

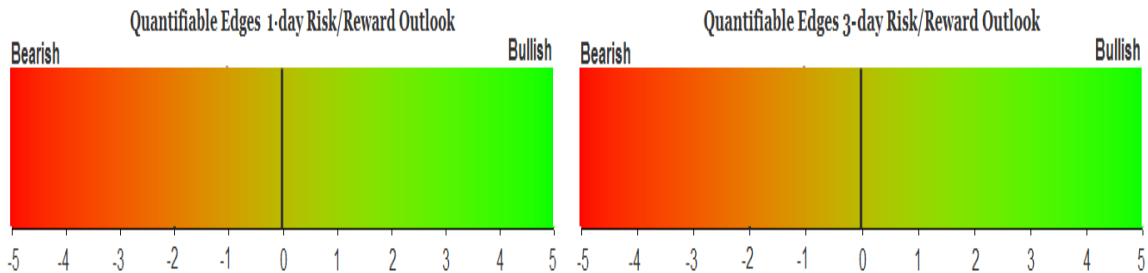
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 19, 2015

Volume 8 Issue 33

Market Overview



Signals Overview

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

Tonight's Research Points

- A low volume pullback from a 50-day high will often be followed by more downside.

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 |
|----------------------------|-------------------------------------|-----------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| 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 | | | |
| 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

Wednesday was a quiet day wild mild and mixed results. The SPX declined less than 1 point, the NASDAQ rallied 0.1% and the Russell 2000 gained 0.2%. Breadth was mixed as the NYSE Up Issues % came in at 53% and the Up Volume % was 48%. Total NYSE volume came in very light.

The study below is one that was last seen in the 7/28/14 letter. It looks at light volume occurring on down days after a 50-day high. Stats have all been updated.

After closing at a 50-day high yesterday SPX declines today. NYSE volume is the lightest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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 | -27,495.96 | 68 | 35 | 33 | 51.47 | 1,700.38 | 5,104.00 | -2,636.64 | -6,121.74 | 0.64 | 0.68 | -404.35 |
| 9 | -23,127.55 | 69 | 35 | 34 | 50.72 | 1,703.32 | 3,955.23 | -2,433.64 | -6,236.87 | 0.70 | 0.72 | -335.18 |
| 8 | -34,380.24 | 69 | 32 | 37 | 46.38 | 1,482.44 | 3,521.07 | -2,211.30 | -6,661.66 | 0.67 | 0.58 | -498.26 |
| 7 | -44,118.27 | 69 | 31 | 38 | 44.93 | 1,294.67 | 3,732.48 | -2,217.18 | -7,193.64 | 0.58 | 0.48 | -639.40 |
| 6 | -41,008.51 | 70 | 32 | 38 | 45.71 | 1,071.73 | 2,563.47 | -1,981.68 | -5,426.99 | 0.54 | 0.46 | -585.84 |
| 5 | -27,093.02 | 71 | 33 | 38 | 46.48 | 946.92 | 2,273.04 | -1,535.30 | -4,288.68 | 0.62 | 0.54 | -381.59 |
| 4 | -24,163.57 | 74 | 36 | 38 | 48.65 | 833.51 | 2,457.84 | -1,425.52 | -4,263.60 | 0.58 | 0.55 | -326.53 |
| 3 | -6,127.79 | 76 | 41 | 35 | 53.95 | 821.16 | 2,169.48 | -1,137.01 | -3,726.24 | 0.72 | 0.85 | -80.63 |
| 2 | -2,162.74 | 76 | 40 | 36 | 52.63 | 697.14 | 2,328.05 | -834.68 | -4,049.40 | 0.84 | 0.93 | -28.46 |
| 1 | -3,851.73 | 76 | 40 | 36 | 52.63 | 492.71 | 2,235.13 | -654.45 | -3,068.81 | 0.75 | 0.84 | -50.68 |

The first few days don't show much of an edge, but once you get out 6-7 days there appears to be a possible downside inclination. To confirm this I took a look at the equity curve. In this case I decided to show time on the x-axis rather than instances to demonstrate how consistent the edge has been over the years.



For a study without strongly lopsided statistics, the steadiness is impressive. But with no real edge appearing for the first several days, I again decided not to include this study on the active list. Still, it may be worth keeping in mind.

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



Without any new studies tonight 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 Thursday. The Differential Pivot will be *slightly inverted* at 2103.05 on Thursday. That is 0.2% *above* Wednesday's close. An inverted pivot means the Differential Line will cross through zero if SPX closes flat. In this case SPX is going to need to close up at least 0.2% in order for it to remain "overbought" versus recent expectations. Anything less than this and it will be considered oversold.

The market could be setting up here for a possible short-term buying opportunity. But it is not there yet. I would prefer to see another down day along with some additional upside evidence. Either way, I'll wait to see how things play out on Thursday and what new evidence emerges before I look to put new capital at work.

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 | \$29.55 | -13.16% | | Aggressive VIX |
| | | | | | | |
| | | | | | | |
| | | | | | | |

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