

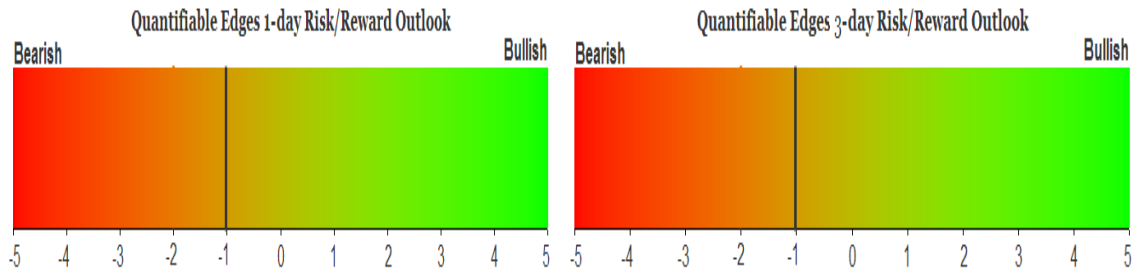
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 19, 2014

Volume 7 Issue 53

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr Swing |
|------------|----------------|------------------|
| Short | 100% Short SPY | Flat |

Tonight's Research Points

- A 2nd 20-day low in volume with the market still near the upper end of its range suggests short-term bearish implications.
- Fed Days are typically bullish, but this Fed Day's setup appears weak.

Short-term Outlook

The Bottom Line

The Aggregator quickly flipped from bullish to bearish, but the edge does not appear strong enough nor lasting enough to warrant a short-trade on my part. I'm stepping aside and waiting to see how the market reacts to the Fed announcement Wednesday. I'll then keep my eye out for new edges that may emerge.

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 19, 2014 | Low vol 20 2 days. >10 & > 200ma | 1-2 days | Bearish | |
| March 18, 2014 | SPX up on lower vol after RSI2<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 14, 2014 | 1% drop. Adv 2x Decliners | 1-5 days | Bullish | 2.30% |
| 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 | | | | |
| March 14, 2014 | SPY close < 10ma for 1st time in 15 | 1-3 days | Bullish | |
| March 17, 2014 | March Op-Ex week seasonally stro | 1-4 days | Bullish | 1.70% |
| March 17, 2014 | QE Buying Power System long | 1-6 days | Bullish | 1.20% |

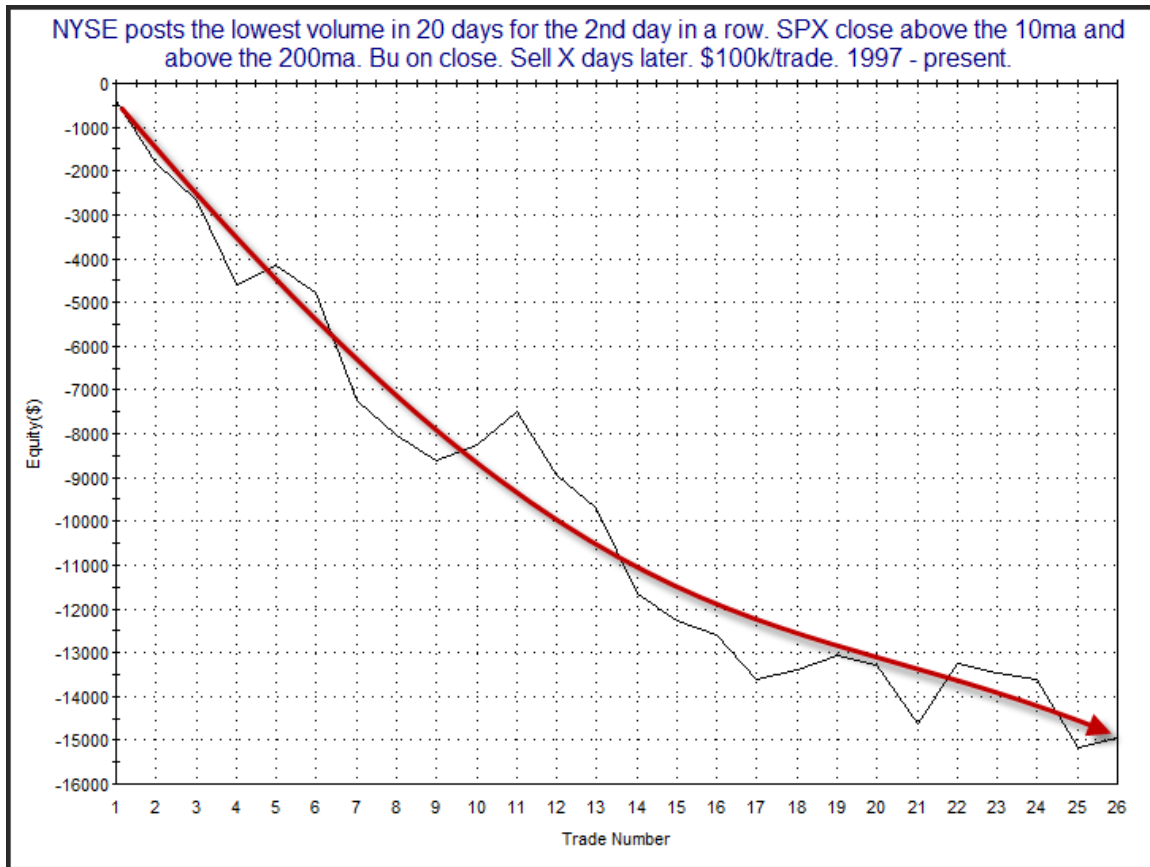
The Evidence

The bounce continued on Tuesday with gains all around. The SPX rose 0.7%, the NASDAQ gained 1.25%, and the Russell 2000 rallied 1.4%. Breadth was also strong as the NYSE Up Issues % came in at 75% and the Up Volume % was 80%. Total NYSE volume was again extremely light.

There were a few studies in the Quantifinder tonight that looked at the very low volume and a relatively high short-term close. Especially notable is that Tuesday's rally came on the lowest volume in over a month for the second day in a row. This is something I studied on 3/29/11. I have updated the results of that study below.

| NYSE posts the lowest volume in 20 days for the 2nd day in a row. SPX close above the 10ma and above the 200ma. Bu 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 | -1,717.50 | 25 | 14 | 11 | 56.00 | 1,405.75 | 3,654.90 | -1,945.27 | -6,793.38 | 0.72 | 0.92 | -68.70 | |
| 4 | -10,148.51 | 25 | 14 | 11 | 56.00 | 895.17 | 2,450.55 | -2,061.90 | -9,797.04 | 0.43 | 0.55 | -405.94 | |
| 3 | -13,839.86 | 26 | 11 | 15 | 42.31 | 683.79 | 1,269.45 | -1,424.10 | -4,565.52 | 0.48 | 0.35 | -532.30 | |
| 2 | -14,964.69 | 26 | 7 | 19 | 26.92 | 531.38 | 1,373.32 | -983.39 | -2,459.82 | 0.54 | 0.20 | -575.56 | |
| 1 | -12,226.96 | 30 | 13 | 17 | 43.33 | 410.49 | 1,120.48 | -1,033.14 | -2,378.78 | 0.40 | 0.30 | -407.57 | |

The numbers appear to suggest a substantial downside edge over the first couple of days. To get a better idea of how the edge has played out over time I generated the equity curve using a 2-day exit strategy.



The consistent downslope acts as confirmation of the bearish edge suggested by the results table. I have added this study to the Short-Term Active List.

Wednesday is the 2nd day of the Fed meeting and they will make their policy announcement around 2pm. As I have documented many times, Fed Days have historically contained a substantial upside edge. One theory behind the Fed Day edge is that the Fed is able to exert a strong influence on the market for at least the announcement day. The optimism that is often seen around Fed Days is desired, and that is especially true during uncertain times. The Fed often tries to carefully balance economic expectations through both monetary policy and their statements. They don't want panic to ensue during difficult times and they don't want the economy to overheat during good times. During good times they will focus more on risks in their statements

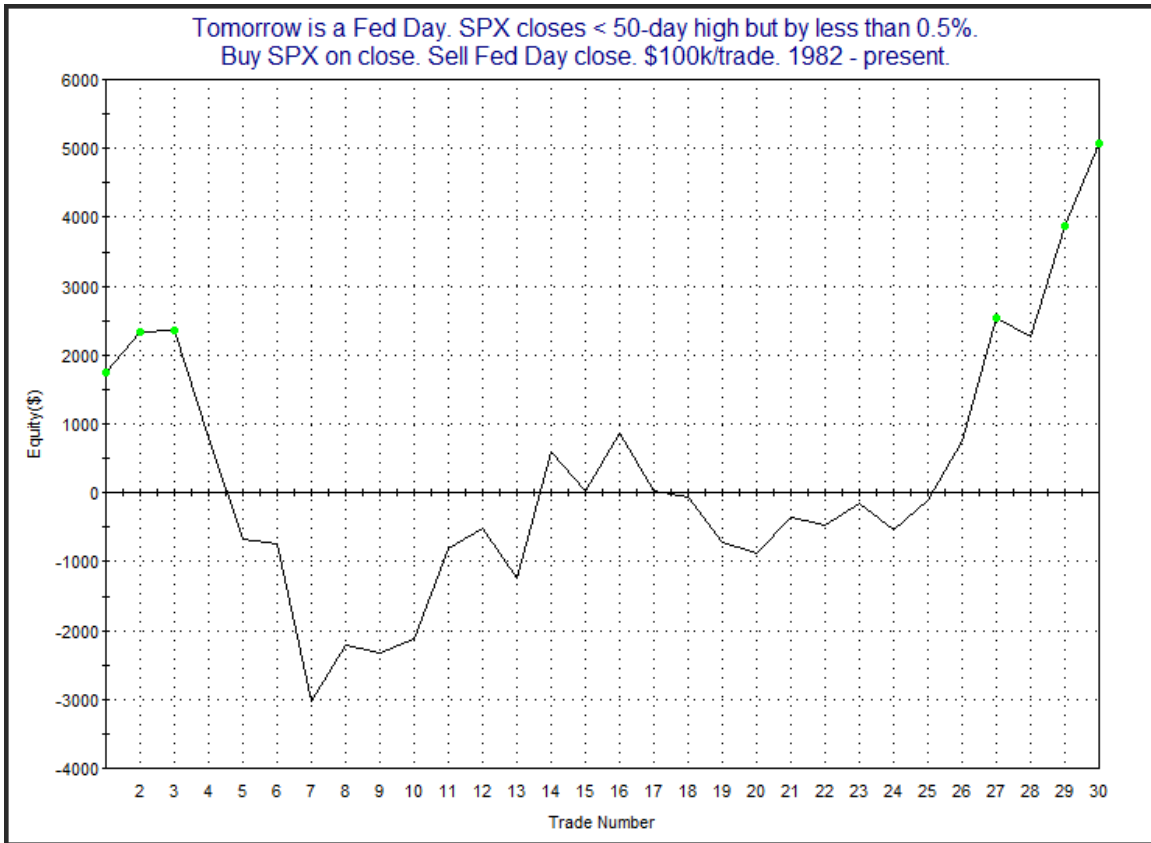
and will keep a bit of a lid on the excitement. During tough times they will focus more on positives. A panicky public is not good for either the market or the economy so they will act as the voice of reason when it appears panic may set in. And during those times when it seems neither overheating nor panicking is much of a danger, they simply look to instill confidence. Confidence in the economy, the market, the government, and their own abilities.

So when is the market least in need of a confidence boost? Perhaps when it is at or near an intermediate-term high. In the past I showed that the Fed Day edge was basically non-existent when the market closes at a 20-day high. In the 8/1/12 letter took a slightly different approach. I looked at times where the SPX did NOT close at a 50-day high, but in fact closed less than 0.5% below it. So although it is not a new high, the environment still appears generally positive. I've updated those results tonight.

Tomorrow is a Fed Day. SPX closes < 50-day high but by less than 0.5%.
Buy SPX on close. Sell Fed Day close. \$100k/trade. 1982 - present.

| TradeStation Performance Summary Collapse ^ | | | |
|--|-------------|--------------------------|--------------|
| All Trades | | | |
| Total Net Profit | \$5,079.86 | Profit Factor | 1.55 |
| Gross Profit | \$14,384.61 | Gross Loss | (\$9,304.75) |
| Total Number of Trades | 30 | Percent Profitable | 53.33% |
| Winning Trades | 16 | Losing Trades | 14 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$169.33 | Ratio Avg. Win:Avg. Loss | 1.35 |
| Avg. Winning Trade | \$899.04 | Avg. Losing Trade | (\$664.63) |
| Largest Winning Trade | \$1,820.44 | Largest Losing Trade | (\$2,267.20) |

Results here are only slightly better than breakeven, suggesting perhaps the Fed Day edge doesn't apply when the market is already strong. Below is a look at the profit curve.



Very choppy and inconsistent. The last few instances have done quite well, but the overall picture is simply not compelling and not a strong enough edge at this point for me to take it under serious consideration.

One other notable about the rally on Tuesday is that it caused a couple of the short-term studies on the active list to reach their targets, leading to their removal from that list. This had a negative overall impact on short-term expectations.

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



Between the new bearish study and the lost bullish ones the green Aggregator Line turned south and closed just barely below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is also dropped down through 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal turned from long to short at the close.

Based on the current active studies, expectations are slated to turn back to bullish on Wednesday. New and compelling bearish evidence would need to emerge in order to change this. The Differential Pivot will be 1850.26 on Wednesday. That is 1.2% below Tuesday's close. So it will take a very strong move down in order to move from overbought to oversold on Wednesday. Most days that would seem to be a lot, but a negative reaction to the Fed announcement is certainly capable sparking a selloff of that magnitude.

The market is now clearly overbought versus recent short-term expectations. But current expectations are very close to breakeven and set to flip positive on Wednesday. If there is a short-side edge, I don't think it is a very big one. I'm a bit wary of shorting in this environment, and I'm not likely to ever short just ahead of a Fed meeting. I took profits on my long positions on Tuesday, and I am content to step aside for a day or more and wait for the market to set up again.

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.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|----------------------|
| SPY(1/4) | 3/13/2014 | \$185.18 | \$186.71 | 0.83% | | <i>sold on open</i> |
| SPY(1/4) | 3/14/2014 | \$184.66 | \$187.66 | 1.62% | | <i>sold on close</i> |
| | | | | | | |
| | | | | | | |
| | | | | | | |

Both lots of SPY were sold according to the instructions in last night's letter.

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.