

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 26, 2013

Volume 6 Issue 164

Market Overview



Signals Overview

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

Tonight's Research Points

- The bounce the last couple of days has put SPX back in the middle of its 10-day range, and lacking a substantial edge.

Short-term Outlook

The Bottom Line

After bouncing on Thursday and Friday the market is no longer oversold. While general expectations remain moderately bullish, new short-term evidence is lacking. And even the CBI, which was giving a solidly bullish reading as recently as Thursday night, is now back to showing a neutral reading. This leaves me without a strong directional bias.

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 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	
Dropped Tonight				
August 22, 2013	CBI >= 7. SPX > 200ma.	1-5 days	Bullish	1.80%
August 19, 2013	3 gaps down & closes under open	1-5 days	Bullish	2.20%

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

The Evidence

Trading was fairly quiet on Friday, and the major indices finished moderately higher. The SPX rose 0.4%, the Nasdaq rallied 0.5% and the Russell 2000 gained 0.2%. Breadth was solidly positive as the NYSE Up Issues % was 67% and the Up Volume % was 70%. Total NYSE volume was a little higher than Thursday, but still very light.

Over the last two days, SPX has moved from a 20-day low back to near the midpoint of its 10 day range. It also closed just over a point below its 10-day moving average. This is exactly the kind of situation where we often see a real lack of evidence. And that is what happened on Friday. The Quantifinder did not identify any short-term bullish or bearish studies on Friday. I looked at the situation a few different ways. These included consecutive 5-day closing highs immediately following a 20-day closing low, and some studies that looked at Thursday's unfilled gap up from a 20-day low followed by further gains on Friday. Overall, such descriptions of recent market action did not provide me any real confidence of a short-term edge. So I won't be adding anything to the short-term active list tonight.

You will note that a couple of studies fell off of the active list. One was from Wednesday night's subscriber letter which looked at instances where the CBI reached as high as 7 while SPX was above the 200ma. Some pretty good moves in those CBI components over the last two days caused the CBI to drop from 7 all the way down to 1 on Friday. This is a neutral CBI reading, and so that study was removed.

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



Without anything new triggering, 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 closed just barely below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is marginally overbought. 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 change from long to flat at the close.

With the short-term studies all pointing upwards, expectations are set to remain bullish again on Monday. Of course if new bearish evidence emerges then this could change. The Differential Pivot will be 1,651.36 on Monday. That is about 0.7% below Friday's close. So for SPX to move back into oversold territory it will need to close down at least this much.

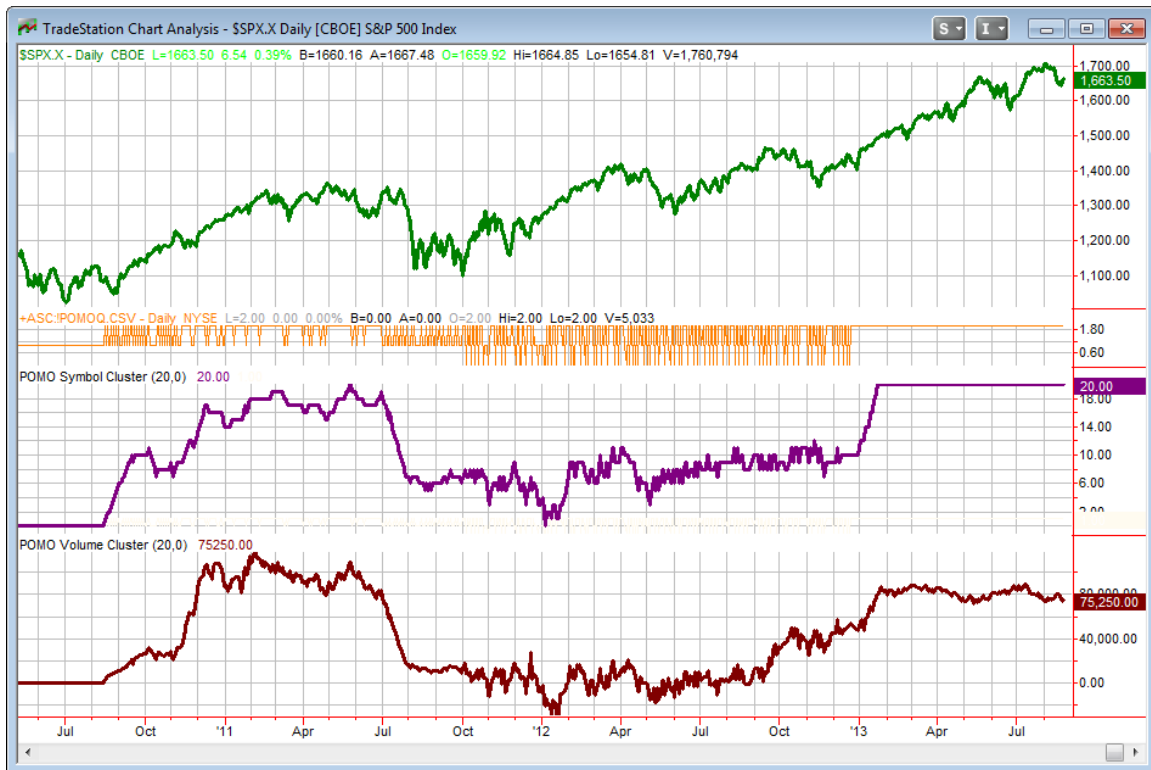
New evidence is lacking. The market is no longer oversold. The CBI is back to neutral. There no longer seems to be a compelling reason to be holding a large index position. For that matter, even a small index position doesn't seem terribly enticing. Expectations are still somewhat positive, and SPX is only marginally overbought. But the edge really isn't clear. So I plan to exit most of my positions, get back to a more neutral stance, and make sure I'm at the ready for the next favorable trading opportunity. Most positions I will simply be looking to exit at the open on Monday. For some I will use limit orders rather than just selling at the market, thus allowing a possible gap down the opportunity to fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/26 – somewhat bullish

Prices were down quite a bit at Wednesday's close, but by Friday's close the week went in the books with a gain. From a studies standpoint, nothing new emerged that suggested a compelling intermediate term edge.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS volume indicator remains in its 2013 range, though down near the lower end. The days indicator is *still* maxed out at 20, which was a rarity during past QE implementations, but has been the norm so far this year. We estimate net inflows this past week to have been about \$16 billion, which is low for 2013.

This upcoming week is expected to see more "normal" flows (compared to what we have seen so far in 2013). We expect to see somewhere in the neighborhood of a \$20 billion inflow. That is typically been a strong enough number to create a bullish liquidity environment.

Perhaps the most interesting day of the week from liquidity standpoint will be Friday. Interestingly, Friday is the only day this week in which no POMO buying is scheduled. More interestingly, it is the day in which the Fed will release its anticipated POMO and AMBS purchase schedules for September. Of course I'll be keeping a very close eye on these, and will provide analysis of the schedules, including the September Projected QE Buying Power Index chart, in next week's letter.

The overall intermediate-term outlook is still leaning bullish. But between the Hindenburgs and the New Highs & the Advance/Decline Line divergences there is definitely some warning signs of increased risk. Other studies, including those related to trend, momentum, and liquidity, all point higher. And really, I think it is all going to come down to liquidity. I expect the release of the September schedule on Friday to be

highly anticipated. It will be interesting to see if market gets nervous and pulls back again in anticipation of that release. So I will continue to watch the Fed closely, but for now I am still leaning bullish, and I will continue to favor long-side trades over short trades. At least until next week...

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

KO – 1/3 @ \$38.28 limit (filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(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	\$166.62	-1.52%		sell @ \$166.50 limit
SPY(2/4)	8/15/2013	\$167.41	\$166.62	-0.47%		sell @ \$166.50 limit
XIV(1/2)	8/15/2013	\$26.99	\$27.18	0.70%		Aggressive VIX
SPY(3/4)	8/19/2013	\$164.77	\$166.62	1.12%		sell @ \$166.75 limit
DD(1/3)	8/19/2013	\$58.15	\$57.90	-0.43%		sell on open
DD(2/3)	8/20/2013	\$57.42	\$57.90	0.84%		sell on open
MO(1/3)	8/20/2013	\$33.93	\$34.28	1.03%		sell on open
MO(2/3)	8/21/2013	\$33.74	\$34.28	1.60%		sell on open
DD(3/3)	8/21/2013	\$57.40	\$57.90	0.87%		sell on open
MO(3/3)	8/22/2013	\$33.47	\$34.28	2.42%		sell on open
KO(1/3)	8/22/2013	\$38.28	\$38.52	0.63%		Catapult

MO hit its intraday target level as I laid out in Thursday night's letter. DD did not quite get there, but it did close above the end-of-day exit trigger. So both will be sold at the open on Monday.

KO will need to reach an intraday high of about \$38.69 on Monday in order for it to trigger an exit for Tuesday morning.

I am looking to exit the SPY position as well on Monday. Two of the three lots I placed the exit below Friday's close, in case SPY gaps down and doesn't quite fill. The other one I put a little above Friday's close in the hopes that I could sell into a little bit of strength on Monday. Of course a big gap down that does not quickly reverse could compel me to send out an intraday update. A gap up is the ideal scenario here, but Overnight Edges Odds are just breakeven for Monday morning.

I will look to hold the XIV position at least another day here. Contango is nicely positive, our SPX expectations are still moderately bullish, and like SPX, VIX is mid-range (and not oversold).

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