

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 20, 2015

Volume 8 Issue 34

Market Overview



Signals Overview

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

Tonight's Research Points

- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.

Short-term Outlook

The Bottom Line

SPX is now oversold. And while expectations remain slightly bullish, they will turn bearish on Friday unless compelling new evidence emerges.

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 20, 2015	High close on Opex Thursday	1-4 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			
Dropped Tonight						
February 18, 2015	VIX up. SPX 50-high. Monday.	1-2 days	Bearish			

The Evidence

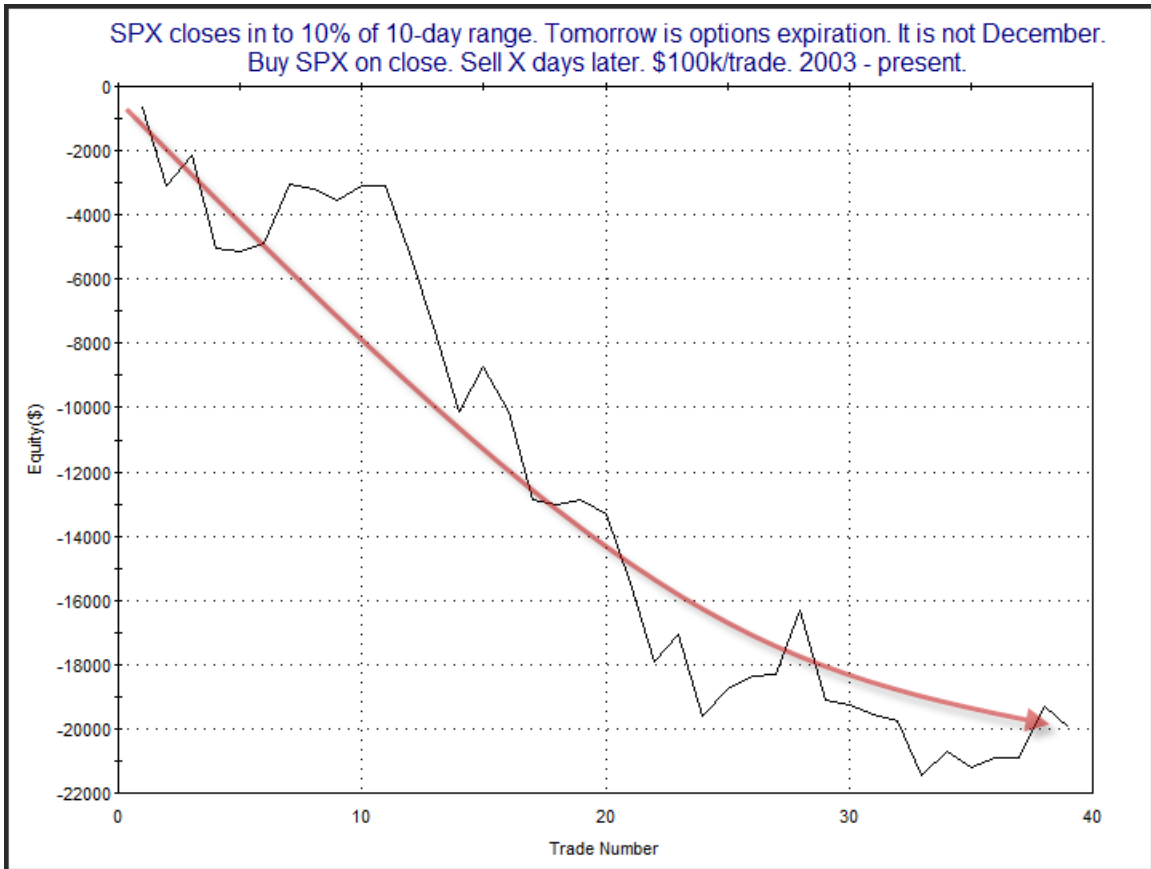
Thursday was another quiet day with mild and mixed results. The SPX declined 0.1%, the NASDAQ rallied 0.4% and the Russell 2000 lost a mere 0.04 points. Breadth was negative as the NYSE Up Issues % came in at 47% and the Up Volume % was 39%. Total NYSE volume fell for the 4th day in a row.

The study below last appeared in the 9/19/14 Letter. It looks at times the market closed at a high level just before options expiration. (It also excludes December since the 2nd half of December is a seasonally strong period.) Opex Friday and the days that follow have generally been a bad time for an overbought market. The results below are all updated.

SPX closes in to 10% of 10-day range. Tomorrow is options expiration. It is not December.
Buy SPX on close. Sell X days later. \$100k/trade. 2003 - present.

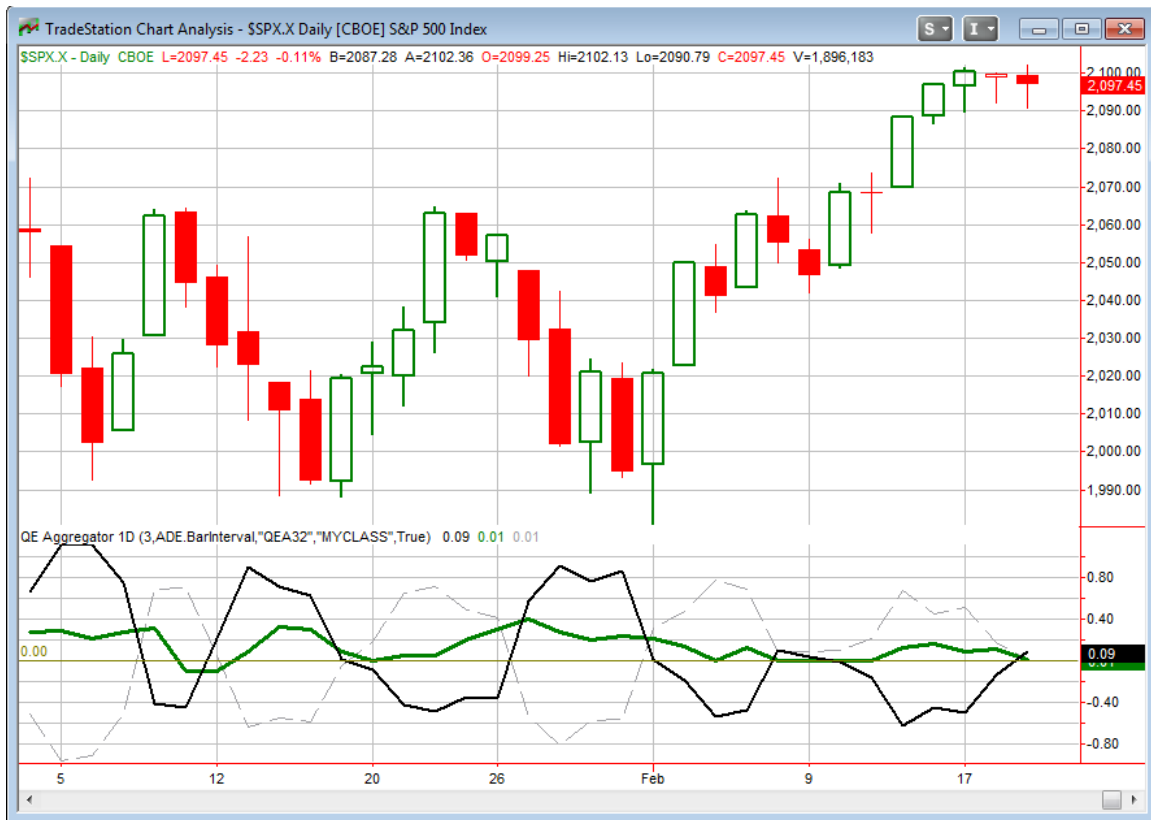
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-21,916.56	39	14	25	35.90	906.27	3,768.30	-1,384.17	-4,932.90	0.65	0.37	-561.96
4	-19,952.65	39	15	24	38.46	790.01	1,994.25	-1,325.12	-2,899.20	0.60	0.37	-511.61
3	-12,136.57	39	18	21	46.15	704.75	2,166.00	-1,182.00	-2,828.70	0.60	0.51	-311.19
2	-9,950.62	39	24	15	61.54	452.89	1,588.40	-1,388.01	-3,784.65	0.33	0.52	-255.14
1	-3,237.67	39	21	18	53.85	379.63	2,286.84	-622.77	-2,875.60	0.61	0.71	-83.02

Numbers here appear squarely bearish. Below is a profit curve that assumes a 4-day holding period.



The August instance saw a pop upwards, but the overall curve still seems strong enough for the study to merit consideration. But interesting about the current instance is that it is occurring in conjunction with a 2-day pullback. I looked for other times that the setup triggered while the SPX closed down for at least the 2nd day. This is the 1st such instance. Still, I elected to add this study to the Active List tonight.

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



Even with tonight's study taken into account, the green Aggregator Line held just slightly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line inched above 0. The positive Differential Line reading means the SPX is 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 turned long at the close.

If nothing new emerges, then expectations are set to turn negative on Friday. The Differential Pivot will be 2108.03 on Friday. That is 0.5% above Thursday's close. So for SPX to move from oversold to overbought versus expectations it is going to need to close up at least 0.5% on Friday.

There appears to be a small bullish edge here. But with expectations set to turn negative on Friday afternoon there appears to be a tight window in which one could possibly take advantage of it. I don't view a small edge with a tight window as terribly enticing. So I intend to wait and see how things play out on Friday and what new studies emerge before taking on new index positions.

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	\$30.19	-11.28%		Aggressive VIX

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