

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 9, 2013

Volume 6 Issue 153

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Another Hindenburg Omen signal triggered on Thursday – potentially an intermediate-term warning.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is still bullish. I am long and looking for more upside before exiting.

**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 8, 2013	3 dn from 50-high < 10ma, > 10-low	1-4 days	Bullish	1.90%
August 2, 2013	Breakout from short base. Vol lower.	1-5 days	Bullish	1.50%
<b>Active - Long Term</b>				
July 22, 2013	New High Divergence (Study of Tops)	int term	<b>Bearish</b>	
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	<b>Bearish</b>	<b>-8.60%</b>
May 6, 2013	Nasdaq leading SPX	int term	Bullish	
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>				
August 1, 2013	End of Month < 10ma and > 200ma	1-5 days	Bullish	2.20%

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 little bit of a bounce back. The SPX, Nasdaq, and Russell 2000 all rose between 0.39% and 0.49%. Breadth was squarely positive as the NYSE Up Issues % was 64% and the Up Volume % was 73%. Total NYSE volume rose some from Wednesday's level.

The moderate bounce after 3 days of selling did little to generate strong edges. But we did see another Hindenburg Omen signal. The Hindenburg Omen looks to identify times when there is a split market developing, which could signal trouble ahead.

Below are the rules for a Hindenburg Omen signal.

1. The daily number of NYSE new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically, 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% there have only been 4 instances since 1980 where there has been a cluster of 3 or more triggers. They all saw lower prices ahead, but this does not give us a sample size that is even remotely workable. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.)
2. The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows.

3. The McClellan Oscillator is negative on the same day.
4. New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).

In the 6/10/13 Letter I looked in detail at performance following different size Hindenburg Omen signal clusters. Since the 3<sup>rd</sup> recent signal triggered on Thursday, I have updated the 3-signal table below.

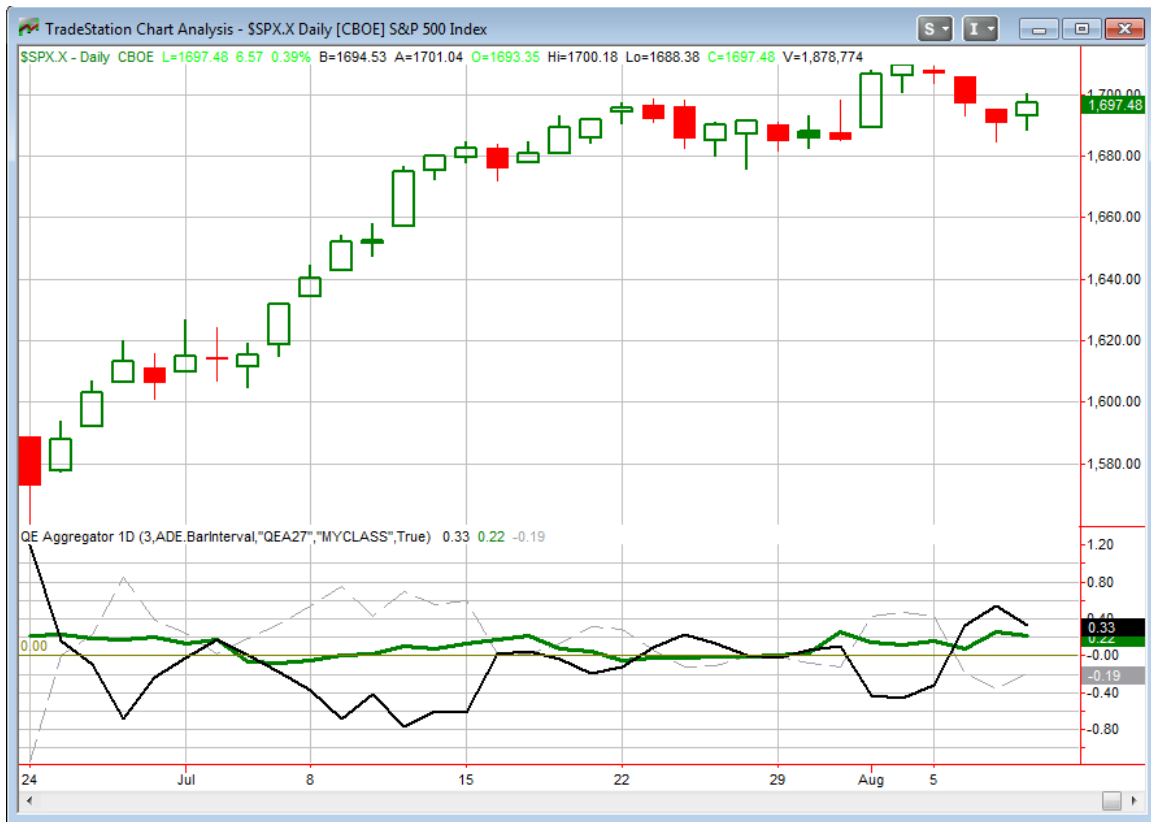
Buy SPX when the 3rd Hindenburg Omen Signal triggers. Sell X days later. \$100k/trade. 1980 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
100	18,189.83	9	6	3	66.67	6,521.01	18,512.90	-6,978.75	-16,085.07	0.93	1.87	2,021.09
95	9,304.48	9	5	4	55.56	6,711.67	16,070.66	-6,063.47	-16,770.54	1.11	1.38	1,033.83
90	101.55	9	4	5	44.44	9,036.94	18,595.58	-7,209.24	-19,277.67	1.25	1.00	11.28
85	6,033.07	9	5	4	55.56	7,852.24	18,884.96	-8,307.03	-21,362.25	0.95	1.18	670.34
80	-10,368.80	10	4	6	40.00	8,639.87	16,528.58	-7,488.05	-19,449.82	1.15	0.77	-1,036.88
75	-4,108.84	10	4	6	40.00	10,775.33	18,289.24	-7,868.36	-22,758.23	1.37	0.91	-410.88
70	-12,895.27	10	4	6	40.00	8,797.08	19,119.22	-8,013.93	-21,021.08	1.10	0.73	-1,289.53
65	-25,072.11	10	3	7	30.00	8,434.30	17,909.76	-7,196.43	-23,731.66	1.17	0.50	-2,507.21
60	-23,437.47	10	4	5	40.00	5,846.03	17,209.10	-9,364.32	-22,576.69	0.62	0.50	-2,343.75
55	-29,818.46	10	2	8	20.00	10,436.18	17,905.52	-6,336.35	-20,673.65	1.65	0.41	-2,981.85
50	-25,203.09	10	2	8	20.00	11,705.01	17,255.74	-6,076.64	-22,263.69	1.93	0.48	-2,520.31
45	-28,813.99	11	4	7	36.36	6,295.67	15,507.80	-7,713.81	-25,143.29	0.82	0.47	-2,619.45
40	-37,752.79	11	4	7	36.36	5,582.58	13,700.50	-8,583.30	-26,846.01	0.65	0.37	-3,432.07
35	-29,023.30	11	3	8	27.27	6,823.64	11,461.78	-6,186.78	-22,795.79	1.10	0.41	-2,638.48
30	-29,935.52	12	5	7	41.67	5,561.69	10,991.14	-8,249.14	-23,844.34	0.67	0.48	-2,494.63
25	-35,627.93	12	5	7	41.67	4,444.14	9,841.04	-8,264.09	-25,105.73	0.54	0.38	-2,968.99
20	-38,607.46	12	4	8	33.33	4,136.00	8,458.80	-6,893.93	-21,406.07	0.60	0.30	-3,217.29
15	-31,025.25	14	6	8	42.86	3,205.22	7,078.68	-6,282.07	-26,924.26	0.51	0.38	-2,216.09
10	-39,945.87	16	5	11	31.25	1,892.94	3,159.86	-4,491.87	-25,784.94	0.42	0.19	-2,496.62
5	-11,622.09	21	6	15	28.57	1,564.02	4,174.28	-1,400.41	-3,509.22	1.12	0.45	-553.43

Between 35 and 55 days out there appears to be some pretty poor returns on a very small sample size. For those of you who would like to review the complete Hindenburg discussion, you may use the link below:

[2013-06-10 QE Subscriber Letter.pdf](#)

I'll roll this forward on the intermediate-term Active List, but the short-term list is not getting anything new tonight.

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



The green Aggregator Line remained squarely in positive territory. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held firm 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. This caused the Aggregator system to remain long at the close.

Based on the current active studies, expectations are set to remain positive on Friday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 1,703.44 on Friday. That is a hefty 0.35% above Thursday's close. So the SPX will need to close higher by at least this much in order to move from oversold to overbought.

No short-term warning signs emerged along with Thursday's bounce. So I see no reason to bail on the long position yet. But if SPX does rally again on Friday and closes above the Differential Pivot, then the long signal will come off, and I will look to take my profits.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 8/5 – somewhat bullish**

The intermediate-term outlook was last updated in the 8/5/13 Letter. Link below:

[2013-08-05 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.*

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/7/2013	\$169.19	\$169.80	0.36%		sell SPX close > 1,703.43

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