

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 4, 2014

Volume 7 Issue 23

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr Swing |
|------------|----------------|------------------|
| Long | 75% Long XIV | Long |

Tonight's Research Points

- Strong drops to new lows in uptrends typically suggest an upside edge – especially when they occur on a Monday.
- When the VIX has hit 100-day highs without the SPX making 100-day lows, that has often led to a market rally.

Short-term Outlook

The Bottom Line

A big down day Monday further strengthened the case for a bounce. I am 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 |
|----------------------------|-------------------------------------|-------------|---------|--------------|
| Active - Short Term | | | | |
| February 4, 2014 | Strong drop to int-low. Close > 200 | 1-5 days | Bullish | |
| February 4, 2014 | VIX 100-high. SPX > 100-low | 1-7 days | Bullish | |
| February 3, 2014 | End of Month < 10ma and > 200ma | 1-5 days | Bullish | 2.20% |
| February 3, 2014 | Gap dn 1% partial reverse < 10ma | 1-2 days | Bullish | |
| January 31, 2014 | 20-low then sideways chop | 1-5 days | Bullish | |
| January 30, 2014 | 20-low on a Fed Day | 1-5 days | Bullish | 2.10% |
| 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 27, 2014 | Friday down 1.5x 20-day ATR | 1-6 days | Bullish | |
| January 27, 2014 | 2 unfilled gaps dn > 200ma | 1-6 days | Bullish | |

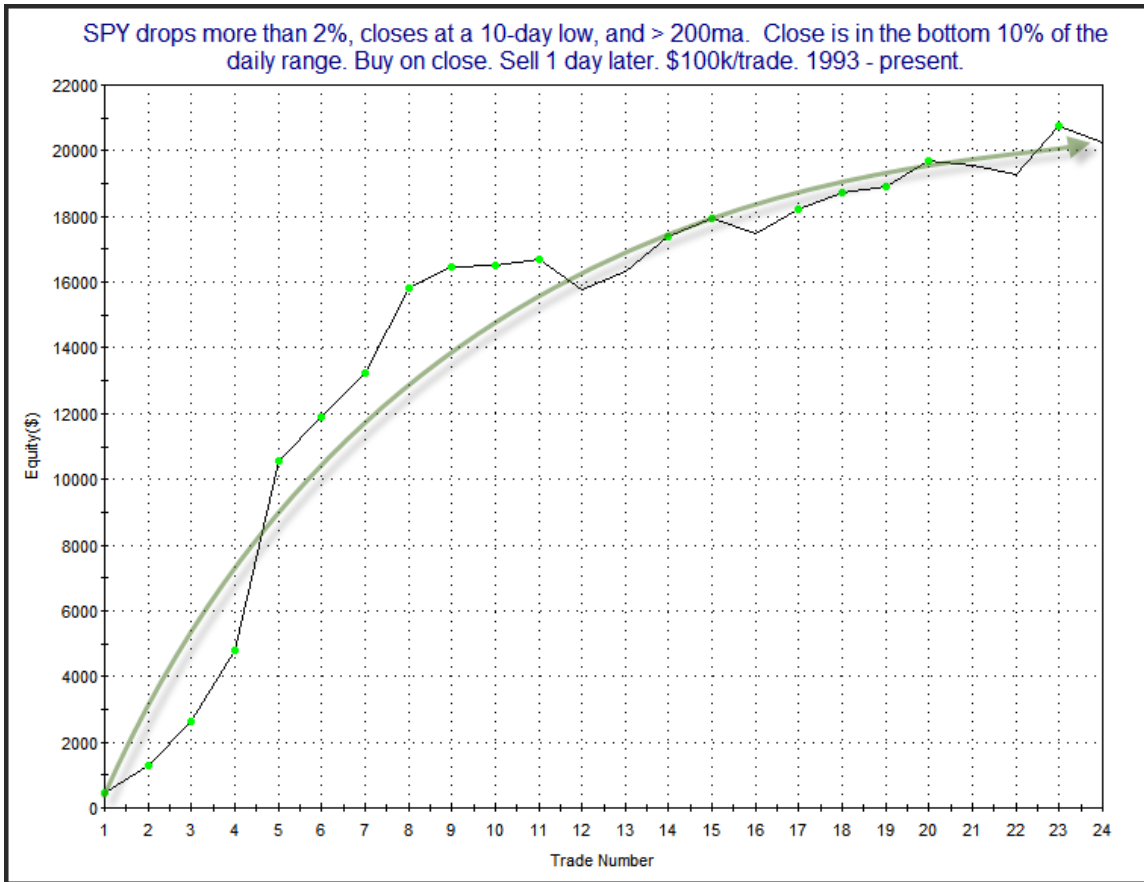
The Evidence

The market had a bit of a meltdown on Monday. The SPX fell 2.3%, the Nasdaq dropped 2.6% and the Russell 2000 finished down 3.2%. Breadth was extremely negative as the NYSE Up Issues % came in at 15% and the Up Volume % was 5%. Total NYSE volume rose to the highest level in over a week.

Strong selloffs to low levels during long-term uptrends often generate favorable buying opportunities. There were a number of studies in the Quantifinder tonight that exemplified this concept. This first one was last seen in the 4/16/13 Letter.

| SPY drops more than 2%, closes at a 10-day low, and > 200ma. Close is in the bottom 10% of the daily range. Buy on close. Sell X 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 |
| 10 | 23,742.07 | 21 | 12 | 9 | 57.14 | 4,482.68 | 9,282.24 | -3,338.90 | -14,007.15 | 1.34 | 1.79 | 1,130.57 |
| 9 | 37,041.59 | 23 | 16 | 7 | 69.57 | 3,756.74 | 7,585.77 | -3,295.17 | -10,036.80 | 1.14 | 2.61 | 1,610.50 |
| 8 | 35,349.89 | 23 | 17 | 6 | 73.91 | 3,826.52 | 7,858.26 | -4,950.17 | -14,030.10 | 0.77 | 2.19 | 1,536.95 |
| 7 | 39,708.94 | 23 | 18 | 5 | 78.26 | 3,338.33 | 8,324.13 | -4,076.21 | -8,047.80 | 0.82 | 2.95 | 1,726.48 |
| 6 | 35,219.10 | 24 | 17 | 7 | 70.83 | 3,026.79 | 7,873.02 | -2,319.48 | -7,910.10 | 1.30 | 3.17 | 1,467.46 |
| 5 | 34,181.63 | 24 | 16 | 8 | 66.67 | 2,821.05 | 8,239.74 | -1,369.39 | -3,388.95 | 2.06 | 4.12 | 1,424.23 |
| 4 | 26,705.48 | 24 | 18 | 6 | 75.00 | 2,178.26 | 5,581.02 | -2,083.86 | -3,909.15 | 1.05 | 3.14 | 1,112.73 |
| 3 | 28,797.79 | 24 | 16 | 8 | 66.67 | 2,319.91 | 5,117.85 | -1,040.09 | -2,145.14 | 2.23 | 4.46 | 1,199.91 |
| 2 | 26,927.50 | 24 | 18 | 6 | 75.00 | 1,767.09 | 5,477.88 | -813.34 | -1,290.50 | 2.17 | 6.52 | 1,121.98 |
| 1 | 20,260.49 | 24 | 19 | 5 | 79.17 | 1,187.39 | 5,764.38 | -460.00 | -916.56 | 2.58 | 9.81 | 844.19 |

The 1-2 days results here are especially intriguing. Below is a profit curve for a 1-day holding period.



The curve has flattened out some as of late but is still pointing higher.

In 8/16/13 letter I showed a study that examined large losses that closed at intermediate-term lows. I have updated that study below.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10-days.
Buy on close. Sell X days later. \$100k/trade. 1991 - present.

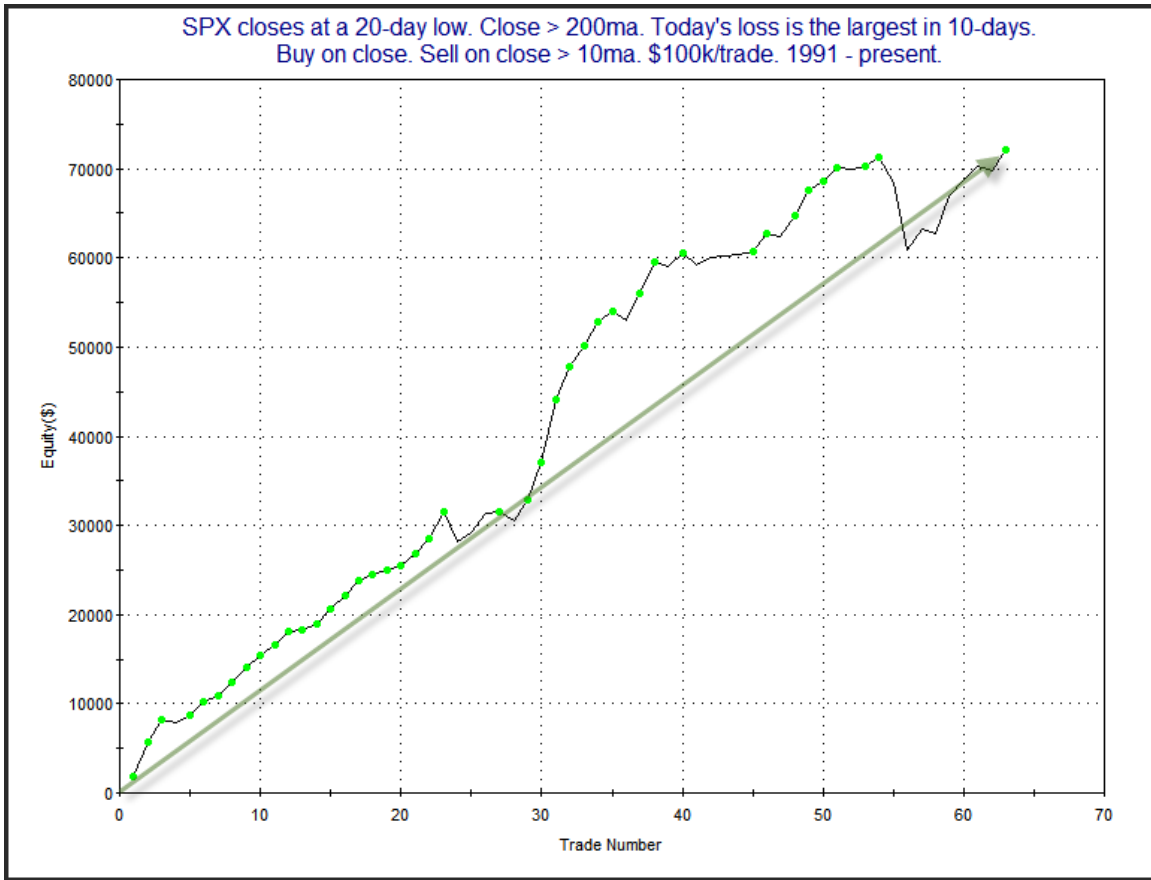
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 56,680.44 | 61 | 41 | 20 | 67.21 | 2,569.62 | 5,953.20 | -2,433.70 | -13,993.88 | 1.06 | 2.16 | 929.19 |
| 9 | 70,360.07 | 62 | 46 | 16 | 74.19 | 2,262.58 | 5,761.56 | -2,107.41 | -10,059.36 | 1.07 | 3.09 | 1,134.84 |
| 8 | 65,958.98 | 63 | 44 | 19 | 69.84 | 2,443.89 | 6,960.84 | -2,188.01 | -14,092.68 | 1.12 | 2.59 | 1,046.97 |
| 7 | 81,029.20 | 64 | 49 | 15 | 76.56 | 2,248.83 | 7,500.06 | -1,944.22 | -8,018.76 | 1.16 | 3.78 | 1,266.08 |
| 6 | 71,071.63 | 66 | 48 | 18 | 72.73 | 2,210.21 | 7,272.06 | -1,945.47 | -7,966.32 | 1.14 | 3.03 | 1,076.84 |
| 5 | 66,992.93 | 66 | 41 | 25 | 62.12 | 2,270.50 | 7,070.28 | -1,043.90 | -3,385.80 | 2.18 | 3.57 | 1,015.04 |
| 4 | 46,019.37 | 68 | 44 | 24 | 64.71 | 1,769.53 | 4,731.13 | -1,326.66 | -3,863.84 | 1.33 | 2.45 | 676.76 |
| 3 | 37,666.83 | 68 | 45 | 23 | 66.18 | 1,440.36 | 4,277.94 | -1,180.42 | -5,331.20 | 1.22 | 2.39 | 553.92 |
| 2 | 39,392.60 | 69 | 46 | 23 | 66.67 | 1,288.53 | 4,809.66 | -864.35 | -3,863.25 | 1.49 | 2.98 | 570.91 |
| 1 | 15,578.03 | 71 | 46 | 25 | 64.79 | 710.58 | 5,117.46 | -684.34 | -2,162.04 | 1.04 | 1.91 | 219.41 |

Results here are quite bullish. Some subscribers may recognize the setup as system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10-days.
Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

| TradeStation Performance Summary Collapse ^ | | | |
|--|-------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | \$72,076.39 | Profit Factor | 4.72 |
| Gross Profit | \$91,456.67 | Gross Loss | (\$19,380.28) |
| Total Number of Trades | 63 | Percent Profitable | 80.95% |
| Winning Trades | 51 | Losing Trades | 12 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$1,144.07 | Ratio Avg. Win:Avg. Loss | 1.11 |
| Avg. Winning Trade | \$1,793.27 | Avg. Losing Trade | (\$1,615.02) |
| Largest Winning Trade | \$7,070.28 | Largest Losing Trade | (\$7,630.40) |

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. Below is a profit curve where it can be seen.



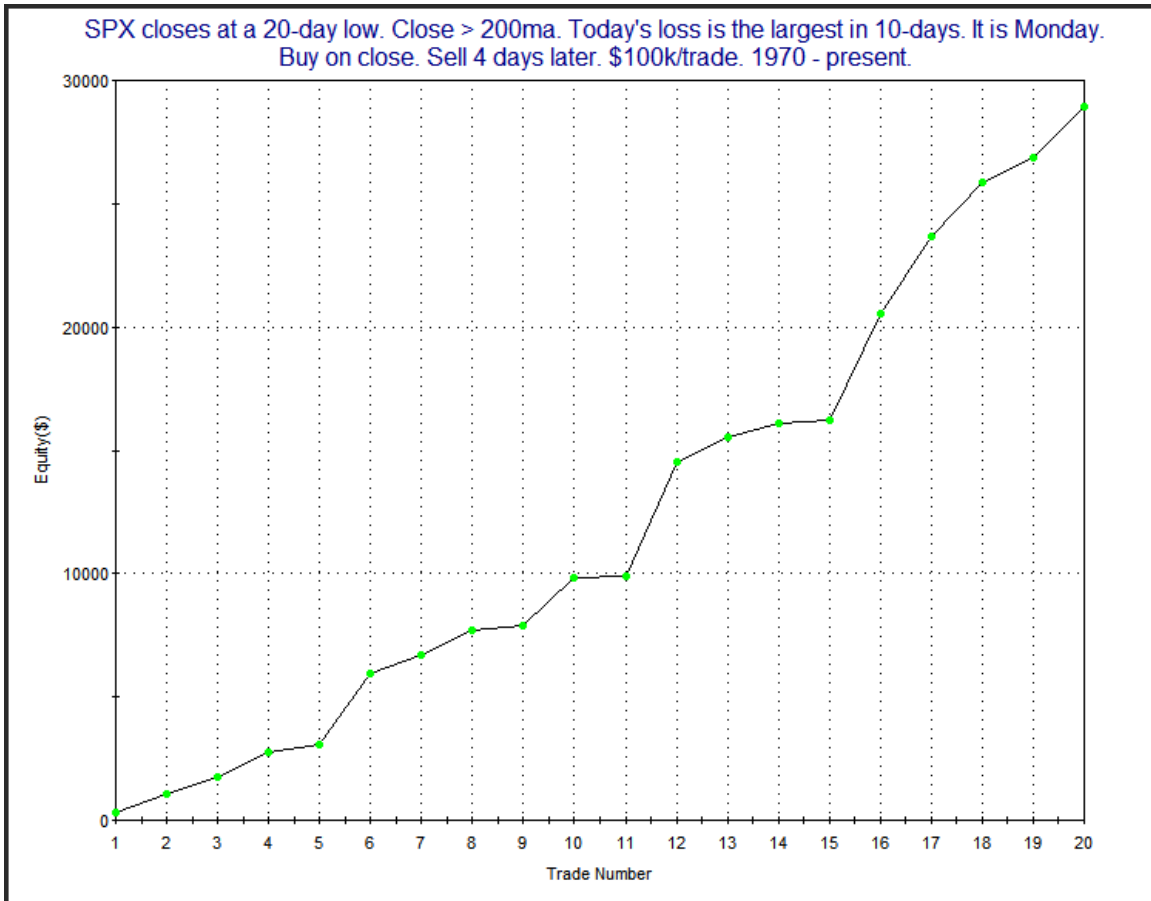
The drop was large but it was made up for fairly quickly and the upward slope appears to be back in place.

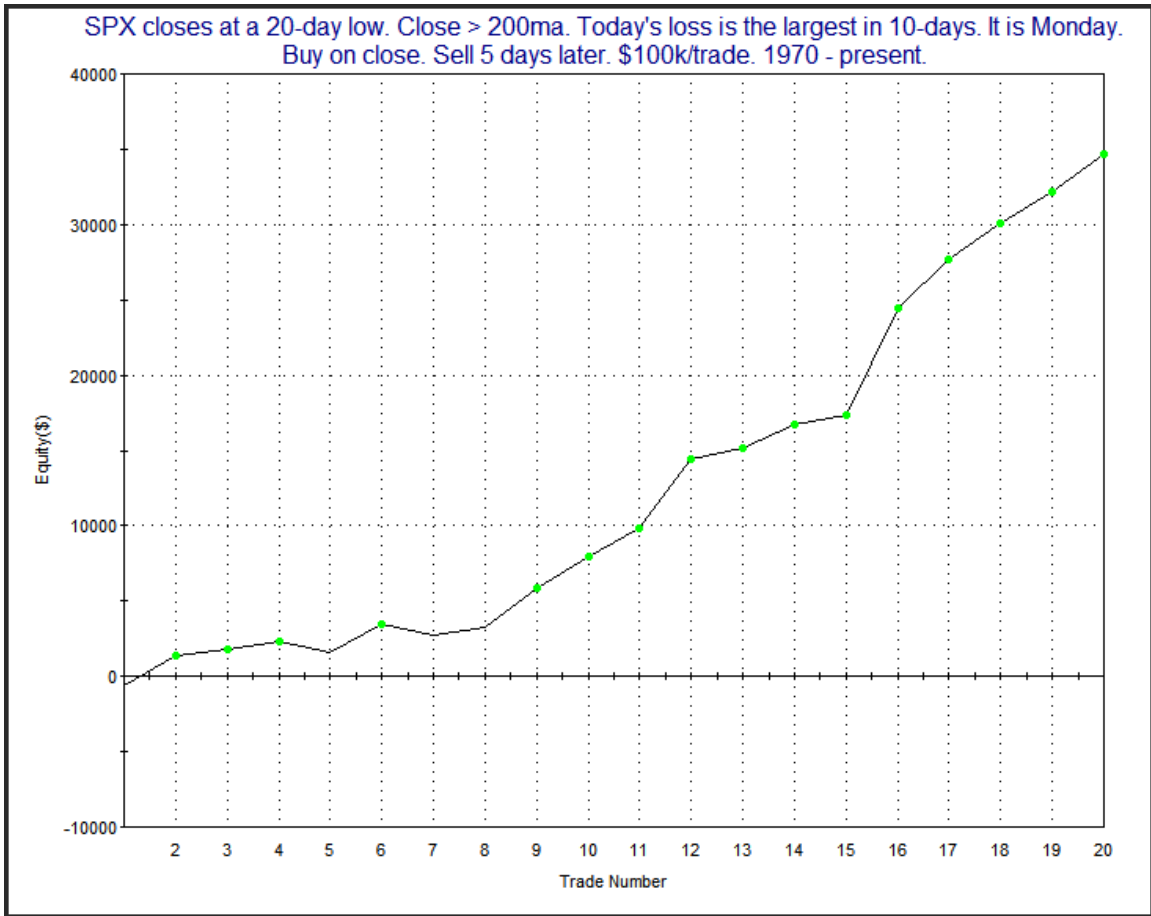
There were a few Turnaround Tuesday studies in the Quantifinder as well. Rather than go over one of them I thought it would be interesting to show how the above study would have performed with an added filter of requiring it also be Monday. To get a good sized number of instances I took this study all the way back to 1970.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10-days. It is Monday.
Buy on close. Sell X days later. \$100k/trade. 1970 - 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 | 34,675.81 | 20 | 17 | 3 | 85.00 | 2,158.28 | 7,070.28 | -671.63 | -732.06 | 3.21 | 18.21 | 1,733.79 |
| 4 | 28,930.11 | 20 | 20 | 0 | 100.00 | 1,446.51 | 4,690.50 | 0.00 | 0.00 | 100.00 | 100.00 | 1,446.51 |
| 3 | 22,250.81 | 20 | 16 | 4 | 80.00 | 1,508.70 | 3,940.55 | -472.08 | -897.60 | 3.20 | 12.78 | 1,112.54 |
| 2 | 18,222.50 | 20 | 16 | 4 | 80.00 | 1,281.42 | 4,809.66 | -570.05 | -925.32 | 2.25 | 8.99 | 911.13 |
| 1 | 7,902.79 | 20 | 13 | 7 | 65.00 | 863.69 | 5,117.46 | -475.03 | -2,264.50 | 1.82 | 3.38 | 395.14 |

Every time this has occurred since 1970 we have seen SPX close higher 4 days later. You can't get more compelling numbers than that. Below are profit curves looking at 4-day and 5-day exit strategies.





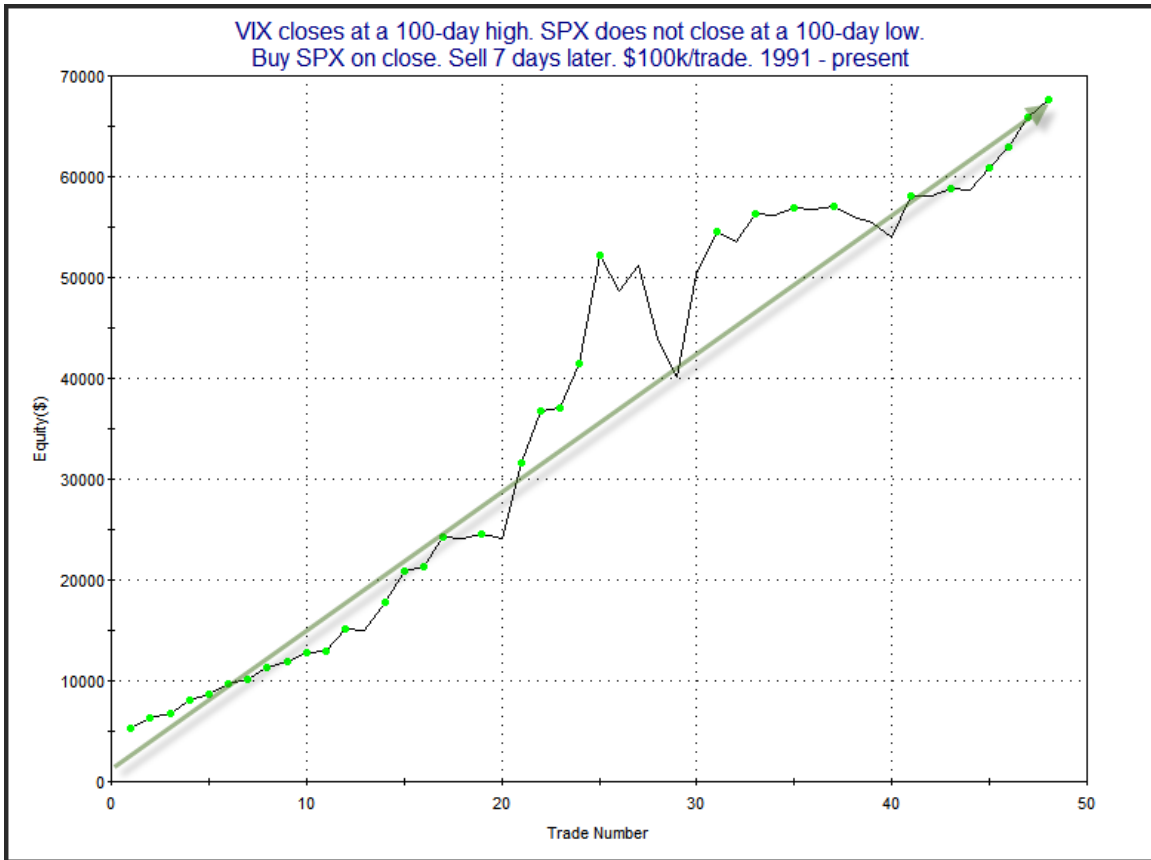
Nothing here makes me think any less of the numbers.

The VIX also provided some notable action today. The VIX is often referred to as the fear index. When VIX levels are relatively high, that often suggests fear and uncertainty among market participants. Relative highs can be measured a number of ways. Often I will show VIX levels compared to short-term moving averages. But an interesting study tonight looked at 100-day VIX highs that occurred when the SPX was not making 100-day lows. In other words, relatively extreme fear in a market that is not making long-term lows. The study was last seen in the 12/27/12 Subscriber Letter. I have updated it below.

VIX closes at a 100-day high. SPX does not close at a 100-day low.
Buy SPX on close. Sell X days later. \$100k/trade. 1991 - present

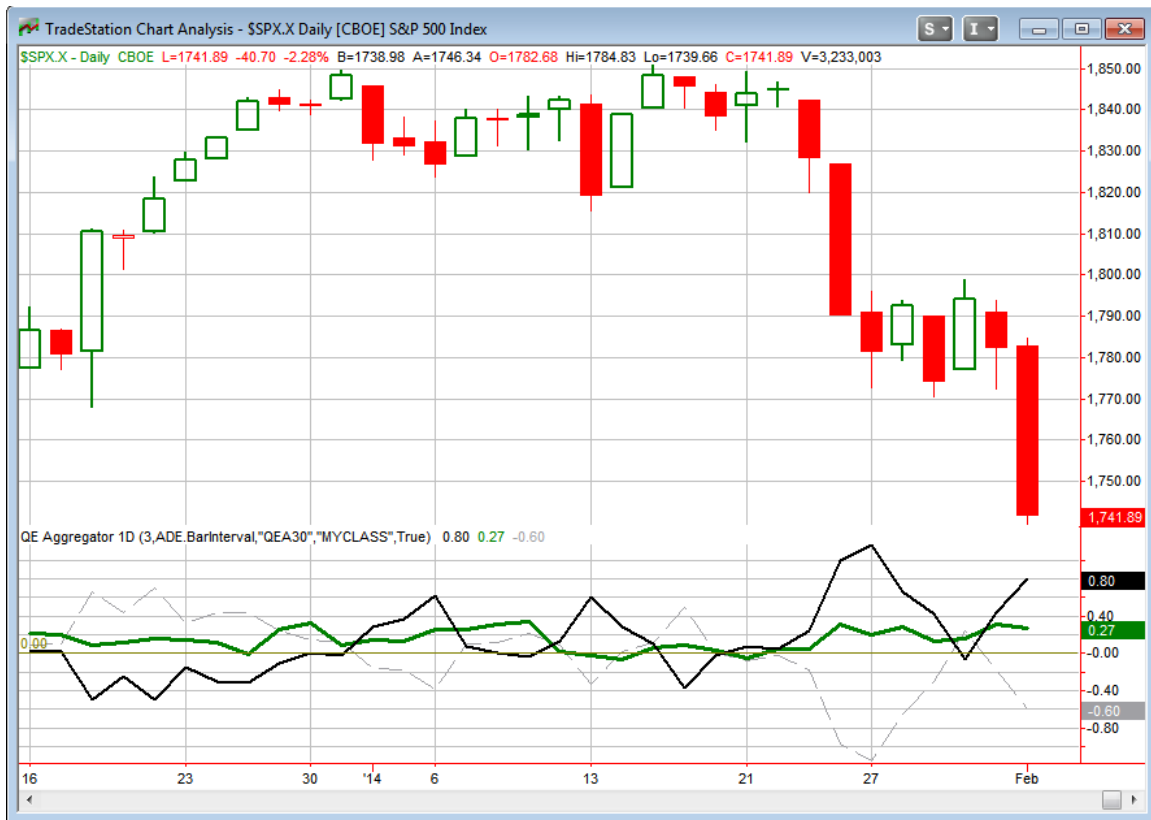
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 15 | 81,198.50 | 41 | 32 | 9 | 78.05 | 3,395.06 | 13,488.65 | -3,049.25 | -11,992.24 | 1.11 | 3.96 | 1,980.45 |
| 14 | 76,460.72 | 41 | 32 | 9 | 78.05 | 3,349.20 | 12,644.94 | -3,412.62 | -11,498.24 | 0.98 | 3.49 | 1,864.90 |
| 13 | 72,066.52 | 41 | 31 | 10 | 75.61 | 3,533.79 | 15,243.90 | -3,748.09 | -16,254.16 | 0.94 | 2.92 | 1,757.72 |
| 12 | 70,105.50 | 42 | 30 | 12 | 71.43 | 3,705.89 | 13,656.44 | -3,422.61 | -13,950.56 | 1.08 | 2.71 | 1,669.18 |
| 11 | 59,925.77 | 42 | 28 | 14 | 66.67 | 3,529.55 | 12,236.77 | -2,778.69 | -11,048.96 | 1.27 | 2.54 | 1,426.80 |
| 10 | 57,279.11 | 44 | 28 | 16 | 63.64 | 3,341.45 | 13,815.90 | -2,267.60 | -7,532.72 | 1.47 | 2.58 | 1,301.80 |
| 9 | 63,025.96 | 44 | 33 | 11 | 75.00 | 2,776.14 | 11,486.80 | -2,598.79 | -6,727.63 | 1.07 | 3.20 | 1,432.41 |
| 8 | 60,643.77 | 47 | 33 | 14 | 70.21 | 2,789.35 | 11,382.35 | -2,243.19 | -9,154.20 | 1.24 | 2.93 | 1,290.29 |
| 7 | 67,588.82 | 48 | 34 | 14 | 70.83 | 2,572.33 | 10,706.80 | -1,419.31 | -7,304.57 | 1.81 | 4.40 | 1,408.10 |
| 6 | 58,674.94 | 50 | 38 | 12 | 76.00 | 2,351.17 | 10,082.80 | -2,555.78 | -9,712.78 | 0.92 | 2.91 | 1,173.50 |
| 5 | 55,191.43 | 51 | 33 | 18 | 64.71 | 2,627.38 | 9,157.20 | -1,750.67 | -11,533.34 | 1.50 | 2.75 | 1,082.18 |
| 4 | 52,250.81 | 55 | 38 | 17 | 69.09 | 2,301.37 | 8,810.76 | -2,070.66 | -9,828.00 | 1.11 | 2.48 | 950.01 |
| 3 | 46,883.74 | 58 | 43 | 15 | 74.14 | 1,729.69 | 8,432.34 | -1,832.85 | -6,956.04 | 0.94 | 2.71 | 808.34 |
| 2 | 49,375.79 | 64 | 41 | 23 | 64.06 | 1,761.43 | 5,049.00 | -993.17 | -5,441.80 | 1.77 | 3.16 | 771.50 |
| 1 | 43,947.58 | 82 | 51 | 30 | 62.20 | 1,465.50 | 5,117.46 | -1,026.43 | -5,829.81 | 1.43 | 2.43 | 535.95 |

The stats seem to suggest a bullish edge that persists for at least three weeks. Much of that edge is realized over the first 1-7 days. Below is a profit curve showing a 7-day holding strategy.



The curve is a little choppy, but the upside persistence here is impressive and it is continuing to hot new highs. This study also seems to be worth taking into consideration.

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. We also saw the black Differential Line close strongly 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 Tuesday. The Differential Pivot will be 1804.05 on Tuesday. That is a whopping 3.6% above Wednesday's close. The chances of that happening are extremely remote. So it will likely take a multi-day rally or consolidation to work off the oversold condition

There were also 3 new Catapults that triggered. The total CBI is still just 4, but it is at a point where continued selling could see it spike quickly. Overall, I like this market quite a bit. I considered adding a 3rd lot of SPY using a limit order in the morning. But since I'll be looking for fills on 3 Catapults, I decided to add the index lot at the close if SPX again struggles. Details are in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/3 – neutral

The intermediate-term outlook was last updated in the 2/3 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)

New

FCX – 1/3 @ \$31.08 (buy @ limit)

COP – 1/3 @ \$63.86 (buy @ limit)

NWSA – 1/3 @ \$15.52 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 4(COF, FCX, COP, NWSA)

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.

FCX – buy 1/3 Catapult position @ \$31.08 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](#).

COP – buy 1/3 Catapult position @ \$63.86 LIMIT. This is a catapult system trigger from the Catapult & CBI section above.

NWSA – buy 1/3 Catapult position @ \$15.52 LIMIT. This is a catapult system trigger from the Catapult & CBI section above.

SPY – buy ¼ index position @ \$174.00 LIMIT ON CLOSE if any one of FCX, COP, or NWSA also close down on the day. I'll take on a 3rd lot of SPY if it closes down a bit and it appears the CBI will reach at least 5. A down day by any of the above should achieve that.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| SPY(1/4) | 1/27/2014 | \$178.89 | \$174.15 | -2.65% | | Aggregator |
| SPY(1/4) | 1/27/2014 | \$178.01 | \$174.15 | -2.17% | | Aggregator |
| COF(1/3) | 1/28/2014 | \$69.95 | \$68.56 | -1.99% | | Catapult |
| | | | | | | |

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