

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 28, 2014

Volume 7 Issue 40

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Low volume on the SPX breakout to a new high is a potential positive.

## *Short-term Outlook*

### *The Bottom Line*

Still no resolution to the neutral Aggregator. Evidence still points up, but the SPX is overbought. I'm awaiting a pullback to get long or some bearish evidence if I am going to short.

**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 28, 2014	SPX low vol breajout	1-5 days	Bullish	
February 25, 2014	SPY breakaway gap	1-5 days	Bullish	1.70%
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 put in a strong showing on Thursday. The SPX rose 0.5%, the Nasdaq gained 0.6% and the Russell 2000 rallied 0.5%. Breadth was positive as the NYSE Up Issues % came in at 66% and the Up Volume % was 73%. Total NYSE volume declined from Wednesday's level.

While SPY broke out a couple of days ago, SPX had not made a new high on a closing basis – until Thursday. This triggered the study below, which looks at the light volume on the breakout. It was last seen in the 4/30/13 Letter. It shows that low volume has actually been a positive. (Contrary to popular belief.)

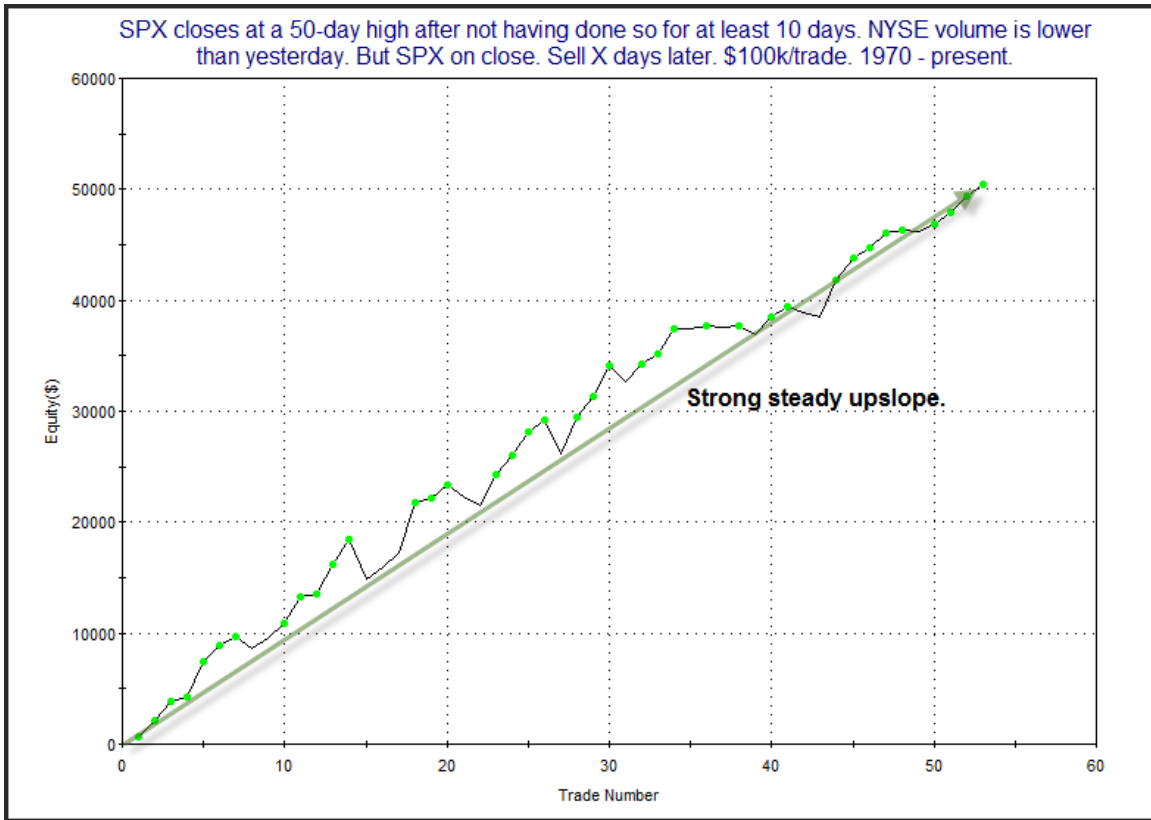
SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. But SPX on close. Sell X days later. \$100k/trade. 1970 - present.

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
20	32,329.93	50	30	20	60.00	2,726.46	11,088.84	-2,473.20	-8,157.10	1.10	1.65	646.60
19	35,339.95	51	31	20	60.78	2,610.38	9,628.99	-2,279.10	-9,056.82	1.15	1.78	692.94
18	35,177.68	51	32	19	62.75	2,568.98	11,076.80	-2,475.25	-9,094.80	1.04	1.75	689.76
17	37,577.71	51	32	19	62.75	2,676.65	10,017.28	-2,530.27	-8,682.96	1.06	1.78	736.82
16	39,229.59	51	33	18	64.71	2,557.82	10,944.36	-2,509.92	-9,243.81	1.02	1.87	769.21
15	32,566.80	51	34	17	66.67	2,356.37	8,166.13	-2,797.04	-9,354.92	0.84	1.68	638.56
14	39,067.96	52	37	15	71.15	2,135.04	7,314.30	-2,661.90	-6,525.68	0.80	1.98	751.31
13	37,379.03	53	35	18	66.04	2,102.67	7,780.85	-2,011.91	-5,160.09	1.05	2.03	705.26
12	25,087.95	53	30	23	56.60	2,194.15	5,996.75	-1,771.15	-4,539.14	1.24	1.62	473.36
11	20,946.03	53	29	24	54.72	2,141.92	5,809.60	-1,715.40	-6,029.07	1.25	1.51	395.21
10	24,037.68	53	28	25	52.83	2,147.15	5,960.00	-1,443.30	-4,324.52	1.49	1.67	453.54
9	33,623.29	53	36	17	67.92	1,706.45	5,147.20	-1,635.83	-5,812.26	1.04	2.21	634.40
8	40,088.78	53	38	15	71.70	1,596.48	5,096.00	-1,371.82	-4,186.55	1.16	2.95	756.39
7	37,880.77	53	37	16	69.81	1,455.70	4,655.00	-998.76	-3,211.35	1.46	3.37	714.73
6	48,609.99	53	39	14	73.58	1,532.55	5,002.50	-797.10	-3,563.65	1.92	5.36	917.17
5	50,469.37	53	41	12	77.36	1,549.06	4,482.50	-1,086.84	-3,693.73	1.43	4.87	952.25
4	36,199.21	53	39	14	73.58	1,278.32	4,440.00	-975.39	-2,913.85	1.31	3.65	683.00
3	33,511.99	53	36	17	67.92	1,251.27	3,950.00	-678.45	-1,802.37	1.84	3.91	632.30
2	19,294.56	53	36	17	67.92	859.27	2,212.98	-684.65	-1,912.60	1.26	2.66	364.05
1	8,216.81	53	34	18	64.15	493.66	1,384.02	-475.98	-1,921.32	1.04	1.96	155.03

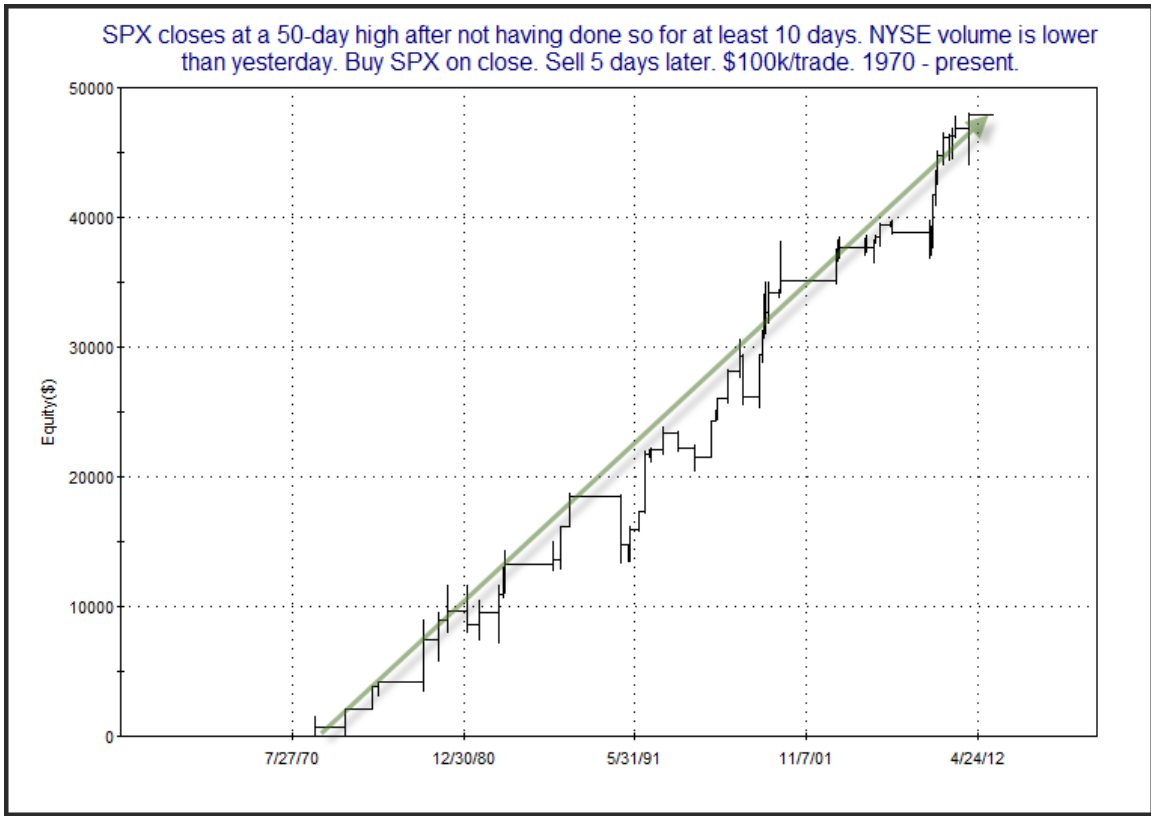
50 of 53 instances (94%) closed above the entry price at some point in the next week.

Here we see that there appears to be a strong upside inclination over the first week. Beyond that there isn't much of an edge.

To see how the 1-week edge has played out over time I have produced a profit curve below.



Profit curves don't often get steadier and smoother than this one. I also ran it using time instead of instances in the x-axis.



This provides further illustration of the persistent upside edge.

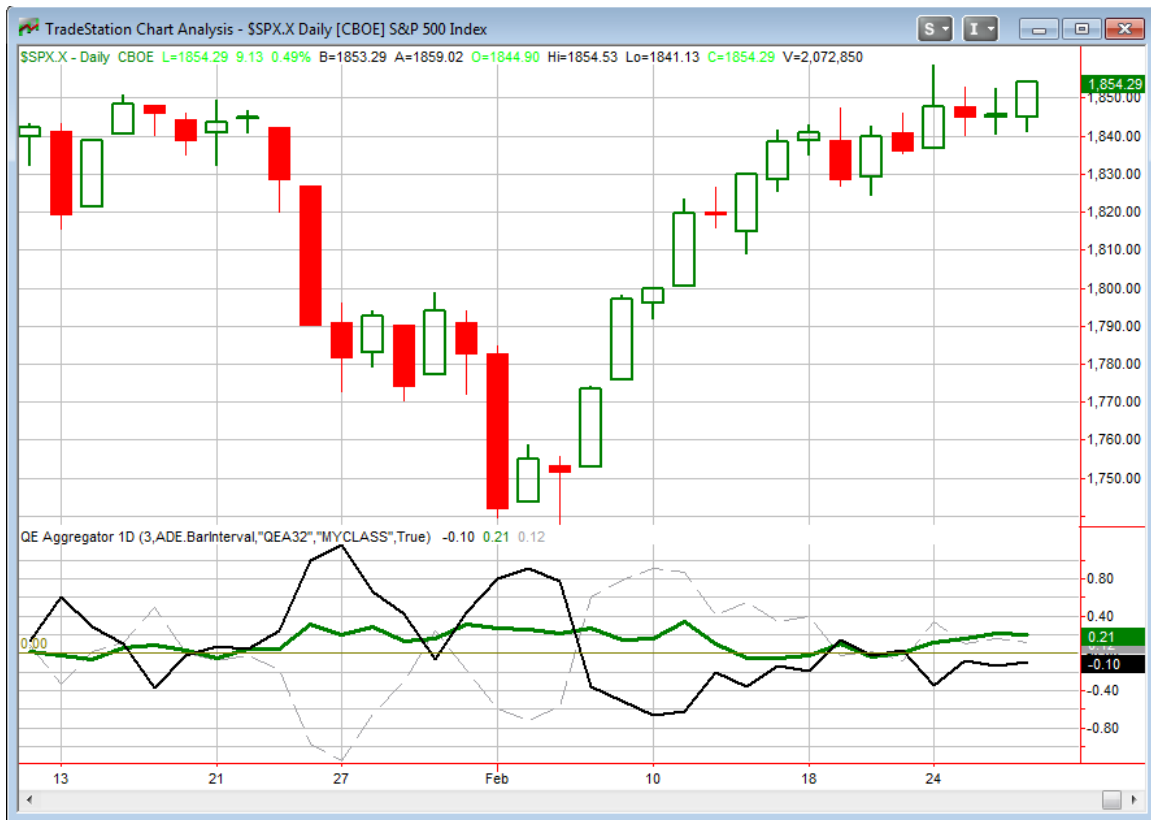
For comparison, as I also did in that 4/30/13 letter, I ran the breakout stats when the breakout came on increased volume rather than lower volume. Those are updated below.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday. But SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	18,229.50	124	61	63	49.19	3,579.72	13,393.77	-3,176.72	-11,548.62	1.13	1.09	147.01
19	31,985.56	126	68	58	53.97	3,269.41	9,135.36	-3,281.63	-11,862.36	1.00	1.17	253.85
18	44,866.64	126	68	58	53.97	3,275.13	9,613.50	-3,066.25	-10,293.66	1.07	1.25	356.08
17	36,276.39	126	70	56	55.56	3,045.00	9,953.84	-3,158.46	-9,419.67	0.96	1.21	287.91
16	36,743.36	128	71	57	55.47	2,951.02	8,910.72	-3,031.21	-8,244.85	0.97	1.21	287.06
15	36,336.70	129	69	60	53.49	2,926.45	8,150.48	-2,759.81	-8,621.45	1.06	1.22	281.68
14	23,558.86	129	72	57	55.81	2,659.75	8,128.38	-2,946.37	-8,338.45	0.90	1.14	182.63
13	28,735.42	129	70	59	54.26	2,639.75	7,911.80	-2,644.86	-8,251.55	1.00	1.18	222.76
12	19,659.14	129	71	58	55.04	2,387.81	10,197.98	-2,584.05	-8,757.15	0.92	1.13	152.40
11	22,381.75	132	71	61	53.79	2,444.45	10,372.44	-2,478.26	-9,482.88	0.99	1.15	169.56
10	17,290.45	132	67	65	50.76	2,344.38	10,507.25	-2,150.51	-8,683.66	1.09	1.12	130.99
9	19,112.40	132	65	66	49.24	2,259.43	8,413.73	-1,935.62	-6,878.68	1.17	1.15	144.79
8	15,602.18	132	71	61	53.79	1,906.30	8,524.75	-1,963.03	-7,085.22	0.97	1.13	118.20
7	33,578.51	132	70	62	53.03	1,895.59	6,337.26	-1,598.59	-7,255.84	1.19	1.34	254.38
6	34,394.87	132	77	55	58.33	1,597.22	6,819.80	-1,610.74	-7,103.18	0.99	1.39	260.57
5	25,226.88	132	67	65	50.76	1,649.05	8,516.82	-1,311.68	-6,088.44	1.26	1.30	191.11
4	8,663.95	132	72	60	54.55	1,262.03	6,716.71	-1,370.04	-5,585.56	0.92	1.11	65.64
3	18,413.29	132	76	56	57.58	1,132.34	6,740.50	-1,207.94	-5,361.06	0.94	1.27	139.49
2	24,805.56	132	80	51	60.61	896.79	4,028.44	-920.34	-4,276.16	0.97	1.53	187.92
1	22,212.50	132	81	51	61.36	571.14	2,755.52	-471.56	-2,722.61	1.21	1.92	168.28

As you can see, higher volume breaks to new highs do not carry the same bullish implications. These stats appear to be almost dead neutral. But of course volume was lower on Thursday. And that appears to be a positive.

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



The green Aggregator Line tonight moved sideways and remained 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 Friday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1849.97 on Friday. That is 0.2% below Thursday's close. So it won't take too much of a decline on Friday to move SPX from overbought to oversold.

I feel like a broken record. But evidence continues to point higher and the market is quite overbought. So I still don't like risk/reward. I don't know how long the market can continue with this crawl higher that has left the Aggregator neutral now for several days. But however long it lasts, I know I can stay patient until a substantial edge with favorable risk/reward emerges.

***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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