

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 13, 2015

Volume 8 Issue 49

Market Overview



Signals Overview

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

Tonight's Research Points

- Bounces like we saw today are more reliable coming off of short-term lows than intermediate-term lows.

Short-term Outlook

The Bottom Line

Evidence is still pointing higher. But the market could easily turn overbought as early as Friday. So I will look to exit some of my index exposure into strength on Friday.

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 12, 2015	5 low & bottom of daily range 2x	1-5 days	Bullish	2.10%	-0.70%	-1.70%
March 11, 2015	System 110524	1-7 days	Bullish			
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%
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 11, 2015	Unfilled gap up then unfilled gap down	1-2 days	Bearish			

The Evidence

The market bounced strongly on Thursday. The SPX rose 1.3%, the NASDAQ closed up 0.9%, and the Russell 2000 gained 1.7%. Breadth was positive as the NYSE Up Issues % came in at 71% and the Up Volume % was also 71%. Total NYSE volume sank from Wednesday's level.

In Monday night's letter I showed some studies that examined unfilled up gaps and rallies from lows. In those studies I showed that when the market is coming off a short-term (10-day) low then the bounce action shows a continued upside edge, but when the market is coming off an intermediate-term (20-day) low, then the bullish tendencies have not played out. Below are the studies from that letter, which demonstrate this concept. First the 10-day low bounce study (not updated).

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.													

These results were very strong. Now the 20-day low bounce study.

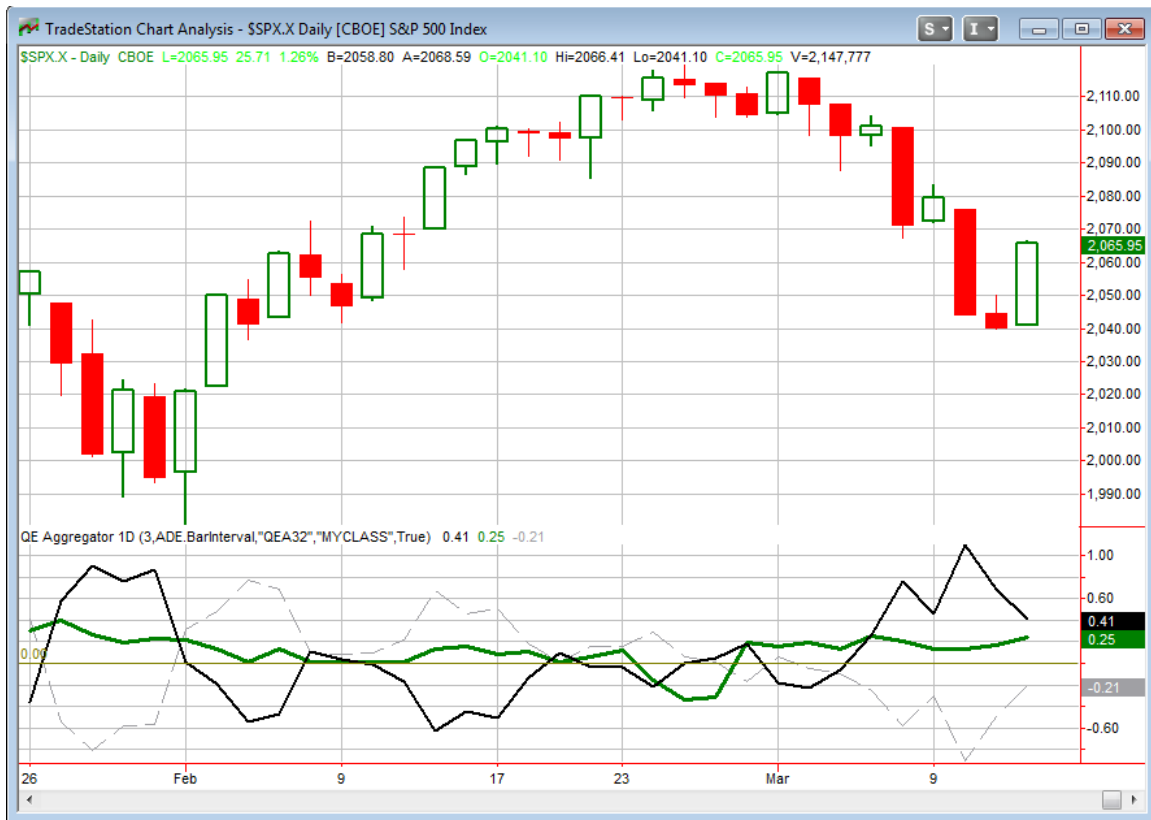
After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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

Such bounces from 20-day lows tended to do a poor job of following through with more upside. Odds here appear neutral rather than outright bearish, but they are certainly not bullish. Unfortunately, SPY was coming off an intermediate-term low on Thursday.

While there are still several bullish studies in play, Thursday's bounce did not offer any new confirming bullish evidence.

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



With nothing new being added tonight, and just a bearish study exiting the Active List the green Aggregator Line held firmly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is still 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.

Based on the current active studies expectations are set to remain positive on Friday. That could possibly change if strong bearish evidence emerges. The Differential Pivot will be *solidly inverted* at 2053.61 on Friday. That is 0.6% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case in order to remain "oversold versus expectations" SPX is going to need to close down at least 0.6%. Anything short of that and it will flip to an "overbought" reading.

Despite the lack of new evidence tonight, bullish evidence from the last few days suggests we should see more out of this bounce. The market is still oversold, but that will only last until Friday's close if expectations are correct and the market continues to climb. I often view inverted pivots as opportune times to begin taking off exposure.

While odds still favor a further rally, it only has 1 day to get where it is going before SPX is going to be overbought. So upside is somewhat limited. Downside, on the other hand, is not. So if we see strength on Friday I will begin exiting my SPY positions.

I do not intend to exit my XIV position yet. Market expectations remain positive, the VIX is not oversold, and is still above its 10ma, and 1-2 month contango is very steep at 9.86%. With contango that steep I will look to ride this for a little while as long as market expectations do quickly turn bearish.

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 (filled @ \$53.20)

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/6/2015	\$209.42	\$207.10	-1.11%		Aggregator
XIV(1/2)	3/9/2015	\$32.25	\$32.53	0.87%		Aggressive VIX
SPY(1/4)	3/11/2015	\$204.98	\$207.10	1.03%		Aggregator
MO(1/3)	3/11/2015	\$53.20	\$52.01	-2.24%		Catapult

I will look to sell 1 lot of SPY @ \$207.40 LIMIT. If not filled by the close I will lower the limit price to \$206.50 LIMIT ON CLOSE.

I will sell the 2nd lot of SPY on a close \geq \$208.48, which would mark a close above the 10-day moving average for SPY.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2015 Hanna Capital Management, LLC.