

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 21, 2013

Volume 6 Issue 161

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The unfilled gap up without a higher high suggests a 1-day bearish edge.
- The lower volume on the bounce from the strongly oversold conditions is favorable to having it occur on rising volume.

## *Short-term Outlook*

### *The Bottom Line*

Most studies suggest there should be more to this bounce. I am long and looking primarily to hold my same index position for another day.

**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 21, 2013	Unfilled gap up but lower high.	1 day	Bearish	
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	
<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	

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

***The Evidence***

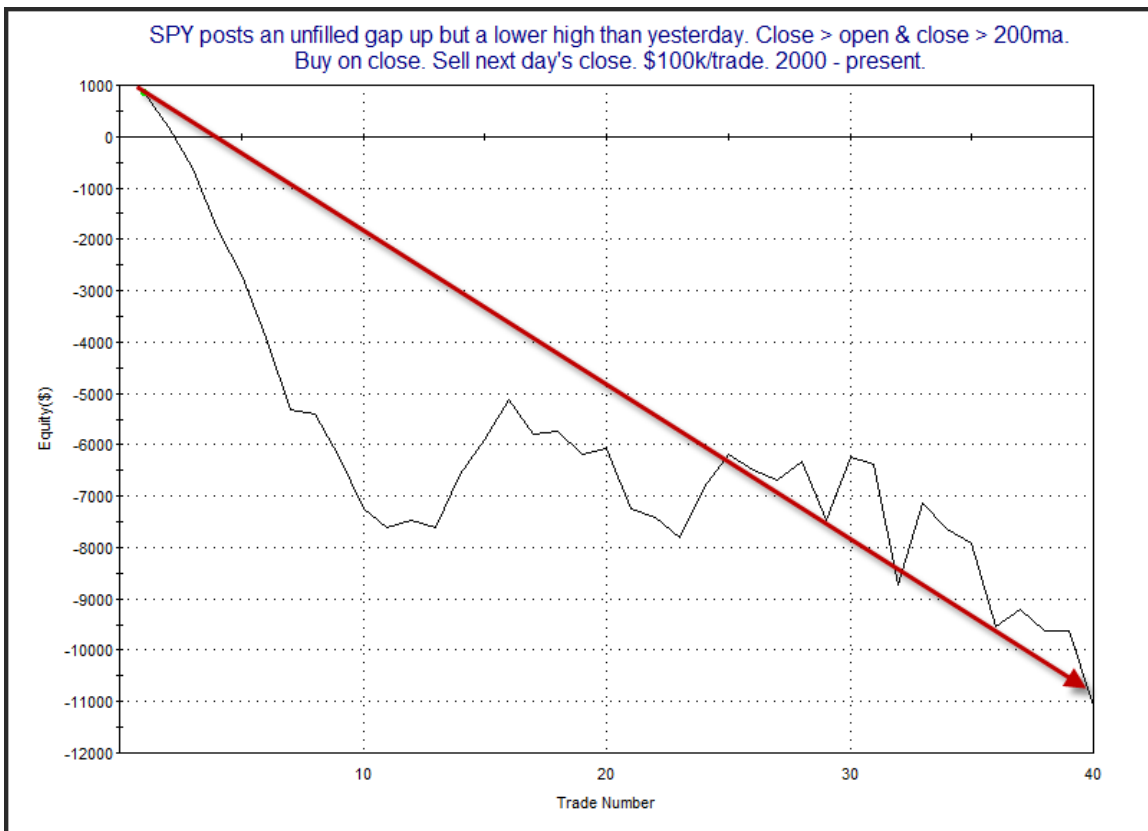
Turnaround Tuesday was looking pretty strong for a while, but a good portion of the gains were given back in the last half hour. Still, the SPX managed to gain 0.4%, the Nasdaq rose 0.7% and the Russell 2000 rallied 1.5%. Breadth was strongly positive as the NYSE Up Issues % was 76% and the Up Volume % was 74%. Total NYSE volume dipped some from Monday's level.

There was a bearish study that triggered in the Quantifinder on Tuesday that seemed worth some attention. It was one we last saw in the 3/27/13 Letter. It looks at days like Tuesday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results of that study below.

SPY posts an unfilled gap up but a lower high than yesterday. Close > open & close > 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	(\$11,078.95)	Profit Factor	0.44
Gross Profit	\$8,792.37	Gross Loss	(\$19,871.32)
Total Number of Trades	40	Percent Profitable	32.50%
Winning Trades	13	Losing Trades	26
Even Trades	1		
Avg. Trade Net Profit	(\$276.97)	Ratio Avg. Win:Avg. Loss	0.88
Avg. Winning Trade	\$676.34	Avg. Losing Trade	(\$764.28)
Largest Winning Trade	\$1,600.62	Largest Losing Trade	(\$2,348.90)

Implications here appear somewhat bearish. Below is a profit curve that shows how the downside edge has played out over time.



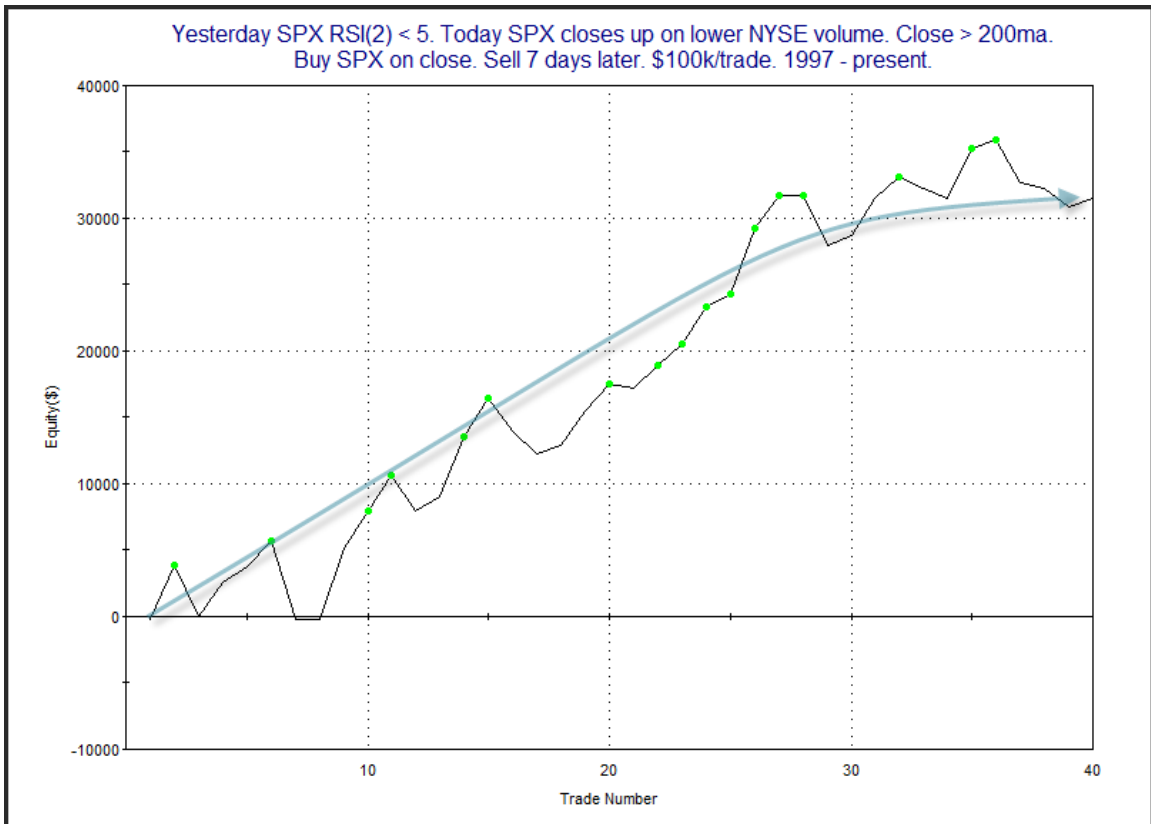
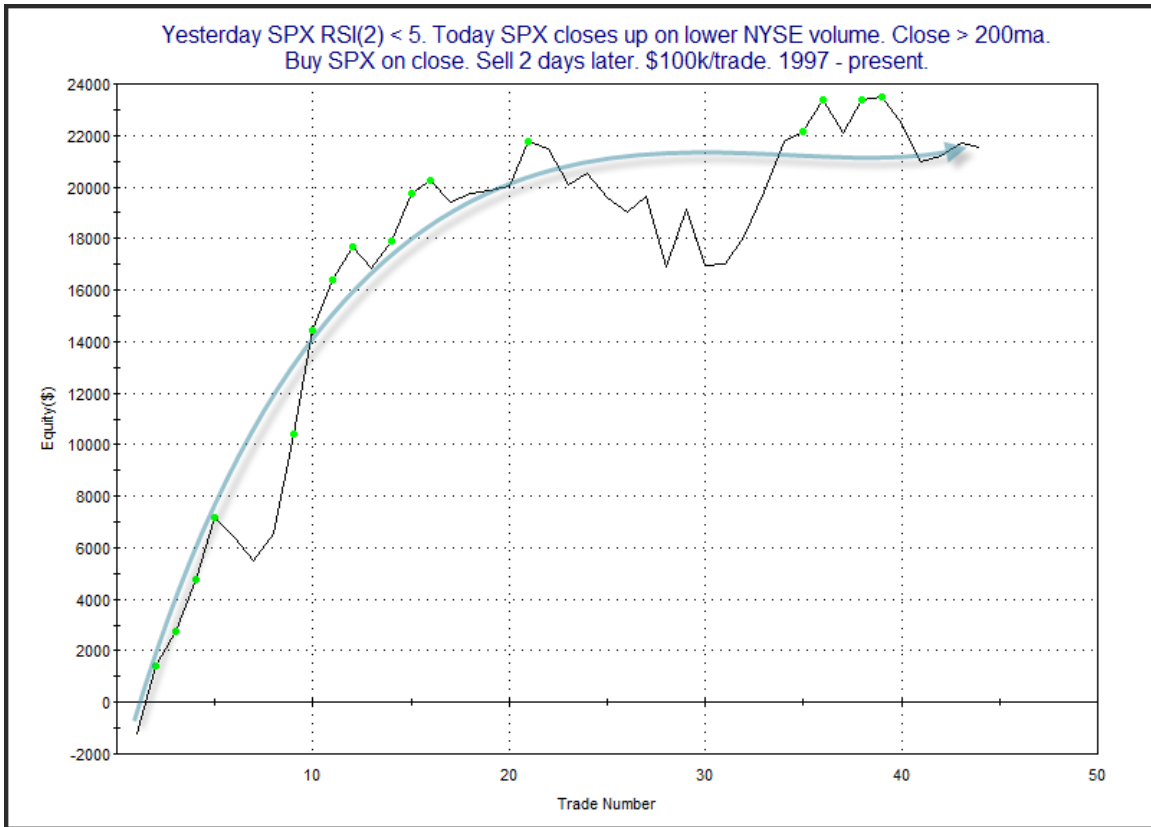
This is not an ideal profit curve but it still appears to suggest a downside edge. I felt it was worth giving this study consideration once again.

These next studies were last seen in the 5/11/13 Letter. They considered bounces from strongly oversold short-term conditions and filtered based on the relative volume of the first day of the bounce. The results suggested that low volume bounces provide more favorable odds. I have updated the results.

Yesterday SPX RSI(2) < 5. Today SPX closes up on lower NYSE volume. Close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1997 - 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	19,732.91	39	19	20	48.72	3,224.55	6,440.94	-2,076.68	-7,402.88	1.55	1.48	505.97
9	22,379.64	40	25	15	62.50	2,509.74	6,371.46	-2,690.93	-6,195.44	0.93	1.55	559.49
8	11,572.73	40	24	16	60.00	2,250.91	6,486.48	-2,653.06	-7,580.04	0.85	1.27	289.32
7	31,511.75	40	26	14	65.00	2,272.74	5,418.09	-1,969.97	-5,975.16	1.15	2.14	787.79
6	29,694.28	41	26	15	63.41	2,048.66	5,668.38	-1,571.40	-3,510.00	1.30	2.26	724.25
5	28,208.14	41	25	16	60.98	2,196.13	5,396.71	-1,668.45	-8,178.56	1.32	2.06	688.00
4	26,565.74	43	27	16	62.79	1,794.55	4,223.34	-1,367.95	-2,736.28	1.31	2.21	617.81
3	16,551.01	44	25	19	56.82	1,450.11	4,457.43	-1,036.93	-3,490.90	1.40	1.84	376.16
2	21,529.62	44	29	15	65.91	1,318.10	4,001.40	-1,113.02	-2,735.64	1.18	2.29	489.31
1	13,419.23	44	27	17	61.36	943.26	2,842.84	-708.75	-2,782.56	1.33	2.11	304.98

**88% of instances closed above the entry price at some point in the next week.**

The numbers here are all fairly attractive. The 2-day and 7-day results appeared to be most appealing. Below are profit curves for both those time frames. First I will show the 2-day holding period.



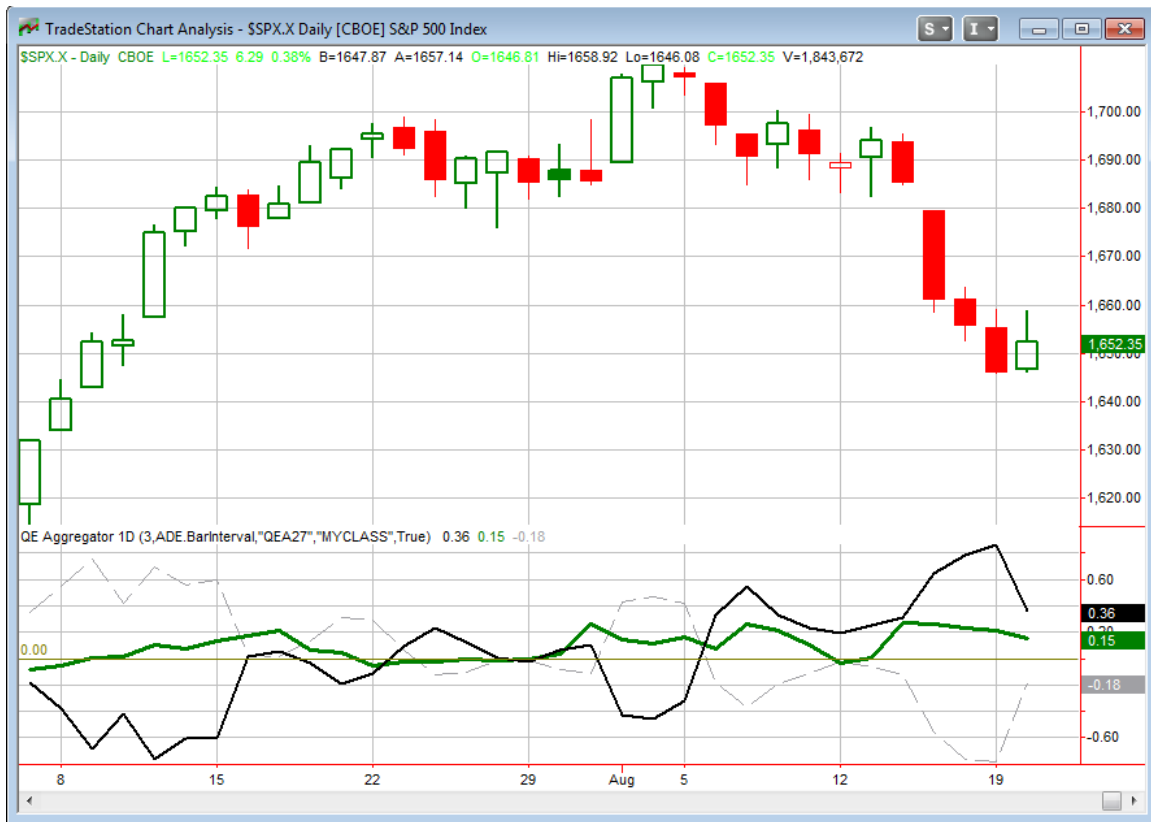
Both of these curves appear to be flattening out a bit. The 7-day looks a bit better than the 2, but for today at least I am not inclined to add this study to the active list as bullish.

Still, the volume is an interesting filter. Many readers may be wondering whether it really matters. The test below looks at the exact same scenario, except rather than requiring volume come in lower, it requires it to come in higher.

Yesterday SPX RSI(2) < 5. Today SPX closes up on <b>higher</b> NYSE volume. Close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1997 - 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	2,086.93	22	12	10	54.55	1,353.20	3,532.25	-1,415.14	-2,969.64	0.96	1.15	94.86
4	324.36	23	14	9	60.87	1,053.42	2,587.95	-1,602.61	-2,541.13	0.66	1.02	14.10
3	-5,355.93	23	9	14	39.13	1,419.25	3,939.79	-1,294.94	-2,517.13	1.10	0.70	-232.87
2	-4,140.89	24	11	13	45.83	900.38	2,794.56	-1,080.39	-1,962.36	0.83	0.71	-172.54
1	-3,399.31	24	10	14	41.67	633.49	2,536.10	-695.30	-1,774.60	0.91	0.65	-141.64

As you can see, the change in volume appears to have a dramatic impact on the results. It would seem that the low volume bounces may suggest that people need convincing and are not rushing back in. But over the next few days, their willingness to commit capital and desire not let the bounce get too far away from them helps to propel it further. Despite the fact that the curves shown above have flattened some, the low volume on Tuesday appears to be more favorable than a high volume scenario.

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



The bearish study today helped the green Aggregator Line decline a bit, but it still 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 also still 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 studies currently on the Active List, expectations are set to remain bullish on Wednesday. Of course if strongly bearish evidence emerges then this could change. The Differential Pivot will be 1,668.42 on Wednesday. That is about 1.0% above Tuesday's close. So it will take a strong move up on Wednesday to flip the SPX from short-term oversold to short-term overbought.

I've been expecting a bounce, and Tuesday we got a bit of one. But clues as to the probable success were a little weak. There still appears to be an upside edge. So I am inclined to remain positioned basically the same. I did have one Catapult reach its exit target and two other Catapults (re)trigger. So I'll be doing some small adjustments there. I expect we'll see some stronger clues about this bounce in the next day or two, and I'll be paying close attention to those clues.

**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**

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

*DD – 1/3 @ \$57.53 limit (filled)*

*MO – 1/3 @ \$33.93 limit (filled)*

*New*

*DD – 1/3 @ \$57.53 limit*

*MO – 1/3 @ \$33.77 limit*

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

*None*

#### **Broad Market Large Cap CBI – 5/2(DD-, MO-2)**

### **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, this will be the 3<sup>rd</sup> and final lot.

**MO – buy 1/3 Catapult position @ \$33.77 LIMIT.** Based on Catapult trigger shown above. This will be the 2<sup>nd</sup> of 3 possible lots.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/7/2013	\$169.19	\$165.58	-2.13%		Aggregator
SPY(1/4)	8/15/2013	\$167.41	\$165.58	-1.09%		Aggregator
XIV(1/2)	8/15/2013	\$26.99	\$26.56	-1.59%		Aggressive VIX
GILD(1/3)	8/16/2013	\$56.76	\$58.00	2.18%		sell on open
SPY(1/4)	8/19/2013	\$164.77	\$165.58	0.49%		Aggregator
DD(1/3)	8/19/2013	\$58.15	\$57.53	-1.07%		Catapult
DD(1/3)	8/20/2013	\$57.42	\$57.53	0.19%		Catapult
MO(1/3)	8/20/2013	\$33.93	\$33.77	-0.47%		Catapult

*GILD hit its exit target on Tuesday. I indicated in an intraday update to Gold subscribers that I would take profits if it closed > \$58.00, but if it closed <= \$58.00 I would wait until Wednesday's open to exit the position. I sent this note in the morning, and amazingly, it closed right on the \$58.00 number. So I'll take the official trade idea exit to be at Wednesday's open.*

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