

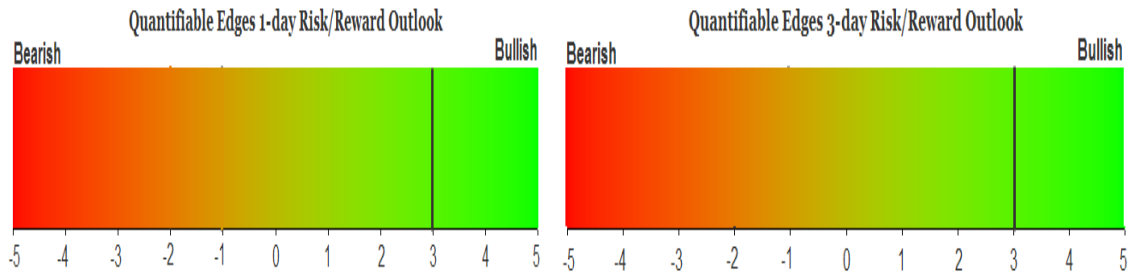
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 5, 2014

Volume 7 Issue 24

Market Overview



Signals Overview

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

Tonight's Research Points

- Tuesday's bounce was right in the "sweet spot" based on past rebounds.

Short-term Outlook

The Bottom Line

Evidence continues to point higher and the market is still substantially oversold. I am long and I may take on more exposure via some Catapult System trades on Wednesday.

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 5, 2014	Sweet Spot bounce	1-5 days	Bullish	2.90%
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%
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				
February 3, 2014	Gap dn 1% partial reverse < 10ma	1-2 days	Bullish	

The Evidence

The market bounced on Tuesday and got back a portion of Monday's losses. The SPX finished up 0.8%, the Nasdaq rose 0.9% and the Russell 2000 rallied 0.8%. Breadth was positive as the NYSE Up Issues % came in at 68% and the Up Volume % was 74%. Total NYSE volume came in quite a bit lower than during Monday's selloff.

One positive identified by the Quantifinder was that the bounce was the "right size". After a sizable drop, if the market puts in a very weak bounce that makes up for less than ¼ of the previous day's large loss, then that is often a bad sign. Stronger initial bounces tend to fare much better. In the 3/14/11 and 3/18/11 Subscriber Letters I broke down the following days' performance based on the relative size of the day one bounce. Let's review those findings.

This first table below shows results for very weak bounces. It has been updated.

SPX falls at least 1.75% yesterday. Today it rises but makes up less than 25% of yesterday's loss.
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	-5,525.66	27	12	15	44.44	2,891.15	6,309.90	-2,681.30	-5,842.90	1.08	0.86	-204.65
9	-8,065.97	29	14	15	48.28	2,265.74	4,807.00	-2,652.43	-4,452.66	0.85	0.80	-278.14
8	-7,500.90	30	14	16	46.67	2,130.39	4,664.22	-2,332.90	-5,166.06	0.91	0.80	-250.03
7	-6,149.33	30	14	16	46.67	2,267.72	5,284.85	-2,368.59	-6,002.13	0.96	0.84	-204.98
6	-13,906.50	30	13	17	43.33	1,738.55	4,762.35	-2,147.51	-5,473.17	0.81	0.62	-463.55
5	-16,683.31	30	12	18	40.00	1,556.07	4,769.00	-1,964.23	-5,506.23	0.79	0.53	-556.11
4	-20,238.96	30	11	19	36.67	1,617.56	2,587.95	-2,001.69	-4,284.75	0.81	0.47	-674.63
3	-24,733.32	30	9	21	30.00	1,462.54	3,939.79	-1,804.58	-5,685.45	0.81	0.35	-824.44
2	-19,074.19	31	13	18	41.94	662.39	2,794.56	-1,538.07	-3,844.10	0.43	0.31	-615.30
1	-14,655.71	31	11	20	35.48	587.50	1,669.20	-1,055.91	-2,302.95	0.56	0.31	-472.76

As you can see these weak bounces don't often get very far before a new leg down ensues.

This next table examines very strong bounces after big drops. Numbers here have not changed since 2011.

SPX falls at least 1.75% yesterday. Today it makes up more than 75% of yesterday's loss.
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: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	10,065.10	11	6	5	54.55	2,695.45	-1,221.52	2.21	2.65	915.01
9	18,347.76	12	7	5	58.33	3,222.39	-841.79	3.83	5.36	1,528.98
8	13,458.35	12	8	4	66.67	2,717.76	-2,070.94	1.31	2.62	1,121.53
7	20,267.80	13	7	6	53.85	3,881.73	-1,150.72	3.37	3.94	1,559.06
6	21,024.09	13	9	4	69.23	3,062.40	-1,634.39	1.87	4.22	1,617.24
5	20,983.30	13	9	4	69.23	2,686.85	-799.58	3.36	7.56	1,614.10
4	15,131.28	13	8	5	61.54	2,696.96	-1,288.88	2.09	3.35	1,163.94
3	11,326.45	13	7	6	53.85	2,398.77	-910.83	2.63	3.07	871.27
2	8,507.74	13	8	5	61.54	1,872.31	-1,294.15	1.45	2.31	654.44
1	993.58	13	6	7	46.15	1,473.27	-1,120.87	1.31	1.13	76.43

12 of 13 instances closed above the entry price at some point in the next week. All of them did so within 6 days.

Instances are a bit low here but the results are a sharp contrast to the results from the "weak-bounce" test.

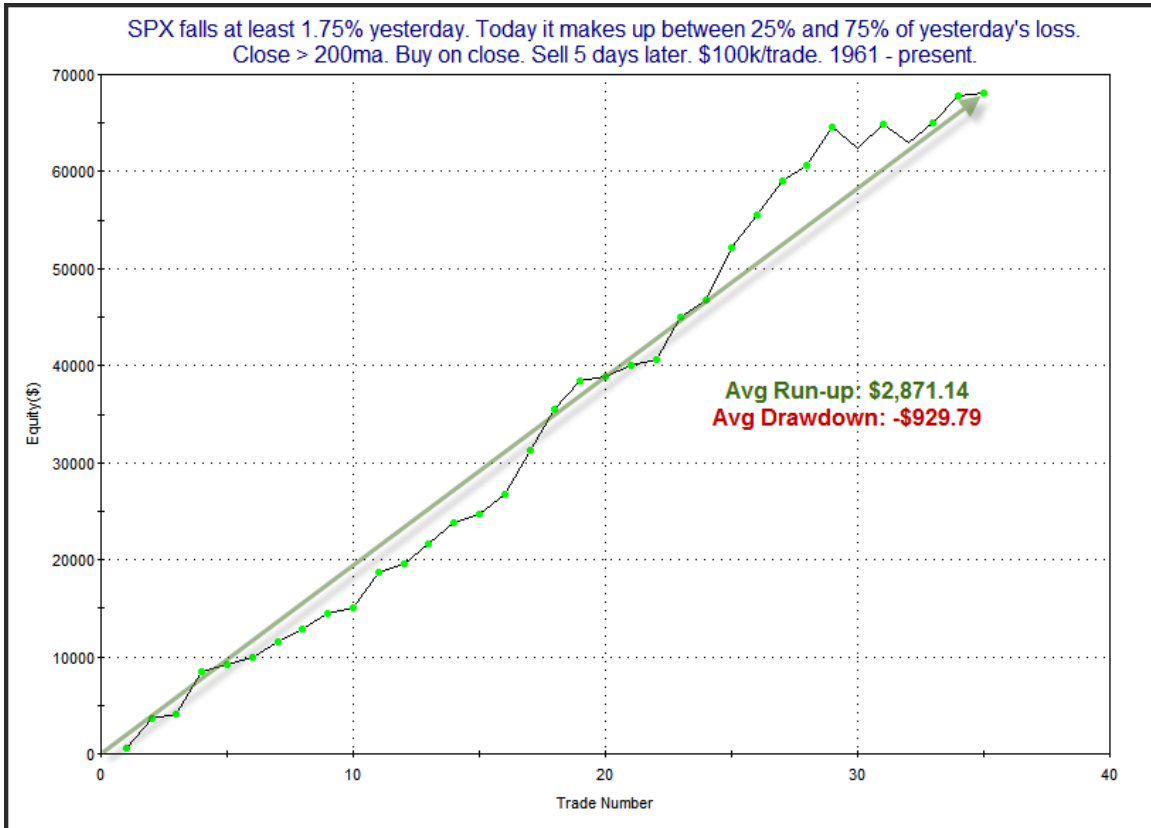
Previous findings revealed the real sweet spot for the day 1 bounce is right between these two. That is where we fell on Tuesday and that study I updated below. Though rather than just go back to 1988 as those others did, I went all the way back to 1961.

SPX falls at least 1.75% yesterday. Today it makes up between 25% and 75% of yesterday's loss.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1961 - 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	68,139.39	35	33	2	94.29	2,186.68	5,396.71	-2,010.49	-2,115.67	1.09	17.95	1,946.84
4	53,512.24	36	30	6	83.33	1,975.42	4,989.22	-958.41	-2,322.56	2.06	10.31	1,486.45
3	48,700.06	36	32	4	88.89	1,704.25	3,876.62	-1,459.02	-3,602.40	1.17	9.34	1,352.78
2	32,113.99	36	24	12	66.67	1,817.55	4,001.40	-958.93	-2,136.90	1.90	3.79	892.06
1	26,154.59	36	26	10	72.22	1,220.52	2,937.71	-557.90	-1,576.20	2.19	5.69	726.52

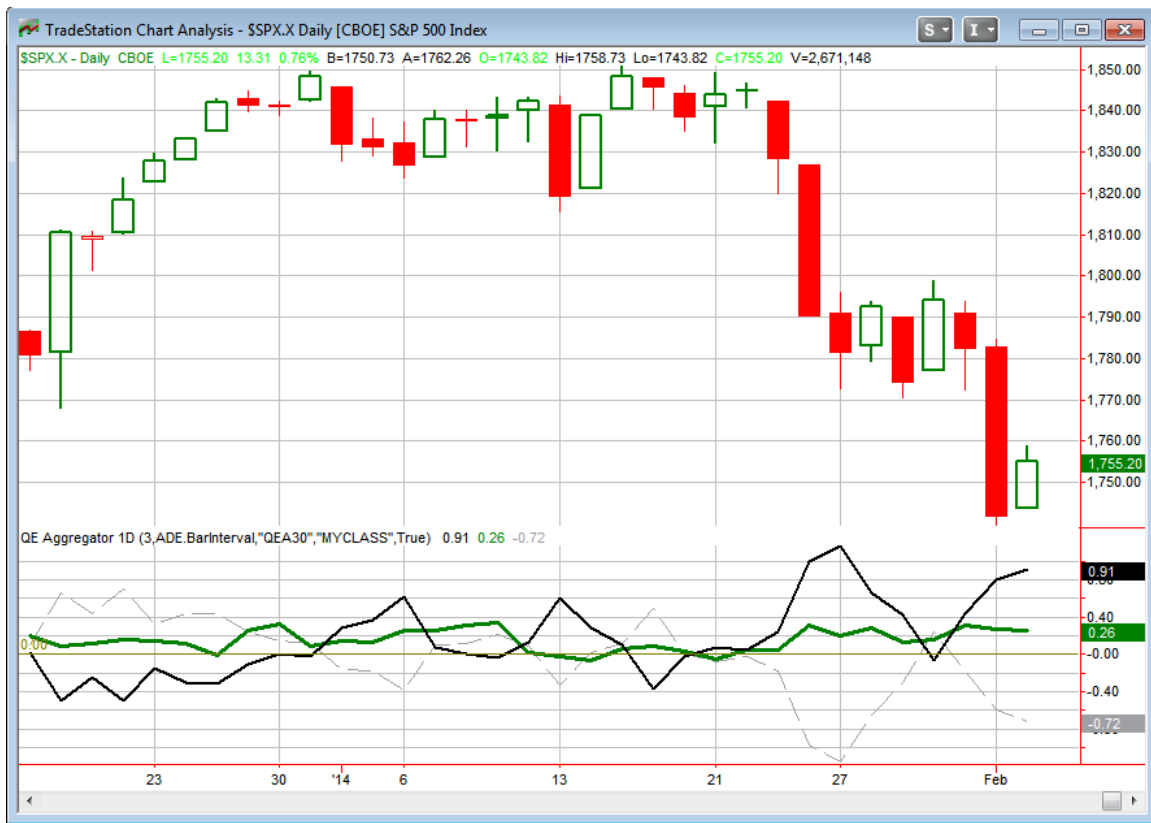
35 of 36 instances (97%) closed above the entry price at some point in the next week. The lone failure triggered on 3/11/11.

Study results don't often get more lopsided than this. Implications over the next week appear to be strongly bullish. Below is a profit curve for a 5-day holding period.



Both the curve and the stats are impressive. The Avg Winning Trade is larger than the LARGEST losing trade. And the with the average run-up over 3x the size of the average drawdown, risk/reward undoubtedly has favored the bulls. This study has been added to the Active List tonight.

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



The bullish study tonight kept the green Aggregator Line squarely 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 Wednesday. The Differential Pivot will be 1792.22 on Wednesday. That is a whopping

2.1% above Tuesday's close. The chances of that happening are pretty low. So it will still likely take a multi-day rally or consolidation to work off the oversold condition

We saw some strong evidence last night that a bounce was likely. That bounce arrived on Tuesday, and based on what we are seeing tonight, it seems to be bouncing in a way that it is more likely to continue up over the short-term than to roll over. I have some long index exposure and some Catapults. I am not looking to add more index exposure on Wednesday. But I will look to add some more exposure via Catapults. As you'll see below, the CBI now stands at 7. If the market has a bad day on Wednesday then it could certainly reach 10. Levels of 10 or higher have been quite reliable in predicting a short-term bottom in the next 1-3 days.

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)

FCX – 1/3 @ \$31.08 (buy @ limit)

COP – 1/3 @ \$63.86 (buy @ limit)

NWSA – 1/3 @ \$15.52 (buy @ limit)

New

FCX – 1/3 @ \$30.94 (buy @ limit) – 2nd lot

COP – 1/3 @ \$63.71 (buy @ limit) – 2nd lot

NWSA – 1/3 @ \$15.52 (buy @ limit) – 2nd lot

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 7/4(COF, FCX-2, COP-2, NWSA-2)

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 @ \$30.94 LIMIT. This is a catapult system trigger and a2nd lot for FCX. 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 @ \$63.71 LIMIT. This is a catapult system trigger from the Catapult & CBI section above. This will be the 2nd lot for COP.

NWSA – buy 1/3 Catapult position @ \$15.52 LIMIT. This is a catapult system trigger from the Catapult & CBI section above. This will be the 2nd lot for NWSA.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/27/2014	\$178.89	\$175.38	-1.96%		Aggregator
SPY(1/4)	1/27/2014	\$178.01	\$175.38	-1.48%		Aggregator
COF(1/3)	1/28/2014	\$69.95	\$68.72	-1.76%		Catapult
FCX(1/3)	2/4/2014	\$31.08	\$30.94	-0.45%		Catapult
NWSA(1/3)	2/4/2014	\$15.52	\$15.52	0.00%		Catapult
COP(1/3)	2/4/2014	\$63.86	\$63.71	-0.23%		Catapult

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