

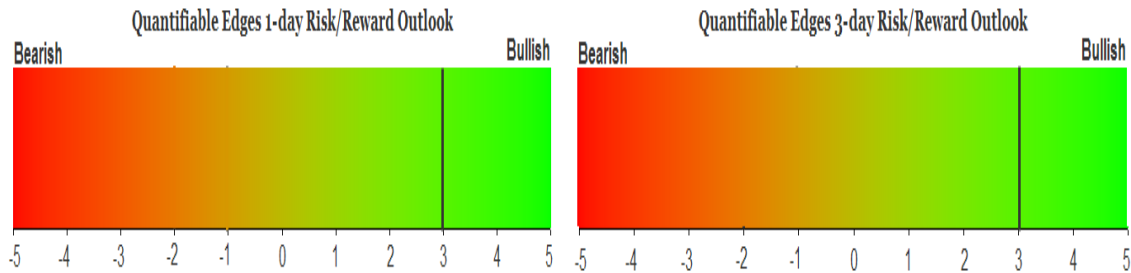
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 8, 2014

Volume 7 Issue 67

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Long

## Tonight's Research Points

- 3-day pullbacks going into a Tuesday have been strongly prone to upside reversals.
- When SPY has left an unfilled gap down and closed poorly after already being positioned in a short-term move lower but a long-term move higher, it has generally led to higher prices over the next several days.
- The QE Buying Power System is signaling a buy.

## *Short-term Outlook*

### *The Bottom Line*

The market is still short-term oversold, and evidence continues to build suggesting a bounce. I am partially long and looking to get longer.

**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>				
April 8, 2014	Unfilled gap down & weak finish > 200	1-8 days	Bullish	
April 8, 2014	3 Down & Today is Monday	1-4 days	Bullish	
April 8, 2014	QE Buying Power System Long	1-6 days	Bullish	
April 7, 2014	20-day high and close bottom 10% rng	1-8 days	Bullish	2.00%
April 7, 2014	Double Outside Days	1-5 days	Bullish	1.80%
April 2, 2014	50-Breakout 3-up. Lower volume	1-5 days	Bullish	1.95%
<b>Active - Long Term</b>				
April 7, 2014	SPX new high while NDX huge drop	1-50 days	Bullish	
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	
<b>Dropped Tonight</b>				
April 7, 2014	Employment Day decline	1 day	Bullish	

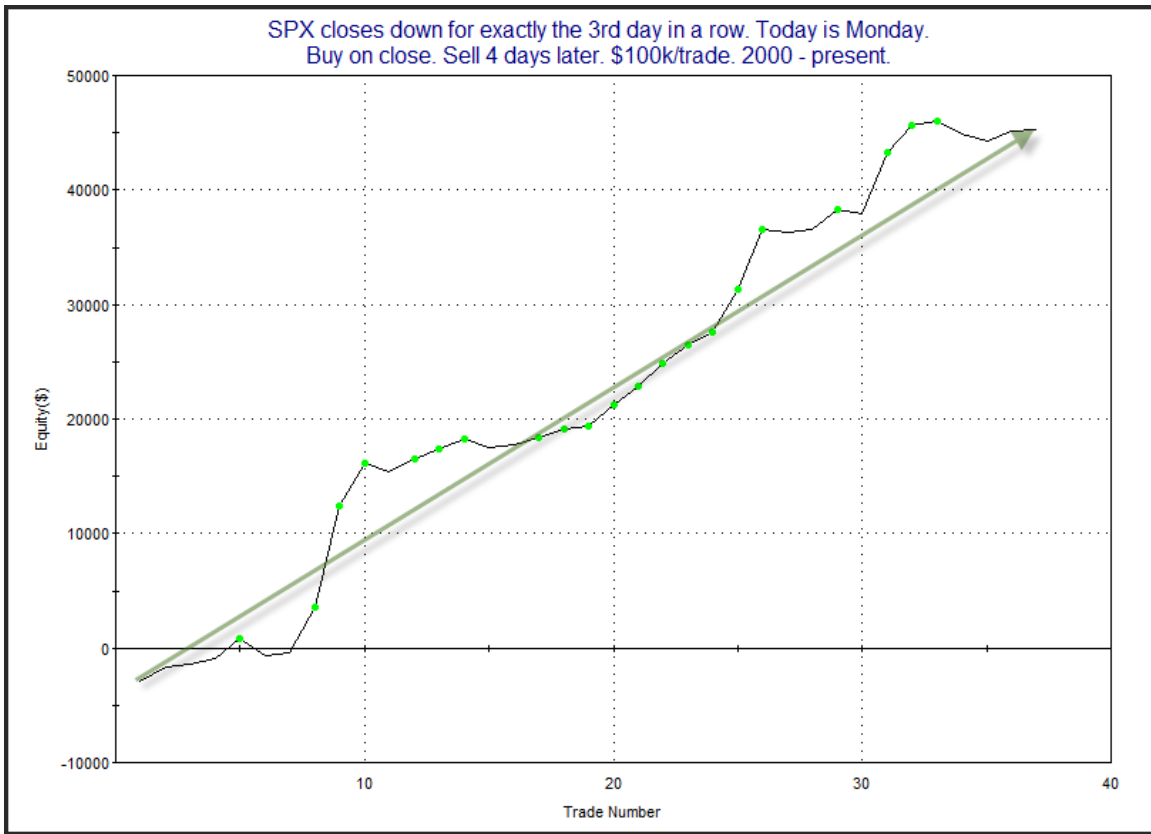
**The Evidence**

The pullback continued on Monday and stocks suffered strong selloffs once again. The SPX fell 1.1%, the NASDAQ dropped 1.2% and Russell 2000 declined 1.5%. Breadth was negative as the NYSE Up Issues % came in at 27% and the Up Volume % was 20%. Total NYSE volume came in a little higher than on Friday.

I've discussed many times in the past that Tuesdays have a well-earned reputation for being a day when the market will often halt a decline. The study below is one from the larger [Turnaround Tuesday study](#) published in the 9/25/12 blog. I last reviewed it in the 1/28/14 Subscriber Letter. All statistics are updated.

SPX closes down for exactly the 3rd day in a row. Today is Monday. 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
10	61,129.50	36	27	9	75.00	2,715.23	13,815.90	-1,353.54	-4,387.46	2.01	6.02	1,698.04
9	66,493.19	36	29	7	80.56	2,486.44	11,206.23	-801.94	-1,686.96	3.10	12.85	1,847.03
8	64,102.31	36	28	7	77.78	2,560.62	11,382.35	-1,085.01	-2,031.30	2.36	9.44	1,780.62
7	62,152.71	36	28	8	77.78	2,528.38	11,104.17	-1,080.24	-2,148.96	2.34	8.19	1,726.46
6	49,417.21	36	25	11	69.44	2,362.18	10,034.53	-876.13	-1,676.79	2.70	6.13	1,372.70
5	52,764.59	37	24	13	64.86	2,688.43	9,572.31	-904.44	-2,221.52	2.97	5.49	1,426.07
4	45,210.17	37	29	8	78.38	1,843.28	8,810.76	-1,030.62	-2,964.25	1.79	6.48	1,221.90
3	38,431.95	37	25	12	67.57	1,887.33	8,432.34	-729.28	-1,873.02	2.59	5.39	1,038.70
2	24,616.66	37	26	11	70.27	1,294.65	5,018.23	-822.21	-1,602.76	1.57	3.72	665.32
1	18,059.94	37	23	14	62.16	1,240.62	4,723.23	-748.17	-2,680.15	1.66	2.72	488.11

As you can see the market has strongly favored a quick move higher. And when that move hasn't happened on Tuesday it has often happened in the next few days. Below is an equity curve showing a 4-day exit strategy.



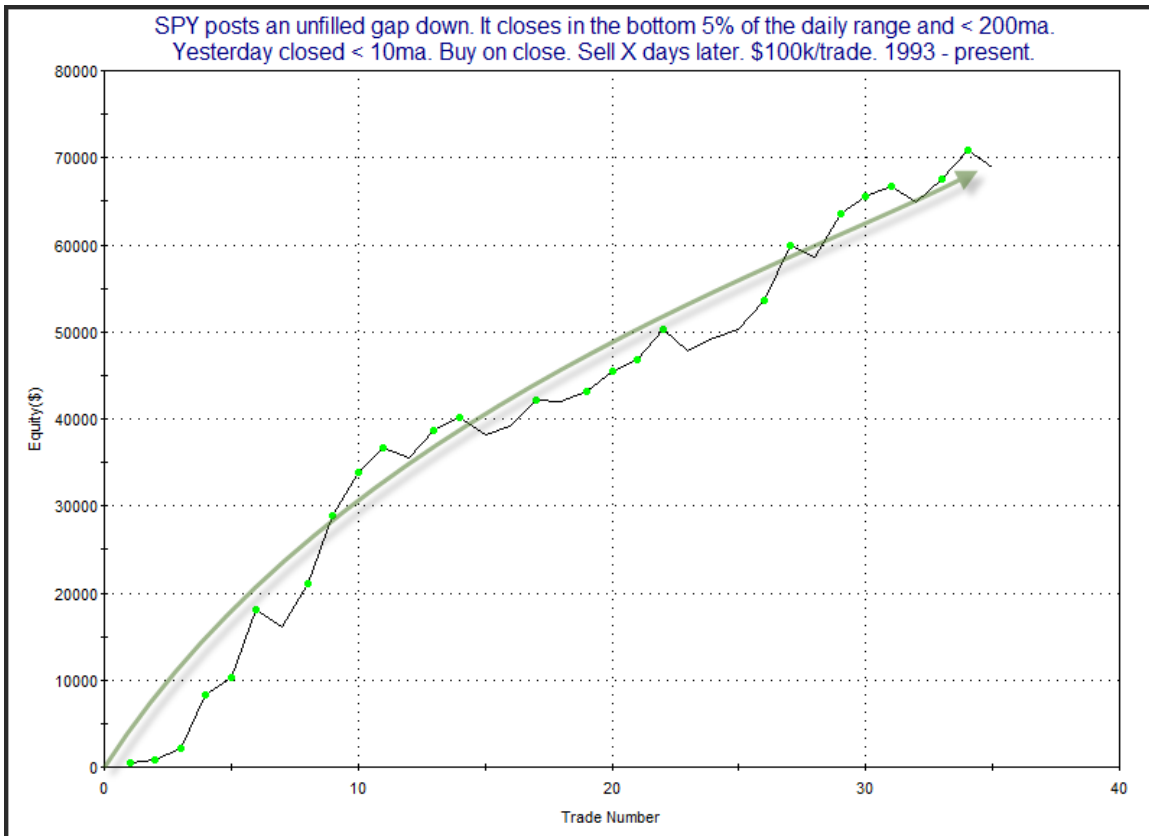
While the strength of the edge has oscillated some it has provided fairly consistent results over time. Certainly this study seems to suggest an upside edge.

This next study was last seen in the 10/8/13 Subscriber Letter. It looks at unfilled gaps down that close poorly while the market is in a short-term downtrend, but a long-term uptrend. Results are updated.

SPY posts an unfilled gap down. It closes in the bottom 5% of the daily range and < 200ma.  
 Yesterday closed < 10ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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
10	66,627.08	33	25	8	75.76	2,958.11	9,282.24	-915.70	-1,621.08	3.23	10.10	2,019.00
9	67,837.48	34	26	8	76.47	2,881.07	7,585.77	-883.80	-1,540.26	3.26	10.59	1,995.22
8	68,863.82	35	27	8	77.14	3,025.79	7,858.26	-1,604.05	-2,373.11	1.89	6.37	1,967.54
7	60,356.87	36	27	9	75.00	2,710.88	8,324.13	-1,426.31	-3,146.11	1.90	5.70	1,676.58
6	51,387.88	36	27	9	75.00	2,403.61	7,873.02	-1,501.05	-4,076.73	1.60	4.80	1,427.44
5	46,781.31	36	24	12	66.67	2,446.77	8,239.74	-995.10	-3,731.61	2.46	4.92	1,299.48
4	38,438.01	37	26	11	70.27	1,938.87	5,581.02	-1,088.41	-2,342.19	1.78	4.21	1,038.87
3	34,793.59	39	27	12	69.23	1,742.70	5,117.85	-1,021.61	-2,897.57	1.71	3.84	892.14
2	33,174.04	39	30	9	76.92	1,498.80	5,477.88	-1,309.98	-2,657.80	1.14	3.81	850.62
1	22,408.30	39	28	11	71.79	1,031.72	5,764.38	-589.08	-1,269.00	1.75	4.46	574.57

Results are strong right from the start and look good throughout the first two weeks. Below I have posted the equity curve assuming an 8-day holding strategy.

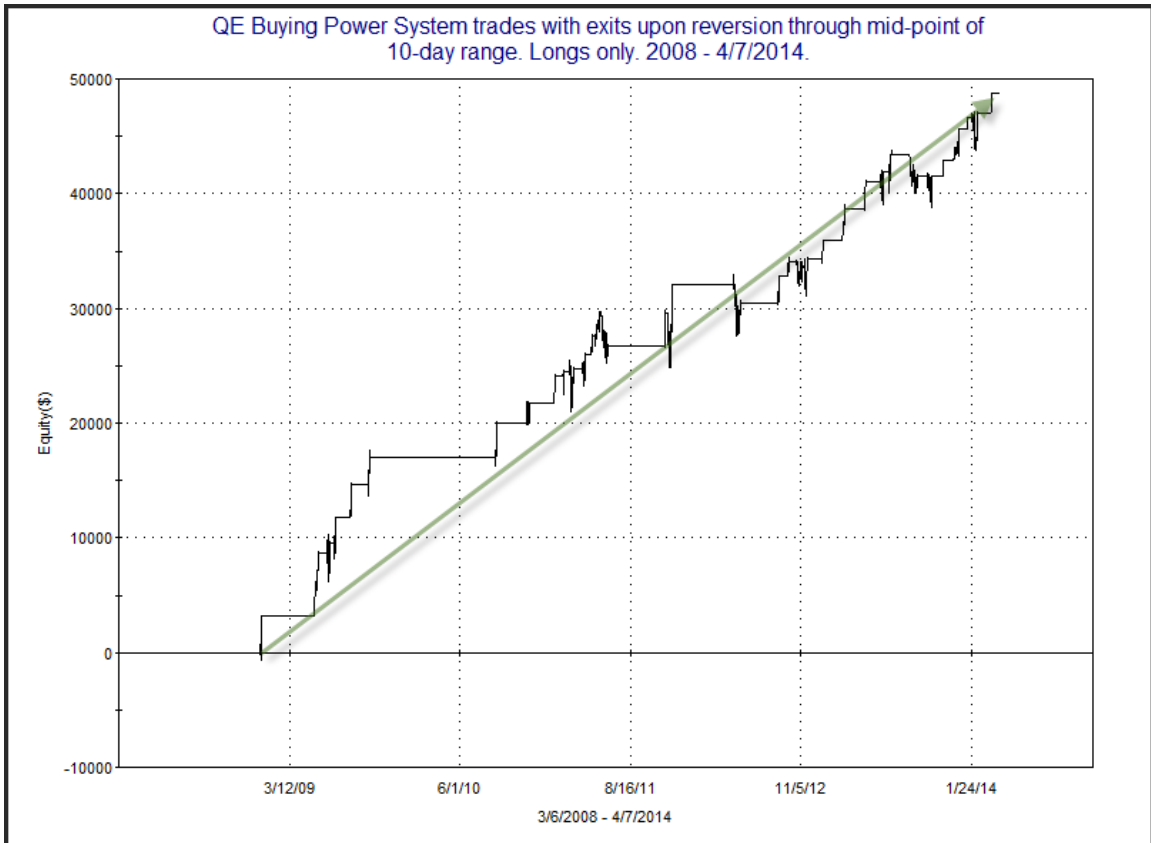


Nothing wrong with this curve. So the unfilled gap down and weak price action on Monday appear to suggest a bullish edge.

The low close on Monday also helped to trigger a long in the QE Buying Power System. This system looks to get long any time SPX closes in the bottom 20% if the 10-day range and the QE Buying Power Index is  $\geq 3$  (the index is can be found on the charts page and has been maxed out at 5 for a long time). It shorts whenever the QE Buying Power Index  $\leq 0$  and SPX closes in the top 20% of the 10-day range. Below are long-only results for the simplified version of the system that just looks to exit when the index closes back above the midpoint of its (then current) 10-day range.

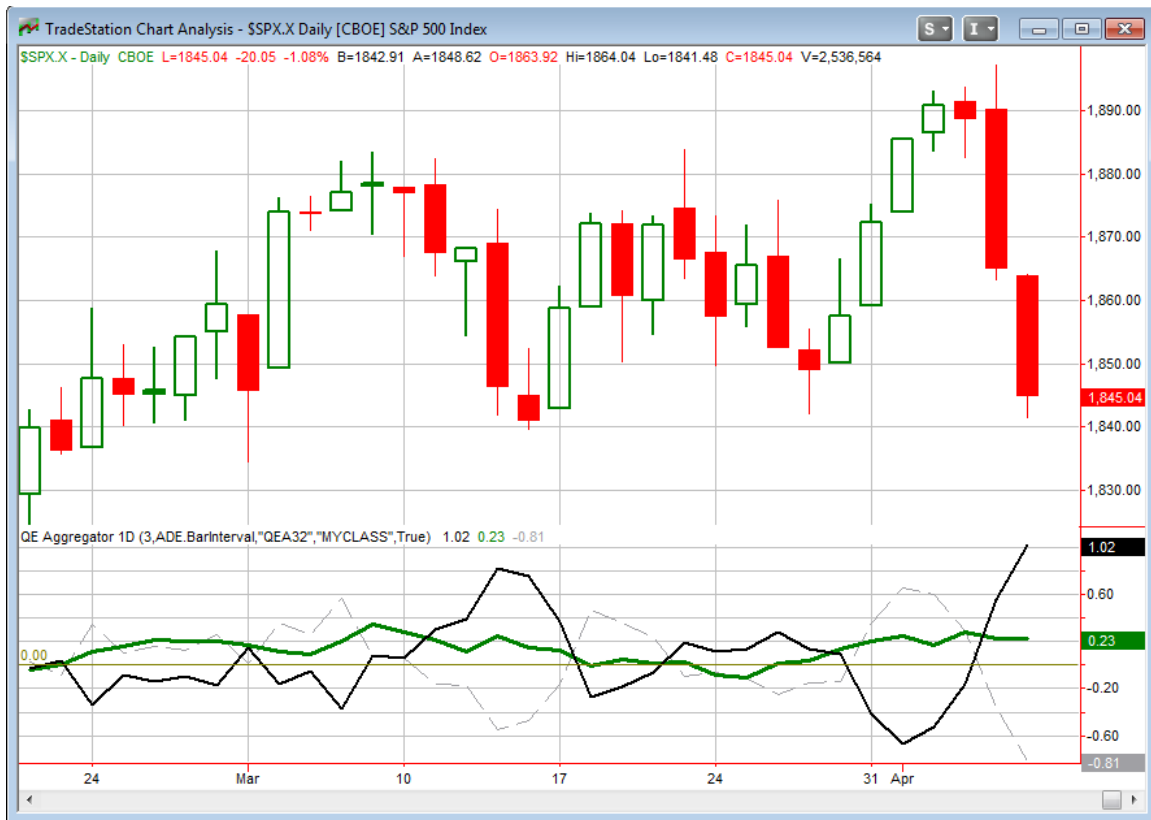
QE Buying Power System trades with exits upon reversion through mid-point of 10-day range. Longs only. 2008 - 4/7/2014.			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	\$48,719.02	Profit Factor	8.38
Gross Profit	\$55,324.63	Gross Loss	(\$6,605.61)
Total Number of Trades	38	Percent Profitable	89.47%
Winning Trades	34	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,282.08	Ratio Avg. Win:Avg. Loss	0.99
Avg. Winning Trade	\$1,627.20	Avg. Losing Trade	(\$1,651.40)
Largest Winning Trade	\$3,160.20	Largest Losing Trade	(\$2,750.44)

Some very strong stats here. This suggests a substantial upside edge in buying pullbacks when you have also had strong liquidity. And here is a look at the profit curve.



The curve is as impressive as the stats, and serves as confirmation of the upside edge. Of course, as I discussed yesterday, POMO flows are getting lighter. So this setup will have to be watched closely to make sure it is maintaining its effectiveness. So far, it is showing no sign of weakening. The last seven trades, and 14 of the last 15, have finished with positive results. This is just the fourth signal that has triggered since the beginning of 2014 when the Fed began tapering. Still, I feel I should give this setup the benefit of the doubt until signs of weakening do appear.

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



With the new bullish studies being added 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 rose farther above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal remained long at the close.

Based on the current active studies, expectations are slated to remain positive on Tuesday. It would take extremely strong new bearish evidence to change that. The Differential Pivot will be 1900.59 on Tuesday. That is a whopping 3.0% above Monday's close. It's extremely unlikely that SPX will achieve that in just 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

I took on some index exposure at the close on Monday. Today's evidence paints an even more compelling picture. If I can get a favorable fill, I will look to quickly add to that index position as early as Tuesday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 4/7 – neutral***

The intermediate-term outlook was last updated in the 4/7/14 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.*

**SPY – buy ¼ index position @ \$183.50 LIMIT ON OPEN – if not filled on open, cancel order and place for \$184.00 LIMIT ON CLOSE.** Based on the short-term outlook above, I'll be looking to begin scaling in to an index position if SPY gaps down a fair amount of if it closes the day down a bit. I will not buy into an intraday selloff, but will be waiting for the close if I am not filled initially at the open. This would be the 2<sup>nd</sup> of up to 4 lots.

**MS – buy @ \$29.52 LIMIT.** This is based on [System 81119](#). 81119 has been one of the better performing numbered systems, with nearly 75% of signals profitable in S&P 100 stocks between 2/24/08 and 8/23/13. And MS has done especially well over the years. It has triggered the setup 14 times, and all 14 would have turned out winners. Below is the list of instances.

**MS hypothetical results for System 81119.**  
**\$100k/trade. \$0.01/share commission. 2000 - 4/7/2014**

<b>Date/Time</b>	<b>Signal</b>	<b>Price</b>	<b>% Profit</b>	<b>Run-up Drawdown</b>
11/21/00	Buy	\$53.54	11.64%	\$12,788.95
12/05/00	Sell	\$59.77		(\$5,993.07)
05/07/02	Buy	\$37.40	7.62%	\$9,756.45
05/08/02	Sell	\$40.25		(\$2,512.62)
07/23/02	Buy	\$30.32	8.34%	\$8,541.82
07/29/02	Sell	\$32.85		(\$8,277.98)
09/20/02	Buy	\$28.14	5.61%	\$6,892.82
10/01/02	Sell	\$29.72		(\$3,553.00)
07/16/04	Buy	\$39.81	1.46%	\$3,113.64
07/27/04	Sell	\$40.39		(\$2,159.46)
04/21/05	Buy	\$41.66	1.99%	\$3,072.00
04/27/05	Sell	\$42.49		(\$840.00)
08/06/07	Buy	\$60.62	6.12%	\$8,640.76
08/07/07	Sell	\$64.33		(\$3,083.63)
01/18/08	Buy	\$45.25	7.25%	\$10,779.92
01/22/08	Sell	\$48.53		(\$5,920.12)
07/10/08	Buy	\$33.72	3.94%	\$4,089.38
07/16/08	Sell	\$35.05		(\$12,121.04)
10/08/08	Buy	\$16.99	29.13%	\$40,844.65
10/14/08	Sell	\$21.94		(\$58,236.20)
05/21/10	Buy	\$25.08	10.29%	\$10,218.00
05/27/10	Sell	\$27.66		(\$1,248.00)
04/16/12	Buy	\$17.28	4.57%	\$7,291.62
04/19/12	Sell	\$18.07		(\$347.22)
08/20/13	Buy	\$25.81	2.21%	\$3,331.64
08/26/13	Sell	\$26.38		(\$193.70)
10/09/13	Buy	\$26.55	4.11%	\$4,330.90
10/10/13	Sell	\$27.64		(\$527.24)

**Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
AMZN	3/27/2014	\$343.15	\$317.76	-7.40%		sell on close >= \$335.11
SPY	4/7/2014	\$184.34	\$184.34	0.00%		bought on close

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