

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 12, 2014

Volume 7 Issue 215

Market Overview



Signals Overview

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

Tonight's Research Points

- VIX rising on a day that SPX hits a new 50-day has often led to a decline the next day.

Short-term Outlook

The Bottom Line

Repeat of last night...expectations remain a little bullish. SPX is overbought and overdue for a pullback. I don't like the reward/risk setup here and am waiting for a more favorable opportunity to put capital to work.

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 12, 2014	SPX 50-high. VIX up midweek.	1 day	Bearish			
November 6, 2014	SPY breakaway gap	1-5 days	Bullish	1.60%	-1.00%	-1.95%
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			
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			
Dropped Tonight						
November 10, 2014	10 days > 5ma. 10-day high	1-2 days	Bearish			

The Evidence

Tuesday was a mild up day for the market. The SPX rose 0.1%, the NASDAQ gained 0.2% and the Russell 2000 closed up 0.03%. Breadth was moderately positive as the NYSE Up Issues % came in at 51% and the Up Volume % was 52%. Total NYSE volume came in very light, partially thanks to it being Veterans Day.

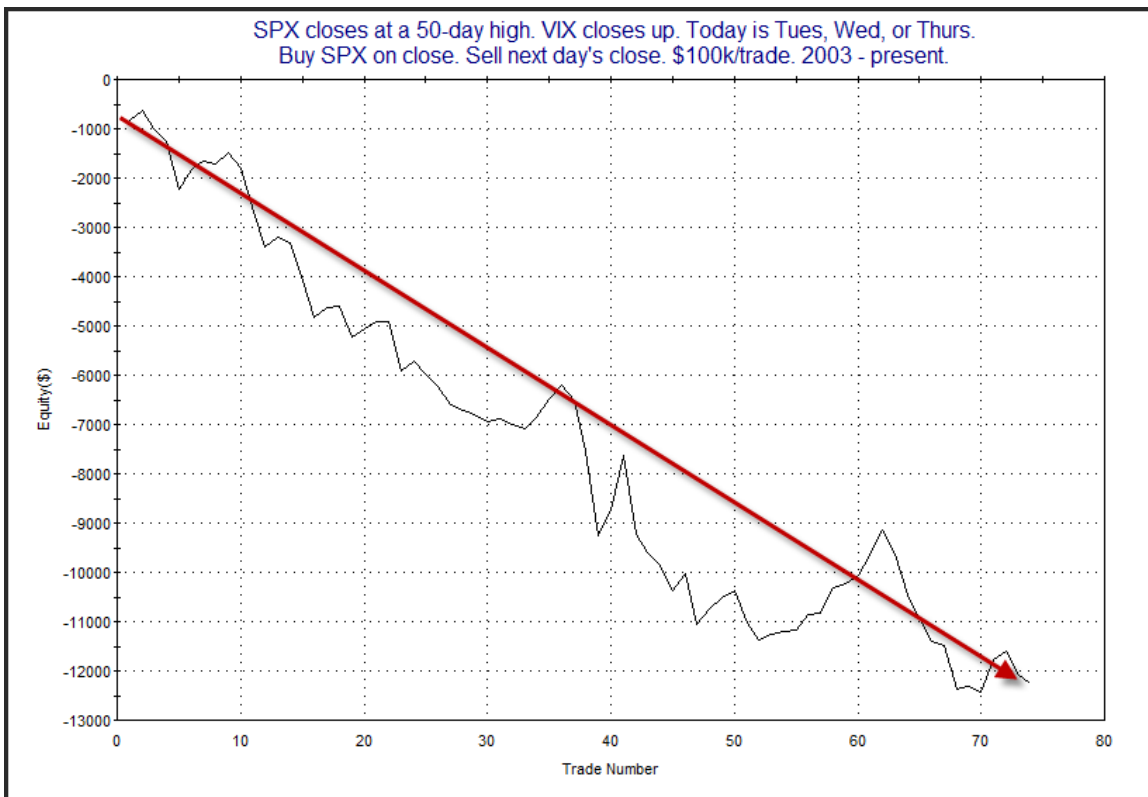
There were a bunch of Quantifinder studies tonight that related the very low volume. Low volume on Veterans Day is typical with the bond market closed and many traders taking the day off. So as I often do on such days, I have elected to ignore these studies tonight. I believe the volume is more due to the holiday than to market complacency.

Another reason to believe that the low volume was not due to complacency was the fact that the VIX actually rose on Tuesday. The study below was last seen in the 5/15/13 letter. It examines other times where the VIX rose midweek while SPX was closing at a 50-day high. I often segregate VIX studies by mid-week vs. Monday or Friday because the VIX has a natural tendency to decline on Friday afternoons and rise on Mondays. For a while it appeared that the setup below carried bearish influence for several days. But a strong bull market seems to have changed that. Still, the 1-day results appear to be worth examination. Results below are updated.

SPX closes at a 50-day high. VIX closes up. Today is Tues, Wed, or Thurs.
Buy SPX on close. Sell next day's close. \$100k/trade. 2003 - present.

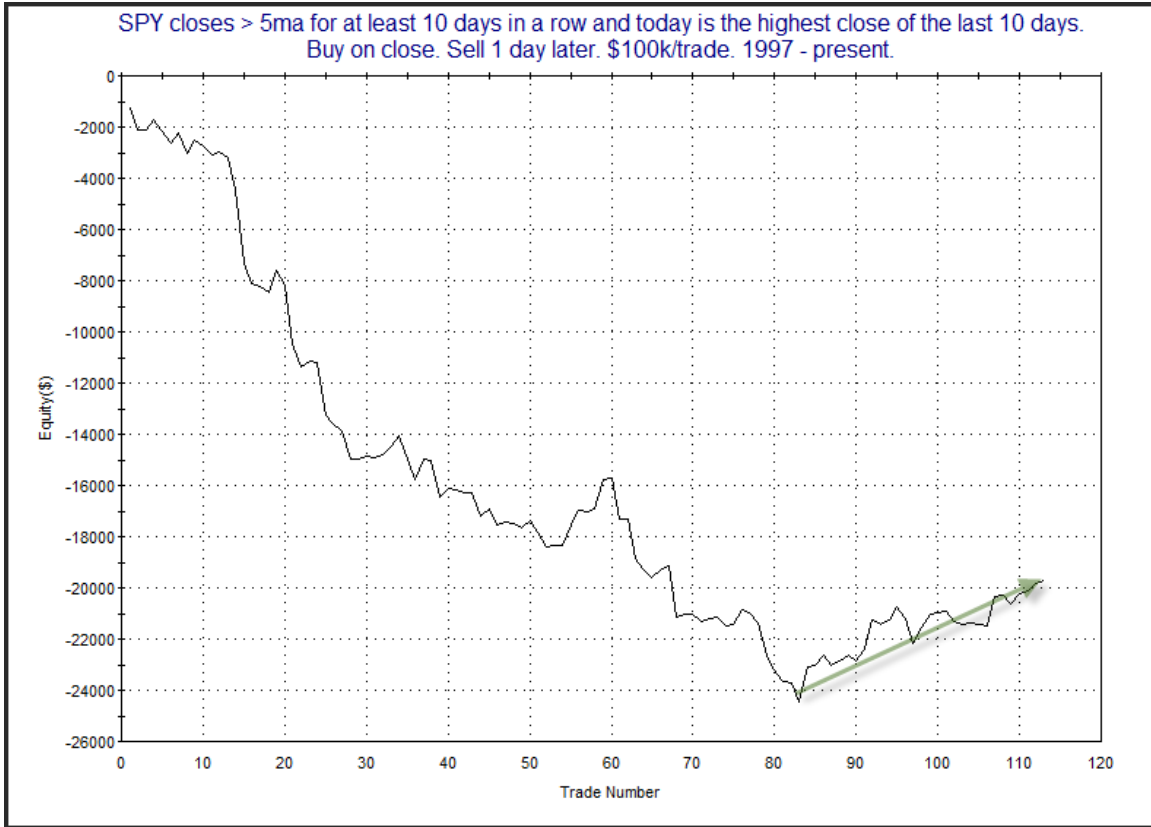
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$12,253.94)	Profit Factor	0.41
Gross Profit	\$8,566.83	Gross Loss	(\$20,820.77)
Total Number of Trades	74	Percent Profitable	44.59%
Winning Trades	33	Losing Trades	41
Even Trades	0		
Avg. Trade Net Profit	(\$165.59)	Ratio Avg. Win:Avg. Loss	0.51
Avg. Winning Trade	\$259.60	Avg. Losing Trade	(\$507.82)
Largest Winning Trade	\$1,108.05	Largest Losing Trade	(\$1,721.70)

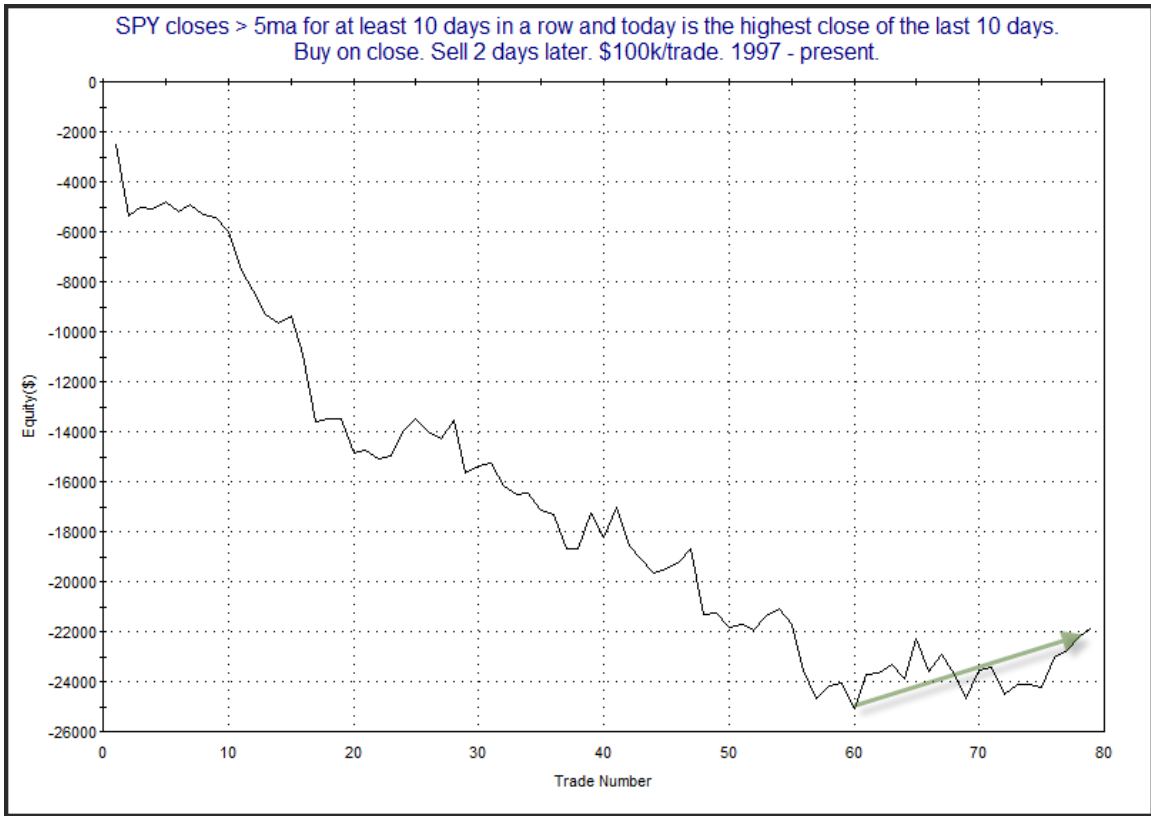
The numbers seem moderately suggestive of a downside edge. Here is the profit curve.



The curve is more impressive than I thought it would be. It is a little choppy, but the downside edge seems to have persisted fairly well throughout the last 11+ years. I have included this study on the Active List tonight.

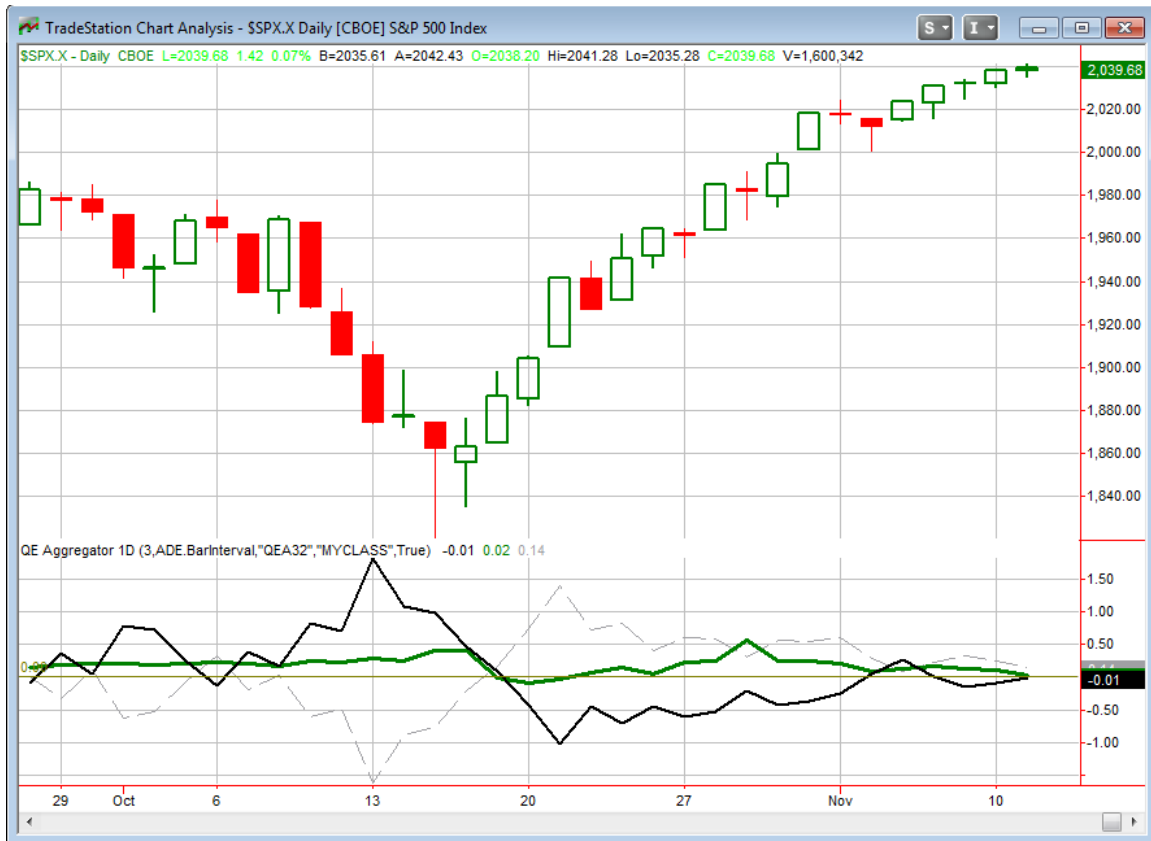
We have seen the study below appear repeatedly as of late. It looks for SPY to close above the 5ma for at least 10 days in a row and also at a new high. Each time I have shown it the curve has gotten a bit less convincing. Below are updated views of the 1-day and 2-day profit curves.





The upside movement in the curve has been longer and stronger than any other over the period. I have decided to suspend this study for the time being and will not be renewing it on the Active List. (Which should make it work again right away.)

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



Both lines tonight are so close to 0 it is difficult to tell whether the readings are positive or negative. The green Aggregator Line did manage to stay slightly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. The black Differential Line held just barely below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is a little overbought. 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 remained flat at the close.

All of the current short-term studies are now set to expire on Wednesday. If nothing new emerges the bullish intermediate-term outlook will prevail and the expectations will be for upside. But new evidence that emerges Wednesday and over the next few days will have a large impact on expectations. The Differential Pivot will again be *slightly inverted* at 2040.51 on Wednesday. That is less than one point *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close up at least a small amount in order to remain "overbought". If it fails to close higher it will be considered "oversold" versus expectations as of Tuesday's close.

The Aggregator does not get any more neutral than both lines closing so close to 0. But there is one caveat I should mention tonight. I elected to remove the “10+ days over the 5ma” study tonight from consideration. If I had included that study on the Active List, then the green Aggregator Line would have turned negative. This in turn would have triggered a bearish configuration. In my mind it does not really matter whether I include this study. I would not be looking to take a short even if the configuration was bearish. With seasonality so bullish and the trend so strong, I don’t favor trying to short based on borderline evidence. But I thought I would point this out. You could certainly make a case that I should have included that study tonight, or that I should not have brushed off the low volume as solely a function of it being Veterans Day. If that is your belief, and you are not disinclined to trade against the current trend & seasonality combo, then you could certainly justify a short-term short position here. I prefer to wait for a more favorable-looking opportunity, so that is what I’ll do.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/10 – somewhat bullish

The intermediate-term outlook was last updated in the 11/10 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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