

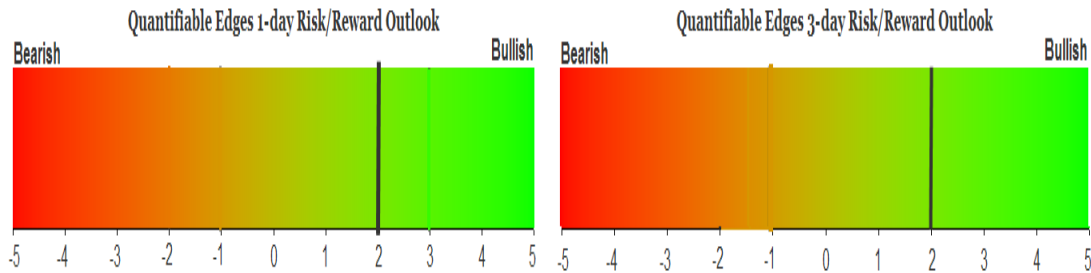
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 18, 2014

Volume 7 Issue 52

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Low-volume bounces when the SPX has been extremely oversold short-term have suggested an upside edge.
- Extremely low volume on a strong up day above the 200ma has often been followed by a couple of days of weakness.

## Short-term Outlook

### The Bottom Line

The bounce arrived as anticipated. And while SPX has not yet turned back to short-term overbought, it could easily work off the oversold condition as of Tuesday's close. I am long, but will be looking to at least lighten up on Tuesday.

**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 18, 2014	SPX up on lower vol after RSI <sub>2</sub> <5 yest	1-5 days	Bullish	1.20%
March 18, 2014	SPX up > 0.5%. NYSE vol 20-day low	1-2 days	Bearish	-1.30%
March 17, 2014	QE Buying Power System long	1-6 days	Bullish	1.20%
March 17, 2014	March Op-Ex week seasonally strong	1-4 days	Bullish	1.70%
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	
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
<b>March 17, 2014</b>	<b>SPX down. Up Issues % &gt; 55%.</b>	<b>1-3 days</b>	<b>Bullish</b>	<b>1.10%</b>
March 12, 2014	SPY 1st 5-low in > 10 days	1-4 days	Bullish	
March 14, 2014	5 lower lows. Big drop today.	1-2 days	Bullish	

**The Evidence**

The market had a bounce-back day on Monday as all the major indices finished nicely higher. The SPX rose nearly 1.0%, the NASDAQ gained 0.8%, and the Russell 2000 rallied 0.6%. Breadth was also strong as the NYSE Up Issues % came in at 72% and the Up Volume % was 77%. Total NYSE volume came in extremely light.

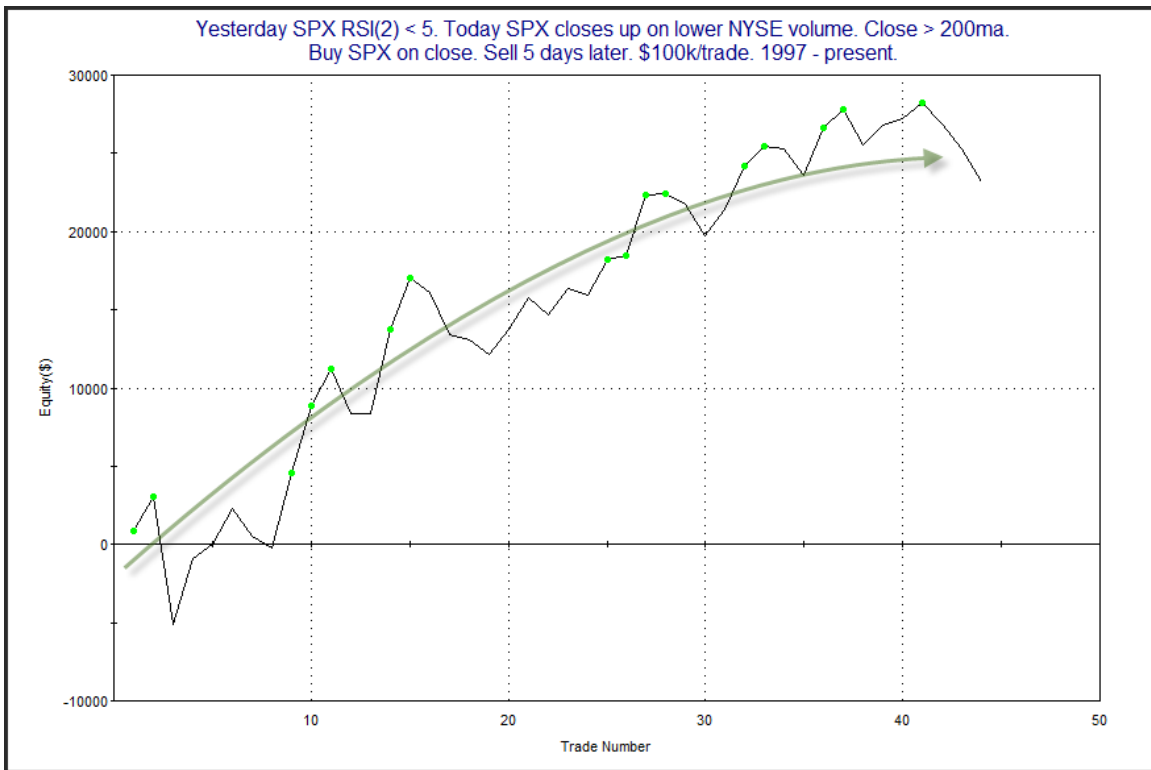
The fact that volume came in lower on the bounce than it did during the previous day's selling is sometimes pointed to as a negative. This is a misnomer. The lower volume is often a good thing. This can be seen in the studies below that look at bounces from strongly oversold short-term conditions. To measure short-term oversold in this case a 2-period RSI calculation is used. These studies were last seen in the 12/9/13 Letter. This first one examines bounces on declining volume, similar to Friday.

Yesterday SPX RSI(2) < 5. Today SPX closes up on lower NYSE volume. Close > 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1997 - 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	23,207.09	44	25	19	56.82	2,196.13	5,396.71	-1,668.22	-8,178.56	1.32	1.73	527.43
4	22,420.54	46	28	18	60.87	1,739.95	4,223.34	-1,461.01	-2,783.55	1.19	1.85	487.40
3	15,417.11	47	26	21	55.32	1,420.06	4,457.43	-1,024.02	-3,490.90	1.39	1.72	328.02
2	21,763.32	47	31	16	65.96	1,244.98	4,001.40	-1,051.95	-2,735.64	1.18	2.29	463.05
1	12,020.13	47	28	19	59.57	916.01	2,842.84	-717.28	-2,782.56	1.28	1.88	255.75

**89% of instances closed above the entry price at some point in the next week.**

The numbers here are all fairly impressive. The profit curve for the 5-day holding period was the most attractive. I have posted it below.



This curve seems to be flattening a bit. I'll be keeping a close eye on this one, but have included it on the Active List for tonight.

The next test looks at the exact same scenario, except rather than requiring volume come in lower, it requires it to come in higher.

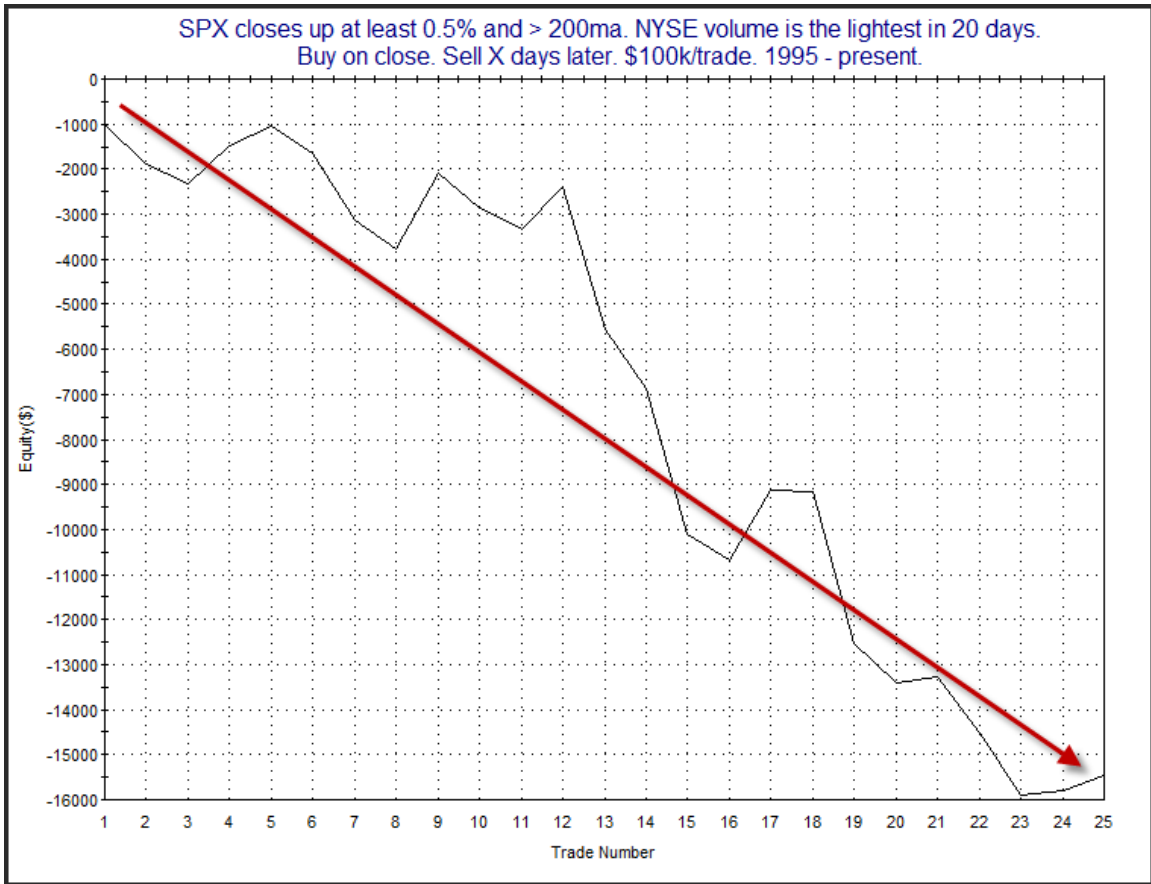
Yesterday SPX RSI(2) < 5. Today SPX closes up on <b>higher</b> NYSE volume. Close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1997 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	2,086.93	22	12	10	54.55	1,353.20	3,532.25	-1,415.14	-2,969.64	0.96	1.15	94.86
4	324.36	23	14	9	60.87	1,053.42	2,587.95	-1,602.61	-2,541.13	0.66	1.02	14.10
3	-5,355.93	23	9	14	39.13	1,419.25	3,939.79	-1,294.94	-2,517.13	1.10	0.70	-232.87
2	-4,140.89	24	11	13	45.83	900.38	2,794.56	-1,080.39	-1,962.36	0.83	0.71	-172.54
1	-3,399.31	24	10	14	41.67	633.49	2,536.10	-695.30	-1,774.60	0.91	0.65	-141.64

As you can see, the change in volume appears to have a dramatic impact on the results. It would seem that the low volume bounces may suggest that people need convincing and are not rushing back in. But over the next few days, their willingness to commit capital and desire not let the bounce get too far away from them helps to propel it further. But...

...there was another study that appeared that suggested volume as extremely low as we saw on Monday's rally was *not* a positive. It was from the 8/14/2008 blog. There I looked at 20-day lows in volume that occurred on days SPX rose at least 0.5%. I did not have a long-term trend filter on that study. I did add that filter tonight.

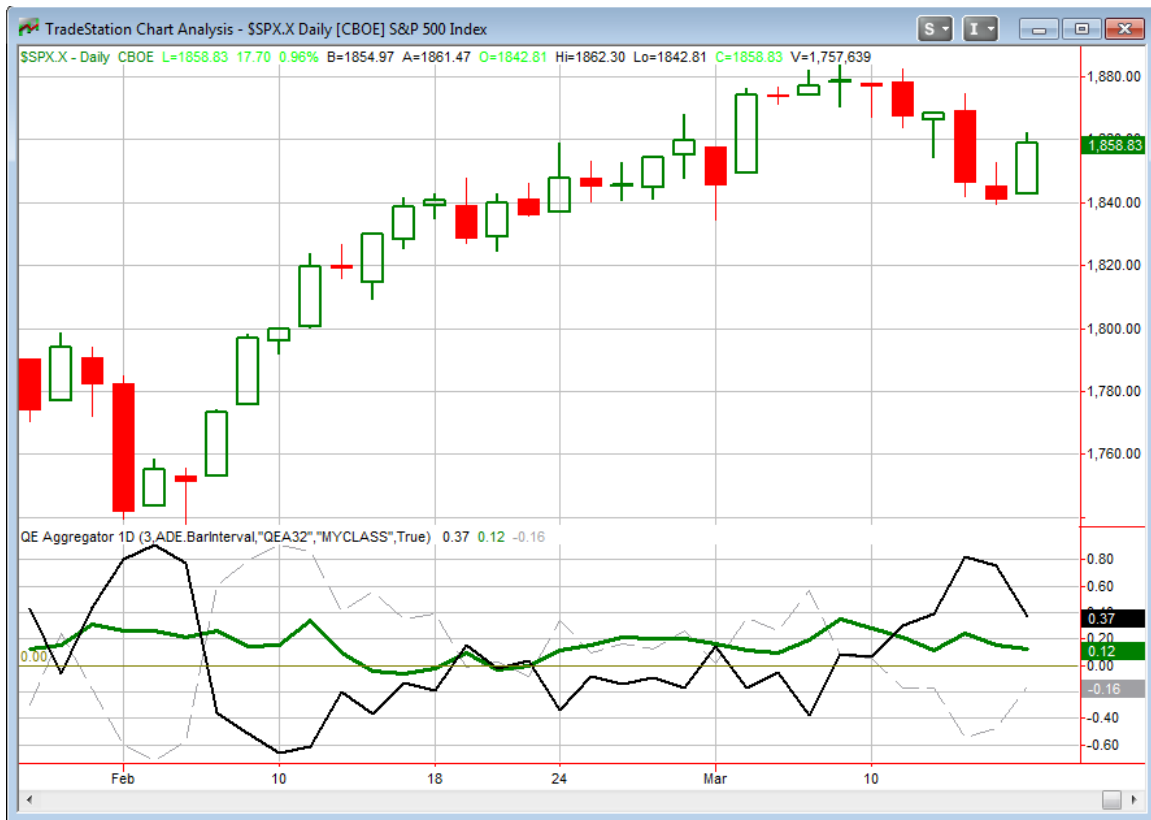
SPX closes up at least 0.5% and > 200ma. NYSE volume is the lightest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-13,295.55	25	12	13	48.00	1,207.59	2,927.68	-2,137.43	-10,421.45	0.56	0.52	-531.82
4	-16,719.34	25	12	13	48.00	784.17	2,005.15	-2,009.95	-4,929.60	0.39	0.36	-668.77
3	-15,372.35	25	10	15	40.00	811.76	2,158.15	-1,566.00	-3,887.84	0.52	0.35	-614.89
2	-15,470.54	25	8	17	32.00	751.91	1,688.95	-1,263.87	-3,372.16	0.59	0.28	-618.82
1	-6,438.86	26	10	16	38.46	507.85	1,439.62	-719.84	-1,611.60	0.71	0.44	-247.65

Stats here point to a downside edge. I also examined the profit curves. Below is the 2-day.



The persistent downslope is impressive for a study with a long-term uptrend filter. I have also included this study on the Active List.

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



The mixed studies tonight helped the green Aggregator Line inch a little lower towards 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is 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 Tuesday. New and compelling bearish evidence would need to emerge in order to change this. The Differential Pivot will be *slightly inverted* at 1856.92 on Tuesday. That is about 2 points *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. So for SPX to come in "oversold" versus expectations again on Tuesday it will need to close down about 0.1%. Anything above there and it will be considered "overbought" versus expectations.

So the market bounced as the studies over the last few days indicated was likely. And while expectations remain higher, the oversold condition has nearly been worked off. I frequently begin thinking about profit-taking when an inverted pivot shows up. And I will look to lighten up Tuesday if the market advances some. And if it closes higher I

will likely take profits on the entire position. Details are in the Trade Ideas section down below.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 3/17 – slightly bullish***

The intermediate-term outlook was last updated in the 3/17 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. GILD, the trade idea from last night, gapped up and never filled. I will cancel that order.**

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/13/2014	\$185.18	\$186.33	0.62%		Aggregator
SPY(1/4)	3/14/2014	\$184.66	\$186.33	0.90%		Aggregator

*Sell 1 lot of SPY @ \$186.50 LIMIT.*

*Sell 2<sup>nd</sup> lot of SPY (or both if the 1<sup>st</sup> one is still unfilled) @ \$186.34 LIMIT ON CLOSE.*

*I'm looking to take 1 lot off the table if we get even a small rally on Tuesday. With some luck a morning gap higher would fill the order to sell the first lot. I'll ride the 2<sup>nd</sup> lot to the close in hope of additional profits.*

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