

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 4, 2015

Volume 8 Issue 42

Market Overview



Signals Overview

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

Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.

Short-term Outlook

The Bottom Line

Expectations remain positive but the market is now overbought. This puts the Aggregator in a neutral state. I am neutral for now, but I anticipate turning bullish if SPX drops a bit more on Wednesday.

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						
March 4, 2015	Big drop from 50-high	1-4 days	Bullish	1.15%	-0.80%	-1.60%
March 2, 2015	Dn2 > 200ma. Month end.	1-5 days	Bullish	1.50%	-1.10%	-3.30%
March 2, 2015	15 days > 10ma then below. Close > 200	1-3 days	Bullish	1.20%	-0.80%	-1.60%
March 2, 2015	Dn 3 fr 50-hi < 10ma & > 10-low	1-4 daya	Bullish	1.40%	-1.20%	
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 13, 2015	Breakaway Gap	1-5 days	Bullish			

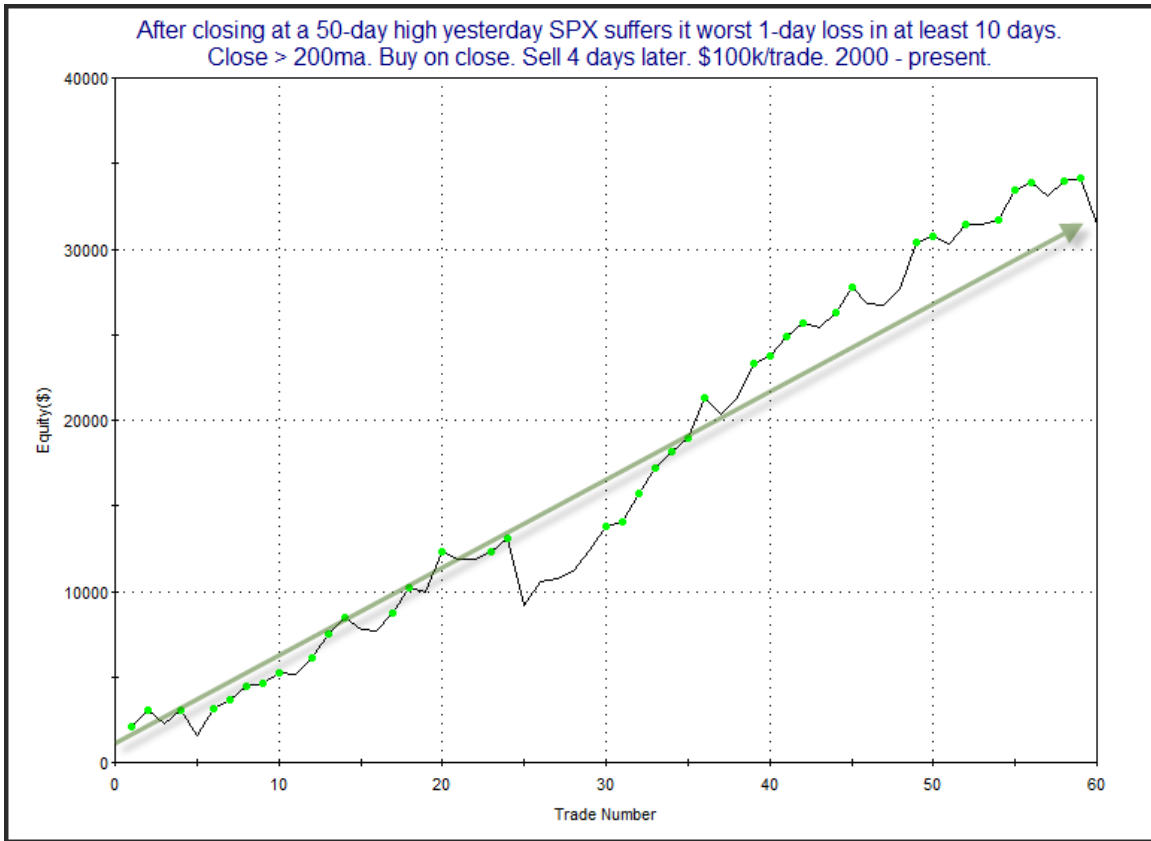
The Evidence

On Tuesday the market gave back Monday's gains. The SPX declined 0.5%, the NASDAQ fell 0.6% and Russell 2000 also lost 0.6%. Breadth was negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 39%. Total NYSE volume declined quite a bit from Monday's level.

The pullback did not trigger much, but it did trigger the study below. It was last seen in the 12/9/14 Letter. It looks at *relatively* large drops from intermediate-term highs. I have updated all the stats.

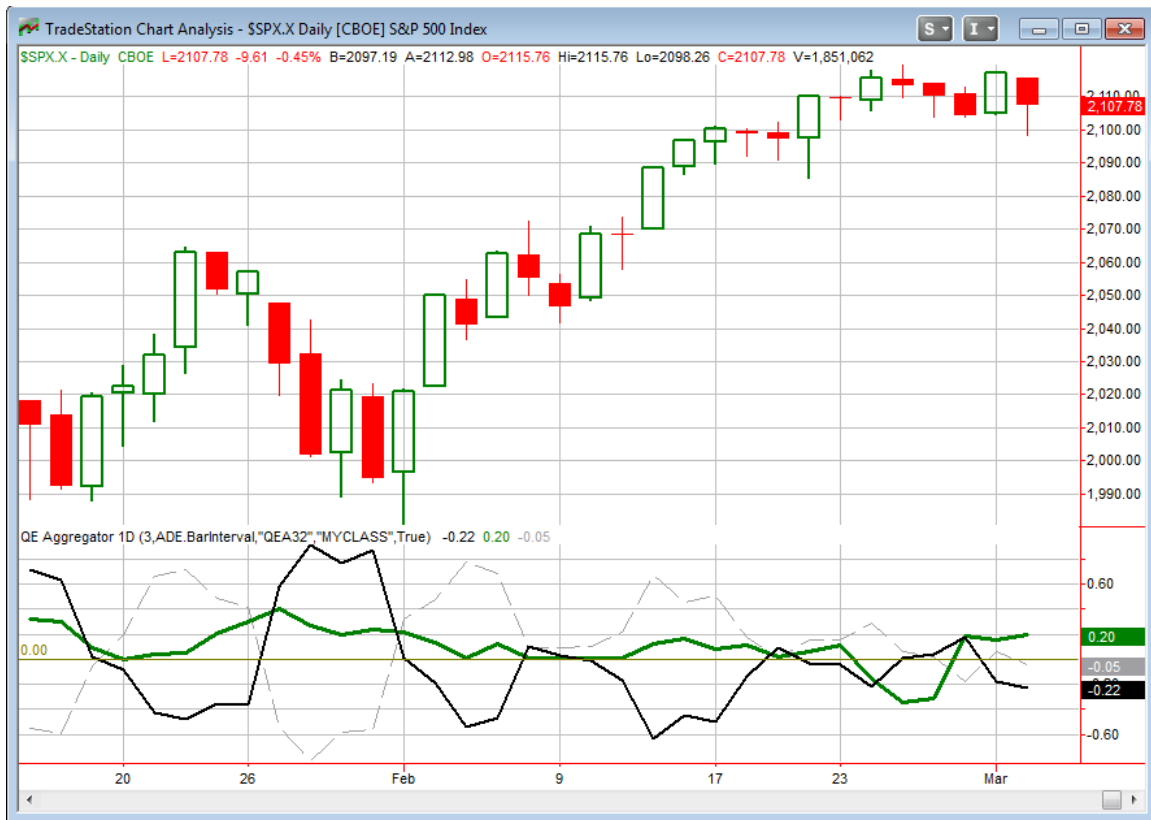
After closing at a 50-day high yesterday SPX suffers it worst 1-day loss in at least 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	27,928.73	56	40	16	71.43	1,265.57	3,149.37	-1,418.38	-3,454.00	0.89	2.23	498.73
4	31,402.11	60	43	17	71.67	1,052.50	2,725.38	-815.02	-3,895.76	1.29	3.27	523.37
3	24,151.81	61	44	17	72.13	829.37	2,192.40	-725.92	-1,808.21	1.14	2.96	395.93
2	13,443.96	62	35	27	56.45	816.28	2,437.50	-560.22	-1,777.55	1.46	1.89	216.84
1	5,757.34	62	35	27	56.45	543.62	1,521.72	-491.46	-1,354.59	1.11	1.43	92.86
56 of 62 instances (90%) closed above the entry price at some point in the next week.												

Over the last 11 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



The steady upslope seems to confirm the bullish inclination.

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



With just bullish studies left for the short-term, the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line held 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 triggers, then expectations are set to remain positive on Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 2094.55 on Wednesday. That is 0.6% below Tuesday's close. So it would take a close down of at least 0.6% in order for SPX to move from overbought oversold versus expectations.

So the Aggregator remains neutral. I am primarily neutral as well. But a close down below the Differential Pivot would almost certainly lead to a long signal on Wednesday. In addition to the apparent index edge, it is also notable that VIX futures contango is quite strong (over 9% between month 1 and month 2). So rather than possibly jumping the gun on an index trade, I will look to enter XIV on Wednesday if SPX closes below its Differential Pivot and XIV offers a favorable price. Details are in the Trade Ideas section near the bottom of the letter.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/2 – somewhat bullish

The intermediate-term outlook was last updated in the 3/2 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.

XIV – buy ½ share at \$32.60 LIMIT ON CLOSE if SPX closes <= 2094.55. This would almost certainly turn the Aggressive VIX system 100% Long XIV, and I'd use that signal to take a partial position at the close.

Current Open Trade Ideas

None

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