

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 10, 2015

Volume 8 Issue 46

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY's unfilled gap up and move higher happened in a way that suggests a solid probability of more upside follow-through.
- Monday's unfilled gap up along with it being an inside day suggests a possible 1-day bearish edge for Tuesday.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a bullish edge, and I believe the bounce has further to go in the upcoming days.

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 10, 2015	Unfilled gap up, inside, c > o & 200ma	1 day	Bearish			
March 10, 2015	Bounce frm 10-low < 10ma > 200ma	1-4 days	Bullish	1.90%	-1.20%	-2.20%
March 9, 2015	Big Friday drop	1-6 days	Bullish	2.60%	-1.70%	-3.70%
March 5, 2015	50-high to 8-low in 2 days	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						
March 4, 2015	Big drop from 50-high	1-4 days	Bullish	1.15%	-0.80%	-1.60%

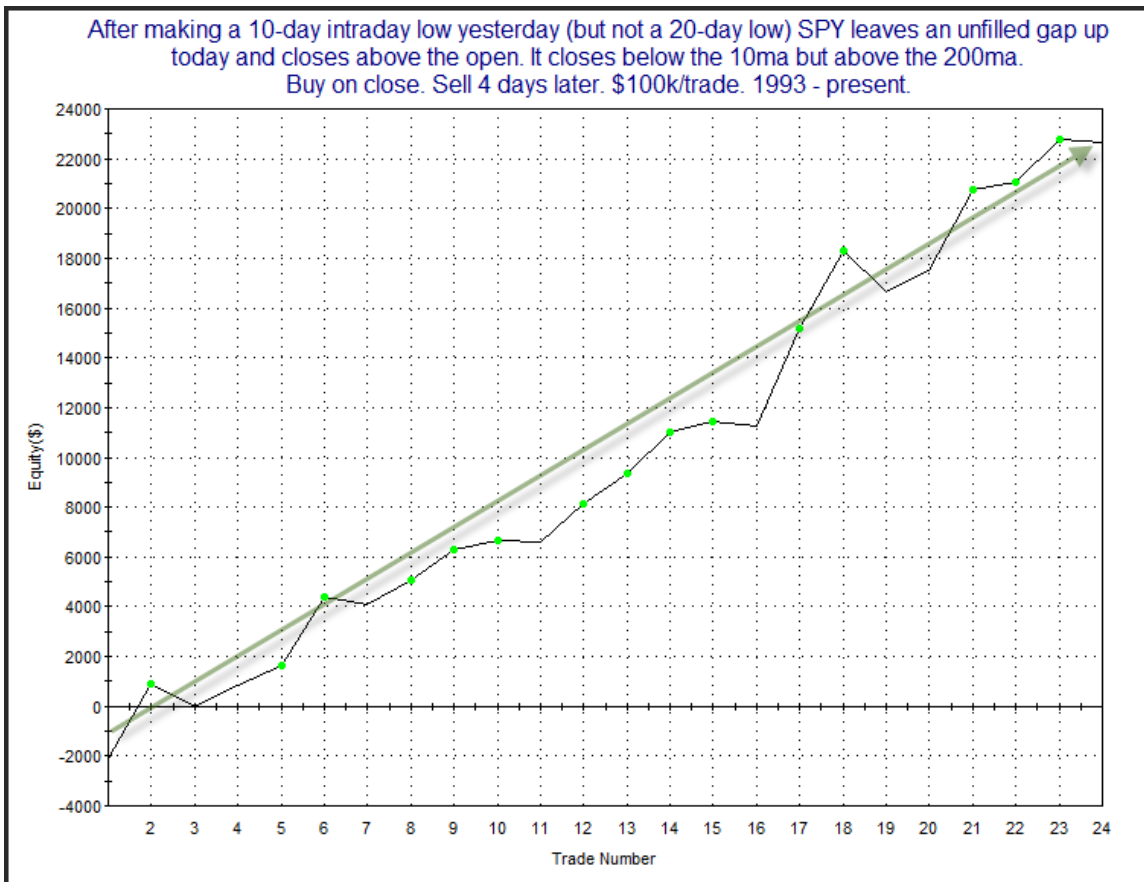
The Evidence

Monday saw the market enjoy a bit of a bounce. The SPX rose 0.4%, the NASDAQ gained 0.3%, and the Russell 2000 rallied 0.5%. Breadth was just mixed though as the NYSE Up Issues % came in at 52% and the Up Volume % was 48%. Total NYSE volume dropped quite a bit from Friday's level.

Monday's rally was marked by the fact that it featured an unfilled gap up and a further rise between the open and the close. I have looked at setups like this a number of times in the past. A couple of things that make this unfilled gap up from a low appealing are that 1) it came from a short-term low, but not an intermediate-to-long-term low, and 2) it closed below the 10ma. The study below was last seen in the 1/8/15 letter. It looked at situations just like the current one. I have updated all the stats.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. 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	21,341.66	24	18	6	75.00	1,471.28	4,106.63	-856.89	-1,949.70	1.72	5.15	889.24
4	22,634.34	24	17	7	70.83	1,637.35	3,904.83	-742.95	-2,096.99	2.20	5.35	943.10
3	15,060.49	25	16	9	64.00	1,362.68	3,914.92	-749.16	-1,874.00	1.82	3.23	602.42
2	11,727.50	25	16	9	64.00	1,236.60	2,828.00	-895.34	-2,183.21	1.38	2.46	469.10
1	2,931.39	25	13	11	52.00	880.66	1,773.46	-774.29	-2,895.33	1.14	1.34	117.26
All 25 instances closed above the entry price at some point in the next week.												

Indications here are bullish across the board. It is especially impressive that all 25 instances saw a continuation of the rally at some point in the next week. Below is an equity curve that assumes a 4-day holding period.



Profit curves don't get much straighter than this. This appears to confirm the upside edge suggested by the results table.

Also in the 1/8/15 subscriber letter I examined instances that hit not only 10-day lows, but also 20-day lows before the bounce occurred. Such bounces from 20-day lows tended to do a poor job of following through with more upside. This can be seen in the results table below.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
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	-5,852.54	28	12	16	42.86	1,773.96	3,073.60	-1,696.25	-3,739.32	1.05	0.78	-209.02
4	-2,508.87	30	16	14	53.33	1,276.65	2,950.20	-1,638.23	-2,744.82	0.78	0.89	-83.63
3	-8,656.81	32	15	17	46.88	873.59	2,811.60	-1,280.04	-3,070.92	0.68	0.60	-270.53
2	-8,783.91	34	16	18	47.06	838.06	2,341.35	-1,232.94	-2,818.42	0.68	0.60	-258.35
1	-1,980.50	34	13	21	38.24	951.55	2,470.05	-683.36	-1,777.90	1.39	0.86	-58.25

In the 1/8/15 subscriber letter I also showed the importance of closing below the 10-day moving average, as opposed to above it. To do that I took the first study I showed and simply flipped that filter. Those results can be seen below.

After making a 10-day intraday low yesterday (but not a 20-day low) SPY leaves an unfilled gap up today and closes above the open. It closes **above** the 10ma and above the 200ma.
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	-2,570.65	14	7	7	50.00	777.28	1,647.78	-1,144.51	-2,249.52	0.68	0.68	-183.62
4	-1,001.34	14	7	7	50.00	679.37	1,903.47	-822.42	-1,769.04	0.83	0.83	-71.52
3	-2,903.03	14	7	7	50.00	583.23	1,393.05	-997.95	-2,475.20	0.58	0.58	-207.36
2	-798.01	14	8	6	57.14	579.64	1,325.28	-905.86	-2,293.20	0.64	0.85	-57.00
1	-2,929.07	14	7	7	50.00	478.47	949.00	-896.91	-2,591.68	0.53	0.53	-209.22

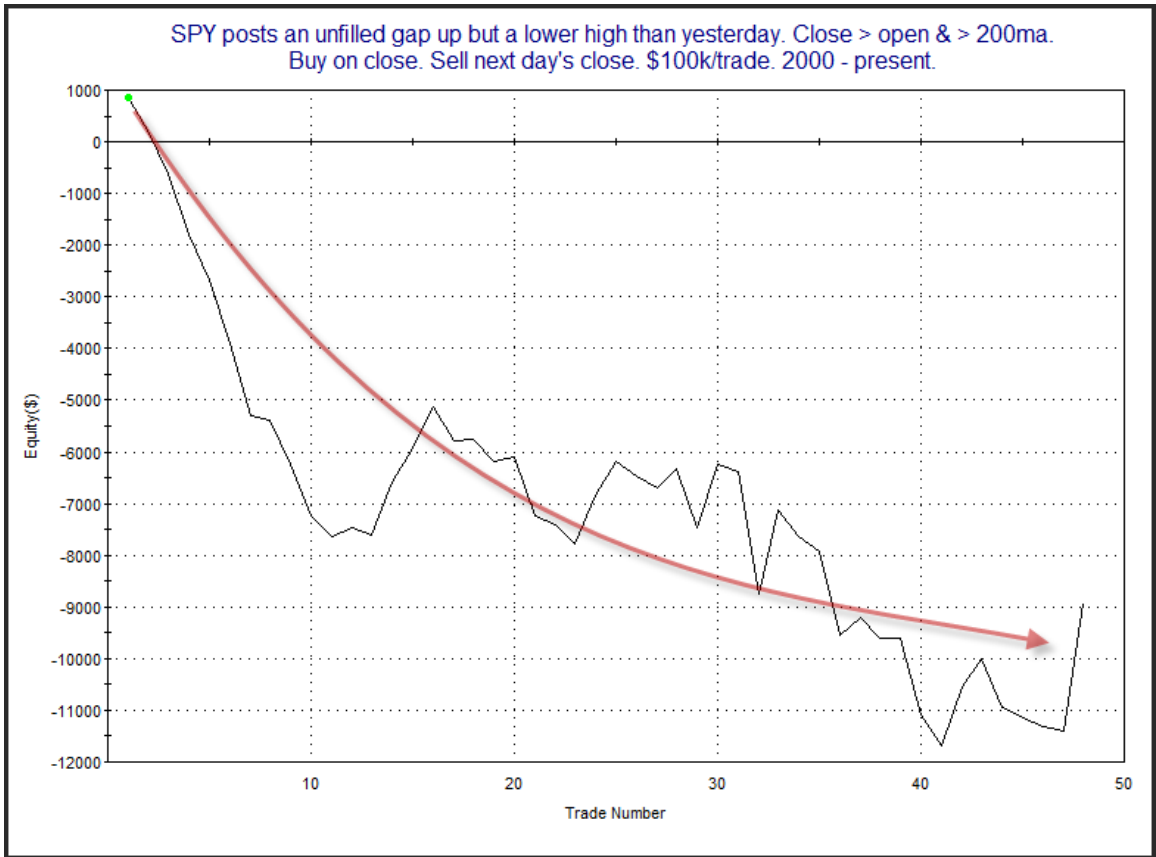
As you can clearly see, instances like this did not provide a reliable upside edge either. Part of the reason for this is likely that such strong bounces alleviate the oversold condition that may have been partially responsible for creating the upside edge. Perhaps fortunately for bulls, SPY appears to have bounced "just right" on Monday.

The study below was last seen in the 12/18/14 Letter. It looks at days like Monday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results below.

SPY posts an unfilled gap up but a lower high than yesterday. Close > open & > 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

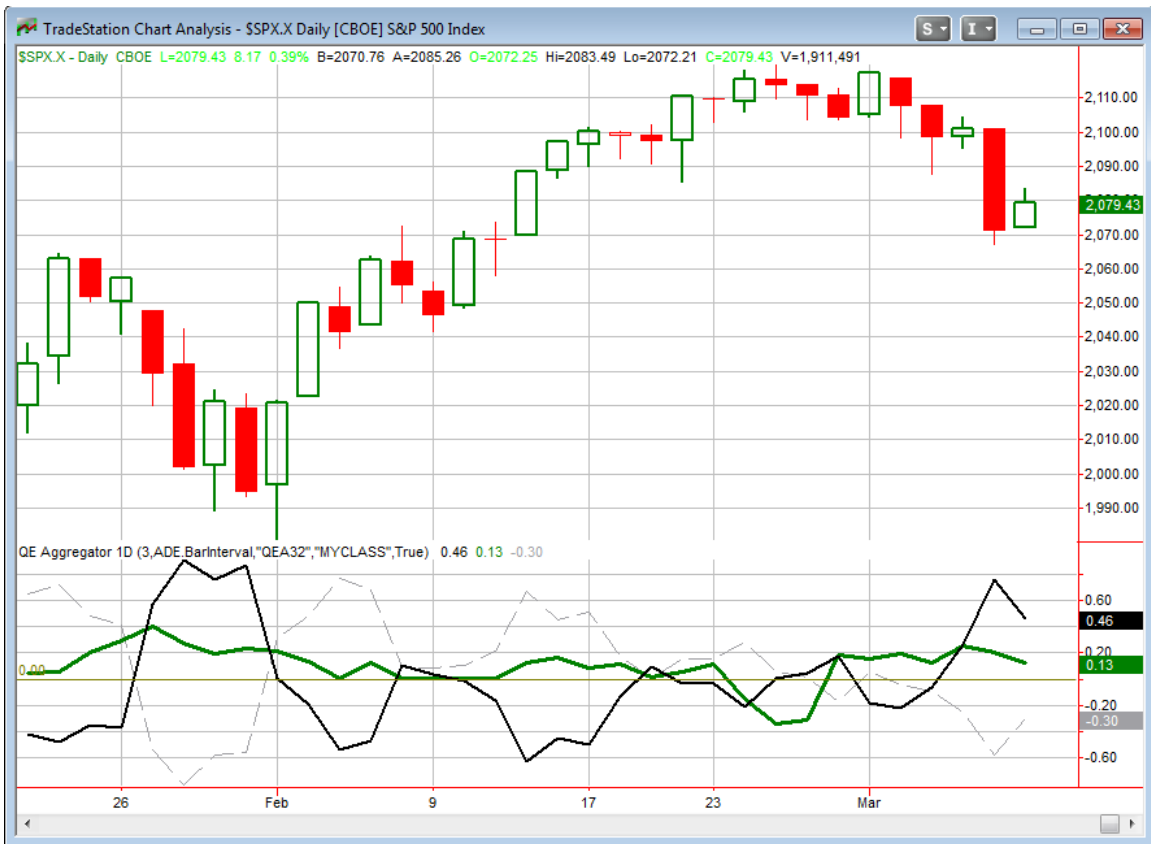
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$8,929.79)	Profit Factor	0.59
Gross Profit	\$12,957.30	Gross Loss	(\$21,887.09)
Total Number of Trades	48	Percent Profitable	33.33%
Winning Trades	16	Losing Trades	31
Even Trades	1		
Avg. Trade Net Profit	(\$186.04)	Ratio Avg. Win:Avg. Loss	1.15
Avg. Winning Trade	\$809.83	Avg. Losing Trade	(\$706.04)
Largest Winning Trade	\$2,470.05	Largest Losing Trade	(\$2,348.90)

Implications here appear somewhat bearish. Below is a profit curve that shows how the downside edge has played out over time.



The big move up after the last instance changed the slope of this curve some. It still appears to suggest a bit of a downside edge. So I have included these 1-day results in the Aggregator.

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



With today's studies factored in the green Aggregator Line again 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 also remained well 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 remained long at the close.

If nothing new triggers, then expectations are set to remain positive on Tuesday. It would still take strong bearish evidence to change this. The Differential Pivot will be 2112.72 on Tuesday. That is 1.6% above Monday's close. So for SPX to change from oversold to overbought versus recent expectations it is going to need to close up at least 1.6% on

Tuesday. That is a tall task. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So Tuesday is a little more questionable based on our second study, but the overall evidence over the next few days remains strong. There also appears to be some room left to the upside before SPX would turn overbought. So I still like the long side. I do have a small amount of long exposure already. Unfortunately, a couple of my trade ideas from last night had unfilled gaps up and did not fill. I am not inclined to add to my long exposure just yet, but likely will on Wednesday if the market closes down on Tuesday and no further bearish evidence emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/9 – somewhat bullish

The intermediate-term outlook was last updated in the 3/9 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

MO – 1/3 at \$53.37 (not filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(MO)

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. Note that neither the SPY nor the MO trade idea filled on Monday. They both had unfilled gaps higher and missed filling by \$0.05 or less. I have cancelled both orders for the time being and will revisit them tomorrow night if prices pull back.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/6/2015	\$209.42	\$208.36	-0.51%		Aggregator
XIV(1/2)	3/9/2015	\$32.25	\$32.51	0.81%		bought @ limit

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