

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 30, 2013

Volume 6 Issue 103

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The 2-day gap pattern is potentially short-term bearish.
- The TICK Tomoscillator reading is extremely low and suggesting a market bounce.

## *Short-term Outlook*

### *The Bottom Line*

The studies are still looking up and the market is back to oversold. I have some long exposure and am looking to add to it on Thursday.

**Summary of Recent Active Studies (see Letters from listed dates for details)**

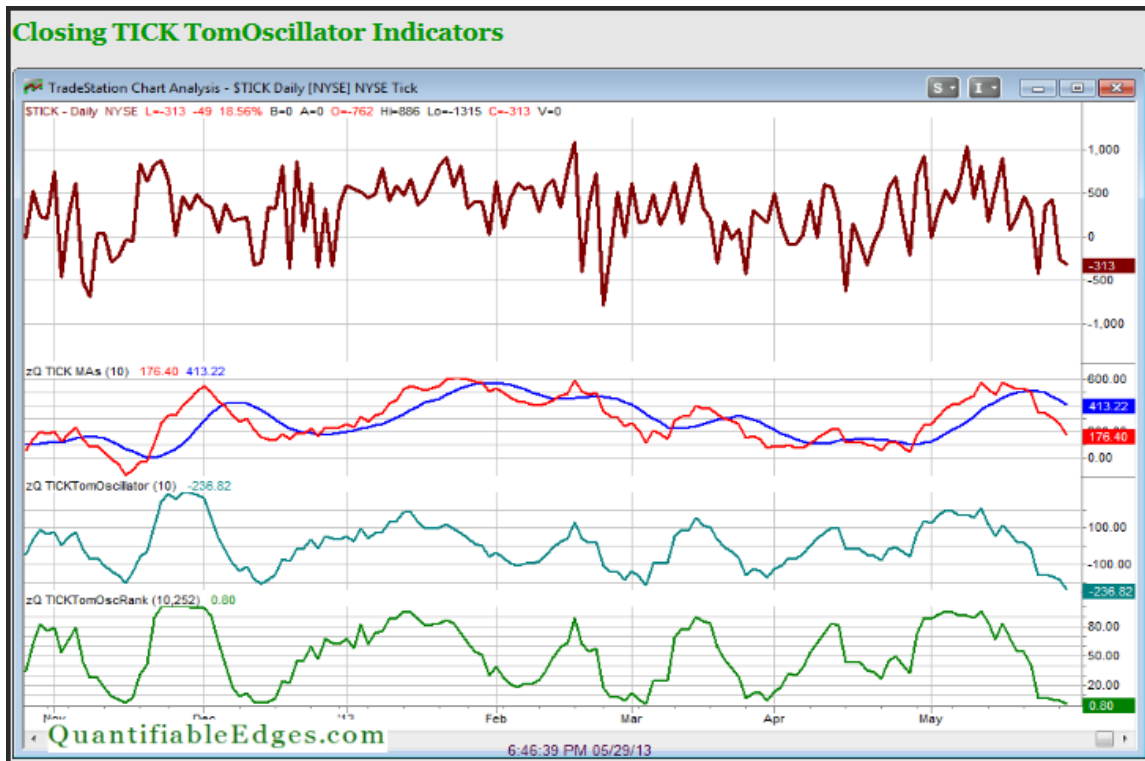
Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
May 30, 2013	SPX 10-low. TICKTom% < 1%	1 day	Bullish	
May 30, 2013	Unfill gap up. Unfill gap dn.	1-3 days	<b>Bearish</b>	
May 28, 2013	2 unfilled gaps down. 5-low.	1-5 days	Bullish	1.80%
May 28, 2013	3 dn from 50-high. < 10ma & > 10-low	1-5 days	Bullish	1.80%
May 24, 2013	1st 5-low is > 10 days	1-4 days	Bullish	1.55%
May 23, 2013	3-hi. 3-low. 3-low close. Close > 200.	1-5 days	Bullish	2.10%
May 23, 2013	Double Outside Day	1-5 days	Bullish	1.90%
<b>Active - Long Term</b>				
May 23, 2013	3-hi. 3-low. 3-low close. Close > 200.	1-15 days	Bullish	4.10%
May 9, 2013	Breadth Confirms Rally (Study of Tops)	int term	Bullish	
May 6, 2013	Nasdaq leading SPX	int term	Bullish	
April 29, 2013	Sell in May unless Jan-April strong	1-6 months	Bullish	6.80%
April 29, 2013	6 months higher in a row	1-10 months	Bullish	14.30%
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
May 23, 2013	Big drop from 50-day high	1-4 days	Bullish	1.20%

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

***The Evidence***

Wednesday was weak from the start and never could recover from the morning damage. SPX lost 0.7%, the Nasdaq fell 0.6%, and the Russell 2000 closed down 1.0%. Breadth was squarely negative as the NYSE Up Issues % was 19% and the Up Volume % was 34%. Total NYSE volume rose for the 2<sup>nd</sup> day in a row.

One indicator now providing some extreme readings that are typically followed by bounce is the TICK Tomoscillator. The TICK Tomoscillator is the brain child of my friend and fellow market analyst, Tom McClellan of [McClellan Financial Publications](#) ([click for Tom's article on the indicator](#)). It uses the NYSE closing TICK readings to measure recent end-of-day sentiment. I first introduced the TICK Tomoscillator in the 4/19/11 subscriber letter. For those that are not familiar with the TICK Tomoscillator, you may find a detailed description in the [May 13, 2011 blog](#). The TICK Tomoscillator posted an extremely low reading of -236.82. This pushed the Tomoscillator % Rank down below 1%, meaning this afternoon's reading is among the lowest 1% in the last year. Subscribers may find Tomoscillator readings on the charts page every night. Below you can see the Oscillator reading from tonight's chart page:



The TICK Tomoscillator is also included in the QE Indicators/Functions for Tradestation package which [can be downloaded by all subscribers for free](#).

The study below uses the Tomoscillator % Rank reading rather than just the raw reading. It was last seen in the 6/13/11 Letter. I updated the results.

TICK TomOscillator 1-year % Rank < 1% and SPX closes at 10-day low. SPX > 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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
10	13,142.26	11	7	4	63.64	2,795.09	5,308.60	-1,605.84	-4,360.44	1.74	3.05	1,194.75
9	16,551.87	11	8	3	72.73	2,764.58	4,786.10	-1,854.93	-5,073.84	1.49	3.97	1,504.72
8	18,415.08	12	9	3	75.00	2,885.33	4,792.75	-2,517.64	-5,882.94	1.15	3.44	1,534.59
7	17,077.73	12	10	2	83.33	2,119.29	4,205.84	-2,057.61	-2,375.10	1.03	5.15	1,423.14
6	11,789.83	12	9	3	75.00	1,748.94	3,839.52	-1,316.88	-1,781.60	1.33	3.98	982.49
5	6,289.69	12	8	4	66.67	1,360.12	3,199.60	-1,147.82	-2,274.60	1.18	2.37	524.14
4	5,081.55	13	9	4	69.23	1,266.96	2,288.36	-1,580.28	-3,019.20	0.80	1.80	390.89
3	8,338.06	14	9	5	64.29	1,281.03	2,450.24	-638.25	-997.56	2.01	3.61	595.58
2	9,634.26	14	10	4	71.43	1,153.15	1,963.50	-474.30	-806.48	2.43	6.08	688.16
1	10,880.74	15	14	1	93.33	844.31	2,230.60	-939.60	-939.60	0.90	12.58	725.38

All 15 instances closed above the entry price  
on either day 1 or day 2.

While instances are a little low we see what appears to be a strong inclination for the market to bounce immediately, and then eventually follow through with more upside. Below is a list of all instances with a 1-day exit.

TICK TomOscillator 1-year % Rank < 1% and SPX closes at 10-day low. SPX > 200ma  
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
07/23/98	Buy	\$1,139.74	0.09%	\$904.80
07/24/98	Sell	\$1,140.80		(\$925.68)
08/04/98	Buy	\$1,072.12	0.87%	\$1,179.24
08/05/98	Sell	\$1,081.42		(\$1,374.54)
05/25/99	Buy	\$1,284.38	1.59%	\$1,574.65
05/26/99	Sell	\$1,304.76		(\$450.45)
07/24/00	Buy	\$1,464.29	0.70%	\$811.92
07/25/00	Sell	\$1,474.47		\$0.00
06/25/03	Buy	\$975.32	1.08%	\$1,143.42
06/26/03	Sell	\$985.82		(\$155.04)
06/30/03	Buy	\$974.50	0.80%	\$893.52
07/01/03	Sell	\$982.32		(\$1,264.80)
10/24/03	Buy	\$1,028.91	0.22%	\$857.48
10/27/03	Sell	\$1,031.13		\$0.00
02/22/05	Buy	\$1,184.17	0.56%	\$785.40
02/23/05	Sell	\$1,190.80		\$0.00
02/27/07	Buy	\$1,399.14	0.55%	\$1,189.25
02/28/07	Sell	\$1,406.82		(\$176.79)
03/02/07	Buy	\$1,387.17	(0.94%)	\$337.68
03/05/07	Sell	\$1,374.12		(\$950.40)
03/05/07	Buy	\$1,374.12	1.55%	\$1,712.16
03/06/07	Sell	\$1,395.41		\$0.00
07/27/07	Buy	\$1,458.95	1.03%	\$1,287.24
07/30/07	Sell	\$1,473.91		(\$314.84)
10/28/09	Buy	\$1,042.63	2.25%	\$2,299.00
10/29/09	Sell	\$1,066.11		\$0.00
04/18/11	Buy	\$1,305.14	0.57%	\$574.56
04/19/11	Sell	\$1,312.62		(\$88.92)
06/10/11	Buy	\$1,270.98	0.07%	\$472.68
06/13/11	Sell	\$1,271.83		(\$416.52)

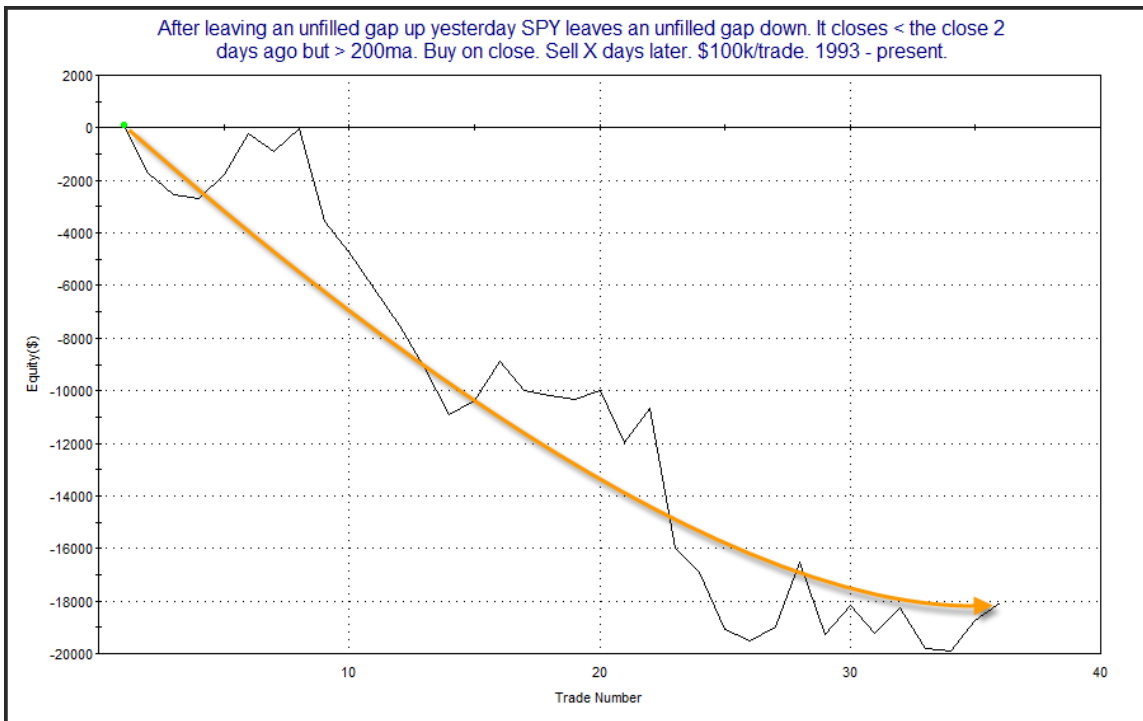
The TICK Tomoscillator suggests a good chance that the market closes up on Thursday.

But some bearish evidence emerged as well. The study below considers the last 2 days and the unfilled gaps that occurred. It was last seen in the 11/8/12 letter, and it too has been updated.

After leaving an unfilled gap up yesterday SPY leaves an unfilled gap down. It closes < the close 2 days ago but > 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	-760.95	33	15	18	45.45	1,501.03	3,949.59	-1,293.13	-3,791.20	1.16	0.97	-23.06
4	-480.81	34	15	19	44.12	1,546.80	3,637.58	-1,246.46	-4,926.08	1.24	0.98	-14.14
3	-18,042.18	36	14	22	38.89	1,008.83	2,463.47	-1,462.08	-5,321.00	0.69	0.44	-501.17
2	-14,918.49	36	15	20	41.67	779.77	1,754.40	-1,330.75	-3,893.00	0.59	0.44	-414.40
1	-877.18	36	17	18	47.22	530.56	1,325.15	-549.81	-1,564.50	0.96	0.91	-24.37

The 2-day pattern shown here hints at more downside. Below is the equity curve assuming a 3-day holding strategy.



The edge certainly does not seem to be as pronounced as it once was, and there is some risk that the tide is turning. At this point I still think it is worth considering as evidence. I will be keeping a close eye on this study going forward, though.

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



Tonight the green Aggregator Line remained well above zero. 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 now oversold versus recent expectations. So expectations are positive and the SPX is now short-term oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator system to turn back to long at the close.

Based on the current studies, expectations are slated to remain positive on Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,660.74 on Thursday. This is about 0.75% above Wednesday's close. So SPX will need to close higher of at least this much in order for the it to move from oversold back to overbought versus expectations.

With the weight of the evidence still squarely positive and SPX now short-term oversold, I am inclined to up my long exposure. The unfilled gap down hosed me on my attempt to take profits on Wednesday, but I will hold my current positions and then look to add more Catapults and more index exposure on Thursday if I can get favorable fills.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 5/28 –bullish**

The intermediate-term outlook was last updated in the 5/28/13 Letter. Link below:

[2013-05-28 QE Subscriber Letter.pdf](#)

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### **Open Catapult Triggers**

SO – buy 1/3 @ \$44.89 LIMIT (bought @ \$44.67)

**New**

SO – buy 1/3 @ \$44.26 LIMIT

EXC – buy 1/3 @ \$31.65 LIMIT

#### **Catapult for ETF's Trades**

None

#### **Broad Market Large Cap CBI – 3(SO-2, EXC)**

### **Additional New Trade Ideas**

A full listing of system triggers can be found at the [system triggers 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.

**SO – buy 1/3 Catapult position @ \$44.26 limit.** This is a Catapult trade that I will looking to enter the 2<sup>nd</sup> of 3 possible lots.

**EXC – buy 1/3 Catapult position @ \$31.65 limit.** This is a Catapult trade that I will start scaling into.

*Catapults have been very volatile over the years. I would encourage anyone interested in trading them to first explore them further. Past performance is available on the Trade Idea Results sheet, which can be found on either the downloads page or the systems page. More information can also be found using the [Catapult & CBI Presentation Link](#)*

**SPY – buy ¼ index position @ \$164.70 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to scale up if we get more selling on Thursday.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	5/23/2013	\$165.45	\$165.22	-0.14%		sell on SPX close > 1,660.73
SO (1/3)	5/29/2013	\$44.67	\$44.26	-0.92%		bought on open

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