

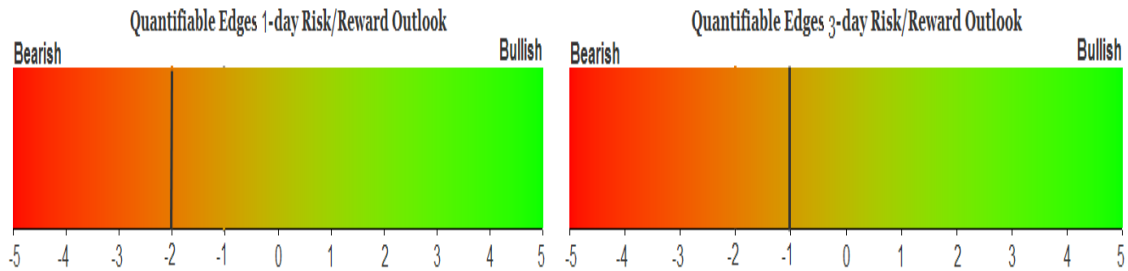
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 21, 2014

Volume 7 Issue 222

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Short

Tonight's Research Points

- Thursday's mild up close near the top of its range suggests a bearish 1-day edge.
- Wednesday's gap lower and strong close at new highs sets up a bearish short-term pattern.

Short-term Outlook

The Bottom Line

There appears to be a brief window here with a downside edge. Nimble traders could look to take advantage of it, but it is too tight a window with not enough potential reward for my taste.

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 21, 2014	SPY up < 0.25%. Top 10% daily range	1 day	Bearish			
November 21, 2014	Gap dn then 50-high	1-2 days	Bearish			
November 20, 2014	Big drop from 50-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			

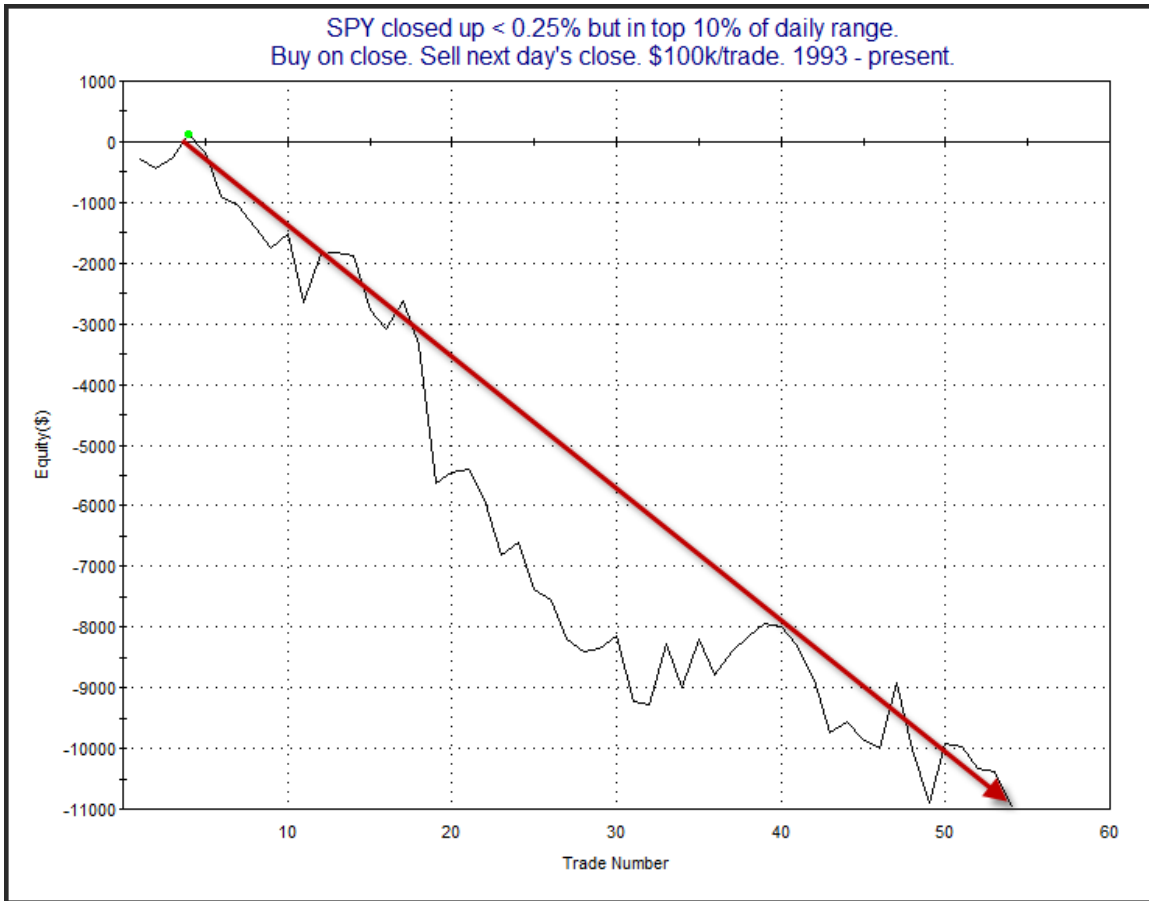
The Evidence

The market posted small gains and some new highs on Thursday. The SPX rose 0.2%, the NASDAQ gained 0.6%, and the Russell 2000 rallied 1.1%. Breadth was positive as the NYSE Up Issues % came in at 65% and the Up Volume % was 67%. Total NYSE volume declined from Wednesday's level.

Though the action was fairly mild, we did see a few interesting studies appear in the Quantifinder. The first study was last seen in the 6/30/14 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closed up < 0.25% but in top 10% of daily range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$10,965.39)	Profit Factor	0.41
Gross Profit	\$7,710.00	Gross Loss	(\$18,675.39)
Total Number of Trades	54	Percent Profitable	35.19%
Winning Trades	19	Losing Trades	35
Even Trades	0		
Avg. Trade Net Profit	(\$203.06)	Ratio Avg. Win:Avg. Loss	0.76
Avg. Winning Trade	\$405.79	Avg. Losing Trade	(\$533.58)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day.

Some studies triggered related to the gap down and then the strong reversal to a new high. None of them were encouraging for bulls. The one below was the most compelling of the bunch. It was last seen in the 11/14/13 letter. Results are updated.

SPY gaps down and opens below the low of 2 days ago. It then closes at a 50-day high.
Buy on close. Sell X days later. \$100k/trade. 1997 - present.

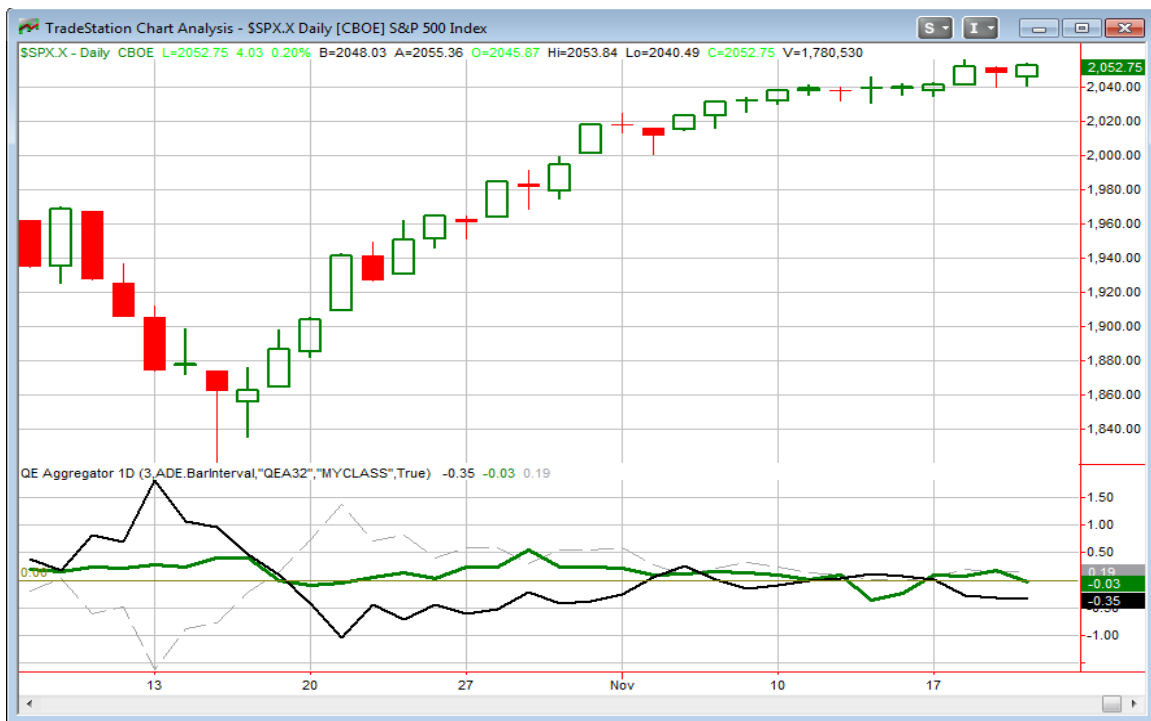
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-14,087.40	14	6	8	42.86	843.31	1,556.64	-2,393.41	-4,996.75	0.35	0.26	-1,006.24
4	-15,223.41	14	3	11	21.43	1,257.82	2,371.65	-1,726.99	-4,597.01	0.73	0.20	-1,087.39
3	-18,720.55	15	5	10	33.33	731.76	1,132.85	-2,237.94	-5,083.65	0.33	0.16	-1,248.04
2	-14,068.79	15	3	12	20.00	589.04	935.20	-1,319.66	-2,919.84	0.45	0.11	-937.92
1	-10,936.98	15	3	12	20.00	244.87	498.40	-972.63	-1,935.36	0.25	0.06	-729.13

While more instances would be nice, the strongly negative record and powerful downside returns suggest a bearish edge. Below I have listed all instances along with their 2-day holding period stats.

SPY gaps down and opens below the low of 2 days ago. It then closes at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1997 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/30/97	Buy	\$85.28	(0.98%)	\$257.84
06/03/97	Sell	\$84.44		(\$1,101.68)
04/17/98	Buy	\$112.38	0.44%	\$693.42
04/21/98	Sell	\$112.88		(\$444.50)
03/18/99	Buy	\$132.25	(1.75%)	\$287.28
03/22/99	Sell	\$129.94		(\$2,139.48)
01/19/00	Buy	\$147.00	(1.74%)	\$0.00
01/21/00	Sell	\$144.44		(\$2,169.20)
01/26/04	Buy	\$115.87	(2.16%)	\$0.00
01/28/04	Sell	\$113.37		(\$2,528.59)
10/06/04	Buy	\$114.62	(1.84%)	\$0.00
10/08/04	Sell	\$112.51		(\$1,979.44)
05/09/07	Buy	\$151.16	(0.20%)	\$0.00
05/11/07	Sell	\$150.86		(\$1,249.29)
05/06/08	Buy	\$142.05	(2.03%)	\$0.00
05/08/08	Sell	\$139.16		(\$2,158.21)
01/19/10	Buy	\$115.06	(2.92%)	\$0.00
01/21/10	Sell	\$111.70		(\$3,041.50)
01/05/11	Buy	\$127.64	(0.39%)	\$148.77
01/07/11	Sell	\$127.14		(\$1,166.67)
10/18/11	Buy	\$122.58	(0.75%)	\$407.50
10/20/11	Sell	\$121.66		(\$2,249.40)
02/23/12	Buy	\$136.63	0.39%	\$657.90
02/27/12	Sell	\$137.16		(\$606.73)
11/08/13	Buy	\$177.29	(0.19%)	\$135.36
11/12/13	Sell	\$176.96		(\$518.88)
11/13/13	Buy	\$178.38	0.94%	\$974.40
11/15/13	Sell	\$180.05		(\$72.80)
09/05/14	Buy	\$201.11	(0.89%)	\$49.70
09/09/14	Sell	\$199.32		(\$1,093.40)

The last 2 instances saw a very mild close higher. Note that 6 of the 15 instances saw no run-up at all over the next 2 days and the largest run-up was less than 1%. Only the 4/17/98 and 11/13/13 instances saw run-ups larger than drawdowns over the next 2 days. Risk/reward has been strongly skewed to the downside. I've again included this study on the Active List.

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



With tonight's studies included the green Aggregator Line dipped a little below 0. Negative readings mean net expectations from the Active List are for downside 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 negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal turned short at the close.

Expectations are set to turn bullish on Friday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 2050.72 on Friday. This is just 0.1% below Thursday's close. So SPX will not need to close down very much on Friday in order to be considered "oversold" versus expectations.

The Aggregator is suggesting a bearish edge. But expectations are only slated to remain bearish for one day. And if the studies are right and SPX does close lower, it will likely be considered "oversold" at that point. So the window of opportunity here is small. If you are a nimble trader and ok with that, you may want to try and take advantage of this edge. I prefer for my swing trades to have higher potential reward than I see here. So I will not be doing anything until a better 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

UPS – 1/3 @ \$105.64 (bought @ 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
UPS(1/3)	11/20/2014	\$105.50	\$106.71	1.15%		bought on open

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