

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 14, 2015

Volume 8 Issue 9

Market Overview



Signals Overview

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

Tonight's Research Points

- Characteristics of this 3-day pullback are not suggestive of an edge.
- The gap & reverse pattern in SPY do suggest a bit of an upside edge.

Short-term Outlook

The Bottom Line

Evidence is starting to turn back bullish and the market is now short-term oversold. I will start scaling in to a long index position if SPY closes down much more on Wednesday.

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 14, 2015	Gap up. 0.5% rise. Dn close > 10-low	1-4 days	Bullish			
January 12, 2015	Jan opex week weak	1-5 days	Bearish			
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			
Dropped Tonight						
January 8, 2015	Unfill gap up from 10-low	1-4 days	Bullish	1.90%	-1.20%	-2.30%

The Evidence

Tuesday saw another gap up followed by a selloff. The SPX finished down 0.3%, and the NASDAQ lost 0.1%, but the Russell 2000 finished up slightly. Breadth was negative as the NYSE Up Issues % came in at 45% and the Up Volume % was 37%. Total NYSE volume rose from Monday's level.

Today was the third day in a row that SPX closed lower. A good number of studies appeared in the Quantifinder tonight related to the 3-day pullbacks. I've looked at these many times and can say with confidence that all 3-day pullbacks are NOT created equal. Some characteristics that would make a 3-day pullback appealing include an extremely low 3/10 Offset HV, and whether the pullback originated from an intermediate-term high. This pullback failed on both counts, making it somewhat suspect to begin with. The studies below are from the 5/18/11 subscriber letter. They look at 3-day pullbacks that did not immediately follow a 20-day high, and closed above the 200ma.

SPX closed lower for exactly the 3rd day in a row. The pullback did not immediately follow a 20-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	69,142.34	125	71	54	56.80	1,793.12	6,188.00	-1,077.21	-4,961.56	1.66	2.19	553.14
4	52,285.21	129	79	50	61.24	1,424.08	5,290.00	-1,204.35	-3,994.08	1.18	1.87	405.31
3	51,516.26	129	76	53	58.91	1,406.72	4,895.50	-1,045.19	-4,464.88	1.35	1.93	399.35
2	39,798.84	129	77	52	59.69	1,153.92	4,424.50	-943.32	-7,559.56	1.22	1.81	308.52
1	21,641.30	129	85	44	65.89	698.29	2,503.90	-857.12	-6,826.40	0.81	1.57	167.76

As you can see there appears to be a bit of an upside edge. In the past I've found that the size of the current day's selloff in relation to the other days of the selloff can make a

difference. Tuesday's selloff was the smallest of the decline, so here are the results with that added as a filter.

SPX closed lower for exactly the 3rd day in a row. Today was the smallest drop of the decline. The pullback did not immediately follow a 20-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	-2,766.83	29	13	16	44.83	1,017.80	3,229.20	-999.89	-2,268.75	1.02	0.83	-95.41
4	665.07	30	19	11	63.33	724.57	2,169.00	-1,191.06	-2,225.03	0.61	1.05	22.17
3	1,684.63	30	17	13	56.67	724.63	1,692.64	-818.01	-2,558.68	0.89	1.16	56.15
2	2,114.23	30	18	12	60.00	671.73	1,579.04	-831.42	-1,775.52	0.81	1.21	70.47
1	1,403.59	30	18	12	60.00	531.98	1,621.20	-681.01	-1,953.32	0.78	1.17	46.79

Amazingly, this seems to have completely wiped away any upside edge. Next in the 5/18/11 letter I examined how the results would have looked if today had been the largest drop of the decline instead of the smallest. Those updated results are below.

SPX closed lower for exactly the 3rd day in a row. Today was the largest drop of the decline. The pullback did not immediately follow a 20-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	53,219.57	58	37	21	63.79	2,061.57	6,188.00	-1,098.03	-4,961.56	1.88	3.31	917.58
4	39,707.20	59	38	21	64.41	1,700.36	4,731.13	-1,186.02	-3,863.84	1.43	2.59	673.00
3	45,078.11	59	39	20	66.10	1,650.90	4,676.10	-965.35	-4,464.88	1.71	3.33	764.04
2	31,830.38	59	38	21	64.41	1,359.43	3,744.45	-944.19	-7,559.56	1.44	2.61	539.50
1	14,668.48	59	39	20	66.10	712.25	2,503.90	-655.45	-1,814.24	1.09	2.12	248.62

If this were the current setup, it appears the upside edge would be considerable. Unfortunately, the current 3-day pullback doesn't appear to suggest any substantial edge.

Not all was bleak though. The pattern constructed by the SPY on Tuesday is one that has suggested a bullish tendency in the past. The study below was last seen in the 5/27/10 subscriber letter. I have updated the results.

SPY gaps up at least 0.25% and make a high at least 0.5% above the open. If the closes down on the day. 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	37,732.59	62	40	22	64.52	2,840.76	13,737.50	-3,449.89	-19,787.04	0.82	1.50	608.59
4	42,276.99	64	37	27	57.81	2,835.05	12,275.00	-2,319.26	-17,793.84	1.22	1.68	660.58
3	51,856.27	66	41	25	62.12	2,628.27	10,083.30	-2,236.11	-11,623.98	1.18	1.93	785.70
2	48,869.50	68	44	24	64.71	2,292.25	11,736.30	-2,166.23	-9,340.86	1.06	1.94	718.67
1	6,720.57	69	43	26	62.32	1,316.78	5,962.50	-1,919.26	-9,839.83	0.69	1.13	97.40

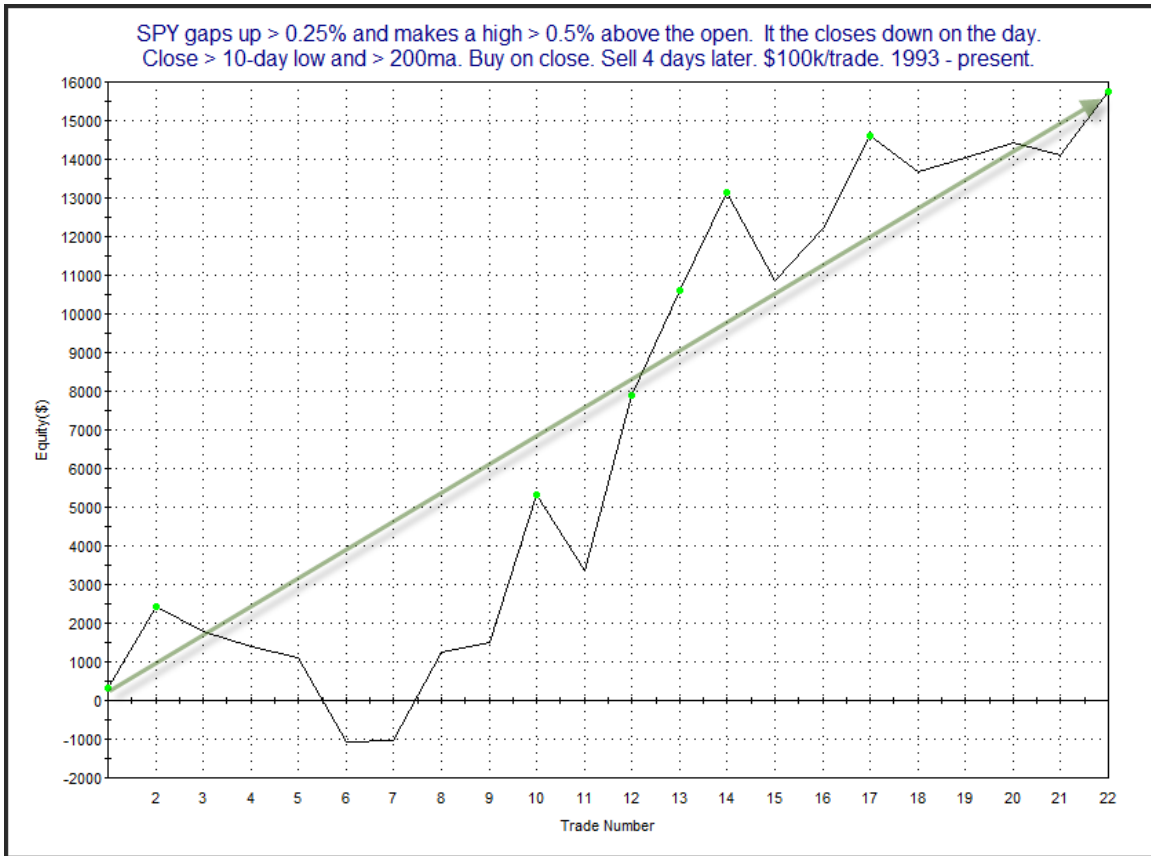
Results here seem to show a bit of an upside edge. In that letter I also looked at things like 10-day lows. Tonight I decided to examine times the pattern occurred without a 10-day low close and during a long-term uptrend. Those filtered results are below.

SPY gaps up > 0.25% and makes a high > 0.5% above the open. If the closes down on the day. Close > 10-day low and > 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	14,919.68	21	14	7	66.67	1,491.70	3,756.06	-852.01	-1,498.84	1.75	3.50	710.46
4	15,766.72	22	14	8	63.64	1,765.03	4,533.98	-1,117.97	-2,259.92	1.58	2.76	716.67
3	11,037.31	22	14	8	63.64	1,526.85	3,858.36	-1,292.32	-2,990.26	1.18	2.07	501.70
2	8,350.39	22	15	7	68.18	844.61	2,772.48	-616.96	-1,568.92	1.37	2.93	379.56
1	2,469.58	23	14	9	60.87	708.04	2,319.36	-827.00	-2,206.61	0.86	1.33	107.37

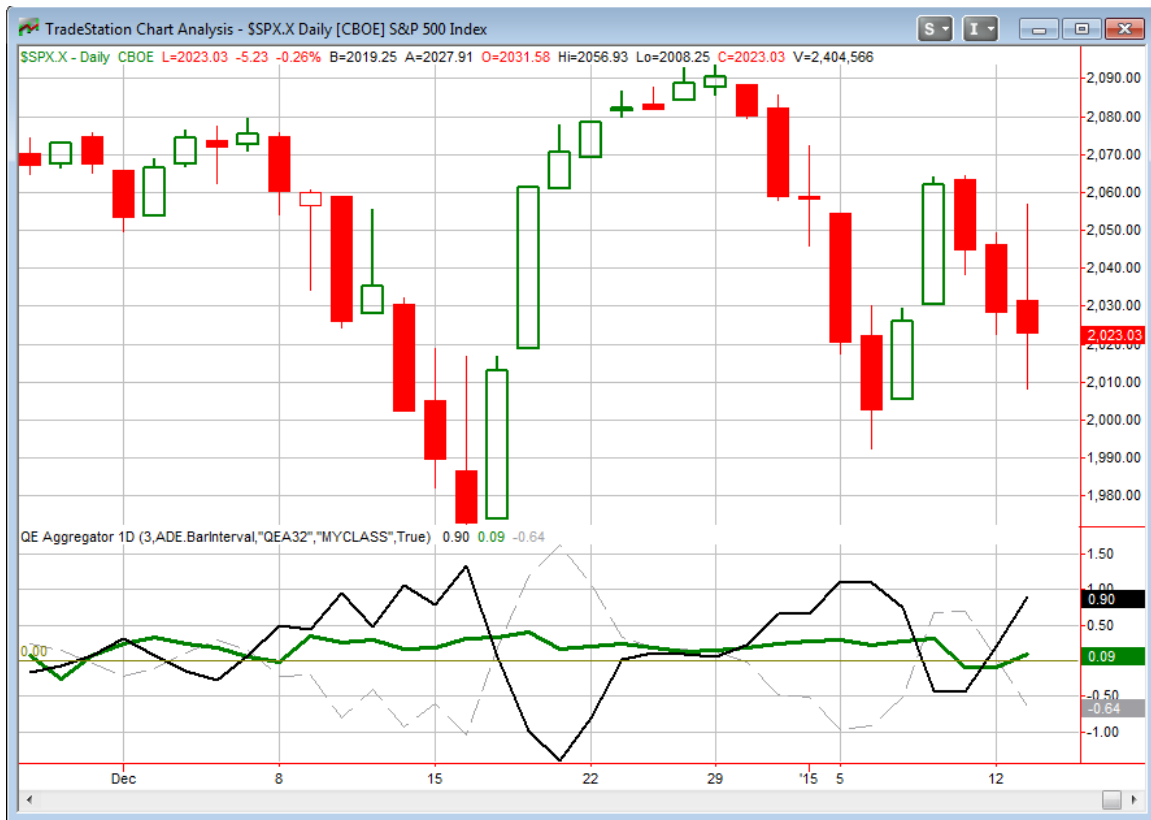
Only 2 instances failed to close above the entry price at some point in the next week. They triggered on 6/11/96 and 2/24/99.

Results here appear similar to those above. But the profit curves looked even better. Here is the 4-day profit curve.



I've decided to include this study on the Short-Term Active List.

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



With tonight's study being taken into account the Aggregator Line inched a little above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line rose further above 0. The positive Differential Line reading means the SPX is considered oversold versus recent expectations. So expectations are positive 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 turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. That could easily change if new bearish evidence emerges. The Differential Pivot will be 2054.57 on Wednesday. That is a 1.6% above Tuesday's close. So SPX would need to close up quite a bit to move from oversold to overbought versus expectations. It is unlikely we will see a rally of that magnitude on Wednesday. A more likely scenario would be a multi-day rally or consolidation,

The Aggregator is suggesting an upside edge, but bullish evidence is fairly meek. And the 3-day pullback study suggested no real edge at all. Still, the market is quite oversold. And another down day would see it become more so and additional bullish evidence would likely emerge. I am not going to rush in just yet with evidence being light. But I will look to start scaling into an index position if Wednesday again closes lower. Details are in the Trade Ideas section down below.

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.

SPY – buy ¼ index position @ \$202.00 limit on close. Base on the short-term outlook above I will begin scaling in to an index position if SPY closes down much on Wednesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/10/2014	\$37.21	\$29.59	-20.48%		<i>sold on open</i>
XIV(1/2)	12/11/2014	\$34.03	\$28.11	-17.40%		Aggressive VIX

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