

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 10, 2014

Volume 7 Issue 27

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	Flat

Tonight's Research Points

- When the VIX moves from 10% above the 10ma to 10% below the 10ma in less than a week it has been typically followed by gains.

Short-term Outlook

The Bottom Line

While the strong bounce the last 2 days has not generated any bearish studies, it has left the market strongly overbought. I'm now neutral on the market and awaiting the next favorable setup.

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 10, 2014	VIX high stretch to low stretch	1-8 days	Bullish	2.70%
February 7, 2014	20-low then sideways chop	1-5 days	Bullish	
February 5, 2014	Sweet Spot bounce	1-5 days	Bullish	2.90%
February 4, 2014	VIX 100-high. SPX > 100-low	1-7 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 2, 2013	Nasdaq leading SPX	int term	Bullish	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
December 18, 2013	4 Hindenburg Triggers	1 - 35 days	Bearish	-7.00%
October 21, 2013	70% Advancing Issues 3 Days In Row	1-75 days	Bullish	10.60%
February 7, 2014	Employment Day Hot Streak	1 day	Bullish	
February 6, 2014	CBI > 10. SPX > 200ma.	1-4 days	Bullish	1.70%
February 3, 2014	End of Month < 10ma and > 200ma	1-5 days	Bullish	2.20%
February 4, 2014	Strong drop to int-low. Close > 200	1-5 days	Bullish	

The Evidence

Friday provided no pause, and the market continued to add on strongly to Thursday's gains. The SPX gained 1.3%, the Nasdaq rose 1.7% and the Russell 2000 finished up 1.1%. Breadth was strongly positive as the NYSE Up Issues % came in at 77% and the Up Volume % was 82%. Total NYSE volume rose some from Thursday's level.

After a few strong days you will often find a bearish study or two creeping onto the list. But the Quantifinder provided no bearish evidence. Just some neutral studies along with the bullish one below. It considered the sharp drop in the VIX over the last couple of days after a sharp rise the previous few. It was last seen in the 10/14/13 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more then 10% above it on of the previous 4 days. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1992 - 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	27,609.76	16	13	3	81.25	2,680.44	8,115.80	-2,411.98	-3,412.50	1.11	4.82	1,725.61
9	28,052.47	16	12	4	75.00	2,559.39	8,397.40	-665.05	-2,173.08	3.85	11.55	1,753.28
8	29,464.35	16	14	2	87.50	2,242.18	8,076.20	-963.09	-1,733.94	2.33	16.30	1,841.52
7	28,371.02	16	13	3	81.25	2,381.16	7,749.50	-861.37	-1,872.78	2.76	11.98	1,773.19
6	24,074.76	16	11	5	68.75	2,465.82	5,305.30	-609.84	-1,280.71	4.04	8.90	1,504.67
5	22,106.26	16	11	5	68.75	2,332.51	5,361.40	-710.27	-1,159.86	3.28	7.22	1,381.64
4	12,315.90	16	12	4	75.00	1,490.36	4,981.90	-1,392.11	-2,303.32	1.07	3.21	769.74
3	6,505.91	17	10	7	58.82	1,208.89	3,799.40	-797.58	-1,683.22	1.52	2.17	382.70
2	4,865.54	17	8	9	47.06	1,298.17	3,839.00	-613.31	-1,767.90	2.12	1.88	286.21
1	5,402.38	17	9	8	52.94	933.49	2,952.40	-374.88	-1,582.62	2.49	2.80	317.79

All 17 instances closed above the entry price at some point in the next 4 days.

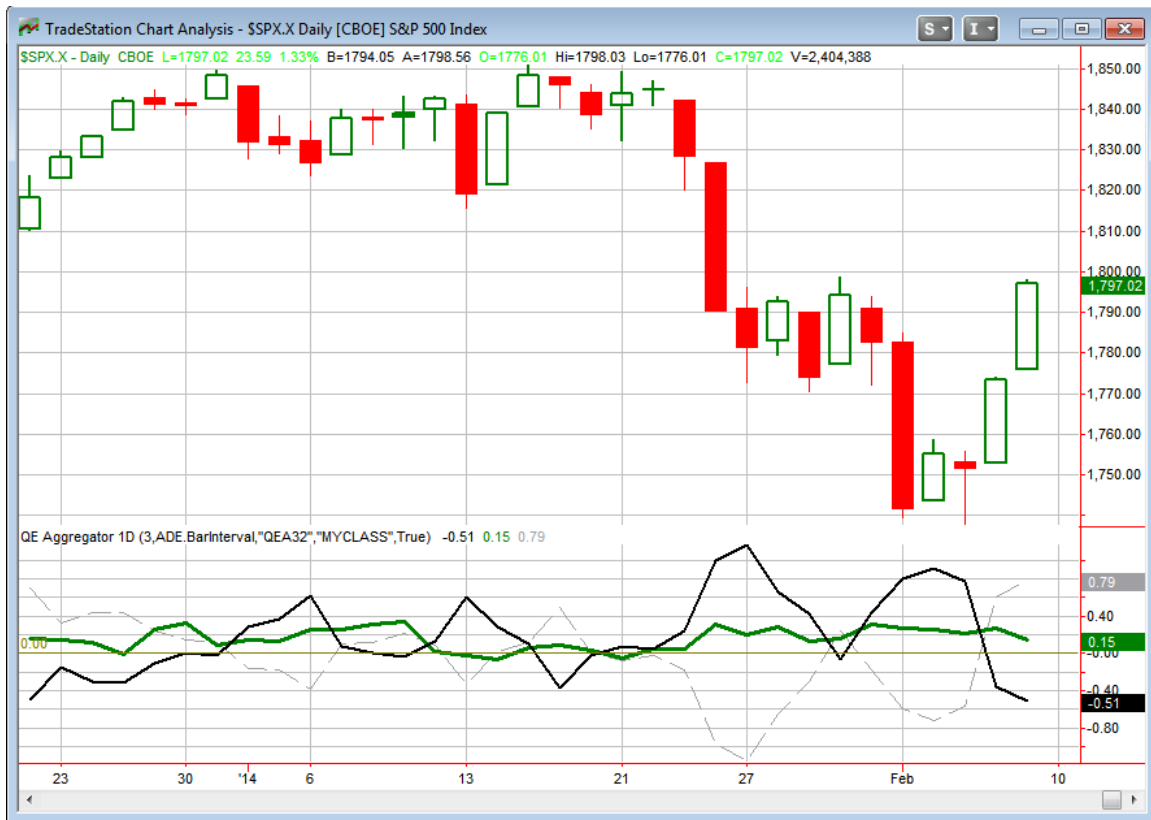
The market condition that would typically accompany such VIX movement is one where you see a strong rebound from a sharp decline during a long-term uptrend, which is what we are currently looking at. Results over the first 2-3 days are somewhat sketchy, but once you get out beyond that they become more consistent and more powerful. Below I have listed all 16 instances with an eight day holding period.

VIX closes more than 10% below its 10ma after closing more than 10% above it on one of the previous 4 days. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1992 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
06/23/92	Buy	\$404.04	2.43%	\$2,880.02
07/06/92	Sell	\$413.84		(\$521.17)
07/26/96	Buy	\$635.89	4.44%	\$4,509.04
08/07/96	Sell	\$664.15		(\$1,047.19)
05/01/98	Buy	\$1,121.02	(0.19%)	\$845.50
05/13/98	Sell	\$1,118.86		(\$2,357.61)
01/07/00	Buy	\$1,441.47	0.28%	\$2,175.57
01/20/00	Sell	\$1,445.57		(\$992.91)
03/26/04	Buy	\$1,108.02	2.93%	\$3,829.50
04/07/04	Sell	\$1,140.48		\$0.00
05/26/06	Buy	\$1,280.16	(1.74%)	\$820.56
06/08/06	Sell	\$1,257.93		(\$3,508.44)
09/13/06	Buy	\$1,318.07	0.63%	\$846.00
09/25/06	Sell	\$1,326.37		(\$534.75)
03/09/07	Buy	\$1,402.85	2.29%	\$2,479.32
03/21/07	Sell	\$1,435.04		(\$2,759.77)
08/22/07	Buy	\$1,464.07	1.73%	\$2,198.44
09/04/07	Sell	\$1,489.42		(\$2,180.08)
07/14/09	Buy	\$905.84	8.11%	\$8,134.50
07/24/09	Sell	\$979.26		\$0.00
11/09/09	Buy	\$1,093.08	0.17%	\$1,875.51
11/19/09	Sell	\$1,094.90		(\$744.38)
12/03/10	Buy	\$1,224.71	0.86%	\$1,783.62
12/15/10	Sell	\$1,235.23		(\$422.01)
03/22/11	Buy	\$1,293.77	2.99%	\$3,394.16
04/01/11	Sell	\$1,332.41		(\$748.44)
03/12/12	Buy	\$1,371.09	1.58%	\$3,089.52
03/22/12	Sell	\$1,392.78		\$0.00
01/02/13	Buy	\$1,462.42	0.56%	\$702.44
01/14/13	Sell	\$1,470.68		(\$733.04)
10/11/13	Buy	\$1,703.20	2.54%	\$3,255.54
10/23/13	Sell	\$1,746.38		(\$642.06)

I don't see anything alarming here. These results appear to confirm the upside edge, and I have included it on the Active List tonight.

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 the last 2 days has left the black Differential Line strongly below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is strongly 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 remain flat.

Based on the current open studies, expectations are slated to remain positive on Monday. The Differential Pivot will be 1764.06 on Monday. That is 1.8% below Friday's close. It's quite unlikely that we see a 1-day decline that strong. A more likely scenario to work off the overbought condition would be a multi-day rally or consolidation.

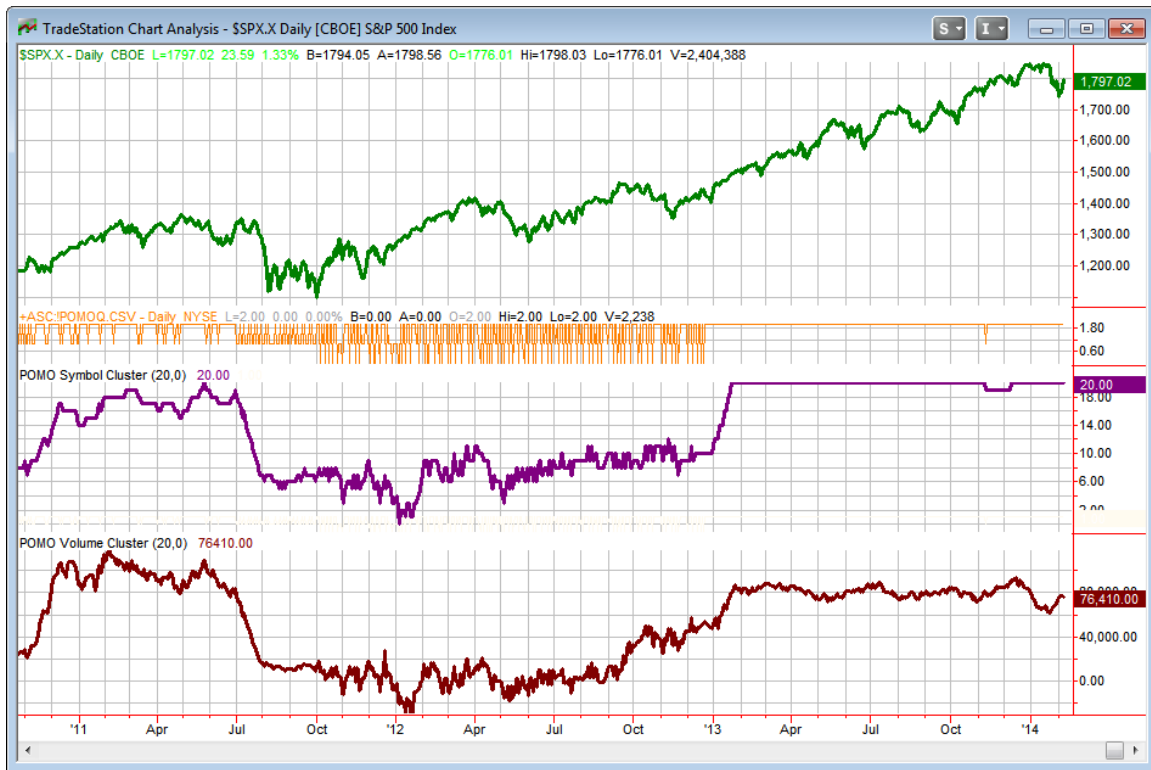
The Aggregator is back to neutral, and after a strong bounce over the last 2 days, so am I. I have exited nearly all of my short-term positions with profits, and the few positions I still have open I will be exiting at the open on Monday. It will be interesting to see how things play out over the next few days and weeks. With all the volatility the market is experiencing, I'm sure there will be more opportunities to profit. I'll wait until the next favorable risk/reward setup emerges before putting my capital back to work.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/10 – neutral

The furious rally the last 2 days kept the SPX from posting a 4th consecutive weekly decline. The trend is not clear at the moment. SPX was at 50-day lows just a few short days ago, but it remained well above its 200ma throughout the recent decline. From a studies standpoint, nothing significant emerged for the intermediate-term. So this is going to be a rather short update.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS days indicator is still riding along at 20, where it spent most of 2013. The volume indicator rose a little this past week, but that is as high as it is likely to get for the foreseeable future. We estimate net inflows this past week to have been about \$17 billion. This should be the 2nd highest number for February. So we may see that continue to provide a boost to the market early this week.

But the upcoming week there is only about \$12.6 billion of inflows expected. This is very low compared to recent history. There is typically a few day lag in the impact of the flows. But if the bears want to attempt a new leg down, then later this week, or sometime the following week would seem to be an opportune time from a liquidity standpoint.

On the whole, the outlook remains muddled. While the Hindenburg study expired and fell off the Active List, there just is not a whole lot for the bulls to be excited about from an intermediate-term standpoint. The VIX study from the short-term outlook above could positively influence the market out to 8 days. The leading Nasdaq remains a positive, as does the Golden Cross formation. But liquidity is no longer clearly bullish, and the NYSE New High % reading from the Study of Tops has been negatively diverging for some time. So I am keeping my eyes and options open. I am willing to trade both sides of the market, though neither with great aggressiveness since I no longer have strong intermediate-term conviction.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

CVX– 1/3 @ \$109.52 (buy @ limit)- no fill – cancel for now

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(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
<i>SPY(1/4)</i>	<i>1/27/2014</i>	<i>\$178.89</i>	<i>\$179.68</i>	<i>0.44%</i>		<i>sold on close</i>
<i>SPY(1/4)</i>	<i>1/27/2014</i>	<i>\$178.01</i>	<i>\$178.31</i>	<i>0.17%</i>		<i>sold on open</i>
<i>COP(1/3)</i>	<i>2/4/2014</i>	<i>\$63.86</i>	<i>\$64.97</i>	<i>1.74%</i>		<i>sold on close</i>
COP(1/3)	2/5/2014	\$63.52	\$64.97	2.28%		sell on open
COP(1/3)	2/6/2014	\$63.46	\$64.97	2.38%		sell on open

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