

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 13, 2015

Volume 8 Issue 8

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	Flat	Flat

Tonight's Research Points

- Under similar circumstances “Turnaround Tuesday” has failed to live up to its reputation.

Short-term Outlook

The Bottom Line

No strong evidence emerged on Monday despite the strong move lower. Expectations suggest more possible downside but the market is already oversold. This leaves me 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
Active - Short Term						
January 12, 2015	Jan opex week weak	1-5 days	Bearish			
January 8, 2015	Unfill gap up from 10-low	1-4 days	Bullish	1.90%	-1.20%	-2.30%
Active - Long Term						
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			

The Evidence

Monday gapped higher but began selling almost immediately, and by the end of the day a fair amount of damage had been done. The SPX and NASDAQ lost 0.8% and the Russell 2000 fell 0.5%. Breadth was negative as the NYSE Up Issues % came in at 38% and the Up Volume % was 31%. Total NYSE volume rose from Friday's level.

As I laid out in the "Turnaround Tuesday" study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. But as I showed in the 9/16/14 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row and it was Monday. Here are those results.

SPX closes down for exacty the 2nd day in a row but > 200ma. Today is Monday. Buy on close. Sell X days later. \$100k/trade. 2000 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$21,691.02	Profit Factor	1.76
Gross Profit	\$50,275.89	Gross Loss	(\$28,584.87)
Total Number of Trades	77	Percent Profitable	53.25%
Winning Trades	41	Losing Trades	36
Even Trades	0		
Avg. Trade Net Profit	\$281.70	Ratio Avg. Win:Avg. Loss	1.54
Avg. Winning Trade	\$1,226.24	Avg. Losing Trade	(\$794.02)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)

The win rate is just above 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (*unlike* now).

SPX closes down for exactly the 2nd day in a row. Today is Monday. SPX < 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	\$23,315.03	Profit Factor	2.83
Gross Profit	\$36,050.39	Gross Loss	(\$12,735.36)
Total Number of Trades	33	Percent Profitable	63.64%
Winning Trades	21	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$706.52	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,716.69	Avg. Losing Trade	(\$1,061.28)

We see here under half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

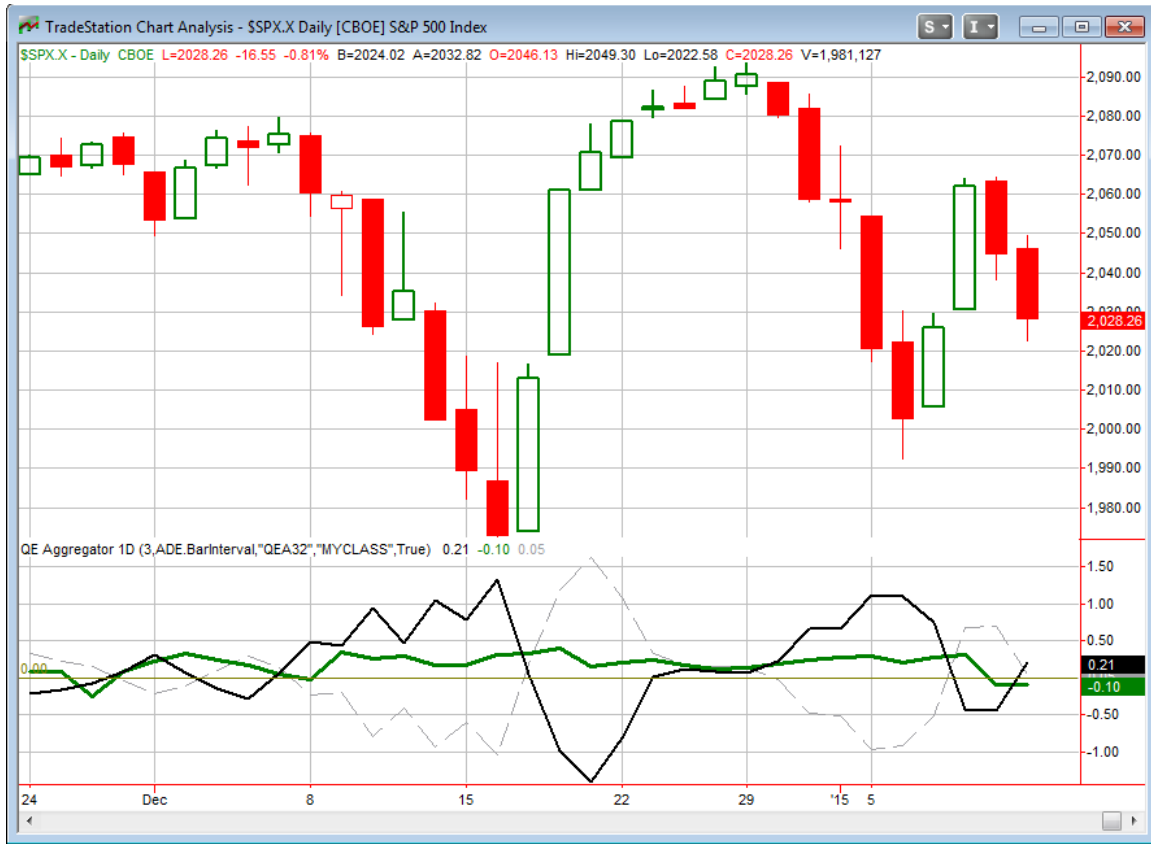
SPX closes down for exacty the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	(\$1,624.01)	Profit Factor	0.90
Gross Profit	\$14,225.50	Gross Loss	(\$15,849.51)
Total Number of Trades	44	Percent Profitable	45.45%
Winning Trades	20	Losing Trades	24
Even Trades	0		
Avg. Trade Net Profit	(\$36.91)	Ratio Avg. Win:Avg. Loss	1.08
Avg. Winning Trade	\$711.27	Avg. Losing Trade	(\$660.40)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn't fit here. In fact, the tendency for a while appeared to slightly favor a continuation of the 2-day pullback. Recent instances have turned the stats close to breakeven, so I am not really convinced of an edge in either direction at this

point. But I am convinced that “Turnaround Tuesday” does not seem to provide a strong bullish edge under these circumstances.

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



Without anything new being added to the Active List tonight the Aggregator Line again closed 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 rose back above 0. The positive Differential Line reading means the SPX is considered oversold versus recent expectations. So expectations are negative but the SPX is oversold. 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.

Based on the current active studies, expectations are set to remain bearish on Tuesday. That could easily change if new bullish evidence emerges. The Differential Pivot will be 2078.03 on Tuesday. That is a whopping 2.5% above Monday’s close. So SPX would need to close up quite a bit to move from oversold to overbought versus expectations. It

is highly unlikely we will see a rally of that magnitude on Tuesday. A more likely scenario would be a multi-day rally or consolidation,

My inhibitions about the Aggregator short signal last night were unfortunate as the SPX sold off fairly strongly. That edge is now gone. Frankly I was surprised that I did not find any compelling bullish evidence emerge with the move lower the last 2 days. So the Aggregator is now neutral. And there is nothing for me to do when considering new positions. I will sit aside and see if bullish evidence emerges on Tuesday before taking on new exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/12 – somewhat bullish

The intermediate-term outlook was last updated in the 1/12 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
XIV(1/2)	12/10/2014	\$37.21	\$28.92	-22.28%		sell @ \$29.00 limit
XIV(1/2)	12/11/2014	\$34.03	\$28.92	-15.02%		Aggressive VIX

I do not see a reason to sell into a gap lower here, but XIV is no longer a compelling holding. The Aggressive XIV is now flat along with the Aggregator, and I need to scale back on any position here. I will likely exit the whole thing in another day or so unless I see strong evidence for continuing to hold it.

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