

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 2, 2014

Volume 7 Issue 1

Market Overview



Signals Overview

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

Tonight's Research Points

- 10 days above the 5ma and a new 10-day high suggest the market is due for a brief pullback.
- Closing the month at a high level is something that has often been followed by further gains the following month.

Short-term Outlook

The Bottom Line

Expectations remain positive. But the market is somewhat overbought. I'm waiting for a more favorable risk/reward setup before taking on new exposure.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
January 2, 2014	10 days > 5ma & 10-day high	1-2 days	Bearish	
January 2, 2014	Close at high of month	1-5 days	Bullish	
December 31, 2013	Continuation Tuesday	1-2 days	Bearish	-1.80%
December 23, 2013	Twas 3 Nights Before Christmas	1-8 days	Bullish	
Active - Long Term				
December 23, 2014	QE Tapering	int term	Neutral	
December 19, 2013	20-high on high vol	1-20 days	Bullish	
December 18, 2013	4 Hindenburg Trigger	1 - 35 days	Bearish	-7.00%
December 16, 2013	2nd half December seasonally strong	1-15 days	Bullish	3.60%
December 2, 2013	Nasdaq leading SPX	int term	Bullish	
October 25, 2013	SPX > 50,2 Bollinger Band	1-50 days	Bullish	
October 21, 2013	70% Advancing Issues 3 Days In Row	1-75 days	Bullish	10.60%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
<i>December 19, 2013</i>	<i>Fed Day closes at 100-day high</i>	<i>1-8 days</i>	<i>Bullish</i>	<i>1.90%</i>
<i>December 30, 2013</i>	<i>SPX dn but RSI(2) > 90</i>	<i>1-2 days</i>	<i>Bullish</i>	

The Evidence

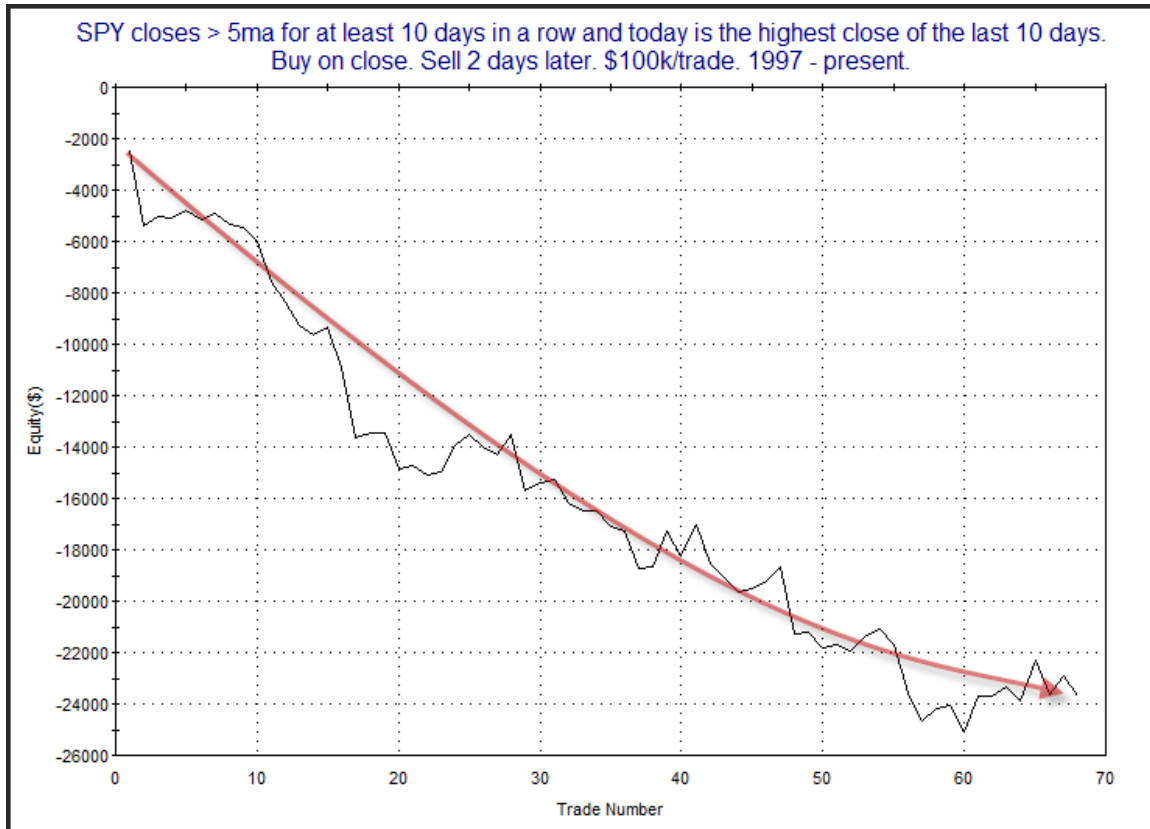
The market closed out 2013 somewhat fittingly, rallying to new highs. The SPX rose 0.4%, the Nasdaq rallied 0.5% and the Russell 2000 gained 0.3%. Breadth was positive as the NYSE Up Issues % was 63% and the Up Volume % was 72%. Total NYSE volume rose a little, but was still holiday-light.

SPY has now gone 11 days without closing below its 5ma. The study below was last seen in the 10/30/13 Letter. It looks at other instances in which the market has traded above the 5ma for at least 2 weeks and is now closing at a 10-day high. All results are updated.

SPY closes > 5ma for at least 10 days in a row and today is the highest close of the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-12,921.57	45	24	21	53.33	723.71	2,516.52	-1,442.41	-4,014.40	0.50	0.57	-287.15	
4	-18,443.80	49	20	29	40.82	673.16	1,428.90	-1,100.24	-3,723.20	0.61	0.42	-376.40	
3	-17,731.98	57	23	34	40.35	647.03	1,790.80	-959.23	-3,235.65	0.67	0.46	-311.09	
2	-23,706.09	68	30	37	44.12	455.45	1,608.38	-1,009.99	-2,870.40	0.45	0.37	-348.62	
1	-21,227.10	96	41	55	42.71	336.62	1,361.25	-636.88	-2,817.32	0.53	0.39	-221.12	

In the past this setup has commonly been followed by a short-term pullback. The downside edge doesn't last long, though. It seems to pretty much play itself out over the

first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



The curve has flattened out a bit lately, and that bears watching. At this point I still believe this study is worthy of consideration.

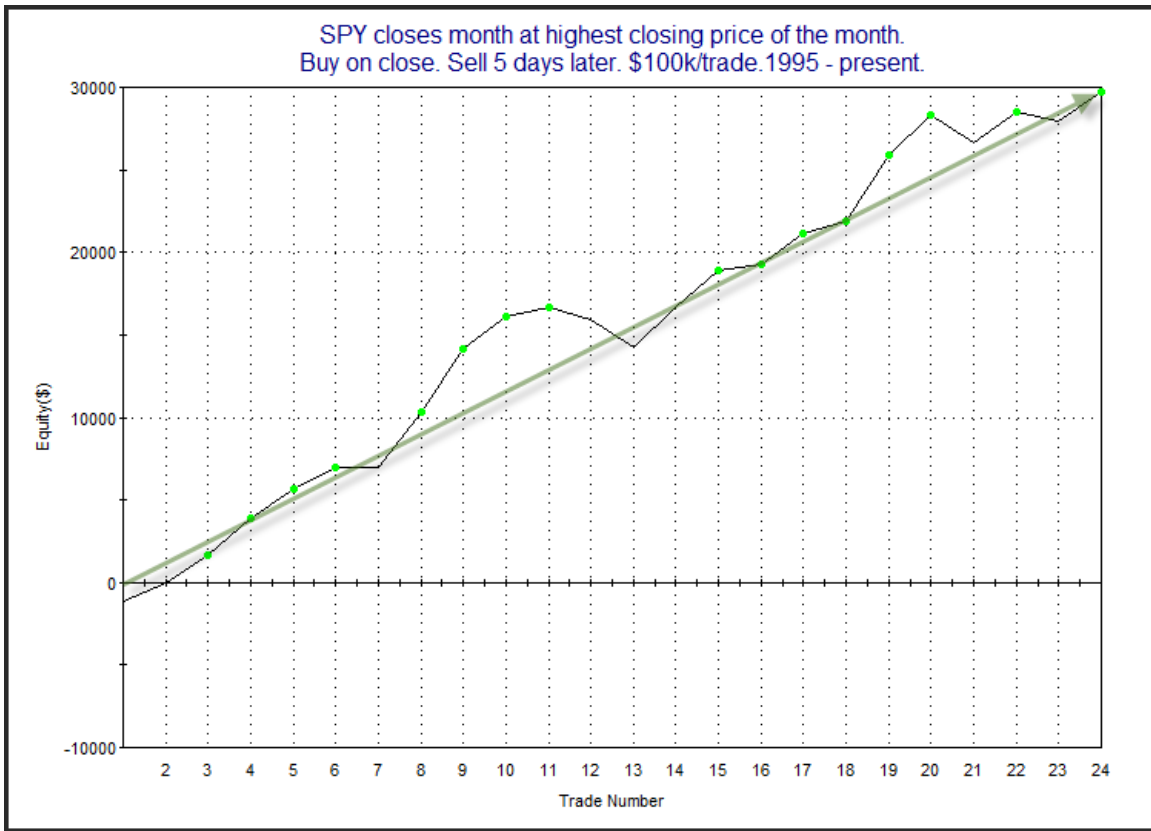
Turn of the month often triggers some bullish seasonal studies. This next one is one I found most compelling. In the 5/1/13 subscriber letter I showed a study that examined other times SPY closed at its highest level of the month on the last day of the month. Results of that study suggested the strong end of month momentum has typically carried through into the following month. I have updated that study below.

SPY closes month at highest closing price of the month.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	35,594.67	24	18	6	75.00	2,588.18	5,238.84	-1,832.08	-4,159.04	1.41	4.24	1,483.11
9	34,996.32	24	17	7	70.83	2,567.76	4,455.36	-1,236.52	-3,178.47	2.08	5.04	1,458.18
8	28,940.01	24	18	6	75.00	2,230.10	4,879.68	-1,866.95	-2,884.75	1.19	3.58	1,205.83
7	25,711.65	24	16	8	66.67	2,161.40	4,366.26	-1,108.84	-2,519.04	1.95	3.90	1,071.32
6	29,342.50	24	17	7	70.83	2,194.50	6,355.08	-1,137.71	-2,024.57	1.93	4.68	1,222.60
5	29,738.40	24	18	5	75.00	1,974.09	3,931.92	-1,159.04	-1,659.68	1.70	6.13	1,239.10
4	24,396.68	24	16	8	66.67	2,130.69	5,394.96	-1,211.79	-4,338.40	1.76	3.52	1,016.53
3	16,297.18	24	16	8	66.67	1,692.29	4,105.92	-1,347.44	-4,678.40	1.26	2.51	679.05
2	11,111.79	24	14	10	58.33	1,490.56	3,954.78	-975.60	-4,848.40	1.53	2.14	462.99
1	6,071.02	24	13	11	54.17	927.14	1,850.94	-543.80	-1,049.76	1.70	2.01	252.96

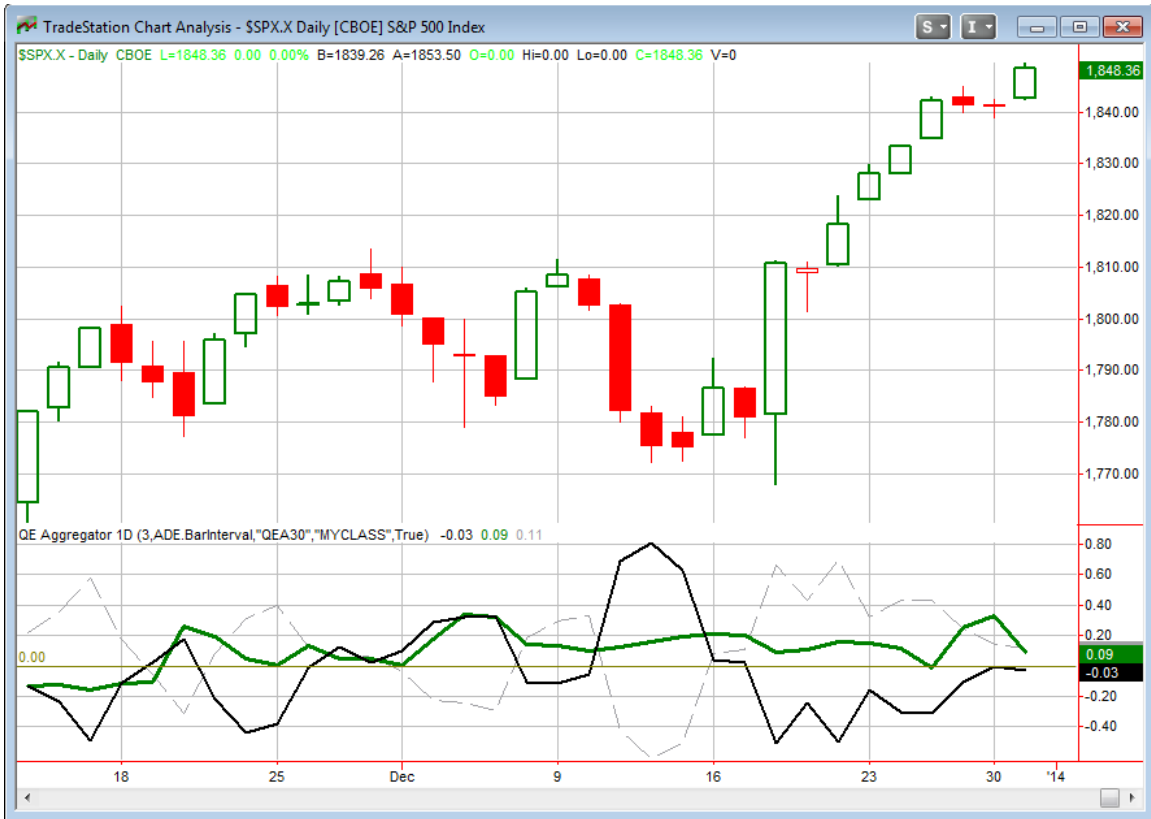
21 of 24 instances (88%) closed above the entry price at some point in the next week.

We see here that the edge goes beyond just the first trading day of the month. The numbers across the board are quite compelling. And while most of the edge is realized week one, there even appears to be some follow through into week two. Below is an equity curve showing results assuming a 5-day holding period.



The steady upslope supports the bullish hypothesis suggested by the stats table. So there appears to be a mix of bullish and bearish evidence to consider tonight.

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



With tonight's studies factored in the green Aggregator Line managed to hold firmly 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 a little negative. 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. This caused the Aggregator signal to remain flat.

With the current active studies, expectations are set to remain bullish on Thursday. This could change if more bearish evidence emerges. The Differential Pivot will be 1848.02 on Thursday. This is less than ½ point below Tuesday's close. So SPX will move from overbought to oversold versus expectations on almost any down day.

I was ready to buy if SPX struggled on Tuesday, but the market ran away from me as strong markets sometimes do. Evidence suggests we could have another few good days here, but with the market already overbought I am not going to be setting any buy levels just yet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/30 – bullish

The intermediate-term outlook was last updated in the 12/30 letter and can be found using the link below:

<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 [system triggers 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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