

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 1, 2014

Volume 7 Issue 83

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Short-term highs on a Fed Day are often met by a pullback over the next few days.
- The strong close on Wednesday kills the turn-of-the-month upside edge.

## *Short-term Outlook*

### *The Bottom Line*

Tonight's studies lean bearish, but the overall weight of the evidence is still bullish. But now the market is overbought. So I am in "wait and see" mode.

**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>				
May 1, 2014	Fed Day close at 10-high, not 100-high	1-2 days	Bearish	
April 30, 2014	Up 2 < 3 ago	1-2 days	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	
<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 30, 2014	Fed Day	1 day	Bullish	
April 21, 2014	VIX 10% below from 10% above 10ma	1-8 days	Bullish	2.80%

**The Evidence**

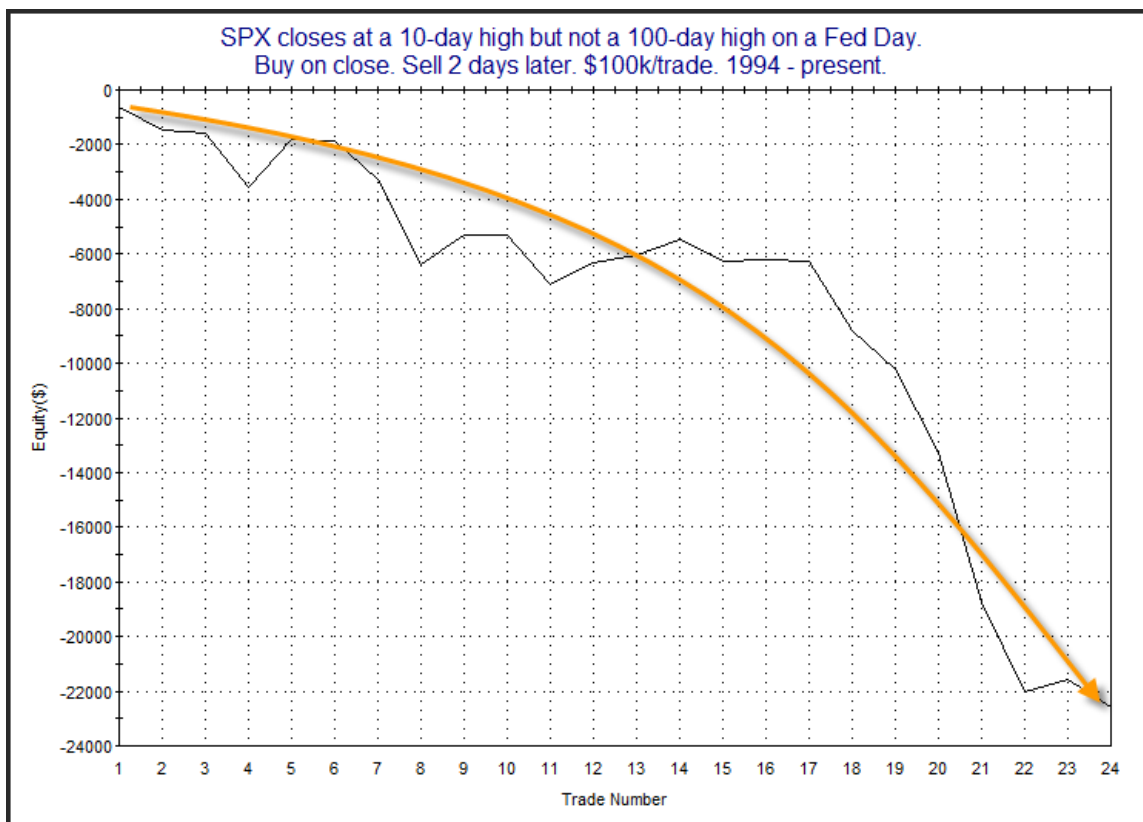
A positive reaction to the Fed gave the market a boost in the afternoon and gains were seen all around. The SPX and NASDAQ each gained 0.3% and the Russell 2000 advanced 0.5%. Breadth was positive as the NYSE Up Issues % came in at 65% and the Up Volume % was 61%. Total NYSE volume rose a little from Tuesday's level.

On Fed Days when the SPX is not also making a long-term high, then moves to new short-term highs often get reversed over the next few days. (Long-term highs are another story for another day.) This is exemplified by the study below, which was last seen in the 12/13/12 Letter.

SPX closes at a 10-day high but not a 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-23,155.55	24	10	14	41.67	1,621.06	4,389.95	-2,811.87	-9,625.50	0.58	0.41	-964.81
9	-27,233.26	24	10	14	41.67	1,582.23	3,956.94	-3,075.39	-12,928.50	0.51	0.37	-1,134.72
8	-21,203.40	24	10	14	41.67	1,323.16	4,058.40	-2,459.64	-7,050.88	0.54	0.38	-883.48
7	-10,342.14	24	13	11	54.17	1,601.96	6,337.26	-2,833.42	-6,122.88	0.57	0.67	-430.92
6	-10,389.93	24	12	12	50.00	1,515.71	4,813.75	-2,381.54	-4,908.27	0.64	0.64	-432.91
5	-22,403.66	24	10	14	41.67	1,423.25	5,231.46	-2,616.87	-6,268.92	0.54	0.39	-933.49
4	-18,752.67	24	10	14	41.67	1,159.70	3,438.24	-2,167.83	-4,528.95	0.53	0.38	-781.36
3	-12,994.10	24	12	12	50.00	1,268.99	3,830.40	-2,351.83	-5,547.24	0.54	0.54	-541.42
2	-22,597.72	24	8	16	33.33	626.38	1,737.55	-1,725.55	-5,495.94	0.36	0.18	-941.57
1	-12,649.81	24	6	18	25.00	924.90	1,990.25	-1,011.07	-3,300.30	0.91	0.30	-527.08

**23 of 24 instances (96%) closed below the Fed Day close at some point in the next 4 days.**

The numbers here all point to a downside edge, primarily over the 1<sup>st</sup> 2 days. Below is a profit curve showing how the edge has played out over time.



Not the smoothest curve, but I prefer a steepening one like this to a flattening one. I think this study is compelling enough to include on the Active List.

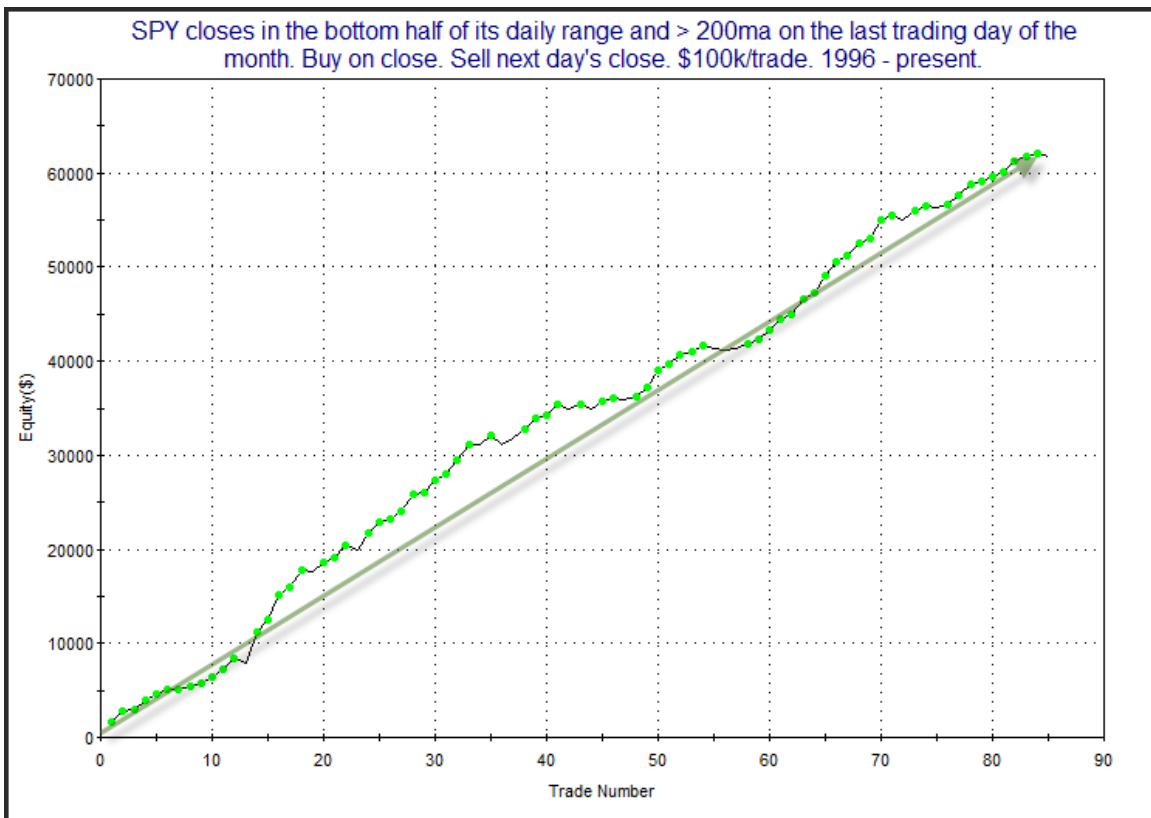
Of course with Thursday being the first of the month we also had a few 1<sup>st</sup> day Quantifinder studies appears. The 1<sup>st</sup> day of the month has generally been a strong day for the market since the late 80s / early 90s. The upside edge has primarily played out during uptrends, though. In the past I have shown that 1<sup>st</sup> days of the month when SPX is above its 200ma have done very well. In the 7/31/13 letter I broke down the 1<sup>st</sup> of the month a little differently.

For this study I examined all 1<sup>st</sup> days of the month and filtered them by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the bottom half of its range on the last day of the month.

SPY closes in the bottom half of its daily range and > 200ma on the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$61,802.52	Profit Factor	16.16
Gross Profit	\$65,880.30	Gross Loss	(\$4,077.78)
Total Number of Trades	85	Percent Profitable	84.71%
Winning Trades	72	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	\$727.09	Ratio Avg. Win:Avg. Loss	2.92
Avg. Winning Trade	\$915.00	Avg. Losing Trade	(\$313.68)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$885.28)

The stats here are phenomenal. Gains absolutely blow away losses in every category. Gross gains are over 16x the size of gross losses. And the average win is actually bigger than the largest loss. That's an incredible stat when you are looking at a sample size of 85 instances. And the profit curve...



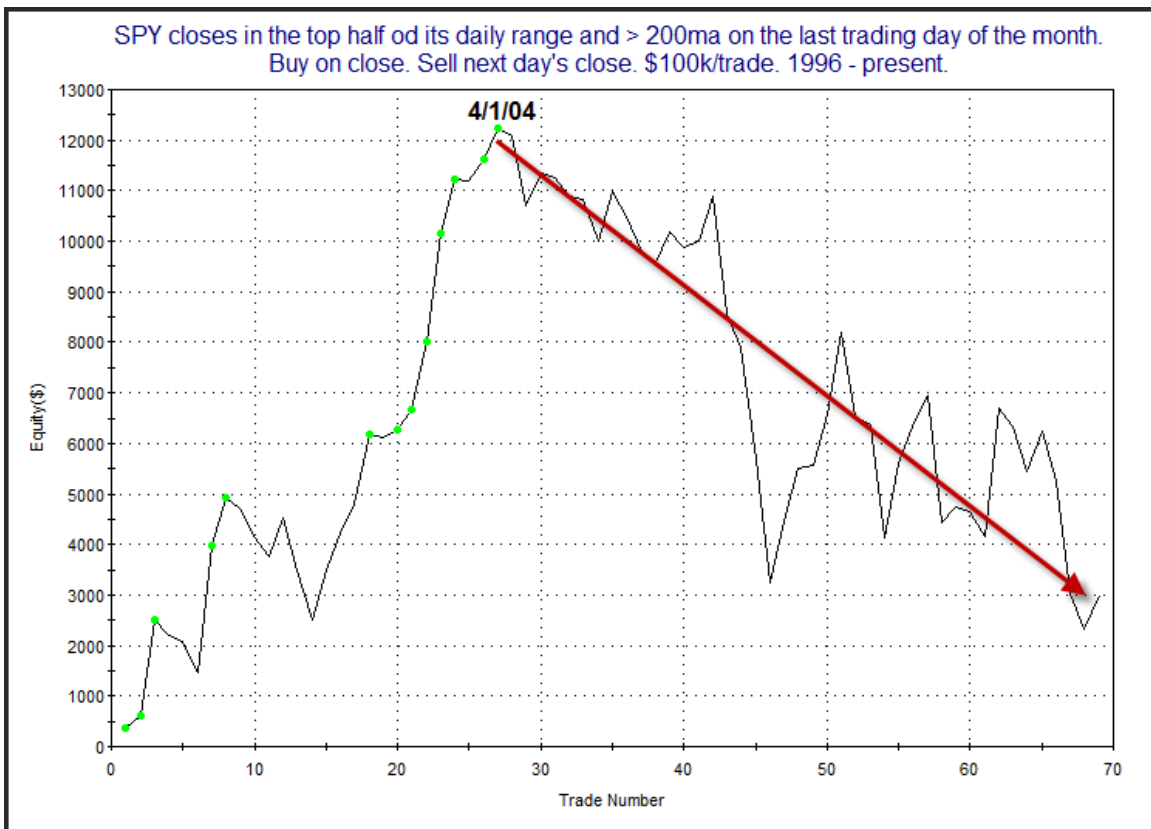
You will be hard pressed to find a long-term profit curve much straighter and more impressive than this one.

But now let's examine times like the present where SPY closes in the bottom half of its daily range.

SPY closes > 200ma. It closes in the top half of its daily range. It is the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

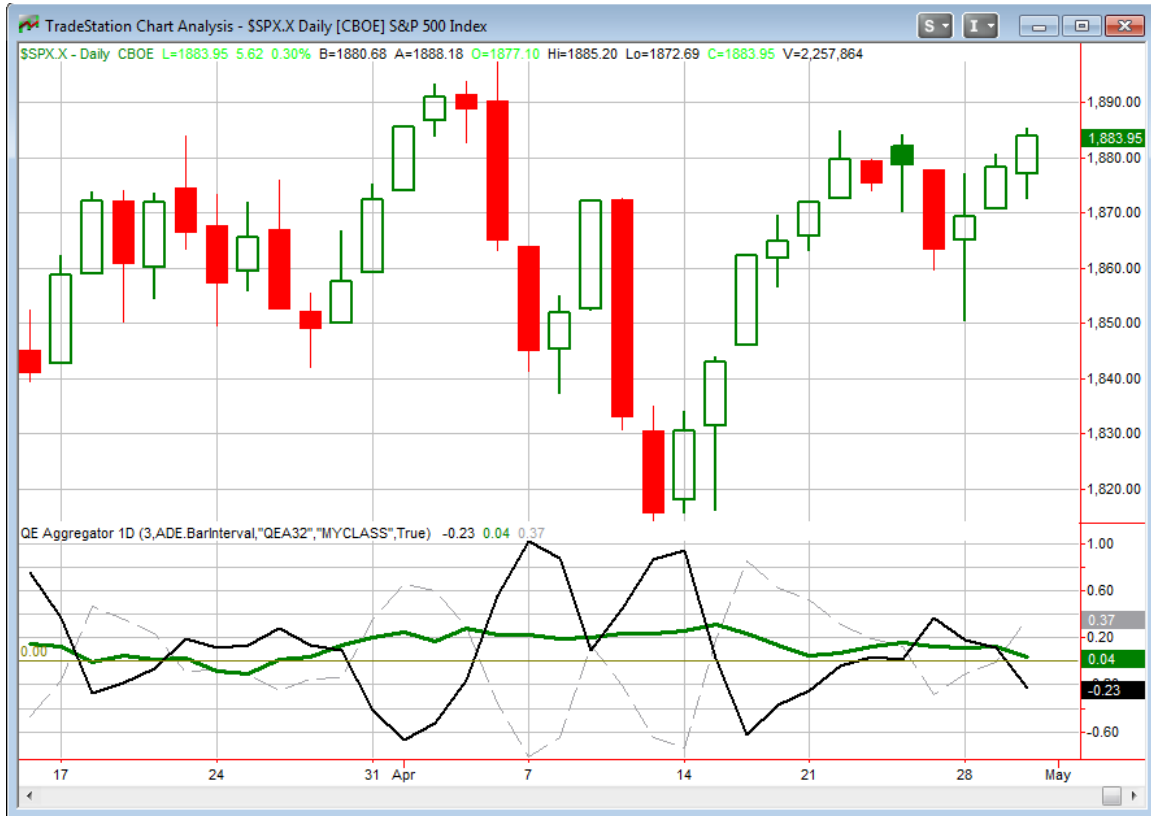
TradeStation Performance Summary			
All Trades			
Total Net Profit	\$5,441.15	Profit Factor	1.22
Gross Profit	\$30,378.28	Gross Loss	(\$24,937.13)
Total Number of Trades	64	Percent Profitable	50.00%
Winning Trades	32	Losing Trades	32
Even Trades	0		
Avg. Trade Net Profit	\$85.02	Ratio Avg. Win:Avg. Loss	1.22
Avg. Winning Trade	\$949.32	Avg. Losing Trade	(\$779.29)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

The numbers here don't suggest any substantial edge. Below is the profit curve.



This paints an even bleaker picture. With this in mind, I did not include a 1<sup>st</sup> of the month study on the Active List tonight.

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



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

Based on the current active studies, expectations are slated to remain positive on Thursday. This could change if strong bearish evidence emerges. The Differential Pivot will be 1876.87 on Thursday. That is 0.4% below Wednesday's close. So it will take a close lower of at least this much in order for SPX to be considered "oversold" again.

The Aggregator is pretty neutral and so am I. SPX is moderately overbought, and evidence is mixed, but leaning bullish. This is just one of those times when I intend to sit and wait for the market to come to me.

***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*

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.