

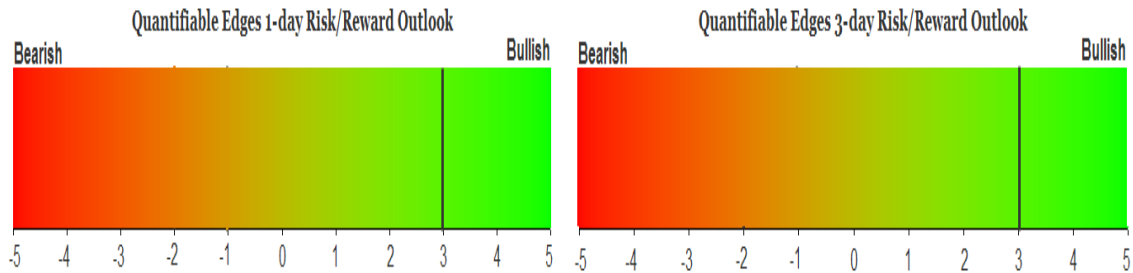
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 28, 2015

Volume 8 Issue 18

Market Overview



Signals Overview

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

Tonight's Research Points

- The pre-Fed day selling suggests a substantial edge for Wednesday.

Short-term Outlook

The Bottom Line

Tuesday's weakness left SPX oversold and a triggered some solidly bullish evidence for Wednesday. I am partially long and expecting a move higher. I will exit before the announcement, though if I have 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 28, 2015	Strong selling prior to Fed Day	1 day	Bullish			
January 23, 2015	VIX 10% up to 10% dn blow ma	1-8 days	Bullish	2.50%	-1.00%	-1.95%
Active - Long Term						
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			
Dropped Tonight						
January 27, 2015	SPX up < 0.25%. Top 10% range.	1 day	Bearish			
January 20, 2015	Bounce from 20-low	1-6 days	Bullish	2.30%	-1.50%	-2.80%

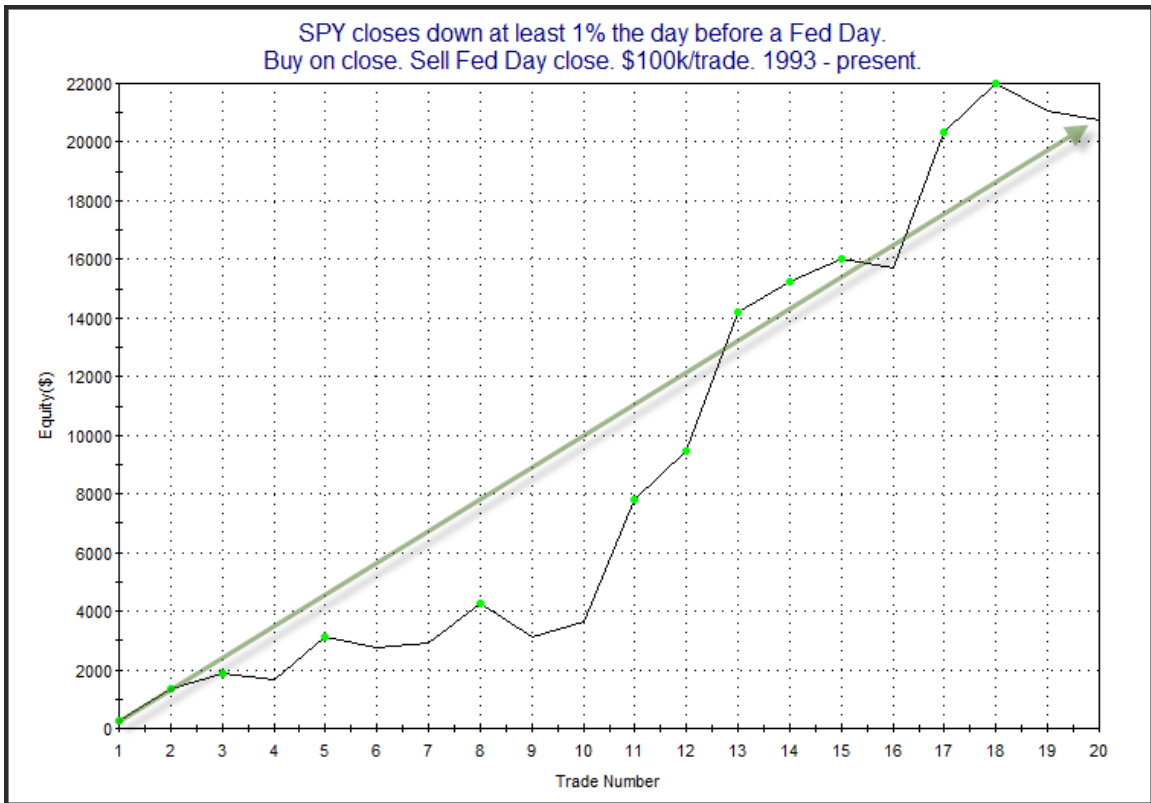
The Evidence

Tuesday was a tough day for the market. The SPX declined 1.3%, the NASDAQ fell 1.9%, and the Russell 2000 lost 0.5%. Breadth was negative as the NYSE Up Issues % came in at 43% and the Up Volume % was 35%. Total NYSE volume came in blizzard-light as many in New York spent their time shoveling instead of trading.

I noted last night that Wednesday is a Fed Day. I also showed a study suggested that weakness on Tuesday could make the typical Fed Day edge even stronger. Selloffs as strong as we saw on Tuesday have been fairly rare just ahead of a Fed Day. The action triggered a couple of studies from the 10/24/12 letter. I have updated both of those studies. The first one looked for 1-day drops of 1% or more.

SPY closes down at least 1% the day before a Fed Day. Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$20,772.28	Profit Factor	7.45
Gross Profit	\$23,991.75	Gross Loss	(\$3,219.47)
Total Number of Trades	20	Percent Profitable	70.00%
Winning Trades	14	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$1,038.61	Ratio Avg. Win:Avg. Loss	3.19
Avg. Winning Trade	\$1,713.70	Avg. Losing Trade	(\$536.58)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$1,141.01)

The stats here appear strongly bullish. With a profit factor over 7 and the average trade nearly as positive as the worst trade was negative, risk/reward appears to heavily favor the bulls. Below is a profit curve.



Despite the last two instances the upslope appears to be firmly intact.

The next study from that 10/24/12 letter combines an unfilled gap down and short-term low during an uptrend with a looming Fed Day. There have only been 12 instances, and they are all listed below.

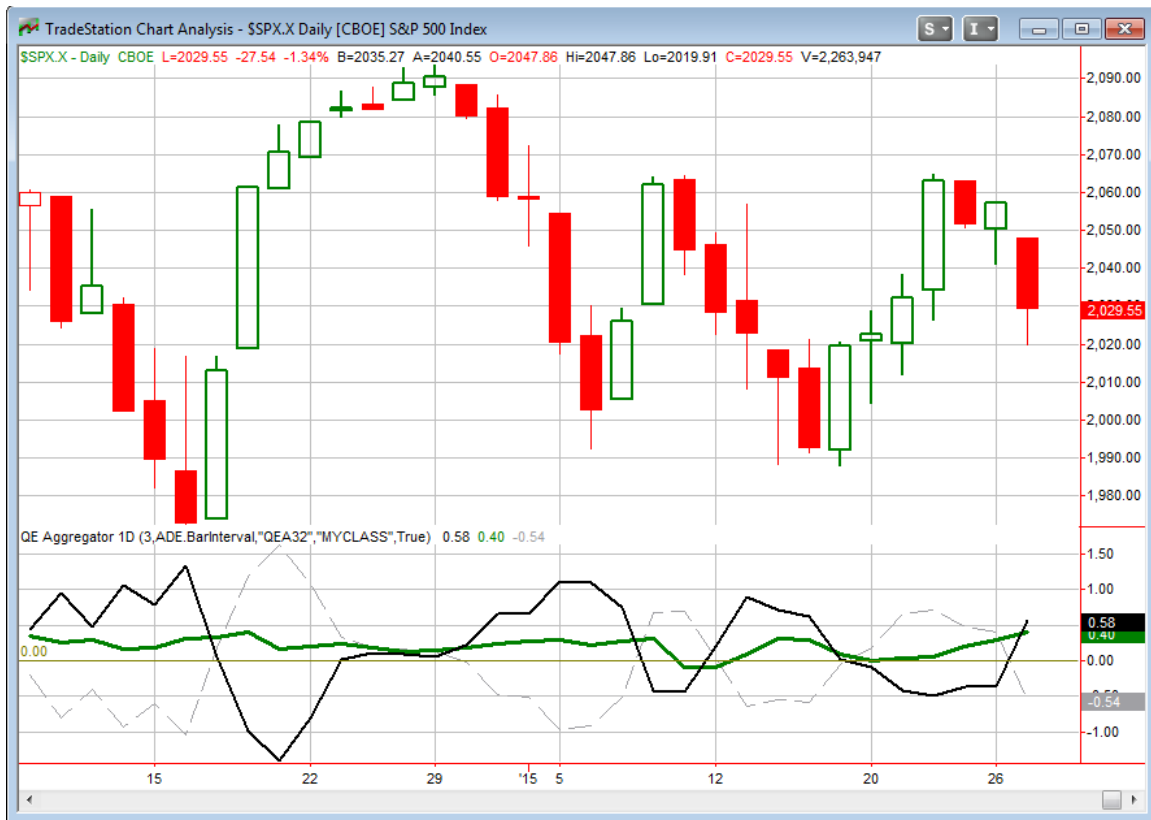
SPY leaves an unfilled gap down and makes a 3-day intraday low.
 Close > 200ma. Tomorrow is a Fed Day Buy on close..
 Sell Fed Day close. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
03/21/94	Buy	\$46.85	0.26%	\$469.48
03/22/94	Sell	\$46.97		(\$213.40)
12/18/95	Buy	\$60.63	1.07%	\$1,187.28
12/19/95	Sell	\$61.28		(\$82.45)
03/15/04	Buy	\$111.20	0.53%	\$773.14
03/16/04	Sell	\$111.79		(\$323.64)
09/20/04	Buy	\$112.47	0.44%	\$889.00
09/21/04	Sell	\$112.96		\$0.00
09/19/06	Buy	\$131.81	0.53%	\$727.68
09/20/06	Sell	\$132.51		\$0.00
05/08/07	Buy	\$150.75	0.27%	\$510.51
05/09/07	Sell	\$151.16		(\$251.94)
09/17/07	Buy	\$148.10	2.94%	\$2,970.00
09/18/07	Sell	\$152.46		\$0.00
08/11/09	Buy	\$99.73	1.07%	\$1,833.66
08/12/09	Sell	\$100.80		(\$220.44)
04/27/10	Buy	\$118.48	0.76%	\$1,012.80
04/28/10	Sell	\$119.38		(\$177.24)
03/14/11	Buy	\$130.05	(1.15%)	\$0.00
03/15/11	Sell	\$128.56		(\$2,726.40)
01/24/12	Buy	\$131.46	0.84%	\$1,071.60
01/25/12	Sell	\$132.56		(\$539.60)
10/23/12	Buy	\$141.42	(0.28%)	\$480.76
10/24/12	Sell	\$141.02		(\$438.34)

**The average run-up was 1.0% while the avg drawdown was -0.4%.
 The average 1-day performance was 0.6%.**

Instances are a bit low, but the stats are all very strong, so this one also appears worthy of some consideration.

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



With the Fed Day studies now in the mix the green Aggregator Line moved even higher 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 jumped above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and 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 change if more bearish evidence emerges. The Differential Pivot will be 2057.61 on Wednesday. That is a very large 1.4% above Tuesday's close. This means that in order for the Differential Line to cross below 0 (signaling SPX moving from "oversold" to "overbought") it would need to close up at least 1.4% on Wednesday. That is a fairly tall order for one day. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is back to a bullish stance. And I like the evidence right now. There are not a lot of studies on the Short-Term Active List, but none of them are bearish. The Fed Announcement does present risk on Wednesday. In a study I did in my book, "The Quantifiable Edges Guide to Fed Days" I found that the Fed Day bullish tendency basically played itself out before the Fed announcement. In other words, the gains often

occurred in anticipation of the announcement. After the Fed statement was released, there was a lot of volatility but no consistent edge. Therefore, when I play Fed Day edges, I typically look to avoid the post-announcement volatility and try and take profits before that. The current setup is a little unusual in that the Differential Pivot is so far away. So we could see a multi-day rally here. If I had 2 lots I would probably look to sell one prior to the announcement and hold the other. But with only 1 lot, I will exit SPY if the profits are there and be content with a quick gain. Traders certainly could justify holding on and looking for more, though.

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.

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	\$29.70	-12.72%		Aggressive VIX
SPY(1/4)	1/27/2015	\$202.74	\$202.74	0.00%		bought on close

I will look to sell SPY @ \$204.25 LIMIT. If not filled by 2pm EST, I will sell @ \$202.75 Limit @ 2pm. If neither is filled, I will continue to hold my SPY position. The \$204.25 limit is 0.75% above Tuesday's close, and between the avg run-ups of our 2 Fed Day studies from the short-term outlook above.

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