

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 23, 2013

Volume 6 Issue 163

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 bounce so far does not seem to be strongly suggestive.

Short-term Outlook

The Bottom Line

The market is again attempting to bounce. Thursday saw some fairly strong gains, but it did not provide great clues as to the likelihood of a continuation over the next few days. The existing studies and Differential Line both suggest we should have a bit farther to go. I am holding my longs for now.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 22, 2013	CBI >= 7. SPX > 200ma.	1-5 days	Bullish	1.80%
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%
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

Despite the NASDAQ been closed for much of the day, the market managed to post some pretty strong gains. The SPX rose 0.9%, the Nasdaq rallied 1.1% and the Russell 2000 gained 1.4%. Breadth was strongly positive as the NYSE Up Issues % was 84% and the Up Volume % was also 84%. Total NYSE volume was very light, perhaps partly due to the NASDAQ being halted.

The Quantifinder referred to a few studies from the 6/26/13 subscriber letter that were fairly interesting. The one that is relevant for today suggested fairly neutral results, so I have pasted the commentary from that letter below, but not updated the results.

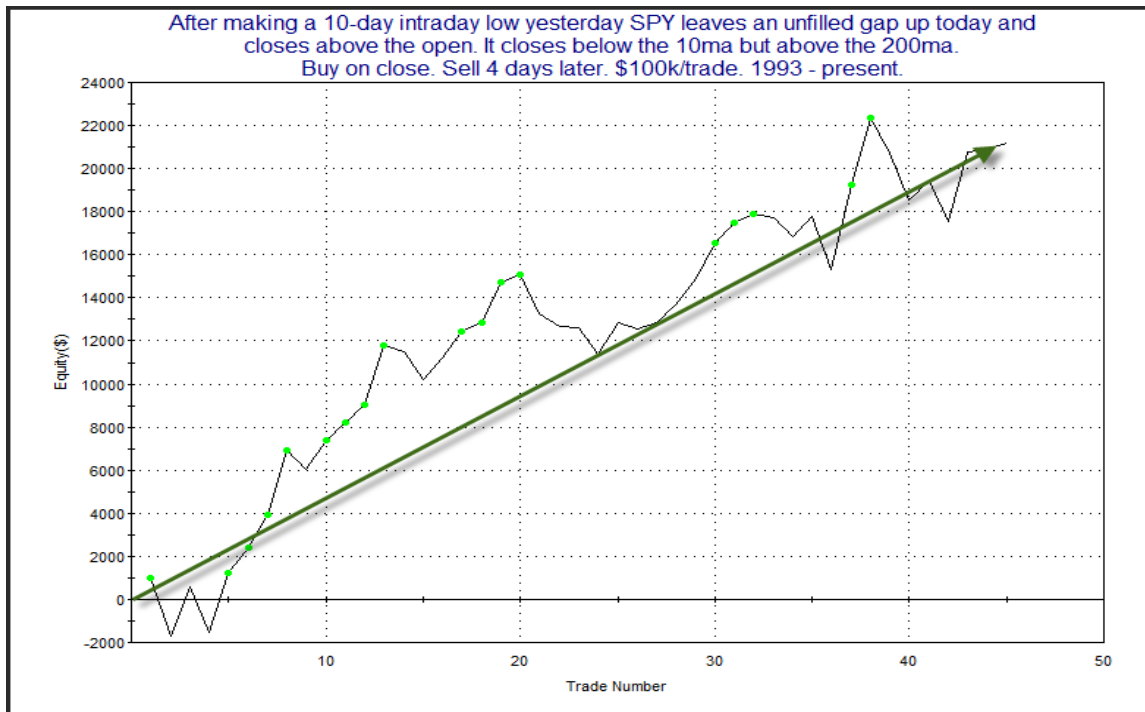
The price action in SPY showed some strength in that it gapped up, never filled, and closed above the open. When the market is coming off an oversold level in an uptrend and is still not overbought, this pattern will often be followed by further gains. This is demonstrated in the study below.

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 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
10	22,590.60	40	23	17	57.50	2,191.94	5,666.72	-1,636.71	-4,060.20	1.34	1.81	564.77
9	28,479.24	41	21	20	51.22	2,587.26	6,522.72	-1,292.66	-3,329.90	2.00	2.10	694.62
8	30,926.20	41	27	14	65.85	1,954.69	5,468.09	-1,560.75	-5,654.80	1.25	2.42	754.30
7	35,040.13	42	27	14	64.29	2,149.82	5,136.00	-1,643.21	-9,172.30	1.31	2.52	834.29
6	24,882.71	44	25	19	56.82	1,986.09	5,589.68	-1,303.66	-3,309.80	1.52	2.00	565.52
5	19,935.73	44	27	17	61.36	1,642.60	4,106.63	-1,436.15	-3,739.32	1.14	1.82	453.08
4	21,191.11	45	29	16	64.44	1,434.75	3,904.83	-1,276.04	-2,744.82	1.12	2.04	470.91
3	5,103.62	48	25	23	52.08	1,129.86	3,914.92	-1,006.21	-2,996.76	1.12	1.22	106.33
2	3,439.75	48	26	22	54.17	1,017.20	2,828.00	-1,045.79	-2,355.20	0.97	1.15	71.66
1	-1,366.12	48	21	26	43.75	829.98	2,121.60	-722.91	-2,895.33	1.15	0.93	-28.46

91% of instances closed above the entry price at some point in the next week.

Results here appear to suggest a solid edge over the next several days. With 91% showing further gains at some point in the next week, the reliability of the setup appears very good. To get an idea of how the edge has played out over time I have run the equity curve below using a 4-day exit parameter.



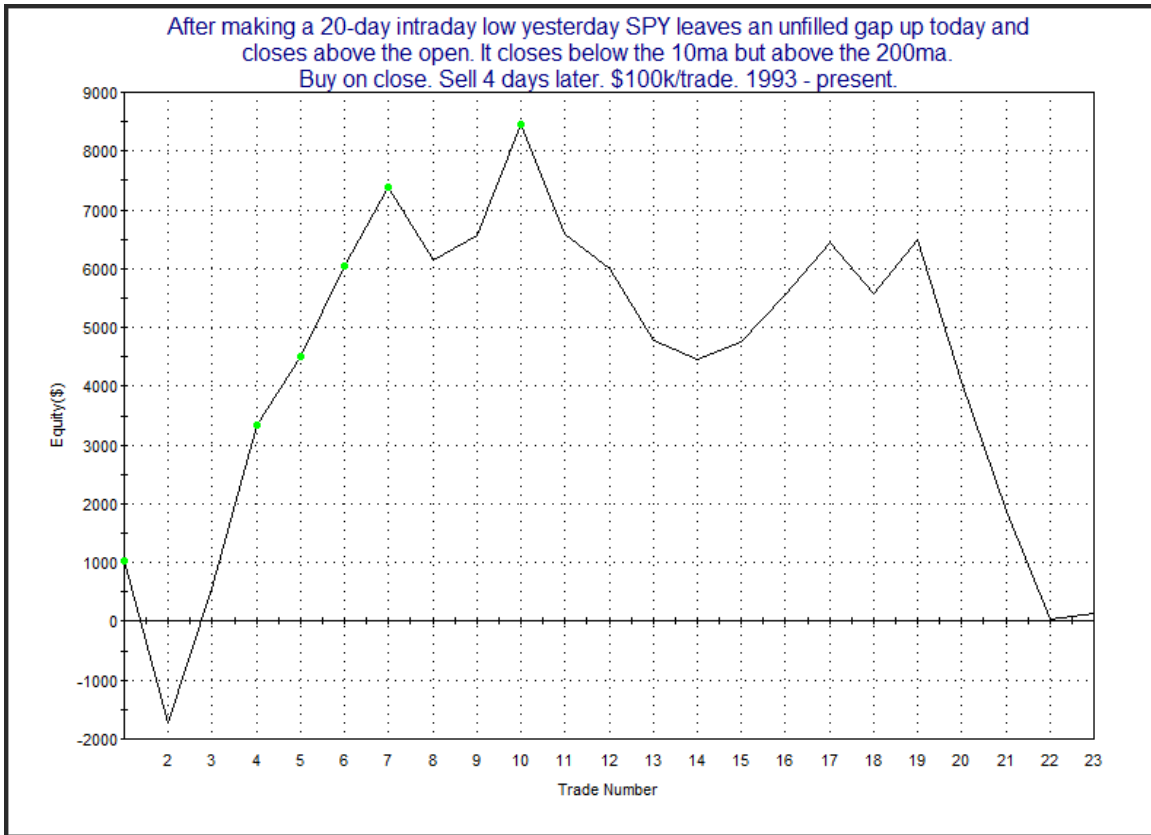
The slope has remained upwards for a long time. While it isn't perfectly smooth it does appear to confirm the upside edge suggested by the stats table.

But we aren't just at a short-term 10-day low. The market made a 20-day low as well. When the market is hitting intermediate-term lows rather than just short-term lows then this pattern has struggled. The study below demonstrates this.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

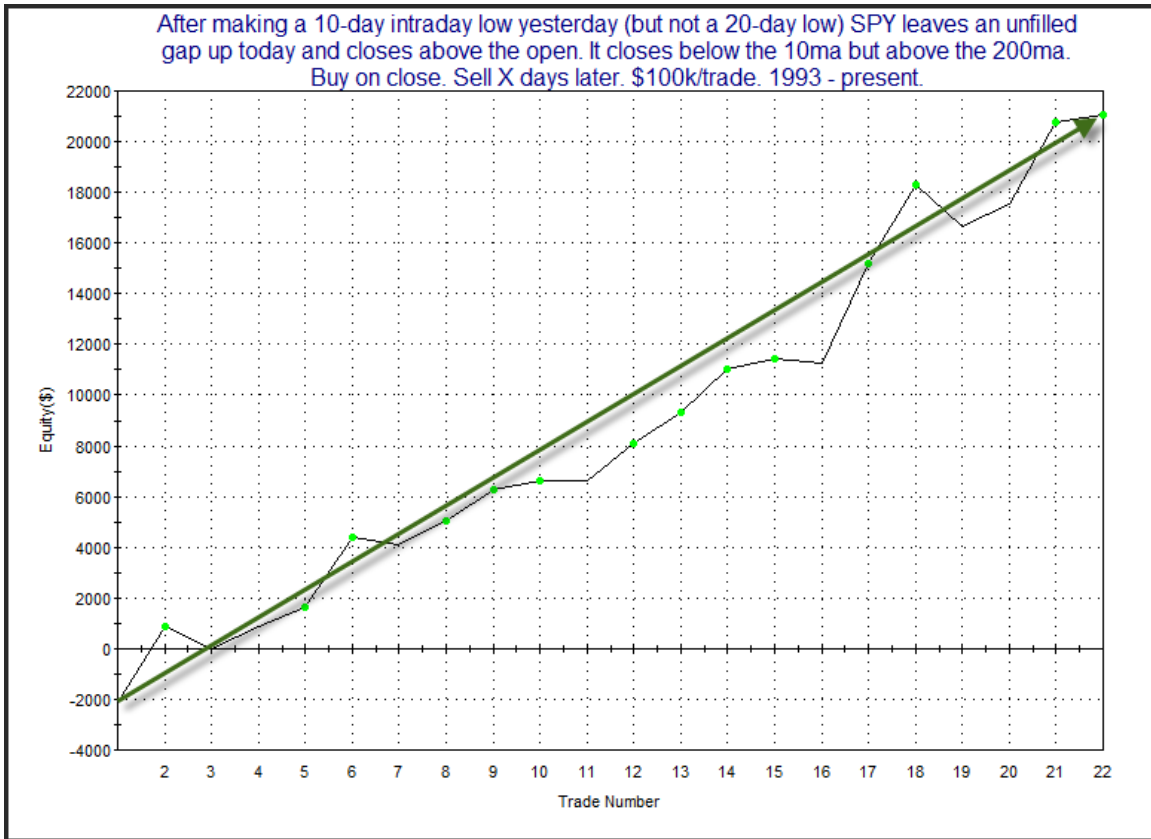
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	3,881.45	19	9	10	47.37	1,933.13	3,828.88	-1,351.68	-2,717.55	1.43	1.29	204.29
9	4,678.57	20	9	11	45.00	2,133.23	4,314.36	-1,320.04	-2,929.59	1.62	1.32	233.93
8	3,951.50	20	12	8	60.00	1,367.50	3,893.00	-1,557.32	-2,884.17	0.88	1.32	197.58
7	8,420.85	21	11	10	52.38	1,869.03	3,843.00	-1,213.84	-2,770.56	1.54	1.69	400.99
6	2,821.13	22	10	12	45.45	1,855.09	4,057.88	-1,310.81	-3,222.18	1.42	1.18	128.23
5	-1,631.74	22	10	12	45.45	1,835.78	3,073.60	-1,665.79	-3,739.32	1.10	0.92	-74.17
4	135.61	23	13	10	56.52	1,189.63	2,790.34	-1,532.96	-2,744.82	0.78	1.01	5.90
3	-7,961.70	25	11	14	44.00	767.16	1,773.00	-1,171.46	-2,996.76	0.65	0.51	-318.47
2	-5,841.74	25	12	13	48.00	758.96	1,931.20	-1,149.95	-2,355.20	0.66	0.61	-233.67
1	-1,704.76	25	10	15	40.00	857.38	2,121.60	-685.24	-1,777.90	1.25	0.83	-68.19

And here is the equity curve using a 4-day exit.



No edge is suggested here.

Lastly let's look at the curve when the market has just made a 10-day low but not a 20-day low.



It appears the ideal setup here is one where the market is making short-term lows but not intermediate-term lows. With intermediate-term lows now being made the bullish inclinations of the pattern are in question. It does not appear worthy of inclusion in the Aggregator.

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



Without anything new triggering tonight, the green Aggregator Line remained well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line fell sharply but still closed just barely above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is marginally 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 upwards, expectations are set to remain bullish on Friday. Of course if strongly bearish evidence emerges then this could change. The Differential Pivot will be 1,662.18 on Friday. That is about 0.3% above Thursday's close. So it will only take a moderate move up on Friday to flip the SPX from short-term oversold to short-term overbought.

I examined the current setup a few different ways, and was a little surprised that no worthwhile evidence emerged. But I guess that's not too unusual being that this is the third day in a row in which SPX has changed direction. The open studies all suggest we should see a bit more of a bounce than we have so far. And the Differential Line is not yet suggesting SPX is overbought. So I am holding onto my current long positions, but

not looking to take on any new exposure at this point. If we move up strongly on Friday I will look to take some exposure off the table.

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)

DD – 1/3 @ \$57.53 limit (filled)

MO – 1/3 @ \$33.77 limit (filled)

KO – 1/3 @ \$38.28 limit (filled)

MO – 1/3 @ \$33.46 limit (filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 7/3(DD-3, MO-3, KO)

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	\$166.06	-1.85%		sell @ \$166.75 limit on close
SPY(2/4)	8/15/2013	\$167.41	\$166.06	-0.81%		sell @ \$166.75 limit on close
XIV(1/2)	8/15/2013	\$26.99	\$26.66	-1.22%		Aggressive VIX
SPY(3/4)	8/19/2013	\$164.77	\$166.06	0.78%		Aggregator
DD(1/3)	8/19/2013	\$58.15	\$57.55	-1.03%		Catapult
DD(2/3)	8/20/2013	\$57.42	\$57.55	0.23%		Catapult
MO(1/3)	8/20/2013	\$33.93	\$33.56	-1.09%		Catapult
MO(2/3)	8/21/2013	\$33.74	\$33.56	-0.53%		Catapult
DD(3/3)	8/21/2013	\$57.40	\$57.55	0.26%		Catapult
MO(3/3)	8/22/2013	\$33.47	\$33.56	0.27%		Catapult
KO(1/3)	8/22/2013	\$38.28	\$38.31	0.08%		Catapult

The following prices are the approximate levels that the Catapults would need to reach intraday in order to trigger an exit. End of day targets are slightly below these prices. The standard exit for a Catapult would be at the next day's open. Of course traders may handle these any way they feel is best. If these levels are reached during the day, I may send out an update in which I place a stop below the low of the day to protect against a big reversal.

DD - \$58.03

MO - \$34.07

KO - \$38.85

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