

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 16, 2013

Volume 6 Issue 158

Market Overview



Signals Overview

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

Tonight's Research Points

- Very strong selling that put the SPX at a 20-day low while $> 200ma$ suggests an upside edge.
- When SPY has left an unfilled gap down and closed poorly after already being positioned in a short-term move lower but a long-term move higher, it has generally led to higher prices over the next several days.

Short-term Outlook

The Bottom Line

Thursday's selloff triggered more bullish short-term evidence. And with the market now strongly oversold there appears to be a substantial upside edge..

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 16, 2013	System 1100524	1-7 days	Bullish	
August 16, 2013	Unfill gap > 200. Close low 25% range.	1-8 days	Bullish	3.30%
August 15, 2013	QE Buying Power System	1-5 days	Bullish	
Active - Long Term				
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	

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

The Evidence

Thursday started off bad and never got better. All the major indices had tough days. The SPX lost 1.4%, the Nasdaq dropped 1.7% and the Russell 2000 sank 1.9%. Breadth was strongly negative as the NYSE Up Issues % was 15% and the Up Volume % was 24%. Total NYSE volume rose to the highest level in over a week.

The strong selling triggered a number of studies in the Quantifinder. I have chosen the most compelling to highlight below.

In 2/26/13 letter I showed a study that examined large losses that closed at intermediate-term lows. I have updated that study below.

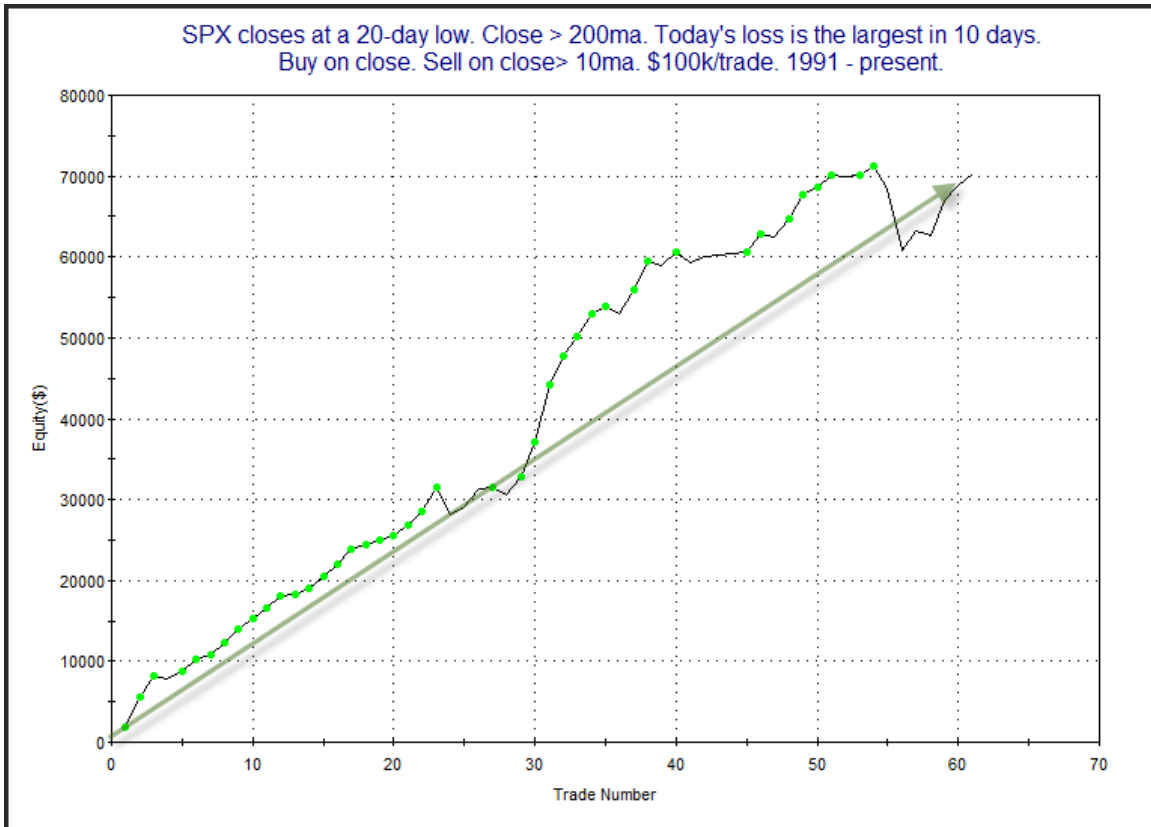
SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	52,116.23	59	40	19	67.80	2,485.03	5,656.16	-2,488.68	-13,993.88	1.00	2.10	883.33
9	66,589.07	60	45	15	75.00	2,193.91	5,761.56	-2,142.46	-10,059.36	1.02	3.07	1,109.82
8	59,951.35	60	42	18	70.00	2,373.17	6,960.84	-2,206.76	-14,092.68	1.08	2.51	999.19
7	75,133.51	61	47	14	77.05	2,213.29	7,500.06	-2,063.64	-8,018.76	1.07	3.60	1,231.70
6	68,136.83	62	45	17	72.58	2,233.19	7,272.06	-1,903.33	-7,966.32	1.17	3.11	1,098.98
5	63,742.82	62	39	23	62.90	2,286.03	7,070.28	-1,104.89	-3,385.80	2.07	3.51	1,028.11
4	43,067.98	64	41	23	64.06	1,799.92	4,731.13	-1,336.03	-3,863.84	1.35	2.40	672.94
3	36,073.08	64	43	21	67.19	1,437.20	4,277.94	-1,225.07	-5,331.20	1.17	2.40	563.64
2	37,490.96	65	43	22	66.15	1,312.92	4,809.66	-862.02	-3,863.25	1.52	2.98	576.78
1	16,057.30	67	44	23	65.67	735.37	5,117.46	-708.65	-2,162.04	1.04	1.99	239.66

Results here are quite bullish. Some subscribers may recognize the setup as system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days.
Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	\$70,344.19	Profit Factor	4.72
Gross Profit	\$89,230.07	Gross Loss	(\$18,885.88)
Total Number of Trades	61	Percent Profitable	81.97%
Winning Trades	50	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	\$1,153.18	Ratio Avg. Win:Avg. Loss	1.04
Avg. Winning Trade	\$1,784.60	Avg. Losing Trade	(\$1,716.90)
Largest Winning Trade	\$7,070.28	Largest Losing Trade	(\$7,630.40)

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade is a big one. It triggered shortly before the US debt downgrade in 2011. Below is a profit curve where it can be seen.



The drop was large but it has already nearly been made up for in just a few instances.

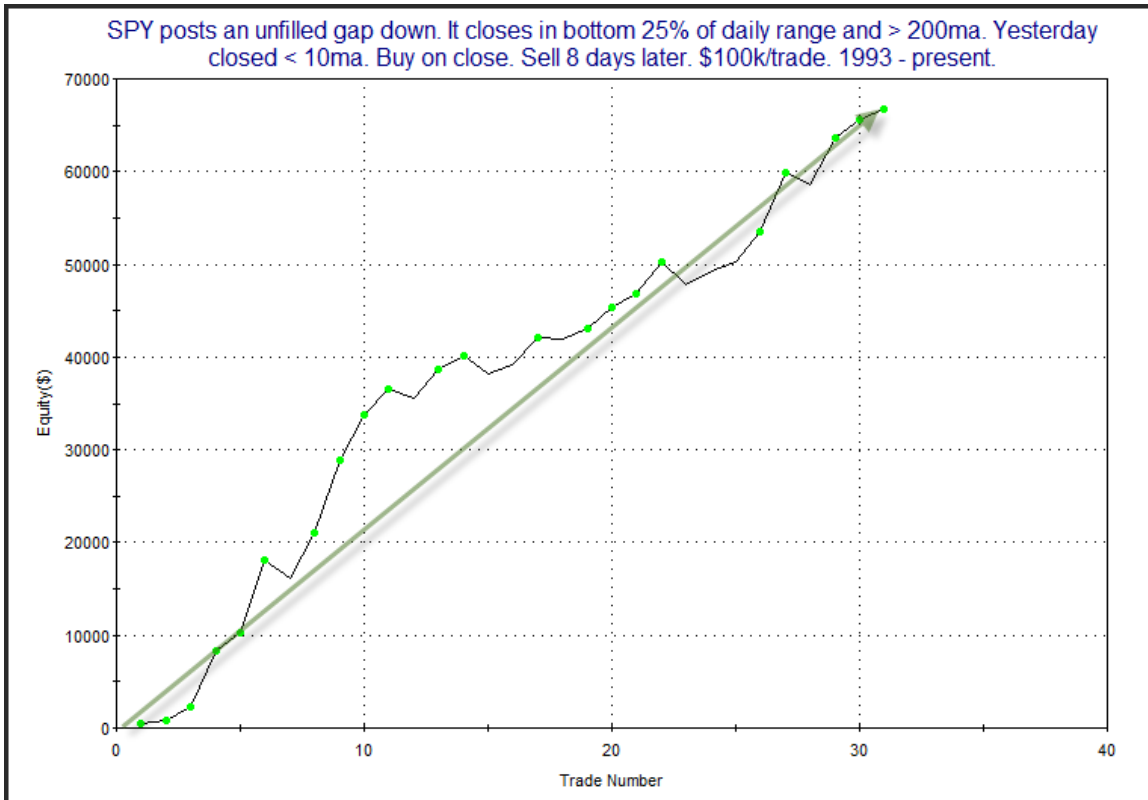
This next study was last seen in the 12/31/12 Subscriber Letter. It looks at unfilled gaps down that close poorly while the market is in a short-term downtrend, but a long-term uptrend. Results are updated.

SPY posts an unfilled gap down. It closes in bottom 25% of daily range and > 200ma. Yesterday closed < 10ma. 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
10	63,352.59	30	23	7	76.67	3,015.22	9,282.24	-856.77	-1,621.08	3.52	11.56	2,111.75
9	65,955.02	31	25	6	80.65	2,830.11	7,585.77	-799.63	-1,540.26	3.54	14.75	2,127.58
8	66,688.12	31	25	6	80.65	3,024.32	7,858.26	-1,486.65	-2,373.11	2.03	8.48	2,151.23
7	58,118.74	32	25	7	78.13	2,750.60	8,324.13	-1,520.90	-3,146.11	1.81	6.46	1,816.21
6	50,917.37	32	24	8	75.00	2,574.52	7,873.02	-1,358.88	-4,076.73	1.89	5.68	1,591.17
5	43,794.02	32	22	10	68.75	2,506.64	8,239.74	-1,135.20	-3,731.61	2.21	4.86	1,368.56
4	37,003.54	33	23	10	69.70	2,081.84	5,581.02	-1,087.87	-2,342.19	1.91	4.40	1,121.32
3	34,900.63	35	25	10	71.43	1,832.73	5,117.85	-1,091.76	-2,897.57	1.68	4.20	997.16
2	34,619.46	35	28	7	80.00	1,583.90	5,477.88	-1,389.96	-2,657.80	1.14	4.56	989.13
1	24,039.96	35	27	8	77.14	1,056.79	5,764.38	-561.66	-1,269.00	1.88	6.35	686.86

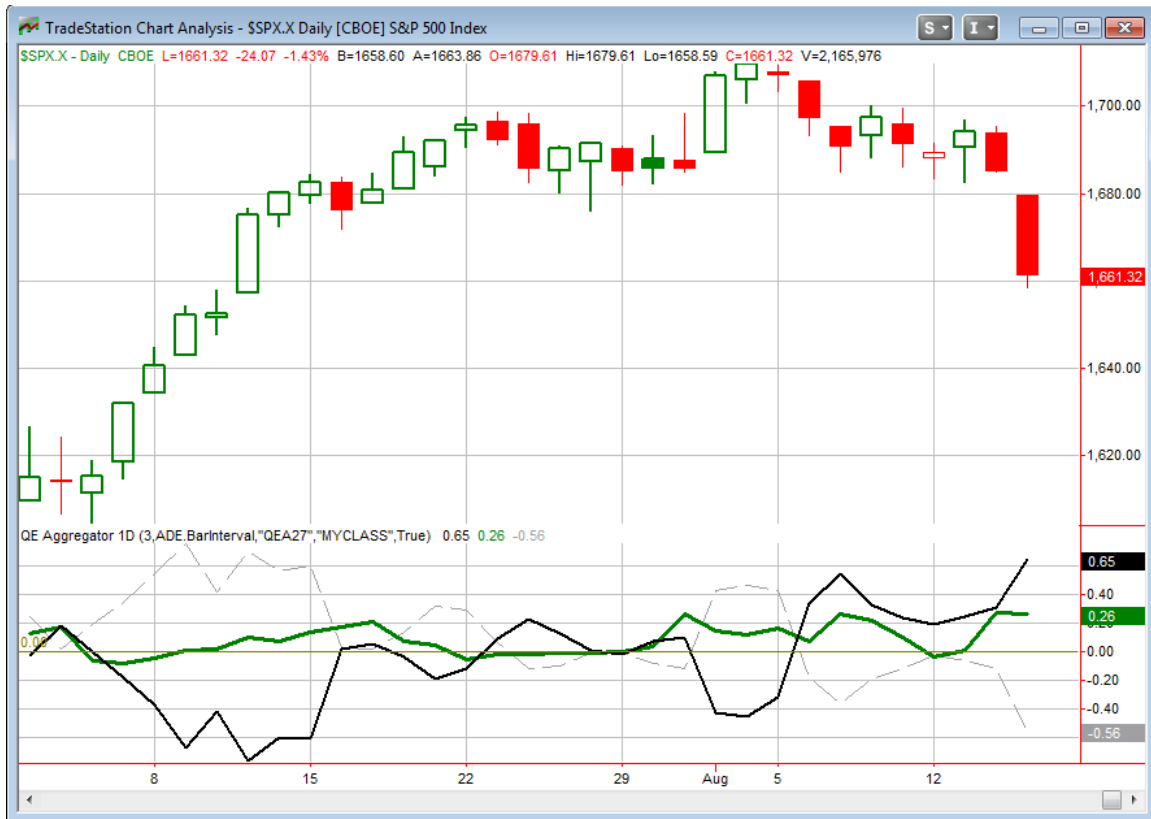
31 of 35 instances (89%) closed above the entry price at some point in the next 4 days.

Results are strong right from the start and look good throughout the first two weeks. Below I have posted the equity curve assuming an 8-day holding strategy.



Nothing wrong with this curve. So the unfilled gap down and weak price action on Thursday appear to suggest a bullish edge.

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



With the bullish studies tonight the green Aggregator Line is still firmly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also well 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 signal to remain long at the close.

With the short-term studies all pointing higher, expectations are set to remain bullish on Friday. But that could change if strong bearish evidence emerges. The Differential Pivot will be 1694.76 on Friday. That is a whopping 2.0% above Thursday's close. That's unlikely to happen in one day. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

I was worried about a possible breakdown yesterday, but was a bit surprised that it came with such a strong gap down and further fall on Thursday. Still, short-term bullish evidence is building and there appears to be a good chance of a bounce in the next few days. I will continue to look to add long exposure, since I believe we are seeing at least a decent swing opportunity here.

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

New

GILD – 1/3 @ \$56.89 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(GILD)

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.

GILD – buy 1/3 Catapult position @ \$56.89 LIMIT. Based on Catapult trigger shown above.

XIV – buy ½ size position @ \$26.00 LIMIT. I'll scale in to the 2nd half of the XIV if I can get a favorable fill.

SPY – buy ¼ index position @ \$165.50 LIMIT ON CLOSE. Based on the short-term outlook above. I will only add this 3rd lot if there is another sizable drop on Friday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/7/2013	\$169.19	\$166.38	-1.66%		Aggregator
SPY(1/4)	8/15/2013	\$167.41	\$166.38	-0.62%		bought on open
XIV(1/2)	8/15/2013	\$26.99	\$26.49	-1.85%		bought on open

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