

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 16, 2014

Volume 7 Issue 94

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.

## *Short-term Outlook*

### *The Bottom Line*

There still appears to be an upside edge, and the market is now strongly oversold. I anticipate a bounce and am positioning my account to try and take advantage of this bounce.

**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 16, 2014	2 unfilled down gaps, 5-low > 200ma	1-5 days	Bullish	
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 16, 2014	2 unfilled down gaps, 5-low > 200ma	1-5 days	Bullish	
May 1, 2014	3 of 4 Market Timing Indicators weak	int term	Bearish	
April 28, 2014	Sell in May	6 months	Bearish	
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**

Selling hit the market on Thursday. And though some the damage was lessened with an afternoon rally, the indices all still finished a fair amount lower. The SPX declined 0.9%, the NASDAQ fell 0.8%, and the Russell 2000 dropped 0.65%. Breadth was negative as the NYSE Up Issues % came in at 30% and the Up Volume % was 18%. Total NYSE volume rose to the highest level of the week.

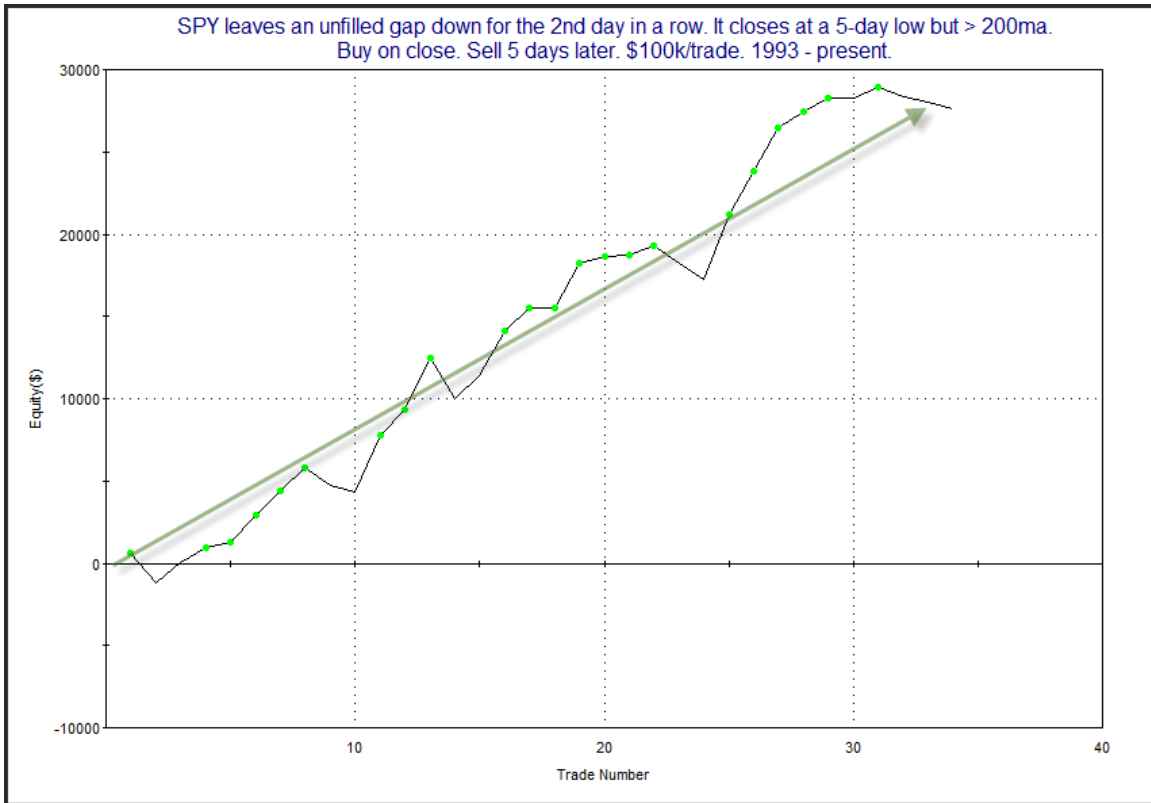
Notable about the price action over the last 2 days is that both Wednesday and Thursday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 1/27/14 letter. Results are updated.

SPY leaves an unfilled gap down for the 2nd day in a row. It closes at a 5-day low but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

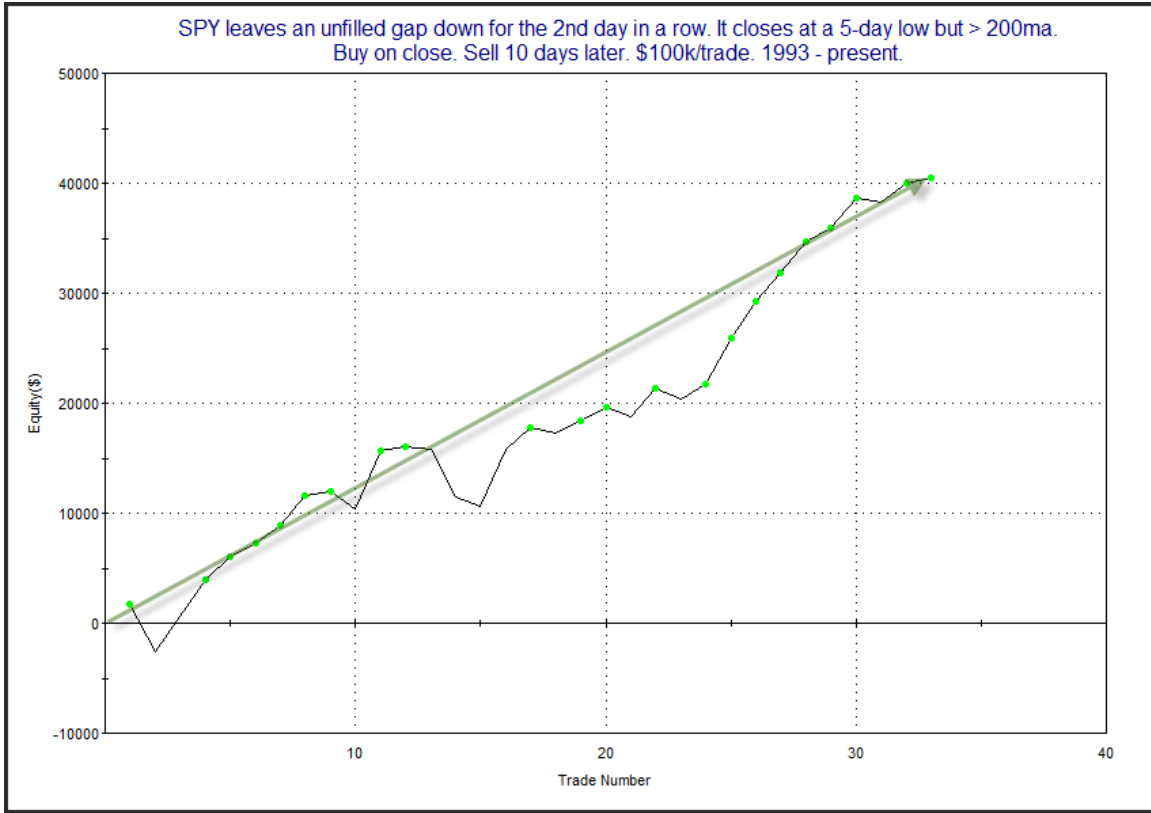
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	40,462.81	33	24	9	72.73	2,264.85	5,325.39	-1,543.73	-4,353.36	1.47	3.91	1,226.15
9	37,095.91	34	27	7	79.41	2,032.36	4,882.41	-2,539.69	-6,273.96	0.80	3.09	1,091.06
8	31,003.31	34	24	9	70.59	2,040.90	4,574.25	-1,997.60	-4,801.50	1.02	2.72	911.86
7	19,973.40	34	23	10	67.65	1,926.68	4,429.74	-2,434.02	-5,057.58	0.79	1.82	587.45
6	26,114.53	34	25	9	73.53	1,645.19	3,828.72	-1,668.36	-3,734.50	0.99	2.74	768.07
5	27,609.54	34	24	10	70.59	1,533.13	3,940.02	-918.56	-2,465.95	1.67	4.01	812.05
4	22,231.89	34	26	8	76.47	1,166.54	4,388.28	-1,012.26	-1,920.60	1.15	3.75	653.88
3	12,125.14	34	20	14	58.82	1,098.56	3,325.14	-703.29	-1,645.38	1.56	2.23	356.62
2	7,301.06	34	20	14	58.82	914.25	2,948.14	-784.56	-2,436.12	1.17	1.66	214.74
1	3,575.47	35	20	15	57.14	724.07	1,974.15	-727.06	-1,849.26	1.00	1.33	102.16

**Only one instance failed to close above the entry price at some point in the next 6 days. It triggered on 9/14/99.**

The numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 5-day holding period.

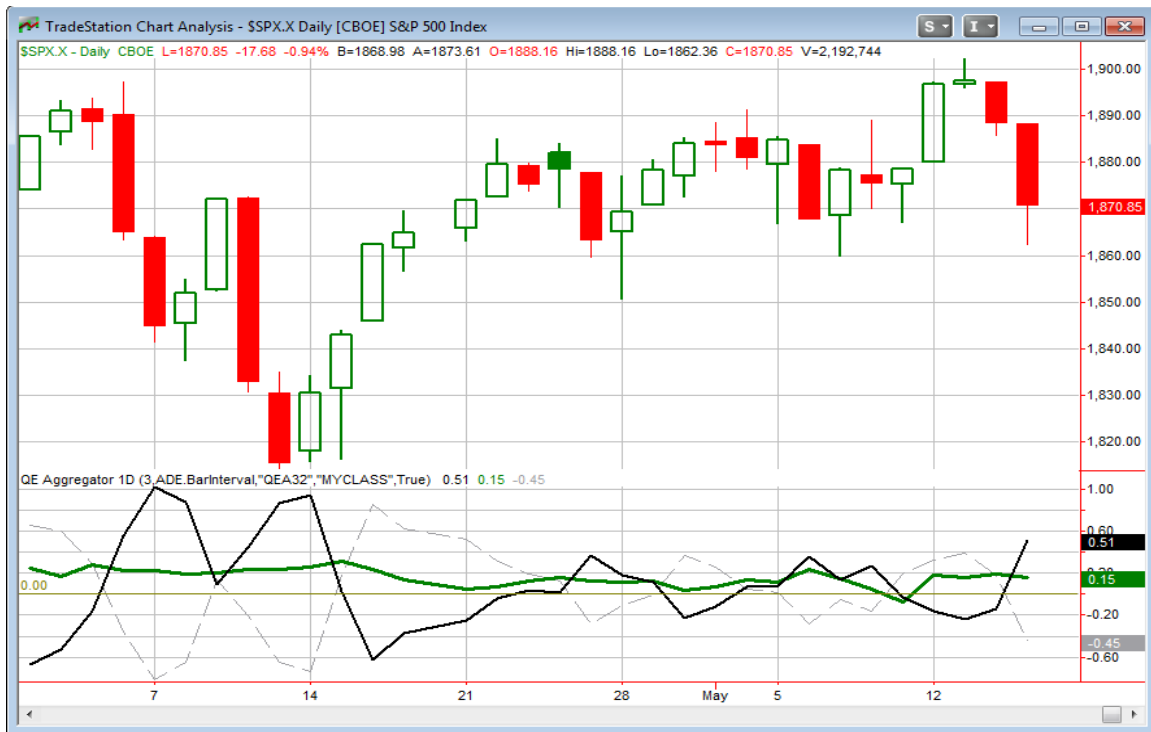


The solid upslope acts as confirmation of the bullish edge. The last 3 instances have been down slightly after 5 days, but this is not of great concern to me yet. Since the 10-day numbers were also I strong I ran a profit curve for that as well.



This is also very strong, and it has not seen the same struggles recently. I have included this study on both the Short and Intermediate-term Active Lists tonight.

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



Tonight's study helped the green Aggregator Line remain above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line shot above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal turned long at the close.

With bullish studies dominating the short-term list, expectations are slated to remain positive on Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1902.17 on Friday. That is a very strong 1.7% above Thursday's close. That means SPX will need to close up at least this much on Friday in order to move from oversold to overbought versus expectations. A move that large is unlikely to occur in just one day. A more likely scenario to work off the oversold condition is a multi-day rally or consolidation.

As per last night's Letter, I took on some long index exposure at the close on Thursday. While my intermediate-term outlook has me a little more cautious than I might otherwise be, I like the short-term evidence and suspect a 3<sup>rd</sup> down day on Friday, if were to occur, would only bring more bullish evidence. (Three days down above the 200ma often provides a few signals.) So if SPY closes down a decent amount on Friday, I will look to add a 2<sup>nd</sup> lot to my current long position.

**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.*

**SPY buy ¼ index position @ \$186.50 LIMIT ON CLOSE.** Based on the short-term outlook above. This is right around Thursday's low. It would be the second lot of a possible 4.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	5/15/2014	\$187.40	\$187.40	0.00%		bought on close

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