

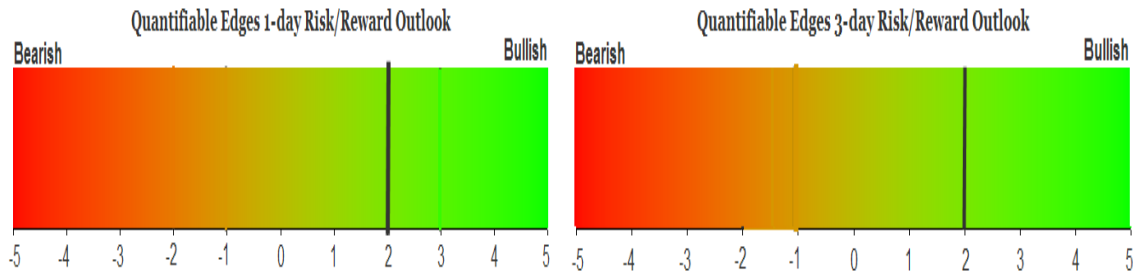
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 29, 2014

Volume 7 Issue 81

Market Overview



Signals Overview

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

Tonight's Research Points

- Extremely high volume on an up day suggests bullish implications.

Short-term Outlook

The Bottom Line

The studies are pointing higher. The market again is oversold versus recent expectations, but still in the upper half of its 2-week range. I'll try again to scale into a long position if I can get a favorable entry.

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 29, 2014	High-volume up day	1-10 days	Bullish	2.50%
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%
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	

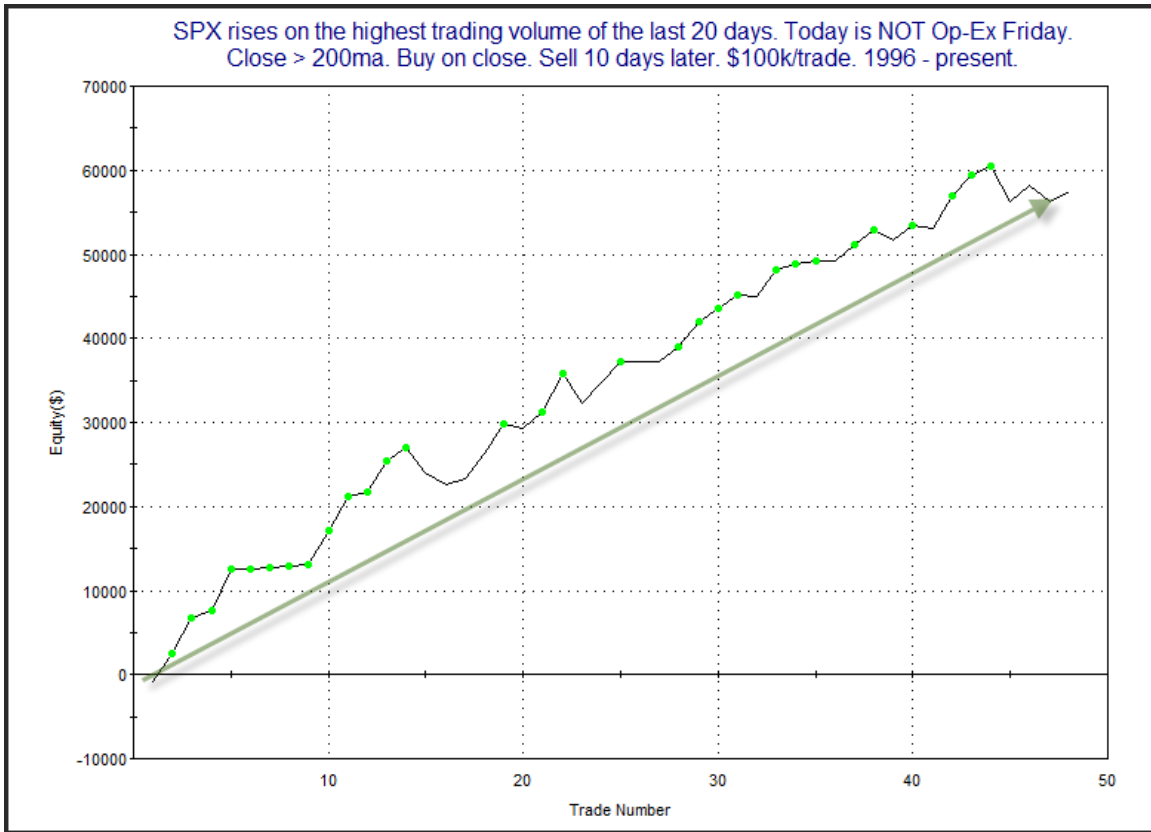
The Evidence

The market posted a big round-trip on Monday, gapping up, selling off hard, and then rebounding. In the end the market was mixed with SPX rising 0.3%, the NASDAQ falling 0.03% and the Russell 2000 dropping 0.5%. Breadth was sort-of mixed as the NYSE Up Issues % came in at 50% and the Up Volume % was 43%. Total NYSE volume came in at the highest level in over a month.

The high volume provided an interesting bit of evidence. When the market has risen on extremely high volume on a day other than op-ex Friday, that has typically been a good sign. Below is a study last shown in the 6/1/11 subscriber letter that demonstrates this.

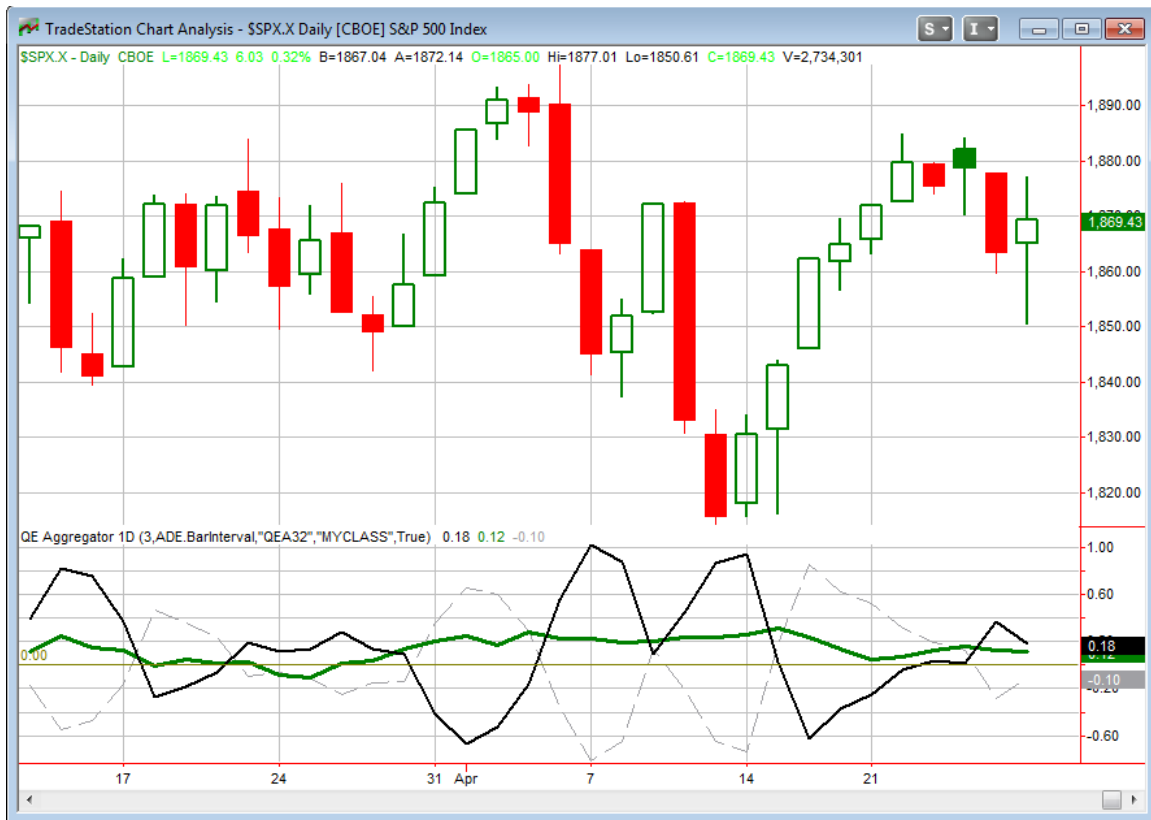
SPX rises on the highest trading volume of the last 20 days. Today is NOT Op-Ex Friday. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1996 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	57,459.25	48	35	13	72.92	2,132.24	4,885.00	-1,320.71	-4,242.42	1.61	4.35	1,197.07
9	50,412.66	48	35	13	72.92	2,006.87	5,451.25	-1,525.21	-5,429.38	1.32	3.54	1,050.26
8	47,124.53	48	37	11	77.08	1,838.52	4,174.09	-1,900.05	-5,492.28	0.97	3.25	981.76
7	36,711.50	50	36	14	72.00	1,799.83	4,869.18	-2,005.88	-5,526.30	0.90	2.31	734.23
6	35,574.06	53	36	17	67.92	1,806.70	5,552.91	-1,733.37	-4,857.36	1.04	2.21	671.21
5	23,942.98	53	35	18	66.04	1,540.20	4,683.84	-1,664.68	-4,459.24	0.93	1.80	451.75
4	20,520.69	56	35	21	62.50	1,383.77	4,518.75	-1,329.11	-4,368.22	1.04	1.74	366.44
3	12,551.19	58	37	21	63.79	1,096.88	3,120.75	-1,334.92	-3,332.96	0.82	1.45	216.40
2	2,999.08	59	35	24	59.32	791.96	1,998.39	-1,029.98	-3,844.10	0.77	1.12	50.83
1	6,478.06	72	41	31	56.94	595.39	1,606.89	-578.49	-2,302.95	1.03	1.36	89.97

The statistics appear to suggest a solid bullish edge over the next couple of weeks. Below is an equity curve using a 10-day exit strategy that shows how the edge has played out over time.



Recent instances have struggled a little but overall the upside edge still appears to be intact. The one hesitation I have about this study is that while volume was clearly high, the market was mixed. SPX rose, but it would have been nice to have that confirmed by a rise in the Russell 2000 and the NASDAQ. In other words, it was not the strong, high-volume buying that the parameters suggest. Still, I found the study compelling enough to include it on the Active List.

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



With tonight's bullish study factored in the green Aggregator Line again remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held above 0. The positive Differential Line reading means the SPX is 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 stayed long at the close.

Based on the current active studies, expectations are slated to remain positive on Tuesday. This could change if strong bearish evidence emerges. The Differential Pivot will be 1884.99 on Tuesday. That is 0.8% above Monday's close. So it will take a fairly strong close higher in order to see SPX move from oversold to overbought.

There still appears to be a bit of an upside edge. And the SPX still has some decent room to the upside before it will move back to an "overbought" condition. But again it closed above its 10-day moving average. I copied the Fed Day study below from last night's letter. It suggests a close in the lower portion of Tuesday's range could set up for a move higher on Wednesday. So I will again look to take on some long exposure if SPY pulls back a little on Tuesday and closes in the lower half of its range. Details are in the Trade Ideas section near the bottom of the letter.

Fed Day Considerations for Tues/Wed

One thing traders may want to keep in mind on Tuesday is that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 1/28/14 letter. Below are the 4 quartiles from highest to lowest in the daily range.

Tomorrow is a Fed Day. SPY closes in top 25% of daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - 4/1/2014.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$7,188.50	Profit Factor	1.32
Gross Profit	\$29,338.01	Gross Loss	(\$22,149.51)
Total Number of Trades	68	Percent Profitable	47.06%
Winning Trades	32	Losing Trades	34
Even Trades	2		
Avg. Trade Net Profit	\$105.71	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$916.81	Avg. Losing Trade	(\$651.46)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <=75% of daily range.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 6/14/13.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$13,590.58	Profit Factor	2.06
Gross Profit	\$26,412.57	Gross Loss	(\$12,821.99)
Total Number of Trades	37	Percent Profitable	56.76%
Winning Trades	21	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	\$367.31	Ratio Avg. Win:Avg. Loss	1.47
Avg. Winning Trade	\$1,257.74	Avg. Losing Trade	(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - 4/1/2014.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$12,043.90	Profit Factor	2.76
Gross Profit	\$18,895.86	Gross Loss	(\$6,851.96)
Total Number of Trades	29	Percent Profitable	72.41%
Winning Trades	21	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$415.31	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$899.80	Avg. Losing Trade	(\$856.50)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$20,552.27	Profit Factor	4.08
Gross Profit	\$27,234.96	Gross Loss	(\$6,682.69)
Total Number of Trades	35	Percent Profitable	74.29%
Winning Trades	26	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$587.21	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$1,047.50	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 4 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Traders that may look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/28 – neutral

The intermediate-term outlook was last updated in the 4/28/14 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 @ \$186.67 LIMIT ON CLOSE if it also closes in the bottom ½ of its daily (open to close) range. Based on the short-term outlook above and the fact that a weak close would set up favorably based on the Fed Day study. This limit would put SPY just below its 10ma.

Current Open Trade Ideas

None

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