

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 23, 2014

Volume 7 Issue 99

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A 2<sup>nd</sup> 20-day low in volume with the market still near the upper end of its range suggests short-term bearish implications.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is now suggesting a pullback over the next few days. But the SPX is still relatively oversold, so risk/reward is not where I like it. I am now out of the market awaiting the next solid edge to emerge.

**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 23, 2014	Extremely low vol 2x. >10 & > 200ma	1-2 days	Bearish	
<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 16, 2014	2 unfilled gaps dn > 200	1-5 days	Bullish	

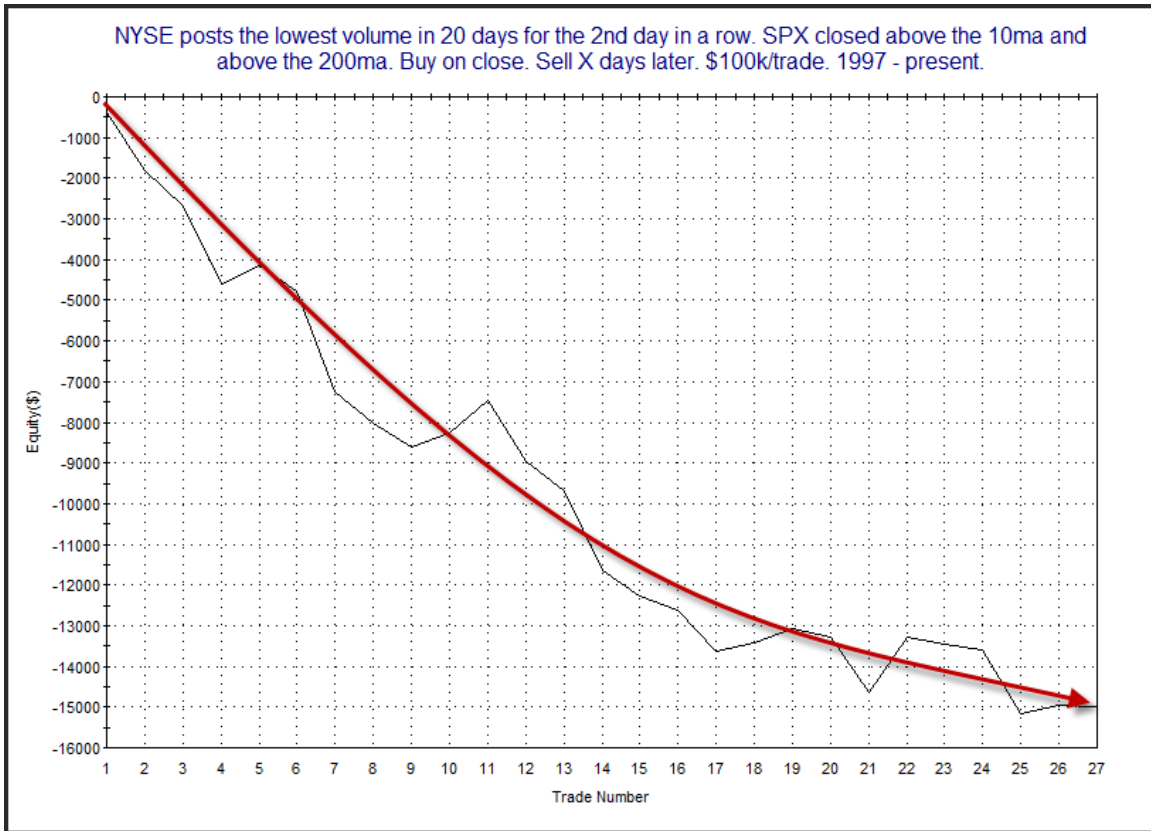
**The Evidence**

Thursday saw more buying as the major indices all rose. The SPX gained 0.2%, the NASDAQ rose 0.6% and the Russell 2000 closed up 0.9%. Breadth was squarely positive as the NYSE Up Issues % came in at 64% and the Up Volume % was also 64%. Total NYSE volume came in at the lightest level in months for the 2<sup>nd</sup> day in a row.

Last night I showed how low-volume up days have not been followed by negative short-term returns in recent years, though they used to be. But we are no longer dealing with just an isolated day. Now we have back-to-back days of extremely low volume. And the persistently low volume could change things. The study below is one I last looked at in the 3/19/14 letter. Results are updated.

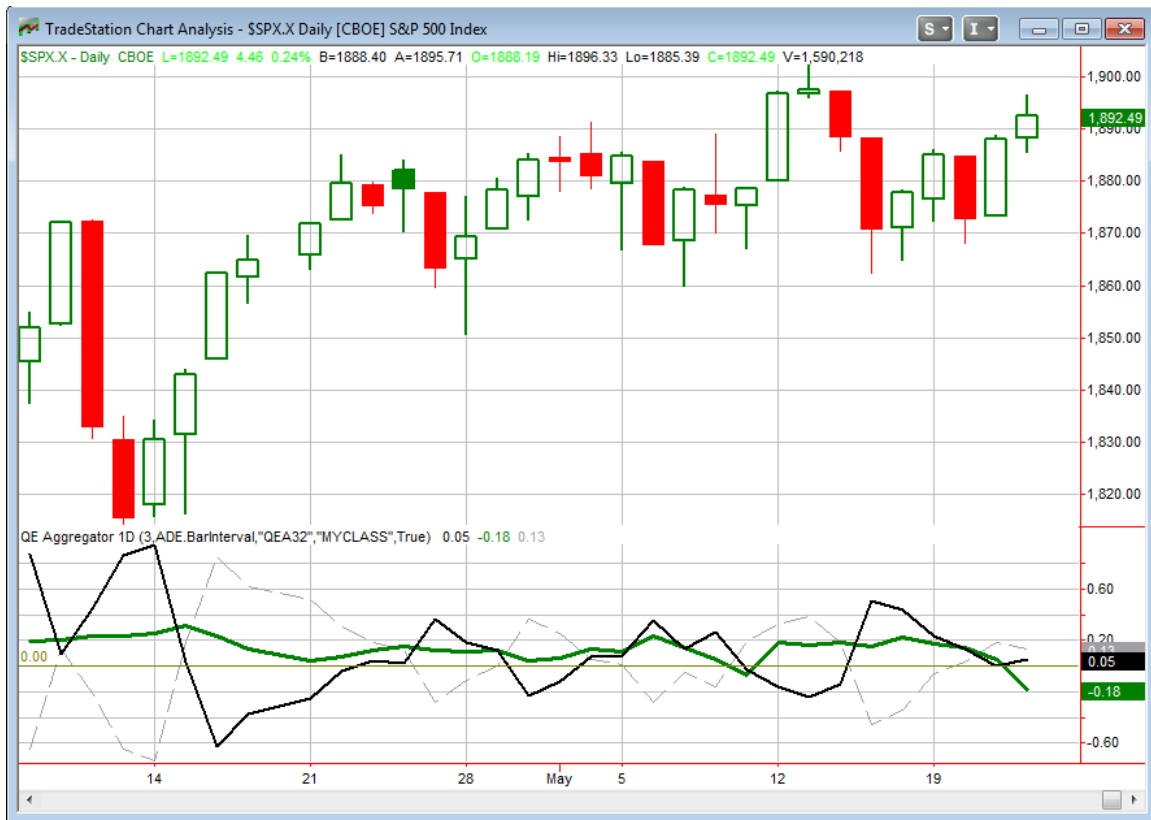
NYSE posts the lowest volume in 20 days for the 2nd day in a row. SPX closed above the 10ma and above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-2,068.89	26	14	12	53.85	1,405.75	3,654.90	-1,812.45	-6,793.38	0.78	0.90	-79.57
4	-10,933.44	26	14	12	53.85	895.17	2,450.55	-1,955.48	-9,797.04	0.46	0.53	-420.52
3	-14,143.55	27	11	16	40.74	683.79	1,269.45	-1,354.08	-4,565.52	0.50	0.35	-523.84
2	-14,977.41	27	7	20	25.93	531.38	1,373.32	-934.85	-2,459.82	0.57	0.20	-554.72
1	-12,835.40	31	13	18	41.94	410.49	1,120.48	-1,009.54	-2,378.78	0.41	0.29	-414.05

The numbers appear to suggest a substantial downside edge over the first couple of days. To get a better idea of how the edge has played out over time I generated the equity curve using a 2-day exit strategy.



The slope has flattened out some lately, but it still appears to be headed downward. The curve here seems to provide some evidence to back up the stats table. I have added this study to the Short-Term Active List.

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



With help from the bearish study that emerged on Thursday, the green Aggregator Line dropped down clearly below 0. Negative readings mean net expectations from the Active List are for downside 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 negative but the SPX is still oversold. 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 changed to flat at the close.

If no new studies emerge on Friday, then expectations are slated to remain negative. Of course with just 1 active short-term study, new bullish evidence could sway things. The Differential Pivot will be *inverted at 1882.84* on Friday. That is 0.5% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, if SPX is to remain "oversold" versus expectations, it is going to need to close down at least 0.5%. Otherwise it will move to an "overbought" state.

So evidence is now pointing down. And though the SPX is currently oversold, it is unlikely to stay that way Friday afternoon unless we see a selloff. Therefore, the Aggregator could easily turn short on Friday afternoon. I exited my SPY position at the open. I am not looking to jump into anything right now with the Aggregator neutral. Instead I will wait a day or two and see how things unfold.

**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
<i>SPY(1/4)</i>	<i>5/15/2014</i>	<i>\$187.40</i>	<i>\$189.18</i>	<i>0.95%</i>		<i>sold on open</i>

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