

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 23, 2014

Volume 7 Issue 77

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.

Short-term Outlook

The Bottom Line

No change from last night. 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
Active - Short Term				
April 23, 2014	Nasd breadth > 60% 3 days in a row	1 day	Bearish	
April 22, 2014	5 Days Higher < 50 but > 200	1-10 days	Bullish	
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	
Active - Long Term				
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	
Dropped Tonight				
April 15, 2014	20-low then Gap up - Fill - Close up	1-5 days	Bullish	3.80%

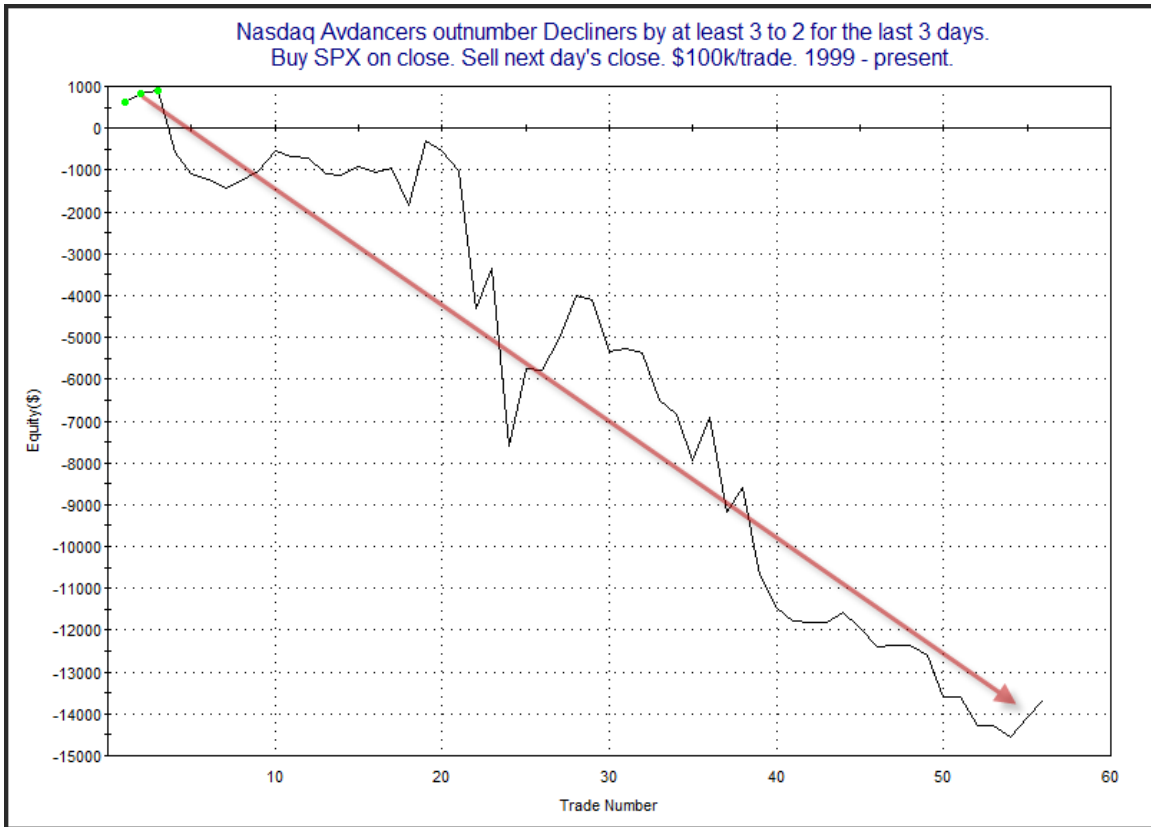
The Evidence

The rally persisted yet another day on Tuesday. The SPX finished up 0.4%, the NASDAQ rose 1.0% and the Russell 2000 gained 1.2%. Breadth was positive as the NYSE Up Issues % came in at 73% and the Up Volume % was 70%. Total NYSE rose a little from Monday's level.

There were a few studies that triggered in the Quantifinder tonight. But under close scrutiny, the only one that seemed very compelling was the NASDAQ breadth study from last night. It looked at other times NASDAQ advancers outnumbered decliners by more than 3:2 for 3 days in a row. Results are again 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				Collapse ^
All Trades				
Total Net Profit	(\$13,672.33)	Profit Factor		0.45
Gross Profit	\$11,129.01	Gross Loss		(\$24,801.34)
Total Number of Trades	56	Percent Profitable		41.07%
Winning Trades	23	Losing Trades		33
Even Trades	0			
Avg. Trade Net Profit	(\$244.15)	Ratio Avg. Win:Avg. Loss		0.64
Avg. Winning Trade	\$483.87	Avg. Losing Trade		(\$751.56)
Largest Winning Trade	\$1,857.24	Largest Losing Trade		(\$4,241.94)

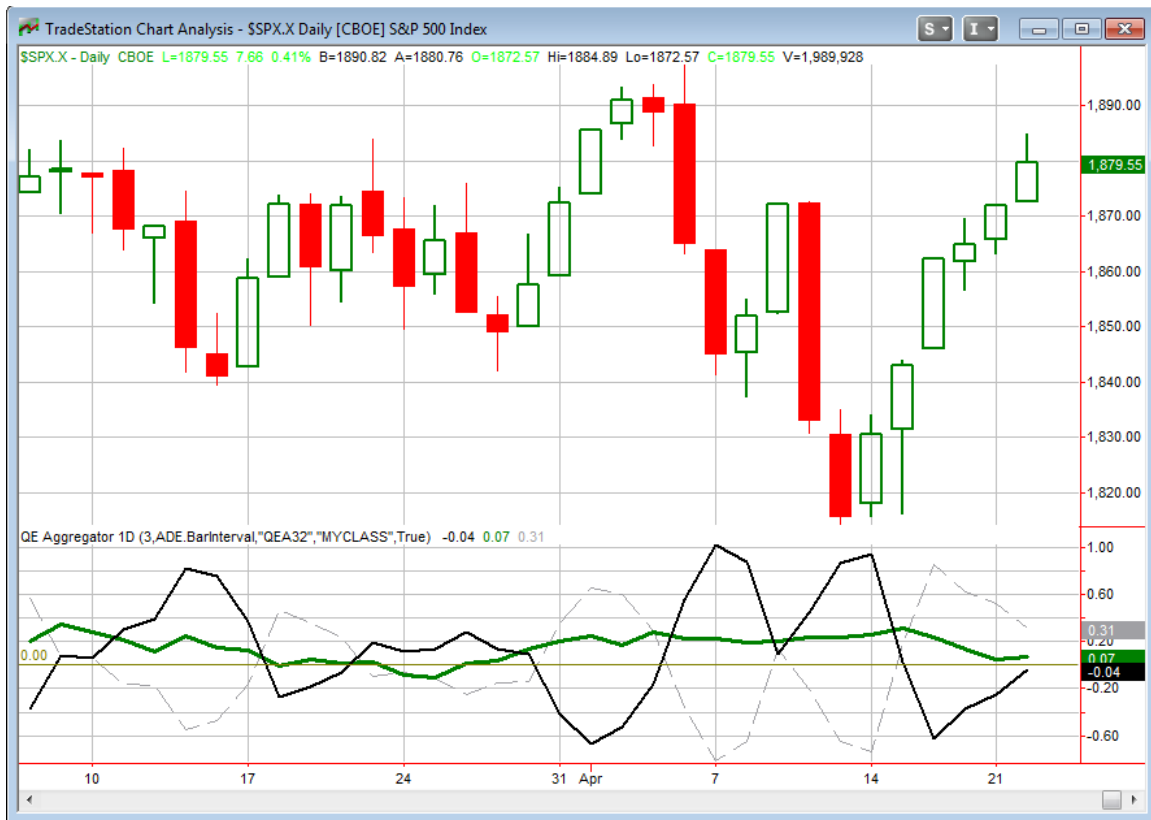
The numbers imply a bit of a downside edge. I also produced an equity curve.



It's definitely choppy, but it has moved from upper left to lower right for a long time. The last 2 instances have resulted in up days but I believe it is still worth some consideration.

Also worth some consideration is the fact that the 3/10 Offset HV indicator closed extremely low at 0.11. Extremely low levels like this suggest a volatility expansion is likely in the next few days. The expected expansion increases risk (and potential reward if you are right about direction). I last wrote about this indicator in the 4/2/14 subscriber letter just a couple of weeks ago. Subscribers that would like to review my commentary then may download the 4/2/14 letter from the [Archives page](#).

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



Even with tonight's study 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. And when the lines are pinching so close to 0, that is an especially neutral setup. Therefore the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are slated to remain positive on Wednesday. Of course this could change if additional bearish evidence emerges. The Differential Pivot will be 1877.56 on Wednesday. That is just 0.1% below Tuesday's close. So it will only take a slight down close to see SPX turn from overbought to oversold on a short-term relative basis.

The grind higher is not helping to set up highly favorable opportunities. Trading has been dull the last few days. But I'll take dull over losing anytime. So rather than jump into a marginal setup, I'll simply wait for the next strong opportunity to emerge. They always come along before too long.

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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