

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 20, 2013

Volume 6 Issue 160

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 Lower highs, lows & closes have consistently led to a bounce going into Turnaround Tuesday.

Short-term Outlook

The Bottom Line

The bullish evidence continues to build, and the market is now more short-term oversold than it has been in a long time. This appears to be a favorable short-term buying opportunity. I am fairly heavily long and looking to get longer.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 20, 2013	3 lower H-L-C > 200ma	1-6 days	Bullish	2.20%
August 19, 2013	3 gaps down & closes under open	1-5 days	Bullish	2.20%
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

The selloff continued on Monday. The SPX lost another 0.6%, the Nasdaq dropped 0.4% and the Russell 2000 sank 1.1%. Breadth was again strongly negative as the NYSE Up Issues % was 20% and the Up Volume % was 15%. Total NYSE volume fell from Friday's high opex levels.

The Quantifinder had a number of studies trigger on Monday afternoon. There were a few breadth-related studies that appeared to trigger, but did so erroneously. There were also a few others, that were price-based. But the most interesting, and compelling studies I looked at night did not come from the Quantifinder, but rather from some studies I looked at on Overnight Edges this afternoon.

There I noted that there was a strong bullish overnight edge when ES had made at least three consecutive lower highs, lows, and closes. I also noted that this edge was even more substantial when it occurred on a Monday. This isn't surprising since **Tuesdays are known for their turnaround capabilities**. The study below uses SPY and it looks at swing term implications of the 3+ days of lower HLC's.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row.
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	73,631.25	111	67	44	60.36	2,411.89	9,205.12	-1,999.21	-7,677.25	1.21	1.84	663.34
4	94,182.55	111	73	38	65.77	2,099.43	8,971.36	-1,554.63	-4,660.94	1.35	2.59	848.49
3	80,717.80	112	76	36	67.86	1,745.15	8,565.74	-1,442.05	-3,906.68	1.21	2.55	720.69
2	52,053.11	119	76	42	63.87	1,476.13	12,814.15	-1,431.72	-9,235.25	1.03	1.87	437.42
1	67,938.52	147	96	51	65.31	1,386.41	14,507.65	-1,277.58	-7,436.23	1.09	2.04	462.17

As you can see, the edge appears to be fairly potent. But as I mentioned above, it has looked even better going into Tuesdays. Here are the numbers with the Monday filter added.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday.
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
6	68,997.84	32	25	7	78.13	3,204.79	12,086.91	-1,588.84	-3,988.72	2.02	7.20	2,156.18
5	48,540.72	34	22	12	64.71	3,369.91	9,205.12	-2,133.11	-4,985.90	1.58	2.90	1,427.67
4	44,207.84	34	23	11	67.65	2,633.01	8,971.36	-1,486.49	-3,428.66	1.77	3.70	1,300.23
3	41,169.08	34	27	7	79.41	1,925.96	8,565.74	-1,547.40	-3,346.70	1.24	4.80	1,210.86
2	31,769.55	34	25	9	73.53	1,602.88	5,165.69	-922.50	-1,899.52	1.74	4.83	934.40
1	23,651.88	34	22	12	64.71	1,567.42	4,645.80	-902.61	-2,736.00	1.74	3.18	695.64

These are even better, and suggest a strong upside edge. I further decided to break them out based on the long-term trend. When I did so, I found there to be a substantial difference in expectations. Let's first look at instances below the 200ma.

SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday.
Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

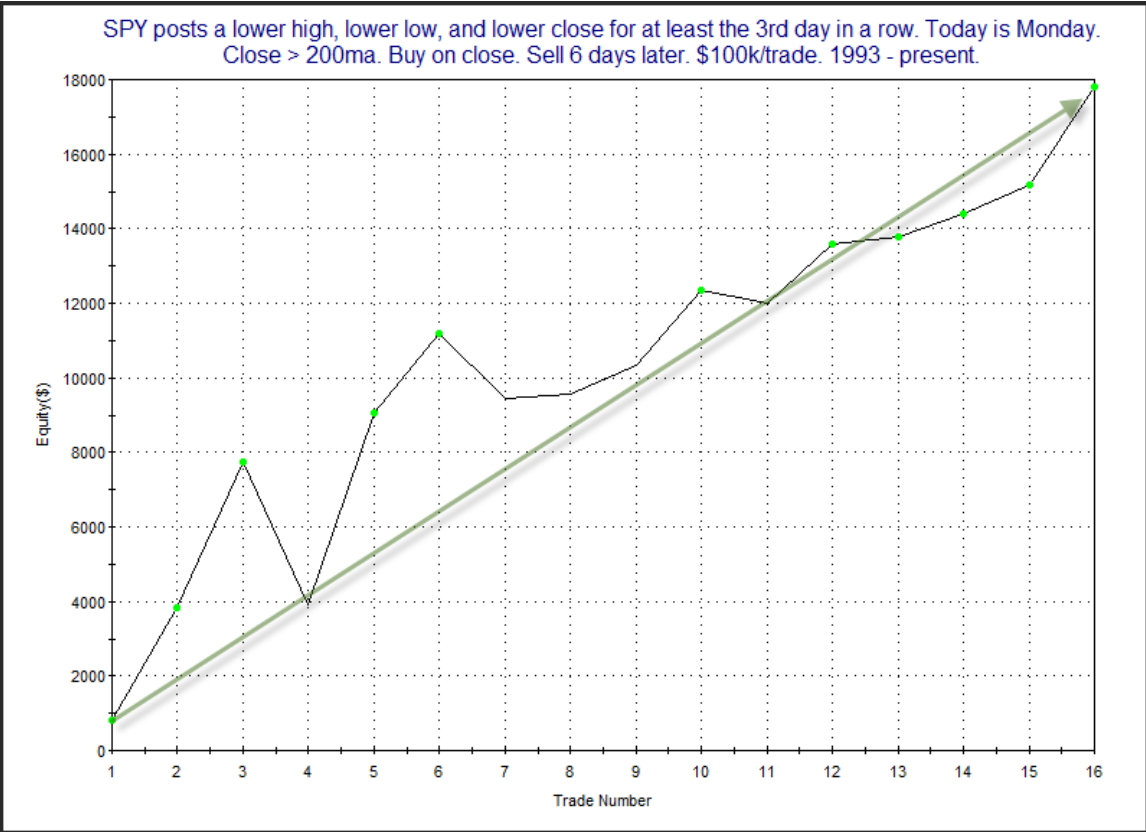
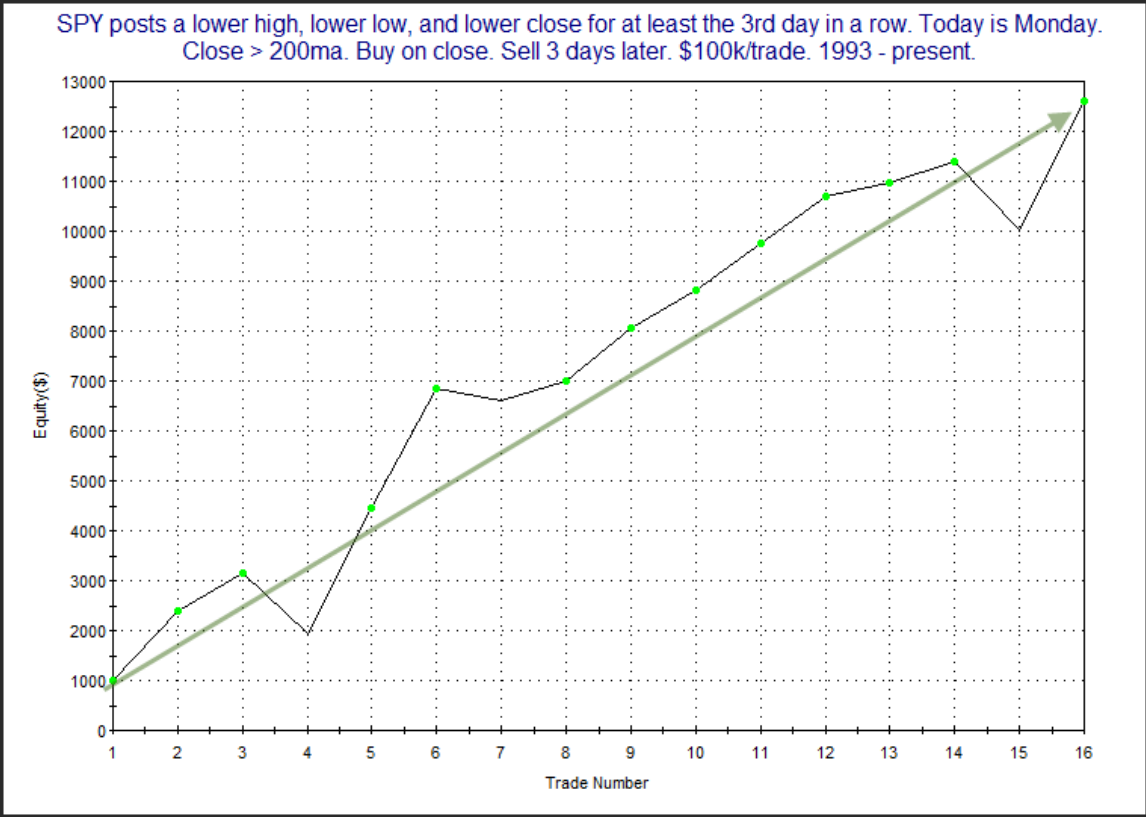
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
6	51,180.25	16	12	4	75.00	4,700.17	12,086.91	-1,305.44	-3,988.72	3.60	10.80	3,198.77
5	34,837.45	18	11	7	61.11	4,767.09	9,205.12	-2,514.36	-4,985.90	1.90	2.98	1,935.41
4	33,034.34	18	12	6	66.67	3,675.10	8,971.36	-1,844.48	-3,428.66	1.99	3.98	1,835.24
3	28,568.86	18	14	4	77.78	2,615.60	8,565.74	-2,012.39	-3,346.70	1.30	4.55	1,587.16
2	22,714.96	18	13	5	72.22	2,145.79	5,165.69	-1,036.06	-1,899.52	2.07	5.38	1,261.94
1	20,756.54	18	12	6	66.67	2,345.47	4,645.80	-1,231.53	-2,736.00	1.90	3.81	1,153.14

17 of 18 instances (94%) closed above the entry price at some point in the next 3 days.

The numbers here are incredibly strong from an average trade standpoint. This is likely due in large part to the increased volatility often seen during long-term downtrends. So let's take a look and see how the setup has fared when SPY has been above its 200ma.

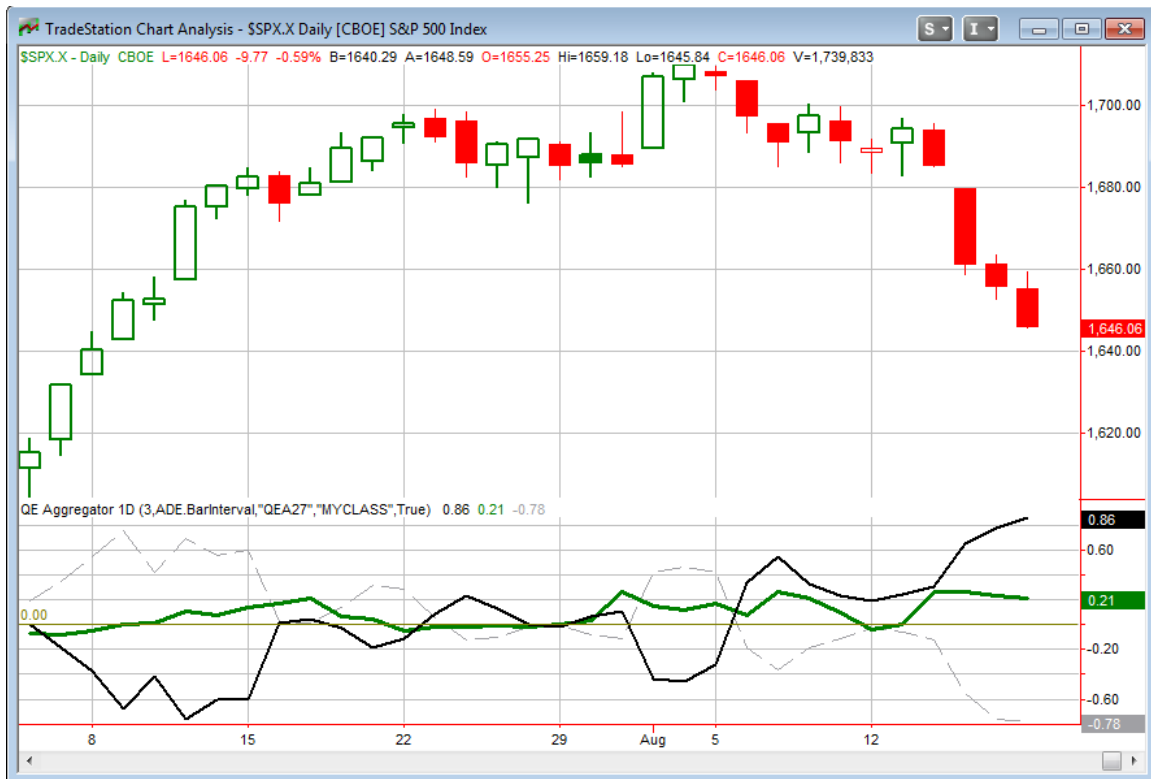
SPY posts a lower high, lower low, and lower close for at least the 3rd day in a row. Today is Monday. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
6	17,817.58	16	13	3	81.25	1,824.44	5,126.04	-1,966.71	-3,827.50	0.93	4.02	1,113.60
5	13,703.28	16	11	5	68.75	1,972.74	4,541.40	-1,599.37	-4,057.15	1.23	2.71	856.46
4	11,173.50	16	11	5	68.75	1,496.18	3,363.54	-1,056.90	-1,484.00	1.42	3.11	698.34
3	12,600.22	16	13	3	81.25	1,183.27	2,556.72	-927.41	-1,335.78	1.28	5.53	787.51
2	9,054.59	16	12	4	75.00	1,014.74	2,025.36	-780.57	-904.24	1.30	3.90	565.91
1	2,895.34	16	10	6	62.50	633.75	1,211.04	-573.69	-1,677.36	1.10	1.84	180.96
All 16 instances closed above the entry price at some point in the next 4 days.												

The size of the bounces is not nearly as large as during long-term downtrends, but they couldn't get any more reliable. There has yet to be an instance where SPY has failed to bounce at some point in the next four days. The 3 and 6 day holding periods show some of the best numbers, and also some of the best profit curves. I have produced those profit curves below.



Both of these curves look quite similar. The fairly consistent movement from lower left to upper right is an encouraging sign for the bulls. I have therefore included the study on the short-term Active List.

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



With all bullish studies still on the short-term list the green Aggregator Line remains 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 now farther above 0 than it has been in months. The positive Differential Line reading means the SPX is strongly oversold versus recent expectations. So expectations are positive and the SPX is extremely 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 Tuesday. It's unlikely that strong enough bearish evidence would emerge to change this. The Differential Pivot will be 1,670.09 on Tuesday. That is a very large 1.5% above Monday's close. That's unlikely to happen all in one day. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

Everything continues to point at the likelihood of at least a short-term bounce. I am now fairly heavily positioned and looking to take advantage of that bounce. I entered my third out of a possible 4 index lots at the close on Monday. Two more Catapult signals triggered on Monday. This brings the CBI up to four. That is still considered a neutral number. I rarely get all-in without the CBI at least hitting seven or eight, and often ten. So for Tuesday I will be looking to put on additional catapult positions, but I do not intend to add the last SPY position just yet.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/19 – somewhat bullish

The intermediate-term outlook was last updated in the 8/19 Letter. Link below:

[2013-08-19 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

GILD – 1/3 @ \$56.89 limit (filled @ \$56.76)

DD – 1/3 @ \$58.28 limit (filled @ \$58.15)

New

DD – 1/3 @ \$57.53 limit

MO – 1/3 @ \$33.93 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 4/3(GILD, DD-2, MO)

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.

DD – buy 1/3 Catapult position @ \$57.53 LIMIT. Based on Catapult trigger shown above.

MO – buy 1/3 Catapult position @ \$33.93 LIMIT. Based on Catapult trigger shown above.

XIV – buy ½ size position @ \$25.50 LIMIT ON CLOSE. I'll scale in to the 2nd half of the XIV if it continues to spike down and closes poorly.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/7/2013	\$169.19	\$164.77	-2.61%		Aggregator
SPY(1/4)	8/15/2013	\$167.41	\$164.77	-1.58%		Aggregator
XIV(1/2)	8/15/2013	\$26.99	\$26.25	-2.74%		Aggressive VIX
GILD(1/3)	8/16/2013	\$56.76	\$57.34	1.02%		Catapult
SPY(1/4)	8/19/2013	\$164.77	\$164.77	0.00%		Aggregator
DD(1/3)	8/19/2013	\$58.15	\$57.57	-1.00%		Catapult

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