

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 16, 2014

Volume 7 Issue 11

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 unfilled up gaps and a 50-day high are a short-term positive.

Short-term Outlook

The Bottom Line

The Aggregator has swung bullish, but the SPX is scheduled to move to an “overbought” position tomorrow. And with it already at an all-time high, I’m not inclined to take on new long exposure. I remain in waiting mode.

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 16, 2014	SPY 2 unfilled up gaps & 50-high	1-3 days	Bullish	
January 14, 2014	7-day high to a 7-day low in 1 day	1-3 days	Bearish	
January 14, 2014	1% drop bad breadth	1-9 days	Bullish	3.10%
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%
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				
January 15, 2014	Unfilled gap up inside day > 200	1 day	Bearish	

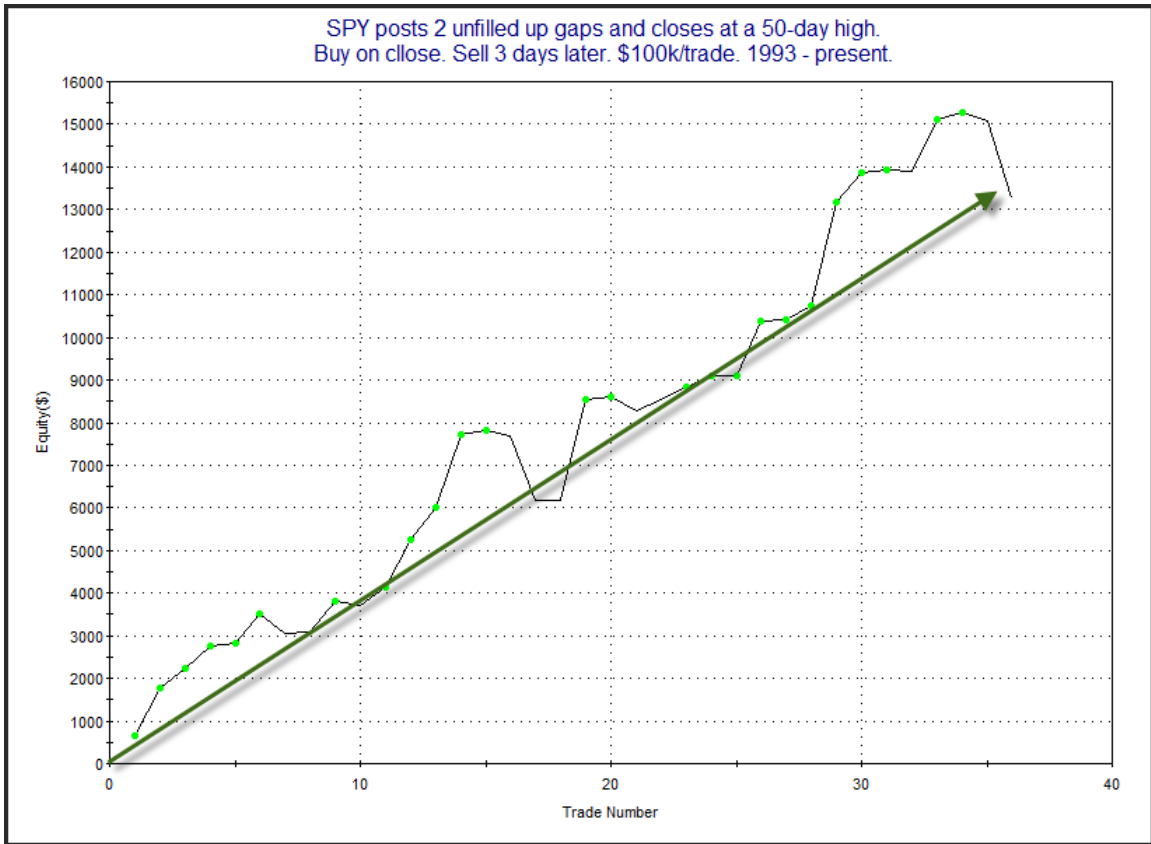
The Evidence

The buying continued and several indices made it back to new highs. The SPX gained 0.5%, the Nasdaq rose 0.8% and the Russell 2000 closed up 1.3%. Breadth was squarely positive as the NYSE Up Issues % was 65% and the Up Volume % was 70%. Total NYSE volume rose some from Tuesday's level.

One interesting aspect of today's action is the SPY gapped up above Tuesday's close, and never filled that gap. This made the 2nd day in a row with an unfilled up gap. The study below is one that was seen in the 12/10/13 letter. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

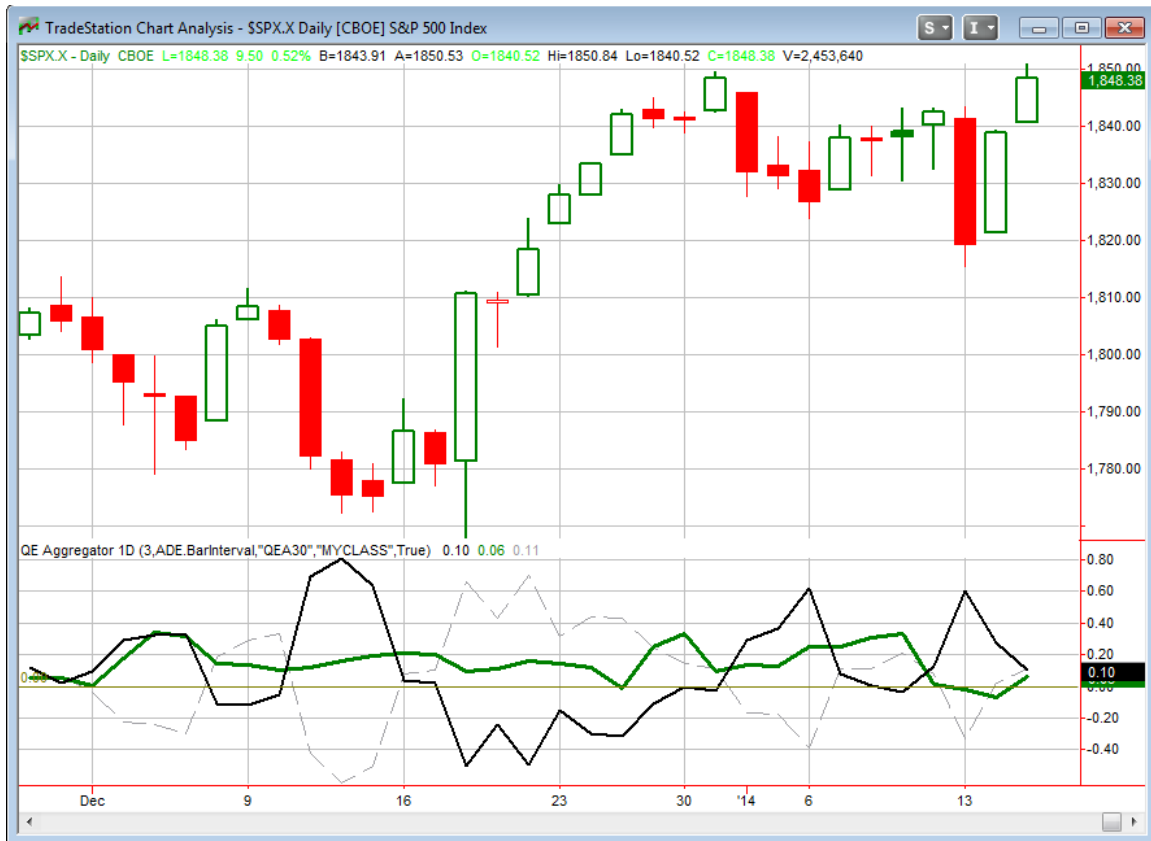
SPY posts 2 unfilled up gaps and closes at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	11,788.44	36	26	10	72.22	918.10	2,013.72	-1,208.21	-4,508.40	0.76	1.98	327.46
4	15,532.68	36	27	9	75.00	925.12	2,475.56	-1,049.51	-2,720.25	0.88	2.64	431.46
3	13,280.61	36	27	9	75.00	659.28	2,419.84	-502.21	-1,801.77	1.31	3.94	368.91
2	7,558.55	36	25	10	69.44	540.50	1,858.87	-595.39	-1,476.68	0.91	2.27	209.96
1	91.79	42	23	19	54.76	343.11	1,156.32	-410.52	-1,942.24	0.84	1.01	2.19
39 of 42 instances (93%) closed above the entry price at some point in the next week.												

The size of the follow-through isn't terribly large, but it has been very consistent that some follow through was achieved in the next few days. Below is the 3-day profit curve.



Despite the last 2 instances the upward inclination appears to be in place. This study seems well worth consideration, and I have included on the Active List.

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



Tonight's bullish study helped the green Aggregator Line edge rise back 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 above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. Of course it is unusual to close "oversold" and at a new high. But since we measure relative to where the studies of the last few days say we should be now, this does happen from time to time. 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.

If the current open studies remain as-is then expectations would remain bullish on Thursday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *highly inverted* at 1824.92 on Thursday. That is nearly 1.3% below Wednesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, for SPX to remain "oversold" it is going to need to close down at least 1.3%. Any close above 1824.92 and SPX will move from oversold to overbought versus expectations.

So the Aggregator signal is long, and the expectation for tomorrow is somewhat positive, but I do not view this as an opportune time to look for new long exposure. Despite the

“oversold” Differential reading, the market is extended upwards and sitting at a new high. And since the Differential Pivot is inverted, the window of opportunity is very small. It would take a strong move against a long position in order to hold through another day. So while there may be a small upside edge, I do not find it to be a compelling edge. Before putting additional capital at risk I intend to wait another day or so and see how things play out, and examine any new studies that emerge.

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

The intermediate-term outlook was last updated on 1/6. It can be found in the current weekly letter:

<http://quantifiableedges.com/current-weekly-letter/>

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

AXP – 1/3 @ \$86.99 (bought @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1 (AXP)

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
DOW(1/3)	1/8/2014	\$43.11	\$43.05	-0.14%		sell on open
AXP(1/3)	1/14/2013	\$86.99	\$88.25	1.45%		see note below

To reach its end-of-day target AXP would need to close >= \$88.36 on Thursday.

The standard play when an exit target is hit is to exit the position the next morning – like with DOW. But AXP is set to release earnings on Thursday after the close. So I will look to sell my AXP position if it closes at \$88.36 or higher.

If it closes lower than that I still may take partial profits to protect my downside. So I will sell ½ the position on a close of \$87.50 or higher. Anything below there and I will let the trade play out as normal.

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