

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 17, 2014

Volume 7 Issue 12

Market Overview



Signals Overview

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

Tonight's Research Points

- When SPX closes down but breadth is strong, it has often led to gains over the next few days.

Short-term Outlook

The Bottom Line

The studies are pointing north but the market is already overbought, so risk/reward is poor. I'm waiting for a more favorable opportunity for my next trade.

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 17, 2014	SPX down. Up Issues % > 55%. SPX>200	1-3 days	Bullish	1.10%
January 16, 2014	SPY 2 unfilled up gaps & 50-high	1-3 days	Bullish	
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%
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 14, 2014	7-day high to a 7-day low in 1 day	1-3 days	Bearish	
January 10, 2014	Back to back outside days	1-5 days	Bullish	1.90%

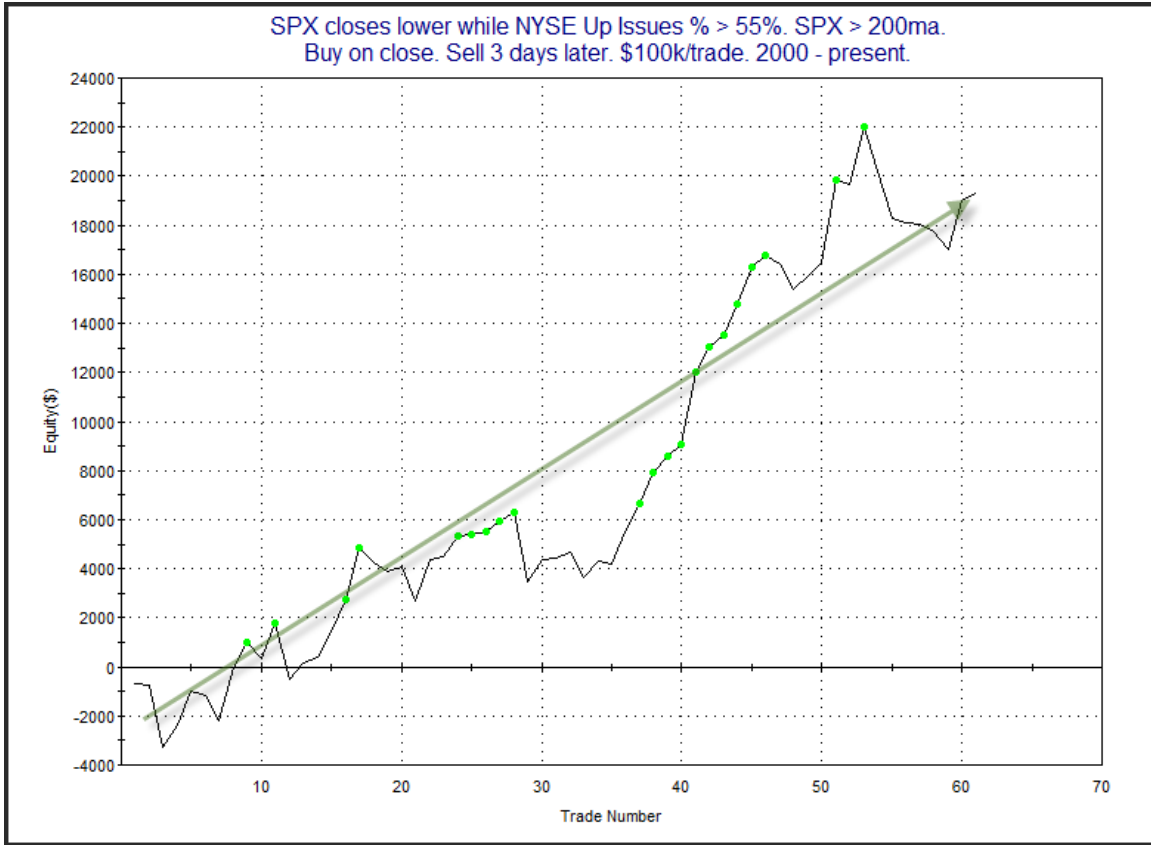
The Evidence

The rally paused on Thursday. The SPX declined 0.1%, but the Nasdaq rose less than 0.1% and the Russell 2000 closed up 0.2%. Breadth was mixed as the NYSE Up Issues % was 56% and the Up Volume % was 46%. Total NYSE sank a little from Wednesday's level.

There was not a lot of real notable action on Thursday. But breadth was unusually strong for a day that the SPX declined. The study below is the only one from the Quantifinder that I found worthy of discussion. It was last seen in the 1/6/14 Letter. It looks at days like Thursday where SPX declined despite strong breadth. Results are updated.

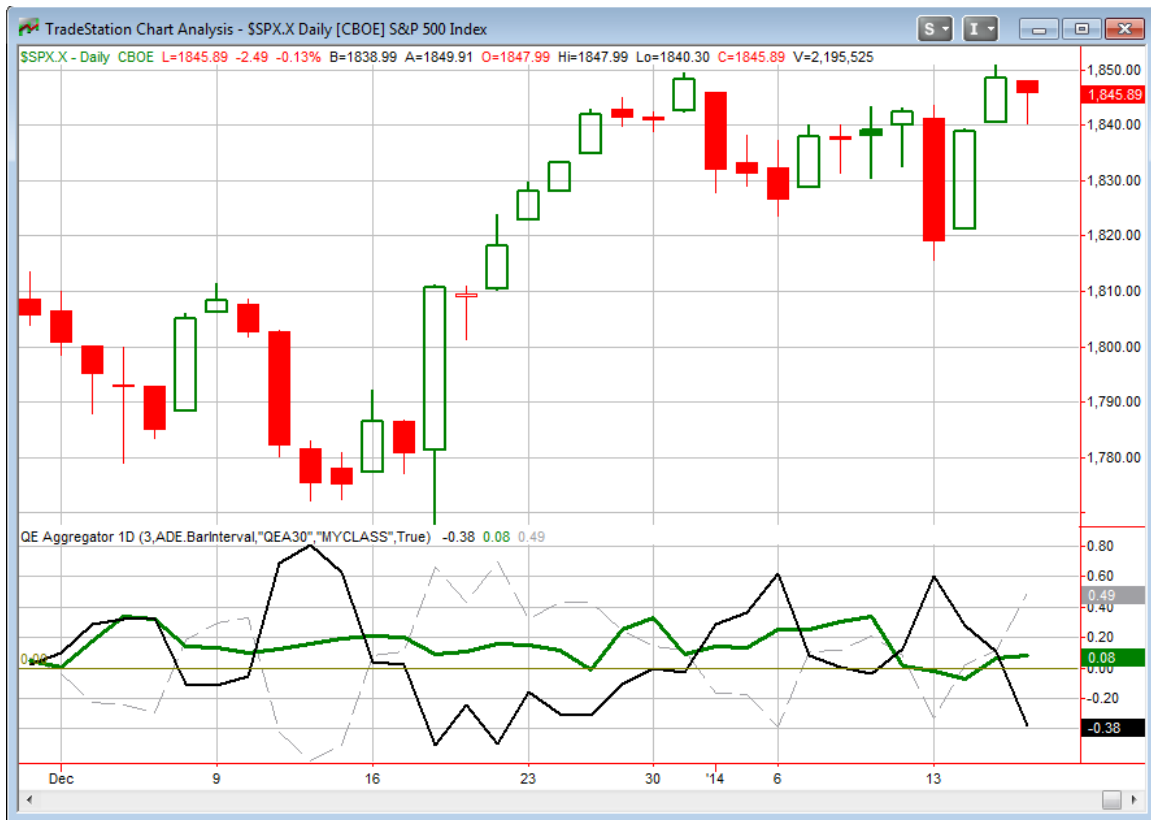
SPX closes lower while NYSE Up Issues % > 55%. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	20,350.48	57	34	23	59.65	1,382.15	3,616.92	-1,158.38	-4,012.80	1.19	1.76	357.03
4	18,876.83	59	35	24	59.32	1,299.21	3,429.00	-1,108.15	-2,921.28	1.17	1.71	319.95
3	19,324.23	61	39	22	63.93	1,020.09	3,373.50	-929.97	-2,852.01	1.10	1.94	316.79
2	17,148.90	62	42	20	67.74	817.28	3,025.12	-858.85	-3,119.03	0.95	2.00	276.60
1	13,887.53	64	36	28	56.25	716.87	2,484.00	-425.70	-1,348.29	1.68	2.17	216.99

The edge isn't huge, but it does appear to be worth a closer look. The equity curve below gives a better idea of how it has played out over time.



While the curve certainly appears choppy, it has persisted upwards. I believe this study is worth taking into consideration and I've included it among the active studies.

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



Tonight's bullish study again helped the green Aggregator Line stay 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 dove hard and is now well below 0. 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 turn flat.

If the current open studies remain as-is then expectations would remain bullish on Friday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1837.45 on Friday. That is 0.5% below Thursday's close. So SPX will need to close down at least this much in order to be considered "oversold" versus expectations.

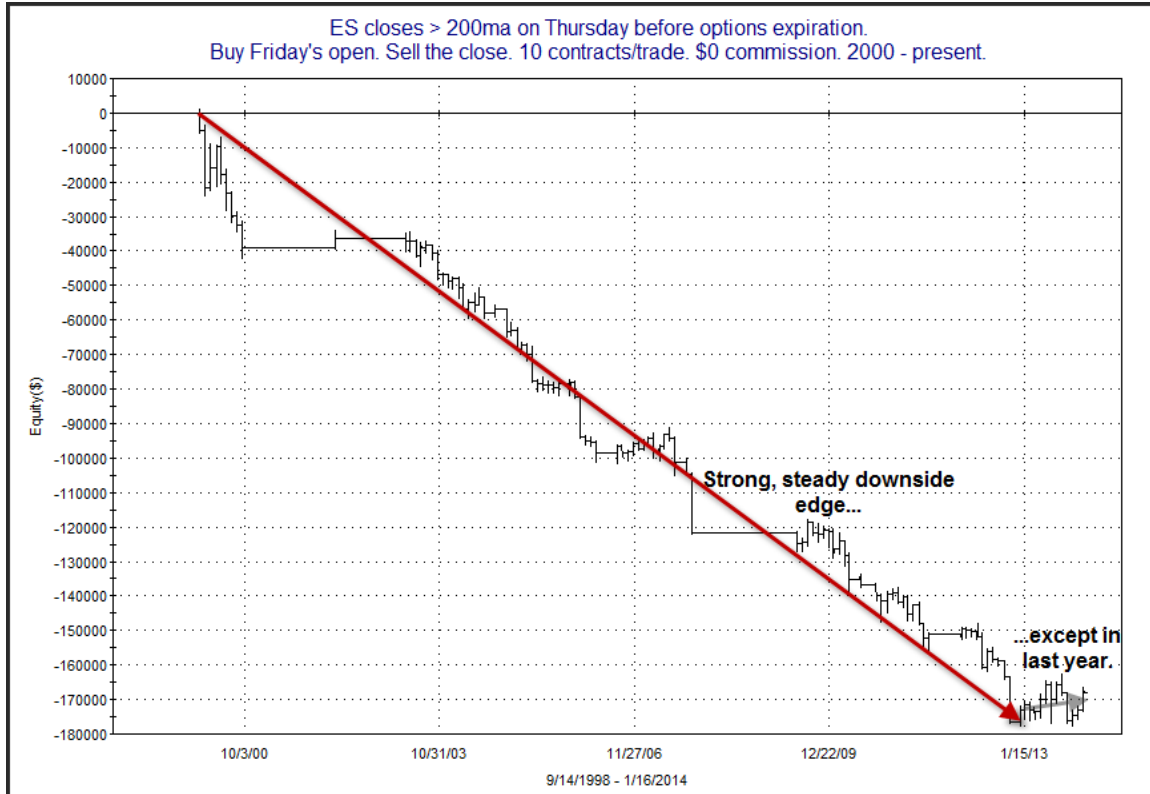
We just don't seem to be at a place with a strong edge here. We have a group of moderately bullish studies suggesting up is more likely than down. But with the market already overbought risk/reward is not great. I typically demand a more favorable risk/reward setup before taking on new exposure, and I am perfectly content to wait for a better setup.

So there will be no new trade ideas from me tonight. Of course more aggressive traders may always look to the [Daily Triggers Spreadsheet](#), found [on the Numbered Systems](#)

Page, for ideas of stocks and ETFs setting up in potentially favorable situations. Two stocks that stand out there that could be getting primed for a bounce are CVS and TWX.

Opex Friday Daytrading Study

Opex Friday has had some notable tendencies over the years. One such tendency is that during long-term uptrends it has performed quite poorly from open to close. This can be seen in the study below.



The edge has failed to exert itself over the last year. At this point it is unclear whether the market is undergoing a change in character or whether the sideways movement is just temporary as it was in late '06 and early '07. In any case, I remain a bit wary of taking long positions during the day on opex Friday. Daytraders may want to keep the above study in mind as they approach their day.

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	\$42.88	-0.53%		<i>sold on open</i>
AXP(1/3)	1/14/2013	\$86.99	\$87.78	0.91%		<i>sold 1/2 @ 87.78</i>

Half of the small AXP position was sold at the close on Thursday ahead of the earnings report as per last night's letter. The end-of-day trigger for AXP on Friday will be about \$88.55, so a close at or above this level would trigger an exit (on the remaining portion) for Monday morning.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2014 Hanna Capital Management, LLC.