

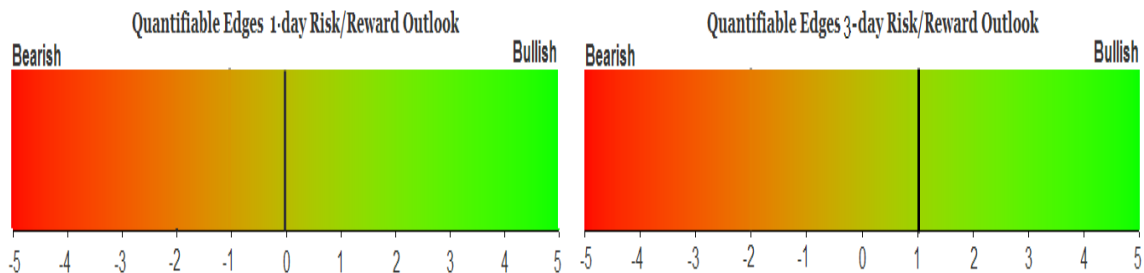
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 20, 2015

Volume 8 Issue 54

Market Overview



Signals Overview

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

Tonight's Research Points

- Opex Friday mornings during uptrends have typically seen selling.

Short-term Outlook

The Bottom Line

There appears to be a mild upside edge, but continued chop is not providing great clarity.

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 19, 2015	High volume up day > 200ma. No opex	1-10 days	Bullish	2.50%	-1.50%	-3.10%
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

Fairly quiet trading led to mixed results on Thursday. The SPX closed down 0.5%, but the NASDAQ and Russell 2000 each rose 0.2%. Breadth was squarely negative as the NYSE Up Issues % came in at 35% and the Up Volume % was 24%. Total NYSE volume dropped quite a bit from Wednesday’s level.

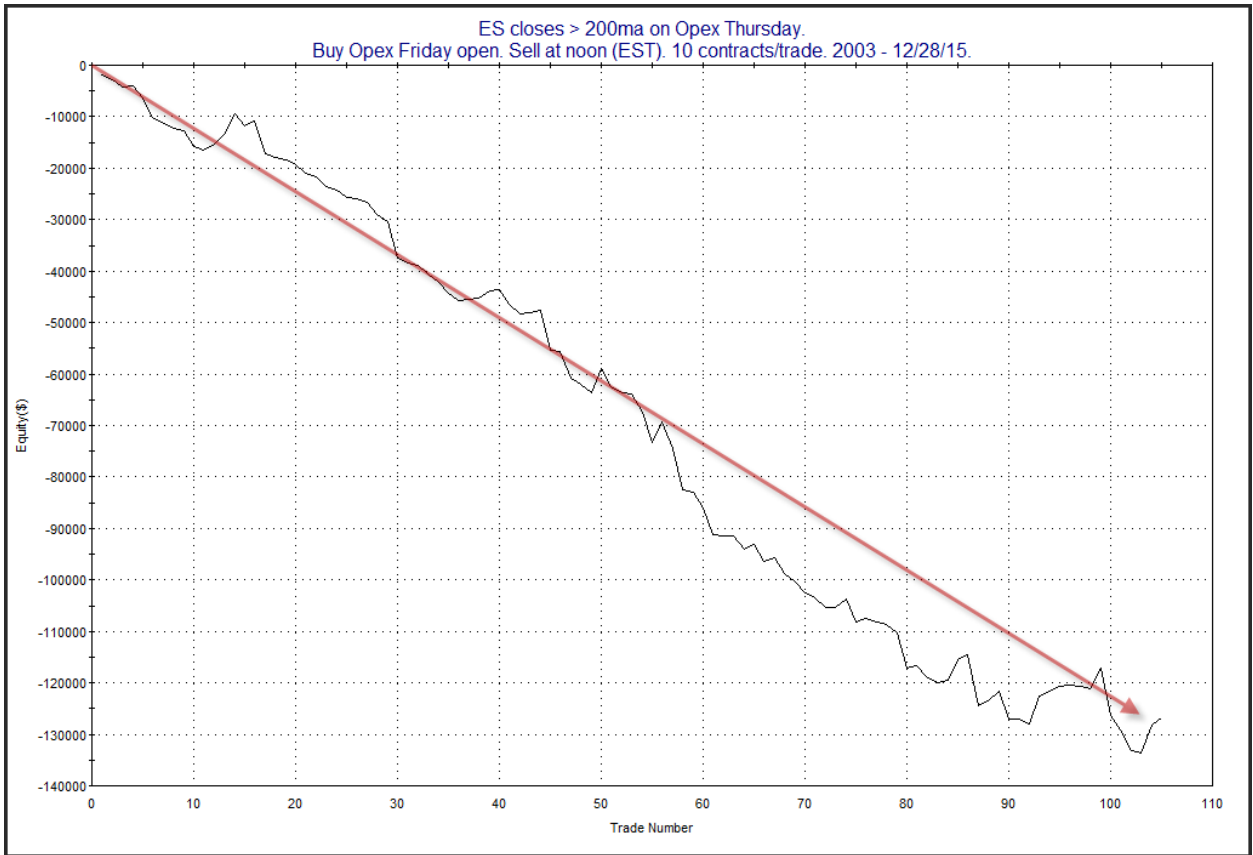
The tight trading throughout the day caused SPY to produce an inside day (a day in which price never moves outside of yesterday’s range.) During downtrends inside days have been problematic for SPY, but during long-term uptrends they have failed to provide any consistent edge. This was noted by a couple of studies in the Quantifinder.

While the market has generally drifted higher recently, the chop has been impressive. Thursday marked the 6th day in a row that SPX changed direction. Chop like this is not conducive to generating strong trading edges. This is reflected in the lack of compelling studies today as well as on the Active List currently.

One seasonal factor that could come into play on Friday is that the market has often struggled after the open on opex Friday. Below is a study showing results of purchasing 10 ES contracts (which is the mini-futures contract for the S&P 500) at the open and then exiting at different times during the day.

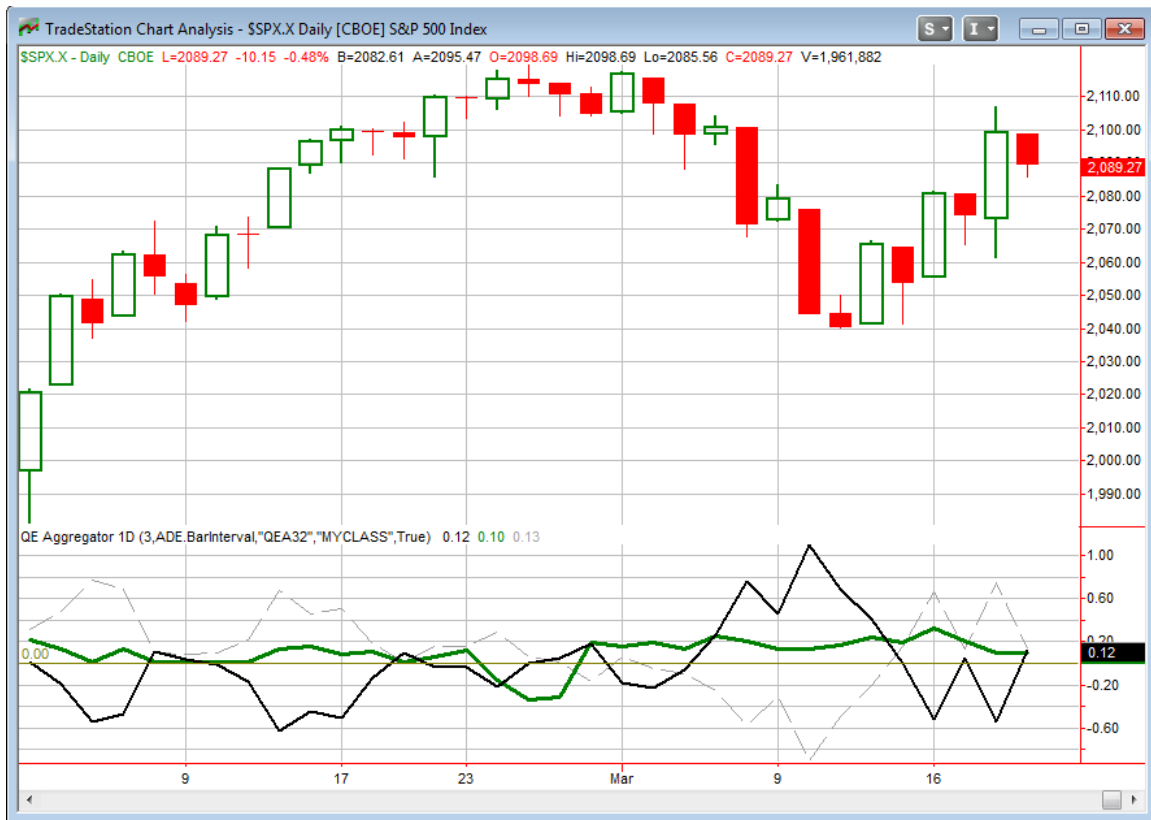
ES closes > 200ma on Opex Thursday. Buy Opex Friday open. Sell at time shown on left (EST). 10 contracts/trade. 2003 - 12/28/15.												
OE Op-Ex Fri Intra Short2: timeofday	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
1,600	-110,125.00	105	44	58	41.90	2,431.82	13,875.00	-3,743.53	-16,125.00	0.65	0.49	-1,048.81
1,500	-118,750.00	105	36	66	34.29	2,350.69	9,875.00	-3,081.44	-11,625.00	0.76	0.42	-1,130.95
1,400	-124,750.00	105	31	68	29.52	2,072.58	9,875.00	-2,779.41	-10,750.00	0.75	0.34	-1,188.10
1,300	-123,500.00	105	31	73	29.52	1,907.26	9,625.00	-2,501.71	-10,000.00	0.76	0.32	-1,176.19
1,200	-126,750.00	105	30	75	28.57	1,704.17	5,625.00	-2,371.67	-9,750.00	0.72	0.29	-1,207.14
1,100	-86,250.00	105	37	66	35.24	1,432.43	7,250.00	-2,109.85	-7,625.00	0.68	0.38	-821.43
1,000	-71,500.00	105	28	75	26.67	767.86	3,250.00	-1,240.00	-3,625.00	0.62	0.23	-680.95

As you can see, the bearish implications primarily play themselves out during the morning. (1000 = 10am EST, 1200 = noon EST, 1400 = 2pm EST, etc.) Below is a profit curve that assumes the trade is sold at noon each time.



The downward slope has been in effect and fairly steady for a long time. So caution seems warranted on the long side during the morning on Friday.

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



Without anything new studies to add tonight 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 rose back above 0. The positive Differential Line reading means the SPX is back to oversold versus recent expectations. So expectations are positive and the SPX is now 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 Friday. Of course that could change if new bearish evidence emerges. The Differential Pivot will be *slightly inverted at 2089.12* on Friday. That is just a fraction of a point below Thursday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case it SPX will turn overbought unless it closes a little lower on Friday. Only then would it remain oversold versus recent expectations.

The Aggregator is bullish, but the inverted pivot limits potential upside, since any rally on Friday would cause SPX to turn overbought. Additionally, the study showed a tendency for morning weakness. So I don't see the point in taking on index exposure right here. But I could be interested in long exposure if SPX closes down on Friday.

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.

SPY – buy ¼ index position @ \$208.07 LIMIT ON CLOSE. Based on the short-term outlook above. If SPY closes down and a little below Thursday's low, I will be looking to get long on Friday afternoon. (Note: The price was adjusted down to reflect SPY's \$0.93 dividend, which is going ex on Friday morning.)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$34.09	5.71%		Aggressive VIX
MO(1/3)	3/11/2015	\$53.20	\$51.27	-3.63%		Catapult

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