

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 15, 2014

Volume 7 Issue 72

Market Overview



Signals Overview

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

Tonight's Research Points

- Today's SPY pattern following a 20-day low suggests more follow through in the coming days.

Short-term Outlook

The Bottom Line

Tonight's study suggests the bounce is just getting started. The market is still oversold. And we are in the midst of some strong seasonality. I intend to ride my long position a bit more.

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 15, 2014	20-low then Gap up - Fill - Close up	1-5 days	Bullish	3.80%
April 14, 2014	Opex/Tax Day/Holy Thursday bullish	1-4 days	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 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 7, 2014	20-day high and close bottom 10% rng	1-8 days	Bullish	2.00%
Active - Long Term				
April 7, 2014	SPX new high while NDX huge drop	1-50 days	Bullish	
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	

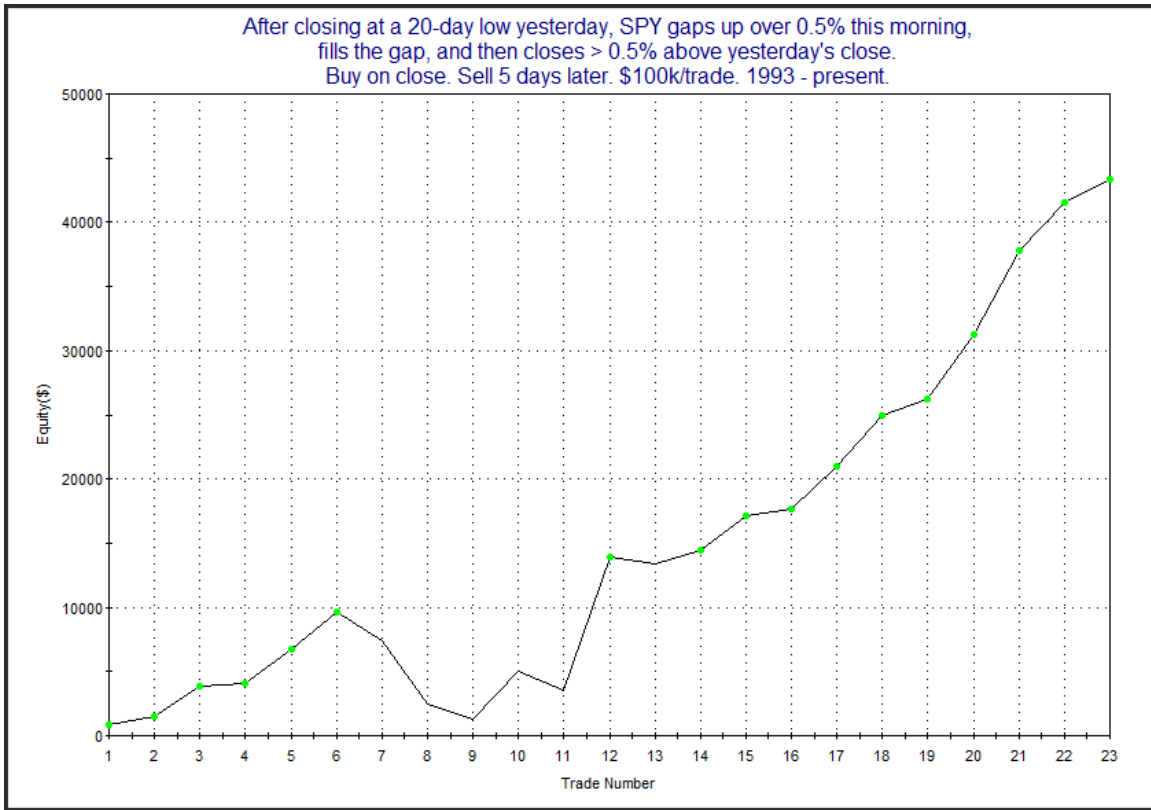
The Evidence

On Monday the market started off strong and it finished strong, with a selloff occurring in between. In the end the SPX rose 0.8%, the NASDAQ rallied 0.6% and the Russell 2000 gained 0.4%. Breadth was positive as the NYSE Up Issues % came in at 65% and the Up Volume % was 76%. Total NYSE volume shrunk quite a bit from Friday's level.

SPY gapped up nearly 1% Monday morning and after pulling all the way back to fill that gap, it reversed again and closed up nearly 1%. I decided to look back at other instances like this where the market gapped up big in the morning, pulled back and filled, and then closed strong on the day. The study I devised is below.

After closing at a 20-day low yesterday, SPY gaps up over 0.5% this morning, fills the gap, and then closes > 0.5% above yesterday's close. 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
5	43,374.42	23	18	5	78.26	2,982.65	10,362.52	-2,062.65	-4,848.06	1.45	5.21	1,885.84
4	32,103.46	25	18	7	72.00	2,799.18	13,286.49	-2,611.68	-7,683.94	1.07	2.76	1,284.14
3	13,898.69	25	16	9	64.00	2,624.80	11,878.65	-3,122.01	-5,736.72	0.84	1.49	555.95
2	3,287.16	25	14	11	56.00	2,005.60	7,717.98	-2,253.75	-4,336.68	0.89	1.13	131.49
1	-3,609.77	25	11	14	44.00	2,019.29	6,926.07	-1,844.43	-4,416.69	1.09	0.86	-144.39

After an underwhelming Day 1, the numbers here certainly look encouraging for the bull case. Below is a profit curve assuming a 5-day holding strategy.



After getting off to a bit of a choppy start, profits have, on a very consistent basis over the last 14 trades or so. This curve seems to act as confirmation of the bullish edge.

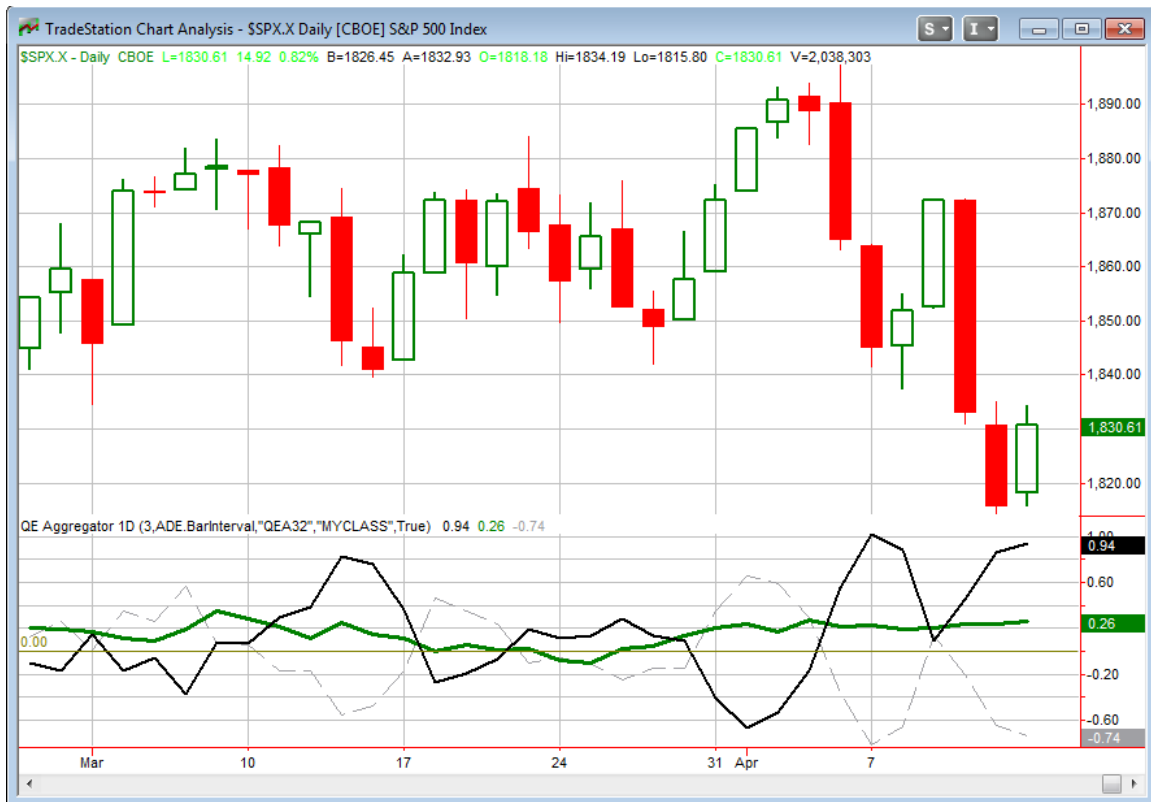
But I was a little concerned that instances which have occurred during long-term uptrends may have resulted in less appealing statistics. So I incorporated the 200-day average as an additional filter and reran the study.

After closing at a 20-day low yesterday, SPY gaps up over 0.5% this morning, fills the gap, and then closes > 0.5% above yesterday's close. Close > 200ma. 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
5	14,788.48	7	7	0	100.00	2,112.64	5,029.50	0.00	0.00	100.00	100.00	2,112.64
4	9,591.70	7	6	1	85.71	1,842.68	3,382.47	-1,464.39	-1,464.39	1.26	7.55	1,370.24
3	8,372.89	7	6	1	85.71	1,517.31	2,707.51	-730.98	-730.98	2.08	12.45	1,196.13
2	5,660.27	7	6	1	85.71	1,196.21	2,858.42	-1,516.98	-1,516.98	0.79	4.73	808.61
1	-495.68	7	3	4	42.86	689.71	1,320.11	-641.20	-1,699.38	1.08	0.81	-70.81

Instances are low, but the numbers could not be any more bullish. This served to alleviate my concern, and provide further confirmation that Monday's action suggests an upside edge over the next few days.

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



With the substantial number of active bullish studies 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 moved even higher and is now 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. That is highly unlikely to change. The Differential Pivot will be 1844.50 on Tuesday. That is a 0.75% above Monday's close. So SPX will need to close up at least this much in order to move from oversold to overbought.

I like the bounce so far. And with tonight's bullish study and the strong seasonality of the next 3 days it appears there is a good chance that this bounce has farther to go. I have a few lots long. At this point I am not looking to add to that position, but I do intend to let it ride at least through Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/14 – neutral

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

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AMZN	3/27/2014	\$343.15	\$315.91	-7.94%		sell on close >= \$324.45
MS	4/8/2014	\$29.52	\$29.06	-1.56%		sell on close >= \$29.87
SPY(1/4)	4/11/2014	\$182.17	\$182.94	0.42%		sell on SPX close > 1844.49
SPY(1/4)	4/14/2014	\$181.50	\$182.94	0.79%		bought at limit

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

I will sell one lot of SPY if SPX closes above its Differential Pivot.

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