

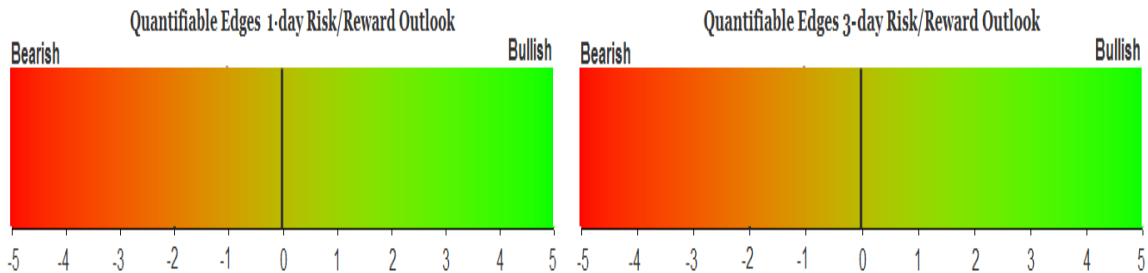
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 13, 2015

Volume 8 Issue 30

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY hitting the first closing high in a while along with an unfilled gap up sets up a bullish scenario.
- The Friday before President's Day used to be bearish, but not in recent years.

Short-term Outlook

The Bottom Line

Expectations remain very slightly bullish. SPX is again overbought. The Aggregator is still neutral and so am 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						
February 13, 2015	Breakaway gap	1-5 days	Bullish			
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

Thursday saw a gap up and then sizable gains for the market. The SPX rose 1.0%, the NASDAQ rallied 1.3% and the Russell 2000 gained 1.2%. Breadth was strong as the NYSE Up Issues % came in at 76% and the Up Volume % was 84%. Total NYSE volume rose some from Wednesday’s level.

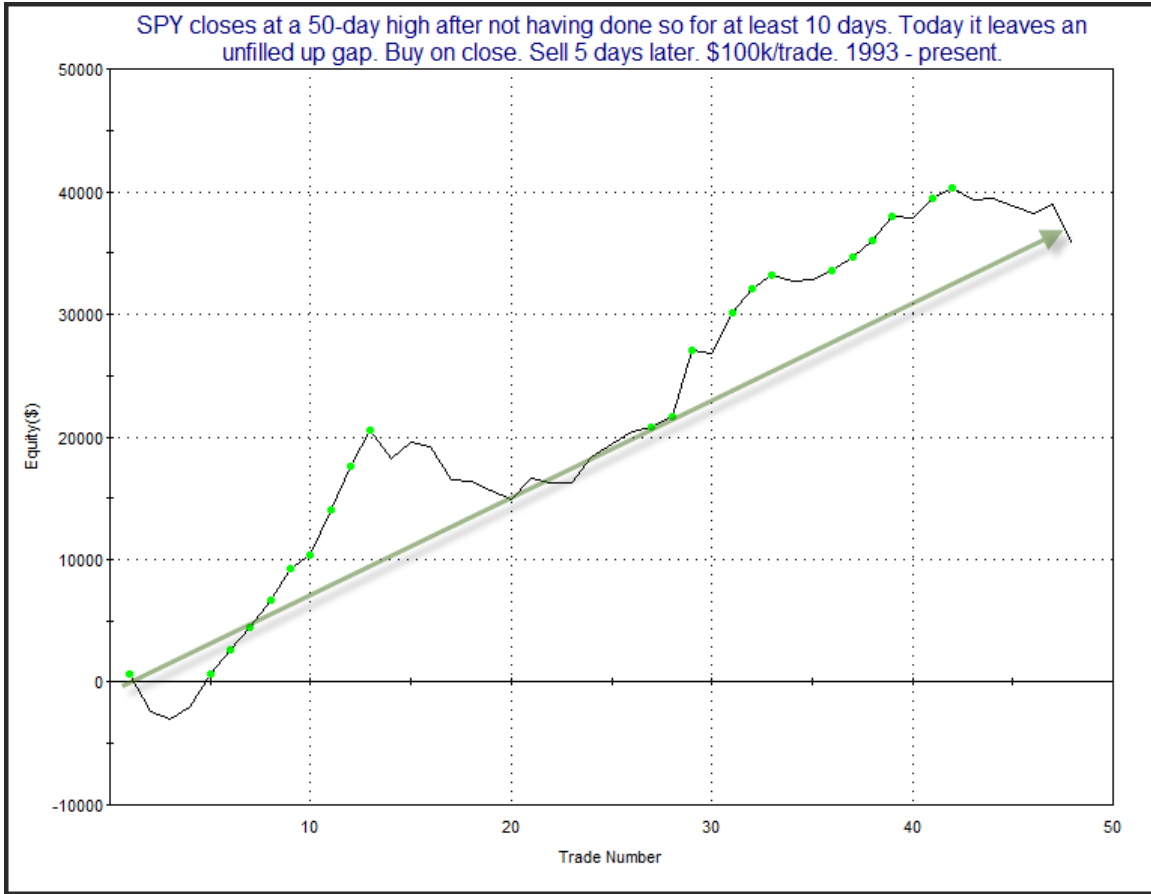
The strong open meant that SPY left an unfilled gap up. And while SPX did not quite close at a new high, SPY did. In the 12/29/14 subscriber letter I looked at the importance of an unfilled upside gap on new high breakouts for SPY. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. 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	35,792.53	48	32	16	66.67	1,656.12	5,434.00	-1,075.21	-3,218.88	1.54	3.08	745.68
4	23,880.97	48	32	16	66.67	1,285.00	3,637.92	-1,077.44	-3,267.84	1.19	2.39	497.52
3	17,704.13	48	31	17	64.58	1,105.50	3,992.56	-974.50	-2,538.18	1.13	2.07	368.84
2	14,262.87	48	31	17	64.58	806.18	2,545.92	-631.11	-2,293.20	1.28	2.33	297.14
1	6,104.68	48	34	14	70.83	487.46	1,816.10	-747.79	-2,591.68	0.65	1.58	127.18

43 of 48 instances (90%) closed above the entry price at some point in the next week. This includes the last 14 instances in a row dating back to 2010.

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The curve has struggled a bit recently, but I still believe it is strong enough to give this study some consideration.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

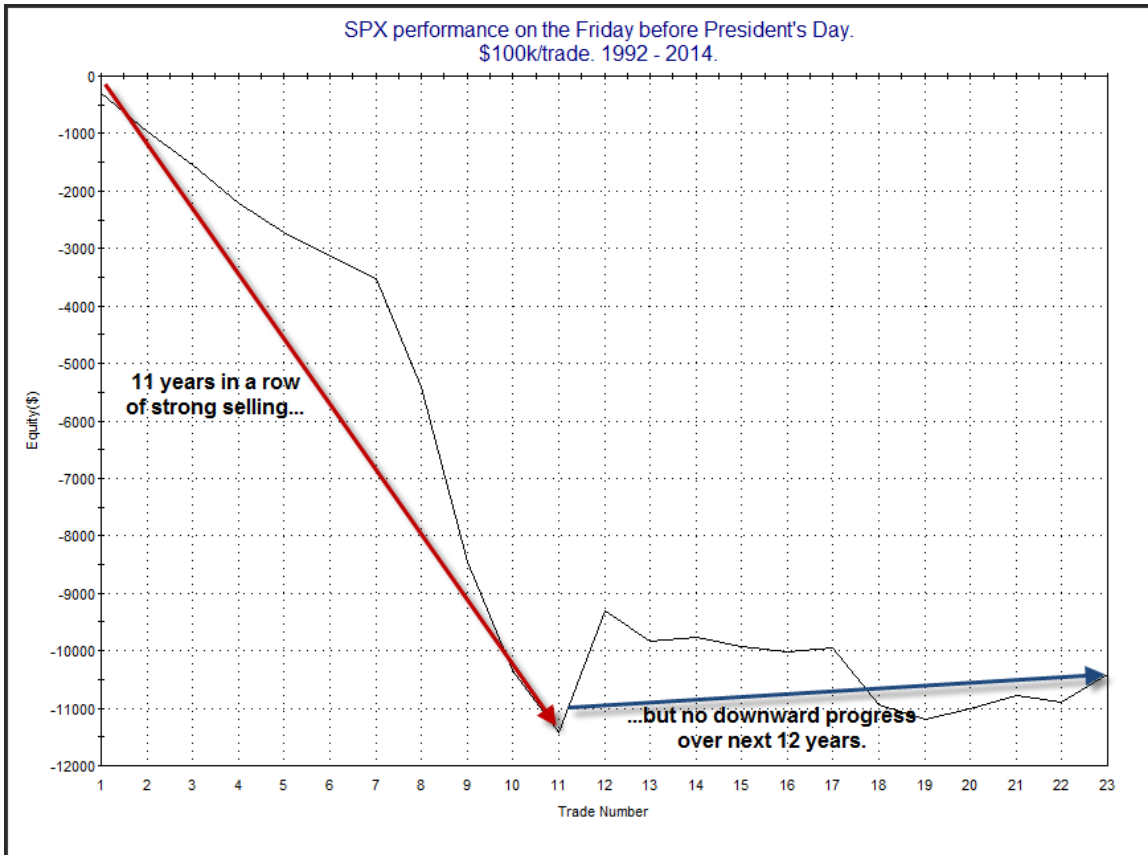
Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was very close. This study also appeared in the 12/29/14 letter and has been updated.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled up gap. 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	2,240.41	40	24	16	60.00	1,023.68	2,671.20	-1,395.49	-4,285.26	0.73	1.10	56.01
4	-2,809.29	40	21	19	52.50	1,049.73	2,072.07	-1,308.09	-4,518.34	0.80	0.89	-70.23
3	1,503.36	40	22	18	55.00	1,079.23	2,927.90	-1,235.54	-5,133.72	0.87	1.07	37.58
2	-2,611.15	40	20	20	50.00	671.32	2,324.90	-801.88	-3,640.86	0.84	0.84	-65.28
1	1,491.06	40	22	18	55.00	476.19	1,586.97	-499.17	-2,448.72	0.95	1.17	37.28

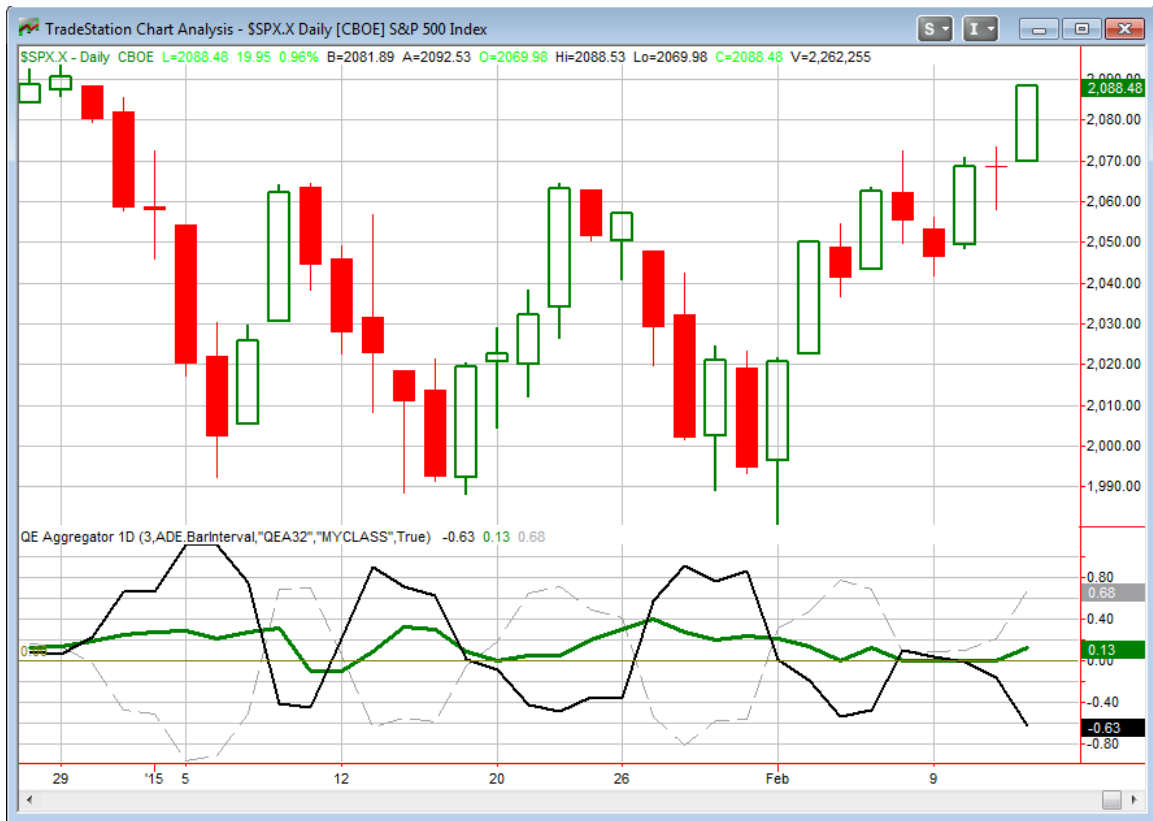
As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.

So the unfilled gap up Thursday appears to be a positive. It is also notable is that Friday is the last day before the President's Day holiday. Historically the Friday before President's Day has been a poor performer. This is something I last discussed in the 2/14/14 letter. But more recently the downside edge has not persisted. This can be seen in the curve below, which I have updated tonight.



I don't consider this an edge worth pursuing and have not included it on the Active List.

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



The breakaway gap caused the green Aggregator Line to move further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line closed again 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.

Expectations will again be largely dependent on new studies that emerge, but they would remain positive if nothing new emerges on Friday. The Differential Pivot will be 2068.77 on Friday. That is 0.9% below Thursday's close. This means that for SPX to

move from overbought to oversold on Friday it is going to need to close down at least 0.9%.

The Aggregator remains neutral. And despite the new evidence, my stance has not changed. 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	\$29.05	-14.63%		Aggressive VIX

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