

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 30, 2014

Volume 7 Issue 20

Market Overview



Signals Overview

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

Tonight's Research Points

- A new 50-day low in a long-term uptrend has not been reliable as an entry trigger.
- 20-day lows on Fed Days have historically been followed by a rally in the next week.
- An unfilled gap down right after an unfilled gap up can suggest short-term problems for the bulls.

Short-term Outlook

The Bottom Line

I still like the long side. The evidence points up and the market is still oversold. I intend to maintain my current position for now..

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 30, 2014	20-low on a Fed Day	1-5 days	Bullish	2.10%
January 30, 2014	Unfilled gap down after unfilled gap up	1-2 days	Bearish	
January 29, 2014	NDX dn 3 days. SPX 3-day high	1-2 days	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	
Active - Long Term				
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	
Dropped Tonight				
January 29, 2014	Fed Day	1 day	Bullish	

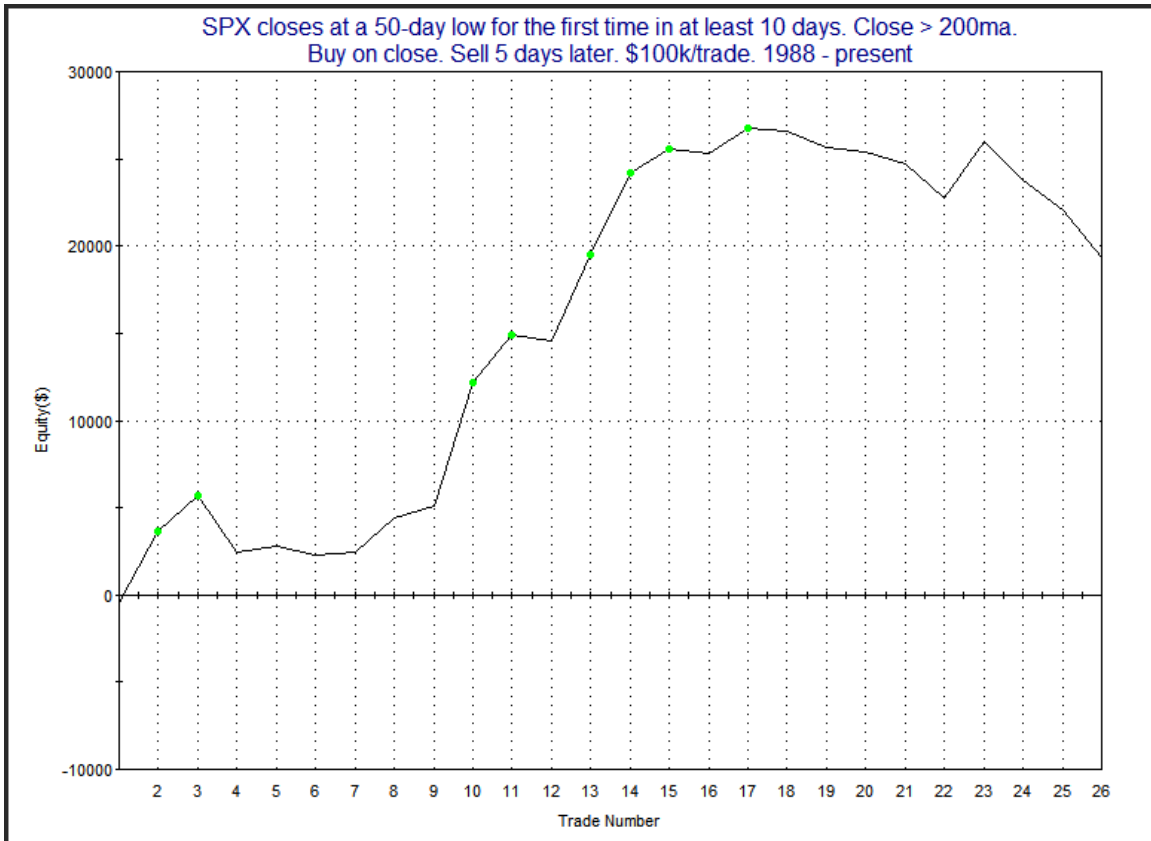
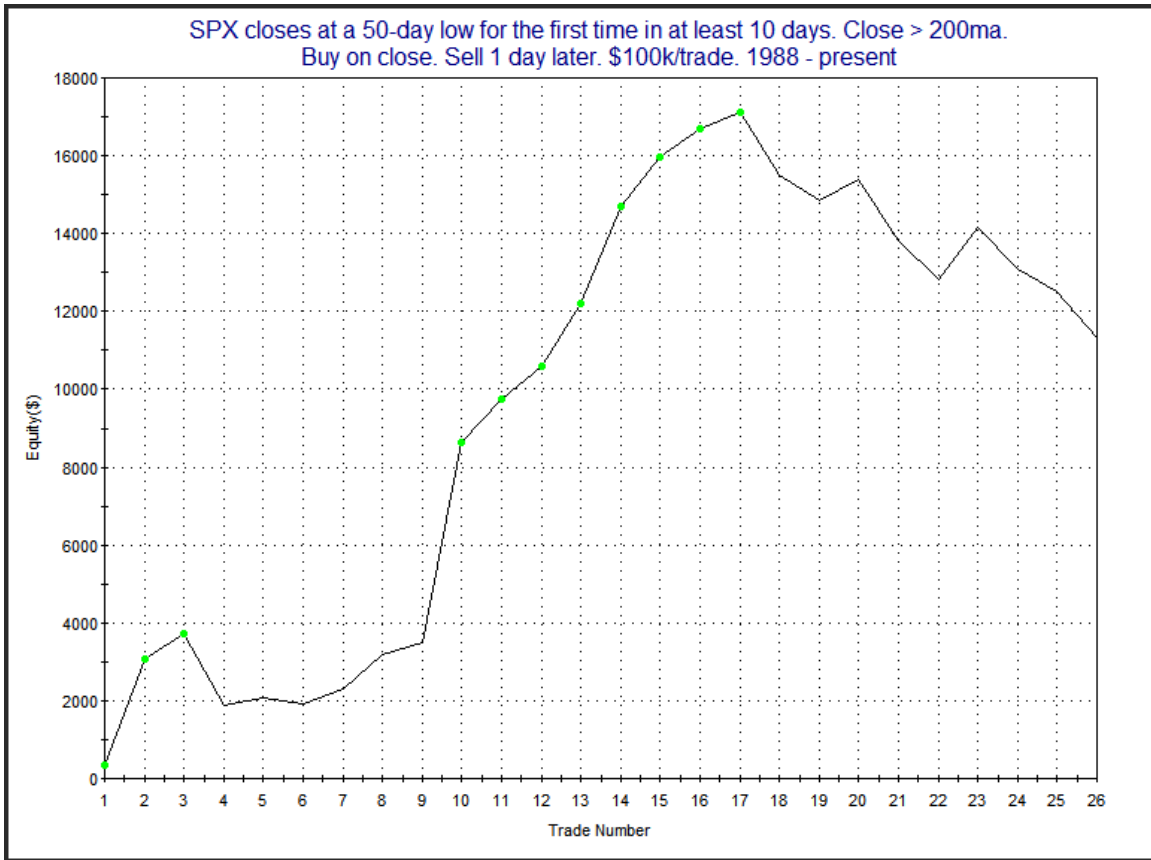
The Evidence

Selling hit hard on Wednesday and the major indices took a tumble. The SPX fell 1.0%, the Nasdaq declined 1.1% and the Russell 2000 lost 1.4%. Breadth was negative as the NYSE Up Issues % came in at 22% and the Up Volume % was 20%. Total NYSE volume rose some from Tuesday's level.

The SPX closed at a 50-day low on Wednesday for the 1st time since 11/15/12. It had gone 300 trading days without one before today. Looking back to 1960, the only other streaks of 300 days or more without a 50-day closing low ended on 3/3/94 and 4/11/96. I looked back at other times that SPX closed at a 50-day low for the 1st time (in at least a few weeks), but still above the 200ma. Results are below.

SPX closes at a 50-day low for the first time in at least 10 days. 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
5	19,320.07	26	13	13	50.00	2,673.23	7,070.28	-1,187.07	-3,277.36	2.25	2.25	743.08
4	16,159.85	26	15	11	57.69	2,187.85	4,731.13	-1,514.35	-3,726.08	1.44	1.97	621.53
3	12,451.74	26	15	11	57.69	1,906.54	3,607.50	-1,467.85	-4,725.76	1.30	1.77	478.91
2	14,494.15	26	17	9	65.38	1,523.57	4,809.66	-1,267.39	-4,842.20	1.20	2.27	557.47
1	11,309.41	26	17	9	65.38	1,234.43	5,117.46	-1,075.09	-1,877.24	1.15	2.17	434.98

The numbers here look pretty good. But then I took a deeper look at the profit curves. Below are both the 1-day and the 5-day curves.



These are both unappealing. All of the gains were made in the 1st half of the instances. So if there was ever an edge to the setup, it seems to have dissipated greatly or gone away all together.

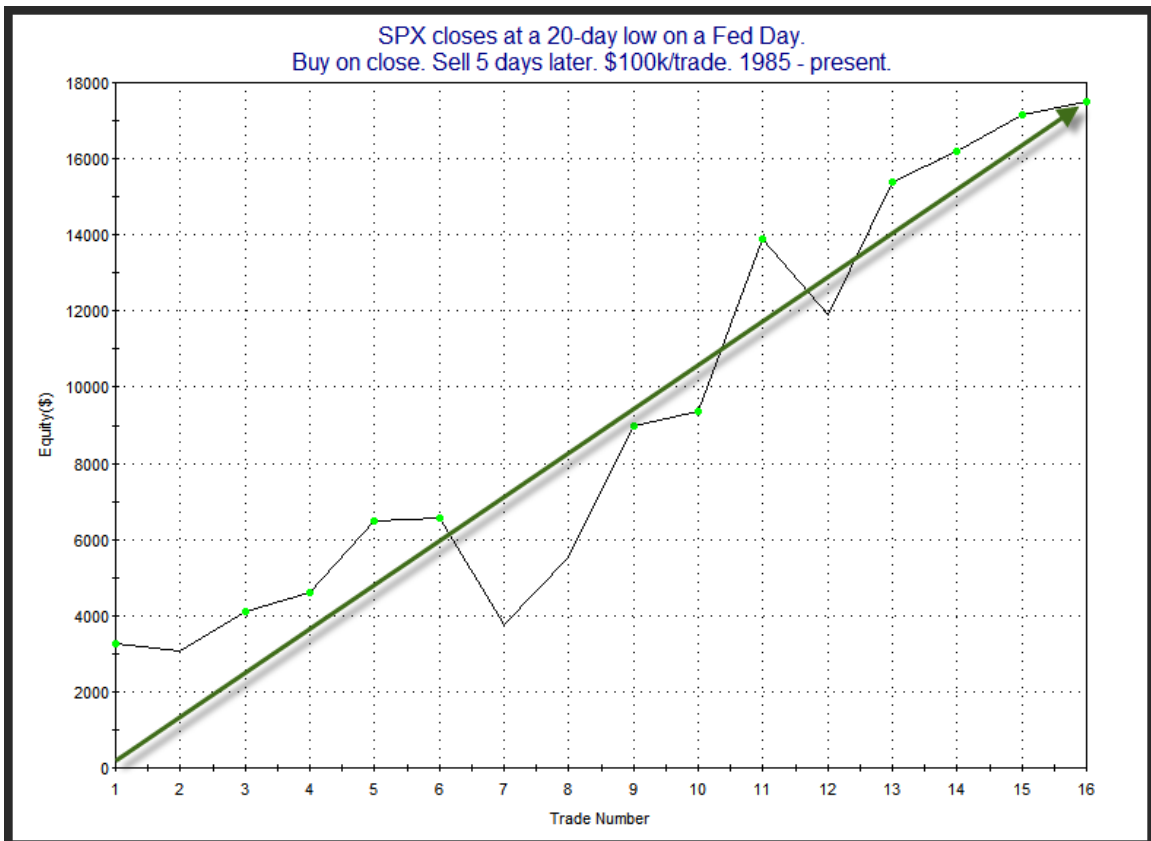
One potential positive about the intermediate-term low today is that it came on a Fed Day. I looked back at other times SPX made an intermediate-term low on a Fed Day.

SPX closes at a 20-day low on a Fed Day.
Buy on close. Sell X days later. \$100k/trade. 1985 - 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	17,518.79	16	13	3	81.25	1,729.99	4,540.05	-1,657.03	-2,816.80	1.04	4.52	1,094.92
4	8,431.43	16	10	6	62.50	1,406.56	3,387.93	-939.03	-2,594.88	1.50	2.50	526.96
3	657.83	16	10	6	62.50	714.24	2,379.62	-1,080.76	-3,208.50	0.66	1.10	41.11
2	1,582.71	16	11	5	68.75	1,035.61	4,350.52	-1,961.79	-4,588.00	0.53	1.16	98.92
1	199.19	16	9	7	56.25	1,191.93	3,739.20	-1,504.02	-3,103.08	0.79	1.02	12.45

The only instance NOT to close above the entry price at some point in the next week triggered on 8/21/90.

Results over the first few days are underwhelming, but once you get out 1 week they look quite impressive. Below is a profit curve for the 1-week holding period.



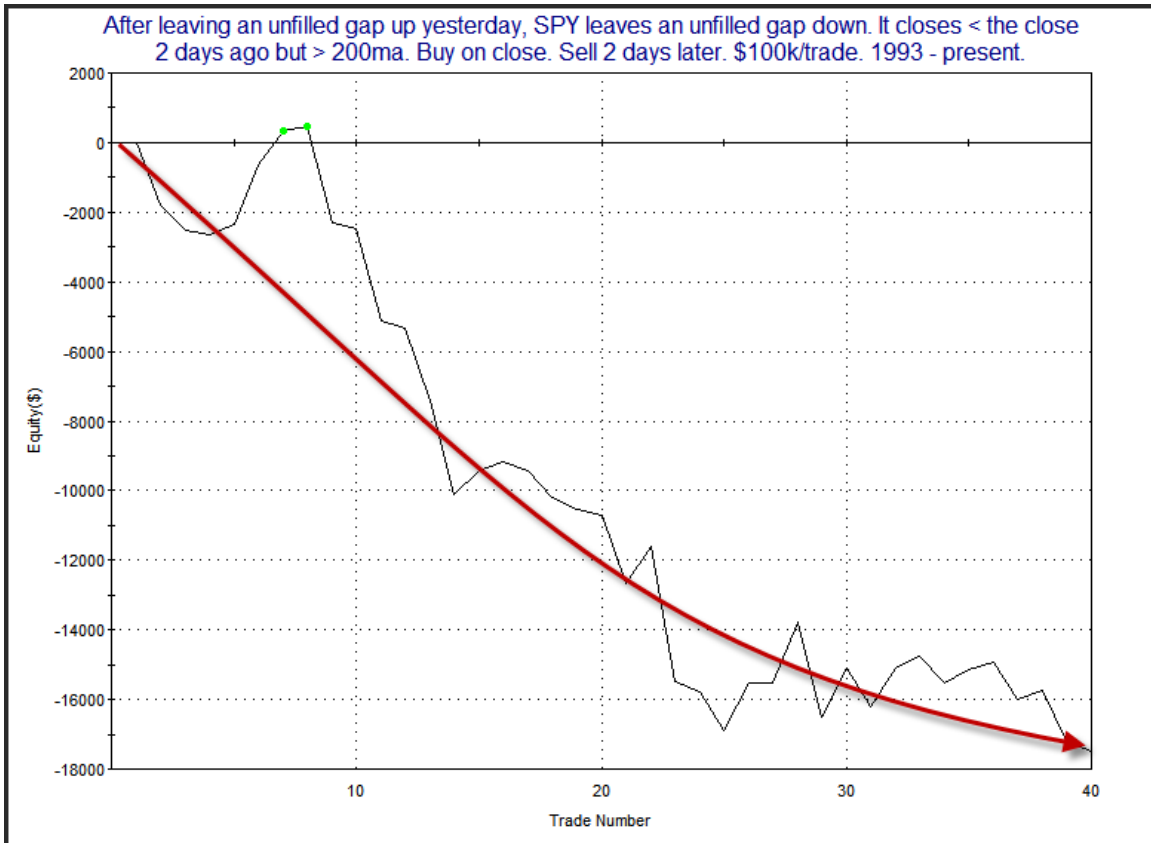
The strong upslope serves as nice confirmation of the possible bullish edge.

But not everything pointed higher. The study below was last seen in the 1/3/14 letter. It examines 2-day moves like SPY has just encountered.

After leaving an unfilled gap up yesterday, SPY leaves an unfilled gap down. It closes < the close 2 days ago but > 200ma. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

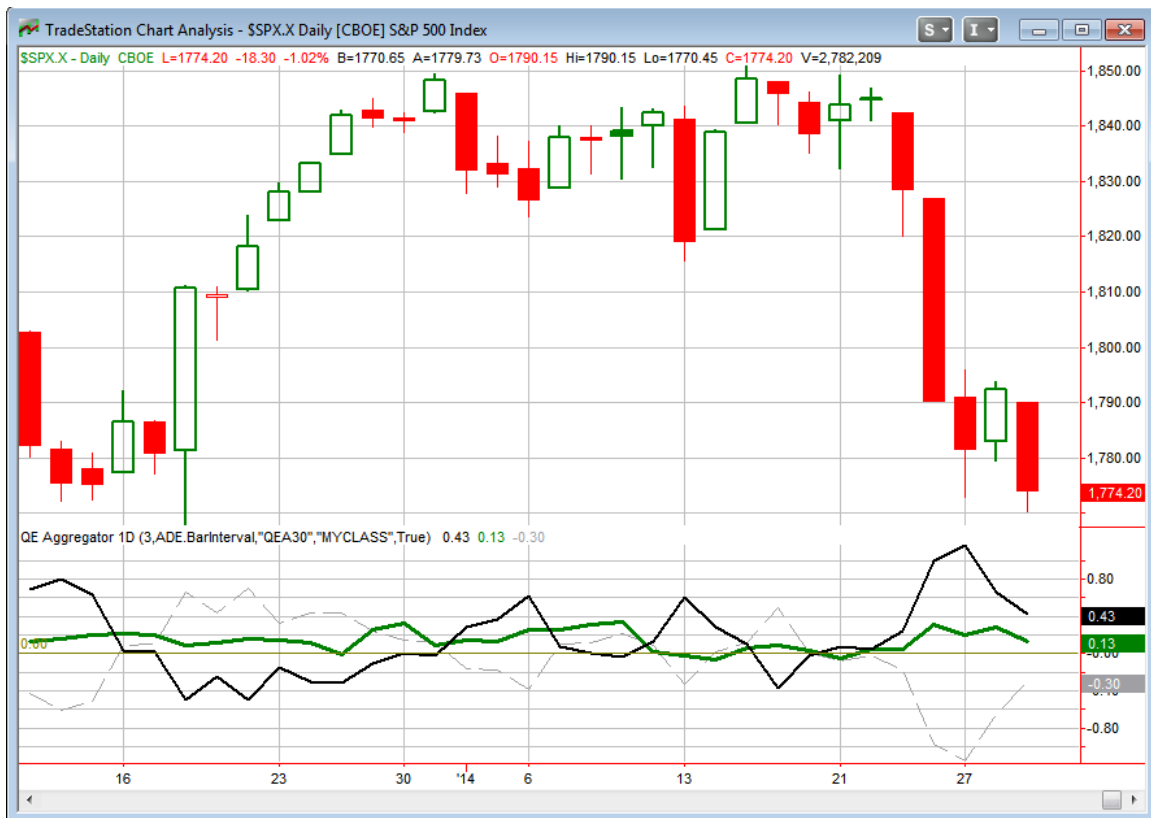
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-3,930.72	37	16	21	43.24	1,431.79	3,949.59	-1,278.06	-3,791.20	1.12	0.85	-106.24
4	-2,767.28	38	16	22	42.11	1,470.60	3,637.58	-1,195.31	-4,926.08	1.23	0.89	-72.82
3	-19,562.85	40	16	24	40.00	911.83	2,463.47	-1,423.00	-5,321.00	0.64	0.43	-489.07
2	-17,489.40	40	16	23	40.00	746.94	1,754.40	-1,280.02	-3,893.00	0.58	0.41	-437.23
1	-2,185.36	40	18	21	45.00	521.59	1,325.15	-551.14	-1,564.50	0.95	0.81	-54.63

The suggestion here is that more downside appears likely over the next few days. Of course I also examined the profit curves. Below is the 2-day.



While the steepness has lessened some in recent times, it is again making new lows. Overall, this setup appears to suggest a bit of a downside edge. I believe it is worth some consideration.

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



The mix of studies tonight left the green Aggregator Line squarely 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.

Based on the current open studies, expectations are slated to remain positive on Thursday. This could change if strong bearish evidence emerges. The Differential Pivot will be 1791.03 on Thursday. That is 0.9% above Wednesday's close. So SPX will need

to close up at least this much in order to turn from oversold to overbought versus expectations.

Evidence is suggesting a bounce here is likely. And the market is quite oversold. I believe we should get one in the next few days. I am currently partially long. I do not intend to add to the position just yet. One thing I don't love about the current action is that the CBI remains at just 1. I would prefer to see it move at least a little higher before adding a 3rd lot, and quite a bit higher before taking on a 4th.

On a quick intermediate-term side note, I expect the continued tapering to cause difficulties for the market. 2014 should see much more volatile action and deeper selloffs than we saw in 2013. While the Fed is still providing liquidity, the lowered amounts may not be enough to really help. More about this in the weekend letter.

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. Traders could certainly look to the triggers list on the [numbered systems page](#) for potential trading candidates. There were a large number that triggered at least 1 numbered system 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	\$177.35	-0.86%		Aggregator
SPY(1/4)	1/27/2014	\$178.01	\$177.35	-0.37%		Aggregator
COF(1/3)	1/28/2014	\$69.95	\$69.87	-0.11%		Catapult

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