

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 27, 2015

Volume 8 Issue 17

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Thursday's mild up close near the top of its range suggests a bearish 1-day edge.
- Wednesday's Fed day edge could be highly dependent on Tuesday's action.

## *Short-term Outlook*

### *The Bottom Line*

We are seeing some evidence that Tuesday could struggle. But if it does, that may only make the outlook for Wednesday even more bullish. The edge would likely even be strong enough to attempt a quick long trade depending Tuesday's action.

*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
<b>Active - Short Term</b>						
January 27, 2015	SPY up < 0.25%. Top 10% range	1 day	Bearish			
January 23, 2015	VIX 10% up to 10% dn blow ma	1-8 days	Bullish	2.50%	-1.00%	-1.95%
January 20, 2015	Bounce from 20-low	1-6 days	Bullish	2.30%	-1.50%	-2.80%
<b>Active - Long Term</b>						
January 26, 2015	NASDAQ leading SPX	int term	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			

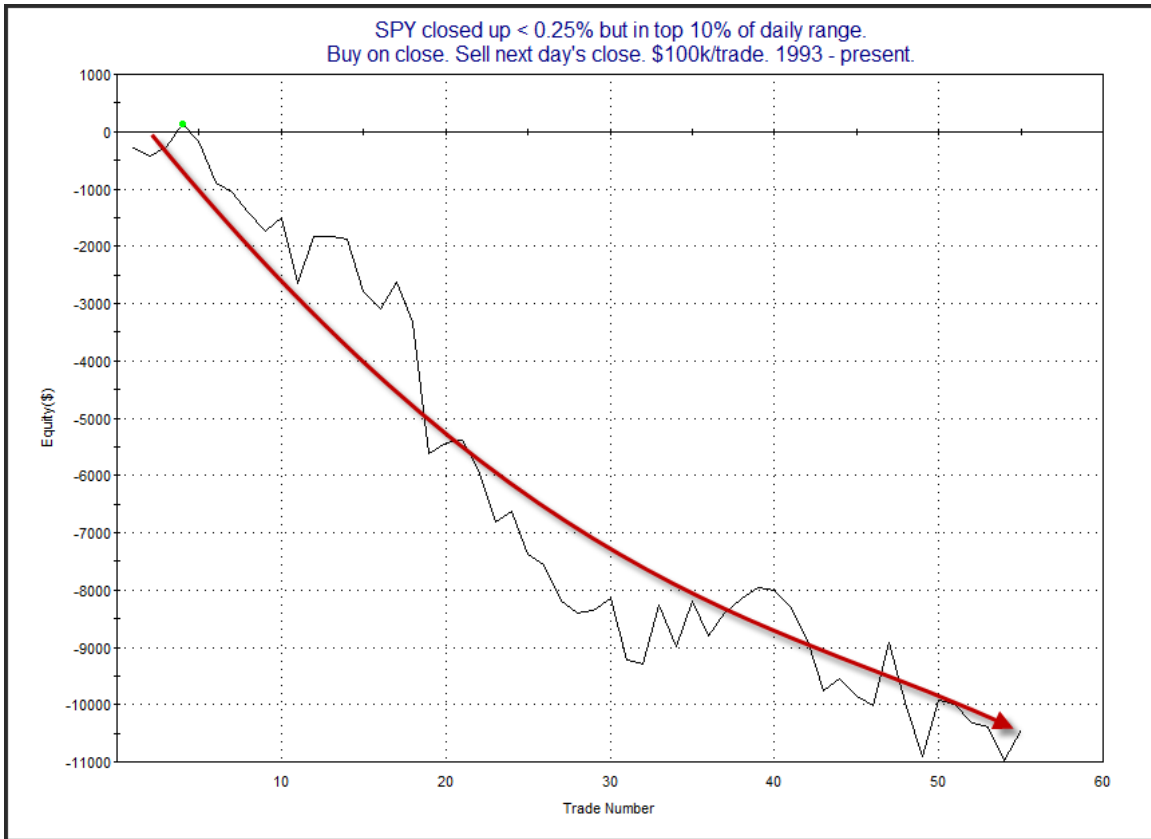
**The Evidence**

A morning selloff was followed by an afternoon recovery. The SPX and NASDAQ each rose 0.3%, while the Russell 2000 rallied 1.0%. Breadth was positive as the NYSE Up Issues % came in at 68% and the Up Volume % was 71%. Total NYSE volume fell for the 2<sup>nd</sup> day in a row – and it will likely be even lower on Tuesday as snow continues to fall in New York.

The mild action did not trigger a whole lot in the Quantifinder, but the study below was fairly compelling. It was last seen in the 11/21/14 letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closed up < 0.25% but in top 10% of daily range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$10,430.79)	Profit Factor	0.44
Gross Profit	\$8,244.60	Gross Loss	(\$18,675.39)
Total Number of Trades	55	Percent Profitable	36.36%
Winning Trades	20	Losing Trades	35
Even Trades	0		
Avg. Trade Net Profit	(\$189.65)	Ratio Avg. Win:Avg. Loss	0.77
Avg. Winning Trade	\$412.23	Avg. Losing Trade	(\$533.58)
Largest Winning Trade	\$1,093.35	Largest Losing Trade	(\$2,290.72)

As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day.

It is also notable is that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 12/16/14 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in top 25% of daily range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$7,905.35	Profit Factor	1.35
Gross Profit	\$30,206.06	Gross Loss	(\$22,300.71)
Total Number of Trades	71	Percent Profitable	47.89%
Winning Trades	34	Losing Trades	35
Even Trades	2		
Avg. Trade Net Profit	\$111.34	Ratio Avg. Win:Avg. Loss	1.39
Avg. Winning Trade	\$888.41	Avg. Losing Trade	(\$637.16)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <= 75% of daily range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$13,888.50	Profit Factor	2.08
Gross Profit	\$26,710.49	Gross Loss	(\$12,821.99)
Total Number of Trades	38	Percent Profitable	57.89%
Winning Trades	22	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	\$365.49	Ratio Avg. Win:Avg. Loss	1.42
Avg. Winning Trade	\$1,214.11	Avg. Losing Trade	(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of daily range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - 4/1/2014.

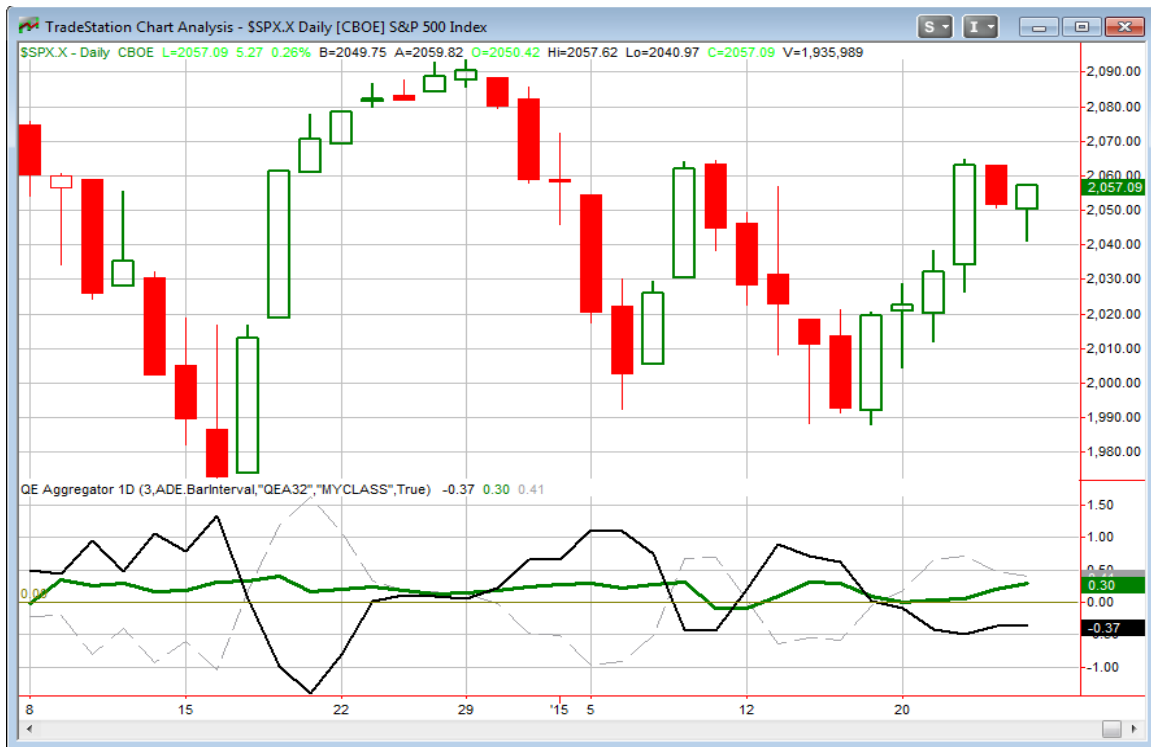
TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$12,043.90	Profit Factor	2.76
Gross Profit	\$18,895.86	Gross Loss	(\$6,851.96)
Total Number of Trades	29	Percent Profitable	72.41%
Winning Trades	21	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$415.31	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$899.80	Avg. Losing Trade	(\$856.50)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

SPY closes in the bottom 25% of the day's range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present

TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	\$22,526.88	Profit Factor	4.37
Gross Profit	\$29,209.57	Gross Loss	(\$6,682.69)
Total Number of Trades	37	Percent Profitable	75.68%
Winning Trades	28	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$608.83	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	\$1,043.20	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 4 ½ years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk. Traders that look to trade the Fed Day edge could consider removing some exposure ahead of the Wednesday afternoon announcement.

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



The bearish study tonight did not have much of an impact. The green Aggregator Line again held above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remained 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 Tuesday. That could change if more bearish evidence emerges. The Differential Pivot will be *inverted* at 2065.05 on Tuesday. That is 0.4% *above* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, in order to remain "overbought" versus expectations SPX is going to need to close up at least 0.4% on Tuesday. Anything short of that and it will be considered "oversold".

So Tuesday could have some weakness but overall short-term expectations remain bullish. And a poor close on Tuesday could set up a strong edge for Wednesday. Additionally, with the Differential Pivot inverted, a weak Tuesday would also mean SPX will be considered "oversold" versus expectations. This would almost certainly mean a bullish Aggregator formation. With all this in mind I will look to be a buyer if action is weak on Tuesday. Details are in the Trade Ideas section near the bottom of the letter.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 1/26 – somewhat bullish**

The intermediate-term outlook was last updated in the 1/26 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 share at \$205.44 LIMIT ON CLOSE if it also CLOSES IN THE BOTTOM HALF OF ITS INTRADAY RANGE.** This is based on the short-term outlook above. With short-term bullish evidence pointing higher, I'll be a buyer into a Fed Day if the market acts scared on Tuesday. Note that I may exit this trade very quickly – even perhaps setting my exit just before the announcement on Wednesday in order to capture profits and avoid a negative reaction to the statement.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/11/2014	\$34.03	\$31.19	-8.35%		Aggressive VIX

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2015 Hanna Capital Management, LLC.