

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 11, 2014

Volume 7 Issue 70

Market Overview



Signals Overview

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

Tonight's Research Points

- The QE Buying Power System is signaling a buy.
- Very strong selling that put the SPX at a 20-day low while $> 200ma$ suggests an upside edge.
- SPY's big outside day reversal pattern suggests a short-term upside edge.
- The extremely weak closing TICK suggests an up day on Friday.

Short-term Outlook

The Bottom Line

The market got whacked on Thursday. This quickly put it in a solidly oversold state and triggered a large number of diverse studies suggesting a short-term bullish edge. I will look to start scaling into a long index position on Friday in the hopes of taking advantage of this short-term bullish edge.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
April 11, 2014	2% drop to 10-low. Poor close.	1 day	Bullish	
April 11, 2014	System 110524	1-7 days	Bullish	
April 11, 2014	QE Buying Power System Long	1-6 days	Bullish	
April 11, 2014	3-high, 3-low, 3-high close	1-5 days	Bullish	
April 11, 2014	100 day low TICK	1 day	Bullish	
April 9, 2014	4 Lower lows & 20-day Low > 200ma	1-8 days	Bullish	2.40%
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	2.10%
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%
Active - Long Term				
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	

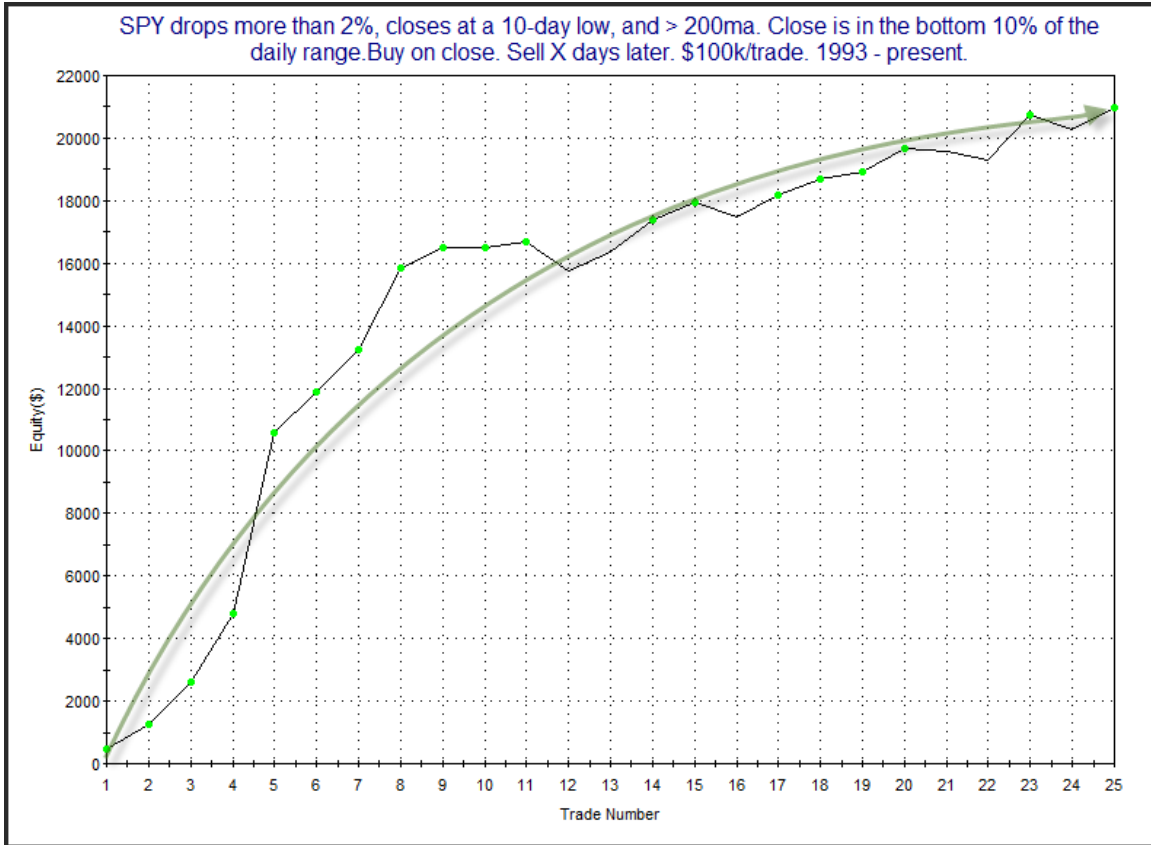
The Evidence

Thursday saw some of the strongest selling the market has endured in a while. The SPX lost 2.1%, the NASDAQ fell 3.1% and the Russell 2000 declined 2.8%. Breadth was pretty strongly negative as the NYSE Up Issues % came in at 23% and the Up Volume % was 15%. Total NYSE volume rose above the level of the last 2 days.

Strong selloffs to low levels during long-term uptrends often generate favorable buying opportunities. There were a number of studies in the Quantifinder tonight that exemplified this concept. This first one was last seen in the 2/4/14 Letter.

SPY drops more than 2%, closes at a 10-day low, and > 200ma. Close is in the bottom 10% of the daily range. 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	24,183.68	22	13	9	59.09	4,171.83	9,282.24	-3,338.90	-14,007.15	1.25	1.80	1,099.26
9	36,253.40	24	16	8	66.67	3,756.74	7,585.77	-2,981.80	-10,036.80	1.26	2.52	1,510.56
8	33,270.41	24	17	7	70.83	3,826.52	7,858.26	-4,540.07	-14,030.10	0.84	2.05	1,386.27
7	37,746.85	24	18	6	75.00	3,338.33	8,324.13	-3,723.86	-8,047.80	0.90	2.69	1,572.79
6	39,702.04	25	18	7	72.00	3,107.69	7,873.02	-2,319.48	-7,910.10	1.34	3.45	1,588.08
5	37,533.79	25	17	8	68.00	2,852.29	8,239.74	-1,369.39	-3,388.95	2.08	4.43	1,501.35
4	29,868.22	25	19	6	76.00	2,230.07	5,581.02	-2,083.86	-3,909.15	1.07	3.39	1,194.73
3	30,697.73	25	17	8	68.00	2,295.20	5,117.85	-1,040.09	-2,145.14	2.21	4.69	1,227.91
2	27,501.50	25	19	6	76.00	1,704.29	5,477.88	-813.34	-1,290.50	2.10	6.64	1,100.06
1	20,955.03	25	20	5	80.00	1,162.75	5,764.38	-460.00	-916.56	2.53	10.11	838.20

The 1-2 days results here are especially intriguing. Below is a profit curve for a 1-day holding period.



The curve has flattened out some as of late but is still pointing higher.

Also in 2/4/14 letter I showed a study that examined large losses that closed at intermediate-term lows. I have updated that study below.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days.
Buy on close. Sell X days later. \$100k/trade. 1991 - 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	57,050.59	62	42	20	67.74	2,517.25	5,953.20	-2,433.70	-13,993.88	1.03	2.17	920.17
9	69,432.77	63	46	17	73.02	2,262.58	5,761.56	-2,037.99	-10,059.36	1.11	3.00	1,102.11
8	63,833.23	64	44	20	68.75	2,443.89	6,960.84	-2,184.90	-14,092.68	1.12	2.46	997.39
7	79,099.25	65	49	16	75.38	2,248.83	7,500.06	-1,943.33	-8,018.76	1.16	3.54	1,216.91
6	75,509.65	67	49	18	73.13	2,255.68	7,272.06	-1,945.47	-7,966.32	1.16	3.16	1,127.01
5	70,296.07	67	42	25	62.69	2,295.09	7,070.28	-1,043.90	-3,385.80	2.20	3.69	1,049.20
4	49,161.78	69	45	24	65.22	1,800.03	4,731.13	-1,326.66	-3,863.84	1.36	2.54	712.49
3	39,464.61	69	46	23	66.67	1,448.13	4,277.94	-1,180.42	-5,331.20	1.23	2.45	571.95
2	39,948.35	70	47	23	67.14	1,272.94	4,809.66	-864.35	-3,863.25	1.47	3.01	570.69
1	16,336.70	72	47	25	65.28	711.60	5,117.46	-684.34	-2,162.04	1.04	1.95	226.90

Results here are quite bullish. Some subscribers may recognize the setup as system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

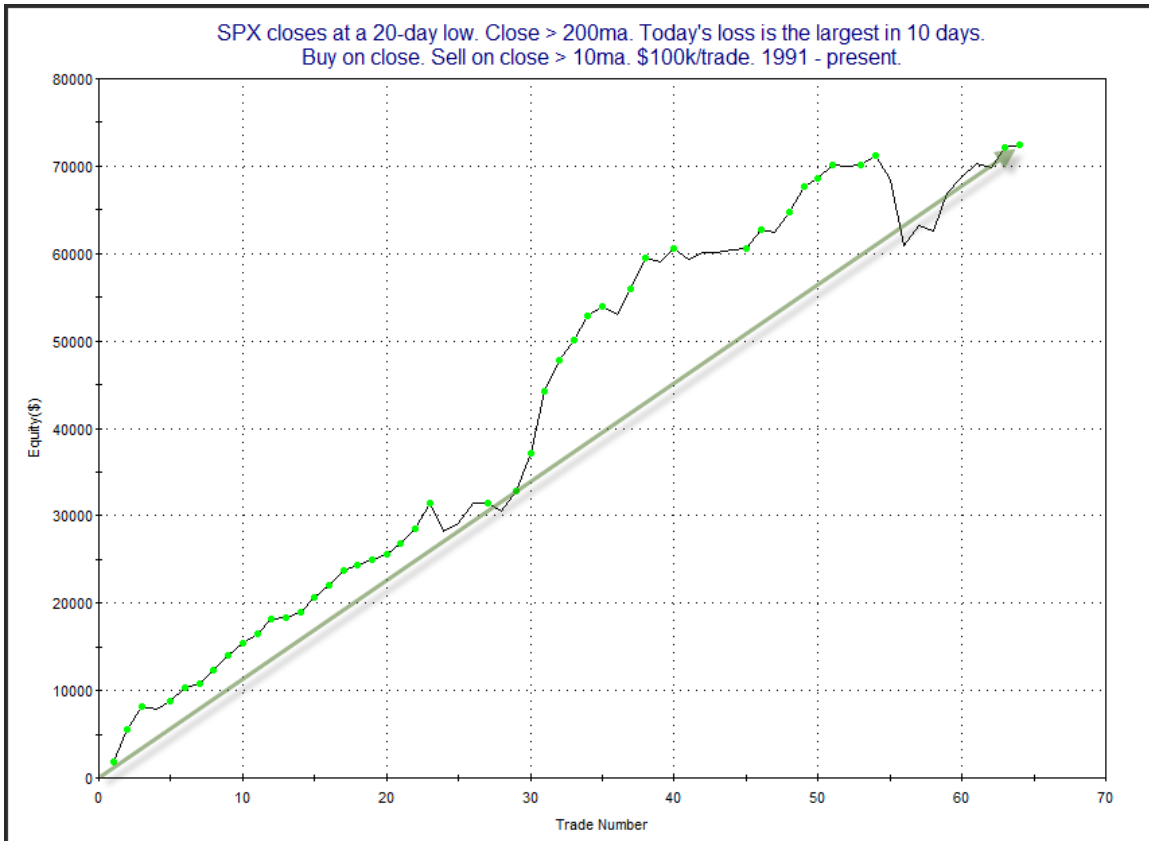
SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days.
Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary Collapse ^

All Trades

Total Net Profit	\$72,446.54	Profit Factor	4.74
Gross Profit	\$91,826.82	Gross Loss	(\$19,380.28)
Total Number of Trades	64	Percent Profitable	81.25%
Winning Trades	52	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$1,131.98	Ratio Avg. Win:Avg. Loss	1.09
Avg. Winning Trade	\$1,765.90	Avg. Losing Trade	(\$1,615.02)
Largest Winning Trade	\$7,070.28	Largest Losing Trade	(\$7,630.40)

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. Below is a profit curve where it can be seen.



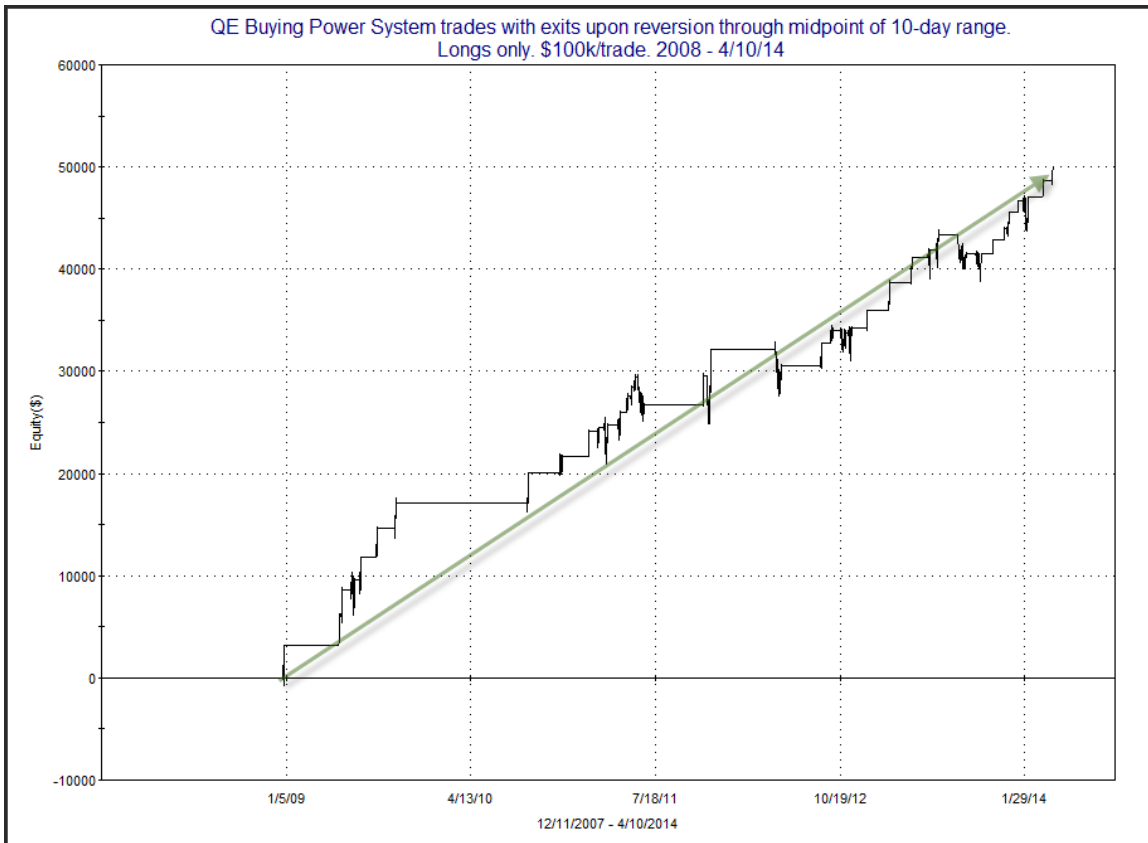
The drop was large but it was made up for fairly quickly and the upward slope appears to be back in place.

The low close on Thursday also helped to trigger another long in the QE Buying Power System. This system looks to get long any time SPX closes in the bottom 20% of the 10-day range and the QE Buying Power Index is ≥ 3 (the index 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 ≤ 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 midpoint of 10-day range.
 Longs only. \$100k/trade. 2008 - 4/10/14

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$50,184.58	Profit Factor	8.60
Gross Profit	\$56,790.19	Gross Loss	(\$6,605.61)
Total Number of Trades	39	Percent Profitable	89.74%
Winning Trades	35	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,286.78	Ratio Avg. Win:Avg. Loss	0.98
Avg. Winning Trade	\$1,622.58	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 earlier this week, POMO flows are getting lighter. So this setup

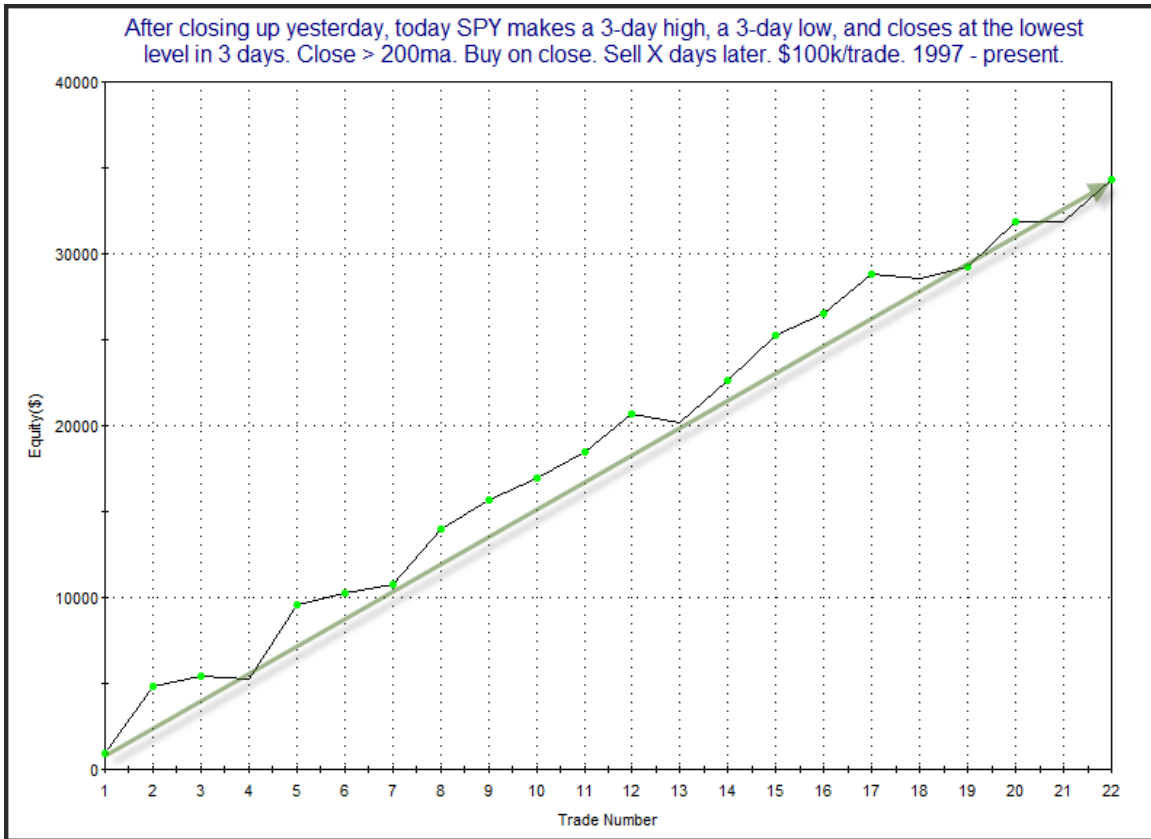
will have to be watched closely to make sure it is maintaining its effectiveness. So far, it is showing no sign of weakening. The last 8 trades, and 15 of the last 16, have finished with positive results. This is the 5th signal that has triggered since the beginning of 2014 when the Fed began tapering. At this point I feel I should give this setup the benefit of the doubt until signs of weakening do appear.

The study below was last shown in the 11/8/13 subscriber letter. It looks for the reversal day to engulf both of the last two days, close at a three day low, and still be above the 200ma. All results are updated.

After closing up yesterday, today SPY makes a 3-day high, a 3-day low, and closes at the lowest level in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	39,906.83	21	16	5	76.19	2,834.92	6,438.74	-1,090.39	-1,926.40	2.60	8.32	1,900.33
9	37,623.98	22	17	5	77.27	2,658.05	6,845.74	-1,512.57	-3,430.00	1.76	5.97	1,710.18
8	30,582.14	22	15	6	68.18	2,722.52	5,456.88	-1,709.28	-7,031.50	1.59	3.98	1,390.10
7	36,226.08	22	15	7	68.18	2,882.24	6,365.48	-1,001.08	-1,635.06	2.88	6.17	1,646.64
6	37,112.46	22	17	5	77.27	2,370.95	5,193.32	-638.73	-1,492.96	3.71	12.62	1,686.93
5	34,316.80	22	18	4	81.82	1,957.08	4,273.50	-227.66	-489.14	8.60	38.68	1,559.85
4	20,282.80	22	15	7	68.18	1,741.35	4,533.98	-833.92	-2,123.52	2.09	4.47	921.95
3	8,432.76	22	14	8	63.64	1,573.36	3,903.34	-1,699.28	-3,393.78	0.93	1.62	383.31
2	5,569.99	22	13	9	59.09	1,430.79	3,244.78	-1,447.81	-3,737.28	0.99	1.43	253.18
1	1,473.36	22	14	8	63.64	677.25	2,359.84	-1,001.02	-3,909.03	0.68	1.18	66.97

After the first three days or so, there appears to be a strong and consistent upside edge. Below is a profit curve that assumes a 5-day holding period.



Equity curves don't get much straighter than this. It appears to be a nice confirmation of the bullish suggestion by the stats table.

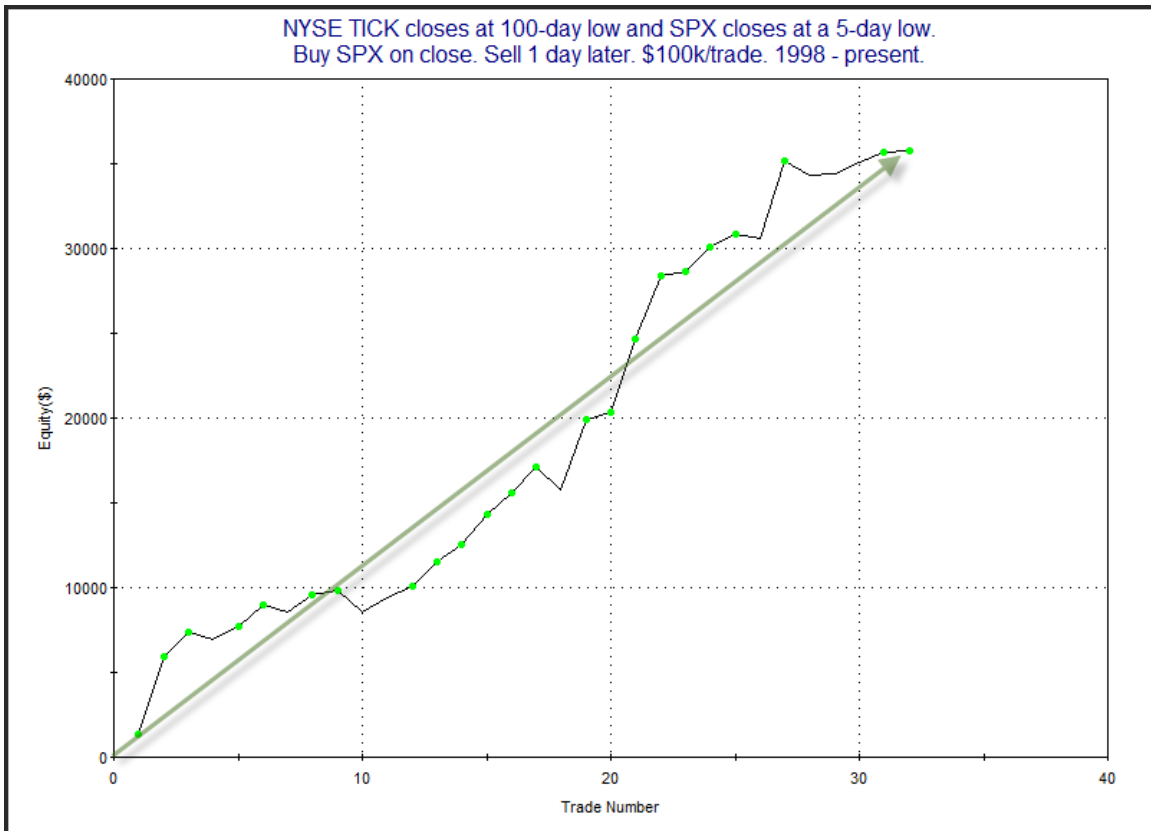
My friend and colleague, Tom McClellan (<http://www.mcoscillator.com/>), taught me a while back that closing TICK values can be used as a valuable indicator. Closing TICK values tend to do a good job of representing end of day order imbalances. When the closing TICK is very weak that means there are a lot of sell orders at the end of the day. A strong closing TICK would indicate lots of buy orders coming in at the end of the day. The final flurry of buying or selling, and market participants' willingness to hold positions overnight, can act as a good sentiment gauge.

On Thursday the NYSE closing TICK was -734. This is a very low reading and it represents the lowest reading since October. The study below was last seen in the 2/26/13 Subscriber Letter. It looks at short-term SPX lows in conjunction with long-term closing TICK lows. Results have been updated.

NYSE TICK closes at 100-day low and SPX closes at a 5-day low.
Buy SPX on close. Sell 1 day later. \$100k/trade. 1998 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$35,735.33	Profit Factor	8.75
Gross Profit	\$40,345.22	Gross Loss	(\$4,609.89)
Total Number of Trades	32	Percent Profitable	81.25%
Winning Trades	26	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$1,116.73	Ratio Avg. Win:Avg. Loss	2.02
Avg. Winning Trade	\$1,551.74	Avg. Losing Trade	(\$768.31)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$1,377.03)

The numbers here are all strongly bullish. Below is a profit curve.



The strong, steady upslope is impressive and provides confirmation of the bullish edge.

There are many aspects of Thursday's selloff suggesting a bounce and a good number of studies being added to the Short-Term Active List.

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



With the large number of bullish studies that emerged Thursday the green Aggregator Line remained well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line jumped higher and is now comfortably 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 Friday. That is highly unlikely to change. The Differential Pivot will be 1863.05 on Friday. That is 1.6% above Thursday's close. We are unlikely to see a 1.6% bounce back in just 1 day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

I'm seeing an awful lot pointing to the fact that the selling got overdone on Thursday and a bounce appears very likely to ensue shortly. Strong selling, intermediate-term lows, SPY engulfing patterns, extreme TICK readings all point to a strong short-term bullish edge. Additionally, next week we are going to enter a period of seasonal strength. Between 1) [April Opex](#), 2) [Tax Day](#), and 3) [Holy Thursday](#) the market will have strong seasonal backing. (I will update these seasonal studies during the next few days.) Oversold going into a strong seasonal period is one of my favorite setups. Not to mention the fact that (though reduced) the market still has positive Fed liquidity flows. With all this in mind I will be looking to quickly start scaling in to some long exposure on Friday. And if the selling intensifies, I may even look to take on a 2nd lot. Details are in the Trade Ideas section down below.

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 @ \$183.15 LIMIT. Based on the short-term outlook above, I'll look to start scaling at a price <= Thursday's close.

SPY – buy ¼ index position (2nd lot) if SPY closes at least \$0.90 below my 1st entry and in the bottom half of the day's range. If weakness continues during the day it will turn oversold to more oversold and we will be entering a period of seasonal strength. I will get long ahead of the weekend in this case so as not to be left behind by an unfilled gap up on Monday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AMZN	3/27/2014	\$343.15	\$317.11	-7.59%		sell on close >= \$330.19
SPY(1/4)	4/7/2014	\$184.34	\$187.10	1.50%		sold at limit
MS	4/8/2014	\$29.52	\$29.25	-0.91%		sell on close >= \$30.41

The exits for AMZN and MS are the standard ones for the numbered systems they were purchased with.

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