

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 3, 2014

Volume 7 Issue 2

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100%Long XIV	Flat

Tonight's Research Points

- Strong drops from 50-day highs have consistently been followed by bounces.
- An unfilled gap down right after an unfilled gap up can suggest short-term problems for the bulls.

Short-term Outlook

The Bottom Line

I'm leaning bullish but would like to see more of a pullback than just 1 day before starting an index position. I may look to take on some stock exposure though.

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 3, 2014	10 days > 5ma & 10-day high	1-2 days	Bearish	
January 3, 2014	Big drop from 50-day high	1-5 days	Bullish	
January 2, 2014	Close at high of month	1-5 days	Bullish	
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				
January 2, 2014	10 days > 5ma & 10-day high	1-2 days	Bearish	
December 31, 2013	Continuation Tuesday	1-2 days	Bearish	-1.80%

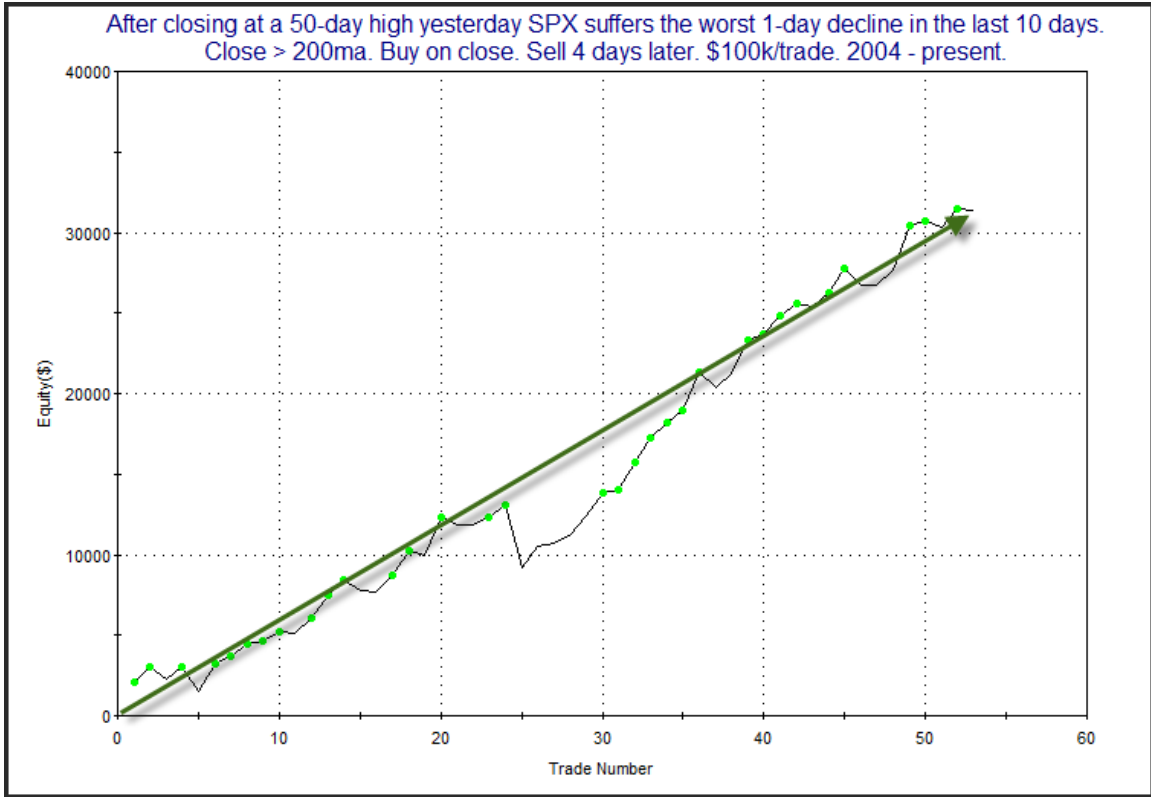
The Evidence

The market stumbled out of the gate in 2014. The SPX lost 0.9%, the Nasdaq fell 0.8% and the Russell 2000 dropped 1.1%. Breadth was negative as the NYSE Up Issues % was 35% and the Up Volume % was 28%. Total NYSE volume rose a little, but was still fairly light.

The action produced some mixed studies again on Thursday. This first on below considers such factors as Tuesday's 50-day high, Wednesday's relatively large drop, and the long-term trend. It was last seen in the 10/31/13 Letter. I have updated all the stats.

After closing at a 50-day high yesterday SPX suffers the worst 1-day decline in the last 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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	27,863.94	49	35	14	71.43	1,323.21	3,149.37	-1,317.74	-3,454.00	1.00	2.51	568.65
4	31,421.71	53	38	15	71.70	1,097.63	2,725.38	-685.88	-3,895.76	1.60	4.05	592.86
3	21,638.38	54	39	15	72.22	835.37	2,192.40	-729.41	-1,808.21	1.15	2.98	400.71
2	12,893.83	55	32	23	58.18	805.10	2,437.50	-559.54	-1,777.55	1.44	2.00	234.43
1	4,942.30	55	32	23	58.18	526.11	1,249.60	-517.10	-1,354.59	1.02	1.42	89.86
51 of 55 instances (93%) closed above the entry price at some point in the next 5 days.												

Over the last 9 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



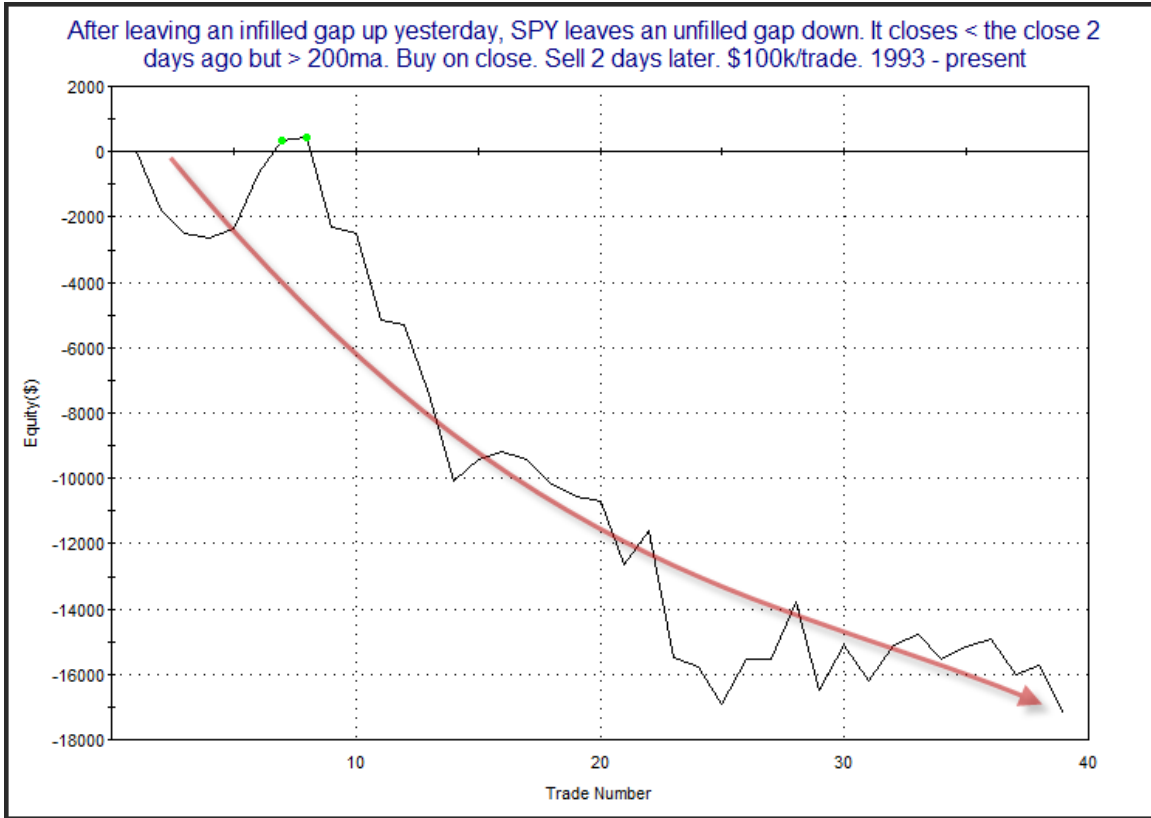
The steady upslope seems to confirm the bullish inclination.

But not everything pointed higher. The study below was last seen in the 4/18/13 letter. It examines 2-day moves like SPY has just encountered.

After leaving an unfilled gap up yesterday, SPY leaves an unfilled gap down. It closes < the close 2 days ago but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-4,323.84	36	15	21	41.67	1,501.03	3,949.59	-1,278.06	-3,791.20	1.17	0.84	-120.11
4	-3,094.88	37	15	22	40.54	1,546.80	3,637.58	-1,195.31	-4,926.08	1.29	0.88	-83.65
3	-19,868.61	39	15	24	38.46	952.23	2,463.47	-1,423.00	-5,321.00	0.67	0.42	-509.45
2	-17,183.64	39	16	22	41.03	746.94	1,754.40	-1,324.30	-3,893.00	0.56	0.41	-440.61
1	-2,163.52	39	18	20	46.15	521.59	1,325.15	-577.60	-1,564.50	0.90	0.81	-55.47

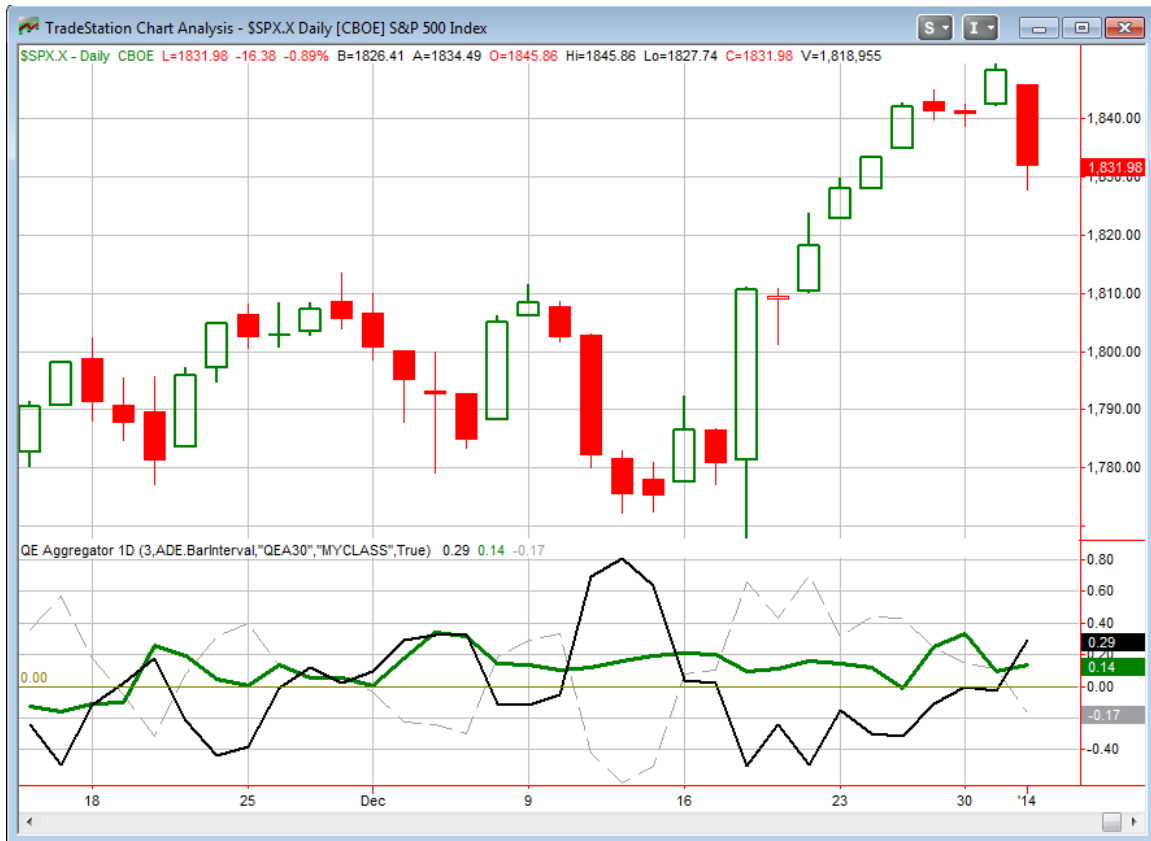
The suggestion here is that more downside appears likely over the next few days. Of course I also examined the profit curves. Below is the 2-day.



While the steepness has lessened some in recent times, it is again making new lows. Overall, this setup appears to suggest a bit of a downside edge. I believe it is worth some consideration.

So for the 2nd night in a row we have 1 bullish and 1 bearish study to add to the mix.

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 strong selloff on Thursday caused the black Differential Line to jump up above 0. The positive Differential Line reading means the SPX is now oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator signal to turn long.

With the current active studies, expectations are set to remain bullish on Friday. This could change if more bearish evidence emerges. The Differential Pivot will be 1851.39 on Friday. This is over 1% above Thursday's close. It's unlikely that will get accomplished in one day. We will probably need to see a multi-day bounce or consolidation to work off the oversold condition.

There appears to be a bit of an upside edge here. But the market is only down 1 day at this point. So it could certainly have further to fall. Rather than start an index position just yet, I decided to look at a possible Numbered System trade in the Trade Ideas section. While there were several to choose from, I decided HPQ based on System 11111. Details are in the trade ideas section below.

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.

HPQ – buy @ \$27.66 LIMIT. This is based on System 11111. Since 1995 – HPQ has been a perfect 12-0 with System 11111. Below I have listed all the instances and the performance of each.

HPQ System 11111 hypothetical performance.
\$100k/trade. \$0.01/share commission. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/11/97	Buy	\$28.22	1.52%	\$2,620.34
08/14/97	Sell	\$28.65		(\$3,257.72)
05/26/99	Buy	\$36.70	4.47%	\$4,467.36
05/26/99	Sell	\$38.34		(\$1,116.84)
12/15/99	Buy	\$42.29	3.38%	\$3,491.32
12/16/99	Sell	\$43.72		(\$3,939.53)
06/16/03	Buy	\$20.99	3.10%	\$3,287.16
06/17/03	Sell	\$21.64		(\$857.52)
06/26/03	Buy	\$20.70	2.90%	\$3,268.76
06/26/03	Sell	\$21.30		(\$1,922.80)
12/01/04	Buy	\$20.00	2.60%	\$2,650.00
12/01/04	Sell	\$20.52		\$0.00
12/14/04	Buy	\$20.70	1.69%	\$1,738.80
12/16/04	Sell	\$21.05		(\$966.00)
06/09/05	Buy	\$22.39	1.65%	\$2,451.90
06/09/05	Sell	\$22.76		(\$44.58)
09/07/06	Buy	\$35.45	2.03%	\$2,036.70
09/08/06	Sell	\$36.17		(\$697.50)
01/31/11	Buy	\$45.41	2.44%	\$2,614.43
02/01/11	Sell	\$46.52		(\$615.16)
01/30/13	Buy	\$16.48	0.79%	\$1,638.09
02/05/13	Sell	\$16.61		(\$2,730.15)
03/22/13	Buy	\$22.32	5.91%	\$6,227.20
03/26/13	Sell	\$23.64		\$0.00

I find HPQ to be an appealing option, especially with the general market carrying a bullish setup. Subscribers may find rules and information for system 11111 using the link below.

<http://quantifiableedges.com/system-11111/>

Current Open Trade Ideas

None.

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