

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 24, 2015

Volume 8 Issue 36

Market Overview



Signals Overview

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

Tonight's Research Points

- 5 gaps lower in a row often suggest an upside edge.
- Range contractions after strong moves up the previous day have often been followed by declines.

Short-term Outlook

The Bottom Line

Expectations remain positive, but SPX is overbought. I am neutral and not looking to take on new index exposure at this point.

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 24, 2015	WR10 up then NR10 low vol	1-5 days	Bearish			
February 24, 2015	5 gaps down	1-3 days	Bullish			
February 23, 2015	SPX up 1-2% opex week	1-5 days	Bearish	-1.40%	0.80%	1.60%
February 23, 2015	2 outside days	1-3 days	Bullish	1.40%	-0.70%	-1.30%
February 20, 2015	High close on Opex Thursday	1-4 days	Bearish			
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 17, 2015	Low-vol breakout	1-5 days	Bullish			

The Evidence

After being down for much of the day an afternoon rally left the indices mixed. The SPX lost 0.64 points, while the NASDAQ rose 0.1% and the Russell 2000 gained a mere 0.04 points. Breadth was a little weak as the NYSE Up Issues % came in at 49% and the Up Volume % was 35%. Total NYSE volume came in very light.

The action has been unusual and it triggered a few conflicting studies in the Quantifinder. The 2 below exhibited compelling short-term directional tendencies.

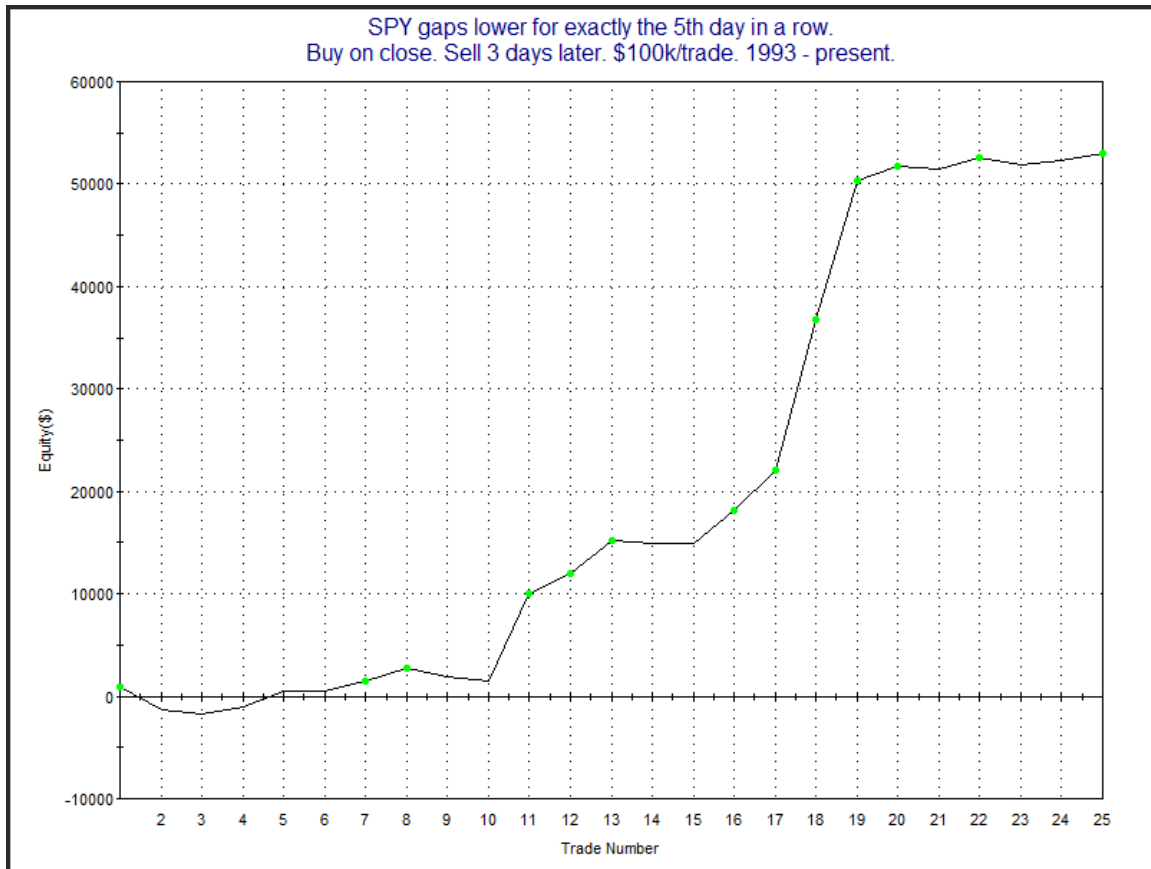
The first study was last seen in the 5/7/14 subscriber letter. It examined other times where the SPY opened the day with a gap down five days in a row.

SPY gaps lower for exactly the 5th day in a row. 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	62,204.86	25	15	10	60.00	5,004.67	19,398.00	-1,286.53	-3,070.17	3.89	5.84	2,488.19
4	54,658.93	25	14	11	56.00	4,503.02	17,914.00	-762.13	-2,061.72	5.91	7.52	2,186.36
3	52,990.86	25	18	7	72.00	3,226.14	14,708.85	-725.66	-2,305.68	4.45	11.43	2,119.63
2	44,507.71	25	17	8	68.00	3,032.75	12,693.50	-881.12	-2,084.16	3.44	7.31	1,780.31
1	23,927.79	25	16	9	64.00	2,077.12	11,683.71	-1,034.01	-2,244.48	2.01	3.57	957.11
<p>24 of 25 instances closed above the entry price at some point in the next week. The one that failed triggered on 6/24/02.</p>												

Results here appear very strongly bullish. One reason I find this study so interesting is that it only uses opening prices. It doesn't even take into account how the SPY closed on

the day of the entry trigger. It's somewhat unusual to see this gap action take place day after day since there are only 25 examples of five consecutive gap down openings. But when futures are being pushed lower each morning, allowing institutions to perhaps buy at a discount on a consistent basis, it certainly seems to suggest an upside edge going forward.

Below is an equity curve showing how this edge has played out over time using a 3-day exit.



Definitely not the smoothest curve here. Much of the strength in the numbers is thanks to instances 18 and 19. But even if you took them out the curve would be heading higher for a long time. So this study still appears worthy of consideration.

Big intraday rallies like we saw on Friday that have been followed by tight consolidations like Monday have often seen the market roll over. The study below looks at this setup. It

was last seen in the 9/6/13 Subscriber Letter (though it just missed triggering at that time). Results are all up-to-date.

Yesterday SPY closes up on the widest range bar in 10 days. Today it posts the narrowest range in 10 days on the lightest volume in 10 days. Buy on close. Sell X days later. \$100k/trade. '93 - 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	-18,339.69	10	1	9	10.00	1,704.07	1,704.07	-2,227.08	-3,596.51	0.77	0.09	-1,833.97
4	-14,714.80	10	1	9	10.00	1,725.46	1,725.46	-1,826.70	-3,118.08	0.94	0.10	-1,471.48
3	-3,371.16	10	4	6	40.00	1,044.47	1,818.15	-1,258.17	-2,768.92	0.83	0.55	-337.12
2	-839.73	10	5	5	50.00	1,096.77	3,112.40	-1,264.72	-2,293.20	0.87	0.87	-83.97
1	-2,177.68	10	5	5	50.00	719.06	1,054.00	-1,154.60	-2,591.68	0.62	0.62	-217.77

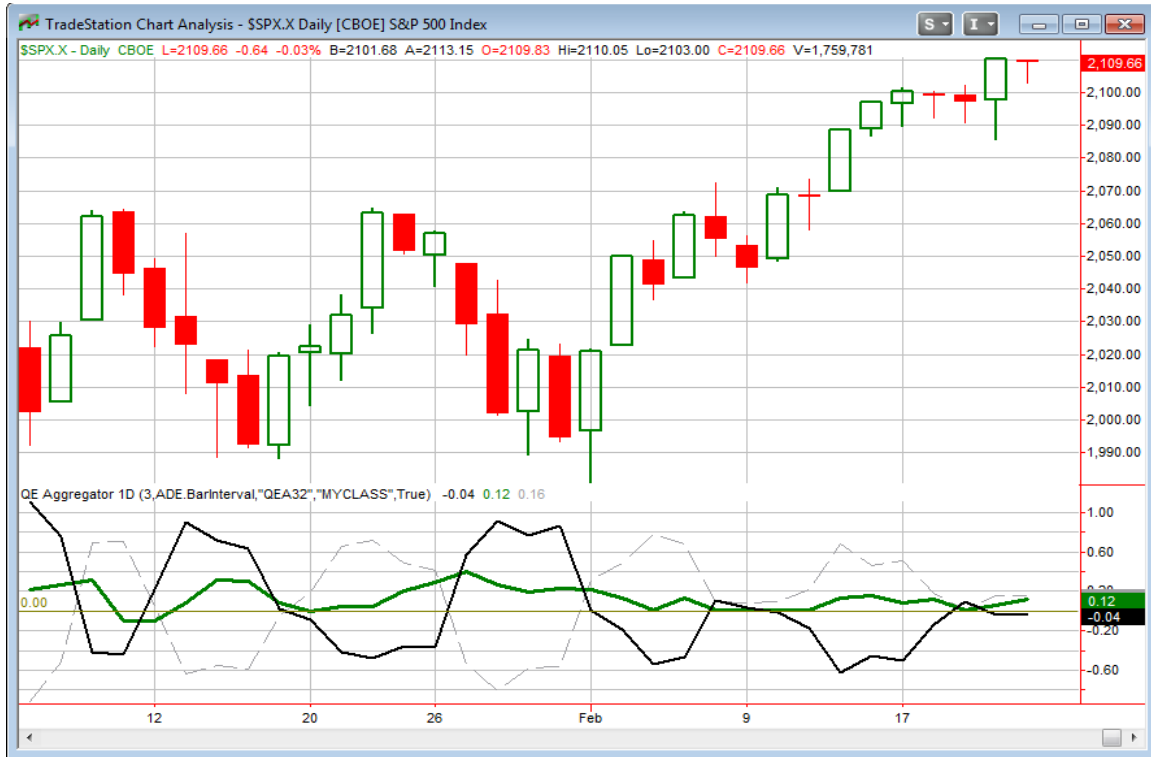
Instances are quite low, but the stats are strongly bearish. To take a closer look I have listed below all 10 instances.

Yesterday SPY closes up on the widest range bar in 10 days. Today it posts the narrowest range in 10 days on the lightest volume in 10 days. Buy on close. Sell 5 days later. \$100k/trade. '93 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/31/94	Buy	\$47.48	(2.13%)	\$0.00
11/07/94	Sell	\$46.47		(\$2,442.96)
05/13/99	Buy	\$137.34	(2.25%)	\$0.00
05/20/99	Sell	\$134.25		(\$3,610.88)
11/15/99	Buy	\$140.08	1.71%	\$2,081.96
11/22/99	Sell	\$142.47		\$0.00
07/28/03	Buy	\$99.86	(1.35%)	\$1,081.08
08/04/03	Sell	\$98.51		(\$2,862.86)
02/14/05	Buy	\$120.68	(1.72%)	\$645.84
02/22/05	Sell	\$118.60		(\$1,738.80)
09/30/05	Buy	\$123.04	(2.79%)	\$243.60
10/07/05	Sell	\$119.61		(\$3,954.44)
03/24/09	Buy	\$80.60	(1.34%)	\$3,348.00
03/31/09	Sell	\$79.52		(\$3,273.60)
06/26/09	Buy	\$91.84	(2.22%)	\$1,512.32
07/06/09	Sell	\$89.80		(\$3,459.84)
08/10/09	Buy	\$100.99	(2.65%)	\$613.80
08/17/09	Sell	\$98.31		(\$2,851.20)
08/29/11	Buy	\$121.36	(3.60%)	\$1,769.45
09/06/11	Sell	\$116.99		(\$5,744.54)
Avg Run-up: 1.1% Avg Drawdown: -3.0%				

The last 7 instances closed lower 5 days later, and all by at least 1.3%. Additionally, the Avg Drawdown is nearly 3x the Average Run-up. Even with the low number of instances, I think this study is worth some consideration.

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



With tonight's studies taken into account the green Aggregator Line held a bit above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remained 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 turn negative on Tuesday. The Differential Pivot will be 2101.85 on Tuesday. That 0.4% below Monday's close. So for SPX to move from overbought to oversold versus expectations it will need to close down at least 0.4%.

Evidence has been quite conflicted over the last few days and we see that again tonight. I am still not seeing a compelling directional edge. I would like to see a pullback (and more bullish evidence) before considering new longs, or evidence to turn net bearish before considering shorts. We are not there yet, so I'll continue to exercise patience.

Intermediate-term Outlook (2 weeks – 2 months) – updated 2/23 – somewhat bullish

The intermediate-term outlook was last updated in the 2/23 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 – I considered listing a numbered systems trade here tonight, but with expectations set to flip on Tuesday I decided not to.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/11/2014	\$34.03	\$31.14	-8.49%		Aggressive VIX

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