

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 25, 2014

Volume 7 Issue 37

Market Overview



Signals Overview

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

Tonight's Research Points

- The breakout to a new 50-day high was accompanied by an unfilled gap up in the SPY, which has been a short-term positive.

Short-term Outlook

The Bottom Line

Evidence looks favorable for the bulls, but the market is extended. This leaves the Aggregator in a neutral position and me in “wait and remain ready” mode.

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 25, 2014	SPY breakaway gap	1-5 days	Bullish	1.70%
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	SPX key reversal after 10-high	1-11 days	Bullish	2.30%
December 23, 2013	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				
February 24, 2014	SPX down. Up Issues % > 55%	1-3 days	Bullish	1.10%

The Evidence

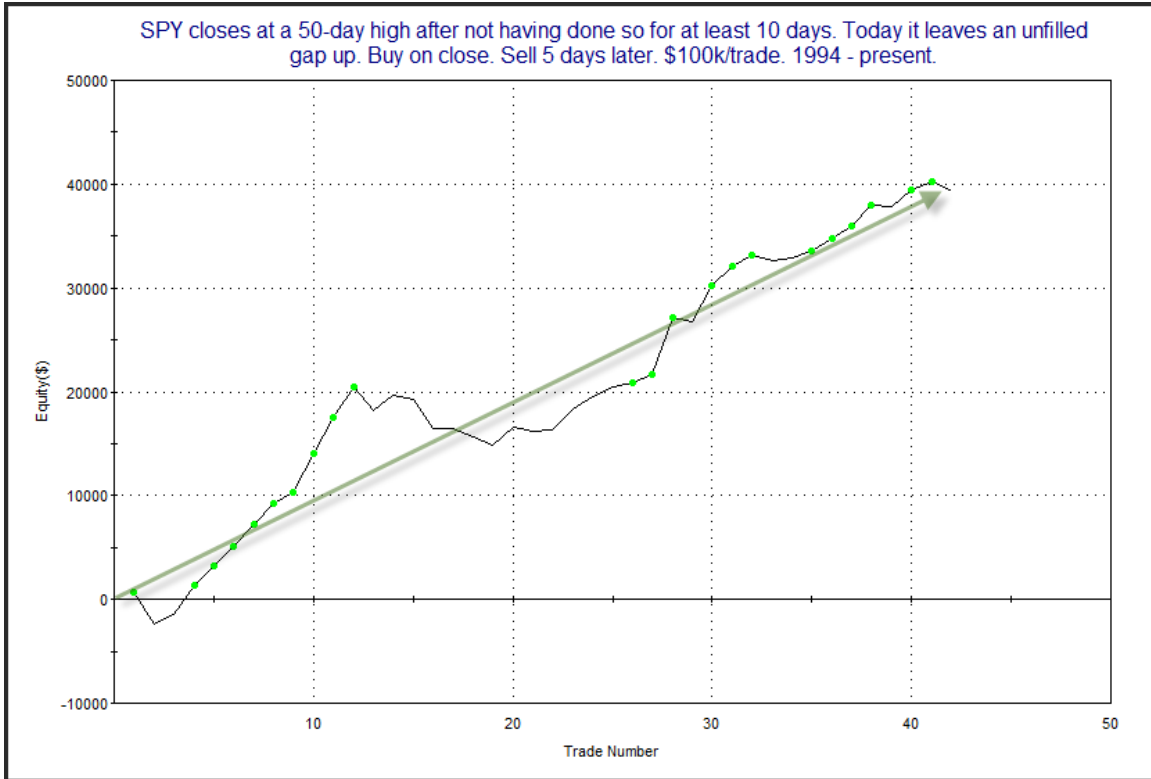
The market put in a solid move higher on Monday, and several indices made new rally highs. SPX gained 0.6%, the Nasdaq rose 0.7%, and the Russell 2000 rallied 0.9%. Breadth was also mixed as the NYSE Up Issues % came in at 62% and the Up Volume % was 71%. Total NYSE volume declined slightly from Friday's level.

SPX broke out and made new highs for the 1st time since January. And a strong open meant that SPY left an unfilled gap up. In the 9/18/13 subscriber letter I looked at the importance of an unfilled upside gap on breakouts. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	39,365.01	42	30	12	71.43	1,719.07	5,434.00	-1,017.25	-3,093.12	1.69	4.22	937.26
4	25,211.28	42	30	12	71.43	1,288.62	3,637.92	-1,120.61	-3,267.84	1.15	2.87	600.27
3	20,289.95	42	29	13	69.05	1,136.86	3,992.56	-975.31	-2,538.18	1.17	2.60	483.09
2	14,998.61	42	29	13	69.05	836.93	2,545.92	-713.25	-2,293.20	1.17	2.62	357.11
1	5,382.08	42	30	12	71.43	524.27	1,816.10	-862.18	-2,591.68	0.61	1.52	128.14

38 of 42 instances (90.5%) closed above the entry price at some point in the next week.

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The nice upslope on the equity curve confirms the bullish inclinations.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

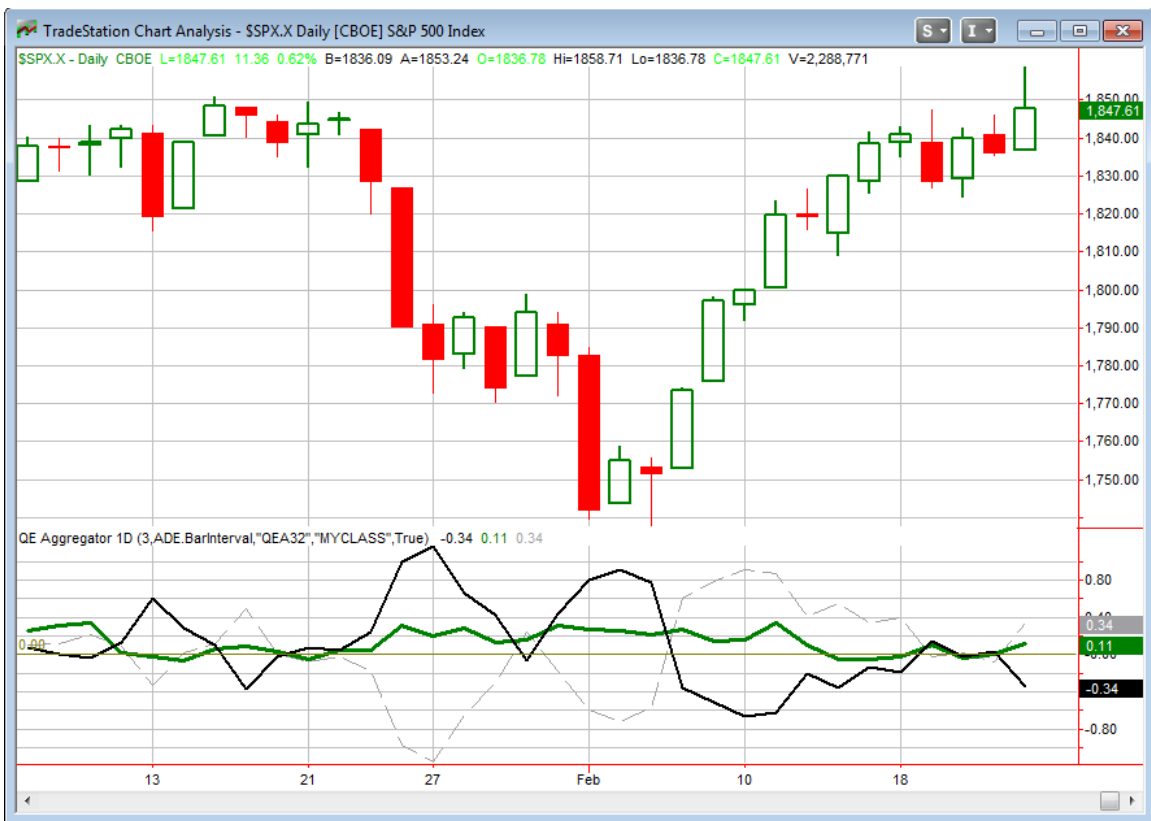
Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was nearly the same. This study also appeared in the 9/18/13 letter and has been updated below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	2,008.40	38	23	15	60.53	1,039.15	2,671.20	-1,459.48	-4,285.26	0.71	1.09	52.85
4	-1,625.05	38	20	18	52.63	1,066.83	2,072.07	-1,275.64	-4,518.34	0.84	0.93	-42.76
3	3,919.69	38	21	17	55.26	1,100.02	2,927.90	-1,128.28	-5,133.72	0.97	1.20	103.15
2	-989.06	38	19	19	50.00	699.52	2,324.90	-751.57	-3,640.86	0.93	0.93	-26.03
1	1,438.30	38	21	16	55.26	485.00	1,586.97	-546.66	-2,448.72	0.89	1.16	37.85

As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.

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



The bullish study tonight helped the green Aggregator Line cross back above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dropped back down below 0. The negative Differential Line reading means the SPX is now overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral

configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal remained neutral.

Based on the current open studies, expectations are slated to remain positive on Tuesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1840.33 on Tuesday. That is 0.4% below Monday's close. So for SPX to move back to oversold versus recent expectations it is going to need to close down at least this much on Tuesday.

The breakout looks fairly appealing, but with the market overbought risk/reward is not great. In these type of situations, rather than chase, I prefer to wait for the market to provide a more favorable entry opportunity. So I won't be adding any new trade ideas tonight.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/24 – 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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