

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 31, 2014

Volume 7 Issue 21

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	Flat	Long

Tonight's Research Points

- A “Gap-n-Go” day from a 50-day low like Thursday will often be followed by a down day the next.
- 3-day chop after hitting a 20-day low in a long-term uptrend has most often been followed by a short-term rally.

Short-term Outlook

The Bottom Line

The Aggregator is back to neutral but that might not last long since expectations remain positive and the recent chop would leave the SPX “oversold” again on Friday unless it rallies further.

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 31, 2014	20-low then sideways chop	1-5 days	Bullish	
January 31, 2014	Gap-n-Go from 50-low	1 day	Bearish	
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 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	NDX dn 3 days. SPX 3-day high	1-2 days	Bullish	

The Evidence

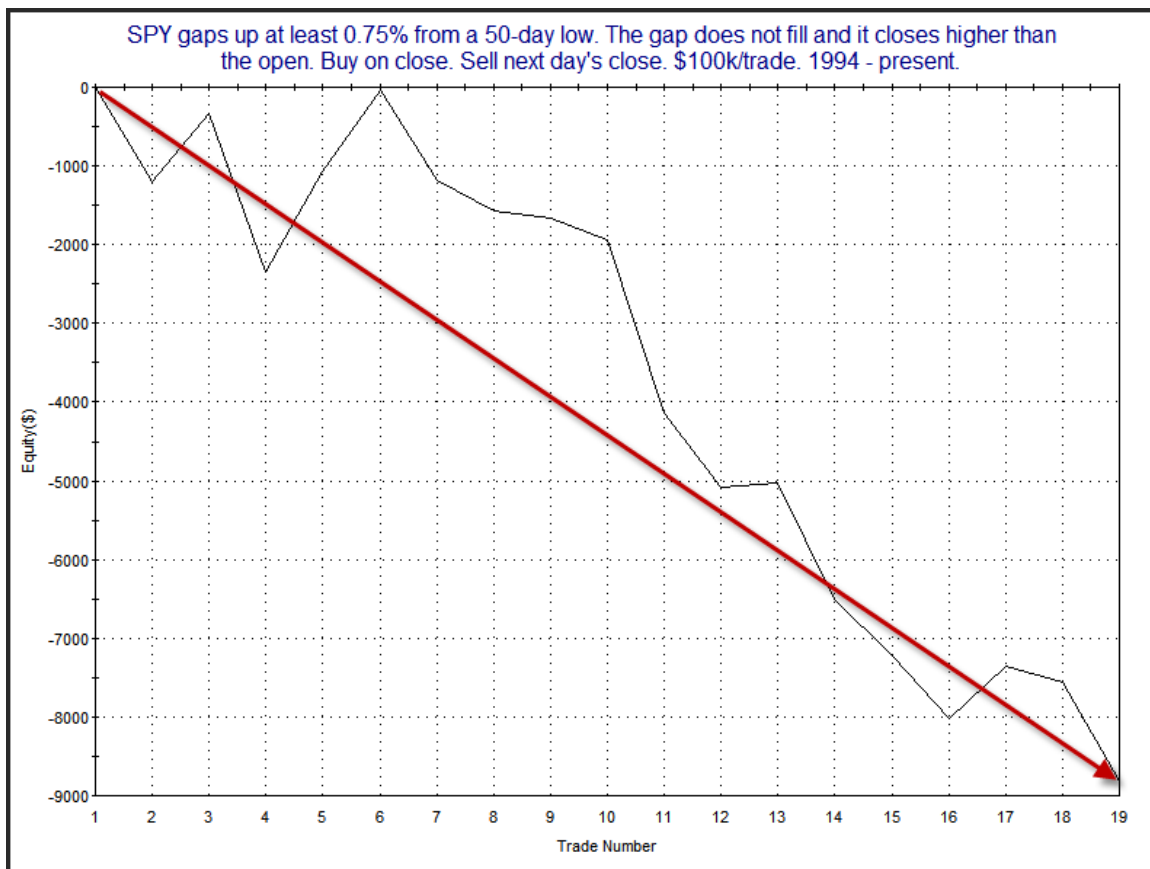
The market has had strong moves back and forth the last few days and Thursday was the bulls turn. The SPX rose 1.1%, the Nasdaq gained 1.8% and the Russell 2000 finished up 1.5%. Breadth was strong as the NYSE Up Issues % came in at 76% and the Up Volume % was 72%. Total NYSE volume declined some from Wednesday's level.

The choppy, volatile action over the last few days has triggered a few studies worth examining tonight. The first was from the 5/28/10 Letter. There I looked at big gaps up from 50-day lows that go unfilled and close above the open. I looked at that setup again tonight. I found the edge only to really be consistent for day one. So I have shown those results below.

SPY gaps up at least 0.75% from a 50-day low. The gap does not fill and it closes higher than the open. Buy on close. Sell next day's close. \$100k/trade. 1994 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$8,810.55)	Profit Factor	0.31
Gross Profit	\$3,910.31	Gross Loss	(\$12,720.86)
Total Number of Trades	19	Percent Profitable	26.32%
Winning Trades	5	Losing Trades	13
Even Trades	1		
Avg. Trade Net Profit	(\$463.71)	Ratio Avg. Win:Avg. Loss	0.80
Avg. Winning Trade	\$782.06	Avg. Losing Trade	(\$978.53)
Largest Winning Trade	\$1,274.58	Largest Losing Trade	(\$2,203.74)

As you can see, the stats clearly favor a down day on Friday. Let's also look at the profit curve.



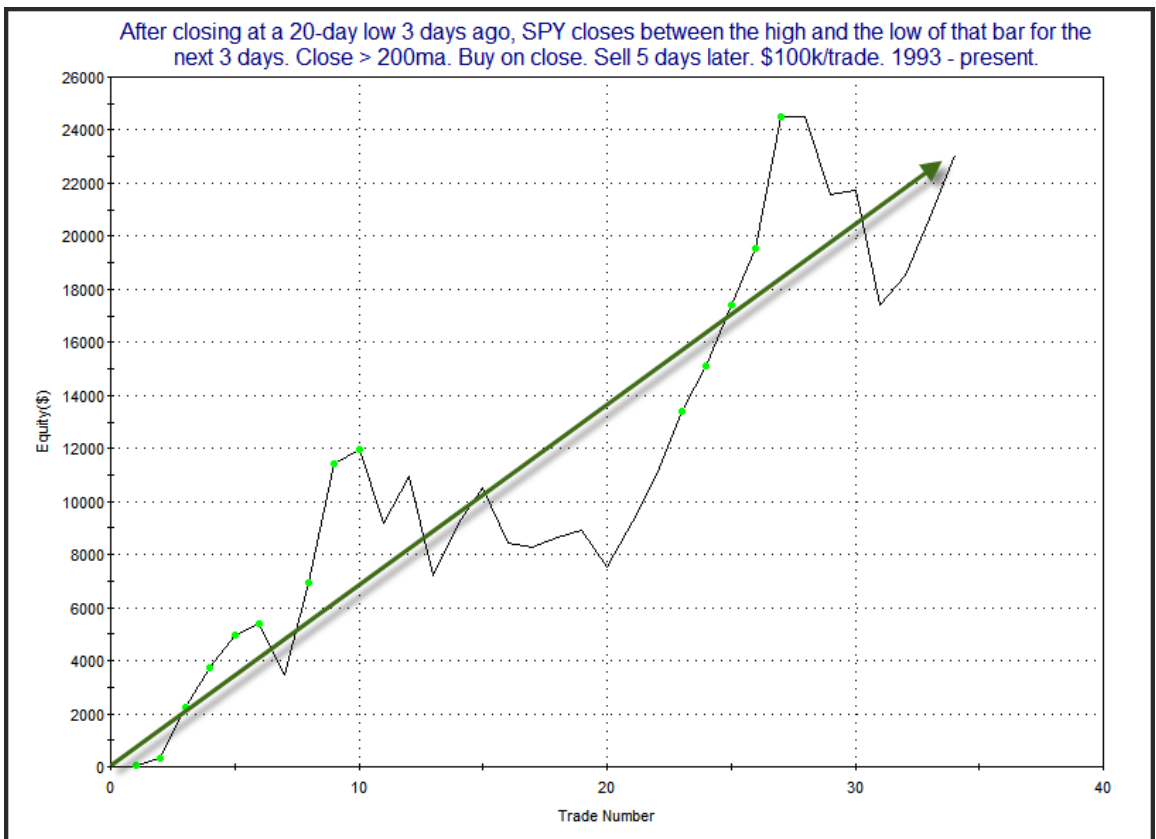
This appears to be a pretty steady curve and overall a study worth some consideration. The suggestion here is that the overwhelming bullishness (big gap and move higher) immediately after a new low is probably overdone, and unlikely to carry through for a 2nd day.

But although Thursday appeared fairly strong on the surface, SPY still remained in a choppy short-term range. The study below was from the 10/29/12 letter. It examined other times that SPX made a 20-day low, and then closed within the high and low of that bar for the next 3 days. It also filtered so that it just looked at instances above the 200ma. Results below have all been updated.

After closing at a 20-day low 3 days ago, SPY closes between the high and the low of that bar for the next 3 days. Close > 200ma. Buy on close. Sell X days later. 1993 - present.

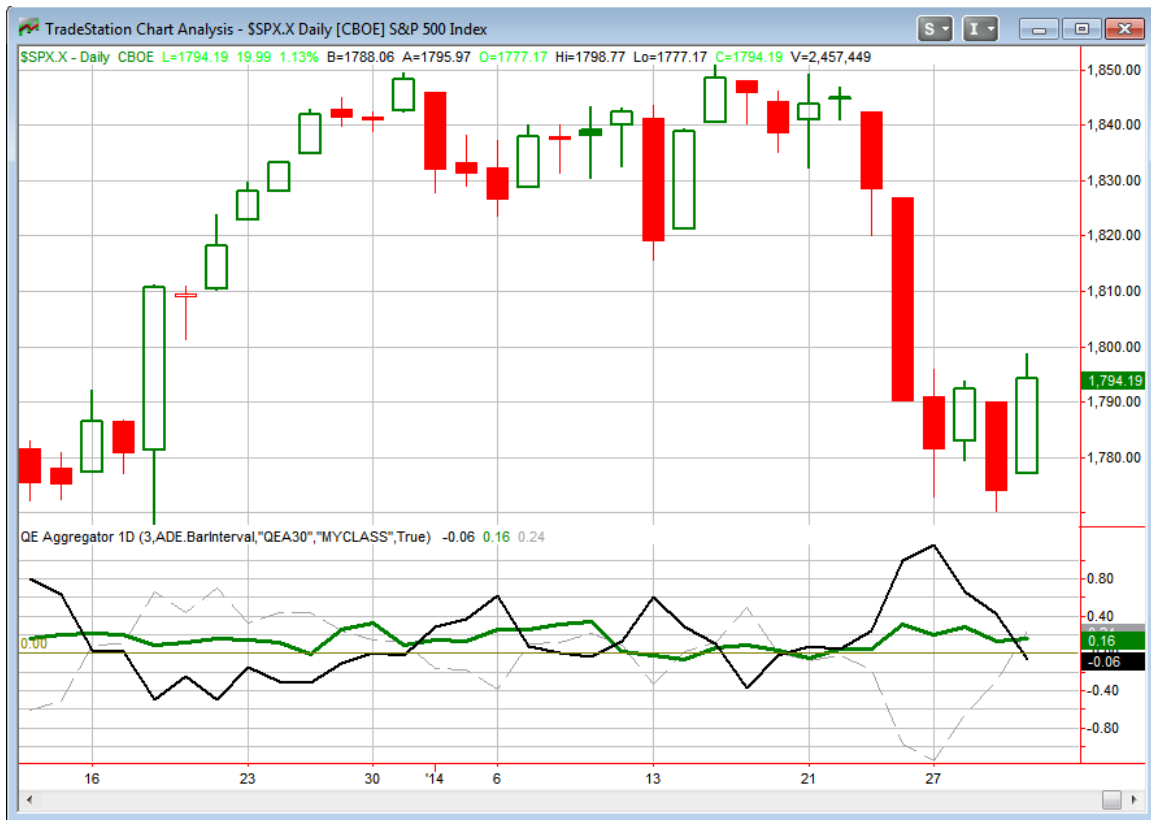
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	23,066.57	34	25	8	73.53	1,697.28	4,984.19	-2,420.68	-4,326.19	0.70	2.19	678.43
4	19,700.61	34	24	10	70.59	1,616.96	4,855.07	-1,910.64	-4,345.88	0.85	2.03	579.43
3	17,815.39	34	21	13	61.76	1,652.67	4,577.32	-1,299.28	-4,248.64	1.27	2.05	523.98
2	14,735.05	35	22	13	62.86	1,328.38	4,932.84	-1,114.57	-2,220.40	1.19	2.02	421.00
1	11,824.34	37	23	12	62.16	921.50	2,355.32	-780.84	-2,101.88	1.18	2.26	319.58

Results here, though not overwhelming, would seem to favor the bull case. I also examined the profit curves. The 5-day can be found below.



This is not a great looking profit curve. The slope has been pretty inconsistent. Still, I decided it is worth some consideration and have included it on the Active List for tonight.

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



The mix of studies tonight left the green Aggregator Line again above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. But the strong rally on Thursday caused the black Differential Line to drop down below 0. The negative Differential Line reading means the SPX is now overbought versus recent expectations. So expectations are positive but the SPX is now 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.

Based on the current open studies, expectations are slated to remain positive on Friday. This could change if strong bearish evidence emerges. The Differential Pivot will be *inverted at 1806.29* on Friday. That is 0.6% *above* Thursday'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 overbought it is going to need to close 0.6% higher on Friday.

So the evidence is still pointing higher, but the market is no longer oversold. Of course with the inverted pivot there is a good chance it goes back to "oversold" versus expectations on Friday. Anyway, I don't like it as much here as I did a few days ago when I purchased 2 lots of SPY. So I am thinking it is about time to take one lot off the table. Details on how I intend to do that 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	\$179.23	0.19%		sell @ \$179.63 limit
SPY(1/4)	1/27/2014	\$178.01	\$179.23	0.69%		Aggregator
COF(1/3)	1/28/2014	\$69.95	\$70.96	1.44%		Catapult

I will look to sell 1 lot of SPY about halfway between Thursday's close and Friday's Differential Pivot.

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