

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 13, 2014

Volume 7 Issue 49

Market Overview



Signals Overview

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

Tonight's Research Points

- When SPY has closed up just slightly but in the top of the day's range that has suggested a downside tendency the next day.
- A gap up and reversal down followed by a gap down and reversal up suggests a bearish short-term edge when SPY is uptrending.

Short-term Outlook

The Bottom Line

Tonight's evidence is bearish, but not quite bearish enough to flip the Aggregator. I'm still interested in taking on some long exposure if there is a selloff on Thursday.

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 13, 2014	SPY gap dn reverse after gap up reverse	1-4 days	Bearish	-1.20%
March 13, 2014	SPY up < 0.25% in top 10% of range	1 day	Bearish	
March 12, 2014	SPY 1st 5-low in > 10 days	1-4 days	Bullish	
March 10, 2014	SPX 3-day high while Russell down 3	1-4 days	Bullish	2.60%
March 10, 2014	Gap up partial reversal 2 days	1-5 days	Bullish	2.00%
Active - Long Term				
March 10, 2014	SPX 3-day high while Russell down 3	1-10 days	Bullish	4.50%
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	

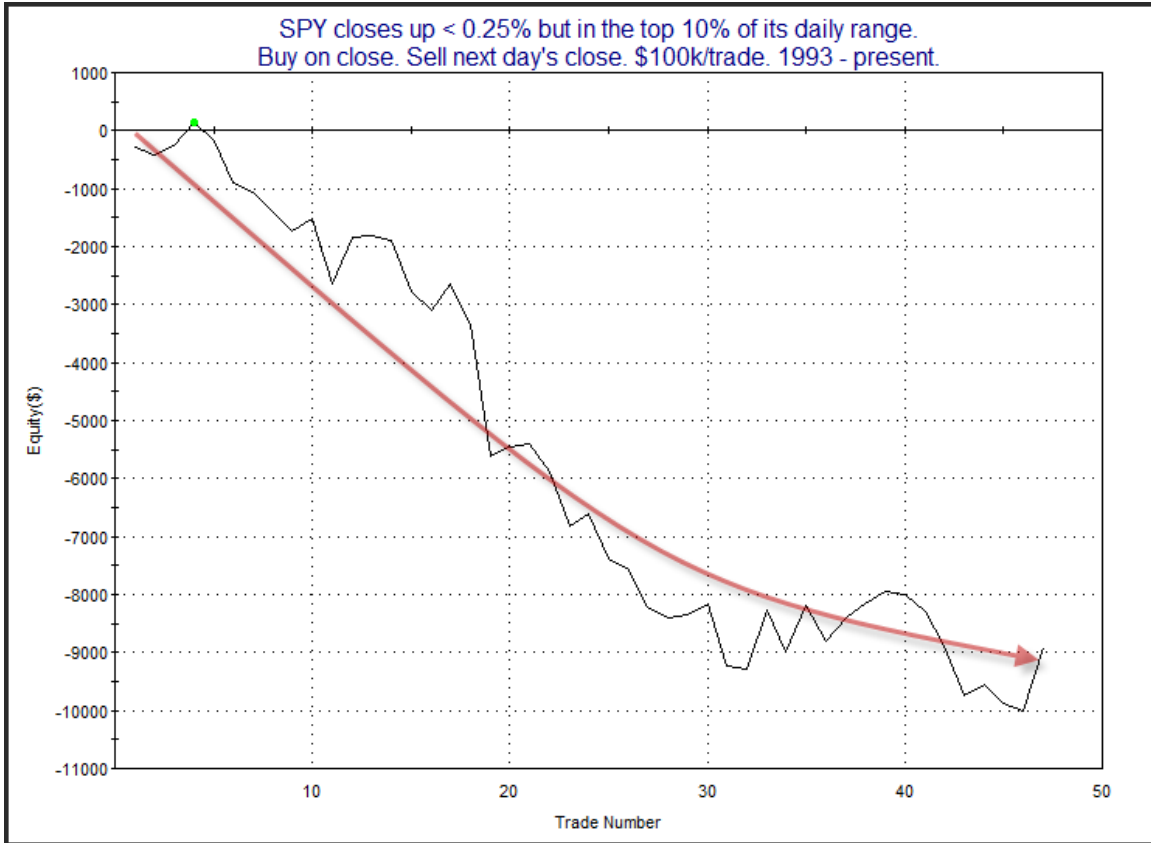
The Evidence

The market rebounded from an early selloff and finished green. The SPX rose just 0.03%, and the Nasdaq and Russell each gained 0.4%. Breadth was strongly negative as the NYSE Up Issues % came in at 52% and the Up Volume % was 53%. Total NYSE volume rose a little from Monday's very low level.

There were a couple of studies worth discussing that appeared in the Quantifinder tonight. The study below was last seen in the 2/11/14 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closes up < 0.25% but in the top 10% of its daily range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$8,916.34)	Profit Factor	0.43
Gross Profit	\$6,736.44	Gross Loss	(\$15,652.78)
Total Number of Trades	47	Percent Profitable	38.30%
Winning Trades	18	Losing Trades	29
Even Trades	0		
Avg. Trade Net Profit	(\$189.71)	Ratio Avg. Win:Avg. Loss	0.69
Avg. Winning Trade	\$374.25	Avg. Losing Trade	(\$539.75)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see, there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



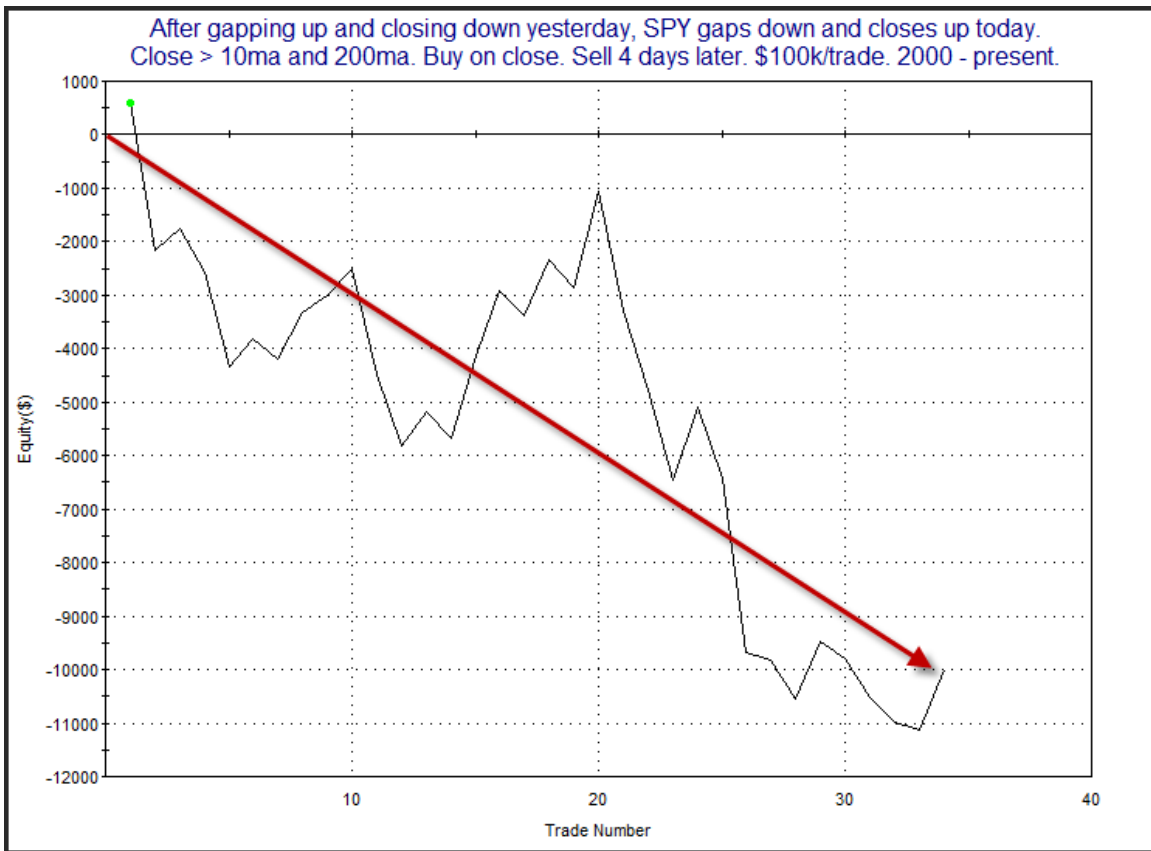
It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. The bearish edge here may be waning a bit, but I have included this study on the Active List for tonight.

The way SPY has gapped and reversed the last couple of days triggered the study below, which was last seen in the 7/26/13 subscriber letter. Stats are updated.

After gapping up and closing down yesterday, SPY gaps down and closes up today.
Close > 10ma and 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.

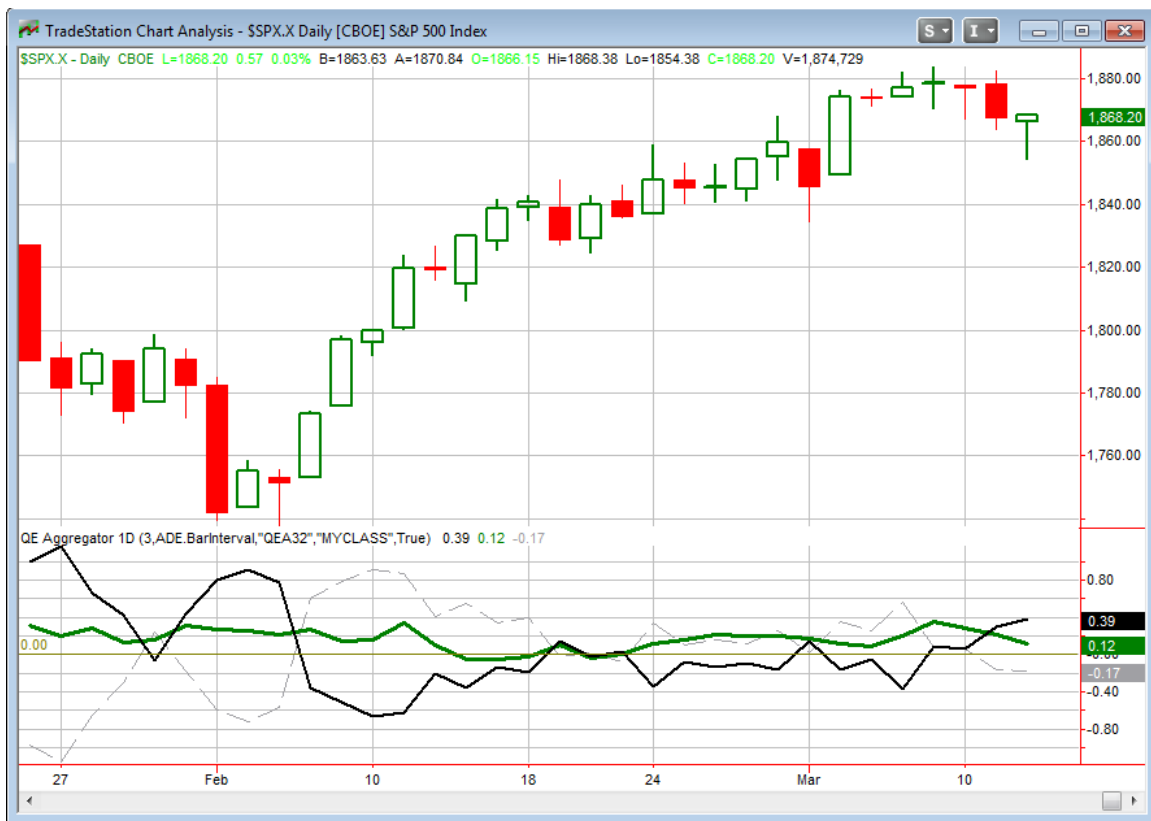
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-5,736.14	33	19	14	57.58	839.20	1,775.87	-1,548.64	-4,262.13	0.54	0.74	-173.82
4	-10,000.54	34	14	20	41.18	927.09	1,803.51	-1,148.99	-3,226.86	0.81	0.56	-294.13
3	-6,608.92	35	16	19	45.71	806.29	1,784.12	-1,026.82	-2,098.04	0.79	0.66	-188.83
2	-6,004.41	37	17	19	45.95	609.77	1,935.96	-861.60	-3,107.14	0.71	0.63	-162.28
1	-5,974.16	37	18	19	48.65	338.88	805.00	-635.47	-1,485.70	0.53	0.51	-161.46

The edge isn't huge but risk/reward has seemed to favor the bears under these circumstances. Below is an equity curve which illustrates how the 4-day exit would have performed over time.



No one would call this a smooth curve, but it does seem to be working its way lower. This one is a bit of a close call, but I also decided to include it on the Active List.

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



Despite tonight's bearish studies the green Aggregator Line still finished squarely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also remained above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is relatively oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal remained long at the close.

Based on the current active studies, expectations are slated to remain bullish on Thursday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 1892.51 on Thursday. That is 1.3% above Wednesday's close. So it is going to take a very strong close higher in order to move from oversold to overbought versus expectations.

Despite coming close the last 2 days, SPX has still not closed below its 10ma since early February. It will on Thursday if it closes down at all, or even breaks even. And with the evidence presented tonight, perhaps we will get a bit of a pullback on Thursday. With expectations slated to remain positive, I'll take that opportunity if it comes and start scaling in to a long position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/10 – slightly bullish

The intermediate-term outlook was last updated in the 3/10 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.

SPY – buy ¼ index position @ \$187.20 LIMIT ON CLOSE. Based on the short-term outlook above. I'll look to start scaling in to an index position if SPY closes down a little on Thursday.

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.