

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 4, 2014

Volume 7 Issue 42

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

## Tonight's Research Points

- Strong drops from 50-day highs have consistently been followed by bounces.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator formation is now bullish, but I'm not overly eager to buy in just yet. Another day or two of selling would almost certainly get me to start scaling in.

**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>				
March 4, 2014	Big drop from 50-high	1-4 days	Bullish	
February 28, 2014	SPX low vol breajout	1-5 days	Bullish	
<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	
<b>Dropped Tonight</b>				
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%

**The Evidence**

Monday got off to a tough start, and things never improved much. The major indices all finished lower. The SPX and Nasdaq fell 0.7% and the Russell 2000 lost 0.4%. Breadth was negative as the NYSE Up Issues % came in at 34% and the Up Volume % was 24%. Total NYSE volume actually declined a bit from Friday's level.

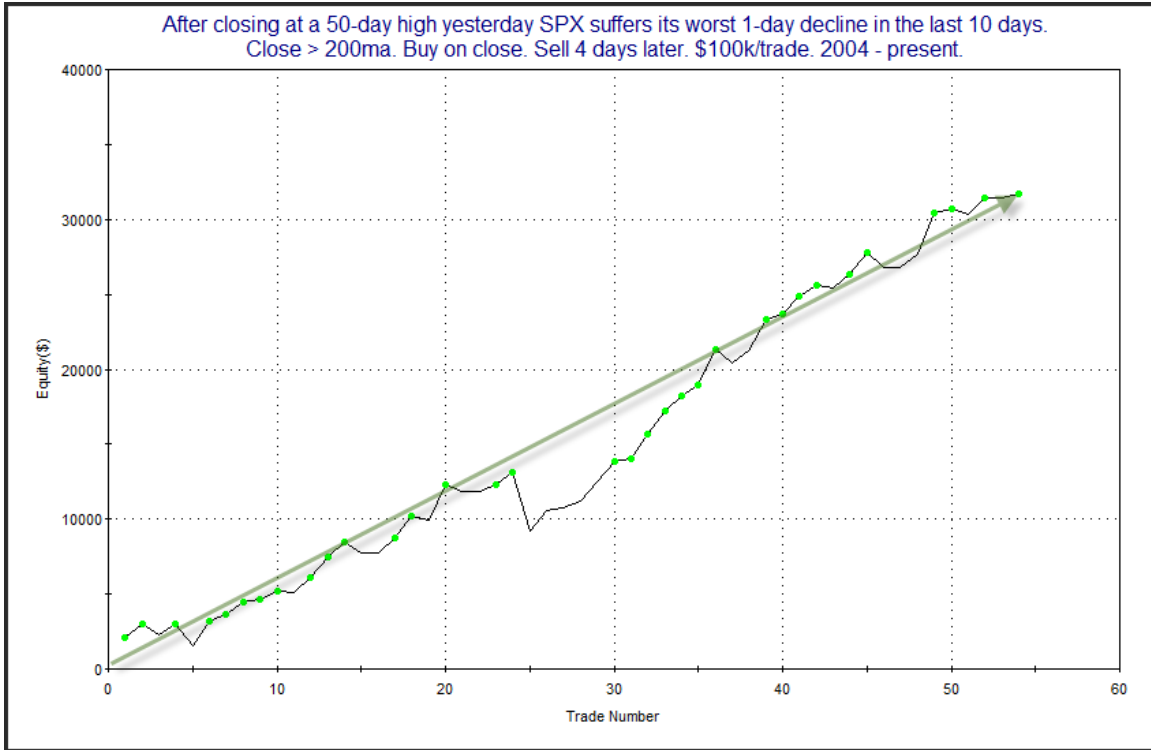
There was not a lot of terribly compelling evidence that emerged from the selloff, but the study below is worth some time. It was last seen in the 1/3/14 Letter. It looks at relatively large drops from intermediate-term highs. I have updated all the stats.

After closing at a 50-day high yesterday SPX suffers its worst 1-day decline in the last 10 days.  
Close > 200ma. Buy on close. Sell 4 days later. \$100k/trade. 2004 - 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	28,196.04	50	36	14	72.00	1,295.68	3,149.37	-1,317.74	-3,454.00	0.98	2.53	563.92
4	31,719.25	54	39	15	72.22	1,077.12	2,725.38	-685.88	-3,895.76	1.57	4.08	587.39
3	21,956.98	55	40	15	72.73	822.45	2,192.40	-729.41	-1,808.21	1.13	3.01	399.22
2	12,612.49	56	32	24	57.14	805.10	2,437.50	-547.95	-1,777.55	1.47	1.96	225.22
1	4,909.36	56	32	24	57.14	526.11	1,249.60	-496.92	-1,354.59	1.06	1.41	87.67

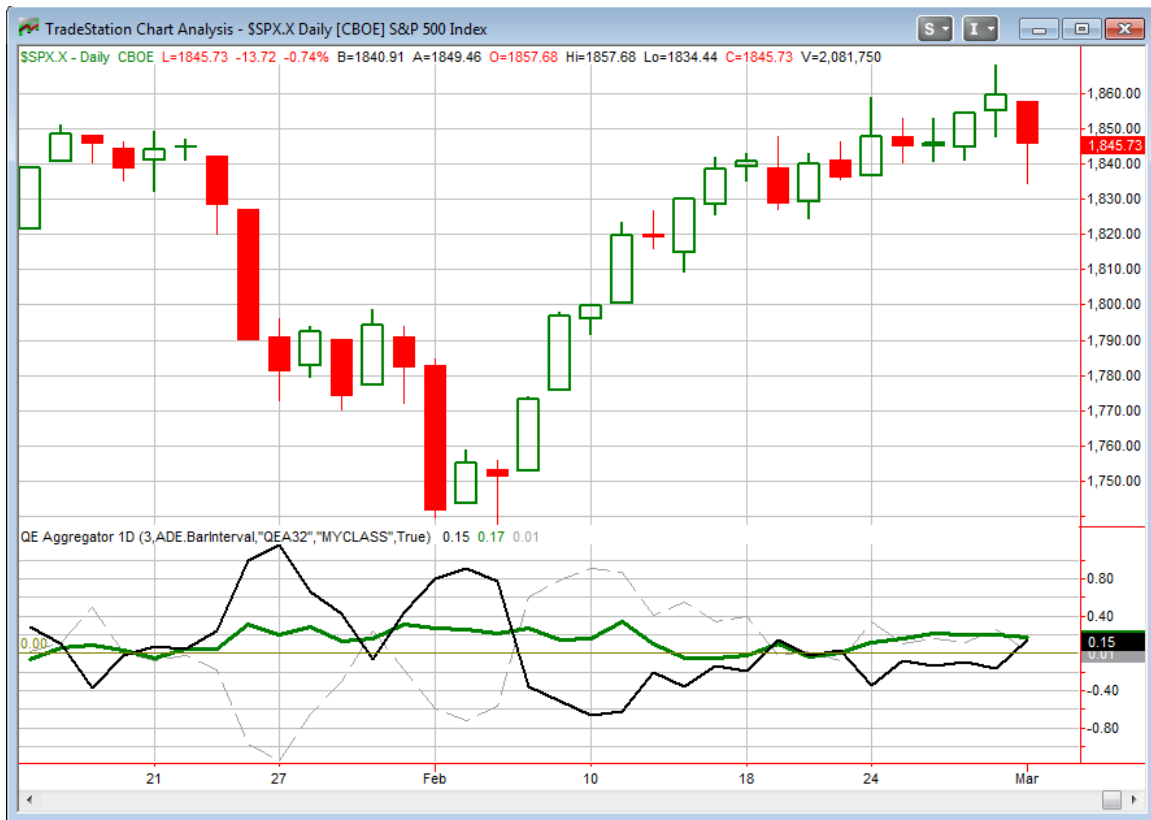
**52 of 56 instances (93%) closed above the entry price at some point in the next week.**

Over the last 9 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



The steady upslope seems to confirm the bullish inclination.

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



Tonight's bullish study kept the green Aggregator Line at nearly the same level above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the selling caused the black Differential Line to jump above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is now oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal turned long.

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 1864.69 on Tuesday. That is 1% above Monday's close. So it will take a strong move up for it to move out of "oversold" territory.

The Aggregator is suggesting an upside edge, and over the next few days I think there probably is one. But we are only 1 day down from a long-term high and a stretched position. So I am not going to jump in just yet. If we continue to pull back for another day or two then the bullish evidence should continue to mount. More aggressive traders could look to begin scaling in, or could look to take advantage of one of the setups from the Triggers Spreadsheet on the [Numbered Systems Page](#). If we close down again on Tuesday then there is a strong chance I'll be looking to get long on Wednesday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 3/3 – slightly bullish***

The intermediate-term outlook was last updated in the 3/3 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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