

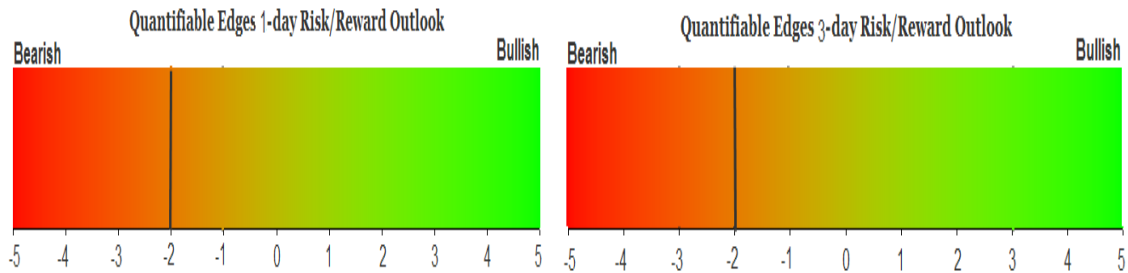
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 21, 2014

Volume 7 Issue 35

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Flat

Tonight's Research Points

- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.
- Intraday action on opex Friday has been weak over the years.

Short-term Outlook

The Bottom Line

The Aggregator has now flipped back to short. But the short inclinations are mild and with a new high within spitting distance, I am inclined to wait a day and see if indications strengthen.

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 21, 2014	SPX top 10% 10-day range opex Thurs	1-4 days	Bearish	
February 20, 2014	SPX 20-high then close bottom 10% rng	1-8 days	Bullish	2.00%
Active - Long Term				
February 20, 2014	SPY key reversal after 10-high	1-11 days	Bullish	2.30%
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

The market put in a nice move higher on Thursday. SPX gained 0.6%, the Nasdaq rallied 0.7%, and the Russell 2000 rose 1.1%. Breadth was positive as the NYSE Up Issues % came in at 65% and the Up Volume % was 75%. Total NYSE volume sank some on Thursday.

The study below is one I last showed in the 12/20/13 Letter. It looks at times the market closed at a high level just before options expiration. It generally has been a bad time for an overbought market.

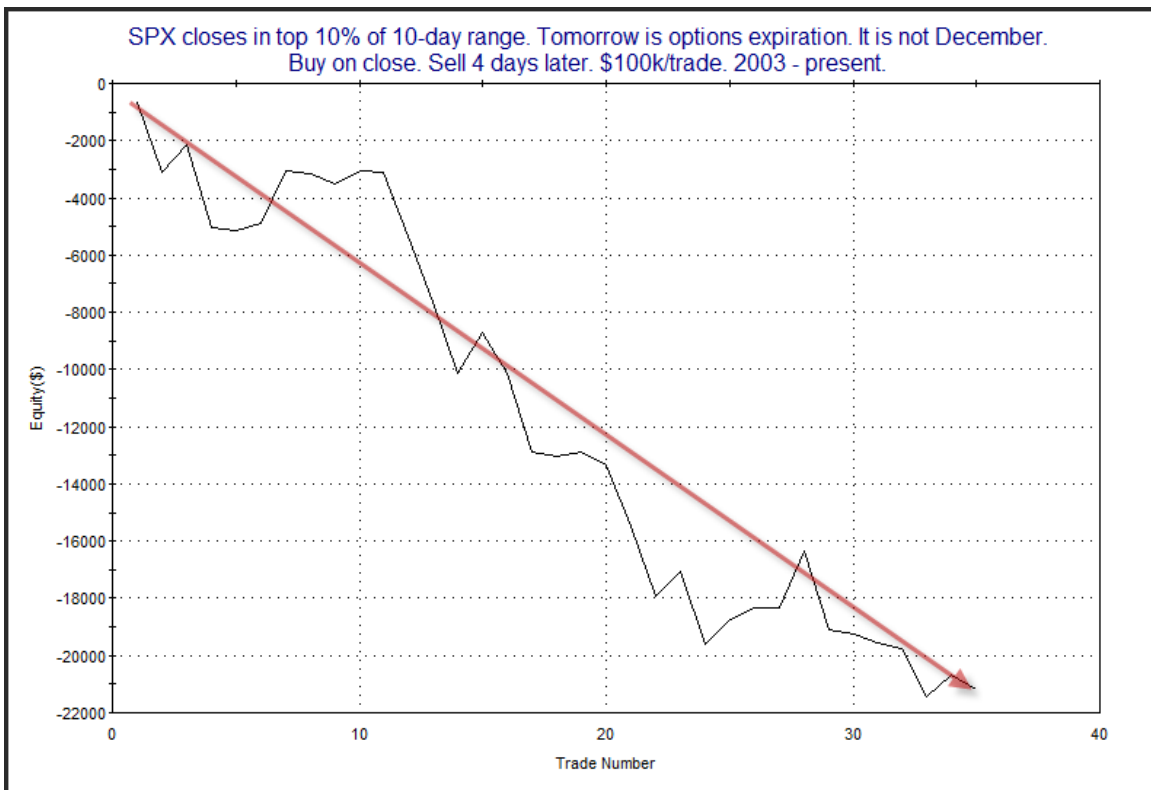
SPX closes in top 10% of 10-day range. Tomorrow is options expiration. Buy on close. Sell X days later. \$100k/trade. 2003 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-20,401.39	38	14	24	36.84	883.37	3,768.30	-1,365.36	-4,932.90	0.65	0.38	-536.88
4	-19,115.45	38	14	24	36.84	870.33	1,994.25	-1,304.17	-2,899.20	0.67	0.39	-503.04
3	-9,956.61	38	19	19	50.00	683.16	2,166.00	-1,207.19	-2,828.70	0.57	0.57	-262.02
2	-9,398.29	38	23	15	60.53	469.39	1,588.40	-1,346.29	-3,784.65	0.35	0.53	-247.32
1	-2,622.14	38	22	16	57.89	381.38	2,286.84	-688.28	-2,875.60	0.55	0.76	-69.00

The numbers here are fairly compelling. Overbought into seasonal weakness often leads to a pullback. But I noted in December that the 2nd part of December is seasonally strong, not weak. So I decided to exclude that 1 month and run the study for the remaining 11 months.

SPX closes in top 10% of 10-day range. Tomorrow is options expiration. It is not December.
Buy on close. Sell 4 days later. \$100k/trade. 2003 - present.

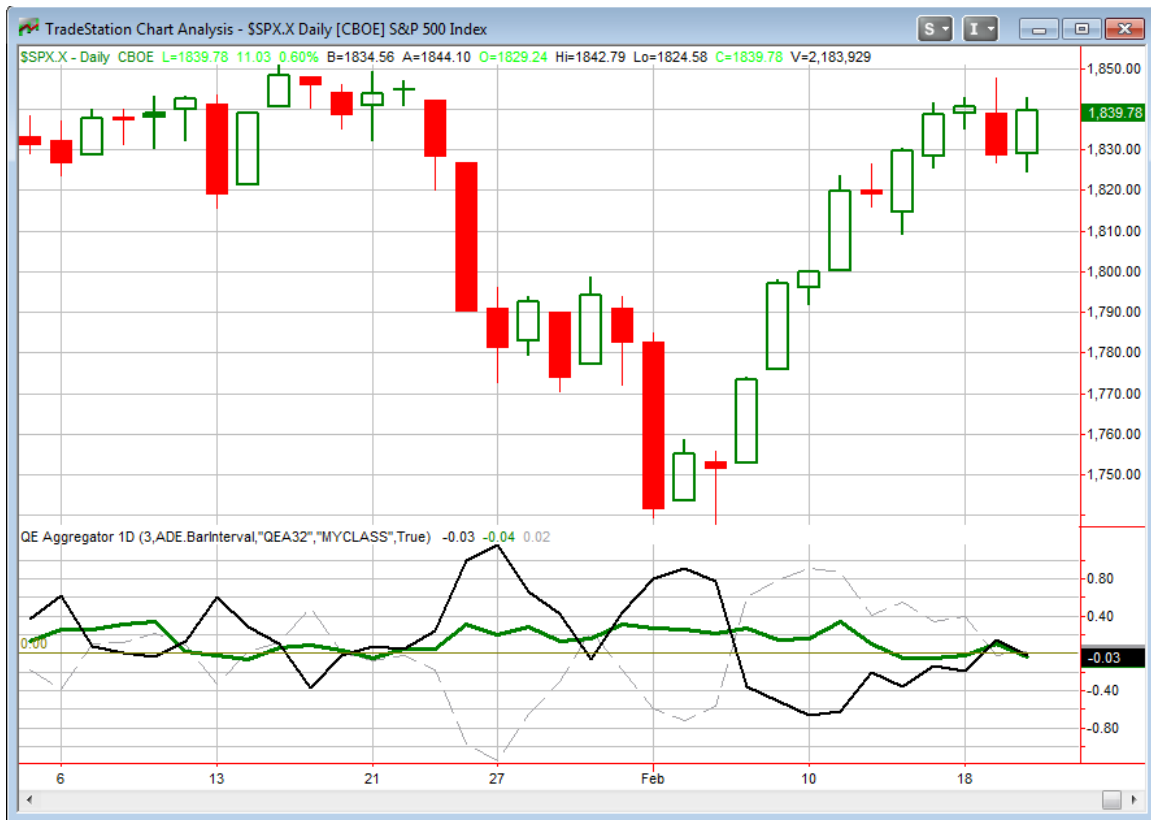
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-22,258.40	35	12	23	34.29	833.96	3,768.30	-1,402.87	-4,932.90	0.59	0.31	-635.95
4	-21,203.61	35	12	23	34.29	829.94	1,994.25	-1,354.91	-2,899.20	0.61	0.32	-605.82
3	-11,886.94	35	16	19	45.71	690.60	2,166.00	-1,207.19	-2,828.70	0.57	0.48	-339.63
2	-10,541.20	35	21	14	60.00	449.64	1,588.40	-1,427.40	-3,784.65	0.32	0.47	-301.18
1	-3,166.78	35	20	15	57.14	389.97	2,286.84	-731.07	-2,875.60	0.53	0.71	-90.48

Numbers here appear more bearish across the board. Below is a profit curve that assumes a 4-day holding period.



The curve would seem to confirm the downside edge. I have added this study to the Active List tonight.

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



Tonight's bearish study pushed the green Aggregator Line back below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also dropped slightly below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator signal to change from long to short.

Based on the current open studies, expectations are slated to remain bearish on Friday. Of course this could easily change if more bullish evidence emerges. The Differential Pivot will be 1838.23 on Friday. That is just 0.1% below Thursday's close. Therefore, it will only take a very small drop in order to turn SPX back to "oversold" versus recent expectations.

I was a little too cautious last night and missed Thursday's rally. While the Aggregator was suggesting an upside edge, I was not overly enthused about getting long with just a 1-day pullback. I may make the same mistake tonight. The Aggregator now is suggesting a short-side edge. It is obviously not much of one though since both lines are just barely below 0. And with the Differential Pivot so close by, there is no room to let a "winning" short run if it moves down tomorrow. Additionally, SPY is very close to posting a new all-time high. And a breakout to a new high could certainly attract more

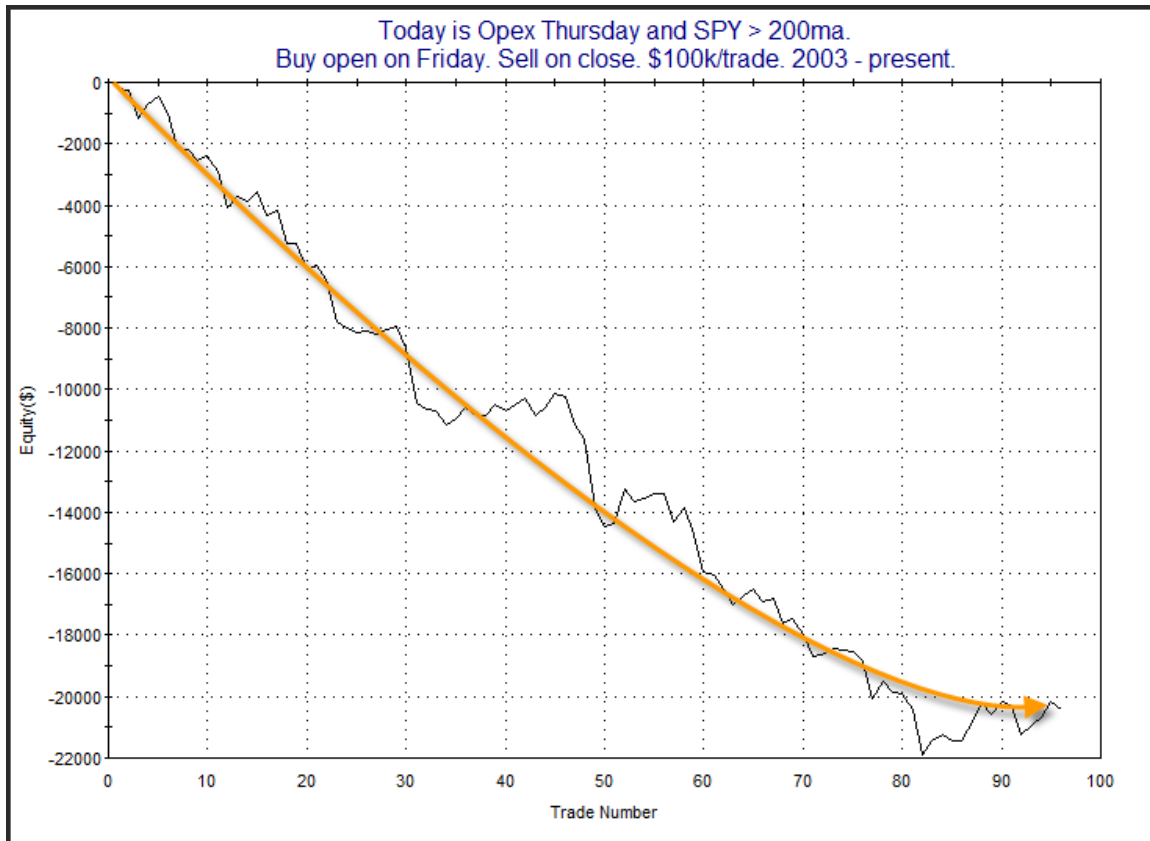
buying, resulting in some upside momentum. With this in mind, I am not yet ready to try another short.

If SPY wasn't so close to a new high, I likely would try a short. Opex Fridays have had a poor track record when the market has been in a long-term uptrend. This can be seen in the study below.

Today is Opex Thursday and SPY > 200ma.
Buy open on Friday. Sell on close. \$100k/trade. 2003 - present.

TradeStation Performance Summary Collapse 			
All Trades			
Total Net Profit	(\$20,438.88)	Profit Factor	0.35
Gross Profit	\$11,221.51	Gross Loss	(\$31,660.39)
Total Number of Trades	96	Percent Profitable	40.63%
Winning Trades	39	Losing Trades	57
Even Trades	0		
Avg. Trade Net Profit	(\$212.91)	Ratio Avg. Win:Avg. Loss	0.52
Avg. Winning Trade	\$287.73	Avg. Losing Trade	(\$555.45)
Largest Winning Trade	\$1,138.50	Largest Losing Trade	(\$2,236.00)

The numbers here all suggest opex Fridays have commonly seen intraday selling. Below is a profit curve.



This is a pretty good curve, though it has flattened out some of late.

Bottom line is that if I were daytrading on Friday, between the Aggregator and the Opex Friday study just above, I'd be looking for opportunities to short. But I do not intend to daytrade, and I am not inclined to take on a position right here, so close to a new high. So I intend give it another day and await an even more favorable reward/risk setup. Of course more aggressive traders, or those that do daytrade, could look to take advantage of this apparent downside edge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/18 – 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

None

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