

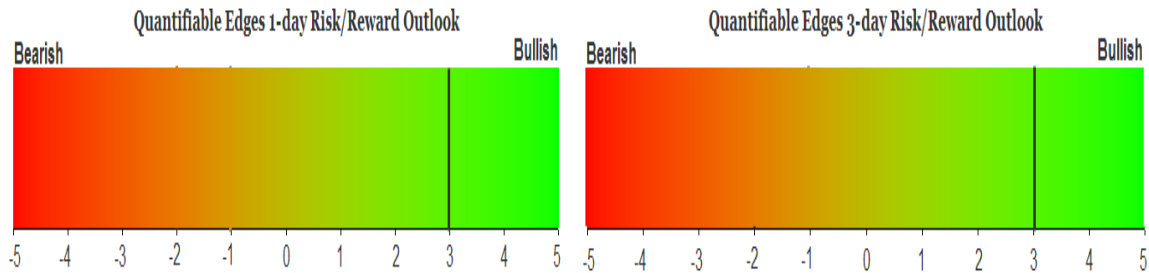
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 15, 2015

Volume 8 Issue 10

Market Overview



Signals Overview

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

Tonight's Research Points

- When SPY closes near the top of its range, but still down for at least the third consecutive day, a move higher is often seen the next day.
- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.

Short-term Outlook

The Bottom Line

More bullish evidence emerged on Wednesday. There appears to be a strong chance of a bounce in the next few days, and reward/risk appears favorable for the bulls as well. I am partially long and looking to possibly get longer.

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 15, 2015	Unfilled gap. 3 lower. 10 low > 200	1-2 days	Bullish			
January 15, 2015	Dn 3 but close in top 25% of range	1 day	Bullish			
January 14, 2015	Gap up. 0.5% rise. Dn close > 10-low	1-4 days	Bullish			
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 12, 2015	Jan opex week weak	1-5 days	Bearish			

The Evidence

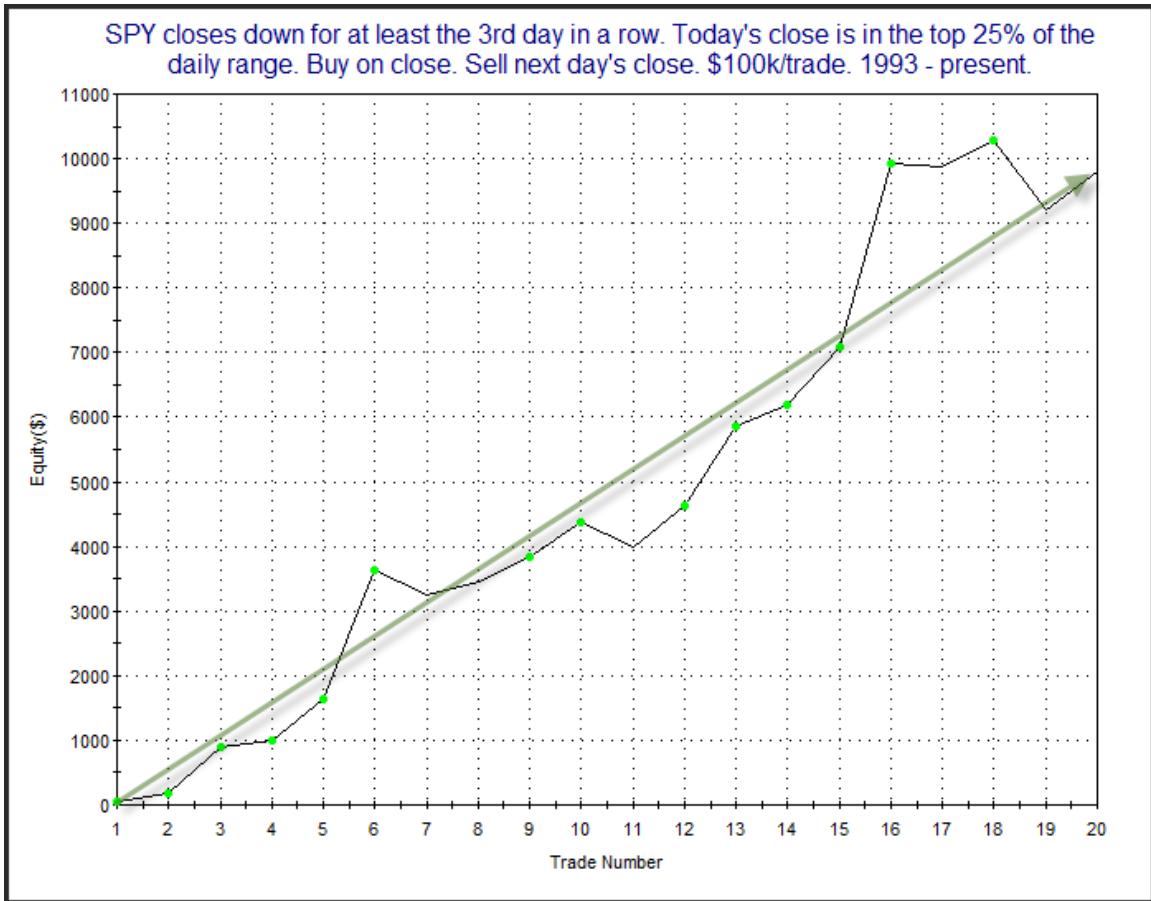
The market gapped down Wednesday and sold off fairly hard for much of the day. But some afternoon action helped reduced the losses quite a bit. Still, the SPX finished down 0.6%, the NASDAQ lost 0.5%, and the Russell 2000 dropped 0.3%. Breadth was negative as the NYSE Up Issues % came in at 39% and the Up Volume % was 32%. Total NYSE volume rose for the 3rd day in a row.

The Quantifinder identified a few studies related to multi-day pullbacks. One thing that intrigued me about Wednesday's action was that the market closed down but still enjoyed a strong reversal. In the 12/28/12 letter I combined the multi-day pullback concept with the fact that the market saw a relatively strong close. Below are updated results of that study.

SPY closes down for at least the 3rd day in a row. Today's close is in the top 25% of the daily range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$9,806.91	Profit Factor	6.17	
Gross Profit	\$11,704.42	Gross Loss	(\$1,897.51)	
Total Number of Trades	20	Percent Profitable	80.00%	
Winning Trades	16	Losing Trades	4	
Even Trades	0			
Avg. Trade Net Profit	\$490.35	Ratio Avg. Win:Avg. Loss	1.54	
Avg. Winning Trade	\$731.53	Avg. Losing Trade	(\$474.38)	
Largest Winning Trade	\$2,818.20	Largest Losing Trade	(\$1,080.18)	

The stats here are strongly bullish. Not only is there a very high percentage of winners, but the average win was 50% greater than the average loss. This made for a very large profit factor of over 6 and a good-sized average trade. I have also produced a profit curve.



The strong upslope appears to confirm the bullish edge. I have added this to tonight's Active List.

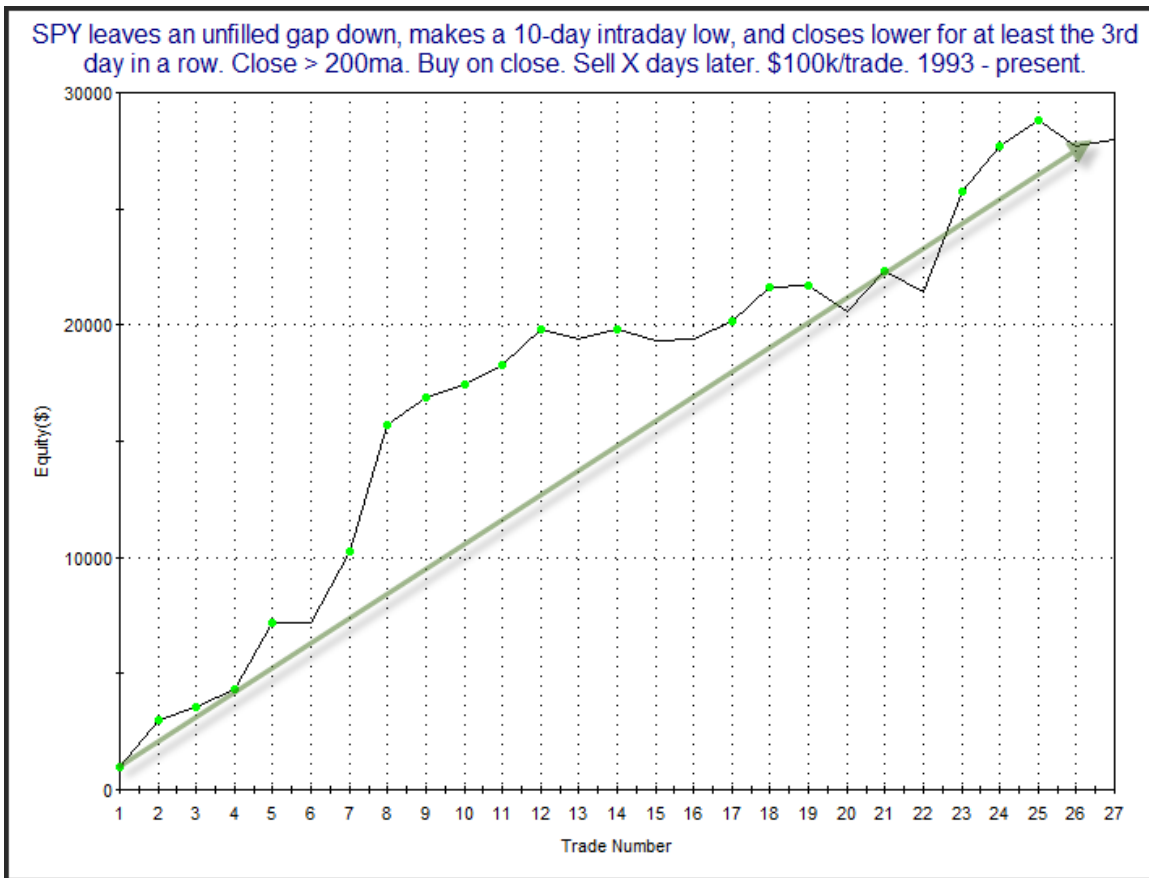
Another compelling study came from the 3/7/12 letter where I examined unfilled gaps and new lows that happened on at least the third down day in a row. I also included a long-term trend filter. The results table is updated below.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for at least the 3rd day in a row. Close > 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	23,643.04	27	19	8	70.37	1,865.04	8,239.74	-1,474.09	-4,770.78	1.27	3.00	875.67
4	17,544.95	27	17	10	62.96	1,938.35	5,581.02	-1,540.70	-4,430.01	1.26	2.14	649.81
3	28,417.38	27	21	6	77.78	1,648.54	4,249.44	-1,033.66	-1,847.47	1.59	5.58	1,052.50
2	27,974.80	27	21	5	77.78	1,522.50	5,477.88	-799.55	-1,118.36	1.90	8.00	1,036.10
1	15,062.16	28	21	7	75.00	926.09	5,764.38	-626.53	-1,677.36	1.48	4.43	537.93

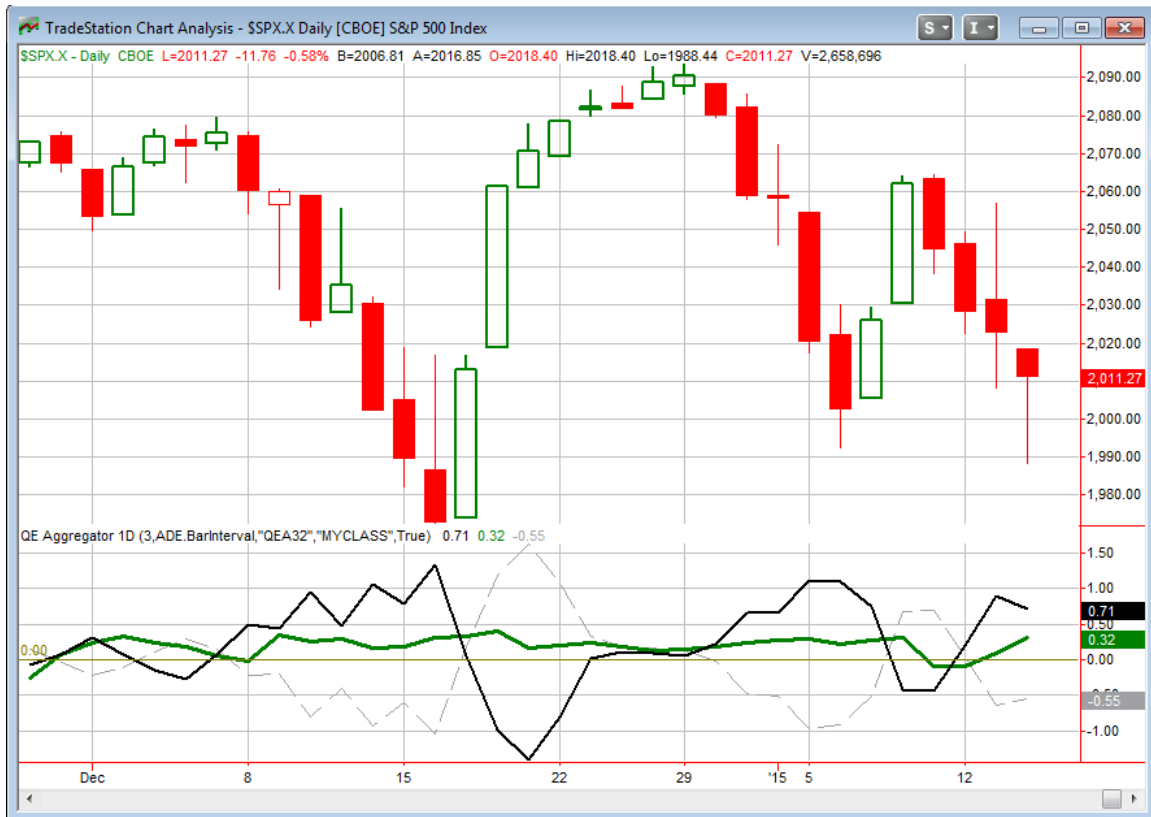
The only instance not to close > the entry price at some point in the next 3 days was 6/3/11.

Twenty-seven of twenty-eight instances quickly bouncing is an impressive %. This suggests a very high probability of an almost immediate bounce. Below is the equity curve using a 2-day hold.



It appears that the upside edge remains in place. This study is also included on the Active List tonight.

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



With tonight's studies being taken into account the Aggregator Line moved further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line also remained 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 stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. That could change if new bearish evidence emerges. The Differential Pivot will be 2030.60 on Thursday. That is a 1.0% above Wednesday'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 studies tonight are providing fairly compelling evidence that we should see a bounce in the next few days. And with the market now strongly oversold reward/risk appears very favorable. I already took on some new index exposure at the close on Wednesday. I will look to take on more if SPY closes down much again on Thursday. I will also look to take advantage of a Catapult setup that triggered.

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

New

FCX – 1/3 @ \$18.74 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(FCX)

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.

FCX – buy 1/3 Catapult position @ \$18.74 LIMIT. This is from the Catapult section above.

SPY – buy ¼ index position @ \$200.00 limit on close. Based on the short-term outlook above I will take on a 2nd lot (of possibly 4) if SPY closes down at \$200.00 or lower on Thursday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/11/2014	\$34.03	\$27.57	-18.98%		Aggressive VIX
SPY(1/4)	1/14/2015	\$200.86	\$200.86	0.00%		bought on close

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