

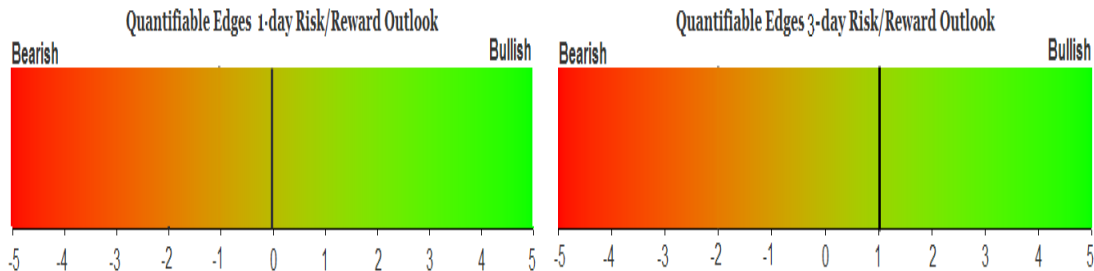
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 18, 2014

Volume 7 Issue 219

Market Overview



Signals Overview

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

Tonight's Research Points

- A 50-day high, an inside day, and then another 50-day high have often been followed by a pullback.
- A rising VIX at a 50-day SPX high (on a Monday) suggests a pullback.
- When the Russell has fallen for 3 days while SPX has closed at a 3-day high then the market has rallied over the next couple of days and weeks.

Short-term Outlook

The Bottom Line

The Aggregator turned positive but I don't see it as a viable opportunity. The QE Buying Power Swing System's short signal has me wary, as does the record stretch of time above the 5ma for SPY. I'd prefer to wait for a pullback for a possible long entry.

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 18, 2014	SPX 3-high. Russell dn 3 in row	1-2 days	Bullish			
November 18, 2014	50-high, inside day, 50-high	1 day	Bearish			
November 18, 2014	SPX 50-high. VIX up Monday	1-2 days	Bearish			
November 14, 2014	SPX up. Up Issue & Up Vol % < 40%	1-3 days	Bearish	-2.40%	0.50%	0.90%
Active - Long Term						
November 18, 2014	SPX 3-high. Russell dn 3 in row	1-10 days	Bullish			
November 13, 2014	5 up to 50 high then down day	1-10 days	Bullish			
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			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			

The Evidence

Monday was another day of mixed results for the market. The SPX rose 0.1%, the NASDAQ declined 0.4%, and the Russell 2000 lost 0.8%. Breadth was also mixed as the NYSE Up Issues % came in at 44% and the Up Volume % was 50.5%. Total NYSE volume was very light.

And not only were index prices and breadth mixed, but so were the Quantifinder studies. I'll cover the most compelling ones.

After Thursday's move to a new high in SPY, Friday put in an inside day. With Monday closing at another new high the study below triggered. It was last seen in the 7/7/14 subscriber letter. I have updated all statistics.

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and then closes at a 50-day high again today. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-17,103.76	19	5	14	26.32	613.60	1,176.56	-1,440.84	-3,754.10	0.43	0.15	-900.20
4	-11,824.46	19	6	13	31.58	765.11	1,245.97	-1,247.32	-5,106.46	0.61	0.28	-611.81
3	-10,263.99	19	7	12	36.84	581.78	1,367.56	-1,194.71	-3,417.34	0.49	0.28	-540.21
2	-10,040.14	19	5	14	26.32	702.59	1,132.23	-968.08	-2,737.00	0.73	0.26	-528.43
1	-5,034.32	19	3	16	15.79	410.17	651.42	-391.55	-1,405.62	1.05	0.20	-264.96

Stats here suggest a bearish inclination following action similar to the last 3 days. One day later the market has declined 16 of 19 times. Below I have listed all 19 instances

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and then closes at a 50-day high again today. Buy on close. Sell 1 day later. \$100k/trade. 1999 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/08/99	Buy	\$127.75	(0.95%)	\$0.00
01/11/99	Sell	\$126.53		(\$1,978.46)
03/15/99	Buy	\$131.22	(0.38%)	\$335.28
03/16/99	Sell	\$130.72		(\$571.50)
11/18/99	Buy	\$142.63	(0.09%)	\$238.34
11/19/99	Sell	\$142.50		(\$441.63)
08/28/00	Buy	\$151.77	(0.12%)	\$72.38
08/29/00	Sell	\$151.59		(\$565.88)
06/22/05	Buy	\$121.57	(1.41%)	\$24.66
06/23/05	Sell	\$119.86		(\$1,430.28)
07/14/05	Buy	\$122.91	(0.06%)	\$105.69
07/15/05	Sell	\$122.84		(\$447.15)
07/22/05	Buy	\$123.54	(0.28%)	\$331.69
07/25/05	Sell	\$123.19		(\$558.21)
05/09/06	Buy	\$132.62	(0.05%)	\$98.02
05/10/06	Sell	\$132.55		(\$550.42)
11/22/06	Buy	\$140.92	(0.40%)	\$0.00
11/24/06	Sell	\$140.35		(\$510.48)
10/09/07	Buy	\$156.48	(0.17%)	\$0.00
10/10/07	Sell	\$156.22		(\$683.73)
05/06/09	Buy	\$92.14	(1.39%)	\$1,095.85
05/07/09	Sell	\$90.86		(\$2,018.10)
08/04/10	Buy	\$112.97	(0.11%)	\$0.00
08/05/10	Sell	\$112.85		(\$787.65)
02/03/11	Buy	\$130.78	0.28%	\$320.88
02/04/11	Sell	\$131.15		(\$420.20)
02/07/12	Buy	\$134.79	0.30%	\$318.63
02/08/12	Sell	\$135.19		(\$355.68)
03/19/12	Buy	\$140.85	(0.29%)	\$0.00
03/20/12	Sell	\$140.44		(\$857.89)
05/17/13	Buy	\$166.94	(0.01%)	\$383.36
05/20/13	Sell	\$166.93		(\$197.67)
07/22/13	Buy	\$169.50	(0.21%)	\$194.37
07/23/13	Sell	\$169.14		(\$265.05)
06/04/14	Buy	\$193.19	0.65%	\$754.82
06/05/14	Sell	\$194.45		(\$253.33)
07/03/14	Buy	\$198.20	(0.35%)	\$0.00
07/07/14	Sell	\$197.51		(\$493.92)

Avg Run-up: 0.2% Avg Drawdown: -0.7%

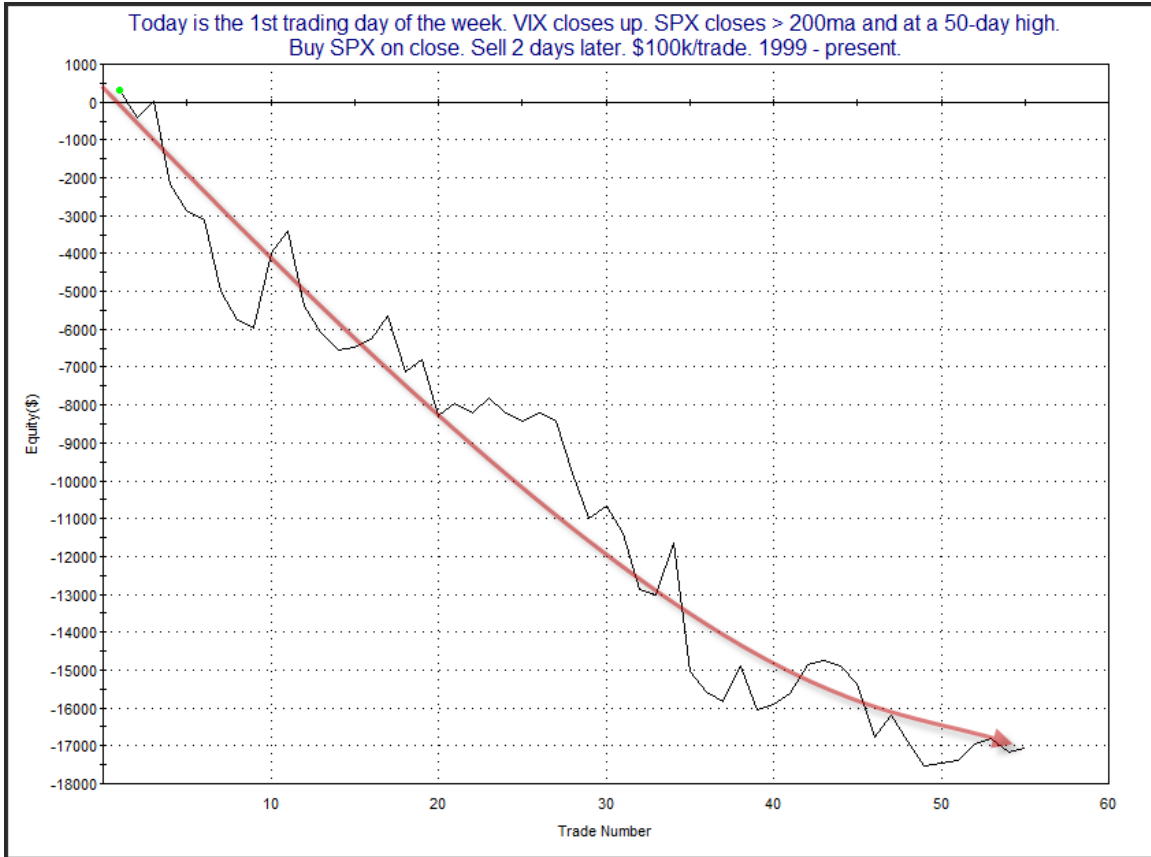
Risk/reward here heavily favors the short side. The average drawdown is over 3 times the size the average run-up. Also notable is that the only instances where intraday run-up exceeded drawdown were 5/17/13 & 6/4/14. While the numbers in the original table looked like 2-5 days provided an even larger edge, their profit curves have flattened out greatly. So I am only concerning myself with the 1-day returns at this point.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 6/10/14 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-10,109.69	50	24	26	48.00	1,070.53	3,260.25	-1,377.01	-5,048.68	0.78	0.72	-202.19
4	-6,173.04	55	26	29	47.27	962.92	2,953.65	-1,076.17	-4,271.52	0.89	0.80	-112.24
3	-9,676.10	55	23	32	41.82	805.07	2,641.80	-881.02	-3,887.84	0.91	0.66	-175.93
2	-17,069.87	55	24	31	43.64	446.68	1,981.72	-896.46	-3,372.16	0.50	0.39	-310.36
1	-7,590.01	55	20	35	36.36	319.74	769.70	-399.57	-1,580.04	0.80	0.46	-138.00

Results here appear squarely bearish. Below is a profit curve that assumes a 2-day exit strategy.



It has flattened out a bit lately, but at this point I will continue to give the study some credence.

Not everything that appeared on the Quantifinder tonight was bearish. One aspect of recent market action that is interesting and suggestive of an upside edge is the fact that despite the rise in the SPX to a new high, the Russell 2000 closed lower for the third day in a row. The study below was last seen in the 3/10/14 Subscriber Letter. Stats are updated.

Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high.
Buy SPX on close. Sell X days later. \$100k/trade. 10/98 - 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
10	40,593.08	13	11	2	84.62	3,993.33	10,577.93	-1,666.78	-2,723.00	2.40	13.18	3,122.54
9	34,226.30	13	10	3	76.92	3,729.91	8,209.02	-1,024.26	-2,674.70	3.64	12.14	2,632.79
8	30,910.89	13	10	3	76.92	3,338.35	9,347.15	-824.21	-1,463.00	4.05	13.50	2,377.76
7	31,575.79	13	8	5	61.54	4,462.30	9,614.11	-824.52	-2,783.20	5.41	8.66	2,428.91
6	27,390.03	13	9	4	69.23	3,750.81	9,598.49	-1,591.81	-3,491.60	2.36	5.30	2,106.93
5	21,437.65	13	9	4	69.23	3,094.18	7,700.66	-1,602.48	-2,075.04	1.93	4.34	1,649.05
4	22,547.80	13	9	4	69.23	2,945.86	7,217.86	-991.23	-1,680.10	2.97	6.69	1,734.45
3	17,548.09	13	9	4	69.23	2,200.68	4,839.33	-564.51	-887.22	3.90	8.77	1,349.85
2	17,537.63	13	10	3	76.92	1,856.43	5,134.01	-342.23	-551.73	5.42	18.08	1,349.05
1	11,089.19	14	9	5	64.29	1,438.35	4,708.01	-371.19	-764.46	3.87	6.97	792.08

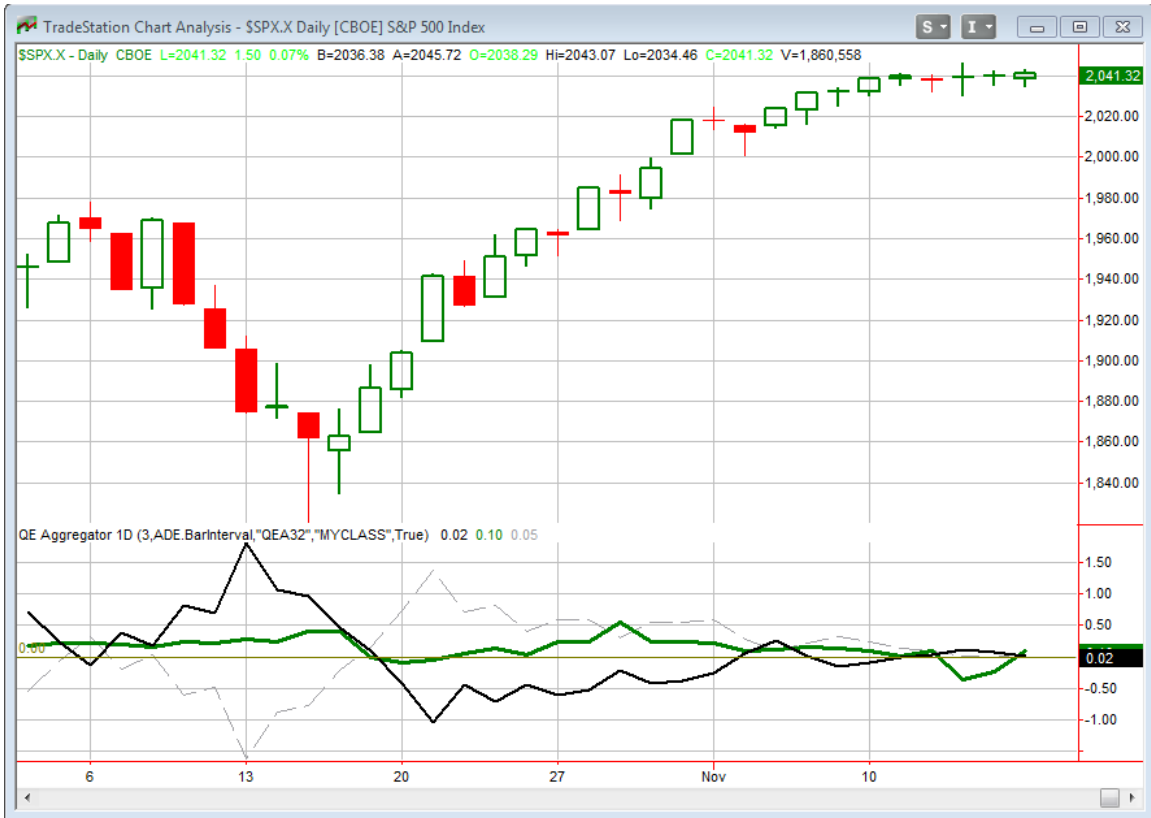
As you can see, stats are overwhelmingly bullish right off the bat, and they stay strong through the first two weeks. Instances are a bit low, but I have listed them all below along with their 2-day returns.

Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 10/98 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/13/98	Buy	\$1,125.72	1.21%	\$2,286.24
11/17/98	Sell	\$1,139.32		\$0.00
06/03/99	Buy	\$1,299.59	2.69%	\$2,799.84
06/07/99	Sell	\$1,334.52		(\$3.80)
03/15/00	Buy	\$1,392.16	5.19%	\$6,047.07
03/17/00	Sell	\$1,464.47		(\$0.71)
11/09/01	Buy	\$1,120.31	1.68%	\$1,675.87
11/13/01	Sell	\$1,139.09		(\$1,957.11)
08/07/03	Buy	\$974.12	0.66%	\$1,156.68
08/11/03	Sell	\$980.59		(\$29.58)
12/04/03	Buy	\$1,069.72	(0.04%)	\$0.00
12/08/03	Sell	\$1,069.29		(\$895.59)
07/14/05	Buy	\$1,226.50	(0.44%)	\$245.43
07/18/05	Sell	\$1,221.13		(\$434.97)
07/09/09	Buy	\$882.68	2.08%	\$2,075.81
07/13/09	Sell	\$901.05		(\$1,115.31)
07/06/10	Buy	\$1,028.06	4.10%	\$4,189.43
07/08/10	Sell	\$1,070.25		\$0.00
01/21/11	Buy	\$1,283.35	0.61%	\$660.66
01/25/11	Sell	\$1,291.18		(\$175.56)
02/28/12	Buy	\$1,372.18	0.14%	\$421.92
03/01/12	Sell	\$1,374.09		(\$602.64)
03/30/12	Buy	\$1,408.47	0.34%	\$973.70
04/03/12	Sell	\$1,413.31		(\$280.70)
03/07/14	Buy	\$1,878.04	(0.55%)	\$228.43
03/11/14	Sell	\$1,867.63		(\$750.48)

The last instance failed to pay off, but I don't find that too concerning. I have included this study on both the short-term and the intermediate-term active list.

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



With new evidence to consider tonight the green Aggregator Line inched up above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line stayed slightly above 0. The positive Differential Line reading means the SPX is considered oversold versus recent expectations. It sounds very unusual to say the market is “oversold” while also at a new high. But is simply has not risen as much as expectations suggested over the last few days. Hence the reason it is “oversold” per the Differential Line. 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.

With the current studies on the Active List, expectations are set to remain bullish on Tuesday. Of course this could easily change if more bearish evidence emerges. The Differential Pivot will be *inverted at 2034.56* on Tuesday. This is 0.3% *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case it is going to take a close down of at least 0.3% in order for SPX to remain "oversold" on Tuesday. Any close above that level and it will turn "overbought".

So the Aggregator is suggesting a small bullish edge. But it is not even close to compelling enough to entice me to take a trade based on it. The signal is quite weak, the SPX is only marginally oversold, and a flat close tomorrow would turn it overbought. So there is very little upside room for this weak signal to work. Additionally, the Aggregator is competing against the short signal for the QE Buying Power Index, and also the fact that the market is overbought by almost any other measure. An example that I have mentioned repeatedly is its refusal to close below the 5-day moving average. Monday marked the 22nd day in a row that SPY closed below its 5-day moving average, making it the longest such streak since the inception of SPY in 1993.

So I do not think we have a good-looking long signal here. But if the short-side evidence plays out and a pullback emerges in the next few days, that could set up a nice long opportunity. I intend to remain patient until a more favorable reward/risk opportunity emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/17 – somewhat bullish

The intermediate-term outlook was last updated in the 11/17 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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