

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 11, 2014

Volume 7 Issue 28

Market Overview



Signals Overview

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

Tonight's Research Points

- When SPY has closed up just slightly but in the top of the day's range that has suggested a downside tendency the next day.

Short-term Outlook

The Bottom Line

Monday's action did little to change the outlook. While we are seeing some bearish evidence tonight, the weight of the short-term evidence remains bullish. And the market remains squarely overbought. This suggests poor risk/reward. I remain content to wait for a better 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 11, 2014	SPY up < 0.25% but top 10% daily range	1 day	Bearish	
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	

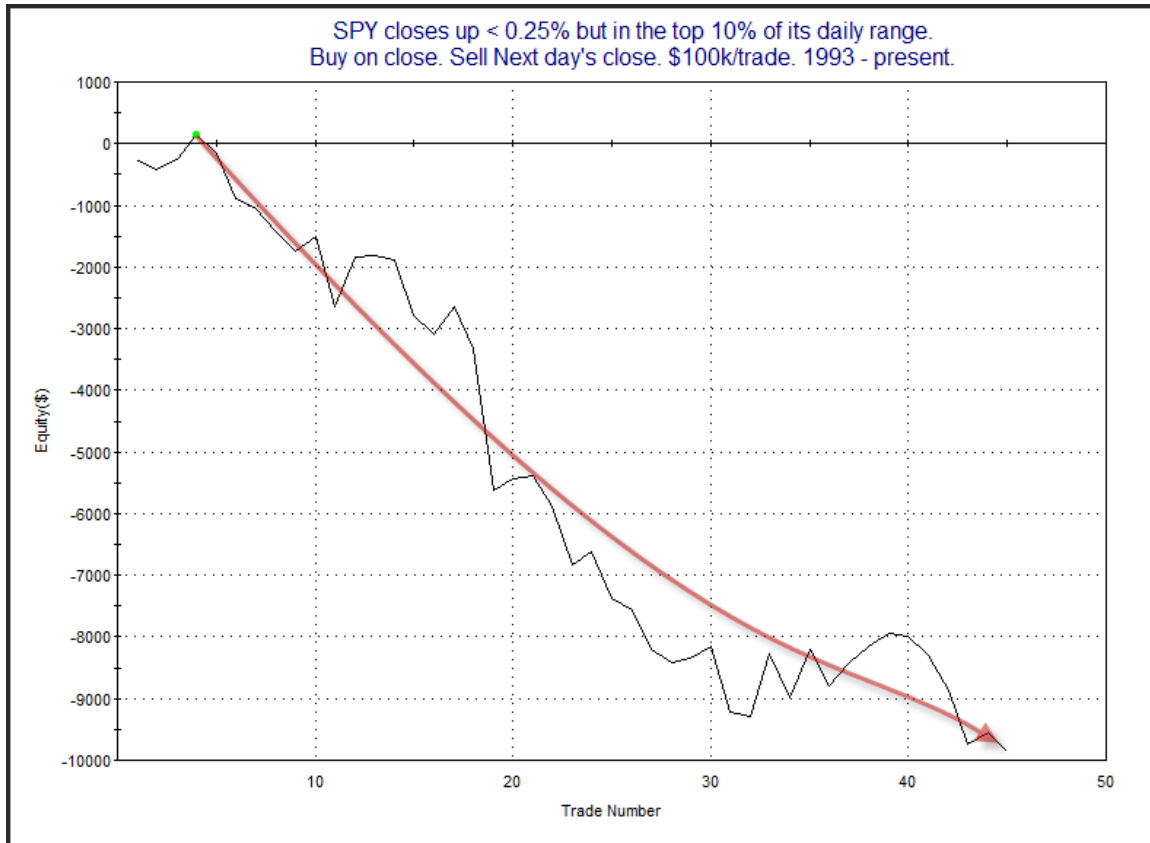
The Evidence

After the strong moves of the last few days, Monday seemed especially quiet. The SPX and Russell 2000 each gained 0.2% while the Nasdaq rose 0.5%. Breadth was mixed as the NYSE Up Issues % came in at 59% and the Up Volume % was 47%. Total NYSE volume declined some from Friday's level.

The small gain saw little of interest emerge from the Quantifinder, but there was one study that was worth some discussion. The study below was last seen in the 8/5/13 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

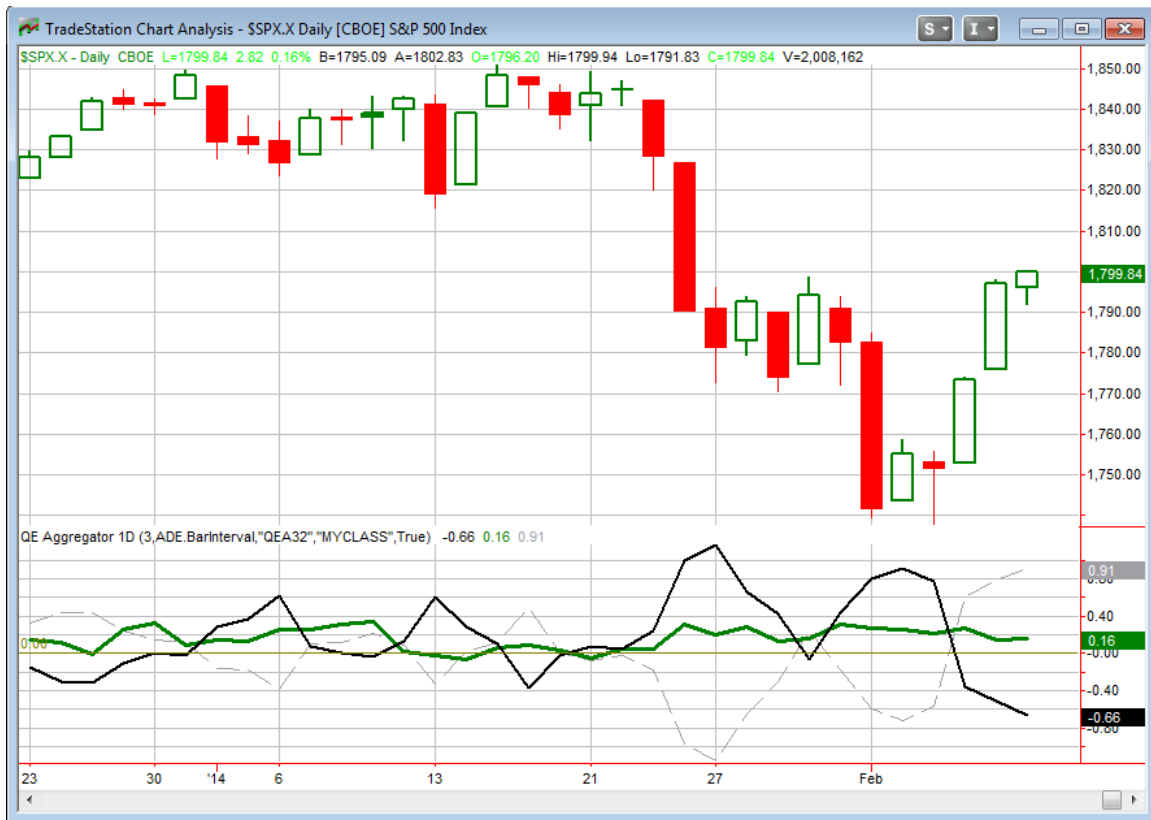
SPY closes up < 0.25% but in the top 10% of its daily range. Buy on close. Sell Next day's close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$9,863.69)	Profit Factor	0.36
Gross Profit	\$5,643.09	Gross Loss	(\$15,506.78)
Total Number of Trades	45	Percent Profitable	37.78%
Winning Trades	17	Losing Trades	28
Even Trades	0		
Avg. Trade Net Profit	(\$219.19)	Ratio Avg. Win:Avg. Loss	0.60
Avg. Winning Trade	\$331.95	Avg. Losing Trade	(\$553.81)
Largest Winning Trade	\$1,015.84	Largest Losing Trade	(\$2,290.72)

As you can see, there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



For a while it appeared this bearish edge might be waning, but recent instances suggest the downside edge remains. It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. I have included this study on the Active List for tonight.

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



Tonight's 1-day bearish study did not do much to negatively impact the green Aggregator Line, which remains squarely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Of course the strong rally over the last 3 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 Tuesday. The Differential Pivot will be 1786.39 on Tuesday. That is 0.75% below Monday's close. So it will take a fairly large decline in order for SPX to flip from overbought to oversold versus expectations..

There is really very little for me to say this evening. Nothing substantial has changed from yesterday. The studies still point up overall, but SPX is too overbought to consider adding long exposure here. So it is a waiting game. I'll take it day by day and when the next favorable opportunity arises I will be ready to try and take advantage of it.

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

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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>COP(1/3)</i>	<i>2/5/2014</i>	<i>\$63.52</i>	<i>\$64.96</i>	<i>2.27%</i>		<i>sold on open</i>
<i>COP(1/3)</i>	<i>2/6/2014</i>	<i>\$63.46</i>	<i>\$64.96</i>	<i>2.36%</i>		<i>sold on open</i>

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