

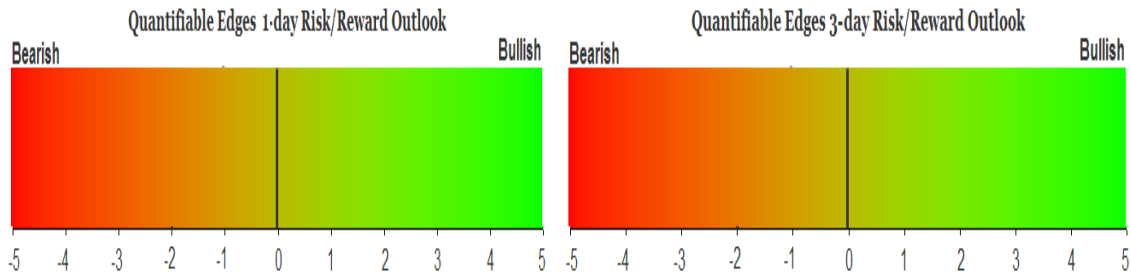
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 5, 2014

Volume 7 Issue 43

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The strong move to a new high also came on exceptionally strong breadth, but produced no substantial studies.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator formation is back to neutral and so am I.

**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 breakout	1-5 days	Bullish	1.70%
<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>				
<b>March 4, 2014</b>	<b>Big drop from 50-high</b>	<b>1-4 days</b>	<b>Bullish</b>	<b>1.20%</b>

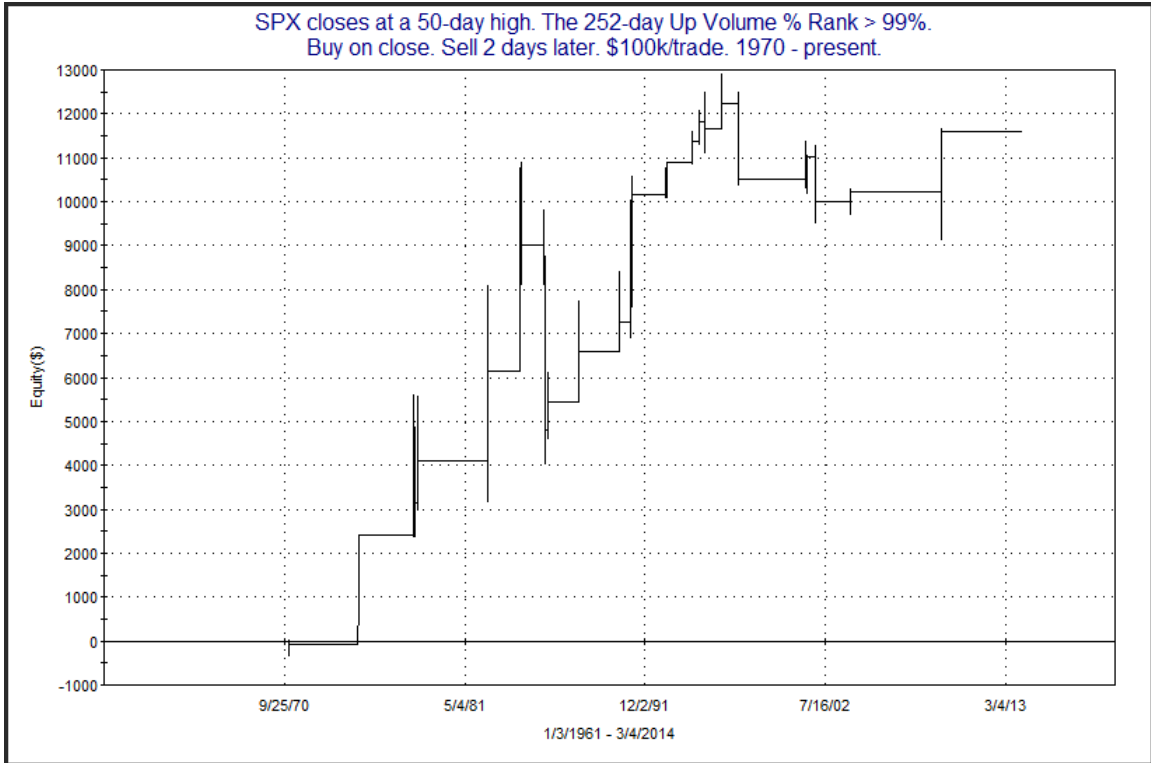
**The Evidence**

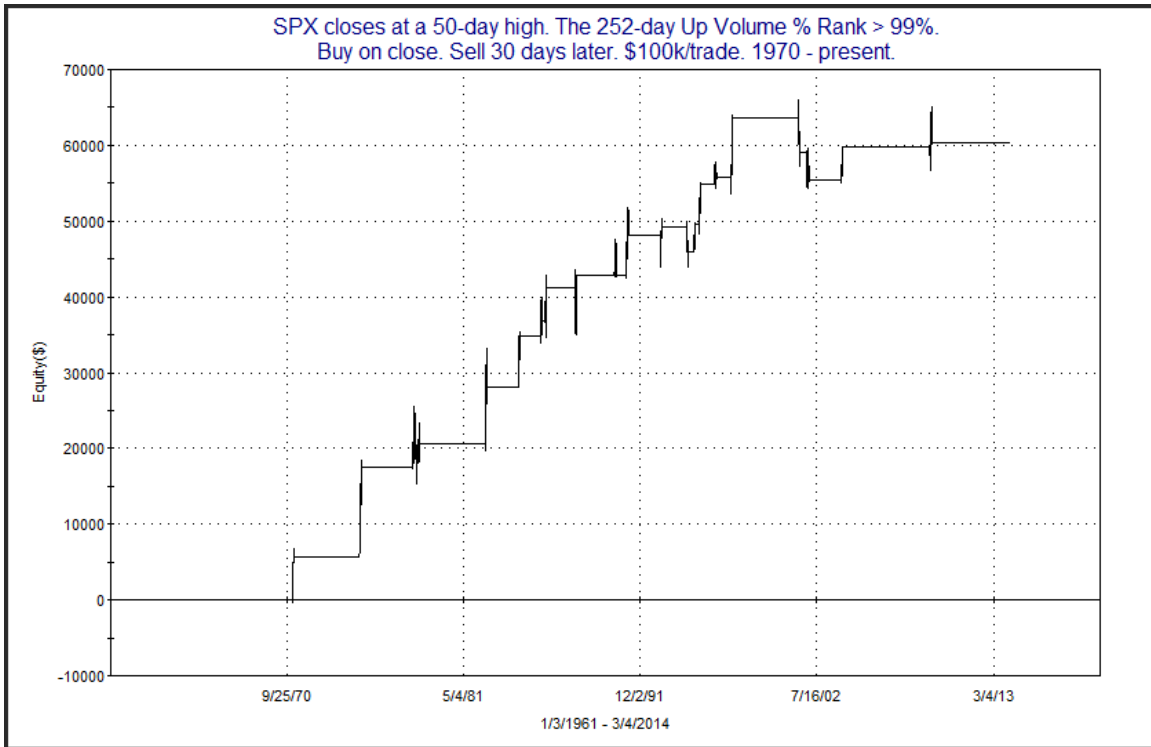
News out of the Ukraine changed and the market celebrated strongly, easily more than making up for Monday's selloff. The SPX gained 1.5%, the Nasdaq rose 1.75% and the Russell 2000 rallied 2.75%. Breadth was very strongly positive as the NYSE Up Issues % came in at 83% and the Up Volume % was 89%. Total NYSE volume rose some from Monday's level.

New highs, when they are not breakouts from extended bases, rarely show a strong edge. And this seems to be the case tonight. I looked at the setup a number of ways and found unimpressive results. There was one study that triggered in the Quantfinder that was worth a bit of a closer look. It was last seen in the 11/5/10 letter. The results are copied below (they haven't changed).

SPX closes at a 50-day high. The 252-day Up Volume % Rank > 99%. Buy 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: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
30	60,280.94	22	18	4	81.82	4,146.69	-3,589.88	1.16	5.20	2,740.04
25	53,062.23	22	17	5	77.27	4,005.49	-3,006.21	1.33	4.53	2,411.92
20	41,833.05	24	18	6	75.00	3,221.98	-2,693.77	1.20	3.59	1,743.04
15	39,663.98	24	16	8	66.67	3,291.03	-1,624.07	2.03	4.05	1,652.67
10	20,895.29	24	16	8	66.67	2,436.17	-2,260.44	1.08	2.16	870.64
9	17,714.61	24	14	10	58.33	2,705.71	-2,016.53	1.34	1.88	738.11
8	18,193.79	24	14	10	58.33	2,597.79	-1,817.53	1.43	2.00	758.07
7	22,333.02	24	14	10	58.33	2,832.47	-1,732.15	1.64	2.29	930.54
6	17,891.82	24	17	7	70.83	1,801.98	-1,820.26	0.99	2.40	745.49
5	17,045.22	26	17	9	65.38	1,738.19	-1,389.33	1.25	2.36	655.59
4	10,978.47	27	18	9	66.67	1,442.72	-1,665.61	0.87	1.73	406.61
3	11,506.16	27	19	8	70.37	1,132.13	-1,250.55	0.91	2.15	426.15
2	11,582.25	27	20	7	74.07	947.79	-1,053.37	0.90	2.57	428.97
1	9,318.25	28	19	9	67.86	752.74	-553.76	1.36	2.87	332.79
<b>25 of 28 instances (89%) posted at least 1 close above the entry price at some point in the next week.</b>										

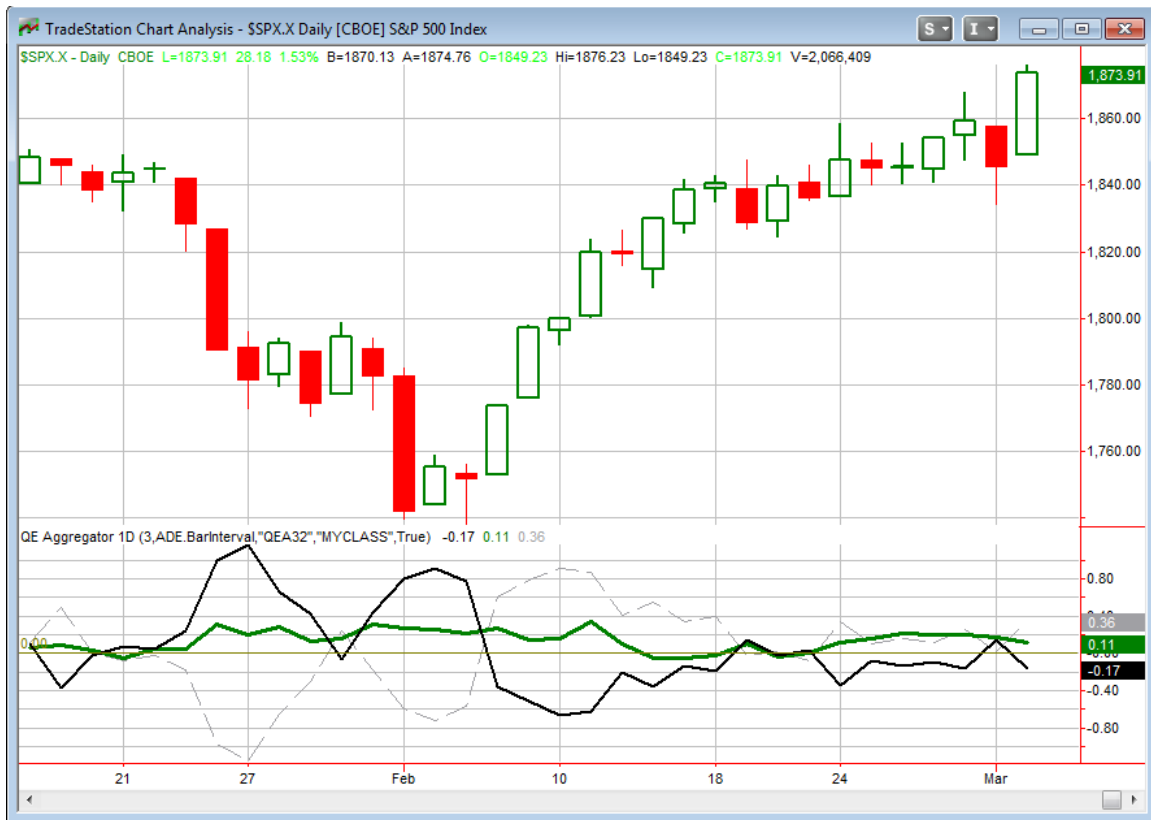
The raw stats all appear pretty bullish. Two days later over 74% of the instances had closed higher, and the bullish inclinations look as though they play out for the next several weeks as well. But the stats don't tell the whole story with this one. Below are a couple of profit curves. The first one looks at the 2-day holding period, and the second one looks at the 30-day.





While both of these profit curves looked very good for a long time, neither has made any progress since the late 90s. With this in mind, I am not inclined to use this study in formulating my market bias.

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



One bullish study met its target early on Tuesday and the green Aggregator Line dipped just slightly but still held above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the rally caused the black Differential Line to quickly drop back down below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is now 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 changed back from long to flat.

Without any new studies emerging, expectations are set to remain positive on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1870.61 on Wednesday. That is just 0.2% below Tuesday's close. So despite the new high, it won't take much of a pullback on Wednesday for SPX to be considered "oversold" versus recent expectations..

I was not aggressive or nimble enough to take advantage of Monday's 1-day pullback. Now with the market back in an "overbought" state I am back to waiting for the next opportunity. If you missed it like me then that can be disappointing. But catching every move is not the important thing as far as I'm concerned. I just aim to take advantage of the most favorable setups. So I won't be looking to add anything on Wednesday, but I'll continue to remain aware and ready.

***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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