

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 1, 2014

Volume 7 Issue 62

Market Overview



Signals Overview

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

Tonight's Research Points

- The first few days in April have been strong over the last 20 years.
- Projected values for the April QE Buying Power Index show early April to have the weakest liquidity flows of the month.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. Evidence is pointing higher, but the market is back to overbought. This is not a spot where I want to get heavily involved.

Summary of Recent Active Studies (see Letters from listed dates for details)

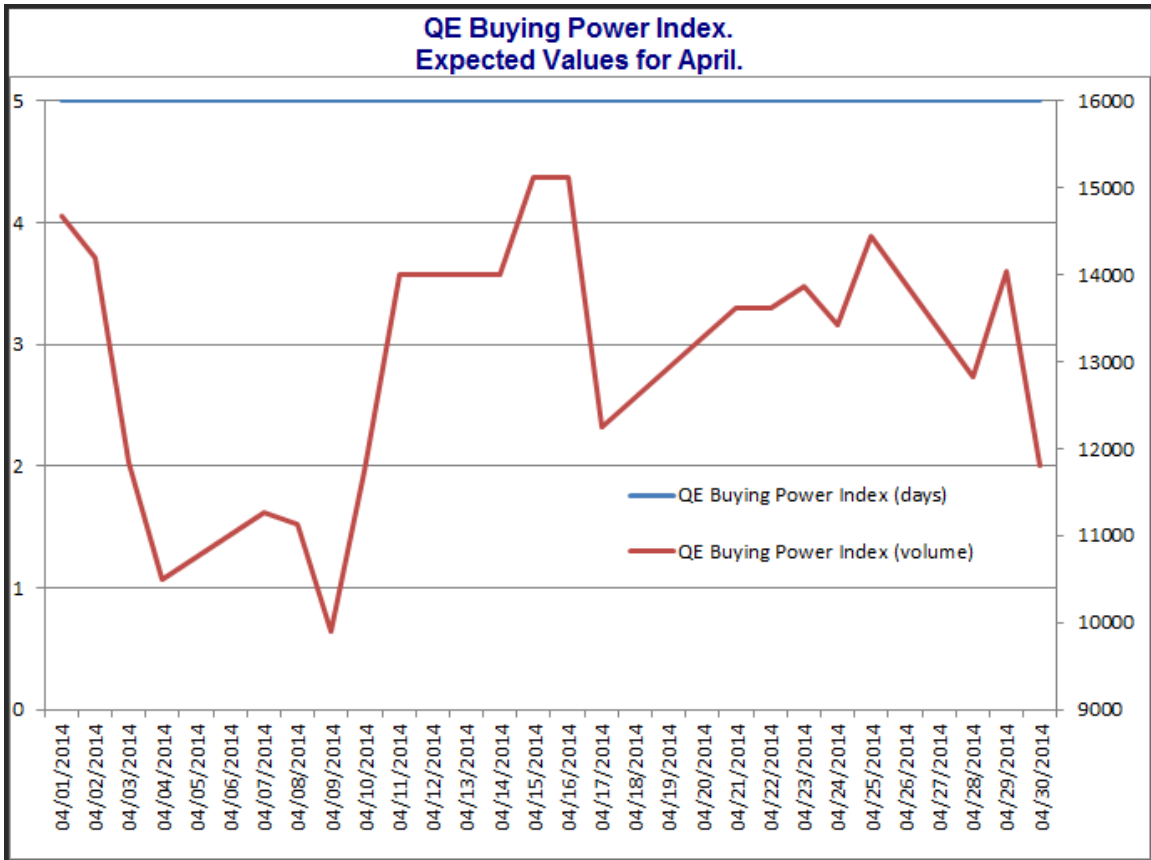
Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
March 31, 2014	Early April bullish	1-4 days	Bullish	
March 27, 2014	SPX 5-low. Bottom 10% range.	1-5 days	Bullish	1.80%
Active - Long Term				
March 14, 2014	QQQ 5 lower lows. Big drop today.	1-20 days	Bullish	11.90%
December 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	

The Evidence

The market gapped up and continued higher on Monday, with the major indices making strong gains. The SPX closed up 0.8%, the NASDAQ rose 1.0% and Russell 2000 rallied 1.8%. Breadth was strongly positive as the NYSE Up Issues % came in at 76% and the Up Volume % was 80%. Total NYSE volume rose some from Friday's level.

The Quantifinder identified several studies focused on Tuesday being the first of the month. I discussed last night the first of the month bullish edge has only been prominent when SPY has closed in the bottom half of its daily range. That did not happen on Monday, and so I am not viewing this 1st of the month as particularly bullish.

One thing that does appear worth discussing is the fact that the Fed released its April buying schedule on Monday afternoon. I used that schedule to calculate the QE Buying Power Index projections for April.



The range continues to drop as the tapering has increased. Most notable about April is that the early part of the month has the weakest liquidity flows. There is normally a lag of a few days when looking at the impact of flows. It appears that as early as next week these mild flows could open the door for bears to make some headway. During the second half of the month the range of liquidity flows is pretty tight. It will be interesting to see if 5-day flows in the \$12-\$15 billion range are enough to continue to be able to support the market.

One study I discussed last night was focused on April's strong seasonality at the beginning of the month. I will be taking this into account over the next few days. Below I have copied an excerpt from last night letter.

In the 4/1/13 letter I showed how early April has exhibited strong seasonality since the mid 90s. Below I have updated that study.

Buy SPX at close of last trading day in March. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	16,018.11	20	15	5	75.00	1,596.26	4,435.97	-1,585.16	-2,745.12	1.01	3.02	800.91
4	23,699.75	20	16	4	80.00	1,725.14	4,701.25	-975.64	-1,831.35	1.77	7.07	1,184.99
3	17,738.28	20	15	5	75.00	1,806.73	5,578.75	-1,872.53	-4,909.74	0.96	2.89	886.91
2	17,805.65	20	15	5	75.00	1,661.55	4,563.75	-1,423.51	-4,638.84	1.17	3.50	890.28
1	8,902.36	20	15	5	75.00	855.96	3,559.50	-787.42	-1,532.16	1.09	3.26	445.12

Numbers here appear impressive. Let's take a look at the individual instances based on a 4-day holding period.

Buy SPX at close of last trading day in March. Buy on close. Sell X days later. \$100k/trade. 1994 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
03/31/94	Buy	\$445.76	1.15%	\$1,196.16
04/07/94	Sell	\$450.88		(\$2,217.60)
03/31/95	Buy	\$500.71	1.07%	\$1,271.61
04/06/95	Sell	\$506.07		(\$101.49)
03/29/96	Buy	\$645.50	1.60%	\$1,721.72
04/04/96	Sell	\$655.86		\$0.00
03/31/97	Buy	\$757.12	0.10%	\$576.84
04/04/97	Sell	\$757.90		(\$1,726.56)
03/31/98	Buy	\$1,101.76	1.78%	\$2,720.70
04/06/98	Sell	\$1,121.40		(\$582.30)
03/31/99	Buy	\$1,286.37	3.15%	\$3,324.86
04/07/99	Sell	\$1,326.89		(\$282.59)
03/31/00	Buy	\$1,498.58	0.18%	\$1,839.42
04/06/00	Sell	\$1,501.31		(\$5,423.22)
03/30/01	Buy	\$1,160.34	(0.77%)	\$788.62
04/05/01	Sell	\$1,151.46		(\$5,878.10)
03/28/02	Buy	\$1,147.39	(1.83%)	\$39.15
04/04/02	Sell	\$1,126.34		(\$2,410.77)
03/31/03	Buy	\$848.18	3.62%	\$4,412.07
04/04/03	Sell	\$878.85		(\$38.61)
03/31/04	Buy	\$1,126.21	1.95%	\$2,143.68
04/06/04	Sell	\$1,148.17		(\$0.88)
03/31/05	Buy	\$1,180.57	0.30%	\$775.32
04/06/05	Sell	\$1,184.06		(\$1,079.40)
03/31/06	Buy	\$1,294.87	1.09%	\$1,381.38
04/06/06	Sell	\$1,309.04		(\$12.32)
03/30/07	Buy	\$1,420.86	1.61%	\$1,681.40
04/05/07	Sell	\$1,443.76		(\$314.30)
03/31/08	Buy	\$1,322.69	3.61%	\$4,366.50
04/04/08	Sell	\$1,370.40		\$0.00
03/31/09	Buy	\$797.87	4.71%	\$5,967.50
04/06/09	Sell	\$835.48		(\$1,818.75)
03/31/10	Buy	\$1,169.43	1.11%	\$1,901.45
04/07/10	Sell	\$1,182.45		\$0.00
03/31/11	Buy	\$1,325.83	0.73%	\$1,016.25
04/06/11	Sell	\$1,335.54		\$0.00
03/30/12	Buy	\$1,408.47	(0.74%)	\$973.70
04/05/12	Sell	\$1,398.08		(\$1,088.50)
03/28/13	Buy	\$1,569.19	(0.59%)	\$281.61
04/04/13	Sell	\$1,559.98		(\$1,221.57)

The last 2 years have not panned out as 16 of the previous 18 had. It's too early to say that the edge is no longer prevalent. I'm still giving this one the benefit of the doubt, but we'll need to keep watch over the next few years to see if this last two years was just a blip like 2001-2002, or whether the tendency is really changing.

So there is nothing new to add to the Active List for Monday, but we do have some seasonal considerations for Tuesday – Friday.

This is the only new study being added to the Active List tonight.

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



Tonight the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line took a dive down below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive

but the SPX is already 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 flat at the close.

Based on the current active studies, expectations are slated to remain positive on Tuesday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 1847.98 on Tuesday. That is a pretty steep 1.3% below Monday's close. So Tuesday will need to close substantially lower for SPX to move from overbought to oversold versus expectations.

I was not filled on my long SPY entry on Monday. And with the market now extended, it does not appear an opportune time to try and take a long position. It looks even less opportune to try and take a short position. So I remain largely sidelined and awaiting a better opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/31 – neutral

The intermediate-term outlook was last updated in the 3/31 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
AMZN	3/27/2014	\$343.15	\$336.36	-1.98%		sell on close >= \$351.78

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