

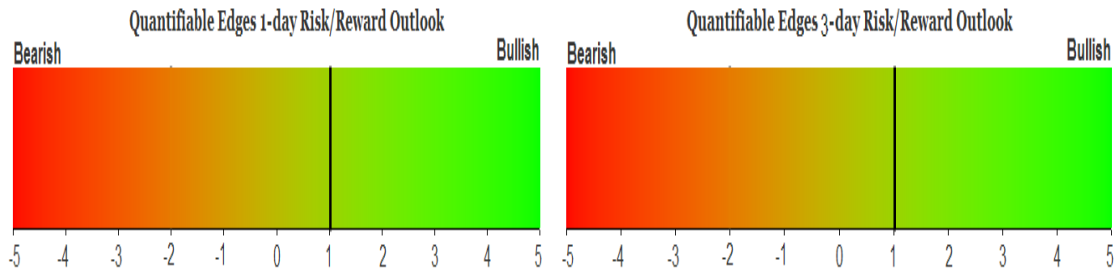
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 7, 2014

Volume 7 Issue 26

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	Flat	Long

Tonight's Research Points

- 3-day chop after hitting a 20-day low in a long-term uptrend has most often been followed by a short-term rally.
- Employment Days have been on a hot streak for the last 18 months.

Short-term Outlook

The Bottom Line

The bounce has arrived. It may have a little more left in it but it is time to start scaling out for me. I'll be looking to reduce my long exposure on Friday.

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 7, 2014	Employment Day Hot Streak	1 day	Bullish	
February 7, 2014	20-low then sideways chop	1-5 days	Bullish	
February 6, 2014	CBI > 10. SPX > 200ma.	1-4 days	Bullish	1.70%
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%
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	

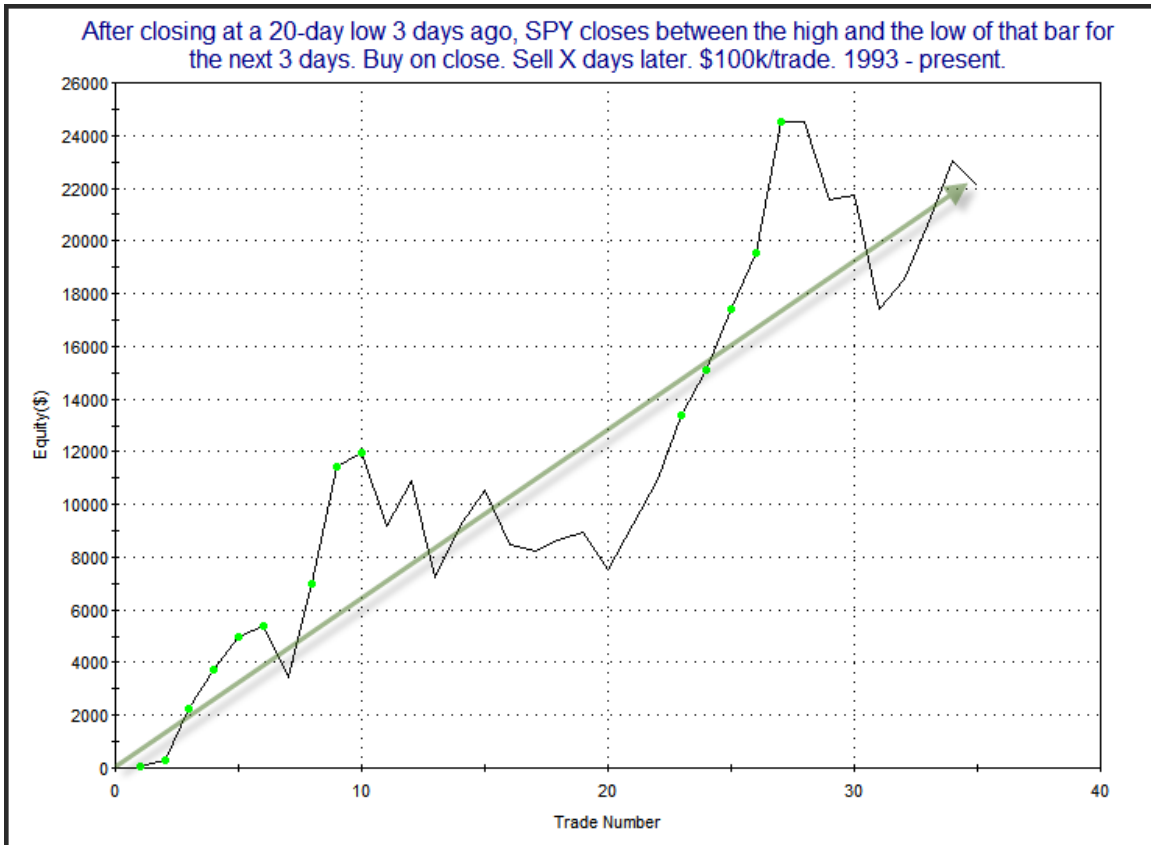
The Evidence

It appears enough bullish evidence built up over the past few days that it finally mattered on Thursday, and the market put in a nice move higher. The SPX gained 1.2%, the Nasdaq rose 1.1% and the Russell 2000 finished up 0.9%. Breadth was strongly positive as the NYSE Up Issues % came in at 74% and the Up Volume % was 82%. Total NYSE volume fell for the 3rd day in a row.

An interesting study from the Quantifinder is one that appeared just 1 week ago. 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 was 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. 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
5	22,091.82	35	25	9	71.43	1,697.28	4,984.19	-2,260.02	-4,326.19	0.75	2.09	631.19
4	17,439.19	35	24	11	68.57	1,616.96	4,855.07	-1,942.53	-4,345.88	0.83	1.82	498.26
3	15,670.94	35	21	14	60.00	1,652.67	4,577.32	-1,359.65	-4,248.64	1.22	1.82	447.74
2	11,916.63	36	22	14	61.11	1,328.38	4,932.84	-1,236.27	-2,818.42	1.07	1.69	331.02
1	11,239.49	38	23	13	60.53	921.50	2,355.32	-765.76	-2,101.88	1.20	2.13	295.78

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. And though it also failed this past week, I decided it is worth some consideration and have included it on the Active List again for tonight.

Friday morning the employment report will be released at 8:30am EST. On the [Overnight Edges blog Thursday I showed](#) that over the last 18 months S&P futures have had a strong tendency to gap up on Employment Days. I looked tonight at SPY returns on a close to close basis and found that the morning gains have been held nicely. This can be seen in the study below.

Tomorrow is an Employment Day.
Buy SPY on close. Sell Employment Day close. \$100k/trade. 8/2012 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$10,091.69	Profit Factor	8.54
Gross Profit	\$11,429.39	Gross Loss	(\$1,337.70)
Total Number of Trades	18	Percent Profitable	88.89%
Winning Trades	16	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	\$560.65	Ratio Avg. Win:Avg. Loss	1.07
Avg. Winning Trade	\$714.34	Avg. Losing Trade	(\$668.85)
Largest Winning Trade	\$1,981.01	Largest Losing Trade	(\$889.00)

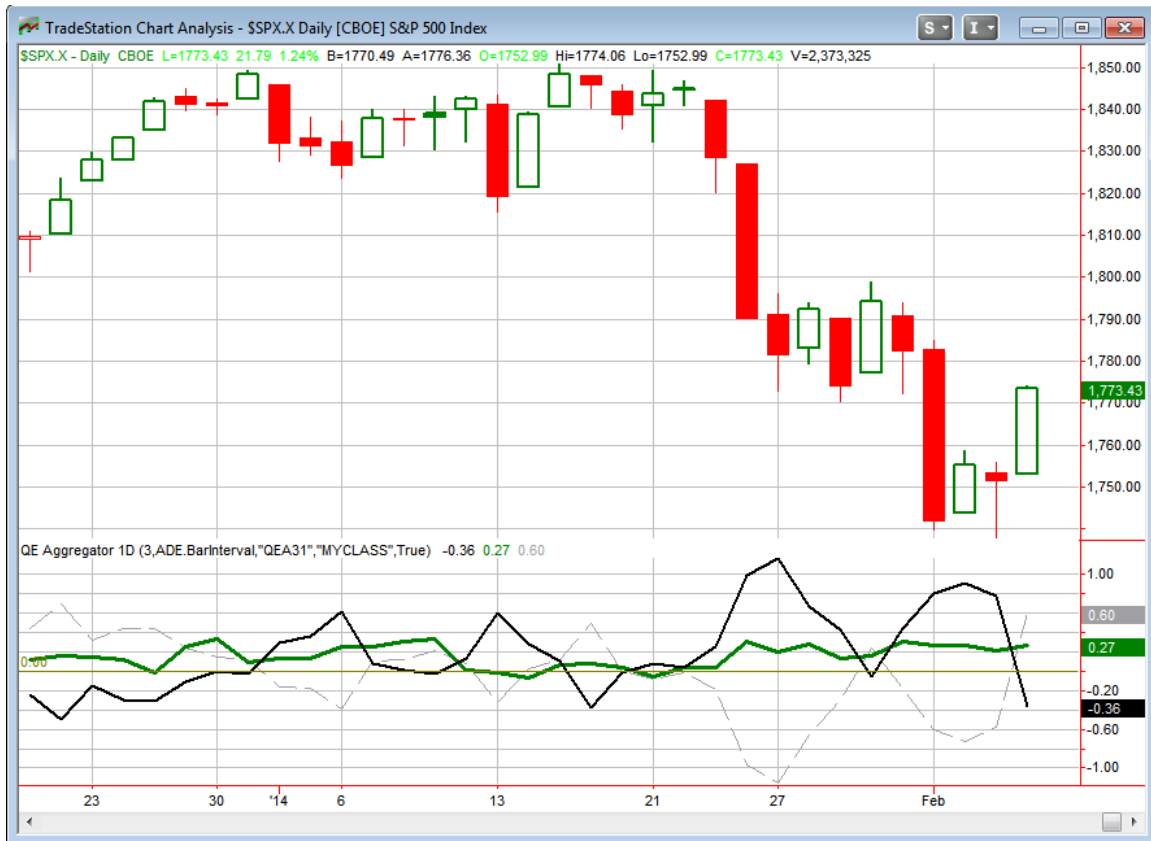
The stats have been overwhelmingly bullish. Below is a list of instances.

Tomorrow is an Employment Day.
Buy SPY on close. Sell Employment Day close. \$100k/trade. 8/2012 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/02/12	Buy	\$136.64	1.98%	\$2,193.00
08/03/12	Sell	\$139.35		\$0.00
09/06/12	Buy	\$143.77	0.39%	\$430.90
09/07/12	Sell	\$144.33		\$0.00
10/04/12	Buy	\$146.13	0.01%	\$704.52
10/05/12	Sell	\$146.14		(\$294.12)
11/01/12	Buy	\$142.83	(0.89%)	\$623.00
11/02/12	Sell	\$141.56		(\$994.00)
12/06/12	Buy	\$141.98	0.30%	\$499.84
12/07/12	Sell	\$142.41		(\$218.24)
01/03/13	Buy	\$145.73	0.44%	\$603.68
01/04/13	Sell	\$146.37		(\$41.16)
01/31/13	Buy	\$149.70	1.03%	\$1,148.96
02/01/13	Sell	\$151.24		\$0.00
03/07/13	Buy	\$154.78	0.43%	\$562.02
03/08/13	Sell	\$155.44		(\$77.52)
04/04/13	Buy	\$155.86	(0.45%)	\$0.00
04/05/13	Sell	\$155.16		(\$1,339.69)
05/02/13	Buy	\$159.75	1.01%	\$1,331.25
05/03/13	Sell	\$161.37		\$0.00
06/06/13	Buy	\$162.73	1.27%	\$1,363.08
06/07/13	Sell	\$164.80		\$0.00
07/03/13	Buy	\$161.34	1.04%	\$1,077.06
07/05/13	Sell	\$163.02		(\$24.76)
08/01/13	Buy	\$170.66	0.17%	\$181.35
08/02/13	Sell	\$170.95		(\$356.85)
09/05/13	Buy	\$165.96	0.05%	\$614.04
09/06/13	Sell	\$166.04		(\$890.96)
10/21/13	Buy	\$174.40	0.58%	\$876.69
10/22/13	Sell	\$175.41		\$0.00
11/07/13	Buy	\$174.93	1.35%	\$1,358.98
11/08/13	Sell	\$177.29		(\$45.68)
12/05/13	Buy	\$178.94	1.12%	\$1,210.86
12/06/13	Sell	\$180.94		\$0.00
01/09/14	Buy	\$183.64	0.27%	\$315.52
01/10/14	Sell	\$184.14		(\$342.72)

This edge has only been in place for the last 18 months. There was not a consistent upside tendency prior to that. This kind of edge is one I often refer to as an “environmental edge”. Basically it is a streak that you may want to take into account while it lasts but don’t expect it to last indefinitely.

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



With still nothing but bullish short-term studies the green Aggregator Line remains squarely 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 strongly below 0. The negative Differential Line reading means the SPX is 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. The Differential Pivot will be 1769.71 on Friday. That is just 0.2% below Thursday's close. So it still won't take much of a close lower to see SPX move back into oversold territory.

Over the last 3 days the bounce we were looking for arrived. It was a little later than I thought, and not every one of the trade ideas is going to turn out profitable. But just because a position is not profitable does not mean you shouldn't sell it. Where a position was bought should have no influence on where and when it is sold. Positions are exited when there is no longer an edge. Right now there does not appear to be much of an edge. Often these oversold bounces that occur after a high CBI reading will continue until the

CBI is back to neutral again. It closed at 5 on Thursday so it is not quite there. But some follow through on Friday could certainly get it there fairly easily. As I mentioned in the intraday update sent to subscribers earlier on Thursday, I exited all the Catapult position that met their targets. I will also be looking to exit some, or perhaps all, of my SPY index position on Friday. 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

COP – 1/3 @ \$63.86 (buy @ limit)

COP – 1/3 @ \$63.71 (bought @ \$63.52) – 2nd lot

TGT – 1/3 @ \$55.07 (buy @ limit) – 1st lot

COP – 1/3 @ \$63.46 (buy @ limit) – 3rd lot

CVX – 1/3 @ \$109.52 (buy @ limit) – 1st lot

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 5/3(COP-3, TGT, CVX)

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	\$177.48	-0.79%		sell @ \$177.48 limit
SPY(1/4)	1/27/2014	\$178.01	\$177.48	-0.30%		sell @ \$177.48 limit on close
COF(1/3)	1/28/2014	\$69.95	\$69.92	-0.04%		sold on close
FCX(1/3)	2/4/2014	\$31.08	\$31.54	1.48%		sold on close
NWSA(1/3)	2/4/2014	\$15.52	\$16.02	3.22%		sold on close
COP(1/3)	2/4/2014	\$63.86	\$64.30	0.69%		sell @ \$64.43 limit on close
FCX(1/3)	2/5/2014	\$30.94	\$31.54	1.94%		sold on close
COP(1/3)	2/5/2014	\$63.52	\$64.30	1.23%		Catapult
COP(1/3)	2/6/2014	\$63.46	\$64.30	1.32%		Catapult

I will exit 1 of the 3 COP lots if it closes above its end-of-day target, and hold the other 2 to sell Monday morning.

I will look to reduce my SPY position by 1 lot if I can get out at Thursday's close or better. I will sell the remainder at Friday's close if it is even or better on the day. With the Differential Pivot so close by, and expectations bullish, I do not intend to sell into a decline on Friday.

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