

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 20, 2014

Volume 7 Issue 96

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.

Short-term Outlook

The Bottom Line

Expectations remain positive and SPX is still oversold. So there still appears to be an upside edge. But SPX will no longer be oversold at the close on Tuesday unless it closes down quite a bit. So it seems like an opportune time to take profits and wait for the next strong edge to emerge.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
May 19, 2014	2 days up < 3 ago.	1-2 days	Bullish	
May 16, 2014	2 unfilled down gaps, 5-low > 200ma	1-5 days	Bullish	
Active - Long Term				
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	
Dropped Tonight				
May 13, 2014	Low vol breakout	1-5 days	Bullish	
May 13, 2014	Breakaway Gap	1-5 days	Bullish	

The Evidence

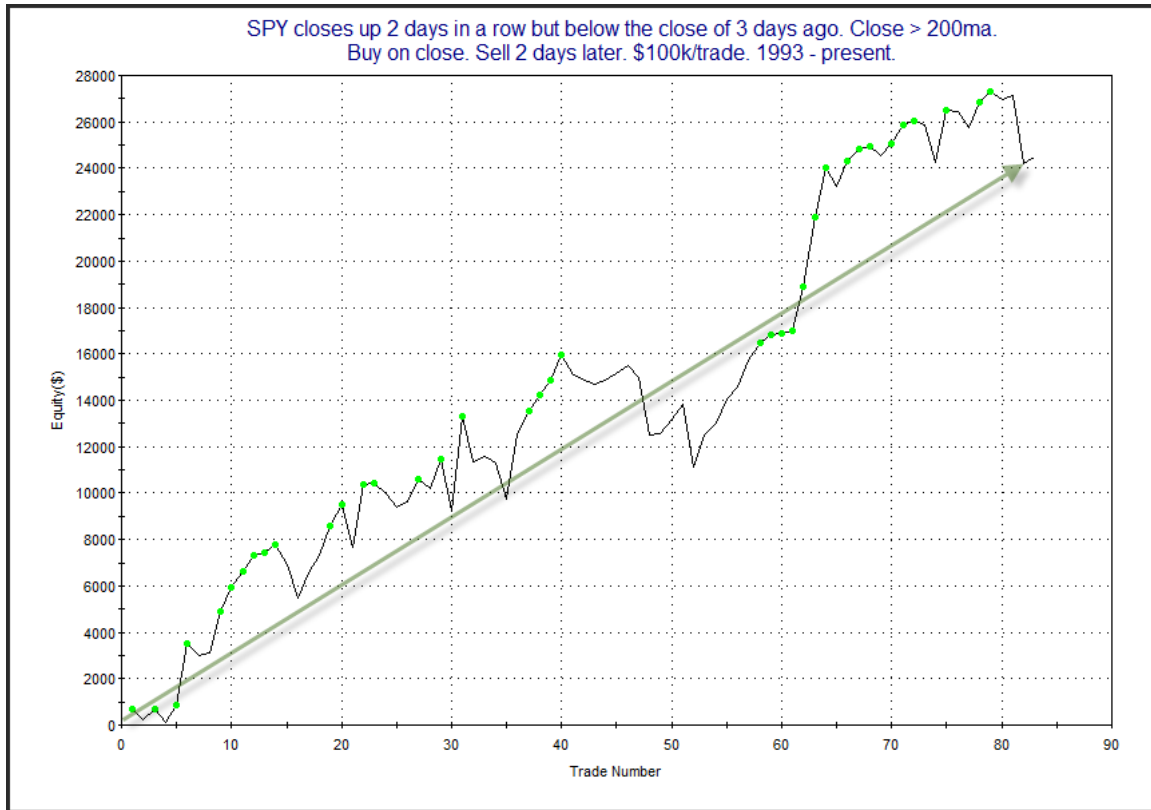
Monday saw the bounce continue. The SPX rose 0.4%, the NASDAQ climbed 0.9%, and the Russell 2000 gained 1.0%. Breadth was positive as the NYSE Up Issues % came in at 64% and the Up Volume % was 63%. Total NYSE volume sank to the lowest level in over a month.

The low volume trigger a few older studies in the Quantifinder, but none of them have been impactful in the last few years. We have seen many volume-related bearish studies get run over by the current bull market so this was no real surprise.

There was a bullish price action-based study though. It was last seen in the 4/30/14 Letter. It looked at times that 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 2 days 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	14,530.04	81	47	33	58.02	1,494.18	4,717.70	-1,687.77	-6,549.84	0.89	1.26	179.38
4	18,680.16	82	52	30	63.41	1,338.16	4,698.60	-1,696.81	-4,384.89	0.79	1.37	227.81
3	13,118.18	83	50	33	60.24	1,229.52	3,000.00	-1,465.39	-4,092.24	0.84	1.27	158.05
2	24,485.25	83	56	27	67.47	921.23	4,088.25	-1,003.84	-2,932.22	0.92	1.90	295.00
1	6,434.42	83	47	34	56.63	627.72	3,732.75	-678.48	-1,777.90	0.93	1.28	77.52

The stats appear to suggest a bit of an upside edge over the 1st 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.

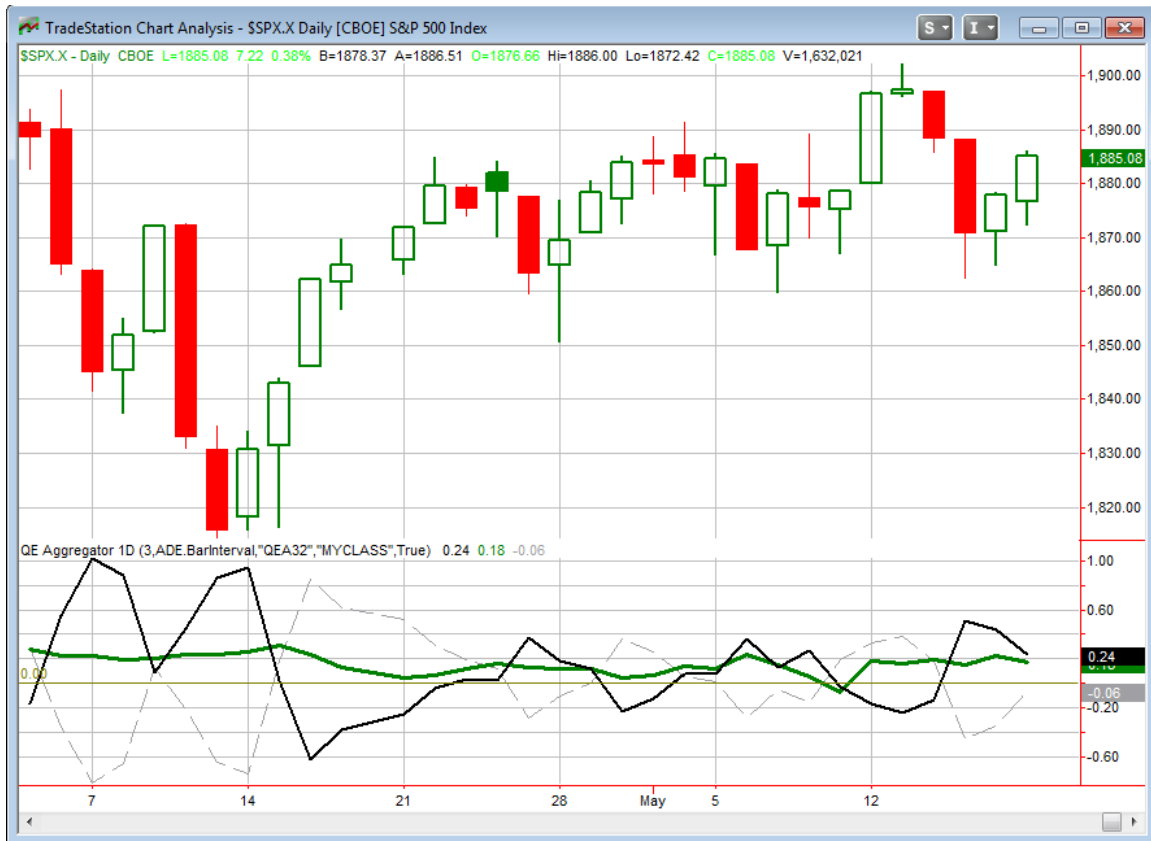
To see the importance of the “close < 3 days ago” filter let’s also examine those times when the 2-day rally *was* strong enough to close above the close of 3 days ago. Those results are below.

SPY closes up for the 2nd day in a row and >= 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	22,480.09	379	208	168	54.88	1,246.61	4,985.56	-1,409.61	-12,608.53	0.88	1.09	59.31
3	38,857.25	420	252	167	60.00	989.11	3,978.96	-1,259.88	-5,587.56	0.79	1.18	92.52
2	25,354.55	420	246	171	58.57	810.99	3,949.33	-1,018.41	-5,249.75	0.80	1.15	60.37
1	25,409.39	420	237	177	56.43	580.79	2,922.95	-634.11	-3,686.32	0.92	1.23	60.50

As you can see, that small change makes a big difference. Two days out total net profit is 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.

We did see the breakout studies from last week expire on Monday. So the Short-Term Active is now left with just 2 bullish and 0 bearish studies.

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



With tonight's study factored in the green Aggregator Line 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 is also still 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 above 0. Therefore the Aggregator signal stayed long at the close.

Without any bearish short-term studies, expectations are slated to remain positive on Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *inverted* at 1880.20 on Tuesday. That is 0.3% *below* Monday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. So in this case, unless SPX closes down at least 0.3% it will move from oversold to overbought versus recent expectations.

I often find that times when the Differential Pivot is inverted tend to be opportune times to take profits. I feel that way in this case as well. There still appears to be an upside edge, but it will only be one through Tuesday unless we see a quick decline. So there is a tight time limit on the upside edge, limiting the profit potential. The potential loss if SPY does sell off is not really limited. There is a good chance that expectations will remain

positive on a down close. Therefore, I will look to exit on Tuesday into any rally. While I may be giving up some intraday profits, if the market sells off and closes below the Differential Pivot, I could always buy my position back at a lower cost.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/19– slightly bearish

The intermediate-term outlook was last updated in the 5/19 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	5/15/2014	\$187.40	\$188.74	0.72%		sell at \$188.75 limit

I'm looking to sell into even the slightest move up on Tuesday.

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