

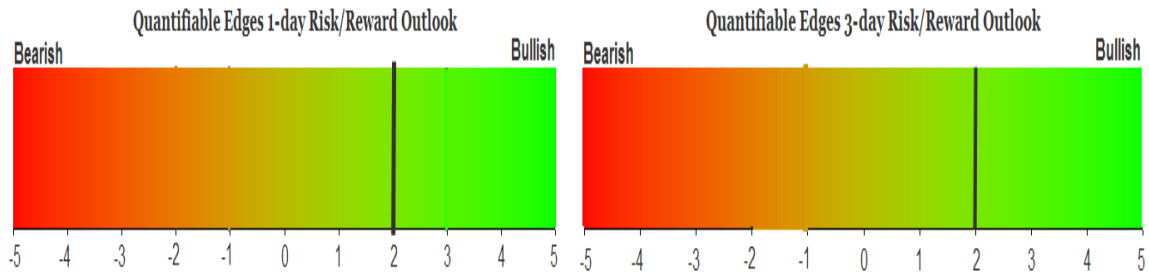
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 6, 2014

Volume 7 Issue 211

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY hitting the first closing high in a while along with an unfilled gap up sets up a bullish scenario.
- 10+ days above the 5ma and a new 10-day high suggest SPY is due for a brief pullback.

Short-term Outlook

The Bottom Line

The new high on Wednesday triggered a mix of studies. Expectations are still positive and the market is still not overbought versus recent expectations despite the new high. But a pullback is overdue and I am not inclined to take on new long exposure until one emerges.

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
Active - Short Term						
November 6, 2014	SPY breakaway gap	1-5 days	Bullish	1.60%	-1.00%	-1.95%
November 6, 2014	10 days > 5ma. 10-day high	1-2 days	Bearish			
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 3, 2014	End of month at high of month	1-5 days	Bullish	2.10%	-1.00%	-2.30%
Active - Long Term						
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			

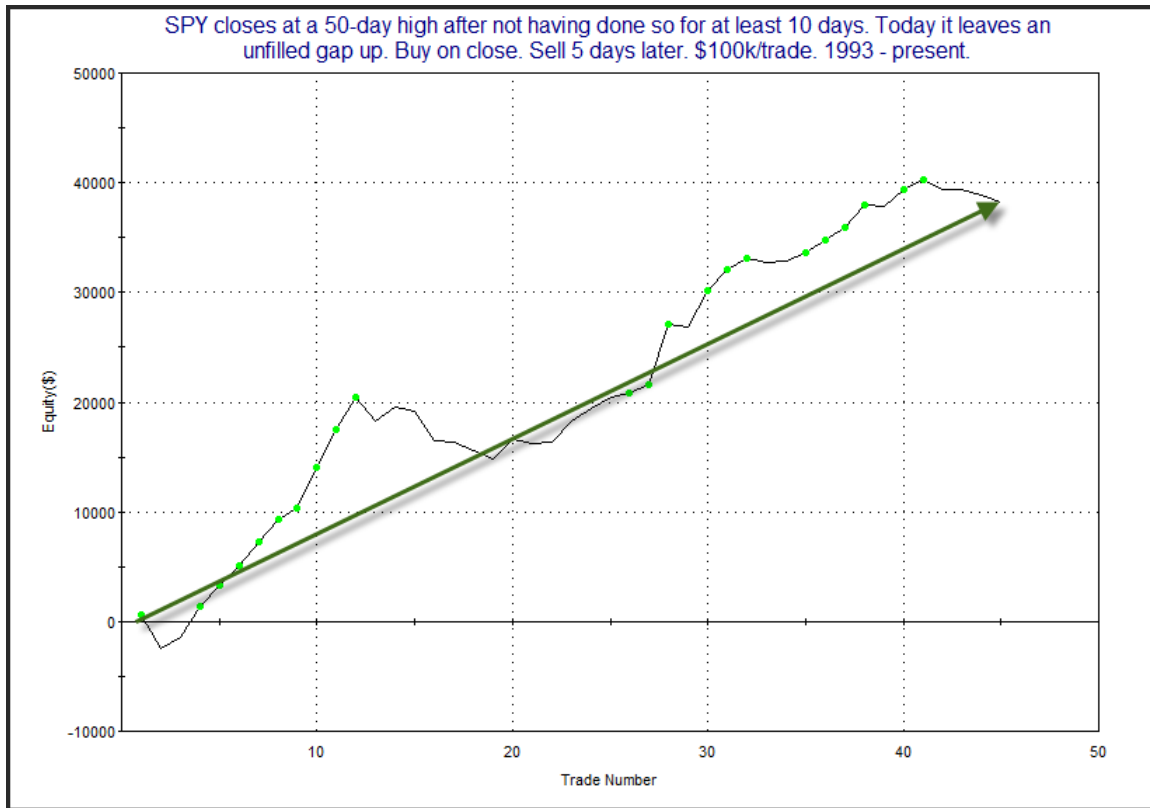
The Evidence

Wednesday started out with a strong gap up after the market gave a positive reaction to election results. Most of the indices weakened some during the day and the results were mixed by the close. The SPX finished up 0.6%, the NASDAQ declined 0.1% and the Russell 2000 rose 0.1%. Breadth was positive as the NYSE Up Issues % came in at 58% and the Up Volume % was 63%. Total NYSE volume fell some from Tuesday's level.

The strong open meant that SPY left an unfilled gap up. SPY also broke out and closed at a new 50-day high for the 1st time in a while. In the 7/23/14 subscriber letter I looked at the importance of an unfilled upside gap on new high 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	38,220.51	45	31	14	68.89	1,664.83	5,434.00	-956.38	-3,093.12	1.74	3.85	849.34
4	24,839.64	45	31	14	68.89	1,271.09	3,637.92	-1,040.29	-3,267.84	1.22	2.71	551.99
3	19,282.29	45	30	15	66.67	1,115.35	3,992.56	-945.21	-2,538.18	1.18	2.36	428.50
2	14,809.03	45	30	15	66.67	816.59	2,545.92	-645.91	-2,293.20	1.26	2.53	329.09
1	5,655.46	45	32	13	71.11	501.23	1,816.10	-798.77	-2,591.68	0.63	1.54	125.68
41 of 45 instances (91%) closed above the entry price at some point in the next week.												

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. The last few have not panned out as well, but that does not concern me yet.

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 7/23/14 letter and has been updated.

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	837.49	41	24	17	58.54	1,023.68	2,671.20	-1,395.93	-4,285.26	0.73	1.04	20.43
4	-4,211.88	41	21	20	51.22	1,049.73	2,072.07	-1,312.81	-4,518.34	0.80	0.84	-102.73
3	1,120.32	41	22	19	53.66	1,079.23	2,927.90	-1,190.67	-5,133.72	0.91	1.05	27.32
2	-2,696.19	41	20	21	48.78	671.32	2,324.90	-767.74	-3,640.86	0.87	0.83	-65.76
1	1,491.06	41	22	18	53.66	476.19	1,586.97	-499.17	-2,448.72	0.95	1.17	36.37

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

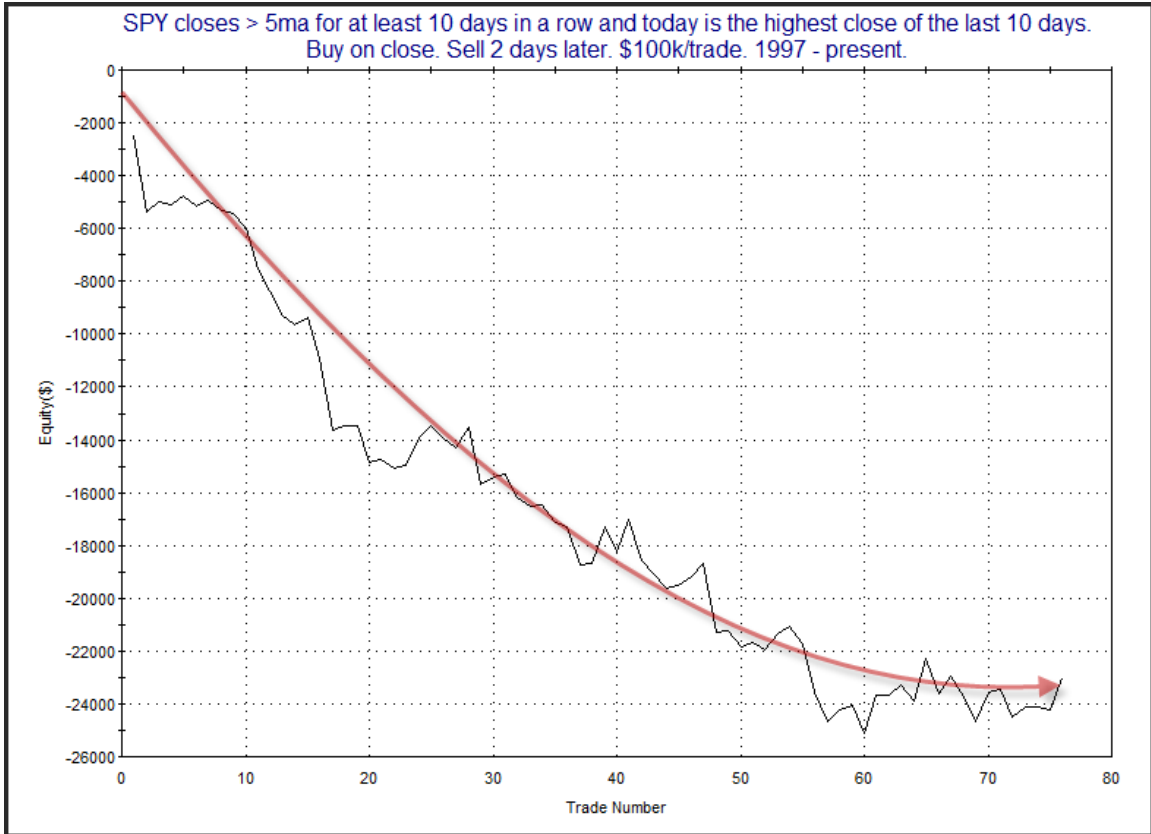
So the unfilled gap up on Wednesday appears to be a positive. Of course there is a bit of an asterisk next to this instance since SPX had already made a new high a few days ago, while SPY had just missed. But I have added this study to the Active List anyway.

The upmove over the last few weeks has persisted without any real pullback. SPY has now gone 14 days without closing below its 5ma. The study below was last seen just 2 days ago in the 11/4/14 subscriber letter. It looks at other instances in which SPY traded above the 5ma for at least 2 weeks and closed at a 10-day high. I have again updated the results.

SPY closes > 5ma for at least 10 days in a row and today is the highest close of the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1997 - present.

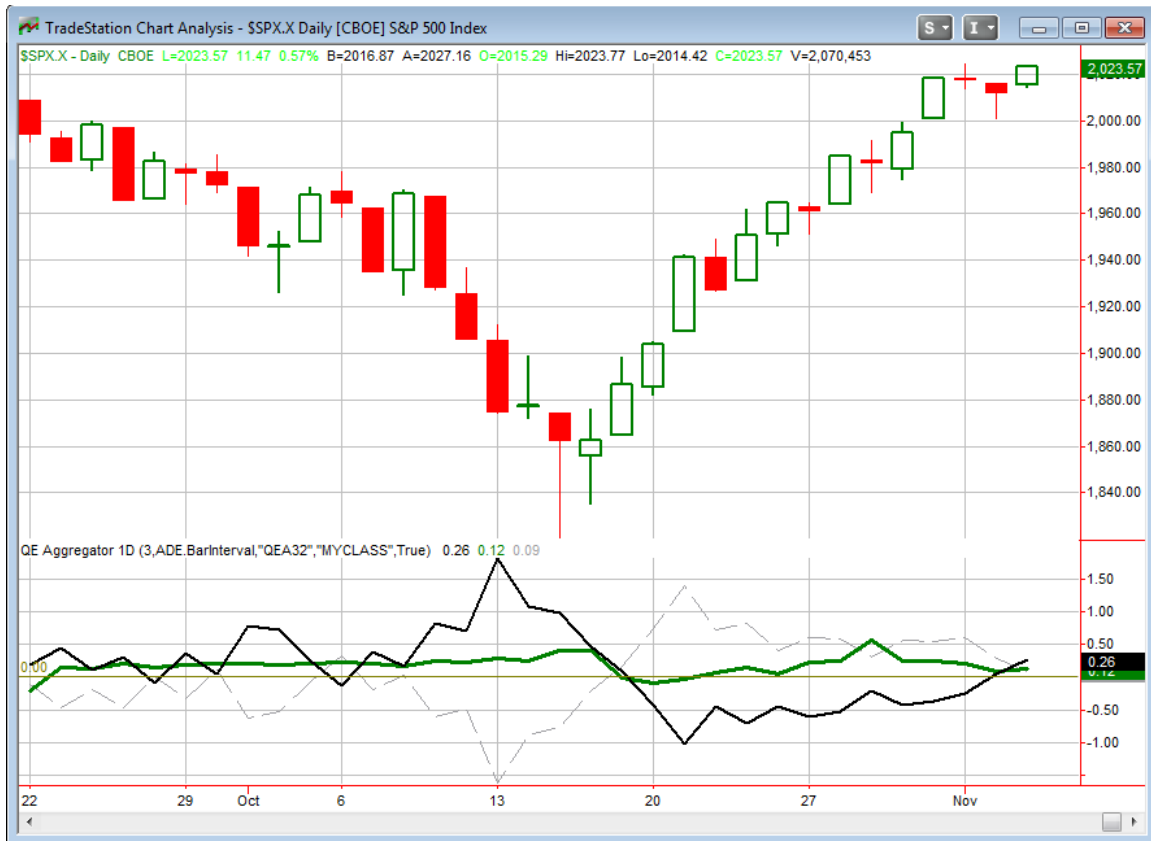
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,399.25	49	26	23	53.06	714.77	2,516.52	-1,347.10	-4,014.40	0.53	0.60	-253.05
4	-16,463.94	55	24	31	43.64	698.63	1,482.96	-1,071.97	-3,723.20	0.65	0.50	-299.34
3	-17,596.18	64	27	37	42.19	650.72	1,790.80	-950.43	-3,235.65	0.68	0.50	-274.94
2	-22,742.70	77	36	40	46.75	465.65	1,608.38	-987.65	-2,870.40	0.47	0.42	-295.36
1	-20,620.22	109	48	61	44.04	339.69	1,361.25	-605.33	-2,817.32	0.56	0.44	-189.18

In the past this setup has commonly been followed by a short-term pullback. The downside edge doesn't last long, though. This seems to pretty much play itself out over the first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



The line has flattened out a bit here. I am nearing the point where I will set this study aside, but am not quite ready to do it here. It has generally headed from upper left to lower right for a long time and it still appears worthy of some consideration. I have added this study to the Active List tonight.

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 is also above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is still 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 stayed long at the close.

Based on the current active studies, expectations are slated to remain bullish again on Thursday. Of course that could change if more bearish evidence emerges. The Differential Pivot will be 2031.98 on Thursday. That is 0.4% above Wednesday's close. So SPX will need to close up at least 0.4% to move from oversold to overbought versus expectations on Thursday.

The evidence remains mixed but leaning bullish. The Aggregator overall is still suggesting an upside edge with some more room to run here. Aggressive traders could certainly look for index trades or opportunities in single stocks or ETFs. I am not crazy about buying at a new high here – especially without Fed backing for the 1st time in a long time and the intermediate-term outlook only “somewhat bullish”. The lack of any short-term pullback for an extended period suggests one is due fairly soon, as we saw in

the 2nd study tonight. I'll likely wait for that pullback to occur before taking on new long positions.

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.

None tonight.

Current Open Trade Ideas

None

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