

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 22, 2015

Volume 8 Issue 14

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 up days will sometimes suggest a short-term bearish edge, but when coming off a 20-day high it looks more bullish.

Short-term Outlook

The Bottom Line

Expectations remain slightly bullish, but with the market up 3 days in a row it is now short-term overbought and not providing very favorable reward/risk for bulls. I am neutral and on the lookout for the next strong edge to emerge.

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%
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 16, 2015	4+ dn big drop today	1-3 days	Bullish			

The Evidence

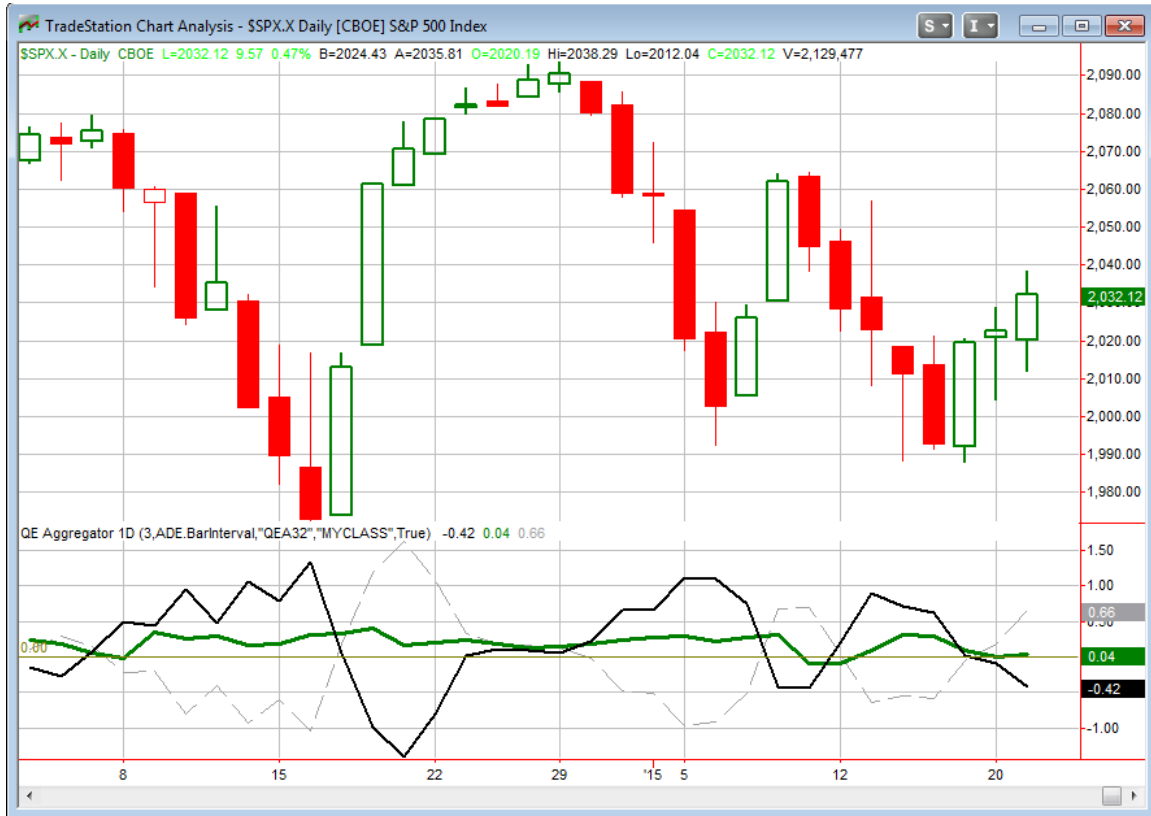
The bounce continued on Wednesday as the market rose for the 3rd day in a row. The SPX gained 0.5% and the NASDAQ rose 0.3%, and the Russell 2000 fell 0.3%. Breadth was solidly positive as the NYSE Up Issues % came in at 62% and the Up Volume % was 73%. Total NYSE volume declined from Tuesday's level.

Sometimes 3 up days in a row can generate short-side edges as the market readies for a reversion. Current action did not trigger any short studies. There was one study from 2010 that looked at 3 up days above the 200ma where the last 2 days came on declining volume. It failed to generate consistent results. I decided tonight to examine times where SPY posted 3 up days and finished above the 200ma immediately following a 20-day low. Those results are below.

After closing at a 20-day low SPY closes up 3 days in a row 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	26,736.23	120	69	51	57.50	1,548.90	4,940.95	-1,571.34	-5,992.14	0.99	1.33	222.80
4	25,052.03	120	69	51	57.50	1,378.85	4,418.45	-1,374.28	-4,682.70	1.00	1.36	208.77
3	15,843.08	120	68	52	56.67	1,096.38	4,425.10	-1,129.06	-4,052.24	0.97	1.27	132.03
2	14,532.25	120	69	51	57.50	852.63	2,509.20	-868.61	-2,894.10	0.98	1.33	121.10
1	6,473.29	120	64	55	53.33	570.04	1,912.35	-545.62	-2,930.40	1.04	1.22	53.94

As you can see, results very mildly suggest more upside is favored over a pullback. The edge has not been consistent thought, so I have elected not to include this study on the Active List as bullish. But it did alleviate any concern that the 3-day rally generated a bearish edge.

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



As anticipated last night, without any new studies being added the green Aggregator Line held 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 fell a little further below 0. The negative Differential Line reading means the SPX is 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. That could change if more bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2033.66 on Thursday. That is 0.1% *above* Wednesday's close. An inverted Differential Pivot means that the Differential Line will cross through zero if SPX closes flat. In this case it will take a close up of 0.1% or more in order for SPX to remain overbought. So any down close will cause SPX to finish oversold and almost any up close will cause it to finish overbought versus short-term expectations.

The bounce has come as expected, but it has not been quite as strong as we often see under similar circumstances. Evidence suggests there could be some further upside, but with SPX up the last 3 days the edge appears very weak. I am neutral on the market and have now exited my full index position. I will wait for a more favorable reward/risk setup before putting any index exposure back on.

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

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)	12/11/2014	\$34.03	\$28.76	-15.49%		Aggressive VIX
<i>SPY(1/4)</i>	<i>1/15/2015</i>	<i>\$199.02</i>	<i>\$203.08</i>	<i>2.04%</i>		<i>sold on close</i>
<i>FCX(1/3)</i>	<i>1/15/2015</i>	<i>\$18.74</i>	<i>\$19.85</i>	<i>5.92%</i>		<i>sold on close</i>

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