

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 22, 2014

Volume 7 Issue 76

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 3 days of strong Nasdaq breadth are often followed by a down day.
- 5 higher closes in an uptrend that is not making new 50-day highs has historically suggested a strong market that is likely to continue higher over the next few weeks.

## *Short-term Outlook*

### *The Bottom Line*

The studies continue to mostly point higher, but the market is still short-term overbought. This leaves me overall neutral. I continue to wait for the next strongly favorable opportunity to re-enter.

**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 22, 2014	5 Days Higher < 50 but > 200	1-10 days	Bullish	
April 22, 2014	Nasd breadth > 60% 3 days in a row	1 day	Bearish	
April 21, 2014	VIX 10% below from 10% above 10ma	1-8 days	Bullish	2.80%
April 17, 2014	NDX up 1%. SOX down.	1-6 days	Bearish	-3.20%
April 17, 2014	3 days up gain 2%. 3/10 Offset HV < 0.25	1-6 days	Bullish	
April 15, 2014	20-low then Gap up - Fill - Close up	1-5 days	Bullish	3.80%
<b>Active - Long Term</b>				
April 22, 2014	5 Days Higher < 50 but > 200	1-15 days	Bullish	
April 17, 2014	3 days up gain 2%. 3/10 Offset HV < 0.25	1-19 days	Bullish	
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	
<b>Dropped Tonight</b>				
April 9, 2014	4 Lower lows & 20-day Low > 200ma	1-8 days	Bullish	2.40%

***The Evidence***

The rally persisted another day on Monday. The SPX and Russell 2000 each finished up 0.4%, and the NASDAQ rose 0.6%. Breadth was positive as the NYSE Up Issues % came in at 60.5% and the Up Volume % was 60%. Total NYSE came in very light – perhaps with some traders extending their Easter weekend.

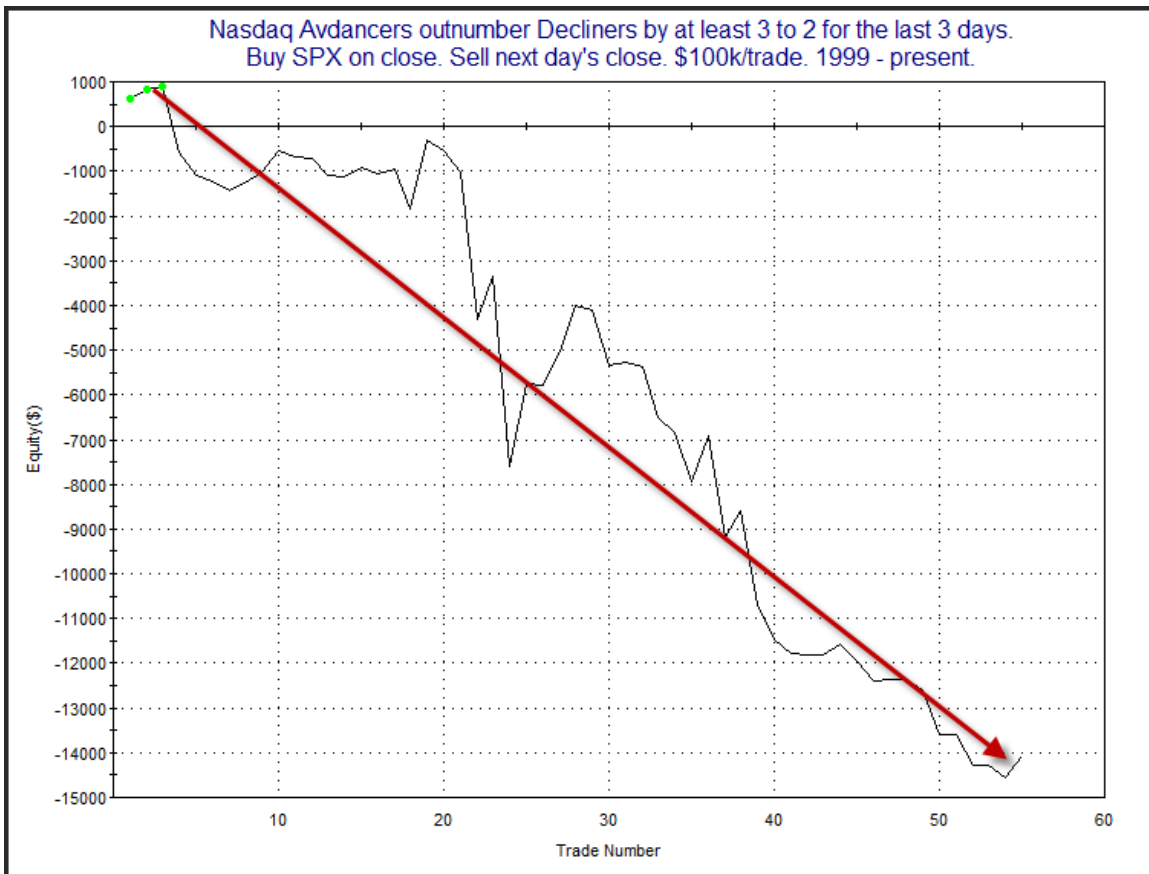
The Quantifinder showed a number of studies. There were a few related to the price increase on the very low volume that suggested bearish implications. But closer examination showed that those edges had not persisted well over the last year or so. The studies below are the 2 that do still appear to have an edge intact.

The 1<sup>st</sup> study points to a possible downside edge on Tuesday. It looks at other times Nasdaq advancers outnumbered decliners by more than 3:2 for 3 days in a row. I last showed it in the 12/2/13 letter. Results are updated.

Nasdaq Advancers outnumber Decliners by at least 3 to 2 for the last 3 days.  
Buy SPX on close. Sell next day's close. \$100k/trade. 1999 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	(\$14,078.31)	Profit Factor	0.43
Gross Profit	\$10,723.03	Gross Loss	(\$24,801.34)
Total Number of Trades	55	Percent Profitable	40.00%
Winning Trades	22	Losing Trades	33
Even Trades	0		
Avg. Trade Net Profit	(\$255.97)	Ratio Avg. Win:Avg. Loss	0.65
Avg. Winning Trade	\$487.41	Avg. Losing Trade	(\$751.56)
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)

The numbers imply a bit of a downside edge. I also produced an equity curve.

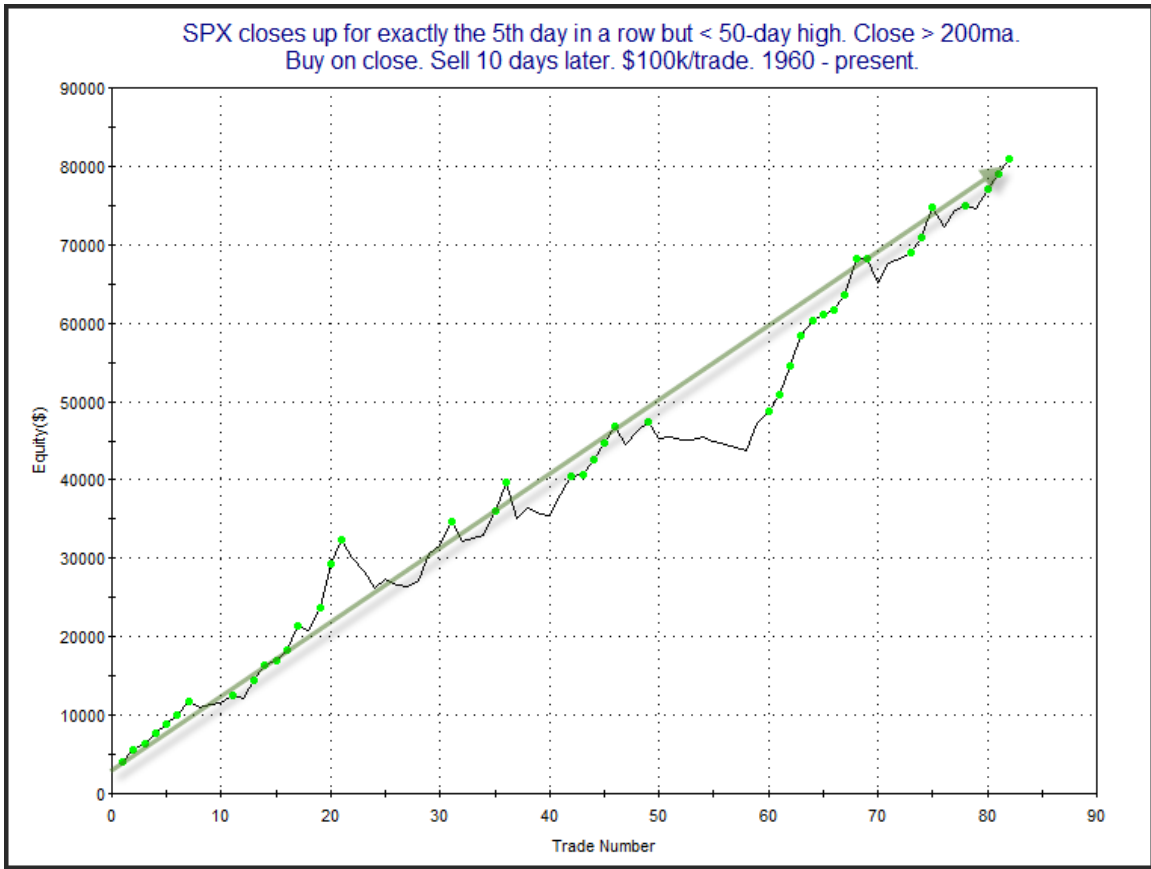


It's definitely choppy, but it has moved from upper left to lower right for a long time. I believe it is worth some consideration.

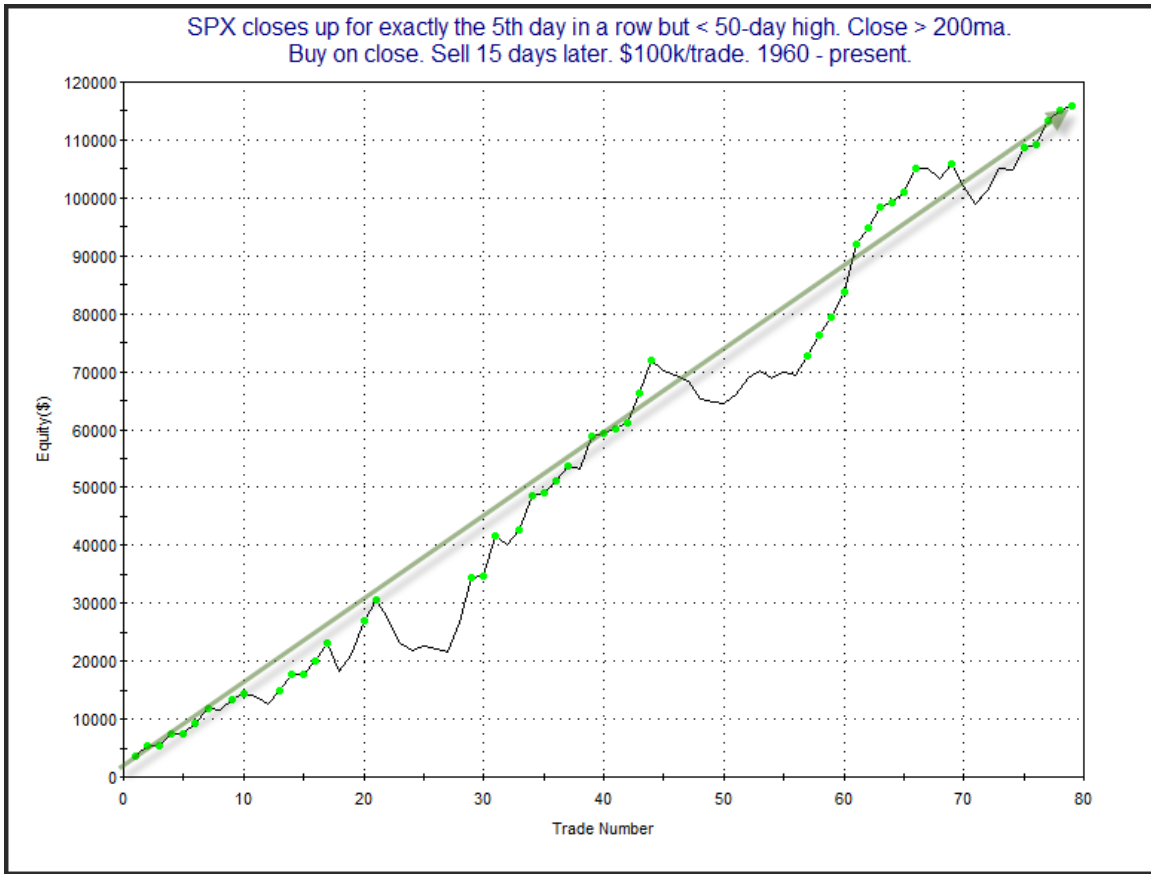
This next study utilizes a phenomenon that I have spoken of a number of times in the past. That is that when the market begins to get overbought it will often suggest a pullback is likely, but when overbought gets powered through then odds will sometimes shift from a pullback to a continuation of that move. This study demonstrates the continuation concept. It was last seen in the 9/10/13 subscriber letter.

SPX closes up for exactly the 5th day in a row but < 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - 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
15	115,798.54	79	55	24	69.62	2,772.75	8,288.00	-1,529.28	-4,879.10	1.81	4.16	1,465.80
14	103,940.19	79	54	25	68.35	2,647.32	8,272.60	-1,560.61	-4,738.50	1.70	3.66	1,315.70
13	103,813.50	79	59	20	74.68	2,412.00	6,401.50	-1,924.72	-3,773.44	1.25	3.70	1,314.09
12	93,072.89	81	59	22	72.84	2,226.22	5,925.50	-1,739.74	-3,661.77	1.28	3.43	1,149.05
11	79,718.48	82	56	26	68.29	2,089.06	6,110.00	-1,433.41	-4,887.00	1.46	3.14	972.18
10	80,884.16	82	59	23	71.95	1,871.58	5,675.25	-1,284.30	-4,684.28	1.46	3.74	986.39
9	77,657.08	82	55	27	67.07	1,958.97	5,228.75	-1,114.31	-4,910.55	1.76	3.58	947.04
8	70,785.89	83	59	24	71.08	1,655.03	5,146.50	-1,119.20	-3,376.64	1.48	3.64	852.84
7	63,161.38	83	55	28	66.27	1,705.17	5,698.75	-1,093.68	-3,500.70	1.56	3.06	760.98
6	53,108.55	83	60	23	72.29	1,402.62	5,134.75	-1,349.94	-3,359.36	1.04	2.71	639.86
5	44,229.36	83	59	24	71.08	1,233.31	4,476.75	-1,189.00	-3,716.53	1.04	2.55	532.88
4	31,276.54	83	56	27	67.47	1,036.87	3,983.25	-992.15	-3,494.78	1.05	2.17	376.83
3	28,108.06	83	55	28	66.27	1,007.48	2,796.50	-975.12	-3,359.36	1.03	2.03	338.65
2	15,149.18	83	53	30	63.86	790.62	2,479.25	-891.78	-3,748.50	0.89	1.57	182.52
1	8,989.18	83	51	32	61.45	528.95	2,211.54	-562.09	-2,193.72	0.94	1.50	108.30

These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.



This appears to be quite a consistent curve and makes the study even more compelling. I also ran the 15-day profit curve.



Much like the 10-day curve, the 15-day shows impressive upslope. In addition to the short-term Active List, have also added this study to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.

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



With tonight's studies factored in the green Aggregator Line stayed above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still a little below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is 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 stayed flat at the close.

Based on the current active studies, expectations are slated to remain positive on Tuesday. Of course this could change if additional bearish evidence emerges. The Differential Pivot will be *inverted* at 1877.30 on Tuesday. That is 0.3% *above* Monday's close. An inverted pivot means that the Differential Line will move through 0 if SPX closes flat. So despite the 5-day run-up, SPX will need to close up another 0.3% Tuesday to stay ahead of recent short-term expectations. Anything less than that and it will be considered "oversold" versus recent short-term expectations.

Mixed studies tonight, net bullish expectations, an overbought market, and an inverted pivot combine to suggest no strong short-term edge to me. I will remain sidelined at least another day waiting for the next opportunity to arise.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 4/21 – neutral***

The intermediate-term outlook was last updated in the 4/21/14 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**

*None*

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