

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 19, 2014

Volume 7 Issue 220

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- RSI(2) crossing above 99 bodes well for the intermediate-term.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral and so am I. Bearish evidence is lacking, but the market is too overbought for a short-term buy.

**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 18, 2014	SPX 3-high. Russell dn 3 in row	1-2 days	Bullish			
November 18, 2014	SPX 50-high. VIX up Monday	1-2 days	Bearish			
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
November 18, 2014	50-high, inside day, 50-high	1 day	Bearish			
November 14, 2014	SPX up. Up Issue & Up Vol % < 40%	1-3 days	Bearish	-2.40%	0.50%	0.90%

**The Evidence**

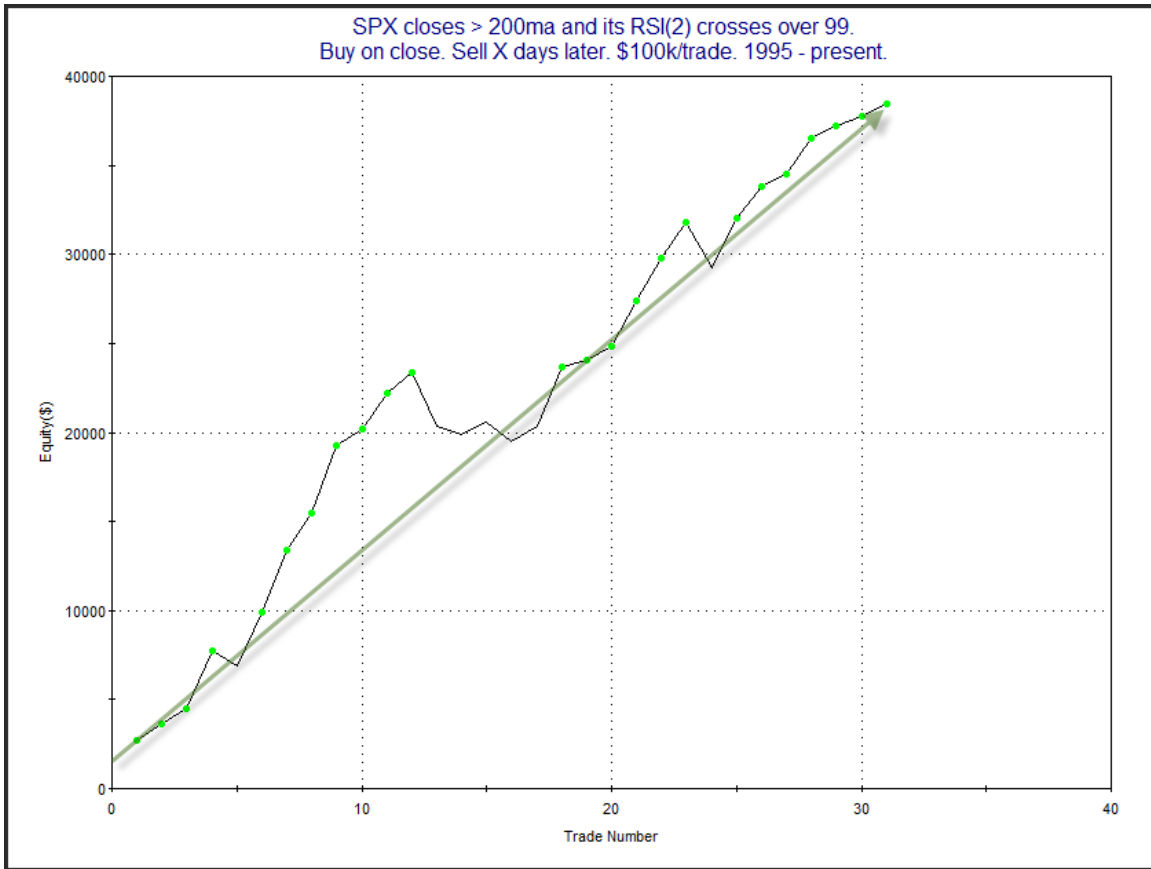
Tuesday saw the market break higher. The SPX rose 0.5%, the NASDAQ gained 0.6%, and the Russell 2000 increased 0.5%. Breadth was positive as the NYSE Up Issues % came in at 61% and the Up Volume % was 66%. Total NYSE volume was very light.

Of course short-term overbought often triggers some studies that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below, which uses RSI(2) and was last seen in the 8/20/14 Letter.

SPX closes > 200ma and its RSI(2) crosses over 99.  
Buy on close. Sell X days later. \$100k/trade. 1995 - present.

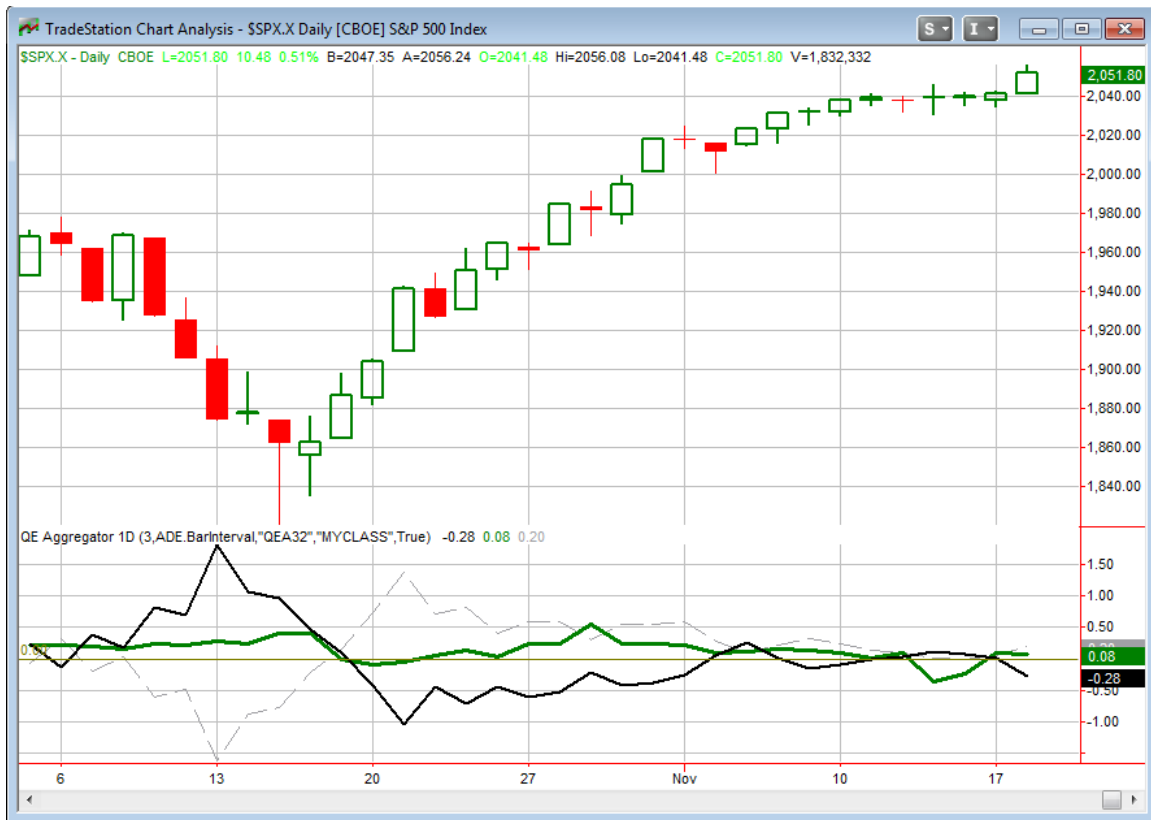
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	38,472.43	31	26	5	83.87	1,786.90	3,782.11	-1,597.39	-3,063.60	1.12	5.82	1,241.05
14	31,108.96	31	24	7	77.42	1,729.27	4,461.36	-1,484.79	-2,699.52	1.16	3.99	1,003.51
13	30,971.82	32	26	6	81.25	1,606.34	3,989.82	-1,798.84	-3,320.01	0.89	3.87	967.87
12	29,269.45	32	25	7	78.13	1,551.36	4,058.61	-1,359.21	-3,175.53	1.14	4.08	914.67
11	30,367.61	32	25	7	78.13	1,620.42	4,106.40	-1,448.99	-2,523.21	1.12	3.99	948.99
10	25,495.21	33	24	9	72.73	1,575.22	3,770.55	-1,367.79	-2,793.28	1.15	3.07	772.58
9	21,368.11	33	23	10	69.70	1,449.37	3,453.27	-1,196.74	-3,440.07	1.21	2.79	647.52
8	23,242.60	33	22	11	66.67	1,536.63	3,547.80	-960.29	-3,460.32	1.60	3.20	704.32
7	15,475.37	34	20	14	58.82	1,382.72	3,564.39	-869.93	-4,153.62	1.59	2.27	455.16
6	7,207.07	34	20	14	58.82	1,155.95	2,634.36	-1,136.57	-5,296.92	1.02	1.45	211.97
5	3,761.63	34	22	12	64.71	860.79	1,782.39	-1,264.65	-3,596.40	0.68	1.25	110.64
4	3,782.64	34	23	11	67.65	835.98	2,442.90	-1,404.09	-3,039.18	0.60	1.24	111.25
3	-1,083.71	35	21	14	60.00	730.00	1,982.20	-1,172.41	-2,880.45	0.62	0.93	-30.96
2	-105.37	35	20	15	57.14	655.03	1,998.39	-880.39	-2,348.76	0.74	0.99	-3.01
1	1,415.02	35	19	16	54.29	555.71	2,096.10	-571.46	-3,515.37	0.97	1.15	40.43

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously this study does not help us with the short-term, but I have added it to the intermediate-term list.

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



The green Aggregator Line held above 0 tonight. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line dipped down below 0. The negative Differential Line reading means the SPX is considered overbought versus recent expectations. So expectations are positive but the SPX is now 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 turned flat at the close.

Expectations are set to remain bullish on Wednesday. But with the last of the short-term studies expiring, any new studies that emerge could greatly impact short-term expectations. The Differential Pivot will be 2029.73 on Wednesday. This is 1.1% below Tuesday's close. So SPX will need to close down a substantial amount to move back to oversold on Wednesday.

The Aggregator is back to flat and I remain neutral as well. Evidence is mixed and underwhelming. The market seems to be too strong to short and too overbought to buy. So I will remain patient until a more advantageous setup 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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