

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 29, 2014

Volume 7 Issue 19

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Tuesday's strong close means the Fed Day edge on Wednesday is rather tame.
- NDX pullback with SPX strength has led to a bounce in the past.

## *Short-term Outlook*

### *The Bottom Line*

Evidence still appears bullish for the next few days. I'm long but will take profits if there are further gains on Wednesday.

**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 29, 2014	NDX dn 3 days. SPX 3-day high	1-2 days	Bullish	
January 29, 2014	Fed Day	1 day	Bullish	
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	

**The Evidence**

The market enjoyed a bit of a bounce on Tuesday and closed near its high of the day. The SPX rose 0.6%, the Nasdaq gained 0.4% and the Russell 2000 rallied 0.9%. Breadth was positive as the NYSE Up Issues % came in at 75% and the Up Volume % was 82%. Total NYSE volume sank to the lowest level since early January.

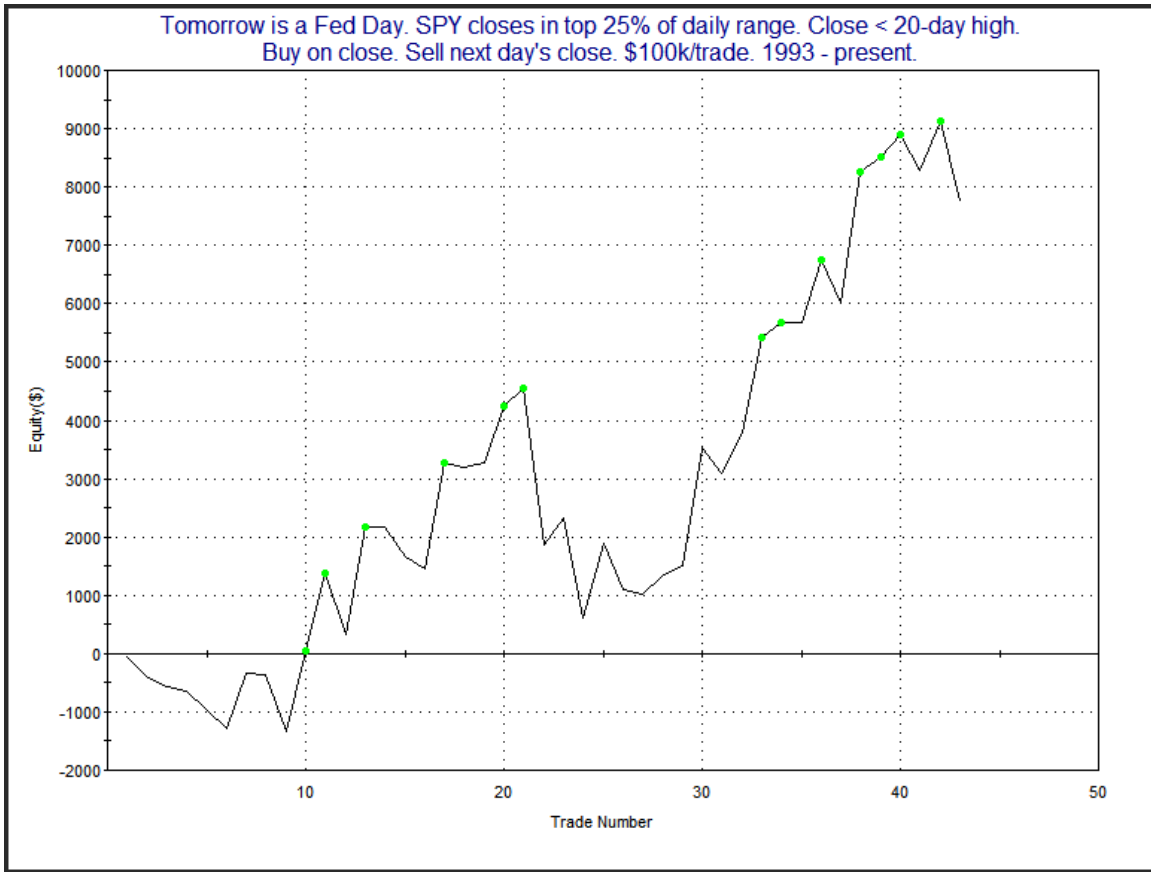
In last night's letter I showed that the lower in the daily range that SPY closes on the day before a Fed Day, the greater the upside edge for the Fed Day. On Tuesday SPY closed strongly, meaning the upside Fed Day edge was reduced. Below is the study I showed last night that looked at closes in the top quartile.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
<b>All Trades</b>			
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)

I've shown in the past that the upside Fed Day has not held over the years when the market has closed at an intermediate term high the day before. Today we did not close at a 20 day high. The study below, from the 6/19/13 letter combines this concept with the one from the first study. Results are updated.

TradeStation Performance Summary <span style="float: right;">Collapse ▲</span>			
All Trades			
Total Net Profit	\$7,750.43	Profit Factor	1.62
Gross Profit	\$20,273.24	Gross Loss	(\$12,522.81)
Total Number of Trades	43	Percent Profitable	48.84%
Winning Trades	21	Losing Trades	21
Even Trades	1		
Avg. Trade Net Profit	\$180.24	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$965.39	Avg. Losing Trade	(\$596.32)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,683.80)

The average win to loss ratio isn't bad but the winning percentage remains around breakeven. Below is a profit curve showing how the trades have played out over time.



Not a terribly smooth curve, but at least it seems headed in the right direction. It seems there is still a mild bullish inclination, even though the market closed strongly on Tuesday.

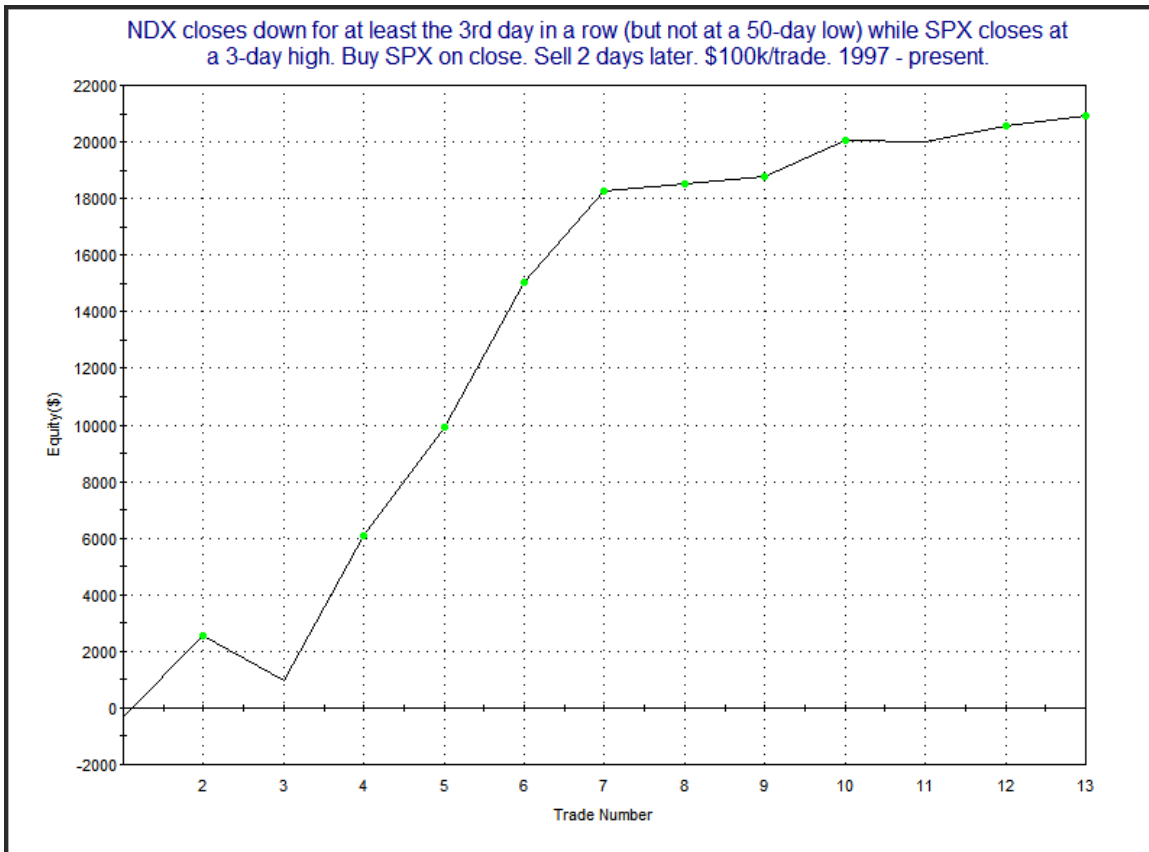
One aspect of recent market action that is interesting and suggestive of an upside edge is the fact that despite the rise in the SPX to a new 3-day high, the NASDAQ 100 closed lower for at least the third day in a row. I last looked at this in the 4/2/12 letter, and have updated the study below.

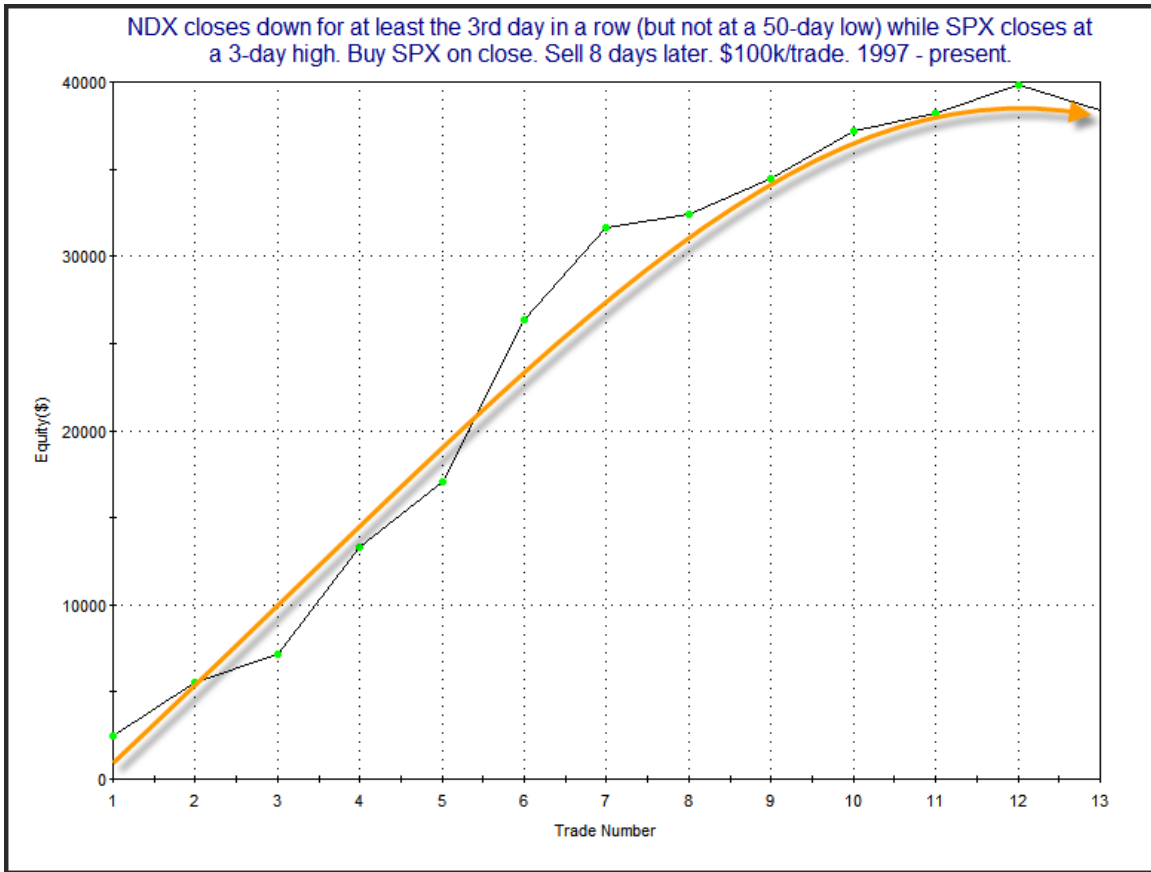
NDX closes down for at least the 3rd day in a row (but not at a 50-day low) while SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1997 - present.

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	39,567.74	13	11	2	84.62	3,847.72	8,261.56	-1,378.60	-2,723.00	2.79	15.35	3,043.67
9	37,568.37	13	12	1	92.31	3,353.59	8,209.02	-2,674.70	-2,674.70	1.25	15.05	2,889.87
8	38,376.85	13	12	1	92.31	3,319.99	9,347.15	-1,463.00	-1,463.00	2.27	27.23	2,952.07
7	35,096.42	13	11	2	84.62	3,479.36	9,614.11	-1,588.25	-2,783.20	2.19	12.05	2,699.72
6	31,834.09	13	11	2	84.62	3,242.52	9,598.49	-1,916.80	-3,491.60	1.69	9.30	2,448.78
5	25,363.00	13	11	2	84.62	2,521.97	7,700.66	-1,189.33	-1,838.90	2.12	11.66	1,951.00
4	25,406.87	13	11	2	84.62	2,427.74	7,217.86	-649.13	-727.30	3.74	20.57	1,954.37
3	20,841.15	13	10	3	76.92	2,253.15	5,558.47	-563.44	-955.89	4.00	13.33	1,603.17
2	20,927.68	13	10	3	76.92	2,291.63	5,134.01	-662.86	-1,611.20	3.46	11.52	1,609.82
1	15,927.77	13	9	4	69.23	1,987.14	4,708.01	-489.11	-801.27	4.06	9.14	1,225.21

Every instance posted at least 1 close above the entry price at some point in the next week.

Strong numbers all around here. Below are both the 2-day and 8-day curves.





The curves are not perfect, but they are both still suggesting an upside edge. Of course you may be thinking, "Would we better off buying NDX, rather than the SPX?". I ran that analysis as well, and have updated them below.

NDX closes down for at least the 3rd day in a row (but not at a 50-day low) while SPX closes at a 3-day high. Buy NDX on close. Sell X days later. \$100k/trade. 1997 - present.

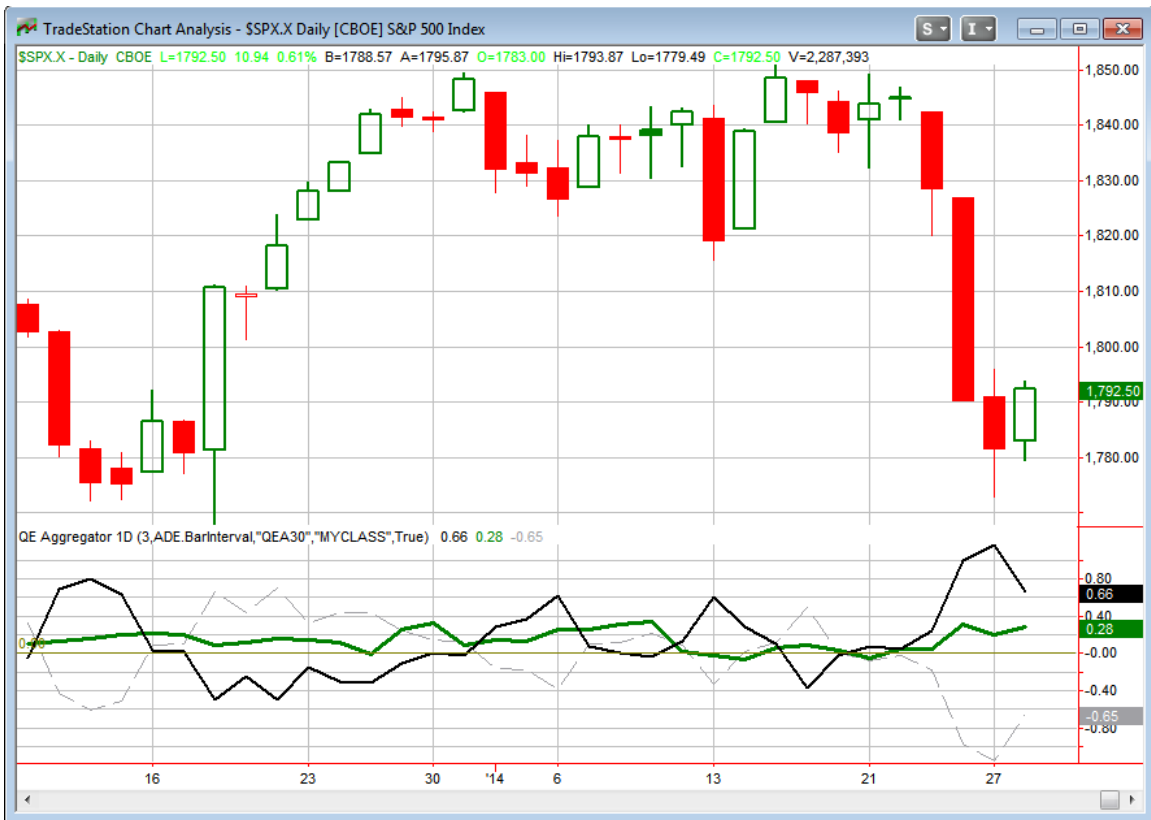
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	67,807.37	13	10	3	76.92	7,216.06	15,598.96	-1,451.09	-3,066.12	4.97	16.58	5,215.95
9	67,407.02	13	11	2	84.62	6,395.77	14,526.97	-1,473.24	-2,026.08	4.34	23.88	5,185.16
8	68,185.69	13	10	3	76.92	7,029.70	13,793.28	-703.77	-1,024.40	9.99	33.30	5,245.05
7	57,765.15	13	9	4	69.23	6,981.18	13,478.40	-1,266.37	-1,837.68	5.51	12.40	4,443.47
6	48,818.86	13	9	4	69.23	5,932.31	12,734.64	-1,142.98	-2,165.40	5.19	11.68	3,755.30
5	41,296.01	13	10	3	76.92	4,559.22	11,203.20	-1,432.08	-2,304.35	3.18	10.61	3,176.62
4	33,562.42	13	11	2	84.62	3,684.01	8,835.48	-3,480.85	-4,024.75	1.06	5.82	2,581.72
3	24,448.34	13	8	5	61.54	3,817.59	7,788.11	-1,218.47	-3,836.56	3.13	5.01	1,880.64
2	30,679.33	13	9	4	69.23	4,295.24	10,921.40	-1,994.45	-4,155.65	2.15	4.85	2,359.95
1	23,739.81	13	10	3	76.92	2,573.56	5,474.91	-665.25	-1,063.50	3.87	12.90	1,826.14

We see here a similar winning %, but more powerful results as the oversold index has the bigger bounce.

Lastly, while not worthy of inclusion on the Active List, subscribers may find this study from last year regarding State of the Union speeches, to be interesting.

<http://quantifiableedges.com/529/performance-after-the-state-of-the-union/>

So we have a bit more bullish evidence to add to the Active List tonight. I have updated the **Aggregator** chart below.



Tonight's bullish studies helped the green Aggregator Line edge even further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also remains above 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 remain long.

With everything short-term pointing up, expectations are slated to remain positive on Wednesday. This is unlikely to change without extremely compelling bearish evidence emerging. The Differential Pivot will be 1797.17 on Wednesday. That is just 0.2% above Tuesday's close. So SPX won't have to close much higher in order to turn from oversold to overbought versus expectations.

With the market nearing a point where the Differential Line will cross down through 0, I will look to take profits tomorrow if we rally. Futures are up strongly after-hours so there may be a chance at the open to take off some exposure. Historically, Fed Days have been bullish, but the bullish inclination has mostly all played out before the announcement. After the announcement returns have been volatile and unreliable. So if the market is strong early Wednesday afternoon, I will get out then rather than wait for the close. Details of how I intend to manage the SPY positions 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***

*COF – 1/3 @ \$69.95(bought @ 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.*

***None tonight.***

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/27/2014	\$178.89	\$179.07	0.10%		sell @ \$179.55 LIMIT
SPY(1/4)	1/27/2014	\$178.01	\$179.07	0.60%		sell @ \$179.55 LIMIT@2pm
COF(1/3)	1/28/2014	\$69.95	\$70.87	1.32%		Catapult

*I will sell the 1<sup>st</sup> lot of SPY at the open or anytime after if I can get a fill of \$179.55 or higher. The 2<sup>nd</sup> lot will be sold right before the Fed announcement. I will use the last trade on the 2pm bar as a fill price if it is \$179.55 or higher. If it is below there at 2pm, I will hold until 4pm close and sell at same limit at that time.*

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.