

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 26, 2014

Volume 7 Issue 38

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Tuesday's inside day following the unfilled gap to a 50-day high on Monday suggests Wednesday is likely to close higher.

## *Short-term Outlook*

### *The Bottom Line*

Tuesday was pretty much a nothing day – both in terms of action and what it meant for the overall picture. Short-term evidence is still pointing up, and the market is still overbought. This keeps 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
<b>Active - Short Term</b>				
February 26, 2014	SPY breakaway gap then inside day	1 day	Bullish	
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%
<b>Active - Long Term</b>				
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	

**The Evidence**

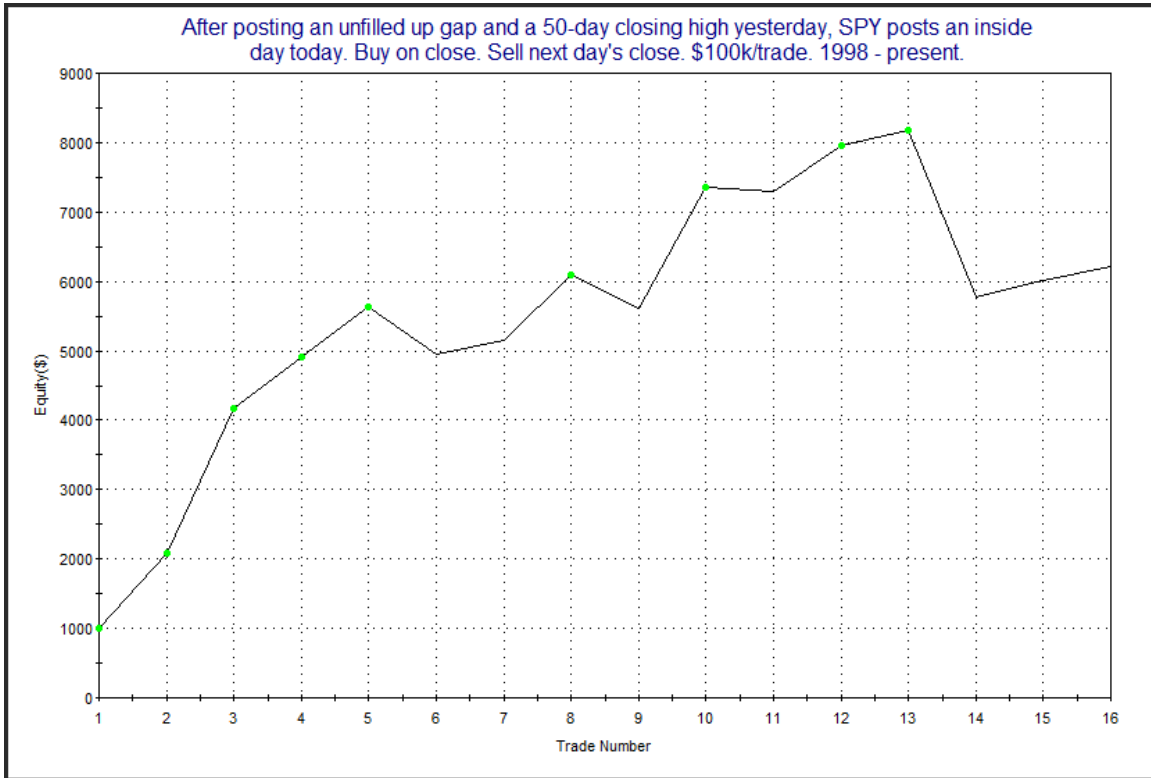
The market did very little on Tuesday. SPX, Nasdaq, and the Russell 2000 all declined by 0.13% or less. Breadth was also mildly negative as the NYSE Up Issues % came in at 46% and the Up Volume % was 42%. Total NYSE volume declined again and was very light.

With little movement there wasn't much of significance that triggered in the Quantifinder. During downtrends narrow range days and inside days like we saw on Tuesday will often be followed by a drop, especially if they occur after a few up days. ("Inside day" means the market posted a lower high and a higher low than the day before.) With the market in an intermediate-term rally and coming off of a 50-day high, implications are not bearish. A more common result is that the inside day acts as a consolidation before a continuation of the move higher. The study below looks at times like the past 2 days when you had a unfilled gap up to a 50-day high followed by an inside day. It was last seen in the 10/31/11 subscriber letter.

After posting an unfilled up gap and a 50-day closing high yesterday, SPY posts an inside day today. Buy on close. Sell next day's close. \$100k/trade. 1998 - present.

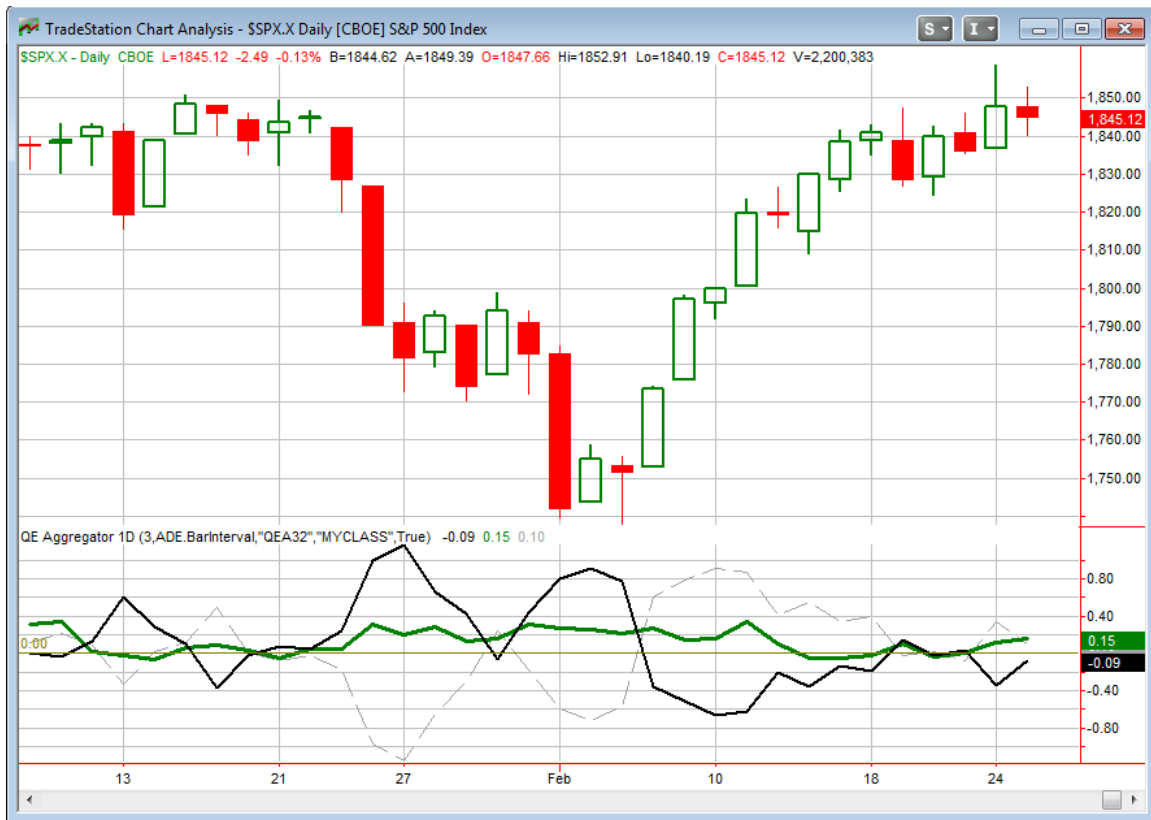
TradeStation Performance Summary				Collapse ▲
<b>All Trades</b>				
Total Net Profit	\$6,216.12	Profit Factor		2.72
Gross Profit	\$9,832.24	Gross Loss		(\$3,616.12)
Total Number of Trades	16	Percent Profitable		75.00%
Winning Trades	12	Losing Trades		4
Even Trades	0			
Avg. Trade Net Profit	\$388.51	Ratio Avg. Win:Avg. Loss		0.91
Avg. Winning Trade	\$819.35	Avg. Losing Trade		(\$904.03)
Largest Winning Trade	\$2,094.84	Largest Losing Trade		(\$2,408.70)

Instances are a bit low but the stats appear to favor a move higher the next day. Below is a profit curve.



The big (2.4%) drop couple of instances ago threw a big dip in the curve. We'll see if it can recover. For now I'll still give this this study some consideration.

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



The green Aggregator Line tonight changed very little and remains above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still below 0. The negative Differential Line reading means the SPX is 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 flat.

Based on the current open studies, expectations are slated to remain positive on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1837.28 on Wednesday. That is 0.4% below Tuesday'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 Wednesday.

The quiet market day on Tuesday did little to generate strongly compelling studies, and it did almost nothing to change the overall outlook. The Aggregator is still neutral and I still feel the reward/risk scenario is less than desirable. So I'll continue to wait for either a pullback to provide a better long entry point, or for compelling bearish evidence to convince me to attempt a short.

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

The intermediate-term outlook was last updated in the 2/24 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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