

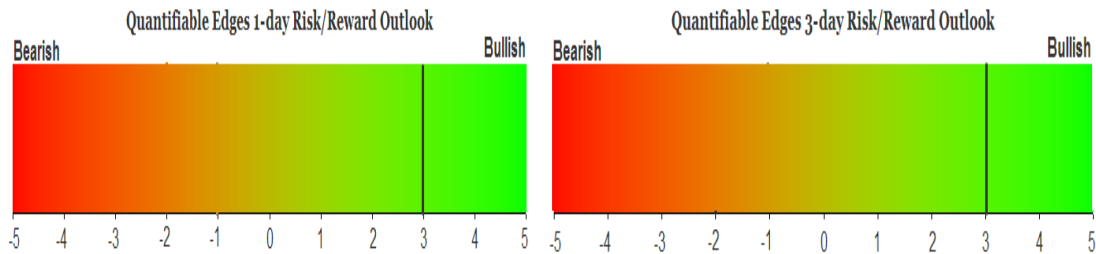
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 28, 2013

Volume 6 Issue 166

## 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  $> 200$ ma 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

The strong selloff over the last day (and an hour) seems to have created a buyable pullback. I'm looking to start adding back long exposure.

**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 28, 2013	System 1100524	1-7 days	Bullish	
August 28, 2013	Unfill gap > 200. Close low 25% range.	1-8 days	Bullish	3.30%
<b>Active - Long Term</b>				
August 12, 2013	Hindenburg Omen cluster	1-50 days	<b>Bearish</b>	<b>-8.60%</b>
July 22, 2013	New High Divergence (Study of Tops)	int term	<b>Bearish</b>	
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	
<b>Dropped Tonight</b>				
August 20, 2013	3 lower H-L-C > 200ma	1-6 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***

The market took it on the chin from before the open and sold off steadily all day. The final numbers were ugly with SPX down 1.6%, the NASDAQ falling 2.2%, and the Russell 2000 underwater by 2.4%. Breadth was very negative as the NYSE Up Issues % was 19% and the Up Volume % was 8%. All the selling meant sizable NYSE volume, as it came in at the highest level since opex Friday.

The selling also triggered a number of studies in the Quantifinder. The most compelling ones are featured below, and they were also both shown just a couple of weeks ago in the 8/16/13 Letter.

The 1<sup>st</sup> one is a study that examines large losses that close at intermediate-term lows. I have updated the results 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	58,100.95	61	42	19	68.85	2,373.17	6,960.84	-2,188.01	-14,092.68	1.08	2.40	952.47
7	74,861.11	62	47	15	75.81	2,213.29	7,500.06	-1,944.22	-8,018.76	1.14	3.57	1,207.44
6	68,267.63	63	46	17	73.02	2,187.48	7,272.06	-1,903.33	-7,966.32	1.15	3.11	1,083.61
5	63,481.22	63	39	24	61.90	2,286.03	7,070.28	-1,069.75	-3,385.80	2.14	3.47	1,007.64
4	41,956.79	65	41	24	63.08	1,799.92	4,731.13	-1,326.66	-3,863.84	1.36	2.32	645.49
3	35,534.88	65	43	22	66.15	1,437.20	4,277.94	-1,193.85	-5,331.20	1.20	2.35	546.69
2	36,575.36	66	43	23	65.15	1,312.92	4,809.66	-864.35	-3,863.25	1.52	2.84	554.17
1	15,727.90	68	44	24	64.71	735.37	5,117.46	-692.85	-2,162.04	1.06	1.95	231.29

Results here are quite bullish. Some subscribers may recognize the setup as system 110524. Results below are the same as I showed in the 8/16 Letter. Though it came very close on Friday and Monday, SPX did not manage to close above the 10ma. Therefore the 8/16 trigger is still in effect there.

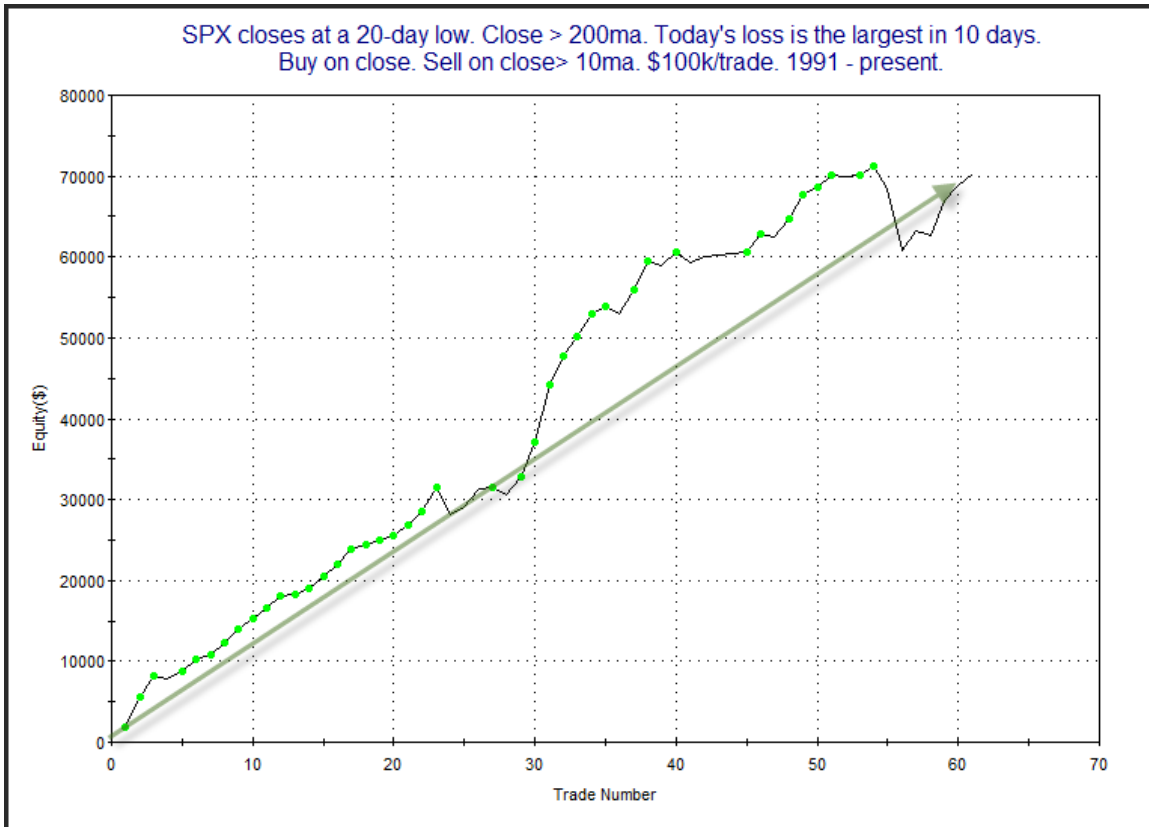
SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days.  
Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

**TradeStation Performance Summary** Collapse ^

All Trades

Total Net Profit	\$70,344.19	Profit Factor	4.77
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)

Though likely not with the 8/16 signal, 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.



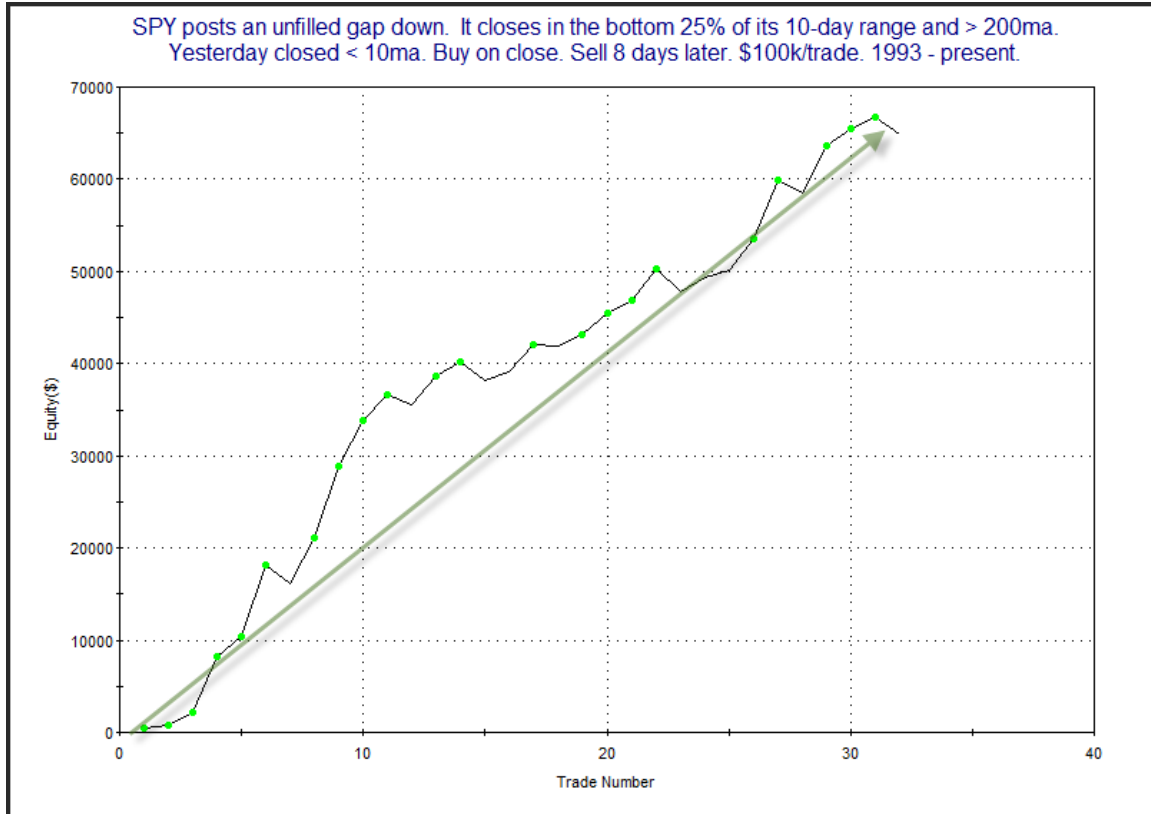
The drop was large but it was nearly made up for fairly quickly.

This next study is also from the 8/16/13 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 the bottom 25% of its 10-day 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	64,855.07	32	25	7	78.13	3,024.32	7,858.26	-1,536.13	-2,373.11	1.97	7.03	2,026.72
7	57,890.36	33	25	8	75.76	2,750.60	8,324.13	-1,359.34	-3,146.11	2.02	6.32	1,754.25
6	51,061.61	33	25	8	75.76	2,477.30	7,873.02	-1,358.88	-4,076.73	1.82	5.70	1,547.32
5	43,601.70	33	22	11	66.67	2,506.64	8,239.74	-1,049.49	-3,731.61	2.39	4.78	1,321.26
4	35,909.72	34	23	11	67.65	2,081.84	5,581.02	-1,088.41	-2,342.19	1.91	4.00	1,056.17
3	34,419.83	36	25	11	69.44	1,832.73	5,117.85	-1,036.22	-2,897.57	1.77	4.02	956.11
2	33,651.85	36	28	8	77.78	1,583.90	5,477.88	-1,337.17	-2,657.80	1.18	4.15	934.77
1	23,709.41	36	27	9	75.00	1,056.79	5,764.38	-535.98	-1,269.00	1.97	5.92	658.59

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. Even the last instance, which closed out Tuesday afternoon, only appears to be a minor blip. So the unfilled gap down and weak price action on Thursday appear to suggest a bullish edge.

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



The bullish studies tonight caused the green Aggregator Line to move further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line spiked way up thanks to the big SPX decline, and now stands well above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is now 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 turn long at the close.

With bearish short-term studies lacking, expectations are slated to remain positive on Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1671.41 on Wednesday. That is a whopping 2.5% above Tuesday's close. It's highly unlikely we will see a rally of that magnitude in just one day. A more realistic scenario would be a multi-day rally or consolidation to work off the oversold condition.

After today's selloff I feel fortunate to have taken off most of my positions on Monday's open. And though the last swing did not work out great, it looks like another buying opportunity is shaping up here. So with the market oversold at new lows and the studies pointing to a likely bounce, I'll begin to scale back in. In addition to taking on index exposure, a new Catapult also triggered on Tuesday.

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

The intermediate-term outlook was last updated in the 8/26 letter. Link below:

[2013-08-26 QE Subscriber Letter.pdf](#)

### **Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

**Open Catapult Triggers**

*KO – 1/3 @ \$38.28 limit (filled)*

*New*

*CSCO – 1/3 @ \$23.49 limit*

**Catapult for ETF's Trades**

*None*

**Broad Market Large Cap CBI – 2(KO, CSCO)**

### **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.*

**SPY – buy ¼ index position @ \$163.33 LIMIT.** Based on the short-term outlook above, I will look to start building back my index position.

**CSCO – buy 1/3 Catapult position @ \$23.49 LIMIT.** This is from the Catapult & CBI section above.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	8/15/2013	\$26.99	\$25.09	-7.04%		stopped out on open
KO(1/3)	8/22/2013	\$38.28	\$38.15	-0.34%		Catapult

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