

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 25, 2014

Volume 7 Issue 224

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 2 unfilled up gaps and a 50-day high are a short-term positive.
- Monday's unfilled gap up along with it being an inside day suggests a 1-day bearish edge for Tuesday.

## *Short-term Outlook*

### *The Bottom Line*

Tonight's mixed evidence did little to change net positive expectations. But with SPX overbought by a number of measures I am not inclined to look to get long at this point. Short-term outlook remains neutral.

**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 25, 2014	2 unfilled up gaps and close@ 50-day high	1-3 days	Bullish	0.90%	-0.65%	-1.20%
November 25, 2014	Unfill gap inside day. Close>open.	1 day	Bearish			
November 24, 2014	Thanksgiving Week	Wed-Fri	Bullish			
November 24, 2014	1-2% gain opex week	1-4 days	Bearish			
November 24, 2014	Unfill gap 20-day close< open	1-3 days	Bullish			
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%
<b>Active - Long Term</b>						
November 19, 2014	RSI2 > 99	1-10 days	Bullish			
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**

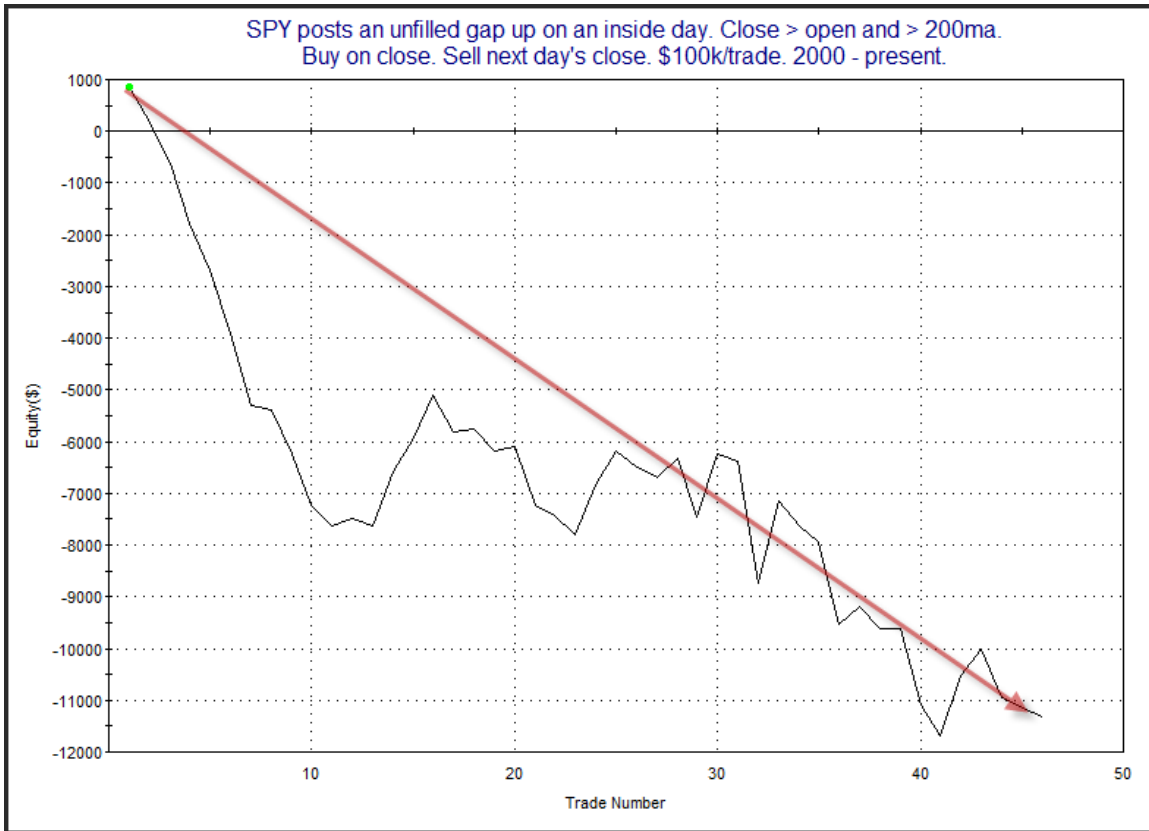
Monday was another day of gains for most of the indices. SPX rose 0.2%, the NASDAQ gained 0.8%, and the Russell 2000 rallied 1.1%. Breadth was positive as the NYSE Up Issues % came in at 60% and the Up Volume % was 51%. Total NYSE volume was light, but it will likely get lighter as this holiday week moves on.

The study below was last seen in the 9/29/14 Letter. It looks at days like Monday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results below.

SPY posts an unfilled gap up on an inside day. Close > open and > 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary				Collapse ^
<b>All Trades</b>				
Total Net Profit	(\$11,327.54)	Profit Factor		0.48
Gross Profit	\$10,487.25	Gross Loss		(\$21,814.79)
Total Number of Trades	46	Percent Profitable		32.61%
Winning Trades	15	Losing Trades		30
Even Trades	1			
Avg. Trade Net Profit	(\$246.25)	Ratio Avg. Win:Avg. Loss		0.96
Avg. Winning Trade	\$699.15	Avg. Losing Trade		(\$727.16)
Largest Winning Trade	\$1,600.62	Largest Losing Trade		(\$2,348.90)

Implications here appear somewhat bearish. I'd also note that 41 of 46 instances (89%) closed below the entry price at some point in the next week. Below is a profit curve that shows how the downside edge has played out over time.



This is not an ideal profit curve but it still appears to suggest a downside edge.

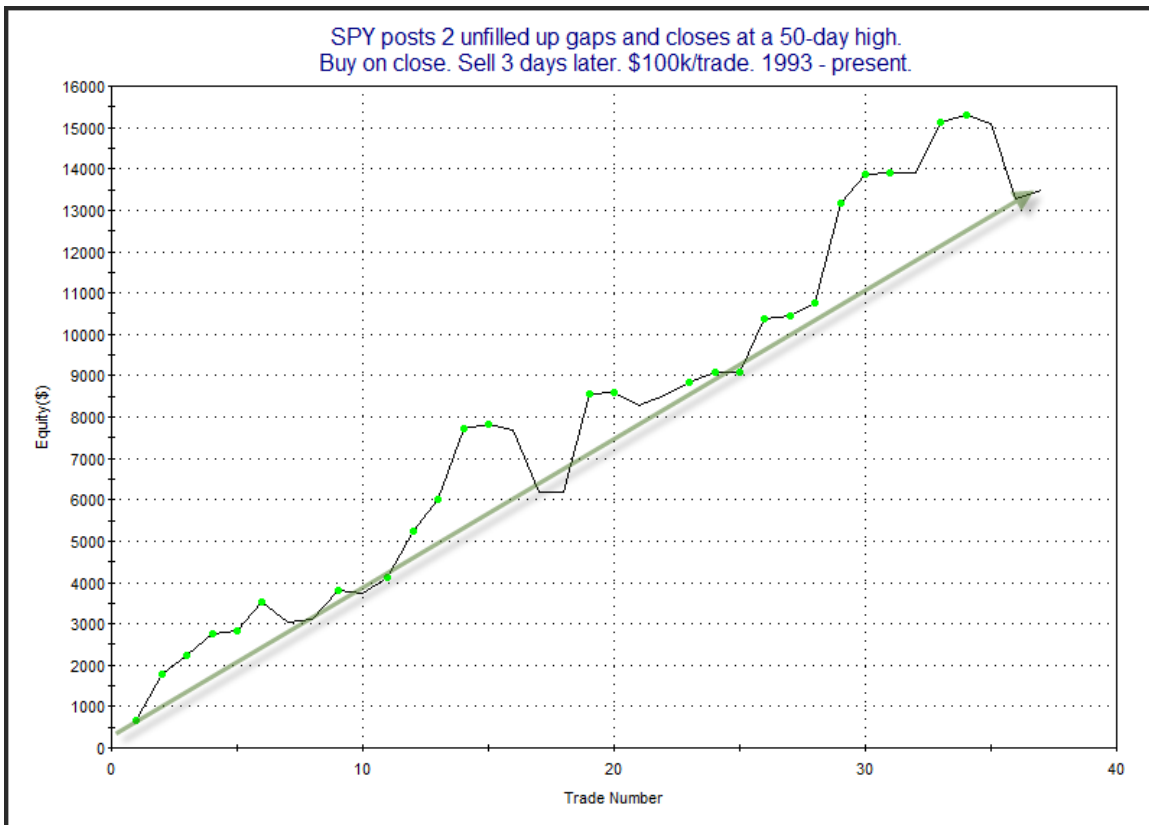
But it is also notable that Monday was this 2<sup>nd</sup> day in a row with an unfilled up gap. The study below is one that was seen in the 1/16/14 letter. It examined other times SPY left 2 unfilled up gaps and closed at a 50-day high.

SPY posts 2 unfilled up gaps and closes at a 50-day high.  
Buy on close. Sell X days later. \$100k/trade. 1993 - 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	11,873.27	37	27	10	72.97	887.23	2,013.72	-1,208.21	-4,508.40	0.73	1.98	320.90
4	15,672.40	37	28	9	75.68	897.07	2,475.56	-1,049.51	-2,720.25	0.85	2.66	423.58
3	13,470.23	37	28	9	75.68	642.50	2,419.84	-502.21	-1,801.77	1.28	3.98	364.06
2	7,463.74	37	25	11	67.57	540.50	1,858.87	-549.88	-1,476.68	0.98	2.23	201.72
1	51.87	43	23	20	53.49	343.11	1,156.32	-391.99	-1,942.24	0.88	1.01	1.21

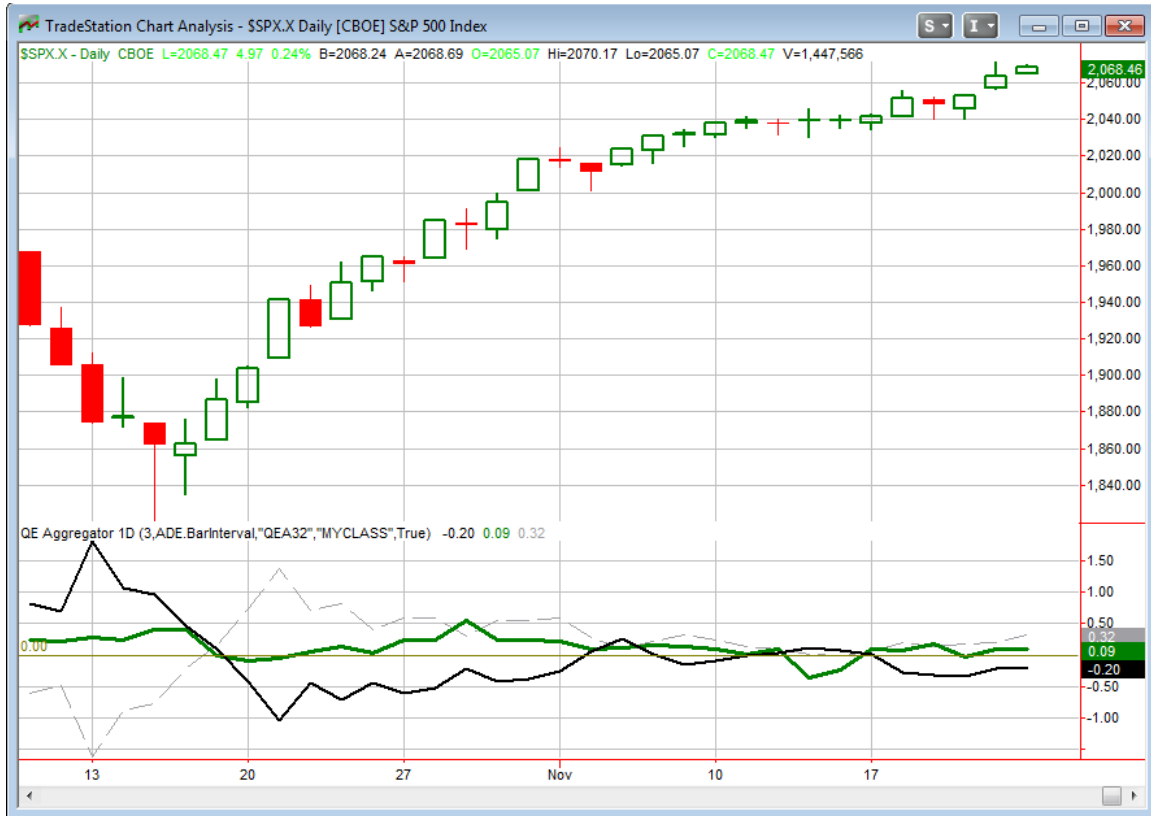
40 of 43 instances (93%) closed above the entry price at some point in the next week.

The size of the follow-through isn't terribly large, but it has been very consistent that some follow through was achieved in the next few days. Below is the 3-day profit curve.



Despite the recent dip the upward inclination appears to be in place. This study seems well worth consideration, and I have included on the Active List.

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



With tonight's mix of studies included the green Aggregator Line 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 stayed flat at the close.

Expectations are set to remain bullish on Tuesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 2057.32 on Tuesday. This is 0.5% below Monday's close. So SPX needs to close down at least this much on Tuesday in order to be considered "oversold" versus expectations.

Based on the evidence, a dip on Tuesday is certainly possible. But I am not seeing an overall short-term negative expectancy. If SPX does close down a decent amount Tuesday it could set up a "Turkey Trade" rebound. (I discussed in last night's letter that

buying the close on Tuesday and selling the close on Friday of Thanksgiving week has shown pretty solid results over the years.) I'll see how Tuesday plays out before deciding whether to jump in on Wednesday. One thing keeping me cautious about going long here is that the SPY has already gone a record amount of time without a pullback below the 5-day moving average. And while not a record, this is also the 26<sup>th</sup> day in a row that SPY closed above its 10-day moving average. So a pullback is quite overdue and I am not inclined to rush into longs just because seasonality is strong. I'll continue to demand a strongly favorable reward/risk ratio before taking on new index exposure.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/24 – somewhat bullish***

The intermediate-term outlook was last updated in the 11/24 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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>UPS(1/3)</i>	<i>11/20/2014</i>	<i>\$105.50</i>	<i>\$107.65</i>	<i>2.04%</i>		<i>sold on open</i>

*UPS was sold at the open as per last night's letter.*

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