

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 21, 2015

Volume 8 Issue 13

Market Overview



Signals Overview

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

Tonight's Research Points

- Such weak breadth when the SPX has risen has often been followed by a decline in the next few days.

Short-term Outlook

The Bottom Line

Poor breadth is souring the bounce possibilities some and the market is now entering overbought territory. I still believe the bounce could have a bit further to go, but have begun locking in short-term profits.

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 21, 2015	SPX up. Breadth poor	1-3 days	Bearish			
January 20, 2015	MLK week bearish	1-4 days	Bearish	-2.00%	1.10%	2.10%
January 20, 2015	Bounce from 20-low	1-6 days	Bullish	2.30%	-1.50%	-2.80%
January 20, 2015	Higher then Dn. Lower then up.	1-5 days	Bullish	1.90%	-1.20%	-2.50%
January 16, 2015	4+ dn big drop today	1-3 days	Bullish			
Active - Long Term						
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 14, 2015	Gap up. 0.5% rise. Dn close > 10-low	1-4 days	Bullish			

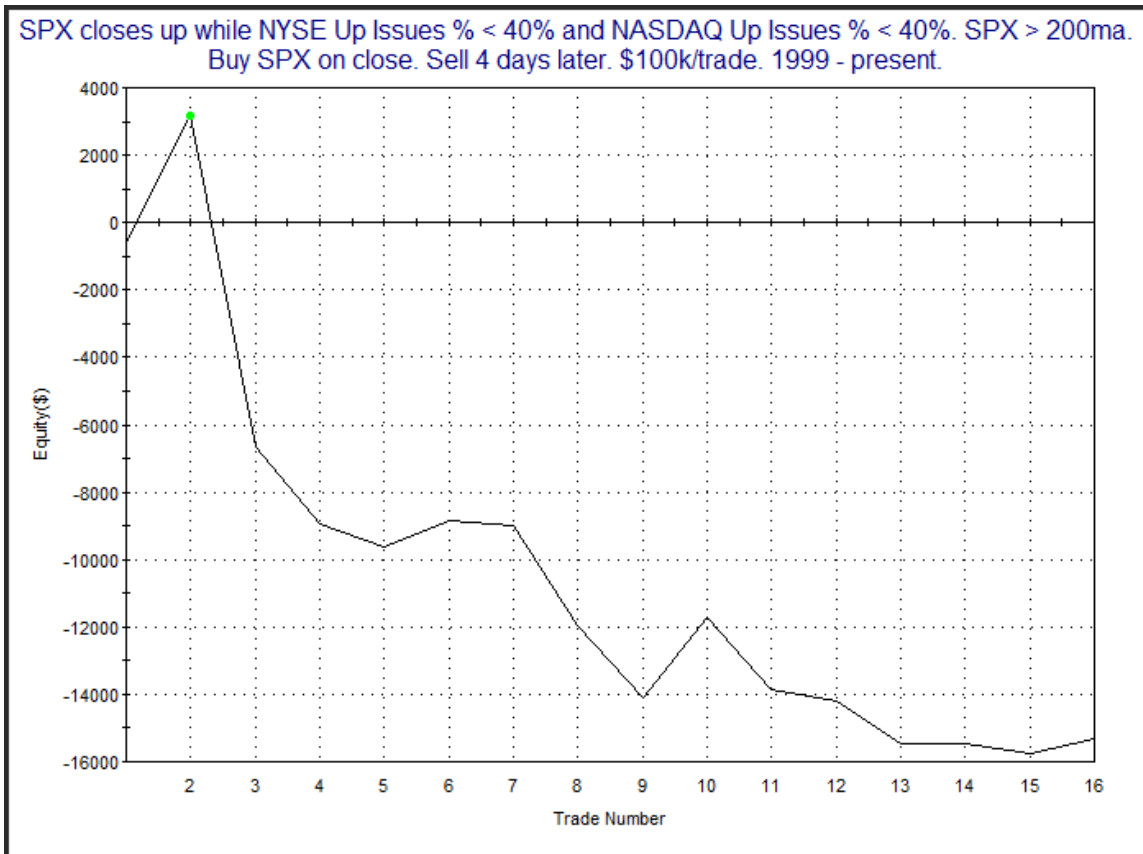
The Evidence

The market did a bit of a round-trip on Tuesday. After gapping up to start the day it sold off hard, but by the close most of the major indices were back to positive. The SPX gained 0.2% and the NASDAQ rose 0.4%, but the Russell 2000 fell 0.5%. Breadth was solidly negative as the NYSE Up Issues % came in at 38% and the Up Volume % was 41%. Total NYSE volume declined some from Friday's opex levels.

The weak breadth on Tuesday could be a possible negative for the next few days. In the 8/23/12 subscriber letter I examined other instances where both the NYSE Up Issues % and the NASDAQ Up Issues % came in less than 40%, yet SPX rose on the day. This occurred on Tuesday, so I took a new look at the results.

SPX closes up while NYSE Up Issues % < 40% and NASDAQ Up Issues % < 40%. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-11,558.13	16	7	9	43.75	1,793.11	5,057.80	-2,678.88	-11,533.34	0.67	0.52	-722.38
4	-15,320.52	16	4	12	25.00	1,846.70	3,754.08	-1,892.28	-9,828.00	0.98	0.33	-957.53
3	-10,779.23	17	6	11	35.29	1,622.40	3,564.00	-1,864.88	-6,956.04	0.87	0.47	-634.07
2	-9,339.82	17	9	8	52.94	1,086.00	2,788.70	-2,389.23	-6,510.90	0.45	0.51	-549.40
1	-9,002.88	17	6	11	35.29	837.28	1,526.28	-1,275.14	-4,893.07	0.66	0.36	-529.58

Over the next 1-4 days the market has often shown weakness. To see how the possible edge played out over time I also ran the profit curve.



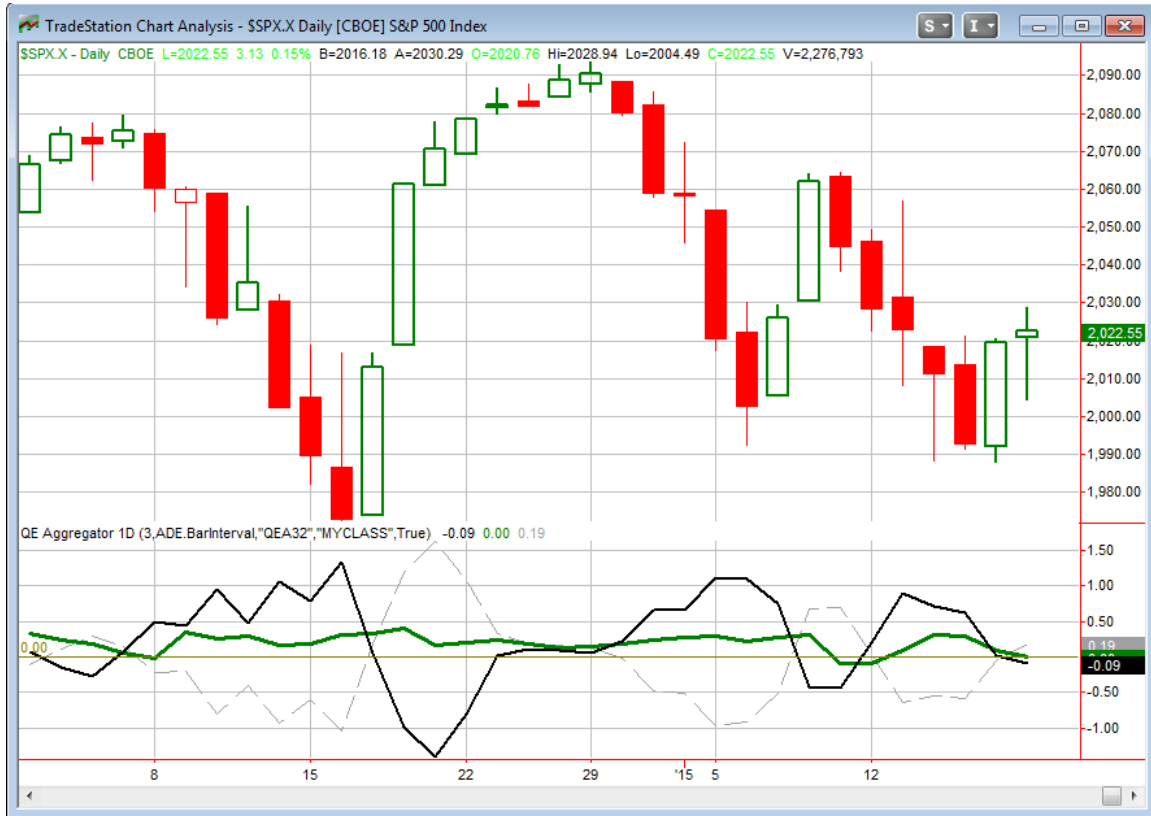
Not the steadiest of curves but it has headed down for much of the time. I believe it is worth taking this study into some consideration. But one worry I had was that there was no long-term trend filter on this study. So despite the fairly low number of instances I decided to run one to see what impact it might have. Results are below.

SPX closes up while NYSE Up Issues % < 40% and NASDAQ Up Issues % < 40%. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-1,413.30	7	4	3	57.14	527.24	683.40	-1,174.08	-2,828.25	0.45	0.60	-201.90
4	-2,543.41	7	2	5	28.57	607.46	754.80	-751.66	-2,174.49	0.81	0.32	-363.34
3	-2,967.72	7	2	5	28.57	389.99	611.03	-749.54	-1,780.44	0.52	0.21	-423.96
2	-1,165.73	7	4	3	57.14	406.55	1,278.75	-930.65	-2,126.76	0.44	0.58	-166.53
1	-574.13	7	3	4	42.86	848.54	1,270.50	-779.94	-1,963.59	1.09	0.82	-82.02

While instances are too low to have much faith if this was a stand-alone study, it is comforting to know that the basic odds remained much the same. The primary difference was that the Avg Trade was not quite as negative. This is typical when a long-term trend filter is used. Downtrends are commonly more volatile, so the results often show larger numbers than uptrends. I decided to include the study, but that I would pare back expectations from the 1st study in terms of size.

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



It is indiscernible on the chart but the green Aggregator Line held a tiny amount above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. In this case – barely positive. Meanwhile, the black Differential Line fell just slightly below 0. The negative Differential Line reading means the SPX is now considered a little 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 turned flat at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. That could change if more bearish evidence emerges. The Differential Pivot will be 2006.48 on Wednesday. That is 0.8% below Tuesday's close. This means that SPX will need to close down at least 0.8% if it is going to move from overbought to oversold versus expectations on Wednesday. Anything short of that and it will remain overbought.

The upside evidence from the past few days had me expecting a bit more of a bounce. But tonight's study and the neutral Aggregator has me wary of trying to milk too much out of the current SPY position. Exiting the first half at the open on Tuesday got me a good fill. I'd like to give it another day to follow through and provide more gains, but I do not want to sit through a reversal and another leg down for SPY. So I am placing a stop a little below Tuesday's low for the 2nd lot of my position. And if SPY manages to close up on Wednesday I will take profits on a 3-day rally and be happy with them.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/20 – somewhat bullish

The intermediate-term outlook was last updated in the 1/20 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

FCX – 1/3 @ \$18.74 (bought @ limit)

FCX – 1/3 @ \$18.33 (buy @ limit) – 2nd lot (not filled – cancel order for now)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2(FCX-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)	12/11/2014	\$34.03	\$27.49	-19.22%		Aggressive VIX
SPY(1/4)	1/14/2015	\$200.86	\$202.40	0.77%		sold on open
SPY(1/4)	1/15/2015	\$199.02	\$202.05	1.52%	\$199.97	sell on close >= \$202.06
FCX(1/3)	1/15/2015	\$18.74	\$19.27	2.83%		sell on close >= \$19.82

FCX will reach its end-of-day target if it closes >= \$19.82. In that case I will exit at the close instead of waiting for the next day's open.

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