

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 21, 2014

Volume 7 Issue 55

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 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*

The Aggregator is again neutral. I am too.

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

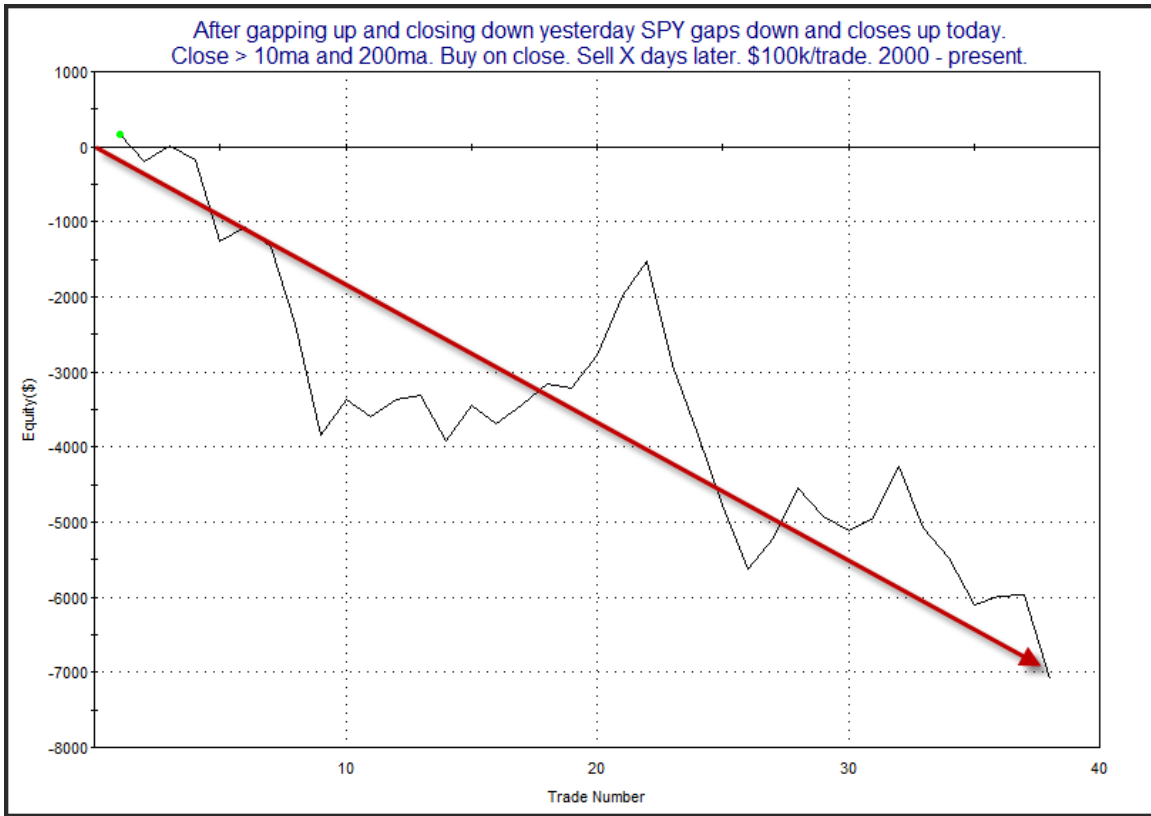
**The Evidence**

The market switched direction again on Thursday and moved higher. The SPX rose 0.6%, and the NASDAQ and the Russell 2000 gained 0.3%. Breadth was mixed as the NYSE Up Issues % came in at 49% and the Up Volume % was 65%. Total NYSE volume rose a little from Wednesday's level.

The way SPY has gapped and reversed the last couple of days is reminiscent of a study I showed just last week in the 3/13/14 letter. I re-ran the stats for that gap and reverse study and posted them below.

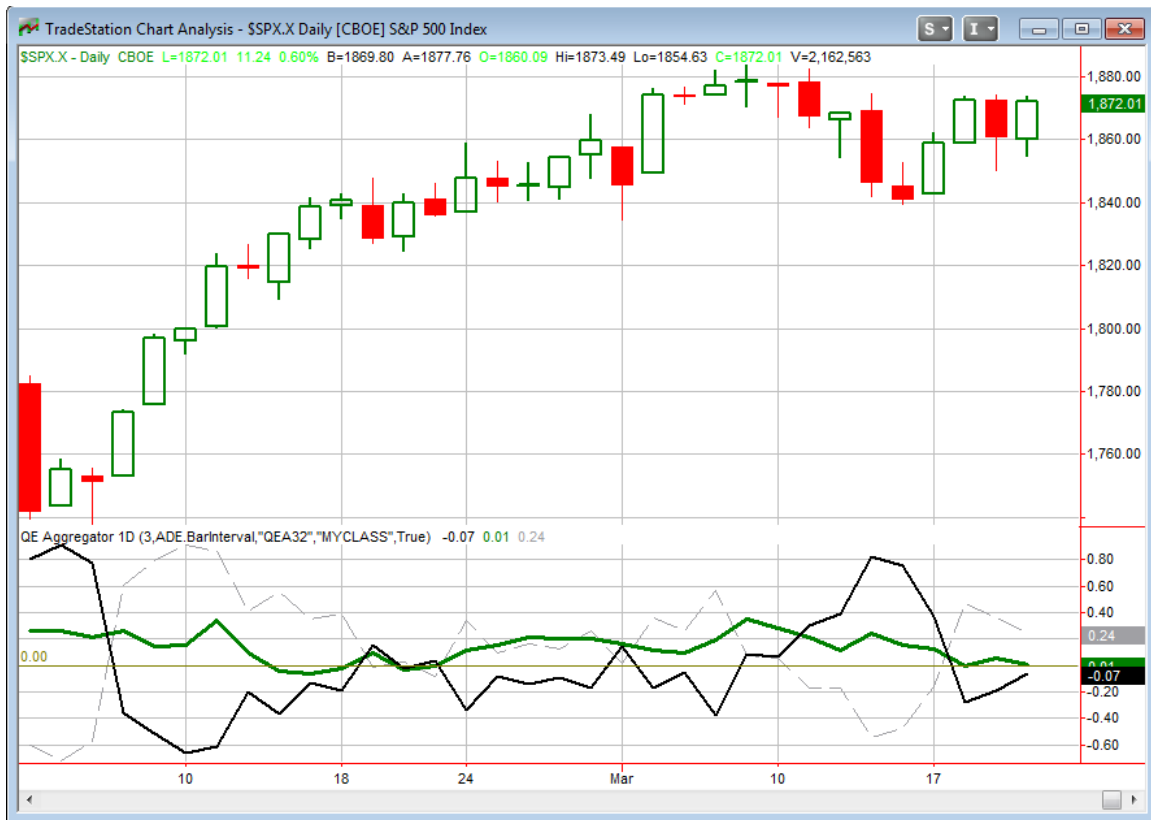
After gapping up and closing down yesterday SPY gaps down and closes up today. Close > 10ma and 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.													
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade	
5	-6,066.60	34	19	15	55.88	839.20	1,775.87	-1,467.43	-4,262.13	0.57	0.72	-178.43	
4	-9,798.00	35	15	20	42.86	878.79	1,803.51	-1,148.99	-3,226.86	0.76	0.57	-279.94	
3	-7,115.27	36	16	20	44.44	806.29	1,784.12	-1,000.80	-2,098.04	0.81	0.64	-197.65	
2	-7,400.87	38	17	20	44.74	609.77	1,935.96	-888.34	-3,107.14	0.69	0.58	-194.76	
1	-7,093.46	38	18	20	47.37	338.88	805.00	-659.66	-1,485.70	0.51	0.46	-186.67	

The edge isn't huge but risk/reward has seemed to favor the bears under these circumstances. Much of the downside has been realized by the end of day 1, so I elected to show the profit curve for that holding period below.



No one would call this a smooth curve, but it does seem to be working its way lower. I decided to include it on the Active List again tonight

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



Tonight's bearish study helped the green Aggregator Line edge down some, but it still remained slightly 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 remained flat at the close.

Based on the current active studies, expectations are slated to remain bullish on Friday. Of course with the Active List so small right now, new evidence could quickly change those expectations. The Differential Pivot will again be *inverted* at 1877.11 on Friday. That is 0.3% *above* Thursday'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 0.3% in order to remain overbought. Otherwise it will flip to "oversold" versus expectations.

The choppy back and forth action like we have seen the last few days doesn't often create a setup with great risk/reward. And that is my feeling now. Evidence is not strong and the Differential Line is very near 0 and readying to cross it. I have no desire to take on new exposure just yet. I will remain patient and alert.

***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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