

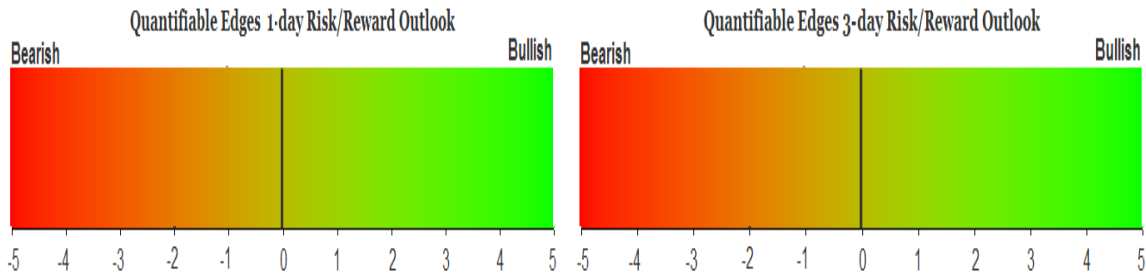
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 11, 2015

Volume 8 Issue 28

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 20-day high breakouts on moderately increasing volume generally do not suggest a strong edge.

## *Short-term Outlook*

### *The Bottom Line*

Expectations remain very slightly bullish. SPX is very slightly overbought. The Aggregator could not be more neutral. Neither could I.

## *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**

Tuesday saw the market gap higher, pull back briefly, and then finish the day strong. In the end the SPX rallied 1.1%, the NASDAQ closed up 1.3% and the Russell 2000 rose 0.6%. Breadth was modestly positive as the NYSE Up Issues % came in at 56% and the Up Volume % was 62%. Total NYSE volume rose from Monday’s level but was still unexceptional.

It was somewhat notable that SPX closed at its highest level since late December. From the standpoint of suggesting an edge, the action on the 20-day high breakout Tuesday was unremarkable. SPX did put in a 2-week base before breaking out today, but volume on the breakout did not appear favorable. In general, we prefer volume to be either 1) low, or 2) extremely high. A rise in volume that does not reach an extreme level generally shows no compelling edge. In the 11/14/13 letter I showed the difference between just a rise in volume versus a very strong rise in volume. I’ll review that below. This first study shows times where the breakout occurred on extreme volume (and the volume was not attributable to it being op-ex Friday).

SPX closes at a 20-day high after not having done so for at least 10 days. Close > 200ma.  
**NYSE volume is the highest in 20 days.** It is not op-ex Friday.  
 Buy SPX on close. Sell X day later. \$100k/trade. 1993 - present.

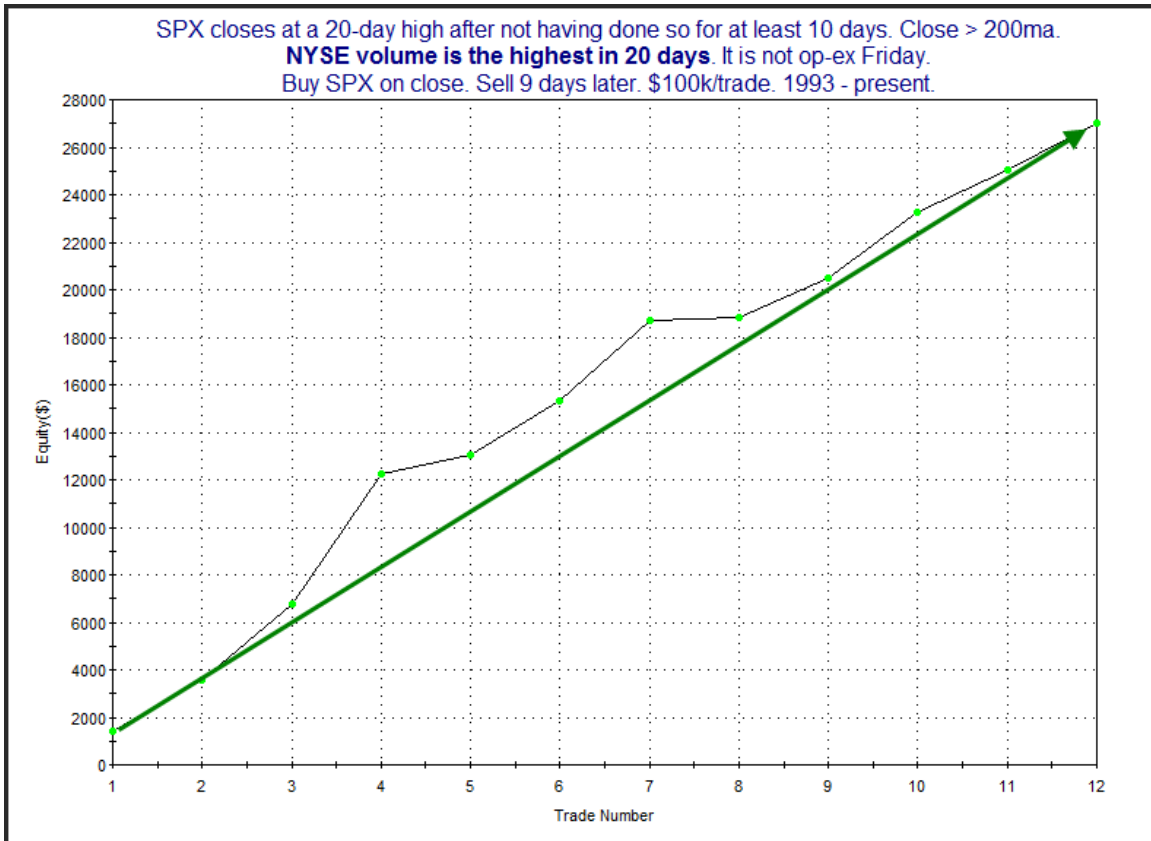
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	25,855.09	12	11	1	91.67	2,428.30	4,885.00	-856.26	-856.26	2.84	31.20	2,154.59
9	27,041.27	12	12	0	100.00	2,253.44	5,451.25	0.00	0.00	100.00	100.00	2,253.44
8	23,117.76	12	10	2	83.33	2,361.21	3,842.50	-247.17	-450.24	9.55	47.76	1,926.48
7	21,701.27	12	10	2	83.33	2,303.69	4,443.12	-667.79	-811.65	3.45	17.25	1,808.44
6	18,968.17	12	10	2	83.33	2,118.44	4,698.80	-1,108.11	-2,094.42	1.91	9.56	1,580.68
5	19,088.18	12	10	2	83.33	2,061.60	4,683.84	-763.91	-1,360.77	2.70	13.49	1,590.68
4	14,956.20	12	10	2	83.33	1,613.33	4,518.75	-588.55	-1,043.86	2.74	13.71	1,246.35
3	10,457.41	12	10	2	83.33	1,222.18	2,403.80	-882.17	-1,369.04	1.39	6.93	871.45
2	5,308.33	12	7	5	58.33	1,056.14	1,998.39	-416.94	-1,301.14	2.53	3.55	442.36
1	8,881.39	12	10	2	83.33	980.38	1,606.89	-461.21	-845.21	2.13	10.63	740.12

Instances are a bit low, but 12 for 12 nine days out helps provide confidence that a big volume spike would be a plus. Here is a look at the 1-day results.

SPX closes at a 20-day high after not having done so for at least 10 days.  
 Close > 200ma. **NYSE volume is the highest in 20 days.** It is not op-ex Friday.  
 Buy SPX on close. Sell next day's close. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/19/93	Buy	\$447.57	0.67%	\$673.46
05/20/93	Sell	\$450.59		(\$46.83)
09/12/96	Buy	\$671.16	1.40%	\$1,514.04
09/13/96	Sell	\$680.54		(\$1.48)
11/05/96	Buy	\$714.14	1.46%	\$1,464.40
11/06/96	Sell	\$724.60		(\$183.40)
04/29/97	Buy	\$794.05	0.92%	\$1,260.00
04/30/97	Sell	\$801.34		(\$355.00)
09/16/97	Buy	\$945.64	(0.28%)	\$488.25
09/17/97	Sell	\$943.00		(\$383.25)
10/28/99	Buy	\$1,342.44	1.53%	\$2,277.72
10/29/99	Sell	\$1,362.93		\$0.00
03/16/00	Buy	\$1,458.47	0.41%	\$1,282.48
03/17/00	Sell	\$1,464.47		(\$353.60)
06/02/00	Buy	\$1,477.26	(0.65%)	\$1.34
06/05/00	Sell	\$1,467.63		(\$842.86)
04/22/03	Buy	\$911.37	0.84%	\$912.33
04/23/03	Sell	\$919.02		(\$161.32)
11/03/04	Buy	\$1,143.20	1.62%	\$1,606.89
11/04/04	Sell	\$1,161.67		(\$74.82)
09/18/07	Buy	\$1,519.78	0.61%	\$1,232.40
09/19/07	Sell	\$1,529.03		\$0.00
09/06/12	Buy	\$1,432.12	0.40%	\$400.20
09/07/12	Sell	\$1,437.92		(\$46.23)
<b>Avg Run-up: \$1,092.79 Avg Drawdown: -\$204.07</b>				

These seem to confirm the 1-day upside edge. Below is a profit curve for the 9-day holding period.



That is a very straight curve, and serves as further confirmation that the setup leads to bullish tendencies.

But the next study shows what happens if volume rises more modestly, like it did on Tuesday.

SPX closes at a 20-day high after not having done so for at least 10 days. Close > 200ma.  
**NYSE volume is higher than yesterday but < 20-day high.** Today is not opex Friday.  
 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
10	-823.48	43	22	21	51.16	1,616.29	4,544.29	-1,732.46	-4,162.56	0.93	0.98	-19.15
9	1,863.40	43	21	22	48.84	1,442.50	5,022.58	-1,292.23	-3,340.00	1.12	1.07	43.33
8	-2,805.58	43	24	19	55.81	1,198.23	5,296.50	-1,661.22	-4,375.02	0.72	0.91	-65.25
7	-2,907.30	43	20	23	46.51	1,384.85	4,984.06	-1,330.62	-4,953.00	1.04	0.91	-67.61
6	-1,209.35	43	22	21	51.16	1,220.99	4,666.27	-1,336.72	-4,512.96	0.91	0.96	-28.12
5	-8,522.89	43	18	25	41.86	906.74	2,288.73	-993.77	-3,651.84	0.91	0.66	-198.21
4	-9,264.99	43	19	24	44.19	1,005.73	2,443.50	-1,182.25	-4,419.36	0.85	0.67	-215.46
3	790.30	43	24	19	55.81	887.44	2,074.32	-1,079.38	-4,159.44	0.82	1.04	18.38
2	82.26	43	26	17	60.47	589.73	1,718.79	-897.09	-2,413.44	0.66	1.01	1.91
1	3,203.05	43	25	18	58.14	457.07	1,496.78	-456.88	-1,424.16	1.00	1.39	74.49

This is the situation that the market is currently in. And it does not appear to provide a substantial edge for either longs or shorts.

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



With the Short-Term Active List still blank the green Aggregator Line is again 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 closed just barely below 0. The negative Differential Line reading means the SPX is slightly overbought versus recent expectations. So expectations are positive but the SPX is overbought. And both readings are extremely mild. 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.

Expectations will again be largely dependent on new studies that emerge, but they would remain positive if nothing new emerges on Wednesday. The Differential Pivot will be 2058.17 on Wednesday. That is 0.5% below Tuesday's close. This means that for SPX to move from overbought to oversold on Wednesday it is going to need to close down at least 0.5%.

The Aggregator could not get any more neutral, and I am just not seeing anything suggesting a compelling short-term directional edge for the broad market. So I will not be looking to take any index exposure here, and will remain patiently awaiting the next favorable trading opportunity to present itself.

***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	\$27.52	-19.13%		Aggressive VIX

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