

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 13, 2014

Volume 7 Issue 8

Market Overview



Signals Overview

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

Tonight's Research Points

- Opex week in January has been weak over the last 15 years.
- The “new normal” level of Fed liquidity flows is now in effect. No adverse impact so far...

Short-term Outlook

The Bottom Line

The Aggregator is slightly bullish, but we are entering a weak seasonal period, and expectations could to turn bearish as early as Monday. So I am not inclined to take on any new exposure just yet.

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 13, 2014	Jan opex week bearish	1-5 days	Bearish	-2.30%
January 10, 2014	Back to back outside days	1-5 days	Bullish	1.90%
January 7, 2014	3-down. Today is Monday.	1-5 days	Bullish	2.50%
Active - Long Term				
December 23, 2014	QE Tapering	int term	Neutral	
December 18, 2013	4 Hindenburg Triggers	1 - 35 days	Bearish	-7.00%
December 2, 2013	Nasdaq leading SPX	int term	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				
December 19, 2013	20-high on high vol	1-20 days	Bullish	
October 25, 2013	SPX > 50,2 Bollinger Band	1-50 days	Bullish	
January 7, 2014	3-down from 50-high	1-4 days	Bullish	1.70%

The Evidence

Friday was a decent day for the market and most indices finished higher. The SPX rose 0.2%, the Nasdaq gained 0.4% and the Russell 2000 rallied 0.5%. Breadth was squarely positive as the NYSE Up Issues % was 70% and the Up Volume % was 67%. Total NYSE volume sank a little from Thursday's level.

The mixed action on Friday did nothing to inspire compelling price, volume, volatility, or breadth studies to trigger. But the Quantifinder did note that we are now entering a very weak seasonal period. Last year in the 1/14/13 Letter I examined January opex week. I have updated that study below.

Today is Friday before Jan opex. Buy SPY on close. Sell X days later. \$100k/trade. 1999 - 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	-19,474.69	15	4	11	26.67	1,710.92	2,202.87	-2,392.58	-5,768.17	0.72	0.26	-1,298.31
4	-17,640.67	15	5	10	33.33	1,162.60	2,095.20	-2,345.37	-5,262.18	0.50	0.25	-1,176.04
3	-12,226.29	15	4	11	26.67	1,291.99	2,104.46	-1,581.30	-5,295.84	0.82	0.30	-815.09
2	-5,582.18	15	6	8	40.00	538.66	1,497.68	-1,101.77	-2,737.00	0.49	0.37	-372.15
1	-1,421.46	15	7	8	46.67	559.48	1,039.35	-667.23	-2,401.08	0.84	0.73	-94.76

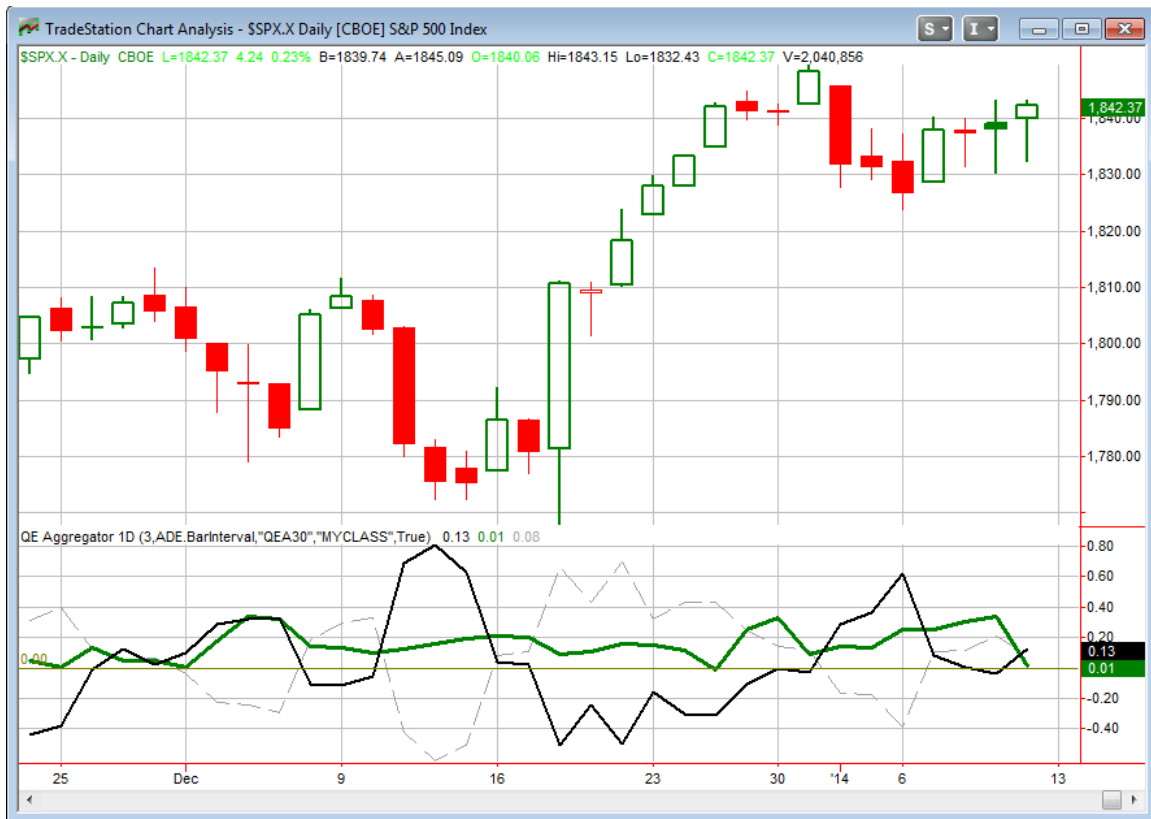
2001 and 2012 were the only years the SPX failed to close below Friday's close at some point during the week. While it is not the case this year, January op-ex week often occurs in conjunction with Martin Luther King Day. Below is the list of 15 January op-ex weeks

from the table above with their full week performance results. Note that some of these weeks contained four trading days and some contain five.

Today is Friday before Jan opex. Buy SPY on close. Sell opex Friday. \$100k/trade. 1999 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/08/99	Buy	\$127.75	(2.64%)	\$0.00
01/15/99	Sell	\$124.38		(\$5,763.34)
01/14/00	Buy	\$146.97	(1.72%)	\$20.40
01/21/00	Sell	\$144.44		(\$2,148.80)
01/12/01	Buy	\$132.00	1.54%	\$3,171.83
01/19/01	Sell	\$134.03		(\$378.50)
01/11/02	Buy	\$114.94	(1.56%)	\$391.50
01/18/02	Sell	\$113.15		(\$1,974.90)
01/10/03	Buy	\$93.06	(2.58%)	\$859.20
01/17/03	Sell	\$90.66		(\$3,125.34)
01/09/04	Buy	\$112.39	1.64%	\$1,706.88
01/16/04	Sell	\$114.23		(\$560.07)
01/14/05	Buy	\$118.24	(1.23%)	\$1,166.10
01/21/05	Sell	\$116.78		(\$1,343.55)
01/13/06	Buy	\$128.68	(2.11%)	\$170.94
01/20/06	Sell	\$125.97		(\$2,105.67)
01/12/07	Buy	\$143.24	(0.29%)	\$153.56
01/19/07	Sell	\$142.82		(\$649.14)
01/11/08	Buy	\$140.15	(5.77%)	\$1,105.15
01/18/08	Sell	\$132.06		(\$6,452.65)
01/09/09	Buy	\$89.09	(4.52%)	\$0.00
01/16/09	Sell	\$85.06		(\$8,269.14)
01/08/10	Buy	\$114.57	(0.81%)	\$497.04
01/15/10	Sell	\$113.64		(\$1,194.64)
01/14/11	Buy	\$129.30	(0.72%)	\$262.82
01/21/11	Sell	\$128.37		(\$1,677.41)
01/13/12	Buy	\$128.84	2.10%	\$2,413.36
01/20/12	Sell	\$131.54		\$0.00
01/11/13	Buy	\$147.07	0.86%	\$964.18
01/18/13	Sell	\$148.33		(\$590.73)
Avg Run-up: \$859 Avg Drawdown: -\$2416				

Even with the positive performance the last 2 years there has been a decided downside tendency over the last 15 years. The drawdown / run-up stats at the bottom remain quite compelling for the bears. I have included this study on the Short-Term Active List.

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



With tonight's bearish study the green Aggregator Line took a bit of a dive and is now just slightly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose back over 0. The positive Differential Line reading means the SPX is 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 some of our bullish studies nearing expiration, expectations are set to turn net negative on Monday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 1852.26 on Monday. That is 0.5% above Friday's close. So for SPX to move from oversold to overbought versus recent expectations it will need to close up at least this much

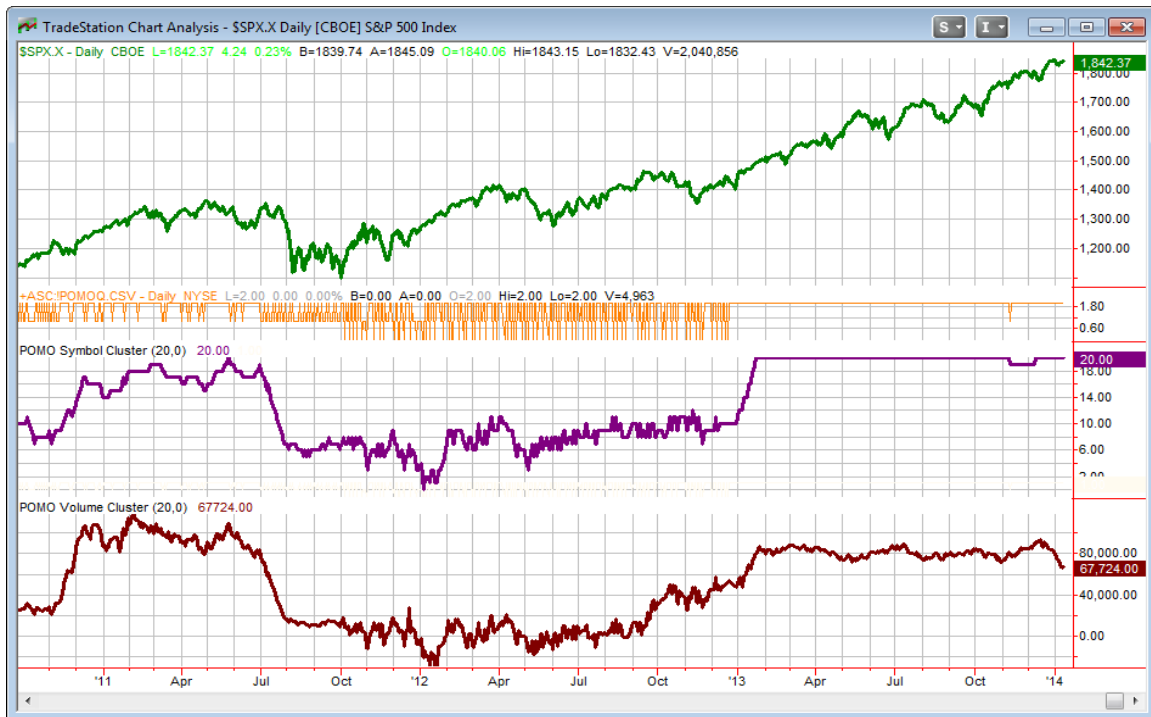
The upside edge here appears small and the window of opportunity is very tight. With expectations set to turn negative as early as Monday, I do not intend to take on any exposure just yet. Instead, I will wait and see what edges emerge over the next few days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/13 – somewhat bullish

After finishing 2013 at a new high, the market fell the 1st few days of the year, but has now bounced back close to those highs. The uptrend appears to be in place. Either the uptrend will need to falter, or I will need to see some very compelling evidence against it before I will start leaning bearish. There were no new intermediate-term studies that emerged this week, but the POMO/QE chart deserves some review as usual.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS days indicator is still riding along at 20, where it spent most of 2013. The volume indicator has been diving though, and is now at its lowest level since the very beginning of 2013. We estimate net inflows this past week to have been about \$18 billion, which is right around the average level we will see in January. This should provide some fuel for the market.

This upcoming week will be similar in size, with \$19 billion of inflows expected. This is the “new normal” that the market is going to need to get adjusted to. It still appears to be a healthy amount of stimulus, and one that should serve to aid the continuing bull. But the more tapering the Fed does, the lower the red volume line is going to travel. The high correlation between Fed stimulus amounts and market performance over the years is undeniable. As the red line approaches 0 (and perhaps move below it), I expect the market will undergo some substantial corrections.

The next Fed policy announcement is scheduled for January 29th. We will see then whether they intend to continue to lessen the amount each meeting, or whether they intend to hold it at \$75 billion for a while longer.

The number of intermediate-term bullish studies has dropped quite a bit over the last few weeks, as they have either expired or reached their target levels. The breadth thrust from October, the leading Nasdaq, and the continued uptrend all favor the bulls. But the bears can point to the narrowing of new highs – both with the QE Study of Tops New High % indicator, and the Hindenburg Omen signals from December, as potential warning signs.

Liquidity is likely still somewhat positive, but less so than before. Overall, I continue to lean bullish, but not strongly so. I will still favor longs over shorts. I will need very compelling evidence to consider a short position, and I will likely be a bit more discerning with long entries than if I was outright bullish.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

DOW – 1/3 @ \$43.11 (bought at limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1 (DOW)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
FCX	1/7/2014	\$37.02	\$36.17	-2.30%		<i>sold on close</i>
DOW(1/3)	1/8/2014	\$43.11	\$42.71	-0.93%		Catapult

FCX was exited at the close as per System 11111 rules. An intraday update was sent to subscribers alerting them of this possibility.

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