

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 30, 2014

Volume 7 Issue 82

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.
- Fed Days are typically bullish.

## *Short-term Outlook*

### *The Bottom Line*

The studies are pointing higher. But the Differential Pivot is inverted, so there is no room to the upside before SPX will be considered overbought. And with the reaction to the Fed a potential risk, I'll wait at least a day before looking to take on new positions.

**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 30, 2014	Up 2 < 3 ago	1-2 days	Bullish	
April 30, 2014	Fed Day	1 day	Bullish	
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%
<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	

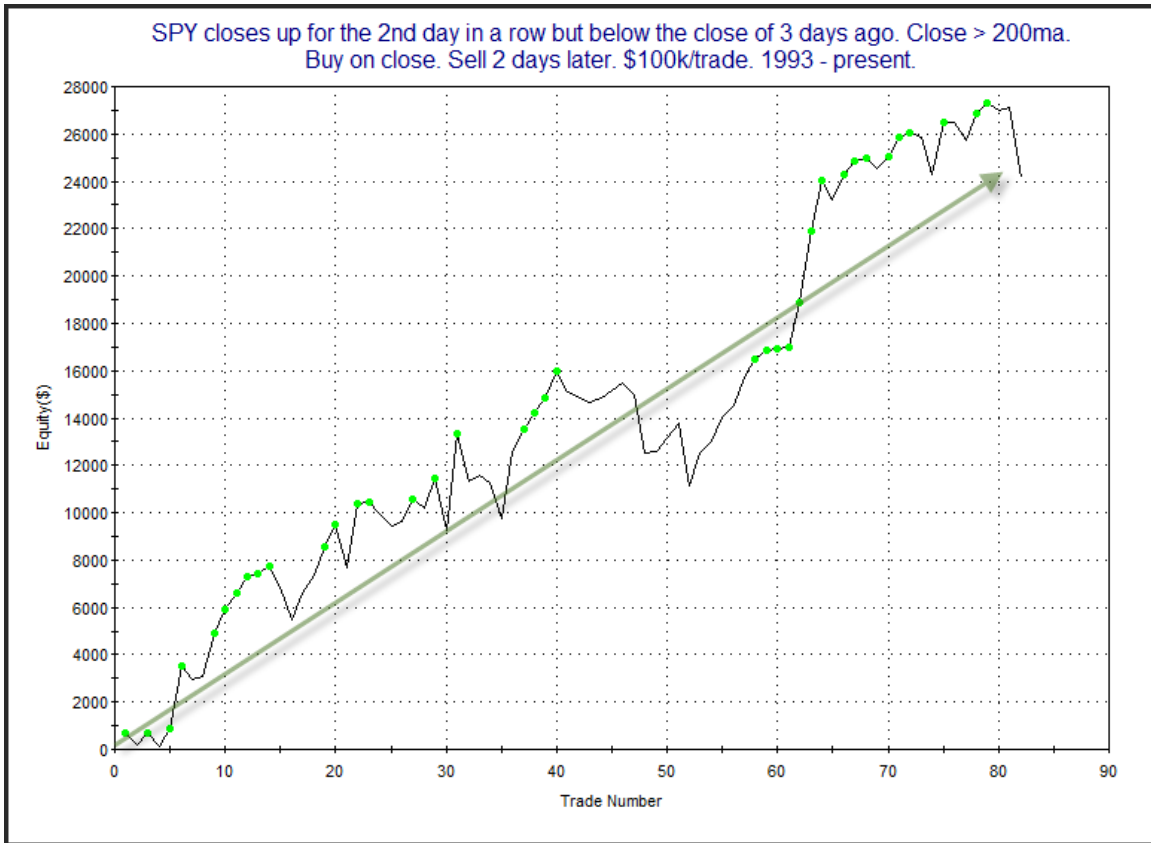
**The Evidence**

The market rallied on Tuesday. The SPX rose 0.5%, the NASDAQ gained 0.7% and the Russell 2000 advanced 0.3%. Breadth was positive as the NYSE Up Issues % came in at 60% and the Up Volume % was 64%. Total NYSE volume fell some from Monday's high level.

The study below was last seen in the 1/23/14 Letter. It looked at times the SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. I have updated the study below.

SPY closes up for the 2nd day in a row but below the close of 3 days ago. 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	15,046.07	80	47	32	58.75	1,494.18	4,717.70	-1,724.39	-6,549.84	0.87	1.27	188.08
4	18,323.72	81	51	30	62.96	1,357.41	4,698.60	-1,696.81	-4,384.89	0.80	1.36	226.22
3	12,953.26	82	49	33	59.76	1,251.25	3,000.00	-1,465.39	-4,092.24	0.85	1.27	157.97
2	24,182.01	82	55	27	67.07	932.47	4,088.25	-1,003.84	-2,932.22	0.93	1.89	294.90
1	6,136.50	82	46	34	56.10	634.89	3,732.75	-678.48	-1,777.90	0.94	1.27	74.84

The stats appear to suggest a bit of an upside edge over the 1<sup>st</sup> 2 days. Below is an equity curve using a 2-day exit strategy.



There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

To see the importance of the “close < 3 days ago” filter let’s also examine those times when the 2-day rally *was* strong enough to close above the close of 3 days ago. Those results are below.

SPY closes up for the 2nd day in a row and  $\geq$  the close of 3 days ago. 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	30,753.67	348	195	153	56.03	1,357.27	5,470.88	-1,528.85	-8,618.72	0.89	1.13	88.37
4	23,395.33	378	208	167	55.03	1,246.61	4,985.56	-1,412.57	-12,608.53	0.88	1.10	61.89
3	40,114.39	419	252	166	60.14	989.11	3,978.96	-1,259.89	-5,587.56	0.79	1.19	95.74
2	25,738.53	419	246	170	58.71	810.99	3,949.33	-1,022.14	-5,249.75	0.79	1.15	61.43
1	25,319.97	419	236	177	56.32	582.87	2,922.95	-634.11	-3,686.32	0.92	1.23	60.43

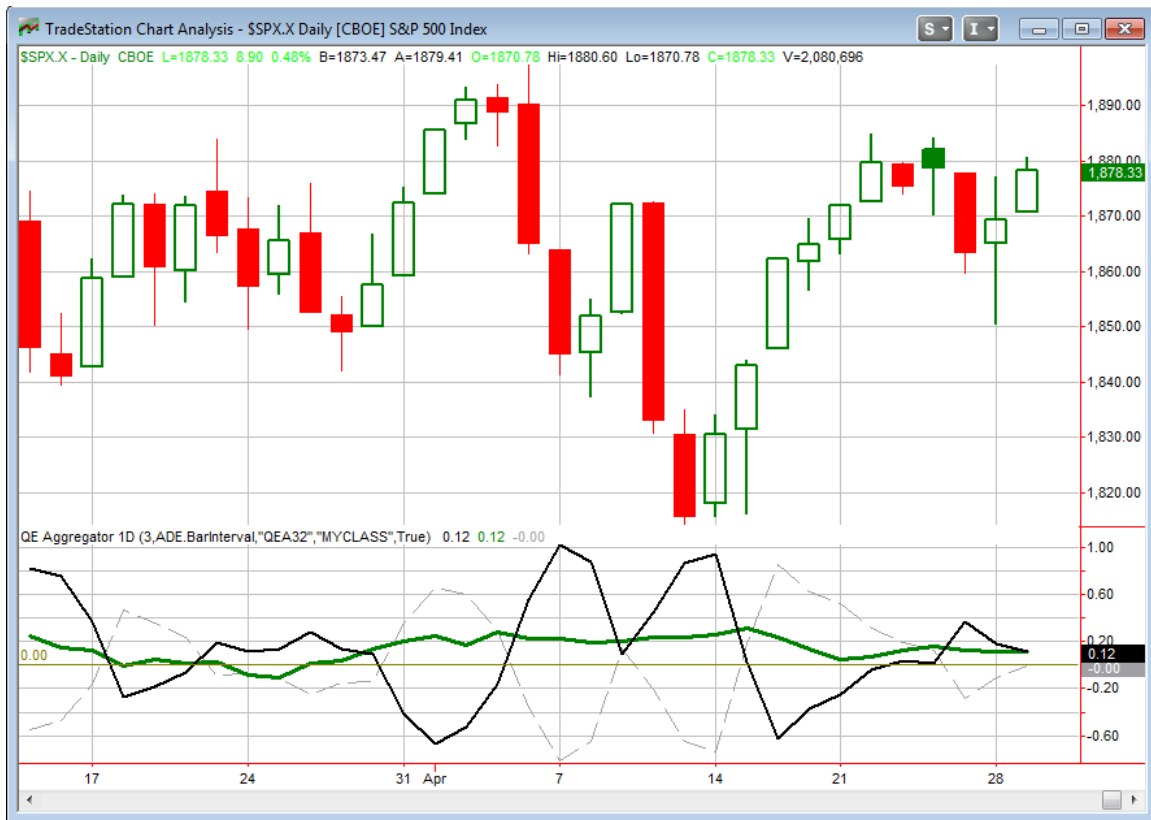
As you can see, that small change makes a big difference. Two days out total gains are about the same despite the fact that there are about 5 times as many instances. And the profit curves here look more like drift than any consistent edge.

Of course as I have been mentioning, Wednesday is a Fed Day. The last couple of nights I have posted studies showing stats based on where SPY closed within its daily range on the day before a Fed Day. Tuesday's close triggered the following study.

TradeStation Performance Summary <span style="float: right;">Collapse ↕</span>			
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)

Results here are not nearly as favorable as they would have been if SPY closed in the lower portion of its range. Still, there appears to be a moderate upside edge.

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



With tonight's bullish studies 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 Wednesday. This could change if strong bearish evidence emerges. The Differential Pivot will be *inverted* at 1870.93 on Wednesday. That is 0.4% *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case it will take a close lower of at least 0.4% for SPX to remain oversold. Unless that happens, SPX will be considered overbought as of Wednesday's close

Inverted pivots will sometimes offer nice opportunities to take profits. Unfortunately, my attempts at entry the last few days went unfilled. So I don't have any profit taking to do in this case. I am not inclined to take on new long exposure with the pivot inverted and the Fed announcement due at 2pm EST. I'll wait to see the reaction and then I may look to buy on Thursday if the market does in fact close down below the 1870.93 mark.

***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.*

***None tonight.***

**Current Open Trade Ideas**

*None*

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