

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 2, 2013

Volume 6 Issue 148

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Flat

## Tonight's Research Points

- Breakouts to a 50-day high that occur after a consolidation, like now, are more reliable.
- Bond rates hitting a new high along with stocks has often led to intermediate-term trouble for stocks.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is back to neutral and so am I. I took quick profits on my index trade and am now awaiting the next favorable opportunity to trade again.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
August 2, 2013	Breakout from short base. Vol lower.	1-5 days	Bullish	1.50%
August 1, 2013	End of Month < 10ma and > 200ma	1-5 days	Bullish	2.20%
<b>Active - Long Term</b>				
August 2, 2013	SPX & TNX at 50-day highs	1-20 days	Bearish	-2.70%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
July 11, 2013	5 up > 200 but < 50-high	1-15 days	Bullish	
June 28, 2013	70% Advancing Issues 3 Days In Row	1-85 days	Bullish	10.60%
June 4, 2013	Hindenburg Omen cluster	1-50 days	Bearish	-8.60%
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>				
<b>August 1, 2013</b>	<b>Fed Day Tommorrow</b>	<b>1 day</b>	<b>Bullish</b>	
<b>July 10, 2013</b>	<b>RSI(2) crosses over 99. SPX &gt; 200ma</b>	<b>1-15 days</b>	<b>Bullish</b>	<b>2.40%</b>

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

***The Evidence***

Thursday saw a strong rally. The SPX rose 1.25% while the Nasdaq and the Russell 2000 each added on 1.4%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % was 78%. Total NYSE volume fell some from Wednesday's level.

This was the 1st new high the SPX has made in over a week. The lower NYSE volume may sound concerning to some technicians, but when you're talking about the major index breakouts low volume is actually favorable. I discussed this last in the 7/30/12 subscriber letter. Today I will go through it again.

Below are 2 studies. They look at SPX breakouts to new highs. The only difference between the two is that the 1st one requires a rise in volume and the 2nd one requires a decline in volume.

**SPX closes at a 50-day high after not doing so for at least 5 days. NYSE volume is higher than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	3,684.90	60	31	29	51.67	1,760.57	4,720.04	-1,754.92	-4,162.56	1.00	1.07	61.41
9	3,453.52	60	30	30	50.00	1,827.84	4,637.68	-1,712.73	-4,614.75	1.07	1.07	57.56
8	-1,104.48	62	34	28	54.84	1,589.98	4,058.40	-1,970.13	-5,227.95	0.81	0.98	-17.81
7	9,522.35	62	33	29	53.23	1,761.30	6,337.26	-1,675.88	-5,444.25	1.05	1.20	153.59
6	10,041.93	62	39	23	62.90	1,308.17	4,166.72	-1,781.59	-4,332.45	0.73	1.25	161.97
5	8,956.36	62	34	28	54.84	1,343.78	5,231.46	-1,311.87	-4,452.84	1.02	1.24	144.46
4	1,444.46	62	38	24	61.29	992.53	3,438.24	-1,511.32	-4,407.48	0.66	1.04	23.30
3	-3,270.64	62	35	27	56.45	912.94	3,830.40	-1,304.58	-5,137.56	0.70	0.91	-52.75
2	-7,581.12	62	31	31	50.00	642.00	1,998.39	-886.56	-3,134.16	0.72	0.72	-122.28
1	1,080.30	62	32	30	51.61	417.24	1,606.89	-409.04	-2,279.88	1.02	1.09	17.42

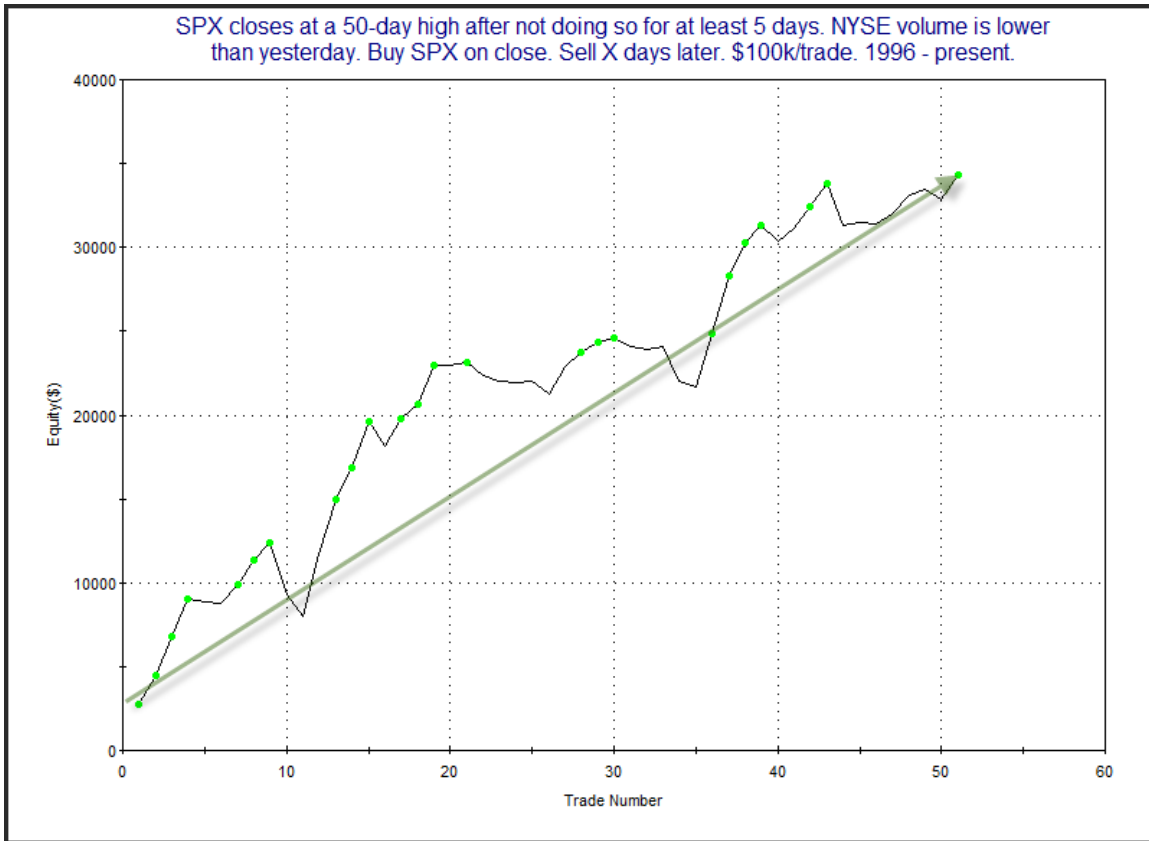
What we see here is that there is no edge apparent when the breakout is accompanied by an increase in volume. Now let's look at the study with decreasing volume.

**SPX closes at a 50-day high after not doing so for at least 5 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	27,697.94	50	32	18	64.00	2,017.32	5,960.00	-2,047.58	-8,724.80	0.99	1.75	553.96
9	33,976.70	50	37	13	74.00	1,770.21	5,147.20	-2,424.69	-7,308.66	0.73	2.08	679.53
8	29,002.04	50	33	17	66.00	1,711.50	5,096.00	-1,616.33	-4,215.62	1.06	2.06	580.04
7	20,826.28	50	31	19	62.00	1,453.97	4,112.00	-1,276.15	-3,581.76	1.14	1.86	416.53
6	32,285.64	51	32	19	62.75	1,498.14	4,158.60	-823.94	-3,334.80	1.82	3.06	633.05
5	34,308.27	51	33	18	64.71	1,508.16	3,687.06	-858.95	-3,070.40	1.76	3.22	672.71
4	26,067.48	51	35	16	68.63	1,158.41	3,349.50	-904.81	-2,913.85	1.28	2.80	511.13
3	25,289.79	51	34	17	66.67	1,150.56	3,803.64	-813.48	-2,125.44	1.41	2.83	495.88
2	12,051.78	51	35	16	68.63	746.88	2,212.98	-880.57	-2,752.74	0.85	1.86	236.31
1	5,310.97	51	33	18	64.71	427.74	1,415.70	-489.14	-1,921.32	0.87	1.60	104.14

**46 of 51 instances (90%) closed above the entry price at some point in the next 5 days.**

These stats are substantially better and suggest a decent upside edge over the next few days. Below is a profit curve assuming a 5-day holding strategy.



The upslope is fairly consistent and provides further evidence of an upside edge.

The requirement that the market has not closed at a new high for 5 days was included to show that this is a fresh breakout and not a market that is already extended upwards and has been making new highs for multiple days. To see the effect of this filter, in the 7/30/12 Letter I ran a few tests that demanded different periods without new highs. I did not re-run those tests tonight but I did re-post them below. This first one looks at a 1-day holding period.

SPX closes at a 50-day high after not doing so for at least X days. NYSE volume is lower than yesterday. Buy SPX on close. Sell 1 day later. \$100k/trade. 1996 - 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	2,193.11	29	18	11	62.07	406.87	1,384.02	-466.41	-1,921.32	0.87	1.43	75.62
9	2,193.11	29	18	11	62.07	406.87	1,384.02	-466.41	-1,921.32	0.87	1.43	75.62
8	2,273.21	30	19	11	63.33	389.67	1,384.02	-466.41	-1,921.32	0.84	1.44	75.77
7	6,469.99	36	25	11	69.44	464.02	1,415.70	-466.41	-1,921.32	0.99	2.26	179.72
6	7,773.25	39	28	11	71.79	460.85	1,415.70	-466.41	-1,921.32	0.99	2.52	199.31
5	5,171.65	48	32	16	66.67	433.44	1,415.70	-543.65	-1,921.32	0.80	1.59	107.74
4	5,026.88	57	36	21	63.16	409.26	1,415.70	-462.21	-1,921.32	0.89	1.52	88.19
3	5,975.93	64	39	25	60.94	465.77	2,204.80	-487.57	-1,921.32	0.96	1.49	93.37
2	-89.78	78	45	33	57.69	455.33	2,204.80	-623.63	-2,378.78	0.73	1.00	-1.15
1	-2,625.15	111	60	51	54.05	467.01	3,358.36	-600.90	-2,378.78	0.78	0.91	-23.65
0	-12,828.90	253	124	129	49.01	473.44	3,358.36	-554.54	-2,447.06	0.85	0.82	-50.71

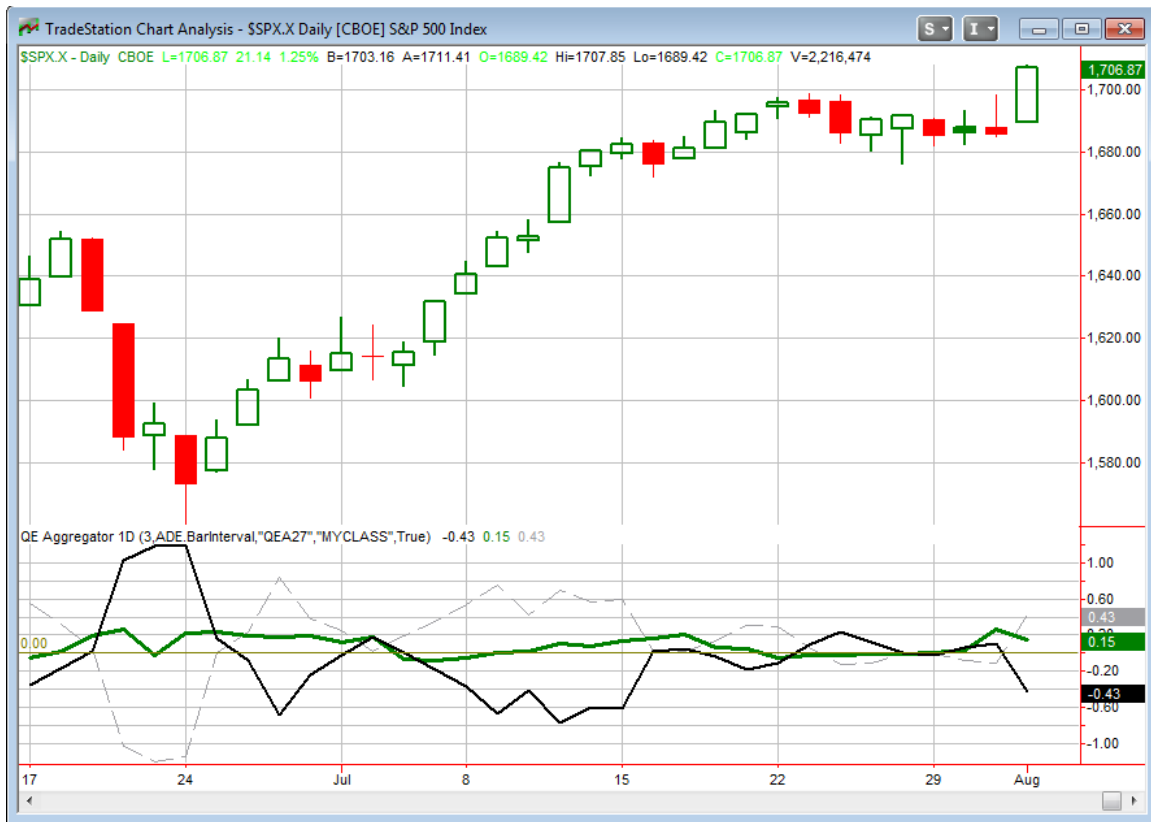
Here you see that fresh breakouts tend to do better than extended conditions. The “0-2 days” rows show slight negative expectations. Stats once you get out about 5 days look pretty strong and remain so as you go farther out.

I also ran this same test with a 3-day holding period.

SPX closes at a 50-day high after not doing so for at least X days. NYSE volume is lower than yesterday. Buy SPX on close. Sell 3 days later. \$100k/trade. 1996 - 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	20,001.69	29	21	8	72.41	1,300.66	2,641.80	-914.01	-1,802.37	1.42	3.74	689.71
9	20,001.69	29	21	8	72.41	1,300.66	2,641.80	-914.01	-1,802.37	1.42	3.74	689.71
8	20,694.11	30	22	8	73.33	1,273.01	2,641.80	-914.01	-1,802.37	1.39	3.83	689.80
7	28,117.92	36	27	9	75.00	1,343.03	3,803.64	-904.88	-1,802.37	1.48	4.45	781.05
6	27,644.72	39	28	11	71.79	1,308.12	3,803.64	-816.59	-1,802.37	1.60	4.08	708.84
5	25,910.63	48	33	15	68.75	1,177.94	3,803.64	-864.10	-2,125.44	1.36	3.00	539.80
4	28,637.28	57	39	18	68.42	1,150.09	3,803.64	-900.90	-2,125.44	1.28	2.77	502.41
3	25,936.18	64	43	21	67.19	1,140.08	3,803.64	-1,099.40	-2,690.56	1.04	2.12	405.25
2	20,773.62	78	48	30	61.54	1,139.58	3,803.64	-1,130.87	-3,887.84	1.01	1.61	266.33
1	14,931.38	107	61	46	57.01	1,133.35	4,747.13	-1,178.33	-4,848.17	0.96	1.28	139.55
0	7,553.42	183	98	85	53.55	1,006.97	4,747.13	-1,072.11	-4,848.17	0.94	1.08	41.28

Results here suggest a similar conclusion. You are better off buying breakouts that haven't made a new high for at least a week or so than you are buying any random new high. Anything beyond a week shows fairly consistent results.

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



The green Aggregator Line dipped a little but remained in positive territory. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the big rally caused the black Differential Line to drop down below zero. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is already overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator system to turn flat at the close.

Based on the current active studies expectations are set to close positive once again on Friday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be 1,686.08 on Friday. That is 1.2% below Thursday's close. That is a big drop for 1 day. So it will likely take a multi-day consolidation or pullback in order to move from overbought to oversold.

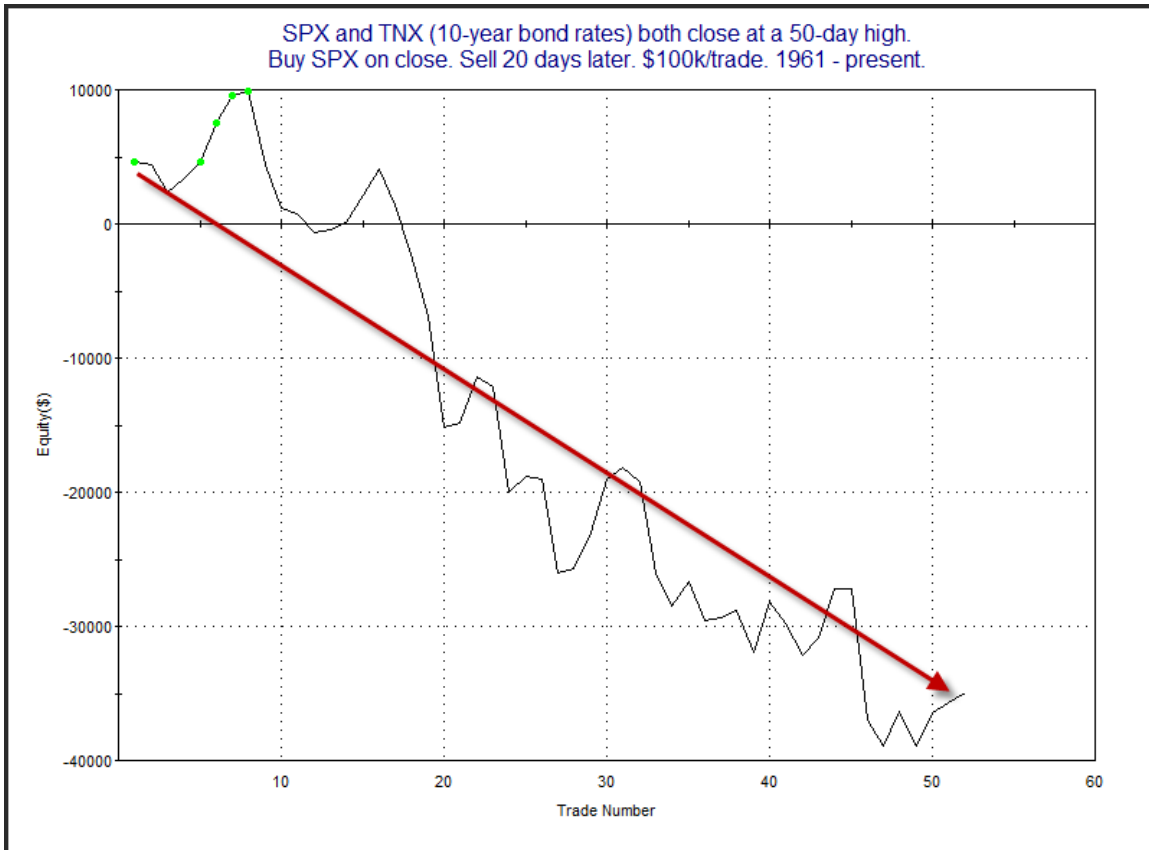
Back at an overbought level I took a quick exit on my index position Thursday afternoon. While there could be more upside in the next few days, the market is stretched and I'd rather get flat and wait for a more favorable setup.

Bond action and an intermediate-term study

Also, just a quick note on bond action. 10-year bond rates hit new highs on Thursday along with the SPX. Occurrences like this were last discussed in the 1/3/13 Subscriber Letter. I have updated the study from that letter below.

SPX and TNX (10-year bond rates) both close at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1961 - 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
50	-32,306.32	40	19	21	47.50	3,513.00	9,293.13	-4,716.83	-11,866.50	0.74	0.67	-807.66
45	-23,710.24	42	19	23	45.24	4,112.47	8,170.47	-4,428.14	-11,540.20	0.93	0.77	-564.53
40	-9,868.18	44	22	22	50.00	3,829.82	7,101.51	-4,278.38	-10,971.10	0.90	0.90	-224.28
35	-22,088.51	46	22	24	47.83	3,171.43	9,093.59	-3,827.50	-9,558.36	0.83	0.76	-480.18
30	-9,752.80	47	20	27	42.55	3,523.20	8,122.50	-2,970.99	-6,689.55	1.19	0.88	-207.51
25	-1,027.33	49	22	27	44.90	2,988.04	7,845.48	-2,472.75	-6,261.07	1.21	0.98	-20.97
20	-34,924.24	52	27	25	51.92	1,757.74	4,616.92	-3,295.33	-9,695.84	0.53	0.58	-671.62
15	-23,751.97	52	28	24	53.85	1,653.18	3,500.32	-2,918.38	-9,608.60	0.57	0.66	-456.77
10	-7,735.51	58	34	24	58.62	1,265.10	3,263.44	-2,114.53	-8,683.66	0.60	0.85	-133.37
5	-5,010.27	76	41	35	53.95	989.45	5,231.46	-1,302.22	-6,088.44	0.76	0.89	-65.92

Generally it seems that higher interest rates have often made bonds an attractive investment. This may have lead people to forsake stocks in favor of lower risk returns with improved yield. Implications of this study appear to be longer-term in nature. To help visualize how this edge has played out over time I have pasted below an equity curve using a 20-day exit strategy.



Despite recent wiggles, the downside edge appears to still be intact.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 7/29 – somewhat bullish***

The intermediate-term outlook was last updated in the 7/29 subscriber letter. Link below:

[2013-07-29 QE Subscriber Letter.pdf](#)

## **Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

### ***Open Catapult Triggers***

*none*

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

*None*

### ***Broad Market Large Cap CBI – 0***

## **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.*

*None tonight..*

## **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
<i>SPY(1/4)</i>	<i>7/31/2013</i>	<i>\$168.71</i>	<i>\$170.66</i>	<i>1.16%</i>		<i>sold on close</i>

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