

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 18, 2015

Volume 8 Issue 52

Market Overview



Signals Overview

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

Tonight's Research Points

- Fed Days are typically bullish, but current circumstances make Wednesday's Fed Day less appealing.

Short-term Outlook

The Bottom Line

Evidence is mildly bullish, but risk is a little elevated and potential reward does not appear great. I don't love the current setup and am happy to sit out a day and see what edges emerge after the Fed announcement.

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 16, 2015	March op-ex week bullish	1-4 days	Bullish	1.70%	-1.10%	-2.50%
March 12, 2015	5 low & bottom of daily range 2x	1-5 days	Bullish	2.10%	-0.70%	-1.70%
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			

The Evidence

The market got off to a difficult start on Tuesday, but some afternoon rallying left it mixed. The SPX lost 0.3%, but the NASDAQ and Russell 2000 each rose 0.2%. Breadth was a bit negative as the NYSE Up Issues % came in at 44% and the Up Volume % was 40%. Total NYSE volume declined from Monday's level and came in quite light.

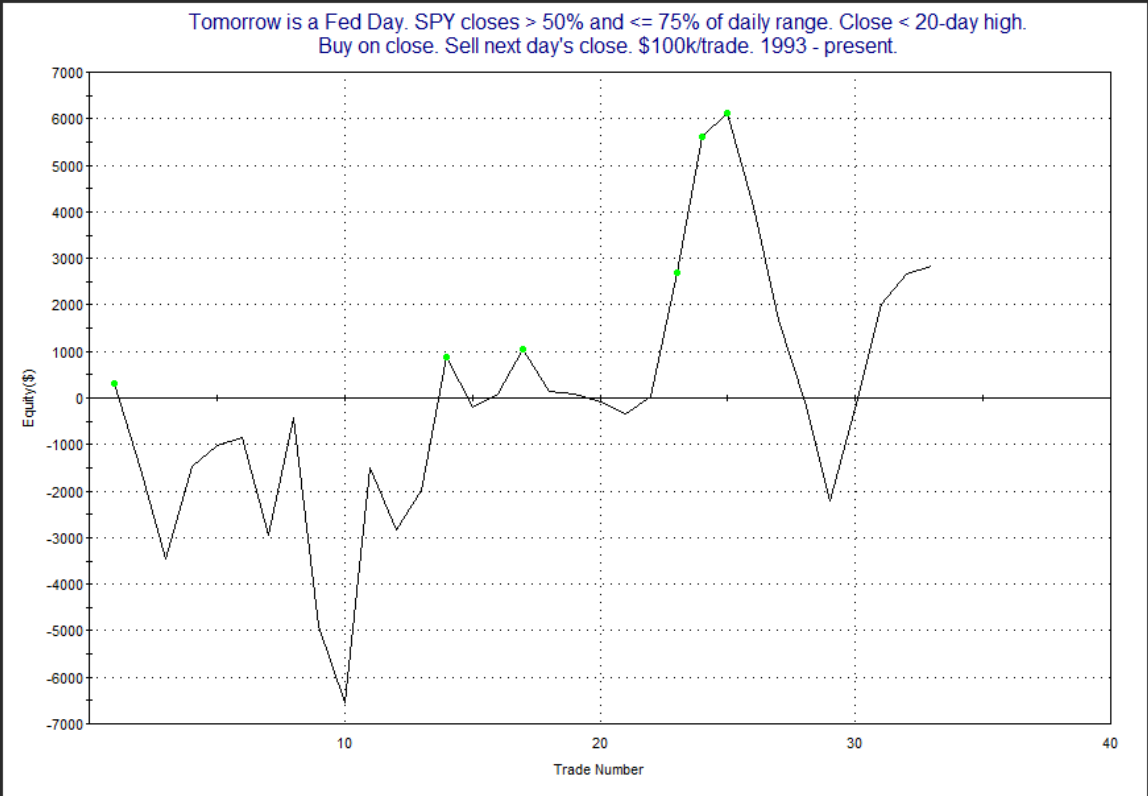
It was the 4th day in a row that SPX has changed direction. I mentioned last night that choppy, range-bound action rarely triggers strong edges, and that was the case again tonight.

It is notable that Wednesday is a Fed Day. Over the years the market has exhibited bullish tendencies on Fed Days. This is something I have discussed many times. Numerous studies may be found [on the blog](#) and in the [Quantifiable Edges Guide to Fed Days](#). Two filters I have used that have proven useful over the years are 1) whether the day prior to the Fed Day closes at an intermediate-term high, and 2) whether the day prior closed in the upper or lower part of its range. (For this I often have broken the daily range into quartiles.) On Tuesday SPY closed below a 20-day high, which is a positive. But it closed in the upper end of its range, which generally has decreased the bullish tendency. So tonight I combined those two factors. Below are the results.

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of daily range. Close < 20-day high. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

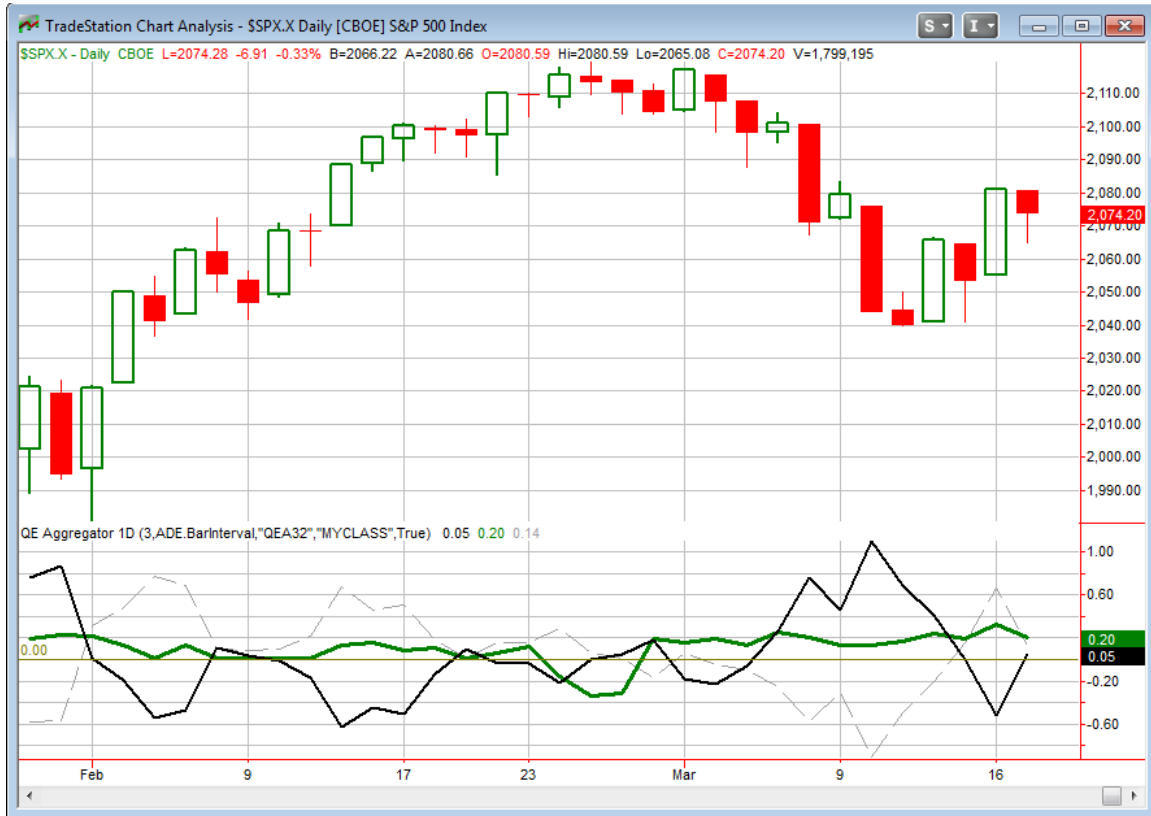
TradeStation Performance Summary			
All Trades			
Total Net Profit	\$2,823.85	Profit Factor	1.12
Gross Profit	\$26,944.82	Gross Loss	(\$24,120.97)
Total Number of Trades	33	Percent Profitable	54.55%
Winning Trades	18	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	\$85.57	Ratio Avg. Win:Avg. Loss	0.93
Avg. Winning Trade	\$1,496.93	Avg. Losing Trade	(\$1,608.06)
Largest Winning Trade	\$5,041.08	Largest Losing Trade	(\$4,474.56)

The numbers here are all pretty meek. There does not appear to be any real edge. Below is a look at the profit curve.



While Fed Days often provide nice opportunities to trade, this one does not appear to be offering strong odds.

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



With no new studies being added to the Active List tonight 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 rose back 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 changed from flat to long at the close.

Based on the current active studies, expectations are set to remain positive on Wednesday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 2065.76 on Wednesday. That is 0.4% *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close down at least 0.4% in order to remain oversold. Anything short of that and it will be considered overbought versus recent expectations.

The Aggregator formation is bullish. But my own interpretation is leaning more neutral. Upside evidence is very mild, and neither of the last 2 days of trading action have produced compelling studies. The Fed Day study I looked at tonight looked unappealing. And reactions after Fed announcements can be volatile, which increases potential risk. Additionally, the inverted pivot limits potential reward, because any move higher will leave the SPX overbought on Wednesday. So with evidence weak, the possibility of increased volatility, and an inverted pivot limiting upside potential, I have no interest in getting involved in new positions at this point. I am now flat on my index exposure and I will stay that way Wednesday and re-evaluate Wednesday night.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/16 – somewhat bullish

The intermediate-term outlook was last updated in the 3/16 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	\$208.40	-0.49%		<i>sold at limit</i>
XIV(1/2)	3/9/2015	\$32.25	\$32.69	1.36%		Aggressive VIX
MO(1/3)	3/11/2015	\$53.20	\$51.62	-2.97%		Catapult

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