

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 25, 2014

Volume 7 Issue 57

Market Overview



Signals Overview

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

Tonight's Research Points

- Under similar circumstances "Turnaround Tuesday" has acted more like "Continuation Tuesday".

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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 24, 2014	SPX up 1%-2% opex week	1-5 days	Bearish	
March 24, 2014	SPX dn. Up Issues > 55%	1-3 days	Bullish	
Active - Long Term				
March 14, 2014	QQQ 5 lower lows. Big drop today.	1-20 days	Bullish	11.90%
December 23, 2013	QE Tapering	int term	Neutral	
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 on lower vol after RSI2 < 5 yest	1-5 days	Bullish	1.20%

The Evidence

A strong open could not hold and the market finished Monday with some more losses. The SPX lost 0.5%, the NASDAQ dropped 1.2% and the Russell 2000 fell 1.3%. Breadth was negative as the NYSE Up Issues % came in at 37% and the Up Volume % was 34%. Total NYSE volume fell quite a bit from Friday's options expiration level.

As I laid out in the "Turnaround Tuesday" study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. But I as I showed in the 12/31/13 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row and it was Monday. Here are those results.

SPX closes down for exactly the 2nd day in a row. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$21,306.20	Profit Factor	1.78	
Gross Profit	\$48,470.57	Gross Loss	(\$27,164.37)	
Total Number of Trades	72	Percent Profitable	52.78%	
Winning Trades	38	Losing Trades	34	
Even Trades	0			
Avg. Trade Net Profit	\$295.92	Ratio Avg. Win:Avg. Loss	1.60	
Avg. Winning Trade	\$1,275.54	Avg. Losing Trade	(\$798.95)	
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)	

The win rate is just above 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (*unlike* now).

SPX closes down for exactly the 2nd day in a row. Today is Monday. SPX < 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

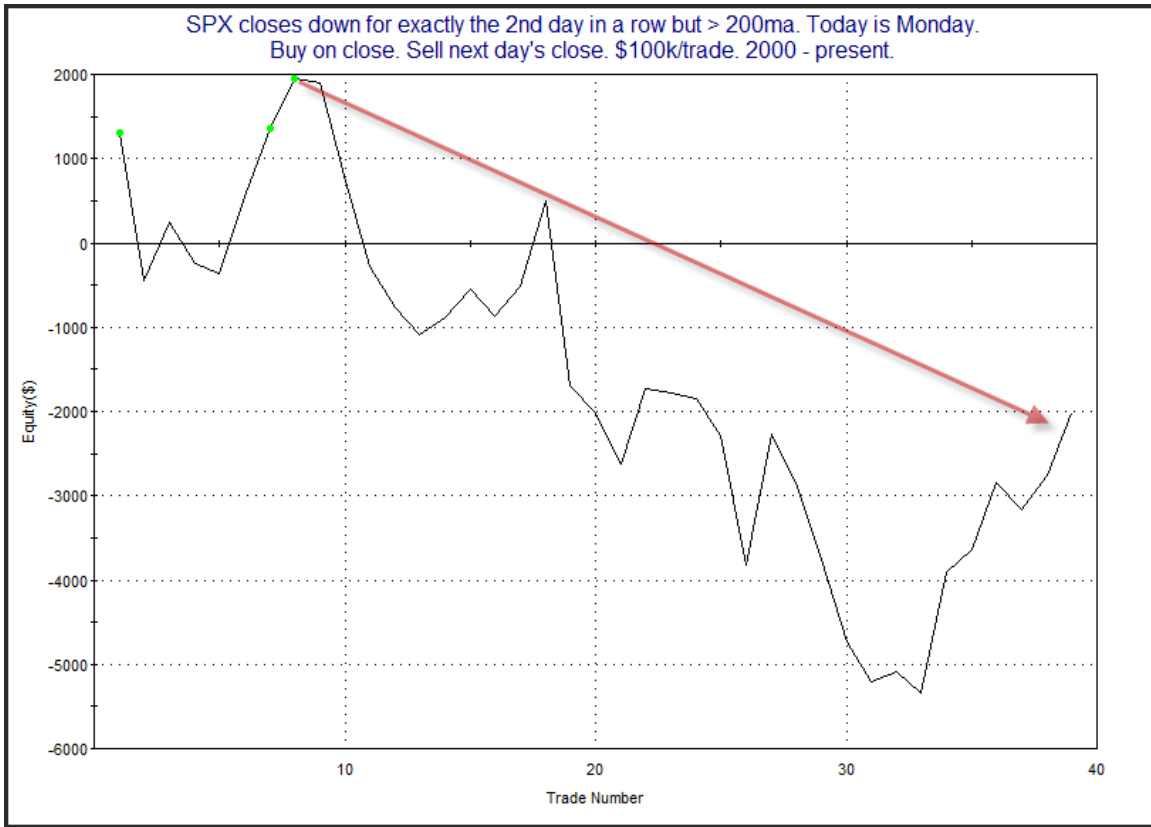
TradeStation Performance Summary			
All Trades			
Total Net Profit	\$23,315.03	Profit Factor	2.83
Gross Profit	\$36,050.39	Gross Loss	(\$12,735.36)
Total Number of Trades	33	Percent Profitable	63.64%
Winning Trades	21	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$706.52	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,716.69	Avg. Losing Trade	(\$1,061.28)

We see here just under half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

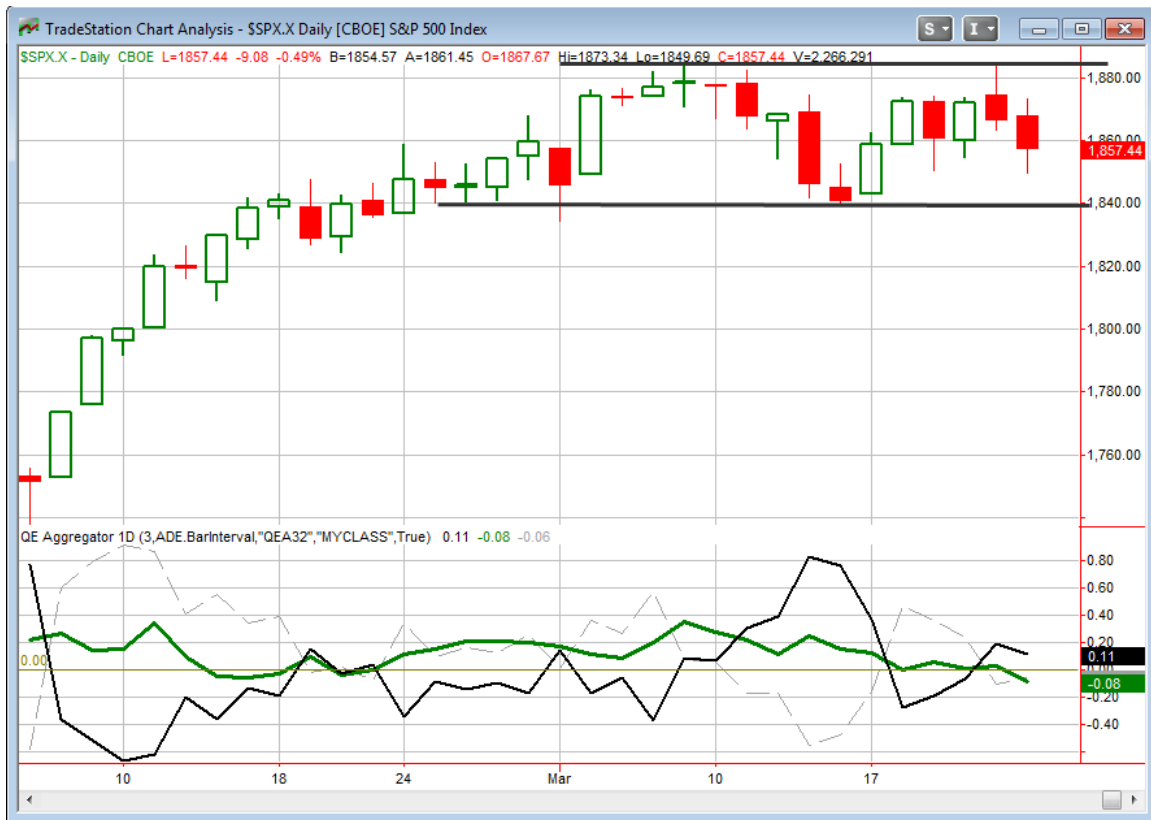
TradeStation Performance Summary			
All Trades			
Total Net Profit	(\$2,008.83)	Profit Factor	0.86
Gross Profit	\$12,420.18	Gross Loss	(\$14,429.01)
Total Number of Trades	39	Percent Profitable	43.59%
Winning Trades	17	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	(\$51.51)	Ratio Avg. Win:Avg. Loss	1.11
Avg. Winning Trade	\$730.60	Avg. Losing Trade	(\$655.86)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn't fit here. In fact, the tendency appears to slightly favor a continuation of the 2-day pullback. “Continuation Tuesday” appears to be more appropriate. Below is the profit curve.



Definitely choppy, and recently the line has headed higher. So appears to signify chop more than a consistently bearish inclination. Therefore, I have not included these results on the short-term Active List.

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



Without any new studies being added tonight, the green Aggregator Line dipped below 0. I indicated was set to occur in last night's letter. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remained above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are negative but the SPX is oversold. 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 flat at the close.

Based on the current active studies, expectations are slated to remain negative on Tuesday. Of course that could change if new bullish evidence emerges. The Differential Pivot will be 1872.99 on Tuesday. That is 0.8% above Monday's close. So it will take a strong move higher on Tuesday for SPX to move from oversold to overbought versus expectations.

I have done very little trading lately, but there simply have not been strong edges. A look at the chart above and you can easily see the choppy range that the market has been in over the last few weeks. This is not the type of environment that typically produces strong edges. It is an environment I am glad I have not been heavily involved with. There was one Catapult that triggered on Monday, so I will be looking to trade that. Details down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/24 – neutral

The intermediate-term outlook was last updated in the 3/24 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

WAG – 1/3 @ \$64.31 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(WAG)

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.

WAG – buy 1/3 Catapult position at \$64.31 LIMIT. This is based on the Catapult trigger shown above. Catapults have done well over time, but are quite volatile and I trade them without stops. Traders should be sure they are comfortable with the Catapult System approach before considering these trades. Detailed information can be found on [the Catapult System page](#) on the website.

Current Open Trade Ideas

None.

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