

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 5, 2014

Volume 7 Issue 210

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The unfilled gap and intraday price action suggest more selling could be on tap.

## *Short-term Outlook*

### *The Bottom Line*

The pullback on Tuesday was enough to turn the market oversold versus expectations. And while the only new evidence to arise was bearish, it was not enough to turn short-term net expectations negative. So there seems to be a bit of an upside edge. But election results could trigger a strong reaction on Wednesday. I am moderately bullish and considering taking on some long exposure if SPX heads lower again on Wednesday.

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

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
November 5, 2014	SPY unfilled gap dn from 10-high. HangN	1-3 days	Bearish	-1.40%	0.70%	1.50%
November 4, 2014	SPX down. RSI(2) > 90. SPX > 200ma	1-2 days	Bullish			
November 4, 2014	SPY unfill gap 20-high. Close<open. 2x	1-5 days	Bullish			
November 4, 2014	10 days > 5ma. 10-day high	1-2 days	Bearish			
November 3, 2014	End of month at high of month	1-5 days	Bullish	2.10%	-1.00%	-2.30%
November 3, 2014	SPY unfill gap 20-high. Close<open.	1-3 days	Bullish	1.15%	-0.50%	-0.90%
<b>Active - Long Term</b>						
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
October 30, 2014	VXO > 15% < 10ma 3 days thn no drop	1-20 days	Bullish	3.50%	-0.70%	-1.30%
October 27, 2014	NASDAQ leading SPX	int term	Bullish			
October 14, 2014	CBI >= 11	1-20 days	Bullish			
October 9, 2014	20-day low then 4-day high	1-19 days	Bullish	2.40%	-1.30%	-2.50%
September 4, 2014	SPX 20-day high. NDX biggest loss in 20	1-50 days	Bullish	6.50%	-2.70%	-5.10%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			

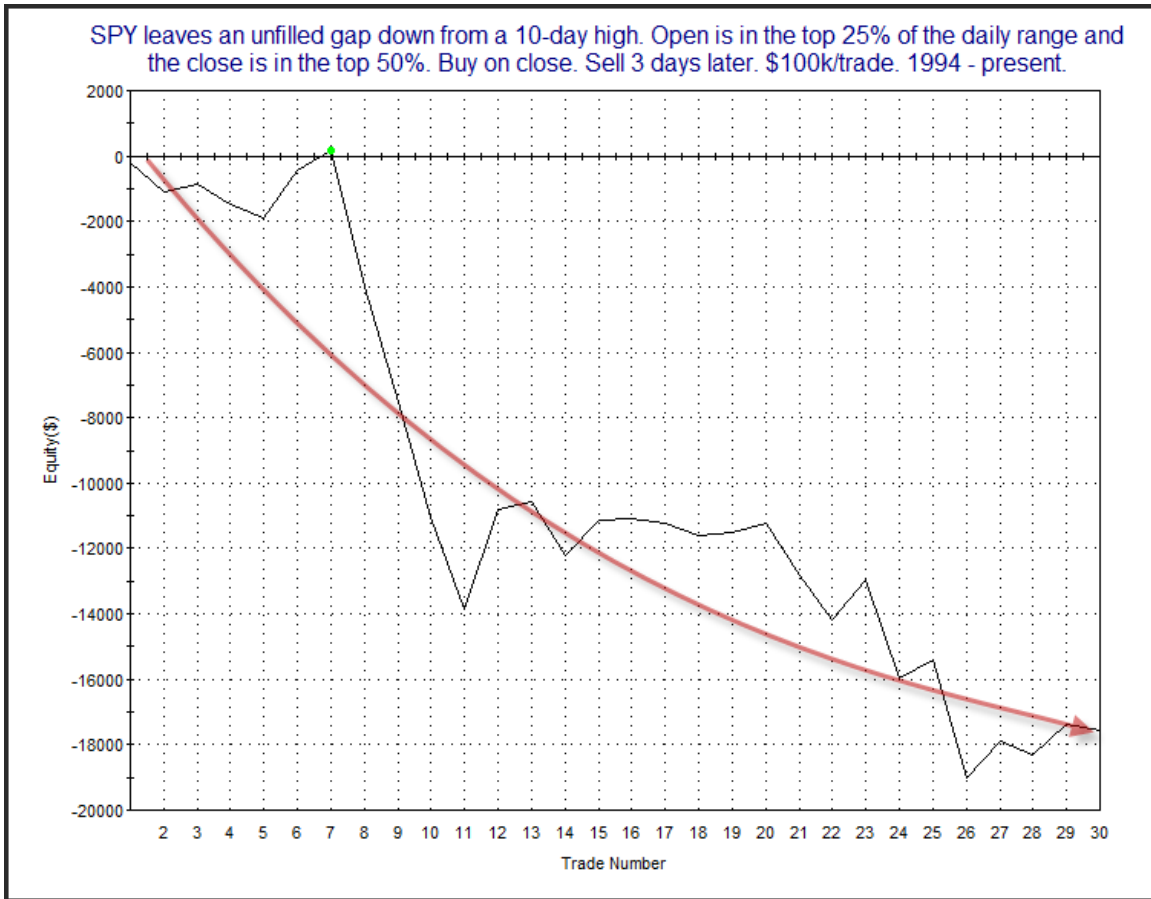
**The Evidence**

The market pulled back a bit on Tuesday. The SPX and the NASDAQ each closed down 0.3% and the Russell 2000 fell 0.4%. Breadth was negative as the NYSE Up Issues % came in at 40% and the Up Volume % was 32%. Total NYSE volume rose some from Monday's level.

SPY left an unfilled gap down on Tuesday, and it managed to both open and close in the upper part of its daily range. This triggered the study below, which was last seen in the 5/1/12 subscriber letter. I have updated the results below.

SPY leaves an unfilled gap down from a 10-day high. Open is in the top 25% of the daily range and the close is in the top 50%. 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
5	-19,297.56	30	12	18	40.00	899.81	2,167.34	-1,671.96	-4,604.60	0.54	0.36	-643.25
4	-15,868.68	30	12	18	40.00	1,093.14	2,838.64	-1,610.35	-4,926.08	0.68	0.45	-528.96
3	-17,562.41	30	13	17	43.33	840.14	3,040.03	-1,675.54	-4,194.90	0.50	0.38	-585.41
2	-12,288.06	30	15	15	50.00	774.86	2,953.72	-1,594.06	-4,109.04	0.49	0.49	-409.60
1	-8,473.25	30	13	17	43.33	580.95	1,440.24	-942.68	-1,948.10	0.62	0.47	-282.44

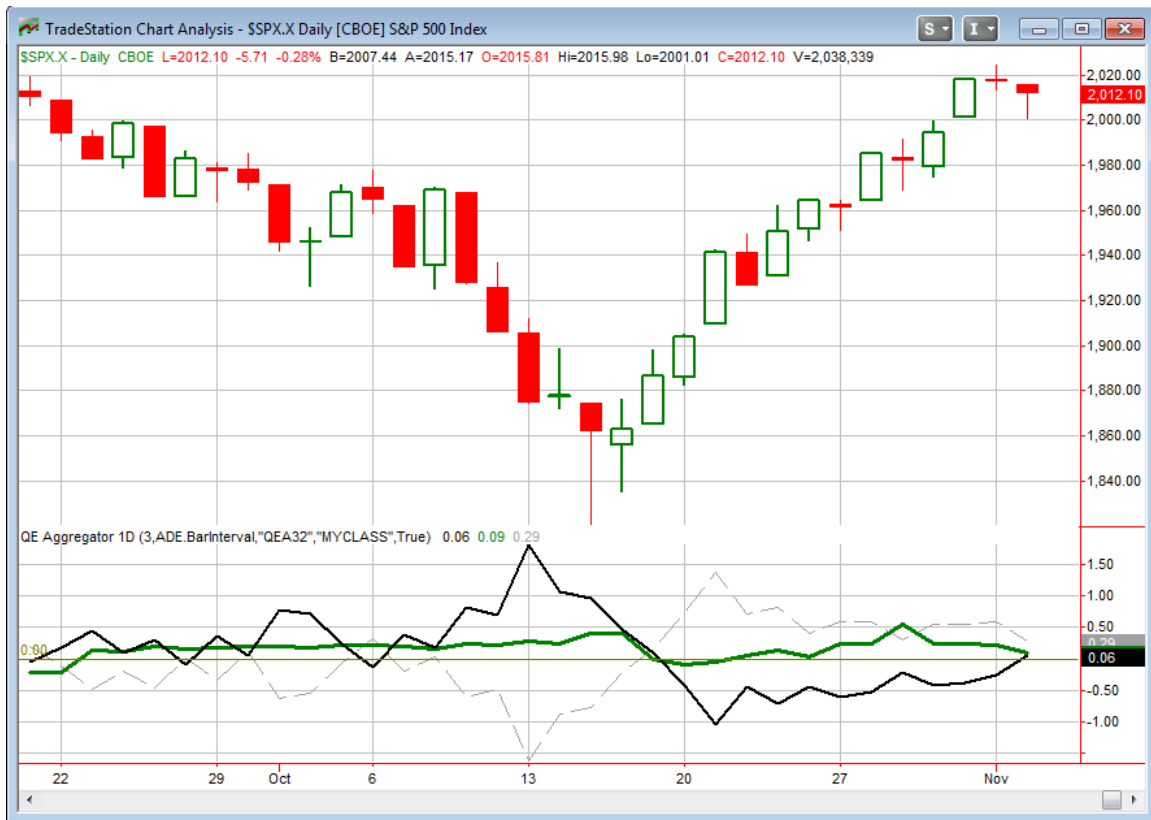
When the gap goes unfilled and the open and close are in the upper end of the day's range as described above, inclinations appear to be quite bearish. Below is an equity curve using a 3-day exit strategy.



It's not the smoothest line, but it appears good enough to me to include the study on the Active List.

This is the 2<sup>nd</sup> bearish study to join the Active List. But there still remain 4 bullish studies, so there certainly is not a clear consensus. This is why I use the Aggregator.

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



With tonight's study taken into account the green Aggregator Line again stayed above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line inched above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is a little oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal turned long at the close.

Based on the current active studies, expectations are slated to remain bullish again on Wednesday. Of course that could change if more bearish evidence emerges. The Differential Pivot will be 2039.19 on Wednesday. That is 1.3% above Tuesday's close. So after a mild pullback the last 2 days there is plenty of room to the upside before SPX is going to move from oversold to overbought versus expectations.

So the Aggregator is suggesting a bit of an upside edge. Evidence is mixed, and the "oversold" condition is pretty mild at this point. Election reaction could be interesting on Wednesday. I'm not ready to pounce right now and enter a short-term trade, but a down day on Wednesday would get me there. I do like the fact that there appears to be some room to the upside before SPX would move back to "overbought".

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/3 – somewhat bullish***

The intermediate-term outlook was last updated in the 11/3 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 @ \$201.00 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to take a small position if SPY closes down even a moderate amount on Wednesday.

**Current Open Trade Ideas**

*None*

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