

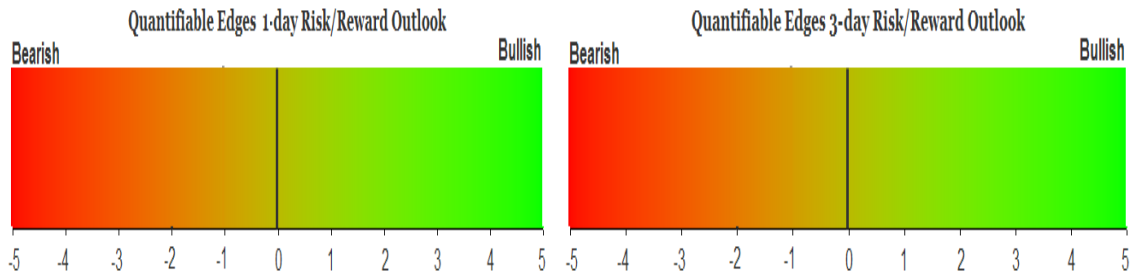
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 7, 2014

Volume 7 Issue 45

Market Overview



Signals Overview

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

Tonight's Research Points

- A strong move to a new high followed by 2 days of nothing has often been followed by a dip.
- The intraday high, unfilled gap, and weak close imply short-term strength.
- Employment Days have been on a real hot streak since summer of 2012.

Short-term Outlook

The Bottom Line

New studies emerged but the overall picture has not changed. I remain neutral for the short-term and am waiting for the next substantial edge before putting capital to work.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
March 7, 2014	1.5% jump to 50-high then sideways	1 day	Bearish	
March 7, 2014	Employment Day hot streak	1 day	Bullish	
March 7, 2014	Unfill gap 20-high poor close	1-3 days	Bullish	1.20%
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 28, 2014	SPX low vol breakout	1-5 days	Bullish	1.70%

The Evidence

The market accomplished very little for the 2nd day in a row. The SPX gained 0.2% while the Nasdaq and the Russell 2000 each lost 0.1%. Breadth was mildly positive as the NYSE Up Issues % came in at 57% and the Up Volume % was 63%. Total NYSE volume rose just slightly from Wednesday's low level.

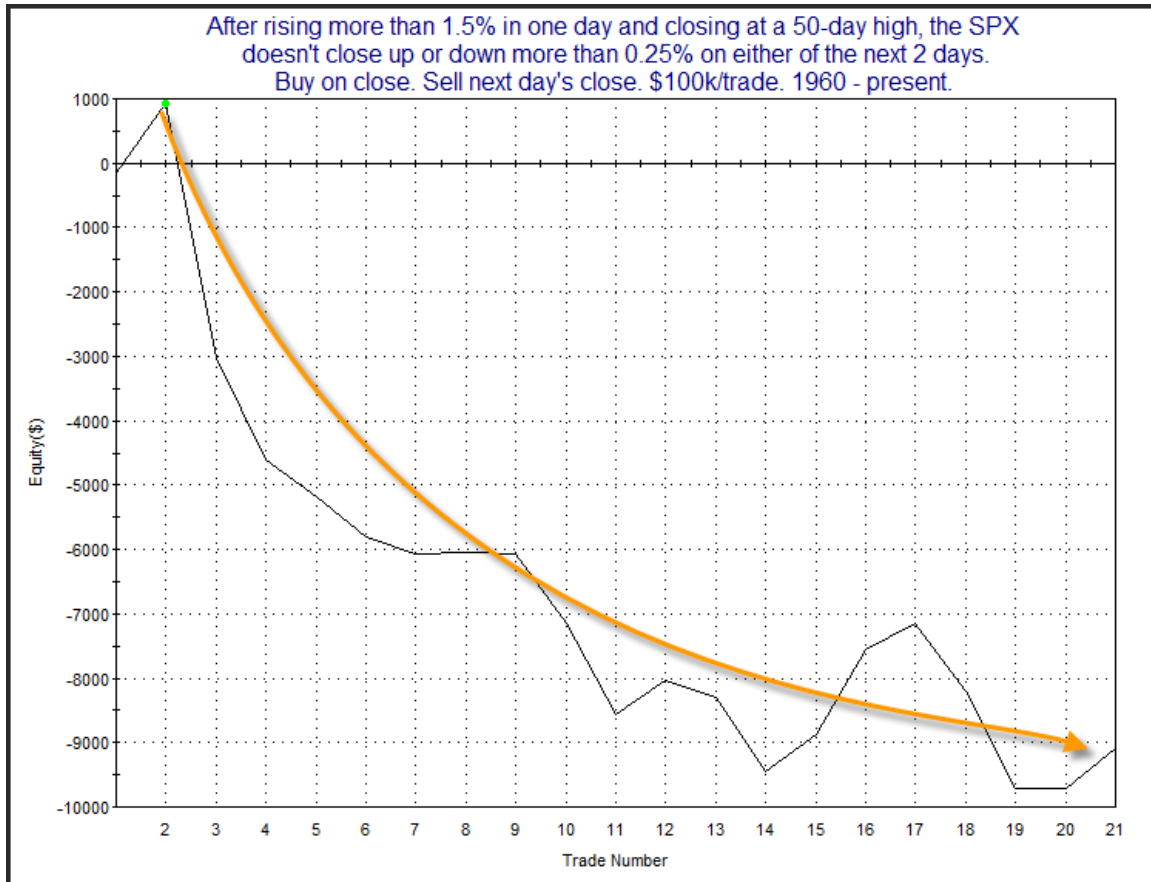
While action was muted, the Quantifinder did come up with a mix of studies, and there are some things to consider as we navigate the next few days.

After a strong move up on Tuesday to a new high, SPX posted 2 next-to-nothing days. This action triggered a study that I haven't discussed since the 10/8/10 Letter. It is updated below.

After rising more than 1.5% in one day and closing at a 50-day high, the SPX doesn't close up or down more than 0.25% on either of the next 2 days.
Buy on close. Sell next day's close. \$100k/trade. 1960 - present.

TradeStation Performance Summary				Collapse
All Trades				
Total Net Profit	(\$9,093.65)	Profit Factor	0.33	
Gross Profit	\$4,578.70	Gross Loss	(\$13,672.35)	
Total Number of Trades	21	Percent Profitable	38.10%	
Winning Trades	8	Losing Trades	13	
Even Trades	0			
Avg. Trade Net Profit	(\$433.03)	Ratio Avg. Win:Avg. Loss	0.54	
Avg. Winning Trade	\$572.34	Avg. Losing Trade	(\$1,051.72)	
Largest Winning Trade	\$1,321.92	Largest Losing Trade	(\$3,967.20)	

Implications here appear somewhat bearish. I also ran a profit curve tonight to see how it has played out historically.



This is definitely a choppy curve. And while it is not the most appealing curve I've seen I thought it was worth some consideration.

But while that 3-day pattern may suggest bearish implications, the 1-day SPY pattern hinted at a bullish edge. In the 8/7/12 Letter I ran a test of performance following unfilled upside gaps that make a 20-day high. I broke out the results by times the SPY closed above the open versus times where it closed below the open. I updated those studies below.

First let's look at times (unlike Thursday) where the finish was relatively strong:

SPY posts a 20-day intraday high and an unfilled gap up. Close > open and > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - 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
10	9,981.96	127	71	54	55.91	1,620.44	6,056.96	-1,945.73	-6,391.84	0.83	1.10	78.60
9	8,732.53	134	76	57	56.72	1,488.18	5,404.74	-1,831.04	-4,757.74	0.81	1.08	65.17
8	2,743.00	140	79	59	56.43	1,337.39	5,456.48	-1,744.25	-6,071.52	0.77	1.03	19.59
7	37.07	146	84	60	57.53	1,213.23	5,145.60	-1,697.90	-5,839.16	0.71	1.00	0.25
6	5,581.44	153	81	70	52.94	1,066.33	4,931.26	-1,154.16	-4,876.48	0.92	1.07	36.48
5	5,910.78	161	87	73	54.04	974.84	4,539.48	-1,080.82	-3,561.24	0.90	1.07	36.71
4	5,454.91	174	94	79	54.02	939.53	4,627.26	-1,048.87	-3,532.12	0.90	1.07	31.35
3	-10,813.03	187	104	81	55.61	670.28	2,659.03	-994.10	-5,080.34	0.67	0.87	-57.82
2	-8,955.93	202	106	95	52.48	526.22	2,545.92	-681.42	-3,016.48	0.77	0.86	-44.34
1	-193.33	214	109	103	50.93	388.16	2,380.38	-412.65	-2,817.32	0.94	1.00	-0.90

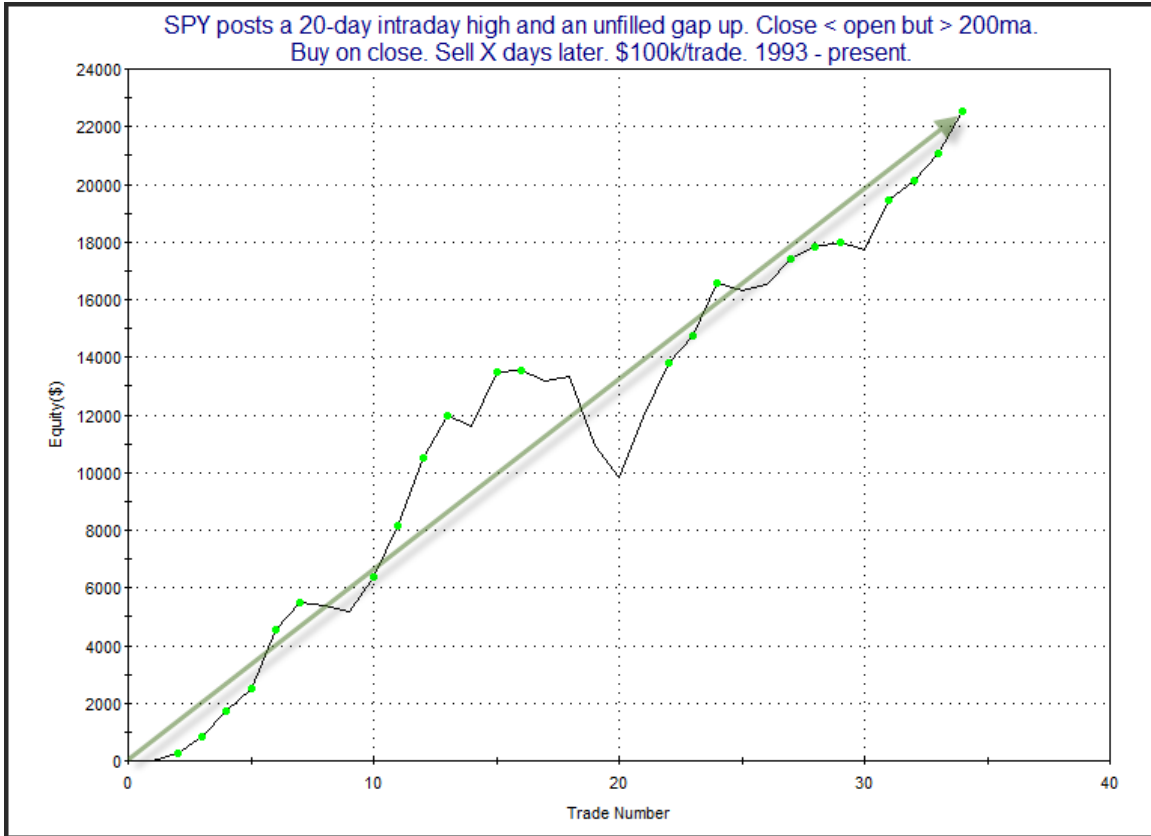
There doesn't appear to be any edge in either direction here. Now let's examine times like the present where SPY closed below the open.

SPY posts a 20-day intraday high and an unfilled gap up. Close < open but > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - 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
10	30,561.48	30	19	11	63.33	2,384.02	4,838.35	-1,339.54	-4,810.68	1.78	3.07	1,018.72
9	25,505.66	31	23	8	74.19	1,694.46	3,741.10	-1,683.37	-5,564.16	1.01	2.89	822.76
8	22,675.65	31	22	8	70.97	1,695.78	3,352.48	-1,828.95	-6,021.40	0.93	2.55	731.47
7	22,083.34	31	20	11	64.52	1,816.46	3,751.55	-1,295.08	-4,952.36	1.40	2.55	712.37
6	23,597.12	31	21	10	67.74	1,752.93	4,159.10	-1,321.43	-6,414.24	1.33	2.79	761.20
5	19,992.57	31	19	12	61.29	1,511.03	3,754.17	-726.41	-4,540.20	2.08	3.29	644.92
4	18,834.26	32	24	8	75.00	1,049.51	3,436.02	-794.26	-2,228.24	1.32	3.96	588.57
3	22,516.40	34	25	8	73.53	1,103.92	2,362.10	-635.21	-2,427.88	1.74	5.43	662.25
2	16,914.90	35	23	12	65.71	1,013.61	1,998.70	-533.18	-926.12	1.90	3.64	483.28
1	6,763.00	36	24	12	66.67	501.99	1,708.92	-440.39	-1,015.84	1.14	2.28	187.86

**32 of 36 instances (89%) closed above the entry price
at some point in the next 3 days.**

These results are substantially better than earlier where the finish was above the open. The weak finish should not concern bulls, in fact it appears they should be excited by it. Below is an equity curve that shows how the edge has played out over time.



The upslope here is persistent and rather impressive. I have included this study on the Short-Term Active List.

One other bit of information to consider for Friday is that the BLS is due to release the employment report at 8:30am EST. This report tends to be the most highly watched monthly economic report, and it will often be followed by a strong market reaction. In the last year and a half or so, this reaction has been consistently bullish. Thursday afternoon I showed the overnight implications of the report on the [Overnight Edges blog](#), and the intraday implications on the [Quantifiable Edges blog](#). Below are the results since August 2012 measuring from the close before the Employment Day to the close of the Employment Day.

Tomorrow is an Employment Day.
 Buy SPY on close. Sell Employment Day close. \$100k/trade. 8/12 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$11,330.29	Profit Factor	9.47
Gross Profit	\$12,667.99	Gross Loss	(\$1,337.70)
Total Number of Trades	19	Percent Profitable	89.47%
Winning Trades	17	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	\$596.33	Ratio Avg. Win:Avg. Loss	1.11
Avg. Winning Trade	\$745.18	Avg. Losing Trade	(\$668.85)
Largest Winning Trade	\$1,981.01	Largest Losing Trade	(\$889.00)

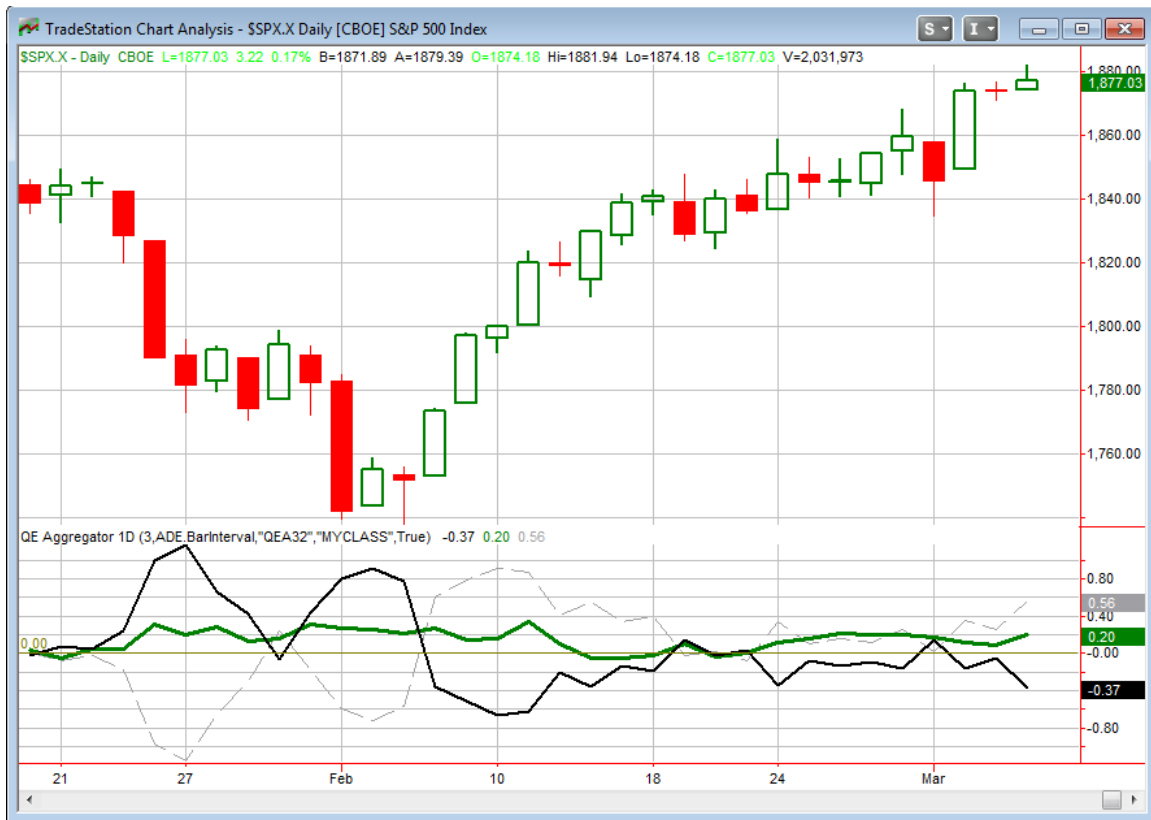
It has really been a hot streak since the summer of 2012. This is not the kind of edge that I would expect to last long-term, but it is certainly something to be aware of and to take into account for as long as the hot-streak lasts. Below is a list of all 19 instances.

Tomorrow is an Employment Day.
Buy SPY on close. Sell Employment Day close. \$100k/trade. 8/12 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/02/12	Overnight	\$136.64	1.98%	\$2,193.00
08/03/12	Sell	\$139.35		\$0.00
09/06/12	Overnight	\$143.77	0.39%	\$430.90
09/07/12	Sell	\$144.33		\$0.00
10/04/12	Overnight	\$146.13	0.01%	\$704.52
10/05/12	Sell	\$146.14		(\$294.12)
11/01/12	Overnight	\$142.83	(0.89%)	\$623.00
11/02/12	Sell	\$141.56		(\$994.00)
12/06/12	Overnight	\$141.98	0.30%	\$499.84
12/07/12	Sell	\$142.41		(\$218.24)
01/03/13	Overnight	\$145.73	0.44%	\$603.68
01/04/13	Sell	\$146.37		(\$41.16)
01/31/13	Overnight	\$149.70	1.03%	\$1,148.96
02/01/13	Sell	\$151.24		\$0.00
03/07/13	Overnight	\$154.78	0.43%	\$562.02
03/08/13	Sell	\$155.44		(\$77.52)
04/04/13	Overnight	\$155.86	(0.45%)	\$0.00
04/05/13	Sell	\$155.16		(\$1,339.69)
05/02/13	Overnight	\$159.75	1.01%	\$1,331.25
05/03/13	Sell	\$161.37		\$0.00
06/06/13	Overnight	\$162.73	1.27%	\$1,363.08
06/07/13	Sell	\$164.80		\$0.00
07/03/13	Overnight	\$161.34	1.04%	\$1,077.06
07/05/13	Sell	\$163.02		(\$24.76)
08/01/13	Overnight	\$170.66	0.17%	\$181.35
08/02/13	Sell	\$170.95		(\$356.85)
09/05/13	Overnight	\$165.96	0.05%	\$614.04
09/06/13	Sell	\$166.04		(\$890.96)
10/21/13	Overnight	\$174.40	0.58%	\$876.69
10/22/13	Sell	\$175.41		\$0.00
11/07/13	Overnight	\$174.93	1.35%	\$1,358.98
11/08/13	Sell	\$177.29		(\$45.68)
12/05/13	Overnight	\$178.94	1.12%	\$1,210.86
12/06/13	Sell	\$180.94		\$0.00
01/09/14	Overnight	\$183.64	0.27%	\$315.52
01/10/14	Sell	\$184.14		(\$342.72)
02/06/14	Overnight	\$177.48	1.24%	\$1,345.57
02/07/14	Sell	\$179.68		\$0.00

Not only is the streak fairly remarkable, but it seems to have gained strength recently. Three of the last four instances saw Employment Day gains of over 1%.

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



The mix of studies tonight helped the green Aggregator Line rise a bit further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line fell further 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 stayed flat.

Based on the current active studies, expectations are slated to remain bullish on Friday. Of course this could very easily change if compelling bearish evidence emerges. The Differential Pivot will be *inverted* at 1882.83 on Friday. That is 0.3% above Thursday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. So in this case it will take a rise of at least 0.3% in order for SPX to remain "overbought" versus recent expectations.

Consistently neutral setups are the most boring (and sometimes trying) times for me. As a trader, I actually like trading. So sitting and waiting for a solid edge to appear can be difficult. But whether I am bored with my portfolio is less important than keeping my capital intact and ready to employ when the next favorable opportunity comes along. And of all the lessons I have learned over the years, patience has perhaps been the most important. So I'll continue to wait, and I have not listed any new trade ideas in the letter

tonight. I'm sure it won't be too much longer before a substantial edge with favorable risk/reward unveils itself. I intend to be ready when it does.

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

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2014 Hanna Capital Management, LLC.