

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 18, 2015

Volume 8 Issue 32

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

## *Short-term Outlook*

### *The Bottom Line*

No substantial change. Expectations remain 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
<b>Active - Short Term</b>						
February 18, 2015	VIX up. SPX 50-high. Monday.	1-2 days	Bearish			
February 17, 2015	Low-vol breakout	1-5 days	Bullish			
February 13, 2015	Breakaway Gap	1-5 days	Bullish			
<b>Active - Long Term</b>						
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			

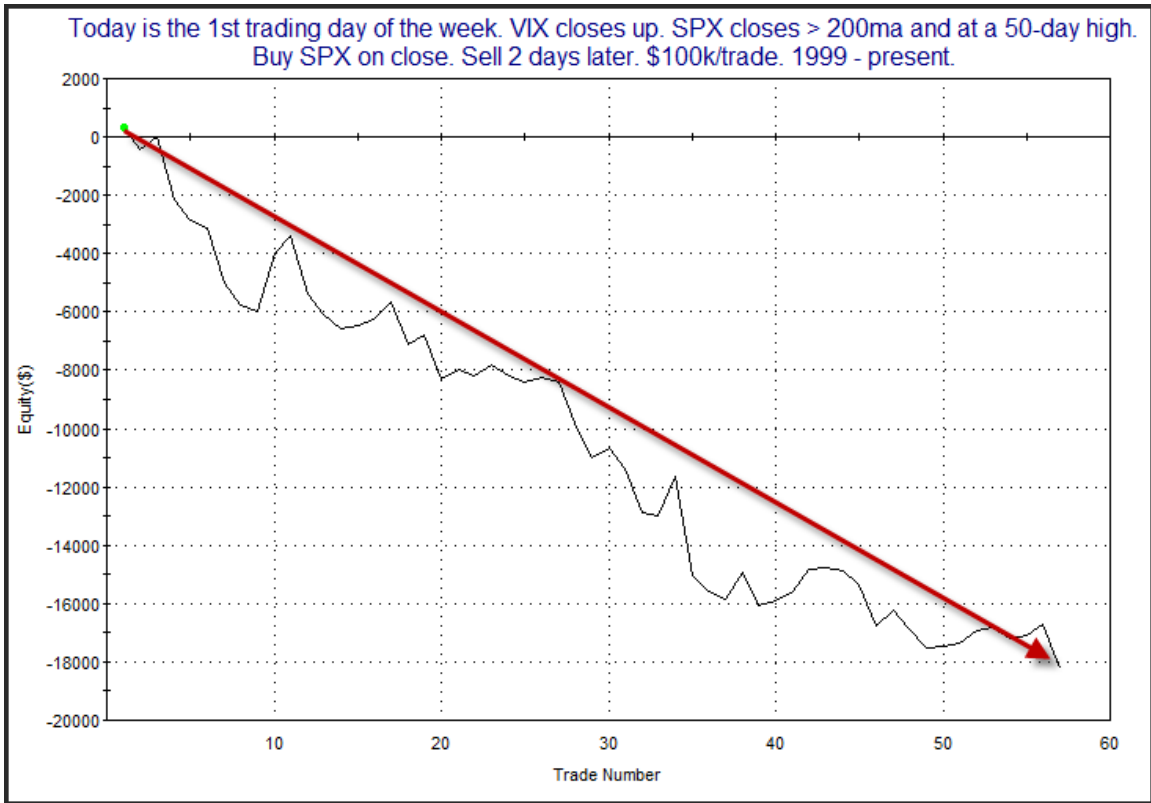
***The Evidence***

Tuesday was a day of mild gains. The SPX rose 0.2%, the NASDAQ rallied 0.1% and the Russell 2000 gained 0.2%. Breadth was mixed as the NYSE Up Issues % came in at 43% and the Up Volume % was 54%. Total NYSE volume came in very light.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 12/30/14 letter. Results are all updated.

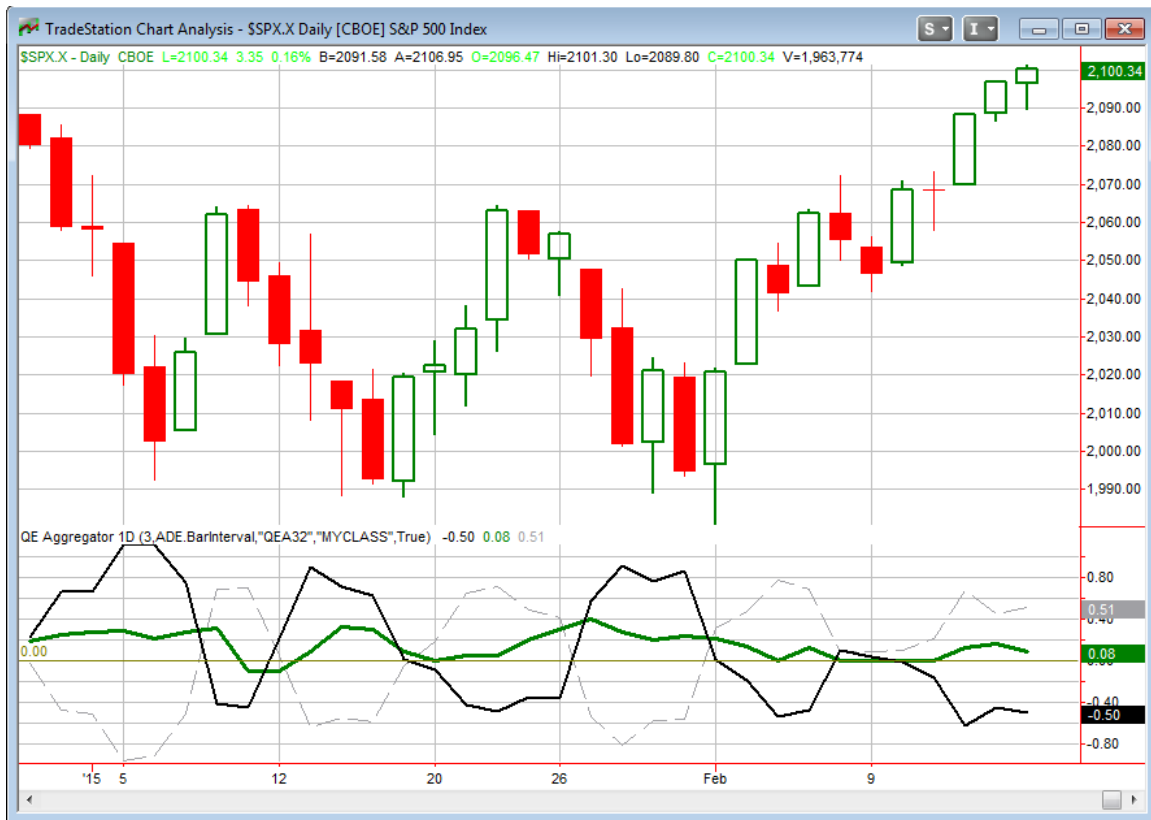
Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,895.49	52	25	27	48.08	1,081.64	3,260.25	-1,479.13	-5,048.68	0.73	0.68	-247.99
4	-8,397.93	57	27	30	47.37	966.69	2,953.65	-1,149.95	-4,271.52	0.84	0.76	-147.33
3	-10,648.85	57	24	33	42.11	794.38	2,641.80	-900.43	-3,887.84	0.88	0.64	-186.82
2	-18,203.16	57	25	32	43.86	443.03	1,981.72	-914.96	-3,372.16	0.48	0.38	-319.35
1	-7,567.31	57	21	36	36.84	328.47	769.70	-401.81	-1,580.04	0.82	0.48	-132.76

Results here appear squarely bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long and fairly steady decline, with the most recent instance again making new lows. This study seems worthy of consideration and I have included it on the Active List.

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



Even with tonight's study included the green Aggregator Line 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 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.

If nothing new emerges, then expectations are set to remain positive on Wednesday. The Differential Pivot will be 2091.25 on Wednesday. That is 0.4% 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 0.4%.

The market is overbought, and the VIX action is suggesting we could see a pullback in the next day or two. But the breakout studies from the last few days are suggesting more upside is likely. Overall, this is leaving short-term evidence slightly bullish. And combined with the short-term overbought nature of the market I am neutral and not inclined to get involved with new index positions here. I'll give it another day to see if a more favorable reward/risk scenario emerges.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 2/17 – somewhat bullish***

The intermediate-term outlook was last updated in the 2/17 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	\$29.31	-13.87%		Aggressive VIX

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