

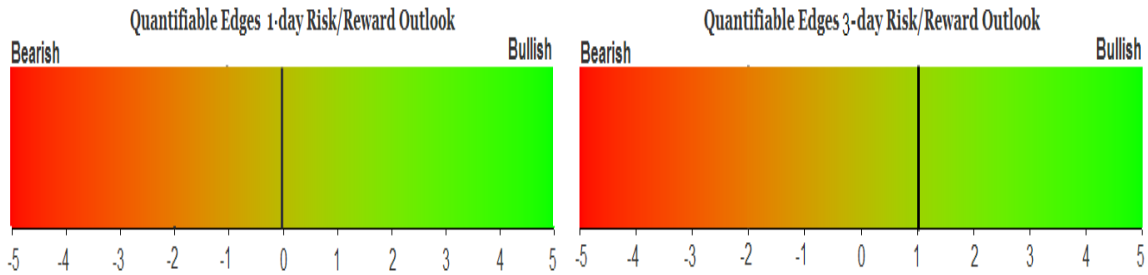
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 13, 2013

Volume 6 Issue 155

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Under similar circumstances “Turnaround Tuesday” has acted more like “Continuation Tuesday”.

## *Short-term Outlook*

### *The Bottom Line*

No strong edge right now, but with the bearish study only set to be negative for one day, it is probable the Aggregator will show an upside edge again for Wednesday.

*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 13, 2013	Continuation Tuesday	1 day	Bearish	
<b>Active - Long Term</b>				
August 12, 2013	Hindenburg Omen cluster	1-50 days	Bearish	-8.60%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
June 28, 2013	70% Advancing Issues 3 Days In Row	1-85 days	Bullish	10.60%
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 8, 2013	3 dn from 50-high < 10ma, > 10-low	1-4 days	Bullish	1.90%

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

**The Evidence**

The market finished mixed on Monday. The SPX declined 0.1%, but the Nasdaq gained 0.3%, and the Russell 2000 rose 0.5%. Breadth was near breakeven as the NYSE Up Issues % was 52% and the Up Volume % was 50%. Total NYSE declined and was again very light.

As I laid out in the “Turnaround Tuesday” study from the 9/25/12 blog, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. But I as I showed in the 1/15/13 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly the 2<sup>nd</sup> day in a row. Here are those results.

SPX closes down for exactly the 2nd day in a row. Today is Monday. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.				
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$19,399.86	Profit Factor		1.72
Gross Profit	\$46,247.98	Gross Loss		(\$26,848.12)
Total Number of Trades	67	Percent Profitable		50.75%
Winning Trades	34	Losing Trades		33
Even Trades	0			
Avg. Trade Net Profit	\$289.55	Ratio Avg. Win:Avg. Loss		1.67
Avg. Winning Trade	\$1,360.23	Avg. Losing Trade		(\$813.58)
Largest Winning Trade	\$10,716.03	Largest Losing Trade		(\$2,190.26)

The win rate is 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (unlike now).

SPX closes down for exactly the 2nd day in a row. Today is Monday. SPX < 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

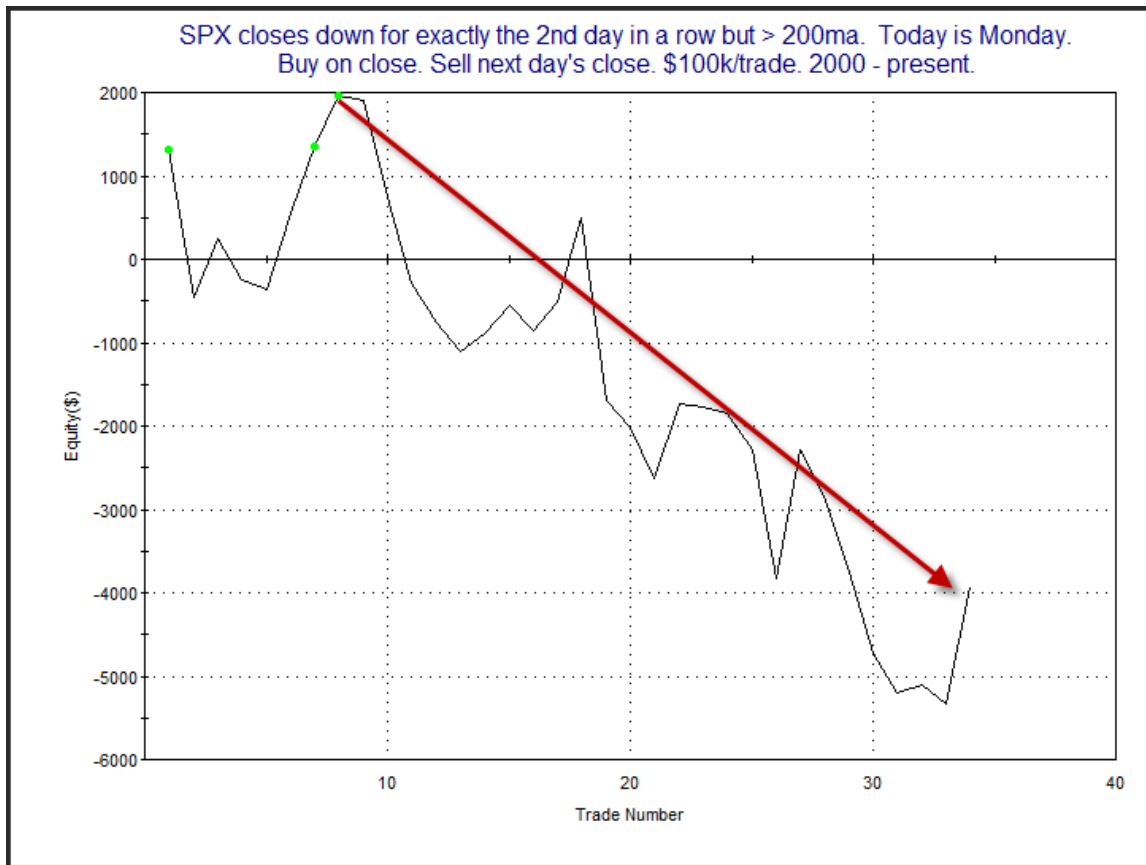
TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$23,315.03	Profit Factor	2.83
Gross Profit	\$36,050.39	Gross Loss	(\$12,735.36)
Total Number of Trades	33	Percent Profitable	63.64%
Winning Trades	21	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$706.52	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,716.69	Avg. Losing Trade	(\$1,061.28)

We see here just under half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.  
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	(\$3,915.17)	Profit Factor	0.72
Gross Profit	\$10,197.59	Gross Loss	(\$14,112.76)
Total Number of Trades	34	Percent Profitable	38.24%
Winning Trades	13	Losing Trades	21
Even Trades	0		
Avg. Trade Net Profit	(\$115.15)	Ratio Avg. Win:Avg. Loss	1.17
Avg. Winning Trade	\$784.43	Avg. Losing Trade	(\$672.04)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn’t fit here. In fact, the tendency appears to be a continuation of the 2-day pullback. “Continuation Tuesday” appears to be more appropriate. Below is the profit curve.



Definitely choppy, and the last instance did not conform, but overall the last 20+ instances have seen quite a bit of downside. The edge here is not clear-cut, but there certainly appears to be a small bearish tendency. I have included this on the short-term Active List.

In the Overnight Edges trading room Monday afternoon I also broke down this study by night & day performance. The results there were interesting. To do this I needed to use SPY instead of SPX, so the instances are slightly different. Below is the night and day returns of Monday’s close to Tuesdays close after 2 down days above the 200ma.

SPY closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.  
Buy on close. Sell tomorrow's open. \$100k/trade. 2000 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ▲</span>			
All Trades			
Total Net Profit	\$5,690.31	Profit Factor	2.55
Gross Profit	\$9,367.34	Gross Loss	(\$3,677.03)
Total Number of Trades	44	Percent Profitable	70.45%
Winning Trades	31	Losing Trades	12
Even Trades	1		
Avg. Trade Net Profit	\$129.33	Ratio Avg. Win:Avg. Loss	0.99
Avg. Winning Trade	\$302.17	Avg. Losing Trade	(\$306.42)
Largest Winning Trade	\$1,116.18	Largest Losing Trade	(\$1,023.40)

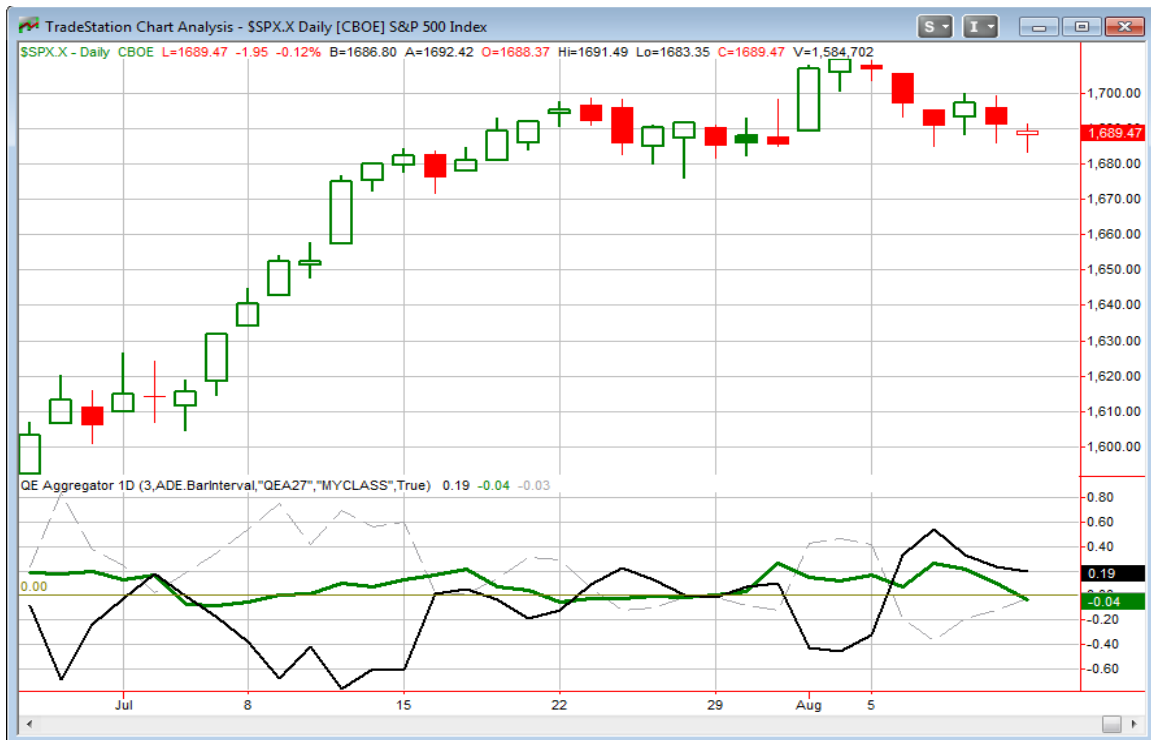
SPX closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.  
Buy tomorrow's open. Sell tomorrow's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ▲</span>			
All Trades			
Total Net Profit	(\$9,108.48)	Profit Factor	0.57
Gross Profit	\$12,176.76	Gross Loss	(\$21,285.24)
Total Number of Trades	44	Percent Profitable	40.91%
Winning Trades	18	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	(\$207.01)	Ratio Avg. Win:Avg. Loss	0.83
Avg. Winning Trade	\$676.49	Avg. Losing Trade	(\$818.66)
Largest Winning Trade	\$2,457.00	Largest Losing Trade	(\$1,910.65)

As you can see, the negative tendency is all due to Tuesday's day session. The overnight actually appears bullish. Day traders may want to keep this in mind, especially if the market gaps up on Tuesday.

The last remaining short-term bullish study expired on Monday, so that leaves us with tonight's bearish study as the only one on the Short-Term Active List.

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



Tonight's study helped push the green Aggregator Line down below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line held firmly above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are negative but the SPX is oversold. 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 signal to turn flat at the close.

Tonight's study is only good for 1 day, and it is the only study left on the short-term active list. So expectations over the next few days will be largely dependent on what new studies emerge. If none emerge then expectations will turn positive thanks to the intermediate-term studies. The Differential Pivot will be 1,706.76 on Tuesday. That is 1.0% above Friday's close. So the SPX will need to close higher by at least this much in order to move from oversold to overbought.

Expectations are now slightly negative, but they are only set to remain so for 1 day. After that a bounce still looks a bit more likely. I have a small amount of index exposure at this point. With expectations only likely to remain negative for 1 day, I will maintain my ¼ size long position. If SPX closes above the Differential Pivot, then I'll exit. I will not be looking add more exposure on Tuesday. On another note, the gap up in AAPL was unfortunate since it did not allow the trade idea from last night to fill. After gapping higher, AAPL never looked back and ended up rising over 3% on the day.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 8/12 – somewhat bullish**

The intermediate-term outlook was last updated in the 8/12 letter. Link below:

[2013-08-12 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.* (AAPL did not fill and is no longer eligible.)

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/7/2013	\$169.19	\$169.11	-0.05%		sell SPX close > 1,706.76

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