

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 28, 2014

Volume 7 Issue 18

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 3-day pullbacks going into a Tuesday have been strongly prone to upside reversals.
- 20-day lows have often been followed by bounces.
- The combination of the 2 above has been even more impressive over a 2-week period.
- The weaker the close on Tuesday, the more bullish the Fed Day setup for Wednesday.

## *Short-term Outlook*

### *The Bottom Line*

Evidence appears strongly bullish for the next few days. I'm long and looking to get longer.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
January 28, 2014	3rd dn Turnaround Tuesday	1-4 days	Bullish	2.10%
January 27, 2014	2 unfilled gaps dn > 200ma	1-6 days	Bullish	
January 27, 2014	Friday down 1.5x 20-day ATR	1-6 days	Bullish	
<b>Active - Long Term</b>				
January 27, 2014	2 unfilled dn gaps & 5-low > 200	1-10 days	Bullish	
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	
<b>Dropped Tonight</b>				
January 14, 2014	1% drop bad breadth	1-9 days	Bullish	3.10%
January 27, 2014	VIX 35% over 10ma	1 day	Bullish	
January 27, 2014	Strong drop through 50ma	1 day	Bullish	

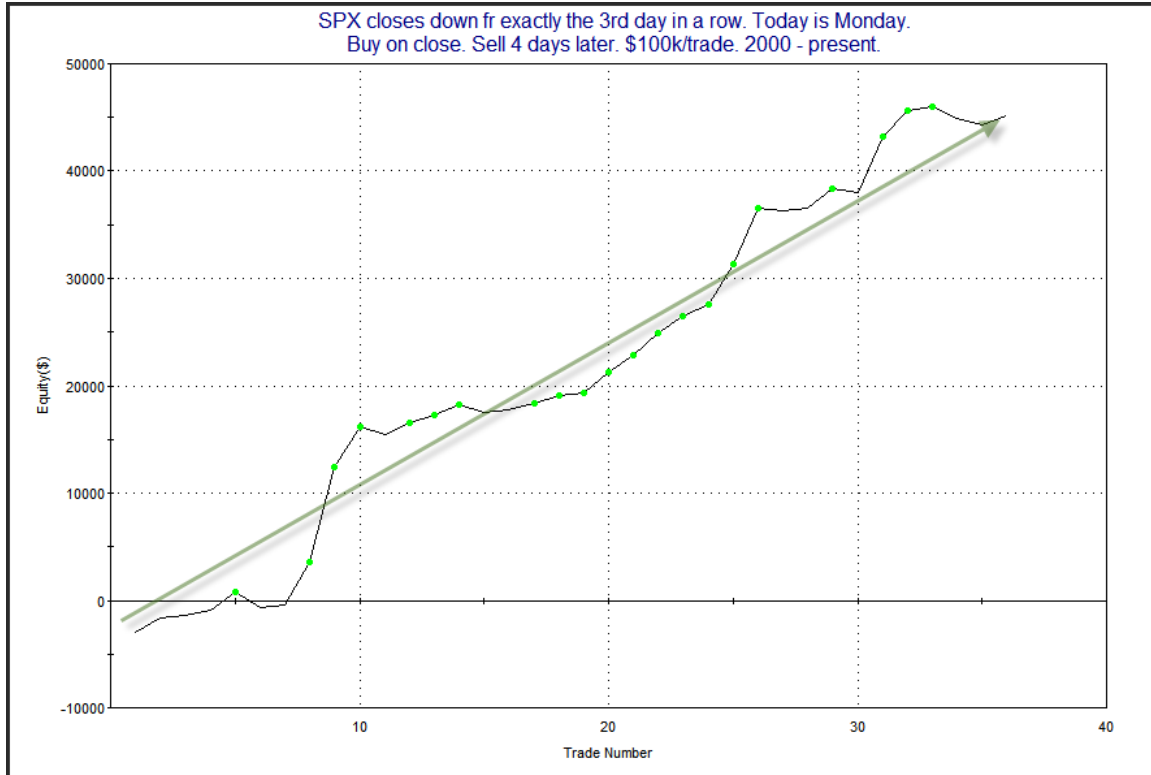
**The Evidence**

The market sold off again on Monday, despite evidence suggesting a bounce is near. The SPX finished down 0.5%, the Nasdaq lost 1.1% and the Russell 2000 declined 1.4%. Breadth was weak as the NYSE Up Issues % was 26% and the Up Volume % was 30%. Total NYSE volume sank quite a bit from Friday's extra-large reading.

Several studies again triggered in the Quantifinder tonight. Below I have decided to discuss the most compelling ones. I've discussed many times in the past that Tuesdays have a well-earned reputation for being a day when the market will often halt a decline. The study below is one from the larger [Turnaround Tuesday study](#) published in the 9/25/12 blog and Subscriber Letter. All statistics are updated.

SPX closes down for exactly the 3rd day in a row. Today is Monday. 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
10	60,105.82	35	26	9	74.29	2,780.29	13,815.90	-1,353.54	-4,387.46	2.05	5.93	1,717.31
9	65,627.43	35	28	7	80.00	2,544.32	11,206.23	-801.94	-1,686.96	3.17	12.69	1,875.07
8	64,557.59	35	28	6	80.00	2,560.62	11,382.35	-1,189.96	-2,031.30	2.15	10.04	1,844.50
7	63,828.23	35	28	7	80.00	2,528.38	11,104.17	-995.20	-2,148.96	2.54	10.16	1,823.66
6	50,893.37	35	25	10	71.43	2,362.18	10,034.53	-816.12	-1,676.79	2.89	7.24	1,454.10
5	54,986.11	36	24	12	66.67	2,688.43	9,572.31	-794.69	-1,714.92	3.38	6.77	1,527.39
4	45,152.49	36	28	8	77.78	1,907.05	8,810.76	-1,030.62	-2,964.25	1.85	6.48	1,254.24
3	37,724.67	36	24	12	66.67	1,936.50	8,432.34	-729.28	-1,873.02	2.66	5.31	1,047.91
2	25,028.82	36	26	10	72.22	1,294.65	5,018.23	-863.21	-1,602.76	1.50	3.90	695.25
1	17,447.30	36	22	14	61.11	1,269.17	4,723.23	-748.17	-2,680.15	1.70	2.67	484.65

As you can see the market has strongly favored a quick move higher. And when that move hasn't happened on Tuesday it has often happened in the next few days. Below is an equity curve showing a 4-day exit strategy.



While the strength of the edge has oscillated some it has provided fairly consistent results over time. Certainly this study seems to suggest an upside edge.

Not only did SPX close down for the 3<sup>rd</sup> day in a row, but it also closed at a 20-day low. In the 6/6/13 Letter I looked at 20-day lows during uptrends. I found that they often provided an opportune to for a long entry. The results table from that study is updated below.

**SPX closes at a 20-day low but > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1991 - present.**

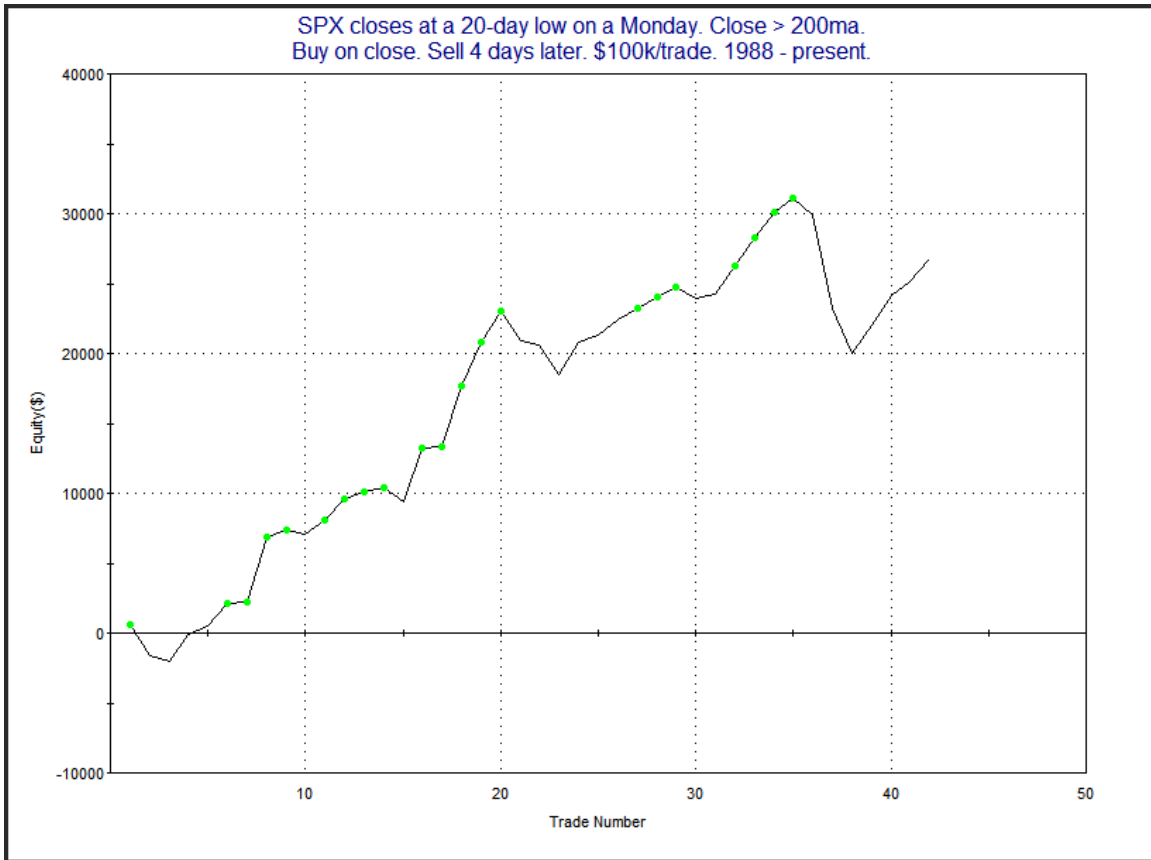
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	73,301.05	91	60	31	65.93	2,412.09	5,656.16	-2,304.01	-13,993.88	1.05	2.03	805.51
9	82,949.28	92	62	30	67.39	2,288.49	5,167.64	-1,964.58	-10,059.36	1.16	2.41	901.62
8	87,892.91	99	69	30	69.70	2,236.31	5,982.72	-2,213.74	-14,092.68	1.01	2.32	887.81
7	93,405.36	101	72	29	71.29	2,044.72	5,454.72	-1,855.67	-8,018.76	1.10	2.74	924.81
6	79,641.46	103	68	35	66.02	1,976.63	5,461.44	-1,564.83	-7,966.32	1.26	2.45	773.22
5	75,152.84	110	66	44	60.00	1,895.64	4,608.35	-1,135.44	-5,114.56	1.67	2.50	683.21
4	46,521.70	119	71	48	59.66	1,532.56	4,690.50	-1,297.71	-3,994.08	1.18	1.75	390.94
3	42,869.70	134	83	51	61.94	1,254.55	5,471.10	-1,201.13	-6,688.99	1.04	1.70	319.92
2	47,191.42	156	95	61	60.90	1,100.61	4,259.29	-940.44	-4,320.06	1.17	1.82	302.51
1	18,952.51	218	129	88	59.17	758.28	5,117.46	-896.20	-6,826.40	0.85	1.24	86.94

Here too we see a tendency to bounce. So tonight I thought about combining the 20-day low with the Turnaround Tuesday.

**SPX closes at a 20-day low on a Monday. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1988 - 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	41,515.63	37	27	10	72.97	2,404.35	5,656.16	-2,340.18	-6,348.65	1.03	2.77	1,122.04
9	38,022.95	38	26	12	68.42	2,612.97	5,761.56	-2,492.85	-8,326.01	1.05	2.27	1,000.60
8	33,516.88	38	26	12	68.42	2,380.88	6,960.84	-2,365.49	-8,801.10	1.01	2.18	882.02
7	24,099.28	38	23	15	60.53	2,526.87	7,500.06	-2,267.91	-12,795.86	1.11	1.71	634.19
6	23,668.98	38	24	14	63.16	2,241.98	7,272.06	-2,152.76	-8,809.57	1.04	1.79	622.87
5	28,191.61	42	28	14	66.67	2,186.57	7,070.28	-2,359.45	-12,895.96	0.93	1.85	671.23
4	26,767.83	42	31	11	73.81	1,521.07	4,690.50	-1,853.22	-6,742.12	0.82	2.31	637.33
3	21,609.00	42	30	12	71.43	1,370.53	3,940.55	-1,625.58	-6,688.99	0.84	2.11	514.50
2	18,566.07	42	27	15	64.29	1,229.61	4,809.66	-975.57	-2,760.78	1.26	2.27	442.05
1	9,083.44	42	26	16	61.90	881.76	5,117.46	-865.14	-3,588.48	1.02	1.66	216.27

Results here appear even a bit better. Below is a profit curve using a 4-day exit strategy.



The curve is a bit choppy but it certainly seems to point upwards.

Lastly, I wondered how it might look if I combined the 3 down days with the 20-day low and the Turnaround Tuesday. This last study table may be found below.

Today is Monday. SPX closes down for the 3rd day in a row and at a 20-day low. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1988 - 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	20,811.36	10	10	0	100.00	2,081.14	5,016.83	0.00	0.00	100.00	100.00	2,081.14
9	21,283.88	10	9	1	90.00	2,367.96	5,024.40	-27.75	-27.75	85.33	767.99	2,128.39
8	15,288.29	10	9	1	90.00	1,947.78	5,300.00	-2,241.75	-2,241.75	0.87	7.82	1,528.83
7	12,502.41	10	8	2	80.00	1,874.75	5,345.05	-1,247.78	-1,959.00	1.50	6.01	1,250.24
6	9,598.88	10	8	2	80.00	1,749.40	4,399.00	-2,198.17	-3,496.50	0.80	3.18	959.89
5	14,970.52	11	8	3	72.73	2,307.19	4,608.35	-1,162.34	-2,268.75	1.98	5.29	1,360.96
4	13,102.25	11	9	2	81.82	1,727.93	4,690.50	-1,224.54	-2,082.00	1.41	6.35	1,191.11
3	9,674.46	11	9	2	81.82	1,407.58	3,940.55	-1,496.87	-1,918.24	0.94	4.23	879.50
2	7,566.60	11	8	3	72.73	1,223.65	3,744.45	-740.85	-1,704.00	1.65	4.40	687.87
1	2,460.00	11	6	5	54.55	887.76	1,532.88	-573.31	-1,692.52	1.55	1.86	223.64

The added filters have reduced the number of instances so that there are just a small number at this point. Still, 2 weeks out they've been a perfect 10 for 10. And just a few days out the numbers are appealing as well. Below is the full list of instances using a 4-day exit strategy.

Today is Monday. SPX closes down for the 3rd day in a row and at a 20-day low. Close > 200ma. Buy on close. Sell 4 days later. \$100k/trade. 1988 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/06/89	Buy	\$332.61	1.95%	\$2,037.00
11/10/89	Sell	\$339.10		(\$513.00)
08/19/91	Buy	\$376.46	4.70%	\$5,003.20
08/23/91	Sell	\$394.16		\$0.00
09/20/93	Buy	\$455.05	0.57%	\$797.16
09/24/93	Sell	\$457.63		(\$1,186.98)
04/27/98	Buy	\$1,086.54	3.17%	\$3,172.16
05/01/98	Sell	\$1,121.02		(\$464.60)
05/24/99	Buy	\$1,306.65	(0.37%)	\$823.08
05/28/99	Sell	\$1,301.82		(\$2,229.84)
08/02/99	Buy	\$1,328.05	(2.09%)	\$600.75
08/06/99	Sell	\$1,300.29		(\$3,056.25)
03/22/04	Buy	\$1,095.44	1.15%	\$1,804.53
03/26/04	Sell	\$1,108.02		(\$762.58)
05/10/04	Buy	\$1,087.12	0.79%	\$1,424.15
05/14/04	Sell	\$1,095.66		(\$982.80)
05/17/04	Buy	\$1,084.08	0.88%	\$2,010.20
05/21/04	Sell	\$1,093.59		\$0.00
06/27/05	Buy	\$1,190.69	0.31%	\$1,110.54
07/01/05	Sell	\$1,194.44		(\$14.94)
03/05/07	Buy	\$1,374.12	2.09%	\$2,594.16
03/09/07	Sell	\$1,402.85		\$0.00

I intend to use the broader study to generate expectations. But the perfect 10 for 10 two weeks out made this study worth showing in my eyes.

One thing traders may want to keep in mind on Tuesday is that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 12/17/13 letter. Below are the 4 quartiles from highest to lowest in the daily range (not updated tonight).

Tomorrow is a Fed Day. SPY closes in top 25% of daily range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - 12/15/13

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$8,680.26	Profit Factor	1.42
Gross Profit	\$29,338.01	Gross Loss	(\$20,657.75)
Total Number of Trades	66	Percent Profitable	48.48%
Winning Trades	32	Losing Trades	32
Even Trades	2		
Avg. Trade Net Profit	\$131.52	Ratio Avg. Win:Avg. Loss	1.42
Avg. Winning Trade	\$916.81	Avg. Losing Trade	(\$645.55)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <=75% of daily range.  
Buy on close. Sell Fed Day close.\$100k/trade. 3/1/93 - 6/14/13.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$13,590.58	Profit Factor	2.06
Gross Profit	\$26,412.57	Gross Loss	(\$12,821.99)
Total Number of Trades	37	Percent Profitable	56.76%
Winning Trades	21	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	\$367.31	Ratio Avg. Win:Avg. Loss	1.47
Avg. Winning Trade	\$1,257.74	Avg. Losing Trade	(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of daily range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - 12/15/13

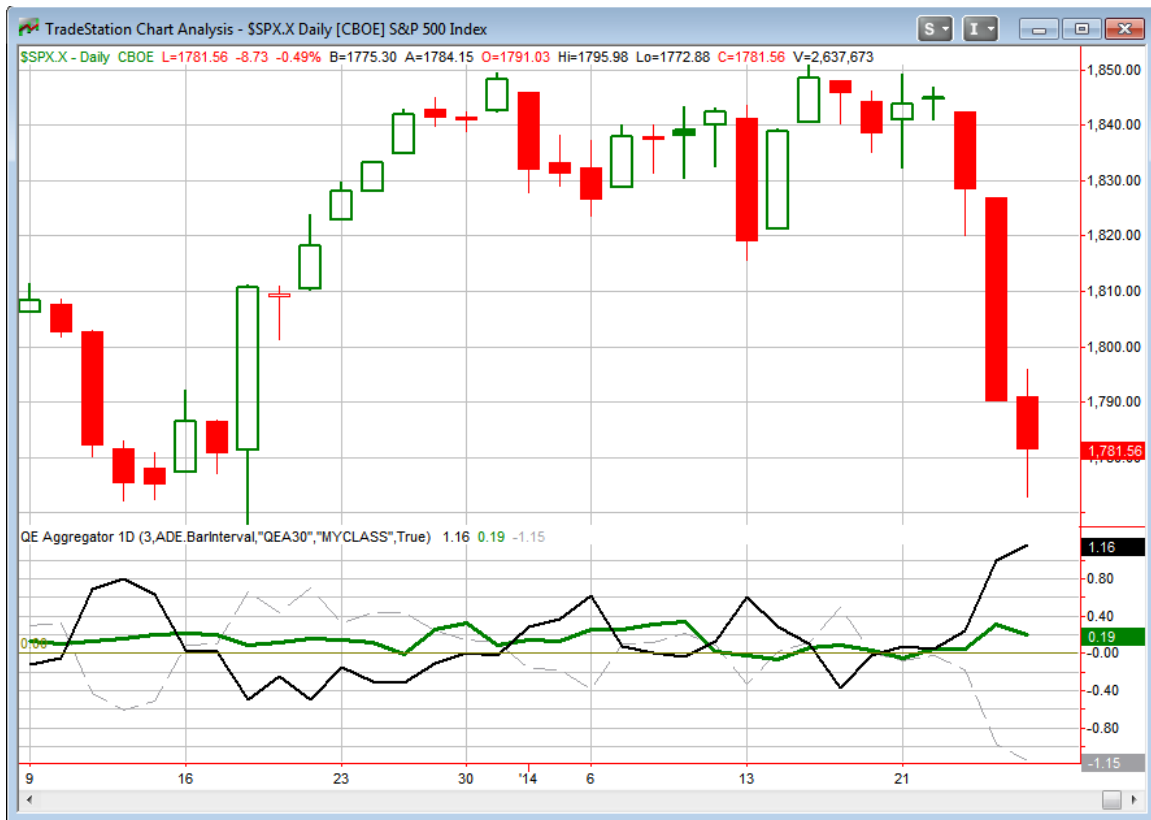
TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$10,338.95	Profit Factor	2.51
Gross Profit	\$17,190.91	Gross Loss	(\$6,851.96)
Total Number of Trades	28	Percent Profitable	71.43%
Winning Trades	20	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$369.25	Ratio Avg. Win:Avg. Loss	1.00
Avg. Winning Trade	\$859.55	Avg. Losing Trade	(\$856.50)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$20,552.27	Profit Factor	4.08
Gross Profit	\$27,234.96	Gross Loss	(\$6,682.69)
Total Number of Trades	35	Percent Profitable	74.29%
Winning Trades	26	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$587.21	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$1,047.50	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 3.5 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Traders that may look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

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



Tonight's bullish studies helped the green Aggregator Line remain well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the continued selloff caused the black Differential Line to hit its highest level in a long time. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is strongly 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 remain long.

With everything short-term pointing up, expectations are slated to remain positive on Tuesday. This is unlikely to change without extremely compelling bearish evidence emerging. The Differential Pivot will be 1827.91 on Tuesday. That is 2.6% above Monday's close. The chances of that happening on Tuesday are very remote. For the SPX to move from oversold to overbought it will likely take a multi-day rally or consolidation.

I liked the long side yesterday and I like it again today. I took on some long exposure on Monday. I will continue to look to add to it again on Tuesday. Details are in the Trade Ideas section down below.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/27 – somewhat bullish***

The intermediate-term outlook was last updated in the 1/27 Letter. It can be found in the most recent weekly letter on the website.

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

**Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

***Open Catapult Triggers***

*New*

*COF – 1/3 @ \$69.95(buy @ limit)*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 1(COF)***

**Additional New Trade Ideas**

*A full listing of system triggers can be found at the [numbered systems 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.*

**COF – buy 1/3 Catapult position @ \$69.95 LIMIT.** This is a catapult system trigger. More about the Catapult System and CBI can be found in the recently updated Catapult & CBI presentation on [the Videos page](#) or on the [Catapult System page](#).

**SPY – buy ¼ index position @ \$177.75 LIMIT ON CLOSE IF SPY closes in bottom 25% of daily range.** I'll take on a 3<sup>rd</sup> lot of SPY if it closes down a bit and near the bottom of its daily range. I will likely exit this lot before the Fed announcement on Wednesday.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/27/2014	\$178.89	\$178.01	-0.49%		bought on open
SPY(1/4)	1/27/2014	\$178.01	\$178.01	0.00%		bought on close

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