

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 24, 2014

Volume 7 Issue 78

Market Overview



Signals Overview

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

Tonight's Research Points

- After over 5 days higher the market pulled back Thursday. When the market has been in a similar position in the past, the 1-2 week timeframe has been strong.

Short-term Outlook

The Bottom Line

There appears to be a bit of an upside edge. I am not inclined to bet just yet, but most likely will on Friday if the market struggles again on Thursday.

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 24, 2014	5 Days up then 1 down. < 50-high > 200	1-9 days	Bullish	
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 23, 2014	Nasd breadth > 60% 3 days in a row	1 day	Bearish	

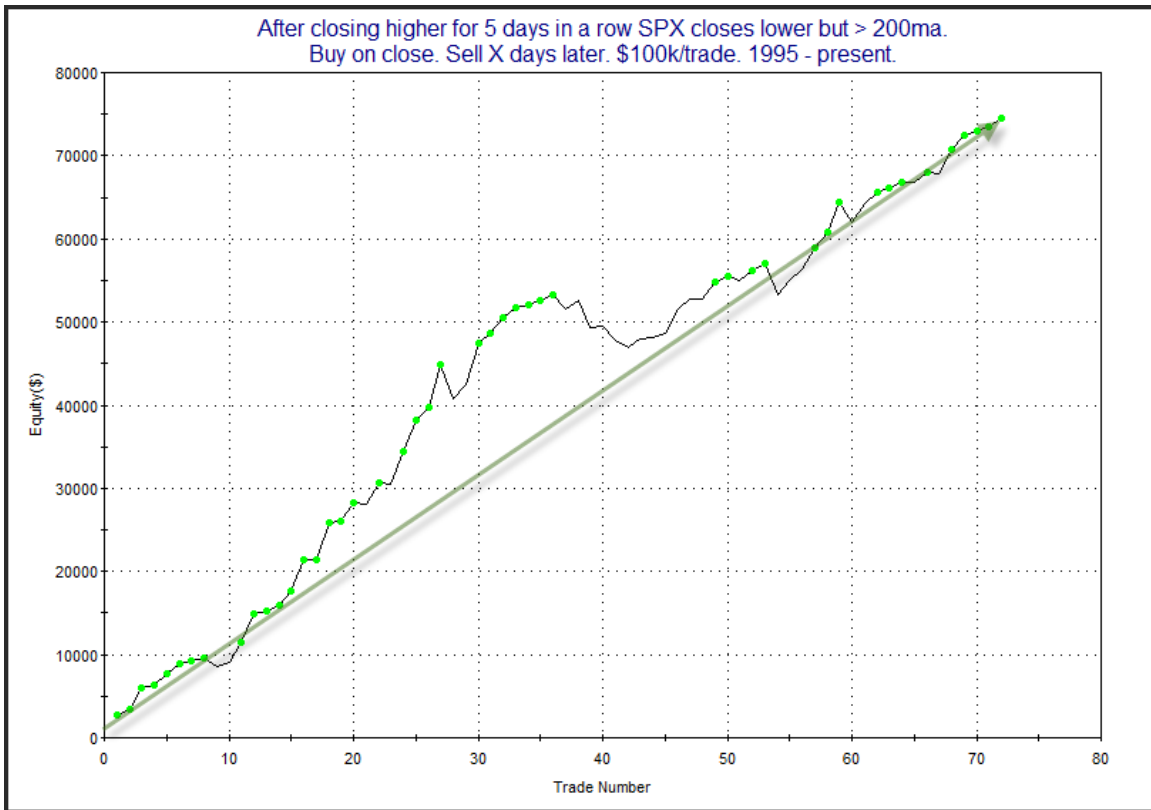
The Evidence

The market rally paused on Wednesday. The SPX dipped 0.2%, the NASDAQ fell 0.8% and the Russell 2000 dropped 0.7%. Breadth was just below breakeven as the NYSE Up Issues % came in at 49% and the Up Volume % was 18%. Total NYSE volume came in very light.

Wednesday's moderately lower close triggered some bullish studies that looked at pullbacks after at least 5 consecutive up days. The studies below were last seen in the 9/13/13 Subscriber Letter. I have updated the results.

After closing higher for 5 days in a row SPX closes lower but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	74,567.18	66	54	12	81.82	1,670.92	5,131.35	-1,305.21	-3,672.90	1.28	5.76	1,129.81
9	74,496.15	72	59	13	81.94	1,601.28	5,196.49	-1,536.87	-4,151.40	1.04	4.73	1,034.67
8	68,608.46	73	53	20	72.60	1,774.89	4,878.08	-1,273.05	-4,874.10	1.39	3.69	939.84
7	53,757.95	74	53	21	71.62	1,537.02	3,874.76	-1,319.25	-3,970.62	1.17	2.94	726.46
6	53,345.70	77	55	22	71.43	1,453.26	4,307.20	-1,208.35	-3,637.71	1.20	3.01	692.80
5	43,292.91	77	52	25	67.53	1,281.85	4,252.50	-934.54	-3,188.16	1.37	2.85	562.25
4	42,814.24	77	51	26	66.23	1,252.30	3,843.00	-809.74	-3,003.39	1.55	3.03	556.03
3	26,194.76	77	51	26	66.23	980.76	2,797.08	-916.30	-2,852.01	1.07	2.10	340.19
2	18,360.76	77	52	25	67.53	799.84	2,480.28	-929.23	-2,614.95	0.86	1.79	238.45
1	8,311.69	77	49	27	63.64	504.83	1,751.19	-608.34	-2,531.86	0.83	1.51	107.94
69 of 77 instances (90%) closed above the entry price at some point in the next week.												

Initially there appears to be a moderate inclination for a move higher. Once you get out 9-10 days the upside edge appears very substantial. Below is an equity curve using a 9-day exit strategy.



There's some wiggle here but the periods of pullback have been short and mild. This appears to confirm the bullish edge.

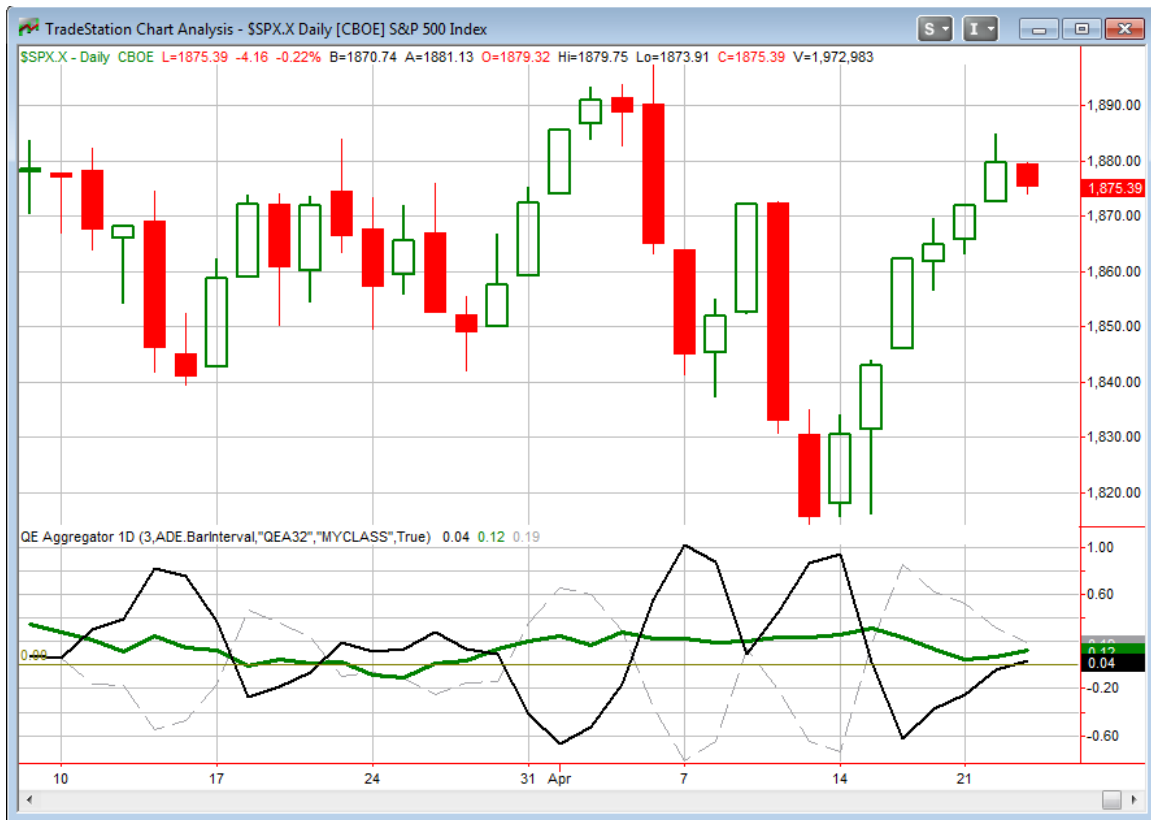
In that 9/13/13 letter I also filtered out times where the SPX had closed a 50-day high the day before. I also applied that filter tonight and updated those stats.

After closing higher for 5 days in a row but not at a 50-day high SPX closes lower but > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	24,994.48	17	13	4	76.47	2,331.07	4,644.11	-1,327.35	-2,964.60	1.76	5.71	1,470.26
9	23,743.60	17	14	3	82.35	2,106.48	5,196.49	-1,915.70	-3,251.34	1.10	5.13	1,396.68
8	23,117.28	17	14	3	82.35	2,065.22	4,770.49	-1,931.92	-4,038.66	1.07	4.99	1,359.84
7	16,582.37	17	15	2	88.24	1,513.32	3,335.92	-3,058.68	-3,970.62	0.49	3.71	975.43
6	15,096.69	17	14	3	82.35	1,589.81	2,736.52	-2,386.86	-3,388.23	0.67	3.11	888.04
5	13,435.53	17	14	3	82.35	1,354.38	2,590.50	-1,841.93	-3,188.16	0.74	3.43	790.33
4	10,699.22	17	13	4	76.47	1,148.90	2,600.40	-1,059.13	-2,494.80	1.08	3.53	629.37
3	7,311.56	17	12	5	70.59	1,138.56	2,797.08	-1,270.24	-2,852.01	0.90	2.15	430.09
2	601.28	17	10	7	58.82	865.61	2,480.28	-1,150.69	-2,455.11	0.75	1.07	35.37
1	-1,852.47	17	10	7	58.82	392.49	716.31	-825.34	-2,531.86	0.48	0.68	-108.97

The 1st day or so is iffy, but after that the upside edge appears even stronger than without the filter applied. Of course the number of instances is a bit low, but the market position doesn't appear to raise any red flags. The idea behind this study is that strong moves higher tend to weaken before they roll over. The five days up suggest the move is strong. Since they rarely turn on a dime, this 1st dip is not likely the end of the up move. And in this case the fact that we are not yet at a 50-day high suggests it is not long-term overextended either. I used the broader study to generate estimates for the Aggregator.

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



Tonight's bullish study helped the green Aggregator Line move a little further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line crossed back above 0. The positive Differential Line reading means the SPX is now quickly oversold versus recent expectations. So expectations are positive and the SPX is relatively oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal changed to long at the close.

Based on the current active studies, expectations are slated to remain positive on Thursday. Of course this could change if additional bearish evidence emerges. The Differential Pivot will be 1879.65 on Thursday. That is 0.2% above Wednesday's close. So it will only take a moderate close higher in order for SPX to move back to an overbought condition.

There does appear to be a bit of an upside edge, but it is pretty slight at this point. I'd be more comfortable jumping in if the market was down another day or so. Additionally, Apple helped goose the after-hours market, sending S&P futures up about 10 points in the 60 minutes after the 4pm close. So we are likely to see a gap up to start the day. A gap up could certainly reverse course, but I think I'll wait until the end of the day on

Thursday and re-evaluate. If “oversold” persists, then I will likely consider taking on long exposure on Friday.

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

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2014 Hanna Capital Management, LLC.