

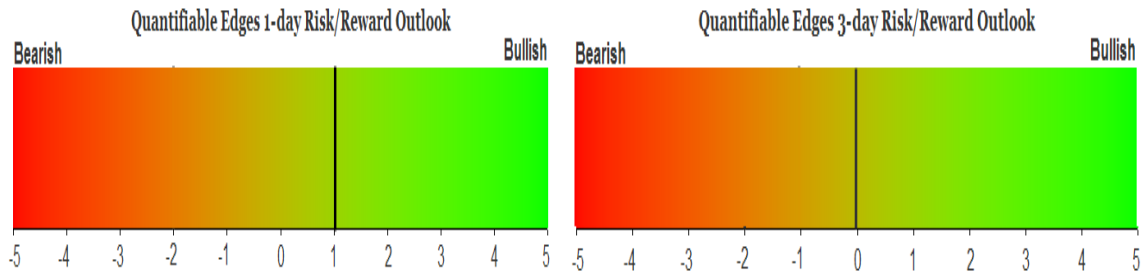
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 10, 2015

Volume 8 Issue 27

Market Overview



Signals Overview

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

Tonight's Research Points

- Under similar circumstances “Turnaround Tuesday” has failed to live up to its reputation.

Short-term Outlook

The Bottom Line

Evidence is still leaning slightly bullish and the SPX no longer short-term overbought. There seems to be a very slight upside edge, but not one strong enough that I will look to take on index exposure just yet.

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						
None						
Active - Long Term						
January 26, 2015	NASDAQ leading SPX	int term	Bullish			
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

The market started off weakly and never really got it going on Monday. In the end the SPX and NASDAQ each dropped 0.4% and the Russell 2000 declined 0.8%. Breadth was negative as the NYSE Up Issues % came in at 42% and the Up Volume % was also 42%. Total NYSE volume came in light.

As I laid out in the “Turnaround Tuesday” study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. But I as I showed in the 1/13/15 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row and it was Monday. Here are those results.

SPX closes down for exactly the 2nd day in a row. Today is Monday. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$21,434.75	Profit Factor	1.74
Gross Profit	\$50,275.89	Gross Loss	(\$28,841.14)
Total Number of Trades	78	Percent Profitable	52.56%
Winning Trades	41	Losing Trades	37
Even Trades	0		
Avg. Trade Net Profit	\$274.80	Ratio Avg. Win:Avg. Loss	1.57
Avg. Winning Trade	\$1,226.24	Avg. Losing Trade	(\$779.49)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)

The win rate is just above 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (*unlike* now).

SPX closes down for exactly the 2nd day in a row. Today is Monday. SPX < 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$23,315.03	Profit Factor	2.83
Gross Profit	\$36,050.39	Gross Loss	(\$12,735.36)
Total Number of Trades	33	Percent Profitable	63.64%
Winning Trades	21	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$706.52	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,716.69	Avg. Losing Trade	(\$1,061.28)

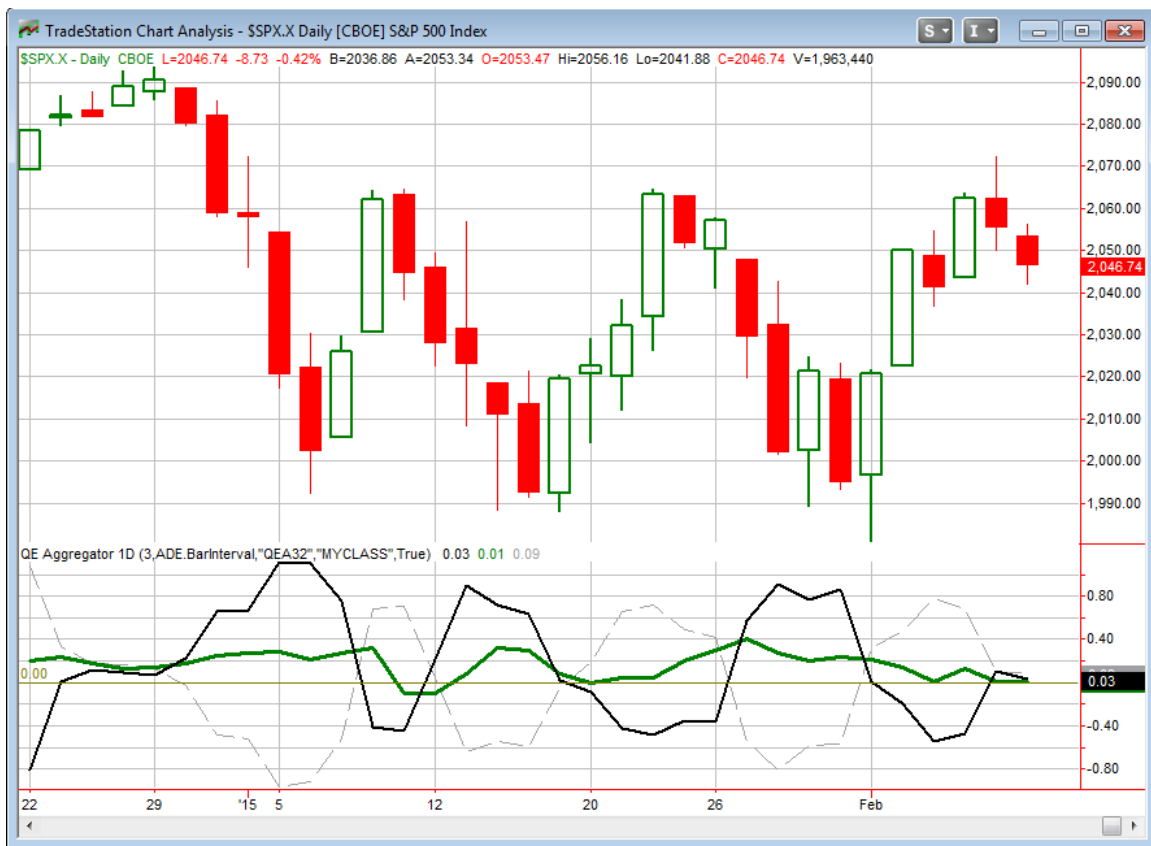
We see here under half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$1,880.28)	Profit Factor	0.88
Gross Profit	\$14,225.50	Gross Loss	(\$16,105.78)
Total Number of Trades	45	Percent Profitable	44.44%
Winning Trades	20	Losing Trades	25
Even Trades	0		
Avg. Trade Net Profit	(\$41.78)	Ratio Avg. Win:Avg. Loss	1.10
Avg. Winning Trade	\$711.27	Avg. Losing Trade	(\$644.23)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn't fit here. In fact, the tendency for a while appeared to slightly favor a continuation of the 2-day pullback. Recent instances have turned the stats close to breakeven, so I am not really convinced of an edge in either direction at this point. But I am convinced that “Turnaround Tuesday” does not seem to provide a strong bullish edge under these circumstances.

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



With the Short-Term Active List still blank the green Aggregator Line is slightly above 0. This is thanks to the intermediate-term studies. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is also just above 0. The positive Differential Line reading means the SPX is slightly 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 stayed long at the close.

Expectations will again be largely dependent on new studies that emerge, but they would remain positive if nothing new emerges on Tuesday. The Differential Pivot will be 2067.99 on Tuesday. That is 1.0% above Monday's close. This means that for SPX to move from overbought to oversold on Tuesday it is going to need to close up at least 1%. That is not impossible, but it is a pretty big number,

The Aggregator is bullish, but evidence is just...so...weak. And while the Turnaround Tuesday study tonight was not outright bearish, it was discouraging. So with no solid

evidence to bank on, I will wait another day in the hopes that stronger directional clues emerge. There may be an upside edge, but it does not appear to be a very impressive one.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/9 – somewhat bullish

The intermediate-term outlook was last updated in the 2/9 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	\$26.53	-22.04%		Aggressive VIX

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