-20 days	Bullish	6.60%	-3.70%	-7.60%
July 22, 2015	4th Hindenburg Signal	1-35 days	Bearish	-6.40%	2.70%	4.80%
May 18, 2015	NASDAQ leading SPX	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
Dropped Tonight						
July 27, 2015	CBI reaches 10+. SPX > 200ma.	1-4 days	Bullish			

The Evidence

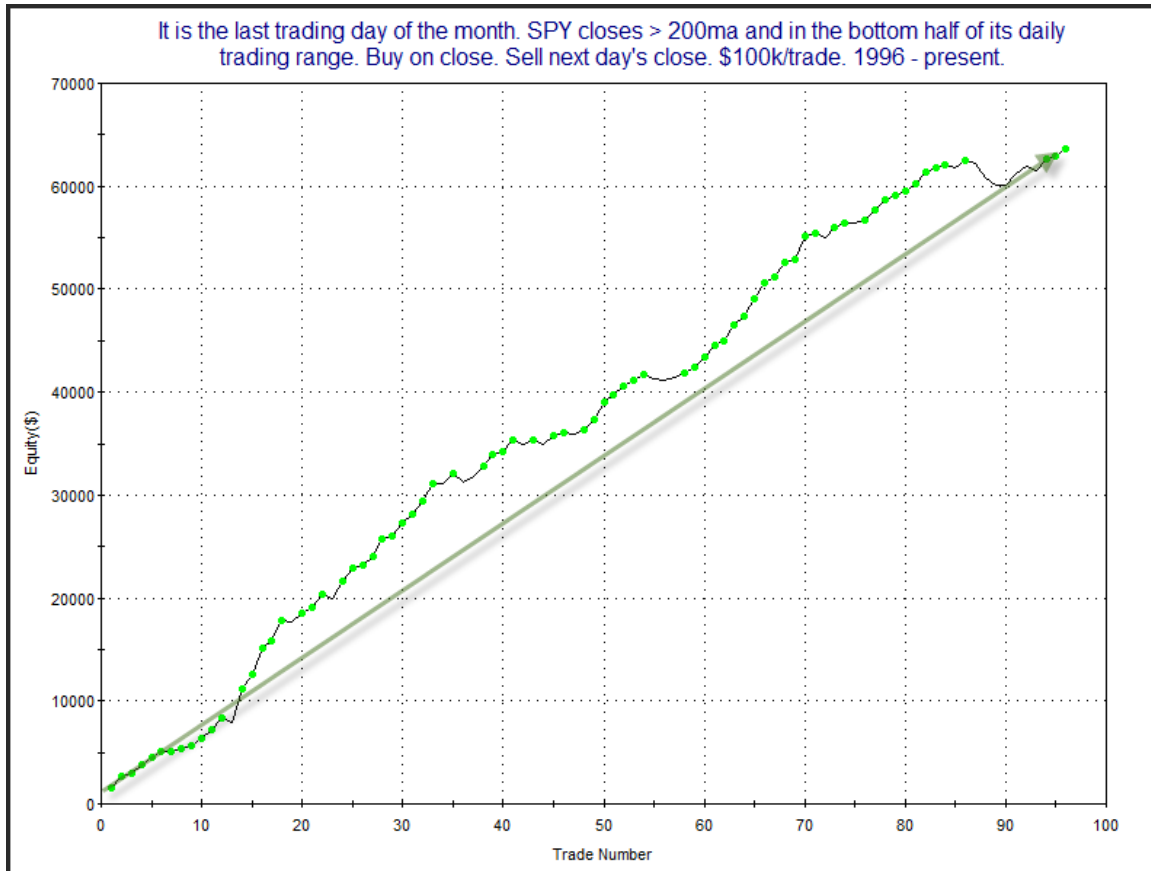
Thursday was a back and forth day with mixed & moderate results for the averages. The SPX closed nearly flat with a mere 0.06 point gain. The NASDAQ rose 0.3%, and the Russell 2000 closed up 0.2%. Breadth was strongly positive as the NYSE Up Issues % came in just under 50% and the Up Volume % was 43%. Total NYSE volume came in light compared to the last several days.

One thing to watch on Friday is how strong the market closes. The edge on the 1st trading day of the month has been largely dependent on action the day before. The study below is from the 9/2/14 letter. It looks at all 1st days of the month and breaks them down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its daily trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$63,665.11	Profit Factor	10.31
Gross Profit	\$70,502.47	Gross Loss	(\$6,837.36)
Total Number of Trades	96	Percent Profitable	81.25%
Winning Trades	78	Losing Trades	18
Even Trades	0		
Avg. Trade Net Profit	\$663.18	Ratio Avg. Win:Avg. Loss	2.38
Avg. Winning Trade	\$903.88	Avg. Losing Trade	(\$379.85)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are pretty great. Gains blow away losses in every category. Gross gains are over 10x the size of gross losses. Let also check out the profit curve.



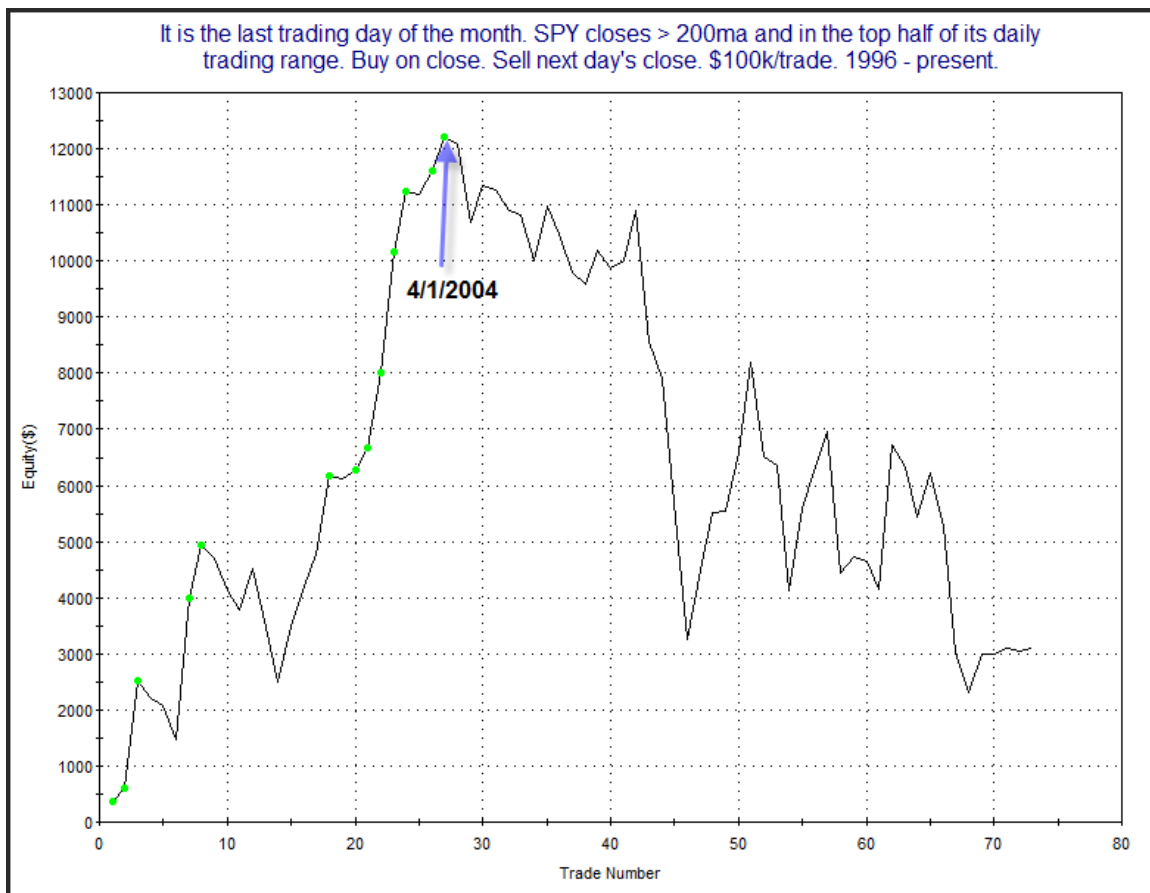
The strong steady upslope is impressive. There was a slight dip a little while ago, but the upslope appears to be back on track. A weak close Friday would seem to be a good thing on Monday.

But what if SPY closes well?

It is the last trading day of the month. SPY closes > 200ma and in the top half of its daily trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

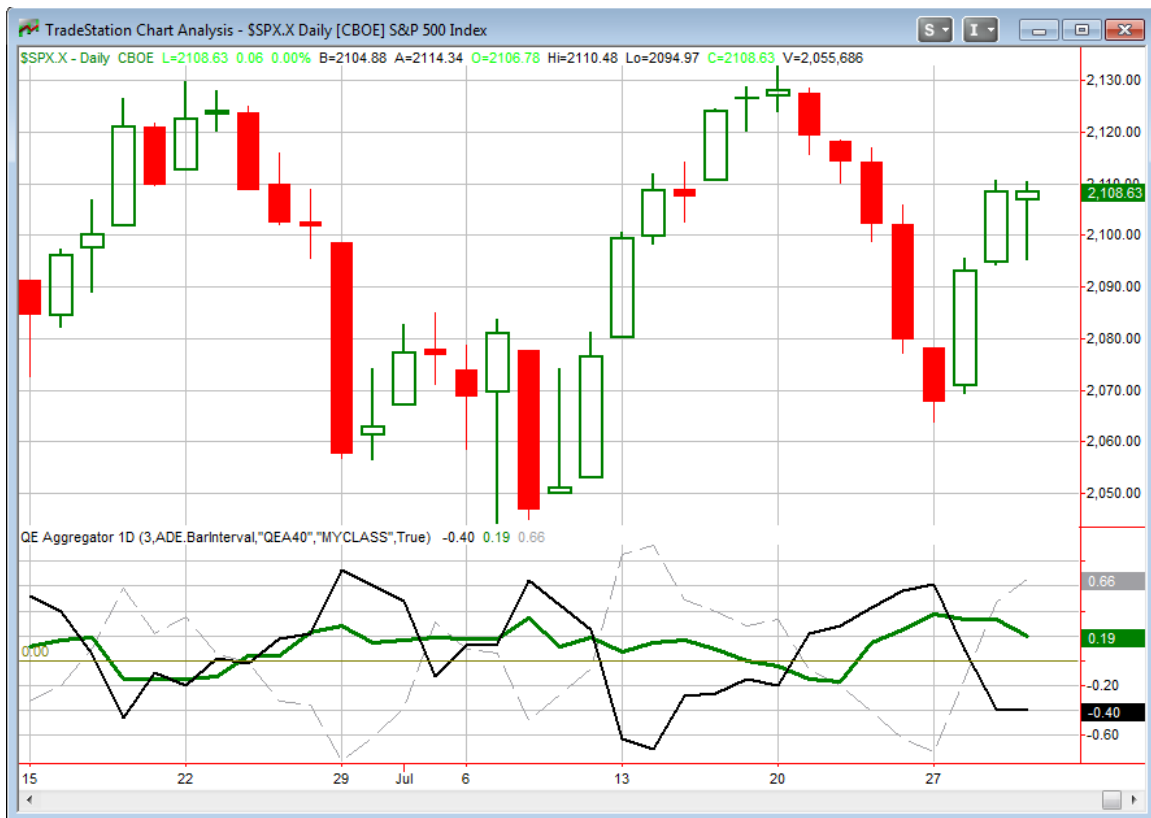
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$3,109.24	Profit Factor	1.11
Gross Profit	\$32,005.51	Gross Loss	(\$28,896.27)
Total Number of Trades	73	Percent Profitable	50.68%
Winning Trades	37	Losing Trades	36
Even Trades	0		
Avg. Trade Net Profit	\$42.59	Ratio Avg. Win:Avg. Loss	1.08
Avg. Winning Trade	\$865.01	Avg. Losing Trade	(\$802.67)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Stats are basically breakeven. Here is a picture of the profit curve.



This paints an even bleaker picture. Strong closes have led to weak first days of the month over the last 11 years. This seems worth considering as we approach the close on Friday.

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



Once again the green Aggregator line remained well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but the SPX is now 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 set to remain positive on Friday. This could change if compelling bearish evidence emerges. The Differential Pivot will be *inverted* at 2113.11 on Friday. That is 0.2% *above* Thursday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close up at least 0.2% in order to remain overbought versus

expectations. Anything less than that and it will be considered oversold on Friday afternoon.

The Aggregator is again neutral. With evidence still pointing up and the overbought condition in jeopardy, I am still a little bullish. The CBI dipped from 9 to 6 on Thursday afternoon. This means it is nearing neutral territory. I'd like to get a little more from my index position. Based on the study above, if SPY does well on Friday and closes strongly, then Monday's outlook is not nearly as strong. It would also mark the 4th higher close in a row. SPY might need a rest if that happens. So I will look to take profits if Friday is a strong day. Otherwise I will likely hold to try and take advantage of an oversold condition going into the 1st of the month.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/27– slightly bullish

The intermediate-term outlook was last updated in the 7/27/15 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

COP – 1/3 @ \$55.83 (bought @ limit)

COP – 1/3 @ \$55.83 (bought 2nd lot @ limit)

COP – 1/3 @ \$52.09

DD– 1/3 @ \$56.94

DD

DD– 1/3 @ \$55.90

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6/2(COP-3, DD-3)

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)	7/22/2015	\$47.32	\$46.58	-1.56%		<i>sold on open</i>
APA(1/3)	7/23/2015	\$47.32	\$46.58	-1.56%		<i>sold on open</i>
COP(1/3)	7/23/2015	\$55.10	\$52.07	-5.50%		Catapult
OXY(1/3)	7/23/2015	\$69.44	\$70.73	1.86%		<i>sold on open</i>
UTX(1/3)	7/23/2015	\$101.55	\$100.73	-0.81%		<i>sell on open</i>
COP(1/3)	7/24/2015	\$53.95	\$52.07	-3.48%		Catapult
ORCL(1/3)	7/24/2015	\$39.00	\$40.03	2.64%		<i>sold on open</i>
UTX(1/3)	7/24/2015	\$101.00	\$100.73	-0.27%		<i>sell on open</i>
APA(1/3)	7/27/2015	\$44.28	\$46.58	5.19%		<i>sold on open</i>
COP(1/3)	7/27/2015	\$51.34	\$52.07	1.42%		Catapult
DD(1/3)	7/27/2015	\$56.83	\$55.59	-2.18%		Catapult
ORCL(1/3)	7/27/2015	\$38.72	\$40.03	3.38%		<i>sold on open</i>
UTX(1/3)	7/27/2015	\$98.78	\$100.73	1.97%		<i>sell on open</i>
DD(1/3)	7/28/2015	\$53.38	\$55.59	4.14%		Catapult
DVN(1/3)	7/28/2015	\$48.83	\$51.18	4.81%		<i>sold on open</i>
ORCL(1/3)	7/28/2015	\$38.51	\$40.03	3.95%		<i>sold on open</i>
SPY(1/4)	7/28/2015	\$207.00	\$210.82	1.85%		<i>sell on up close in top half</i>
DD(1/3)	7/29/2015	\$55.90	\$55.59	-0.55%		Catapult

I will look to sell SPY at the close if it closes in the top half of its intraday range and \geq \$210.83.

UTX met its exit criteria and will be exited at the open on Friday.

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