

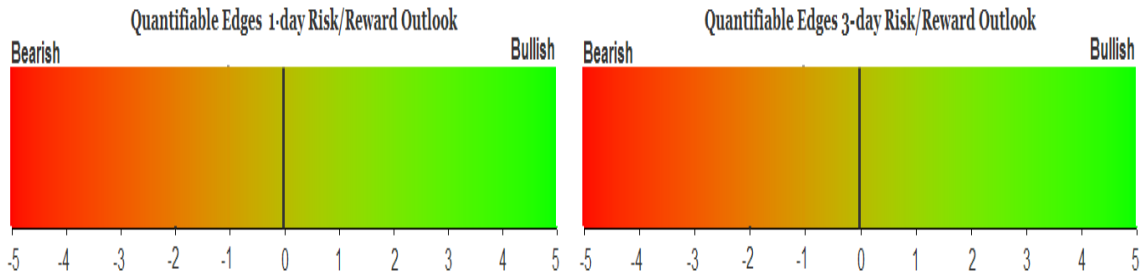
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 13, 2014

Volume 7 Issue 91

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The breakout to a new 50-day high was accompanied by 1) lower volume and 2) an unfilled gap up in the SPY. Both are short-term positives.

## *Short-term Outlook*

### *The Bottom Line*

Monday's breakout looks solid and it could generate some upside momentum. But with the market overbought I am not inclined to get involved here. I'll wait for a pullback, instead.

**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 13, 2014	Low vol breakout	1-5 days	Bullish	
May 13, 2014	Breakaway Gap	1-5 days	Bullish	
<b>Active - Long Term</b>				
May 1, 2014	3 of 4 Market Timing Indicators weak	int term	Bearish	
April 28, 2014	Sell in May	6 months	Bearish	
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>				
May 12, 2014	Up < 0.25% but top 10% of range	1 day	Bearish	

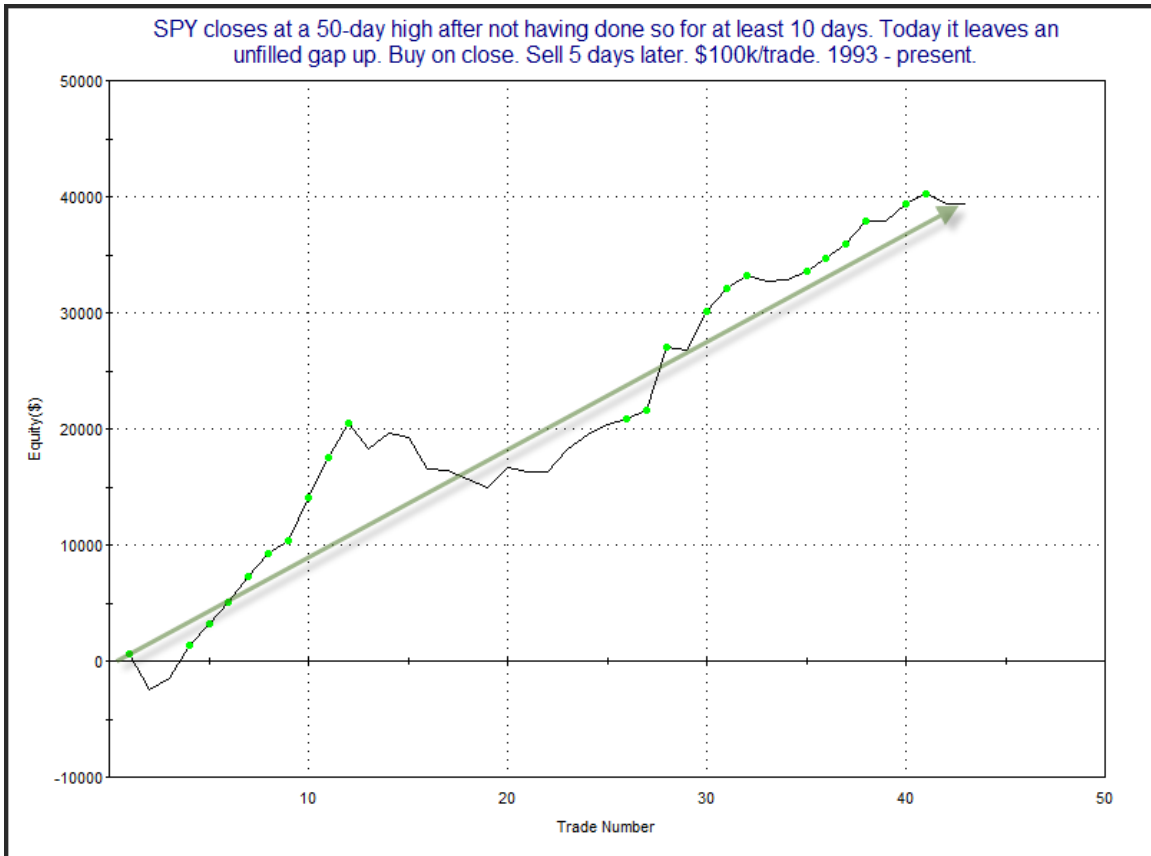
**The Evidence**

Monday was a strong day from start to finish and the major indices enjoyed some sizable gains. The SPX rose 1.0%, the NASDAQ gained 1.8%, and the Russell 2000 rallied 2.4%. Breadth was very strongly positive as the NYSE Up Issues % came in at 78% and the Up Volume % was 85%. Total NYSE volume dropped for the 3<sup>rd</sup> day in a row.

SPX broke out and made new highs for the 1<sup>st</sup> time since in over a month. And a strong open meant that SPY left an unfilled gap up. In the 2/25/14 subscriber letter I looked at the importance of an unfilled upside gap on breakouts. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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	39,402.81	43	31	12	72.09	1,664.83	5,434.00	-1,017.25	-3,093.12	1.64	4.23	916.34
4	25,956.48	43	31	12	72.09	1,271.09	3,637.92	-1,120.61	-3,267.84	1.13	2.93	603.64
3	20,781.35	43	30	13	69.77	1,115.35	3,992.56	-975.31	-2,538.18	1.14	2.64	483.29
2	14,966.21	43	29	14	67.44	836.93	2,545.92	-664.62	-2,293.20	1.26	2.61	348.05
1	5,344.28	43	30	13	69.77	524.27	1,816.10	-798.77	-2,591.68	0.66	1.51	124.29
<b>39 of 43 instances (91%) closed above the entry price at some point in the next week.</b>												

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The nice upslope on the equity curve confirms the bullish inclinations.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was nearly the same. This study also appeared in the 2/25/14 letter and has been updated below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. 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	169.83	40	23	17	57.50	1,039.15	2,671.20	-1,395.93	-4,285.26	0.74	1.01	4.25
4	-4,919.70	40	20	20	50.00	1,066.83	2,072.07	-1,312.81	-4,518.34	0.81	0.81	-122.99
3	477.76	40	21	19	52.50	1,100.02	2,927.90	-1,190.67	-5,133.72	0.92	1.02	11.94
2	-2,831.73	40	19	21	47.50	699.52	2,324.90	-767.74	-3,640.86	0.91	0.82	-70.79
1	1,199.90	40	21	18	52.50	485.00	1,586.97	-499.17	-2,448.72	0.97	1.13	30.00

As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.

Another factor to consider about Monday's breakout is that is occurred on light volume. Textbooks often refer to this as a negative, but the study below, which was last seen in the 4/30/13 Letter shows it is actually a positive.

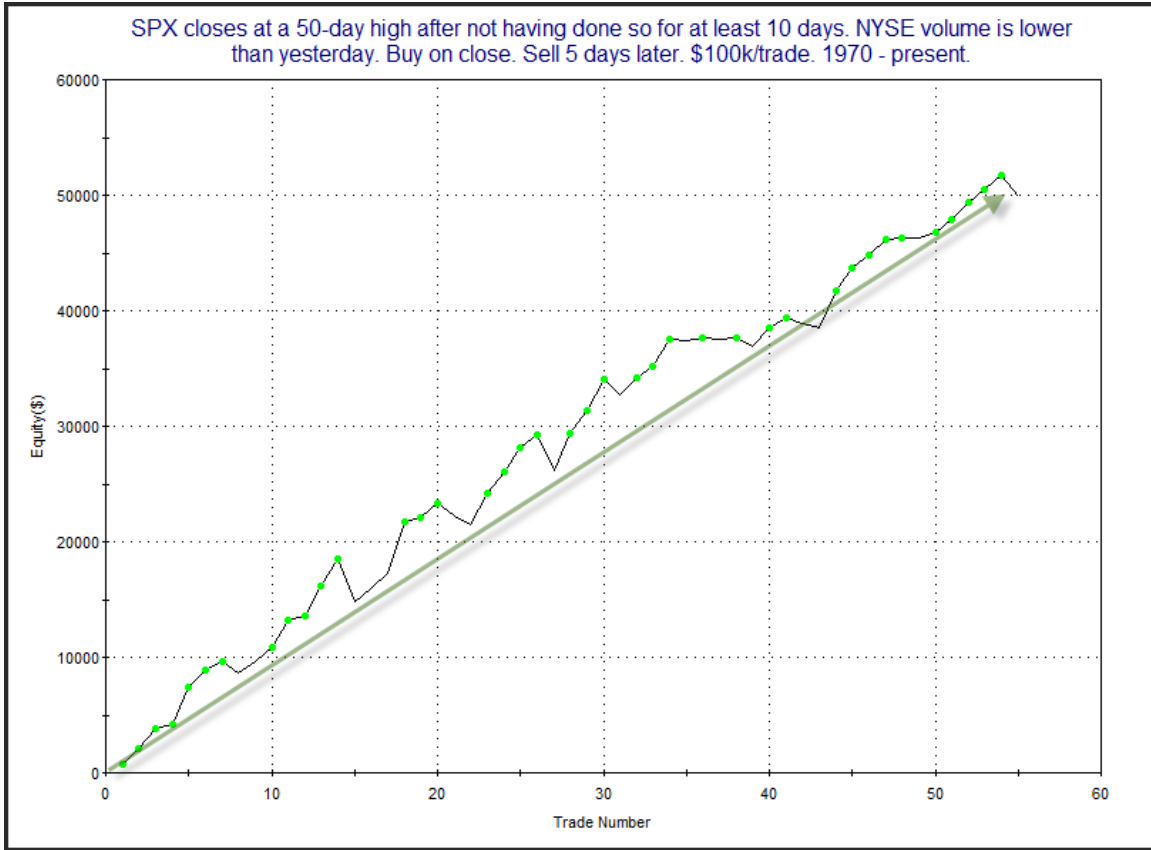
SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy on close. Sell X days later. \$100k/trade. 1970 - present.

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
20	31,968.46	52	30	22	57.69	2,726.46	11,088.84	-2,264.79	-8,157.10	1.20	1.64	614.78
19	34,867.19	53	31	22	58.49	2,610.38	9,628.99	-2,093.40	-9,056.82	1.25	1.76	657.87
18	34,925.41	53	33	20	62.26	2,509.33	11,076.80	-2,394.12	-9,094.80	1.05	1.73	658.97
17	36,572.30	53	33	20	62.26	2,600.60	10,017.28	-2,462.37	-8,682.96	1.06	1.74	690.04
16	39,511.55	53	34	19	64.15	2,501.66	10,944.36	-2,397.09	-9,243.81	1.04	1.87	745.50
15	32,969.06	53	35	18	66.04	2,315.87	8,166.13	-2,671.47	-9,354.92	0.87	1.69	622.06
14	39,094.99	54	38	16	70.37	2,087.89	7,314.30	-2,515.30	-6,525.68	0.83	1.97	723.98
13	37,608.52	55	36	19	65.45	2,070.70	7,780.85	-1,944.04	-5,160.09	1.07	2.02	683.79
12	24,233.05	55	31	24	56.36	2,131.13	5,996.75	-1,743.00	-4,539.14	1.22	1.58	440.60
11	19,018.42	55	29	26	52.73	2,141.92	5,809.60	-1,657.59	-6,029.07	1.29	1.44	345.79
10	21,361.71	55	28	27	50.91	2,147.15	5,960.00	-1,435.50	-4,324.52	1.50	1.55	388.39
9	31,450.29	55	37	18	67.27	1,680.26	5,147.20	-1,706.63	-5,812.26	0.98	2.02	571.82
8	37,094.81	55	39	16	70.91	1,573.67	5,096.00	-1,517.40	-4,186.55	1.04	2.53	674.45
7	36,314.09	55	38	17	69.09	1,449.30	4,655.00	-1,103.50	-3,211.35	1.31	2.94	660.26
6	49,161.72	55	40	15	72.73	1,525.70	5,002.50	-791.09	-3,563.65	1.93	5.14	893.85
5	49,895.91	55	42	13	76.36	1,540.87	4,482.50	-1,140.06	-3,693.73	1.35	4.37	907.20
4	35,088.33	55	40	15	72.73	1,272.23	4,440.00	-1,053.39	-2,913.85	1.21	3.22	637.97
3	33,469.06	55	37	18	67.27	1,245.55	3,950.00	-700.91	-1,802.37	1.78	3.65	608.53
2	19,013.13	55	37	18	67.27	840.70	2,212.98	-671.82	-1,912.60	1.25	2.57	345.69
1	8,775.43	55	36	18	65.45	481.75	1,384.02	-475.98	-1,921.32	1.01	2.02	159.55

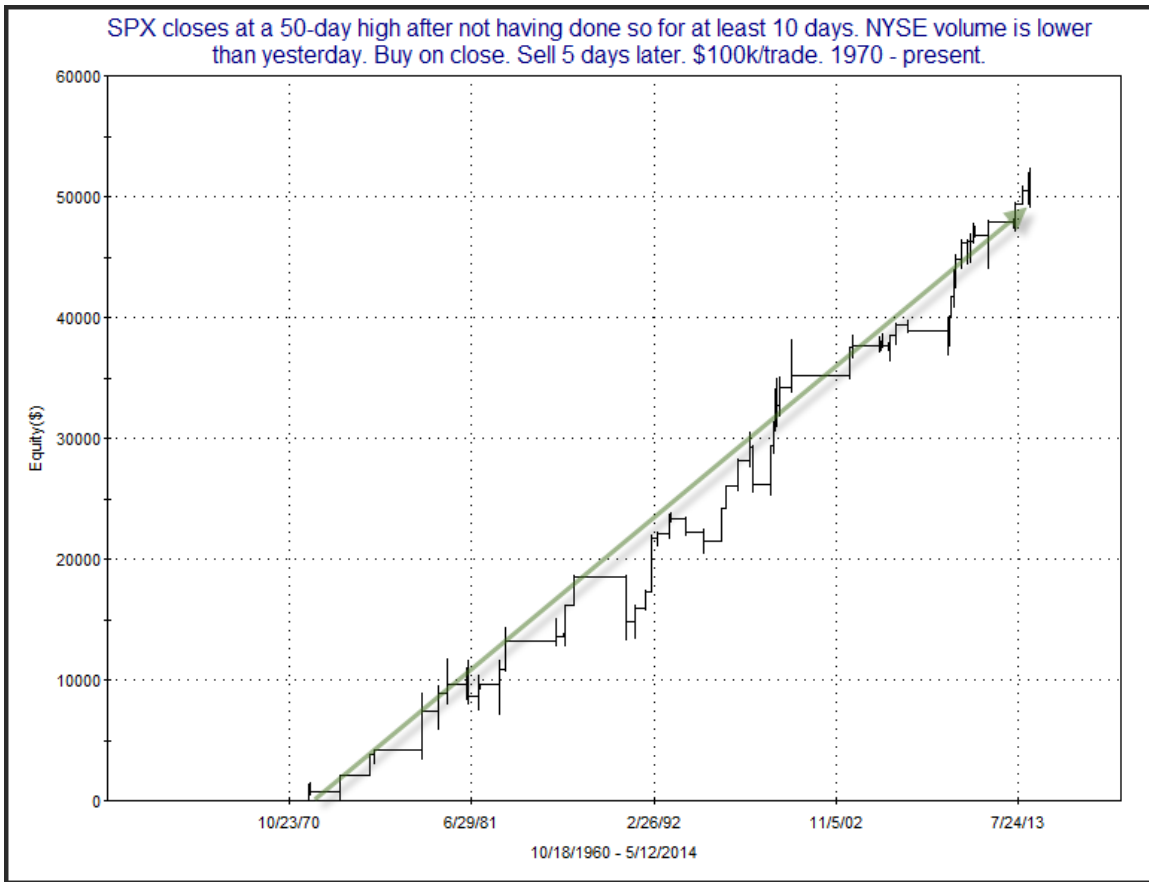
**52 of 55 instances (95%) closed above the entry price at some point in the next week.**

Here we see that there appears to be a strong upside inclination over the first week. Beyond that there isn't much of an edge.

To see how the 1-week edge has played out over time I have produced a profit curve below.



Profit curves don't often get steadier and smoother than this one. I also ran it using time instead of instances in the x-axis.



This provides further illustration of the persistent upside edge.

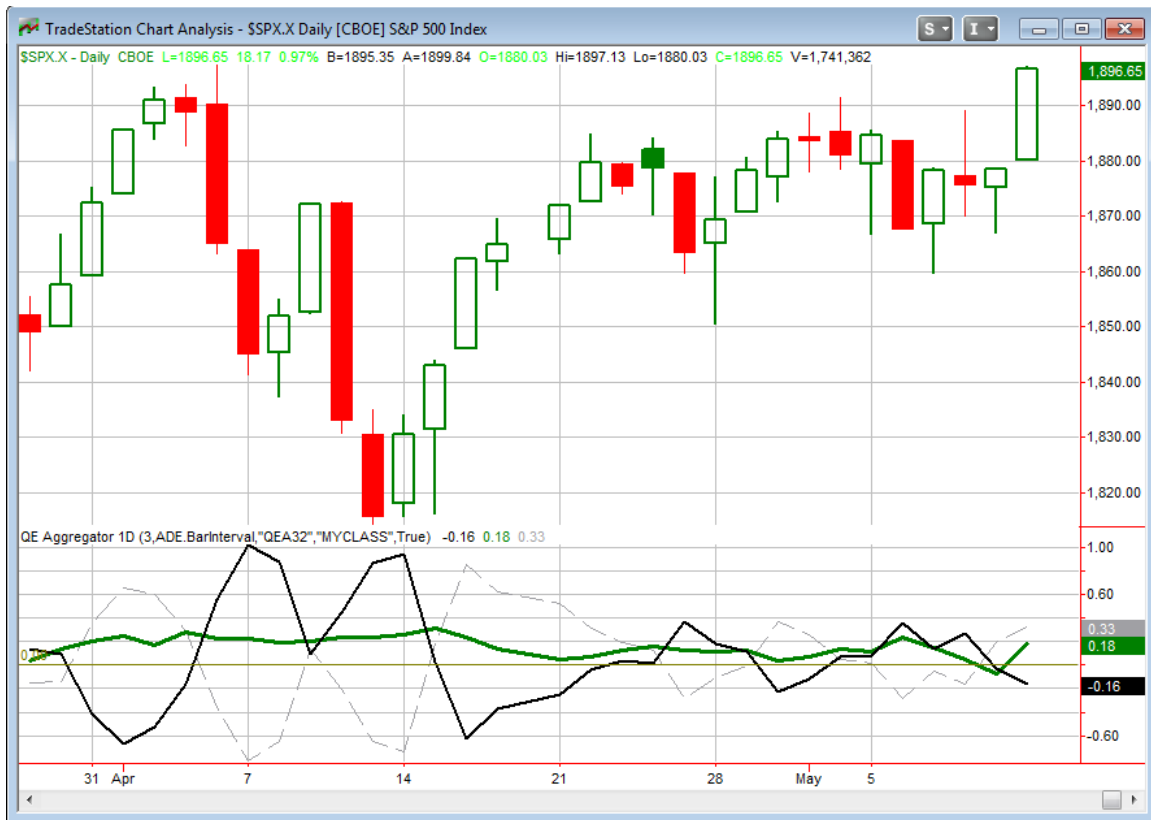
For comparison, as I also did in that 4/30/13 letter, I ran the breakout stats when the breakout came on increased volume rather than lower volume. Those are updated below.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is HIGHER than yesterday. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
20	18,229.50	124	61	63	49.19	3,579.72	13,393.77	-3,176.72	-11,548.62	1.13	1.09	147.01
19	31,985.56	126	68	58	53.97	3,269.41	9,135.36	-3,281.63	-11,862.36	1.00	1.17	253.85
18	44,866.64	126	68	58	53.97	3,275.13	9,613.50	-3,066.25	-10,293.66	1.07	1.25	356.08
17	36,276.39	126	70	56	55.56	3,045.00	9,953.84	-3,158.46	-9,419.67	0.96	1.21	287.91
16	36,743.36	128	71	57	55.47	2,951.02	8,910.72	-3,031.21	-8,244.85	0.97	1.21	287.06
15	36,336.70	129	69	60	53.49	2,926.45	8,150.48	-2,759.81	-8,621.45	1.06	1.22	281.68
14	23,558.86	129	72	57	55.81	2,659.75	8,128.38	-2,946.37	-8,338.45	0.90	1.14	182.63
13	28,735.42	129	70	59	54.26	2,639.75	7,911.80	-2,644.86	-8,251.55	1.00	1.18	222.76
12	19,659.14	129	71	58	55.04	2,387.81	10,197.98	-2,584.05	-8,757.15	0.92	1.13	152.40
11	22,381.75	132	71	61	53.79	2,444.45	10,372.44	-2,478.26	-9,482.88	0.99	1.15	169.56
10	17,290.45	132	67	65	50.76	2,344.38	10,507.25	-2,150.51	-8,683.66	1.09	1.12	130.99
9	19,112.40	132	65	66	49.24	2,259.43	8,413.73	-1,935.62	-6,878.68	1.17	1.15	144.79
8	15,602.18	132	71	61	53.79	1,906.30	8,524.75	-1,963.03	-7,085.22	0.97	1.13	118.20
7	33,578.51	132	70	62	53.03	1,895.59	6,337.26	-1,598.59	-7,255.84	1.19	1.34	254.38
6	34,394.87	132	77	55	58.33	1,597.22	6,819.80	-1,610.74	-7,103.18	0.99	1.39	260.57
5	25,226.88	132	67	65	50.76	1,649.05	8,516.82	-1,311.68	-6,088.44	1.26	1.30	191.11
4	8,663.95	132	72	60	54.55	1,262.03	6,716.71	-1,370.04	-5,585.56	0.92	1.11	65.64
3	18,413.29	132	76	56	57.58	1,132.34	6,740.50	-1,207.94	-5,361.06	0.94	1.27	139.49
2	24,805.56	132	80	51	60.61	896.79	4,028.44	-920.34	-4,276.16	0.97	1.53	187.92
1	22,212.50	132	81	51	61.36	571.14	2,755.52	-471.56	-2,722.61	1.21	1.92	168.28

As you can see, higher volume breaks to new highs do not carry the same bullish implications. These stats appear to be almost dead neutral.

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



Tonight's breakout studies helped the green Aggregator Line jump back above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained 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. Therefore the Aggregator signal turned flat at the close.

Based on the current open studies, expectations are slated to remain positive on Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1883.53 on Tuesday. That 0.7% below Monday's close. This means that SPX will need to close down at least this much if it is going to change from overbought to oversold versus expectations.

The Aggregator is neutral. And while the studies suggest breakouts like this often see at least some short-term follow through, the market is just too overbought for me to consider buying at this point. I prefer to wait until it pulls back a bit and gives a more favorable entry price.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 5/12– slightly bearish***

The intermediate-term outlook was last updated in the 5/12 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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