

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 14, 2014

Volume 7 Issue 50

Market Overview



Signals Overview

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

Tonight's Research Points

- 1%+ drops on strongly negative breadth are often followed by a bounce.
- 5+ lower lows in QQQ or SPY with today being the largest decline has been followed by strong gains.
- The 1st drop below the 10ma after an extended period above it is often short-term buyable.

Short-term Outlook

The Bottom Line

Thursday's selling was sharp. The studies are pointing to an upside edge. I like the long side and may add to my small index position on Friday.

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 14, 2014	SPY close < 10ma for 1st time in 15 days	1-3 days	Bullish	
March 14, 2014	1% drop. Adv 2x Decliners	1-5 days	Bullish	
March 14, 2014	5 lower lows. Big drop today.	1-2 days	Bullish	
March 12, 2014	SPY 1st 5-low in > 10 days	1-4 days	Bullish	
March 10, 2014	Gap up partial reversal 2 days	1-5 days	Bullish	2.00%
Active - Long Term				
March 14, 2014	QQQ 5 lower lows. Big drop today.	1-20 days	Bullish	11.90%
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	
Dropped Tonight				
<i>March 13, 2014</i>	<i>SPY gap dn reverse after gap up re</i>	<i>1-4 days</i>	<i>Bearish</i>	<i>-1.20%</i>
<i>March 13, 2014</i>	<i>SPY up < 0.25% in top 10% of range</i>	<i>1 day</i>	<i>Bearish</i>	
March 10, 2014	SPX 3-day high while Russell down 3	1-4 days	Bullish	2.60%

The Evidence

After a strong open Thursday morning the market really took it on the chin. The SPX and Russell 2000 each lost 1.2%, while the fell 1.4%. Breadth was strongly negative as the NYSE Up Issues % came in at 31% and the Up Volume % was 16%. Total NYSE volume came in higher than the last few days.

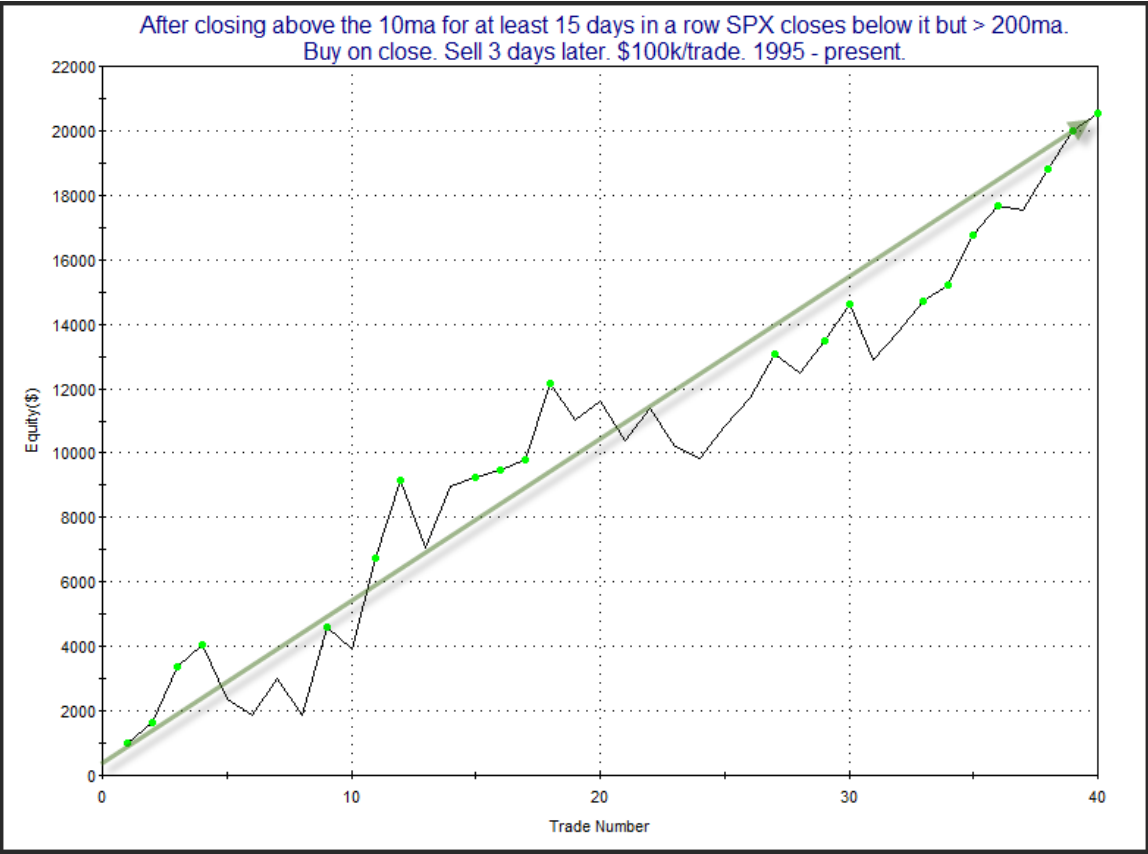
The bearish studies from last night are both off the board now since the big drop caused both of them to hit their targets. Over the last several days I had been noting the extended amount of time SPX had spent above its 10ma. I felt that it was overdue for a pullback, and I was not inclined to take a long position until it closed below the 10ma. Thursday, after 24 consecutive closes above the 10ma, it sliced down and close well below it. I decided tonight to look at performance following other instances where SPX closed below its 10ma for the first time in a while. Results are below.

After closing above the 10ma for at least 15 days in a row SPX closes below it but > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	27,499.58	40	25	15	62.50	1,619.23	3,505.74	-865.41	-2,959.70	1.87	3.12	687.49
4	26,954.84	40	28	12	70.00	1,464.41	3,206.40	-1,170.73	-3,078.40	1.25	2.92	673.87
3	20,546.00	40	28	12	70.00	1,174.69	2,805.12	-1,028.79	-2,062.10	1.14	2.66	513.65
2	11,148.55	40	24	16	60.00	1,159.87	2,682.72	-1,043.02	-2,185.60	1.11	1.67	278.71
1	9,722.02	40	23	17	57.50	757.19	1,975.68	-452.54	-1,542.24	1.67	2.26	243.05

35 of 40 instances (87.5%) closed above the entry price at some point in the next week.

The numbers here all look solidly bullish over the next week. I highlighted the 3-day holding period because it had a more appealing equity curve than the four or five-day. You can see its profit curve below.



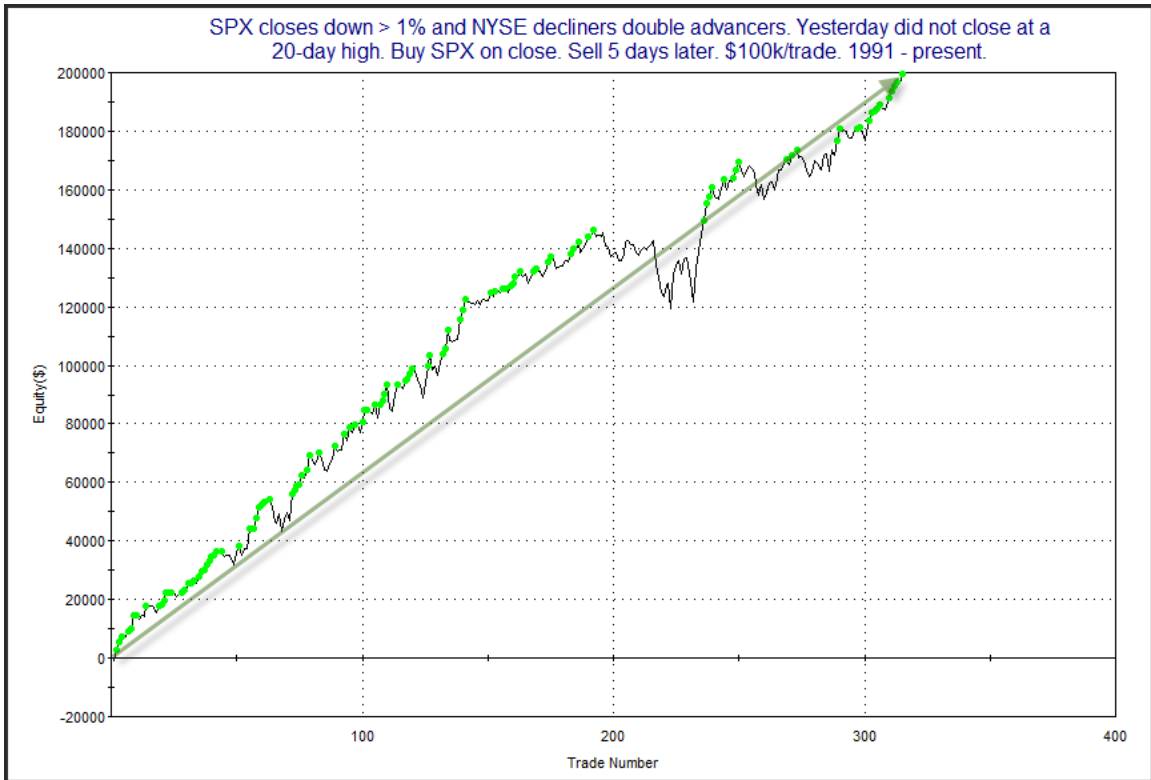
The strong upslope serves as some confirmation of the bullish edge.

The study below is one I have shown a number of times over the years. It looks at big drops on strongly negative breadth when the market did not make an intermediate-term high the day before. Stats are all updated.

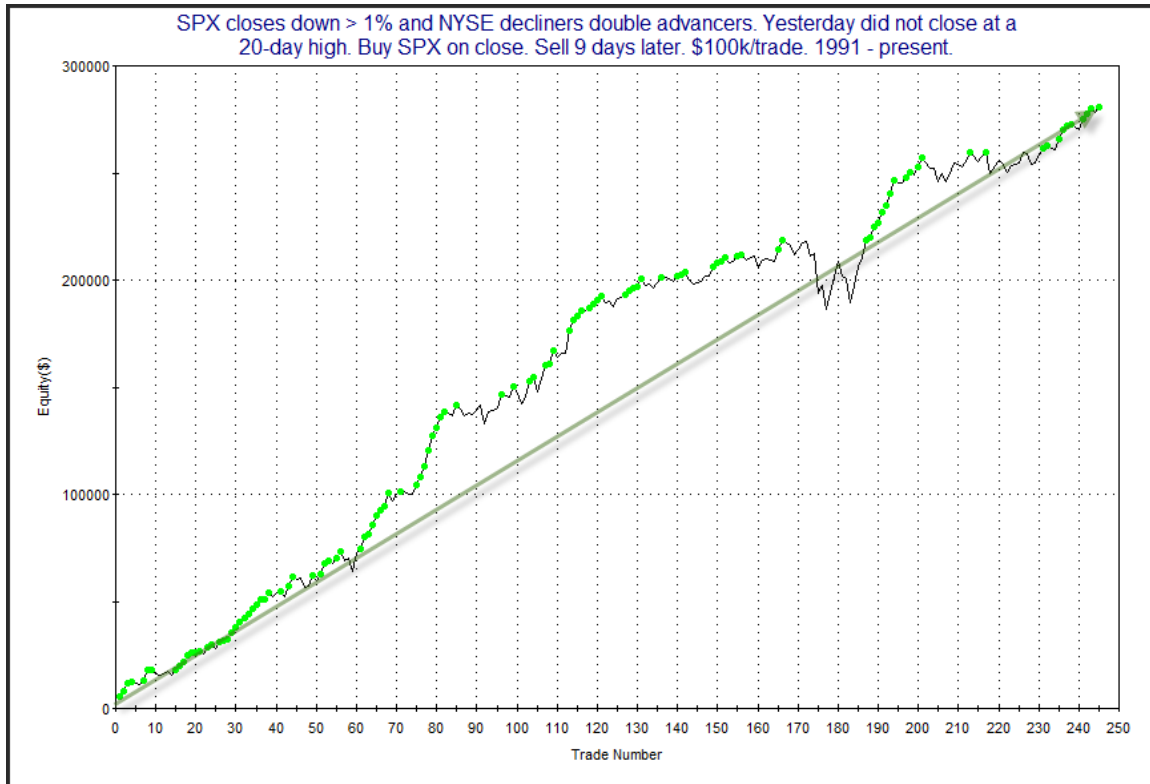
SPX closes down > 1% and NYSE decliners double advancers. Yesterday did not close at a 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - present.

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	235,894.61	236	153	83	64.83	3,053.04	16,319.16	-2,785.79	-16,768.40	1.10	2.02	999.55
9	280,736.33	245	170	75	69.39	2,910.27	10,875.66	-2,853.47	-18,373.16	1.02	2.31	1,145.86
8	241,647.06	258	167	90	64.73	2,919.23	15,738.88	-2,731.82	-17,685.00	1.07	1.98	936.62
7	224,794.16	278	173	105	62.23	2,661.22	10,415.64	-2,243.77	-12,654.00	1.19	1.95	808.61
6	194,045.09	291	180	111	61.86	2,482.24	14,933.73	-2,277.10	-19,140.34	1.09	1.77	666.82
5	199,574.25	315	191	124	60.63	2,322.14	11,405.78	-1,967.38	-8,351.64	1.18	1.82	633.57
4	153,644.09	337	195	142	57.86	2,191.52	14,020.11	-1,927.48	-14,820.98	1.14	1.56	455.92
3	151,406.25	377	228	149	60.48	1,847.98	8,531.60	-1,811.63	-10,506.45	1.02	1.56	401.61
2	147,347.38	431	240	191	55.68	1,737.03	8,484.76	-1,411.20	-8,657.72	1.23	1.55	341.87
1	123,963.75	483	283	200	58.59	1,178.17	10,716.03	-1,047.30	-7,577.02	1.12	1.59	256.65

The stats table suggests a decent upside edge over the next 1-2 weeks. Below are the profit curves for the 5-day and 9-day holding periods. First the five.



Other than the one rough period, it has been a pretty persistent rise in this curve. Now the 9-day curve.



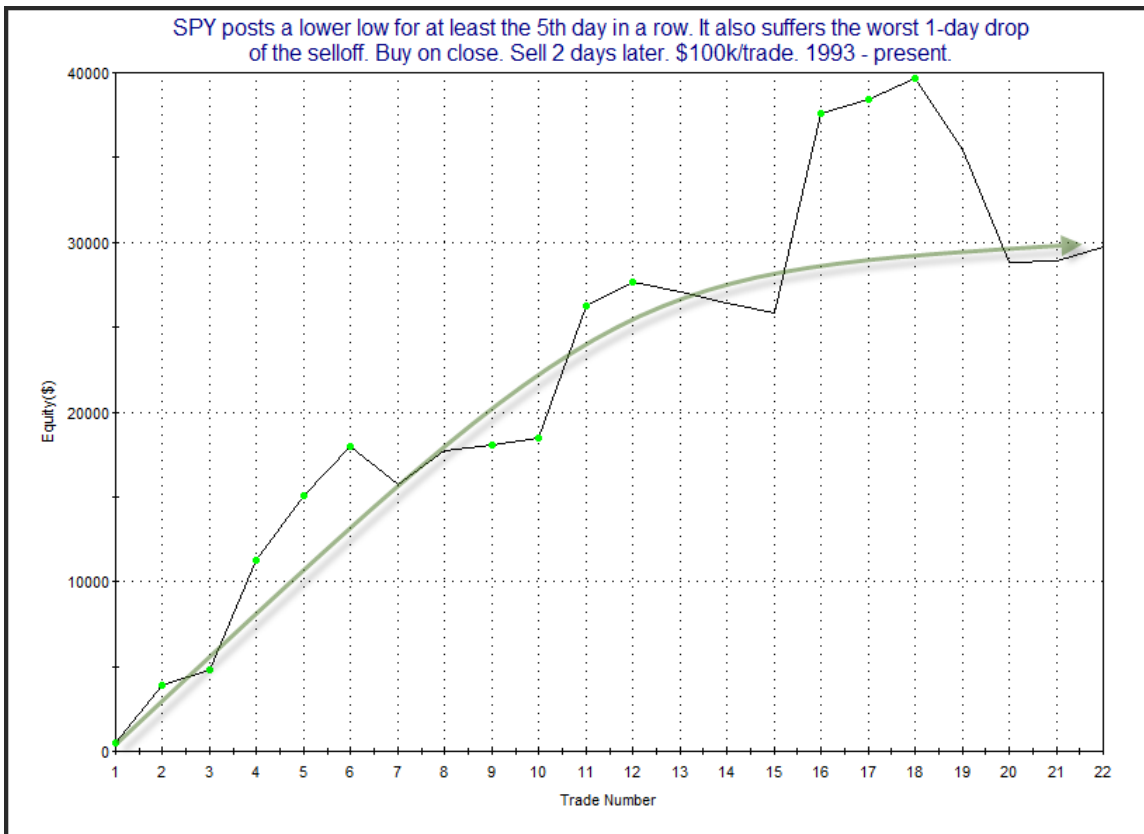
This looks quite similar and suggests the upside edge which has been in place a long time, remains so.

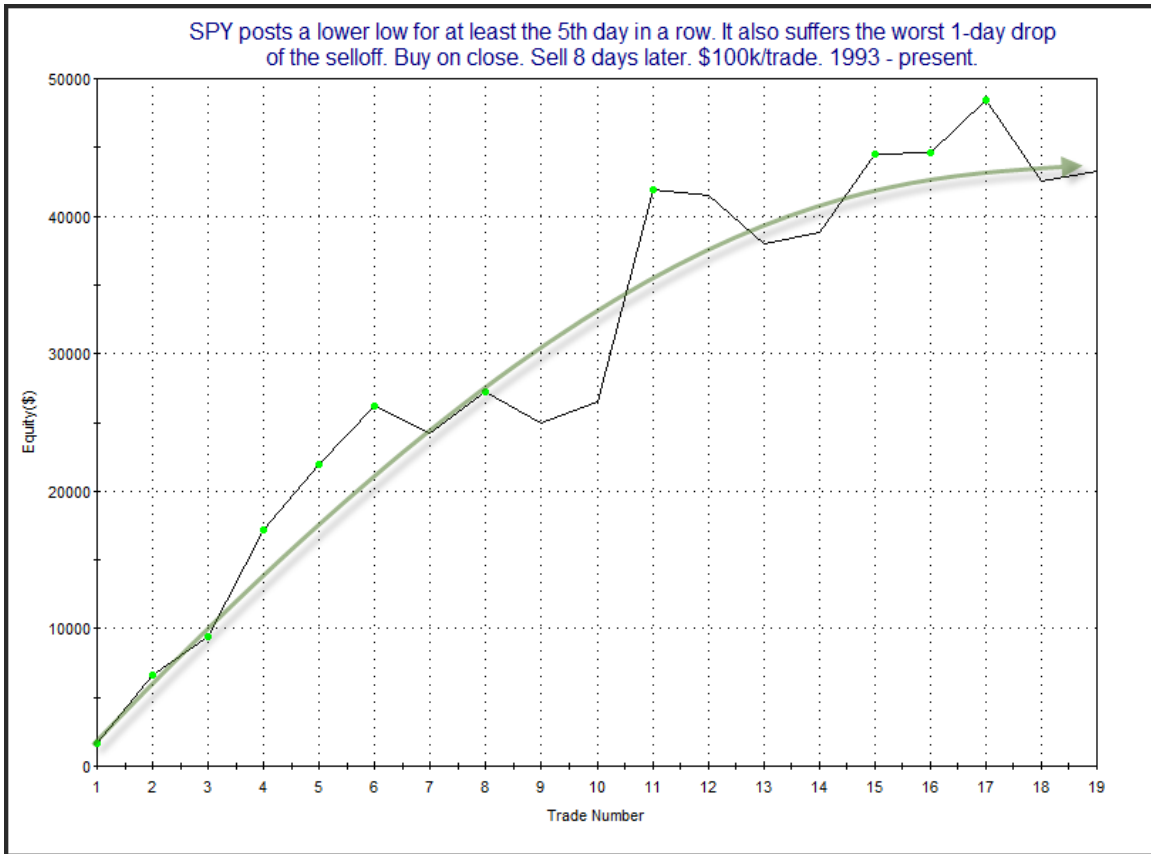
One concept I have discussed a number of times in the past is that when short-term moves that are already a bit extended see a quick acceleration, it often leads to a reversal. Both SPY and QQQ made at least their fifth lower low on Thursday. They also suffered their worst decline of the short-term down move. This triggered the study below. The SPY version was last seen in the 1/15/09 subscriber letter, and the QQQ version was last discussed in the 5/17/12 letter. First let's look at the SPY setup.

SPY posts a lower low for at least the 5th day in a row. It also suffers the worst 1-day drop of the selloff. Buy on close. Sell X days later. 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	32,730.59	19	13	6	68.42	3,545.19	15,488.00	-2,226.15	-4,696.40	1.59	3.45	1,722.66
9	39,467.37	19	15	4	78.95	3,175.61	14,617.60	-2,041.69	-3,876.52	1.56	5.83	2,077.23
8	43,279.85	19	14	5	73.68	4,092.44	15,449.60	-2,802.86	-5,866.52	1.46	4.09	2,277.89
7	39,147.66	19	14	5	73.68	4,055.63	13,491.20	-3,526.24	-6,495.36	1.15	3.22	2,060.40
6	29,550.25	19	13	6	68.42	3,784.20	13,017.60	-3,274.06	-10,507.20	1.16	2.50	1,555.28
5	25,475.87	19	14	5	73.68	2,961.45	10,816.00	-3,196.87	-6,375.96	0.93	2.59	1,340.84
4	18,719.40	20	13	7	65.00	3,246.45	13,568.00	-3,354.92	-10,531.08	0.97	1.80	935.97
3	27,340.42	21	15	6	71.43	3,041.18	10,083.30	-3,046.21	-5,355.22	1.00	2.50	1,301.92
2	29,712.50	22	16	6	72.73	2,787.34	11,736.30	-2,480.84	-6,648.00	1.12	3.00	1,350.57
1	17,457.31	23	15	8	65.22	1,675.23	4,645.80	-958.89	-2,424.40	1.75	3.28	759.01

The numbers here look very strong. I also produced the profit curves for the 2-day and 8-day holding periods.





Some of the big losses on the 2-day chart occurred thanks to the August 2011 U.S. debt downgrade. Both the profit curves look to be flattening some, but it still seems worth paying some attention to.

Next let's look at the QQQ.

QQQ posts a lower low for at least the 5th day in a row. It also suffers the worst 1-day drop of the selloff. 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
20	163,220.17	20	18	2	90.00	9,673.20	32,745.57	-5,448.76	-5,951.82	1.78	15.98	8,161.01
19	159,796.04	20	18	2	90.00	9,512.57	31,061.82	-5,715.08	-6,666.66	1.66	14.98	7,989.80
18	158,211.12	20	18	2	90.00	9,371.72	31,573.68	-5,239.96	-6,377.35	1.79	16.10	7,910.56
17	130,348.26	20	17	3	85.00	8,231.85	26,522.43	-3,197.73	-5,596.45	2.57	14.59	6,517.41
16	118,671.24	20	16	4	80.00	8,163.34	25,848.93	-2,985.56	-6,793.83	2.73	10.94	5,933.56
15	95,148.04	20	16	4	80.00	7,271.75	22,818.18	-5,299.98	-9,344.77	1.37	5.49	4,757.40
14	118,390.19	20	16	4	80.00	8,409.82	26,522.43	-4,041.72	-7,080.16	2.08	8.32	5,919.51
13	102,586.98	20	16	4	80.00	7,341.45	21,807.93	-3,719.05	-6,429.41	1.97	7.90	5,129.35
12	95,682.43	20	15	5	75.00	7,779.38	25,848.93	-4,201.64	-7,357.68	1.85	5.55	4,784.12
11	81,195.68	20	13	7	65.00	8,275.12	25,175.43	-3,768.70	-7,718.34	2.20	4.08	4,059.78
10	79,102.41	20	14	6	70.00	7,773.73	25,754.64	-4,954.96	-8,010.21	1.57	3.66	3,955.12
9	87,978.92	21	14	7	66.67	7,878.50	22,481.43	-3,188.58	-7,199.46	2.47	4.94	4,189.47
8	86,316.87	21	14	7	66.67	7,366.96	25,997.10	-2,402.93	-8,820.96	3.07	6.13	4,110.33
7	80,151.84	21	16	5	76.19	6,219.61	25,673.82	-3,872.39	-8,204.79	1.61	5.14	3,816.75
6	75,770.07	21	16	5	76.19	5,717.18	17,255.07	-3,140.98	-6,748.20	1.82	5.82	3,608.10
5	46,821.74	21	13	8	61.90	4,745.37	12,720.30	-1,858.51	-5,156.37	2.55	4.15	2,229.61
4	39,776.00	21	11	10	52.38	5,719.35	14,897.82	-2,313.69	-9,761.43	2.47	2.72	1,894.10
3	27,611.18	21	12	9	57.14	3,960.66	11,520.90	-2,212.98	-7,231.89	1.79	2.39	1,314.82
2	35,988.96	23	15	8	65.22	3,530.33	15,687.50	-2,120.76	-6,651.64	1.66	3.12	1,564.74
1	37,643.66	23	16	7	69.57	2,812.06	12,236.25	-1,049.91	-2,270.10	2.68	6.12	1,636.68

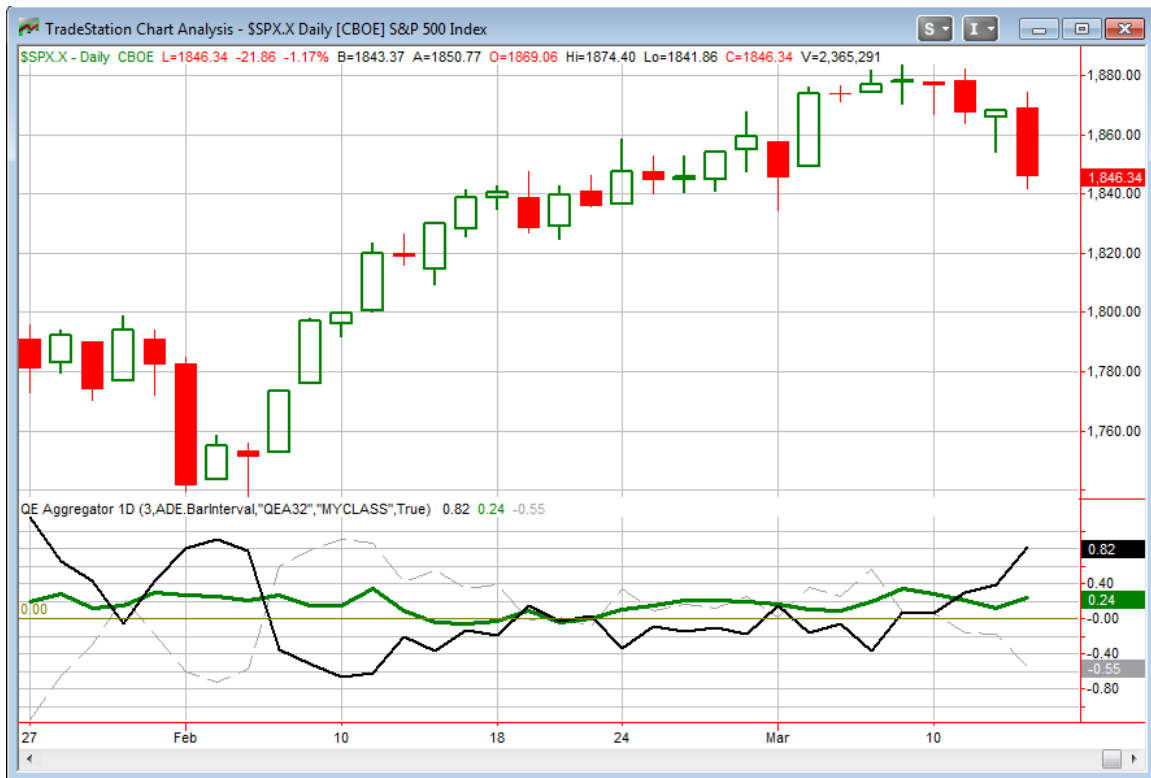
Four weeks out the average trade has produced a gain in the QQQ of over 8%. Often the outsized gains were partially due to the volatile environment that was present when the study triggered. Many of these occurred during the wild 2000 – 2002 bear market in the Nasdaq. Below is a profit curve for the 20-day holding period.

QQQ posts a lower low for at least the 5th day in a row. It also suffers the worst 1-day drop of the selloff. Buy on close. Sell 20 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/28/00	Buy	\$85.63	21.02%	\$25,090.50
02/28/00	Sell	\$103.63		(\$2,917.50)
04/14/00	Buy	\$79.63	10.44%	\$21,171.85
05/15/00	Sell	\$87.94		(\$2,510.00)
05/23/00	Buy	\$74.19	32.77%	\$33,890.52
06/21/00	Sell	\$98.50		(\$3,111.57)
07/28/00	Buy	\$86.38	13.06%	\$15,272.40
08/25/00	Sell	\$97.66		(\$3,980.08)
09/17/01	Buy	\$30.83	10.38%	\$13,134.15
10/15/01	Sell	\$34.03		(\$13,620.60)
01/16/02	Buy	\$38.41	(4.95%)	\$3,097.57
02/14/02	Sell	\$36.51		(\$9,917.43)
02/21/02	Buy	\$33.11	10.69%	\$17,244.20
03/21/02	Sell	\$36.65		(\$1,177.80)
04/26/02	Buy	\$30.67	0.65%	\$8,443.40
05/24/02	Sell	\$30.87		(\$8,541.20)
07/23/02	Buy	\$22.03	12.66%	\$14,479.41
08/20/02	Sell	\$24.82		(\$4,992.90)
09/23/02	Buy	\$20.65	15.84%	\$16,608.06
10/21/02	Sell	\$23.92		(\$6,100.92)
12/09/02	Buy	\$24.85	2.74%	\$6,881.04
01/08/03	Sell	\$25.53		(\$3,782.56)
03/10/03	Buy	\$23.64	8.80%	\$14,255.10
04/07/03	Sell	\$25.72		(\$1,988.10)
12/09/03	Buy	\$34.06	10.42%	\$10,477.95
01/08/04	Sell	\$37.61		(\$880.50)
08/06/04	Buy	\$32.35	4.39%	\$6,676.56
09/03/04	Sell	\$33.77		(\$1,143.67)
01/14/09	Buy	\$28.26	6.86%	\$10,790.90
02/12/09	Sell	\$30.20		(\$2,370.46)
06/29/10	Buy	\$43.00	6.23%	\$7,788.75
07/28/10	Sell	\$45.68		(\$3,720.00)
11/12/10	Buy	\$52.14	3.43%	\$4,274.91
12/13/10	Sell	\$53.93		(\$2,453.76)
04/08/11	Buy	\$56.58	3.08%	\$4,223.13
05/09/11	Sell	\$58.32		(\$2,880.21)
08/04/11	Buy	\$53.80	0.72%	\$2,917.06
09/01/11	Sell	\$54.19		(\$7,877.92)
05/04/12	Buy	\$64.33	(5.95%)	\$574.98
06/04/12	Sell	\$60.50		(\$7,241.64)

The last few instances have not exhibited the kind of strength shown in the past, but there still appears to be a substantial upside edge. I've added this to the intermediate-term Active List.

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



With tonight's bullish studies factored in the green Aggregator Line rose 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 is now extended quite far above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is strongly 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 Friday. New and compelling bearish evidence would need to emerge in order to change this. The Differential Pivot will be 1882.93 on Friday. That is nearly 2.0% above Thursday's close. It's pretty unlikely that gets achieved in just one day. A more likely scenario to work off the oversold condition would be a multi-day bounce or consolidation.

While the studies were leaning bullish over the last couple of days, it was not pricing to see the big drop. A few things forewarned us of it. First, the low Fed liquidity flows from last week suggested we are entering an opportune time for the bears to create a pullback. Secondly, the time without a pullback had become extended. And then last night we saw a couple of studies appear suggesting a short-term downside edge. So all of these things that had made me wary over the last few days ended up being worth paying some

attention to. Of course, I did put in a trade idea in last night letter to start scaling into an index position if Thursday closed lower. And among other things covered tonight, this week is seeing strong liquidity, which should help to aid a bounce in the days ahead. I am now partially long. I like the long side here quite a bit better than I have the last few days, and I may look to add additional exposure on Friday.

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 @ \$185.00 LIMIT ON CLOSE. Based on the short-term outlook above. I'll look to scale in to a 2nd lot on Friday afternoon if SPX closes down much again.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/13/2014	\$185.18	\$185.18	0.00%		bought on close

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