

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 20, 2014

Volume 7 Issue 221

Market Overview



Signals Overview

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

Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I. Bearish evidence is lacking, but the market is still 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
Active - Short Term						
November 20, 2014	"Big" drop from 50-day high	1-4 days	Bullish	1.20%	-0.80%	-1.60%
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			
Dropped Tonight						
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			

The Evidence

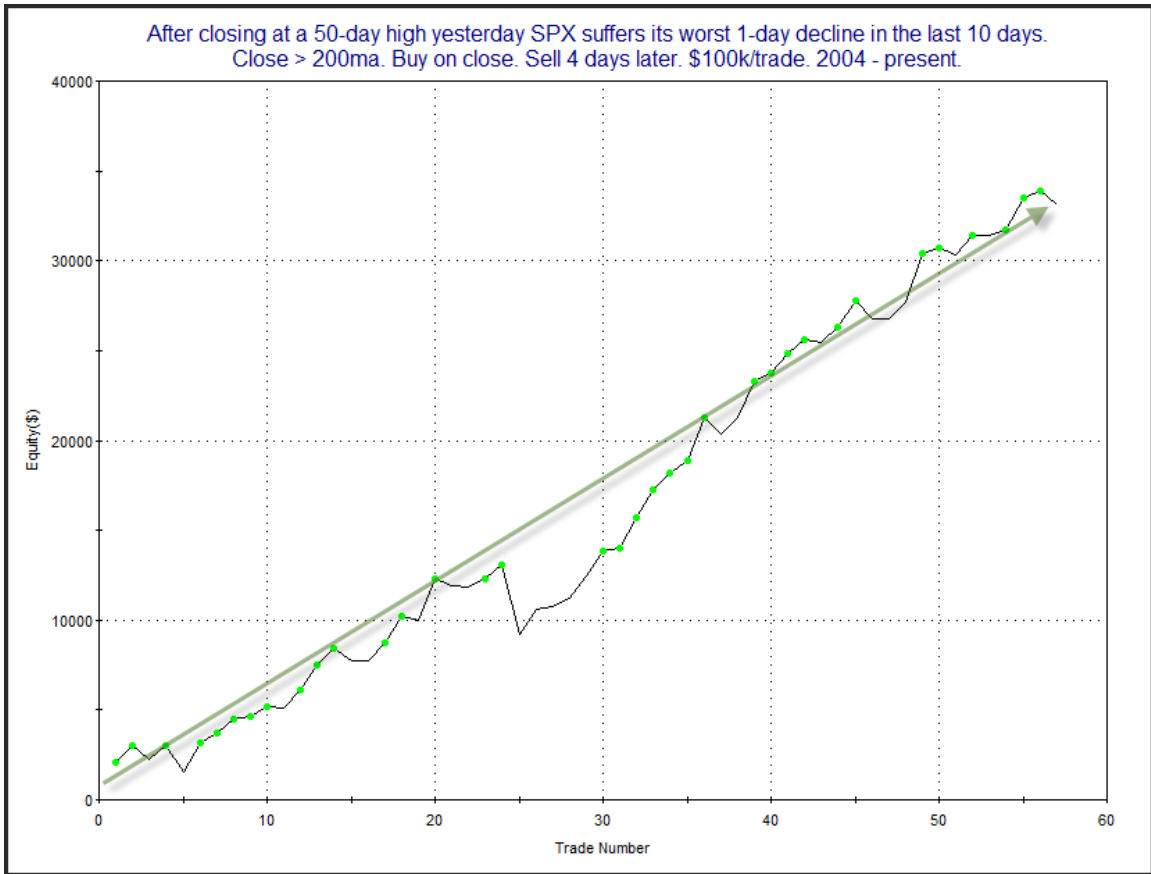
Wednesday saw the market pull back a bit. The SPX declined 0.2%, the NASDAQ fell 0.6%, and the Russell 2000 dropped 1.0%. Breadth was negative as the NYSE Up Issues % came in at 37% and the Up Volume % was 40%. Total NYSE volume rose some from the low levels of the last couple of days.

There was not a lot of terribly compelling evidence that emerged from the selloff, but the study below is worth some time. It was last seen in the 3/4/14 Letter. It looks at relatively large drops from intermediate-term highs. I have updated all the stats.

After closing at a 50-day high yesterday SPX suffers its worst 1-day decline in the last 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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	29,789.21	53	38	15	71.70	1,291.86	3,149.37	-1,286.77	-3,454.00	1.00	2.54	562.06
4	33,096.99	57	41	16	71.93	1,077.30	2,725.38	-692.02	-3,895.76	1.56	3.99	580.65
3	24,032.77	58	42	16	72.41	837.48	2,192.40	-696.35	-1,808.21	1.20	3.16	414.36
2	14,423.16	59	34	25	57.63	819.43	2,437.50	-537.49	-1,777.55	1.52	2.07	244.46
1	6,265.18	59	34	25	57.63	553.92	1,521.72	-502.72	-1,354.59	1.10	1.50	106.19

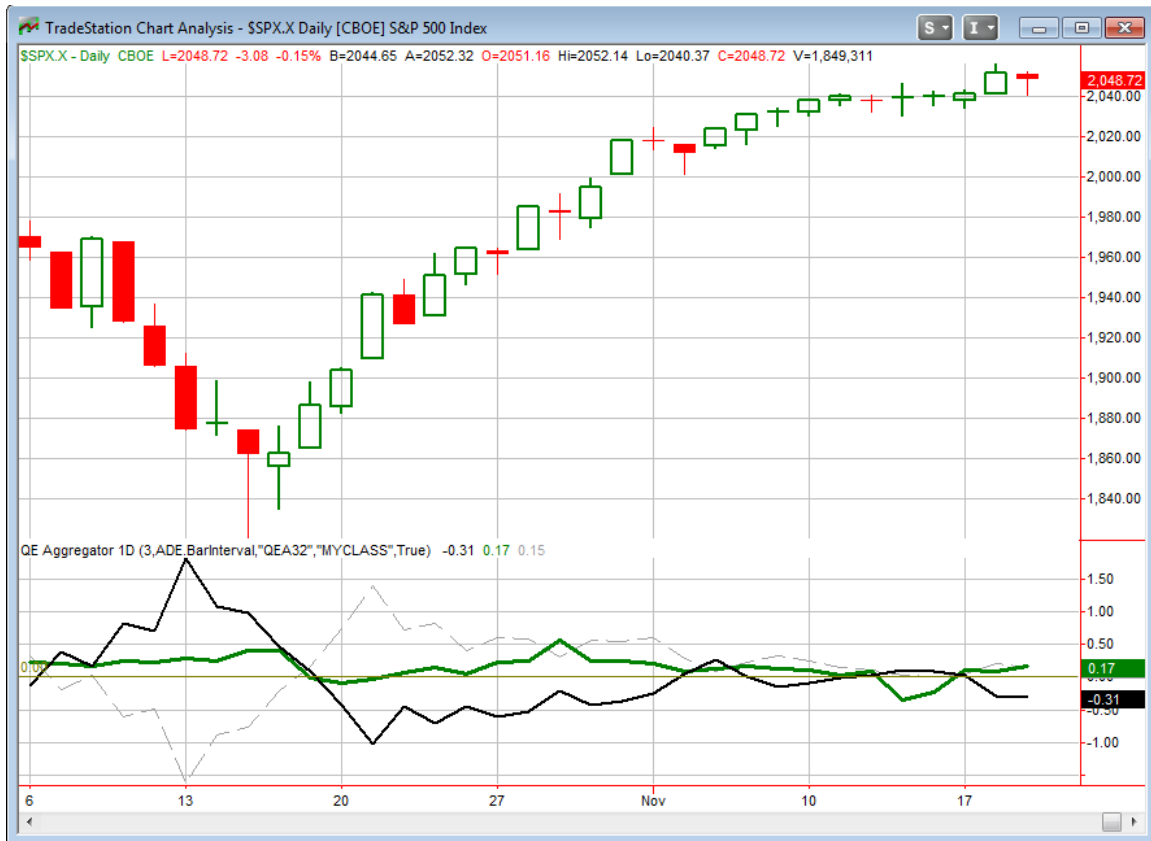
54 of 59 instances (92%) closed above the entry price at some point in the next week.

Over the last 10 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



The steady upslope seems to confirm the bullish inclination. Of course one thing that seems to stand out about the current setup is that while the SPX suffered its biggest loss in 10 days on Wednesday, the decline was just a mild 0.2%. I added an extra filter to the above study tonight to see what results looked like when the drop was less than 0.25%. There were only 7 instances, but four days later 6 were higher and only 1 was lower. So the stats held up nicely for the smaller sample.

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



With tonight's bullish study included the green Aggregator Line again held 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 below 0. The negative Differential Line reading means the SPX is considered overbought versus recent expectations. So expectations are positive but the SPX is 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.

Expectations are set to remain bullish on Thursday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2031.41 on Thursday. This is 0.85% below Wednesday's close. So SPX will need to close down at least this much to move back to oversold on Wednesday.

The Aggregator is again neutral and so am I. Upside evidence remains moderate, so I would prefer to see a bit more of a pullback before taking on any long index exposure. There was one Catapult signal that triggered on Wednesday. I have included that in the Catapult & CBI section below.

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

New

UPS – 1/3 @ \$105.64 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1 (UPS)

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.

UPS - buy 1/3 Catapult position @ \$105.64 limit. This is a Catapult trigger from the Catapult & CBI section above. Those that would like to learn more about Catapults should explore the [Catapult System page](#) in the subscriber area of the website.

Current Open Trade Ideas

None

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