

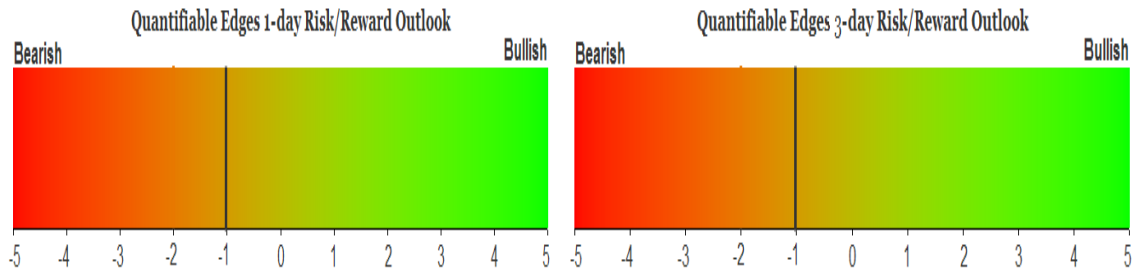
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 20, 2014

Volume 7 Issue 54

Market Overview



Signals Overview

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

Tonight's Research Points

- After a down Fed Day between 1993 and 2008 the market showed a strong propensity to bounce back the next day. But since the beginning of 2009, there has been much more downside follow through the next day.

Short-term Outlook

The Bottom Line

The Aggregator is back to neutral. This simply does not appear to be a high probability setup from which to take on new trades. I am sidelined awaiting the next compelling opportunity.

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 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 18, 2014	SPX up > 0.5%. NYSE vol 20-day low	1-2 days	Bearish	-1.30%

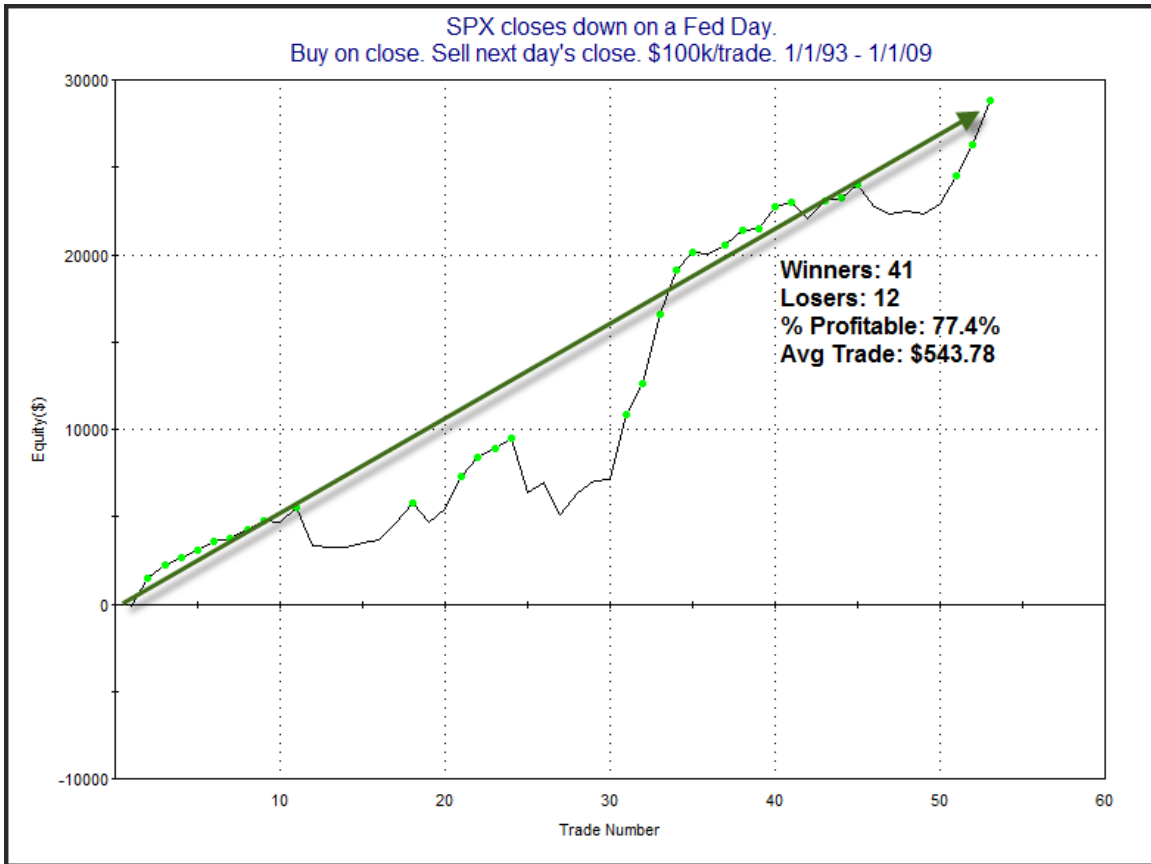
The Evidence

The Fed continued to taper on Wednesday and the market used it as an excuse to sell off. The SPX and NASDAQ each lost 0.6%, and the Russell 2000 fell 0.8%. Breadth was also strong as the NYSE Up Issues % came in at 25% and the Up Volume % was 28%. Total NYSE volume rose a bit as volatility came in a bit after the announcement.

The selling did not do much for the overall picture. SPX closes just below its 10-day moving average, after closing above it yesterday, and below it the day before. This kind of chop will rarely trigger strong edges, and the lack of studies in the Quantifinder tonight was telling. The one study that did show up was quite interesting.

It looked at market performance following Fed Days that close lower. Using just this simple filter I had not shown this study in a few years (since the 6/21/12 letter). What has transpired over the last few years has been interesting.

Here is a look at the profit curve from 1993 – 12/31/2008.



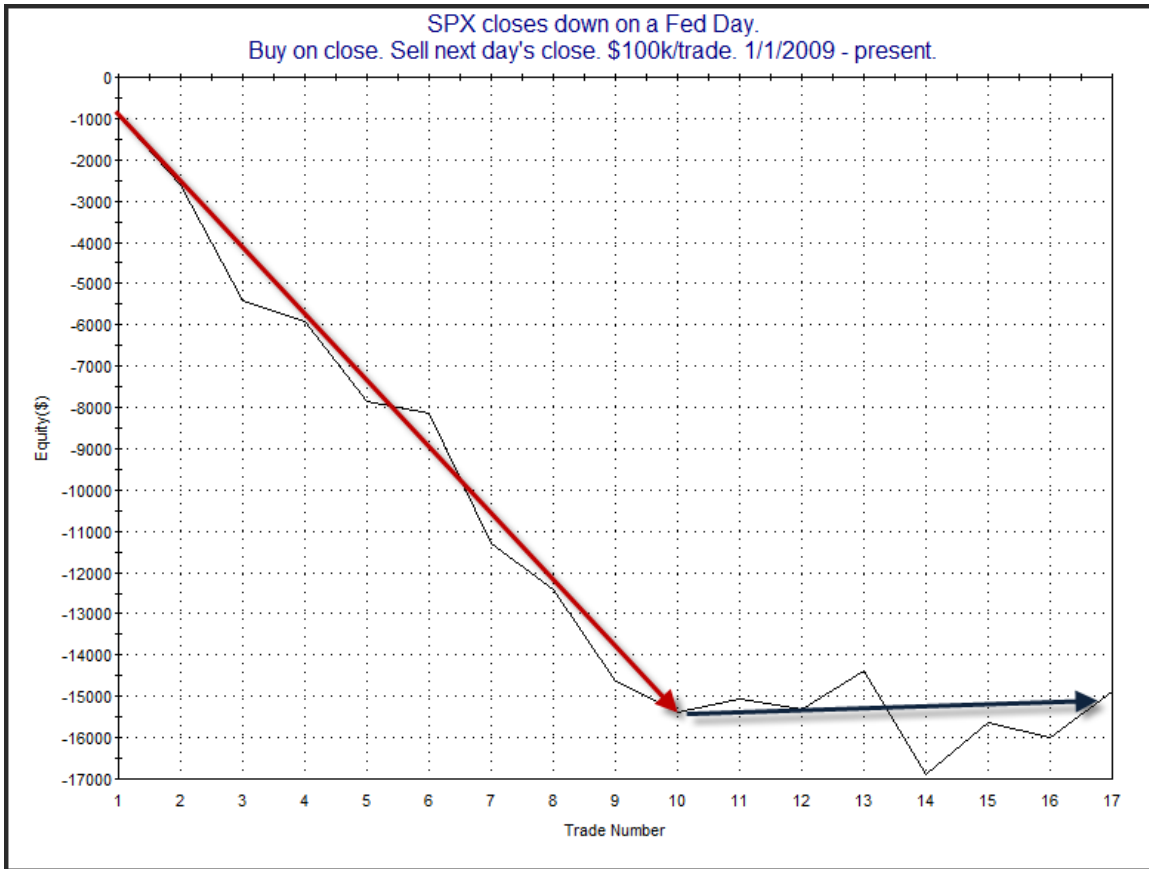
Not entirely consistent, but it certainly appears to suggest an upside edge.

But here are the stats since then.

SPX closes down on a Fed Day.
Buy on close. Sell next day's close. \$100k/trade. 1/1/2009 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$14,890.90)	Profit Factor	0.19
Gross Profit	\$3,600.17	Gross Loss	(\$18,491.07)
Total Number of Trades	17	Percent Profitable	23.53%
Winning Trades	4	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	(\$875.94)	Ratio Avg. Win:Avg. Loss	0.63
Avg. Winning Trade	\$900.04	Avg. Losing Trade	(\$1,422.39)
Largest Winning Trade	\$1,247.26	Largest Losing Trade	(\$3,162.00)

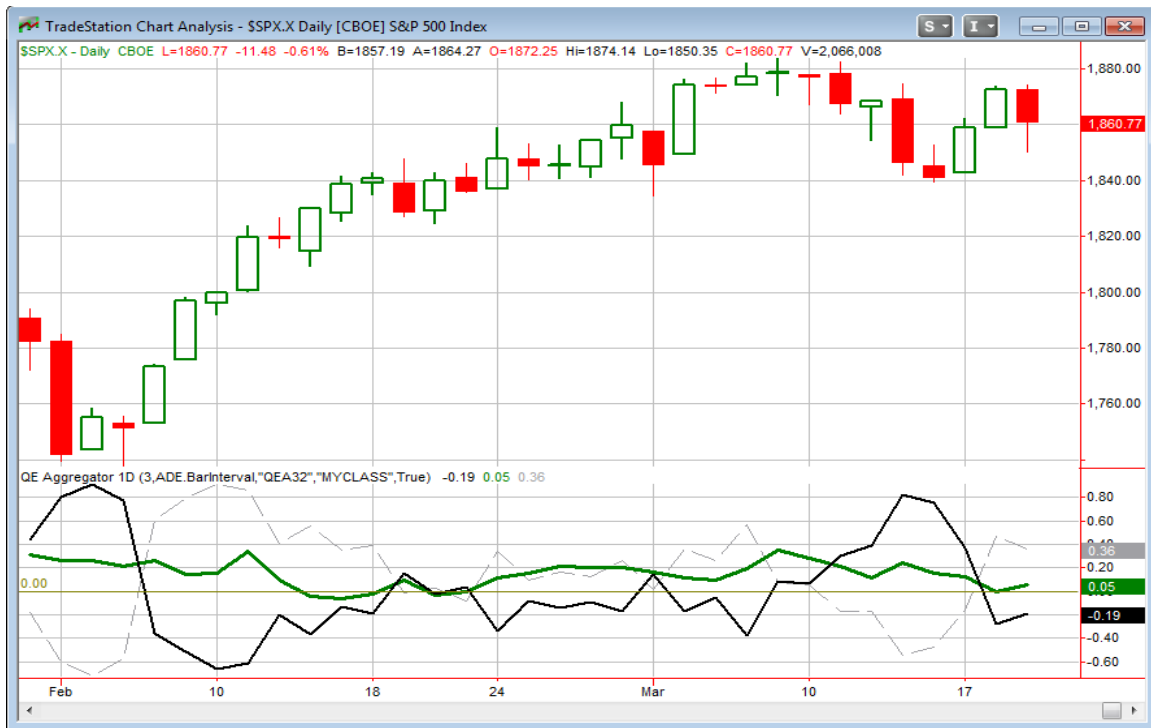
This one seems to have been turned on its head. Below is the profit curve.



After 10 losers in a row results have turned choppy and sideways. Obviously we are not looking at an upside edge anymore. But I'm not inclined to call this a downside edge either.

Sometimes edges stop working. Sometimes I can explain why. Sometimes I can't. In this case I have no good explanation why next-day bounce backs stopped occurring following down Fed Days. But understanding why is not as important as realizing what is. And in this case that means the upside tendency has not held true as it once did. It should no longer be relied upon as a decision-making factor.

So with the above study no longer worth consideration, there is nothing new being added to the Active List tonight. I have updated the [Aggregator](#) chart below.



With one bearish study expiring and no new studies emerging the green Aggregator Line edged back up above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is still 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 turned from short to flat at the close.

Based on the current active studies, expectations are slated to remain bullish on Thursday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 1868.26 on Thursday. That is 0.4% *above* Wednesday's close. An inverted pivot means the Differential Line will move through 0 if SPX closes flat. In this case SPX will need to rise at least 0.4% in order to remain overbought. Otherwise it will flip to "oversold" versus expectations.

I did not look to play the small bearish edge that appeared evident last night since risk/reward did not appear greatly favorable. And with the Aggregator back to neutral, I do not see risk/reward as improved tonight. Expectations are mildly positive and the SPX is a little overbought though it is also near the middle of its 10-day range. This appears to be a prime opportunity to sit on my hands for another day, see how things play out, and remain alert of any edges that emerge. I just don't see a compelling reason to trade right here.

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

None.

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