

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 8, 2015

Volume 8 Issue 5

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

## Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through.

## *Short-term Outlook*

### *The Bottom Line*

Evidence still points up and the market is still oversold. This bounce should have more to go.

**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>						
January 8, 2015	Unfill gap up from 10-low	1-4 days	Bullish	1.90%	-1.20%	-2.30%
January 7, 2015	SPX down 5 days but > 20-day low	1-2 days	Bullish			
January 7, 2015	VIX 25% > 10ma	1-2 days	Bullish			
January 6, 2015	3 Lower High, Low, Close on Monday	1-3 days	Bullish			
January 6, 2015	4 Days Down. Today's drop biggest	1-3 days	Bullish			
<b>Active - Long Term</b>						
December 26, 2014	5 up to 50-high then down 1 day	1-10 days	Bullish			
December 19, 2014	Russell strong after Dec opex	1-10 days	Bullish			
December 18, 2014	20-high volume on up day. Not opex	1-10 days	Bullish			
December 18, 2014	20-low to 4-high	1-19 days	Bullish			
December 17, 2014	CBI >= 11.	1-20 days	Bullish			
December 9, 2014	Hindenburg Omens	1-35 days	Bearish			
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
<b>Dropped Tonight</b>						
January 5, 2015	SPX dn 3 from 20-high. Last one mild.	1-3 days	Bullish			
January 6, 2015	Unfilled gap down. 3 lower & 10-low	1-2 days	Bullish			
December 31, 2014	SPX 5-day low > 200. Botm 10%day rng	1-5 days	Bullish			
January 2, 2015	SPX pullback into month-end	1-4 days	Bullish	1.90%	-1.10%	-2.60%
January 2, 2015	50-high to 8-low in 2 days	1-4 days	Bullish	1.50%	-1.00%	-1.80%

**The Evidence**

The bounce I've been expecting finally seemed to arrive on Wednesday. The SPX rallied 1.2%, while the NASDAQ and the Russell 2000 each gained 1.3%. Breadth was strongly positive as the NYSE Up Issues % came in at 75% and the Up Volume % was 74%. Total NYSE volume declined from Tuesday's selloff.

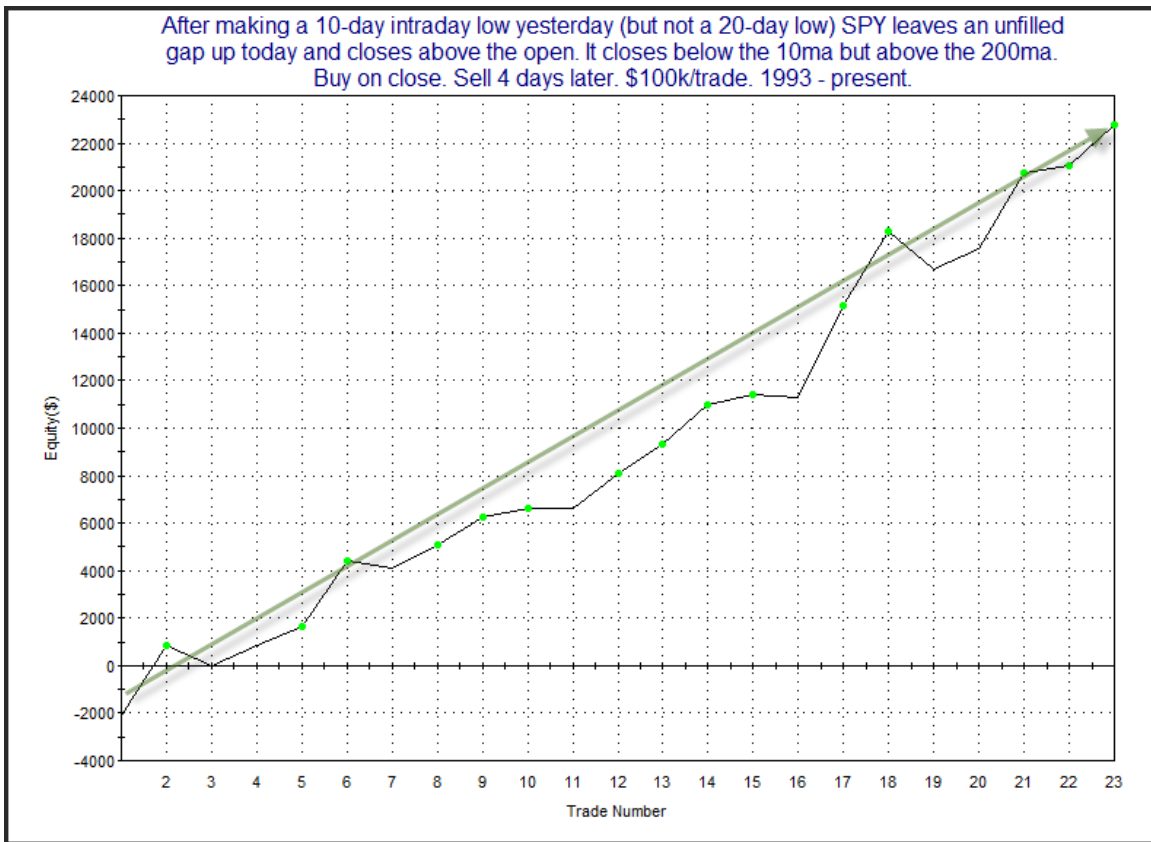
Wednesday's rally was marked by the fact that it featured an unfilled gap up and a further rise between the open and the close. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up from a low appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 6/26/13 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.  
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	22,057.96	23	18	5	78.26	1,471.28	4,106.63	-885.01	-1,949.70	1.66	5.98	959.04
4	22,747.96	23	17	6	73.91	1,637.35	3,904.83	-847.84	-2,096.99	1.93	5.47	989.04
3	14,892.53	24	15	9	62.50	1,442.33	3,914.92	-749.16	-1,874.00	1.93	3.21	620.52
2	10,769.14	24	15	9	62.50	1,255.15	2,828.00	-895.34	-2,183.21	1.40	2.34	448.71
1	1,157.93	24	12	11	50.00	806.26	1,431.89	-774.29	-2,895.33	1.04	1.14	48.25

All 24 instances closed above the entry price at some point in the next week.

Indications here are bullish across the board. It is especially impressive that all 24 instances saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a five-day holding period.



Profit curves don't get much straighter than this. This appears to confirm the upside edge suggested by the results table.

Also in the 6/26/13 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below, which I have also updated.

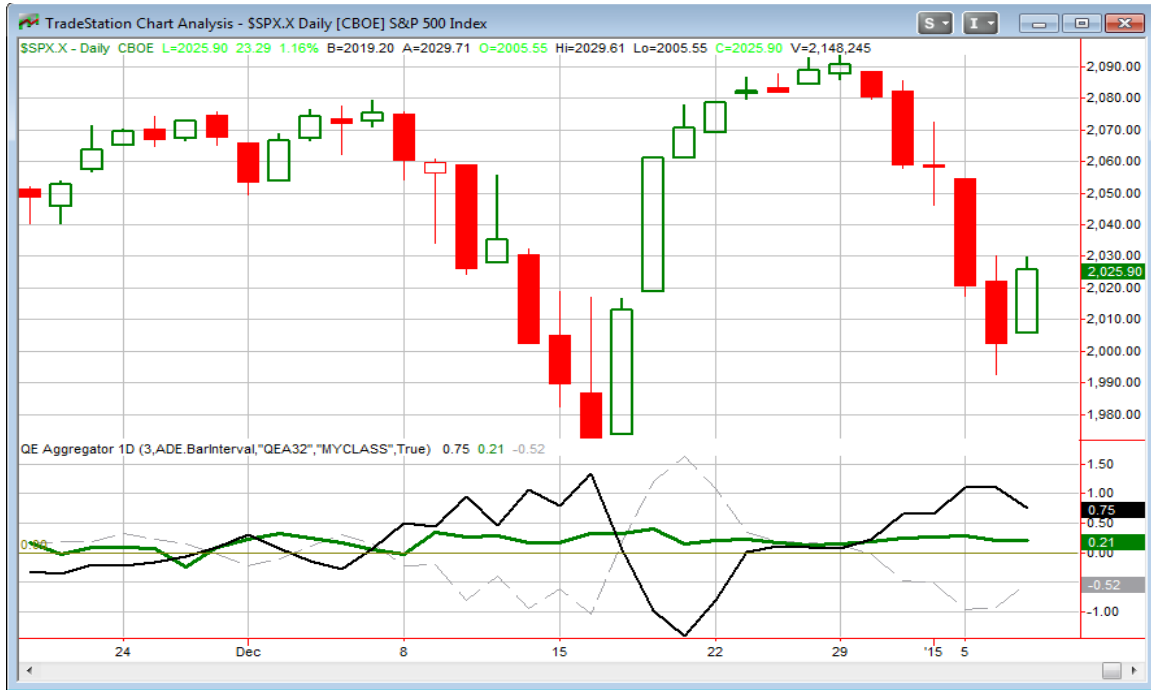
After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing 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	-5,852.54	28	12	16	42.86	1,773.96	3,073.60	-1,696.25	-3,739.32	1.05	0.78	-209.02
4	-2,508.87	30	16	14	53.33	1,276.65	2,950.20	-1,638.23	-2,744.82	0.78	0.89	-83.63
3	-8,656.81	32	15	17	46.88	873.59	2,811.60	-1,280.04	-3,070.92	0.68	0.60	-270.53
2	-8,783.91	34	16	18	47.06	838.06	2,341.35	-1,232.94	-2,818.42	0.68	0.60	-258.35
1	-1,980.50	34	13	21	38.24	951.55	2,470.05	-683.36	-1,777.90	1.39	0.86	-58.25

In the 6/10/13 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. So tonight I took the first study I showed and simply flipped that filter. Those results can be seen below.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes <b>above</b> the 10ma and above the 200ma. 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	-2,570.65	14	7	7	50.00	777.28	1,647.78	-1,144.51	-2,249.52	0.68	0.68	-183.62
4	-1,001.34	14	7	7	50.00	679.37	1,903.47	-822.42	-1,769.04	0.83	0.83	-71.52
3	-2,903.03	14	7	7	50.00	583.23	1,393.05	-997.95	-2,475.20	0.58	0.58	-207.36
2	-798.01	14	8	6	57.14	579.64	1,325.28	-905.86	-2,293.20	0.64	0.85	-57.00
1	-2,929.07	14	7	7	50.00	478.47	949.00	-896.91	-2,591.68	0.53	0.53	-209.22

As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces work off the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Wednesday.

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



With tonight's study included the Aggregator Line again remained far above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is also still strongly above 0. The positive Differential Line reading means the SPX is considered oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal remained long at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. Of course that could change if compelling bearish evidence emerges. The Differential Pivot will be 2036.78 on Thursday. That is 0.5% above Wednesday's close. So for SPX to move from oversold to overbought versus expectations, it is going to need to close up at least 0.5% on Thursday.

The bounce looks good so far, and there appears to be a strong chance that it will continue up a bit further. I have a sizable long position on at the moment. If the market can manage to rally further on Thursday and close above the Differential Pivot then I will begin scaling out of my index exposure. Additionally, 2 Catapults already met their targets on Wednesday. I will look to exit those at the open on Thursday.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/5 – bullish***

The intermediate-term outlook was last updated in the 12/29 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***

*ALL – 1/3 @ \$68.73 (buy @ limit)*

*ALL – 1/3 @ \$68.68 – not filled – cancel order for now*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 2(ALL-2)***

### **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
XIV(1/2)	12/10/2014	\$37.21	\$29.75	-20.05%		Aggressive VIX
XIV(1/2)	12/11/2014	\$34.03	\$29.75	-12.58%		Aggressive VIX
SPY(1/4)	12/31/2014	\$205.54	\$202.31	-1.57%		sell on close >= \$203.45
SPY(1/4)	1/5/2015	\$204.17	\$202.31	-0.91%		sell on close >= \$204.00
SPY(1/4)	1/6/2015	\$199.82	\$202.31	1.25%		Aggregator
ALL(1/3)	1/6/2015	\$68.73	\$69.81	1.57%		Catapult
CVS(1/3)	1/6/2015	\$94.16	\$95.93	1.88%		Sell on open
COST(1/3)	1/6/2015	\$140.00	\$144.32	3.09%		Sell on open

*CVS and COST met their exit targets and should be sold at the open on Thursday.*

*ALL only needs to reach \$70.12 on an intraday basis on Thursday to reach its target. If this occurs I will exit at the close on Thursday, rather than waiting for Friday's open and risking a negative reaction to the employment report Friday morning.*

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