

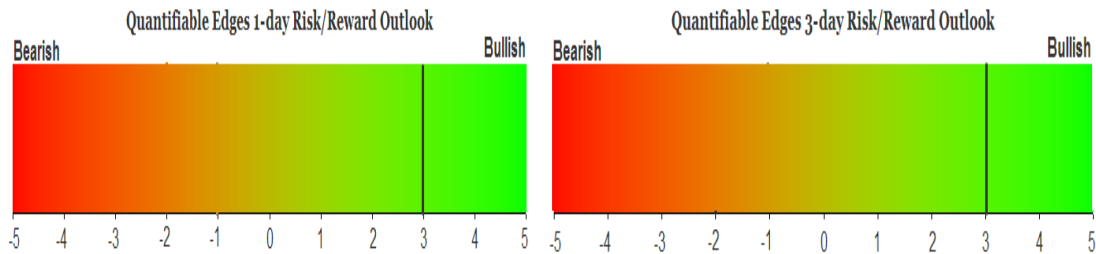
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 30, 2013

Volume 6 Issue 168

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 Friday before Labor Day has been seasonally strong.
- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.

Short-term Outlook

The Bottom Line

Despite being a little slow so far, the bounce still looks ok. Bearish evidence has not yet emerged and more upside seems likely in the next few days. But another up day Friday would likely put SPX in an overbought state and with me looking to take profits.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 30, 2013	Friday before Labor Day	1 day	Bullish	
August 30, 2013	Up2 < 3 ago from 20-day low	1-3 days	Bullish	
August 29, 2013	Bounce from 20-low	1-6 days	Bullish	2.40%
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%
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.

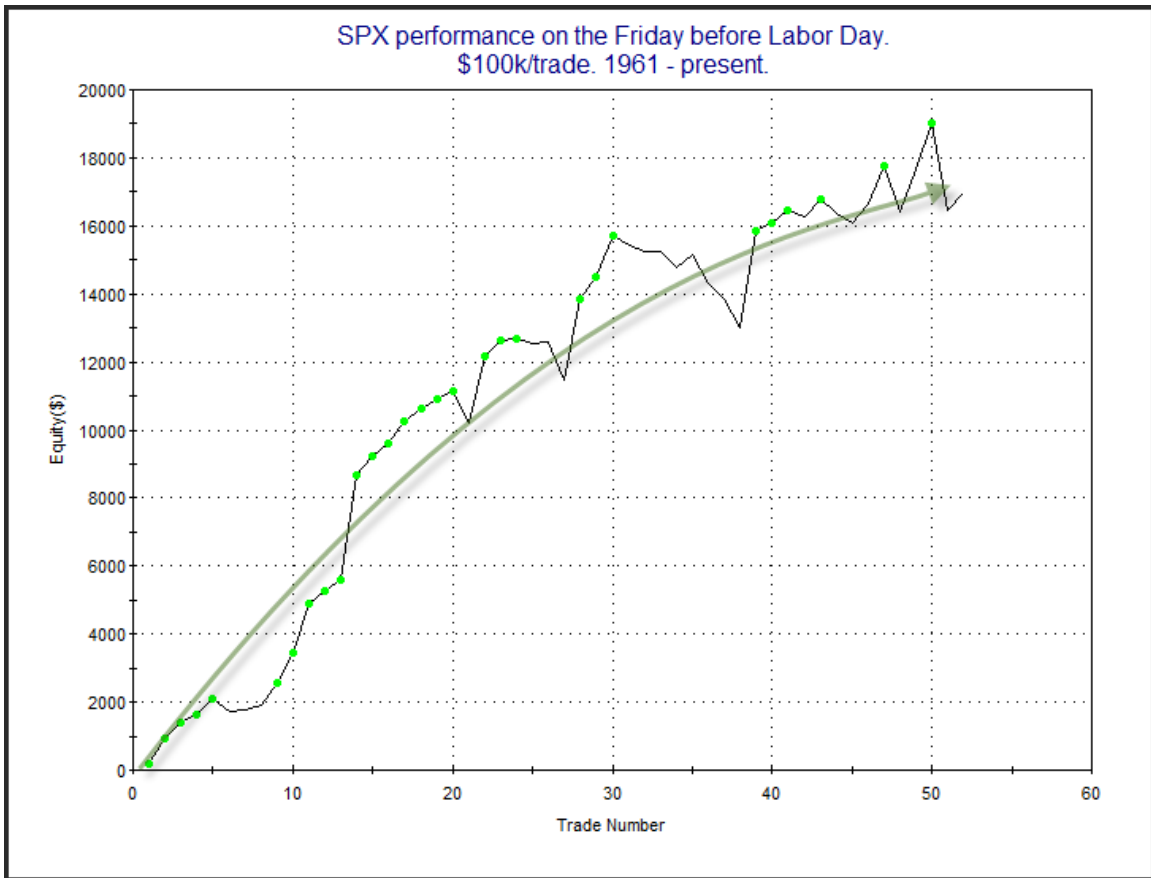
The Evidence

In a move similar to Wednesday, the market tried to rally, but an afternoon fade left the numbers less impressive than they looked midday. The SPX rose 0.2%, the NASDAQ closed up 0.75%, and the Russell 2000 gained 1.0%. Breadth was squarely positive as the NYSE Up Issues % was 64% and the Up Volume % was also 64%. Volume pulled back for the 2nd day in a row.

The Friday before Labor Day has long been a strong seasonal day for the market. Below is a stats table based on buying the Thursday before Labor Day and selling the close on Friday. This study last appeared in the 8/31/12 Letter and is updated.

SPX performance on the Friday before Labor Day. \$100k/trade. 1961 - present.				
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$16,978.27	Profit Factor	2.63	
Gross Profit	\$27,393.20	Gross Loss	(\$10,414.93)	
Total Number of Trades	52	Percent Profitable	71.15%	
Winning Trades	37	Losing Trades	15	
Even Trades	0			
Avg. Trade Net Profit	\$326.51	Ratio Avg. Win:Avg. Loss	1.07	
Avg. Winning Trade	\$740.36	Avg. Losing Trade	(\$694.33)	
Largest Winning Trade	\$3,084.48	Largest Losing Trade	(\$2,527.35)	

With 71% of the days finishing higher, a profit factor of over 2.5, and an average trade of 0.3% the stats are quite compelling. Below you can see how the edge has evolved over time.



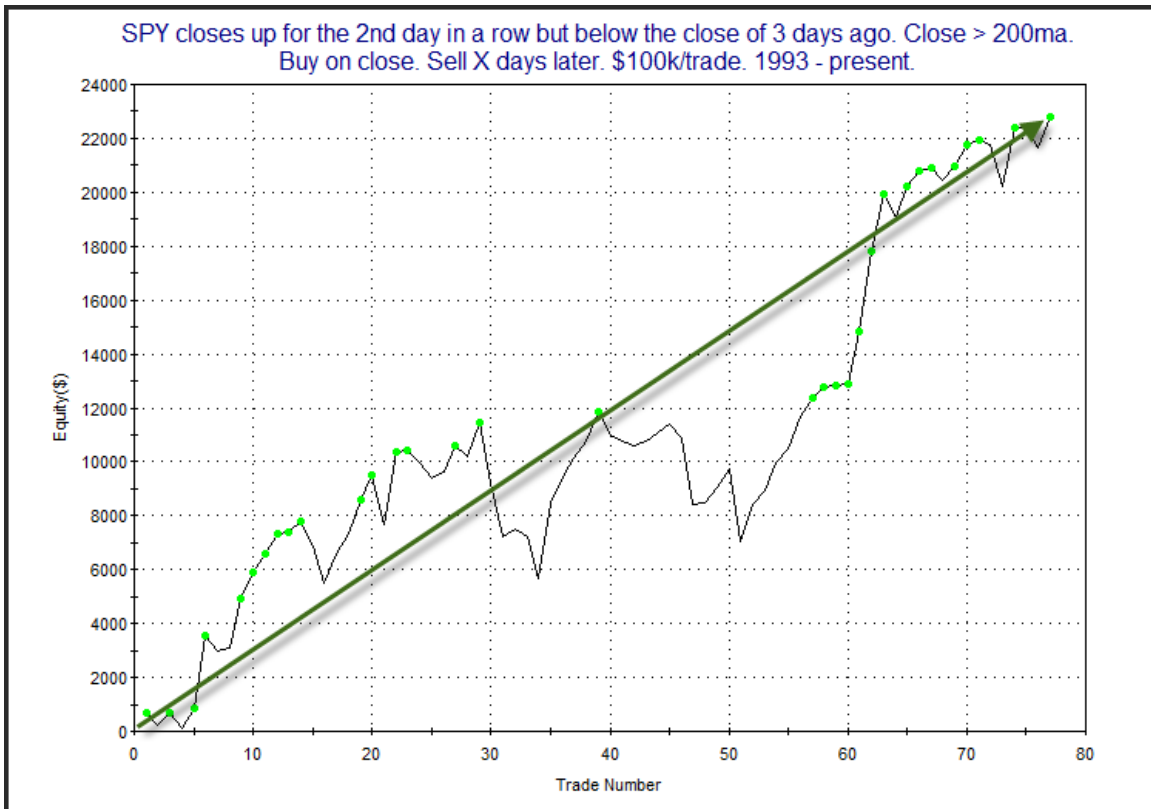
While the 60s and 70s appear a little stronger the upside edge certainly appears to be intact.

The study below was last seen in the 2/7/13 Letter. It looked at times the SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. Stats here are all updated.

SPY closes up for the 2nd day in a row but below the close of 3 days ago. 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
5	12,732.82	75	43	31	57.33	1,491.78	4,717.70	-1,658.50	-6,549.84	0.90	1.25	169.77
4	16,763.60	76	47	29	61.84	1,379.43	4,698.60	-1,657.58	-4,384.89	0.83	1.35	220.57
3	12,389.41	77	46	31	59.74	1,241.34	3,000.00	-1,442.33	-4,092.24	0.86	1.28	160.90
2	22,776.29	77	52	25	67.53	896.93	3,010.00	-954.57	-2,673.44	0.94	1.95	295.80
1	3,978.37	77	45	30	58.44	566.05	2,173.64	-716.46	-1,777.90	0.79	1.19	51.67

The stats appear to suggest a mild upside edge over the 1st 2 days. Below is an equity curve using a 2-day exit strategy.



There have been a few dips in the curve but overall it seems pretty solid.

In that 2/7/13 I also thought it would be interesting to see what happened those times when the 2-day rally *was* strong enough to close above the close of 3 days ago. So

keeping the other parameters the same, I changed that one. Those results are below, but not updated.

SPY closes up for exactly the 2nd day in a row and above the close of 3 days ago. 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
5	24,744.06	316	176	140	55.70	1,357.75	5,470.88	-1,530.14	-8,618.72	0.89	1.12	78.30
4	15,006.02	344	189	152	54.94	1,243.95	4,985.56	-1,448.02	-12,608.53	0.86	1.07	43.62
3	31,895.59	381	226	154	59.32	993.27	3,978.96	-1,250.55	-5,587.56	0.79	1.17	83.72
2	18,781.08	381	219	159	57.48	824.45	3,949.33	-1,017.44	-5,249.75	0.81	1.12	49.29
1	19,671.92	381	211	165	55.38	596.53	2,922.95	-643.61	-3,686.32	0.93	1.19	51.63

As you can see, that small change makes a big difference. Two days out *total* gains are less despite the fact that there are about 5 times as many instances. And the profit curves here look more like drift than any consistent edge.

The fact that the market has had this bounce coming off of a 20-day low suggests an even stronger upside tendency. This was something I last showed in the 6/6/12 Letter, and have updated below.

After closing at a 20-day low 2 days ago SPX closes up the last 2 days but still below the close of 3 days ago. Close > 200ma. Buy on close. Sell X Days later. \$100k/trade. 2000 - 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	18,949.54	13	10	3	76.92	2,220.78	4,522.00	-1,086.07	-1,280.37	2.04	6.82	1,457.66
4	18,781.90	13	10	3	76.92	2,119.97	4,528.65	-805.94	-1,164.12	2.63	8.77	1,444.76
3	14,370.22	14	11	3	78.57	1,591.98	2,891.90	-1,047.20	-1,260.49	1.52	5.57	1,026.44
2	11,761.73	14	9	5	64.29	1,595.87	3,844.65	-520.23	-1,557.71	3.07	5.52	840.12
1	1,407.00	14	8	6	57.14	928.11	2,699.42	-1,002.98	-2,621.71	0.93	1.23	100.50

Instances are a bit low here, but the stats are fairly compelling. Below I have listed all instances for a 4-day holding period.

After closing at a 20-day low 2 days ago SPX closes up for the 2nd day in a row but below the close of 3 days ago. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/06/00	Buy	\$1,403.45	2.05%	\$4,324.61
01/12/00	Sell	\$1,432.25		(\$193.12)
08/01/00	Buy	\$1,438.09	2.87%	\$2,946.99
08/07/00	Sell	\$1,479.32		(\$873.54)
08/07/03	Buy	\$974.12	1.02%	\$1,874.76
08/13/03	Sell	\$984.03		(\$29.58)
05/12/04	Buy	\$1,097.26	(0.52%)	\$501.41
05/18/04	Sell	\$1,091.53		(\$1,628.90)
07/12/04	Buy	\$1,114.35	(1.17%)	\$467.25
07/16/04	Sell	\$1,101.27		(\$1,181.92)
04/13/06	Buy	\$1,289.12	1.73%	\$2,236.08
04/20/06	Sell	\$1,311.45		(\$645.26)
06/11/07	Buy	\$1,509.12	1.58%	\$1,952.94
06/15/07	Sell	\$1,532.91		(\$1,065.90)
08/02/07	Buy	\$1,472.20	1.72%	\$2,123.23
08/08/07	Sell	\$1,497.49		(\$3,002.27)
10/23/07	Buy	\$1,519.59	1.41%	\$1,630.20
10/29/07	Sell	\$1,540.97		(\$1,951.95)
06/24/09	Buy	\$900.94	2.04%	\$3,197.70
06/30/09	Sell	\$919.32		(\$513.70)
11/03/09	Buy	\$1,045.41	4.56%	\$4,535.30
11/09/09	Sell	\$1,093.08		(\$24.70)
03/18/11	Buy	\$1,279.21	2.38%	\$2,506.14
03/24/11	Sell	\$1,309.66		\$0.00
06/14/11	Buy	\$1,287.87	(0.74%)	\$0.00
06/20/11	Sell	\$1,278.36		(\$2,294.60)

The individual results here are quite impressive. All 10 of the instances that closed higher 4 days later did so by at least 1%. So the intermediate-term low has often been a launching pad.

I don't love the fact that the bounce is a little weaker than usual so far. We have seen the market fade in the afternoon both of the last 2 days. I believe that may be largely due to the combination of 1) geopolitical risk with a possible looming U.S. involvement in Syria, and 2) the fact that many traders are on vacation the last week in August. We are coming from a low area where you might otherwise see "panic buying". But volume is not here and there is no one looking to getting strongly aggressive in this political environment. So there has not been the kind of afternoon follow through the last couple of days that you would often see in a bounce from an intermediate-term low. There is

probably a decent chance the market could fade into the afternoon tomorrow as well with the long weekend coming up.

Of course the good news is the studies. Despite the fact that the bounce has not been as strong as you normally get, the “2 days up but still below the close 3 days ago” studies still show a decent upside edge.

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



With more bullish evidence being added tonight the green Aggregator Line held 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 strongly 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 bearish short-term studies lacking, expectations are slated to remain positive again on Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1638.74 on Friday. That is barely over half a point above Thursday's close. This means that just about any higher close will see SPX turn from oversold to overbought versus short-term expectations. And any down close will keep SPX oversold.

There still may be some more room to the upside here. One more up day and we'll be overbought, though. I'm not inclined to add any new index exposure at this point. If the market does manage to rally on Friday, I'll look to take profits at that time. SPX would be back to overbought. And with news-risk and a long weekend on tap, I'd be happy to take my profits and await the next opportunity.

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)

CSCO – 1/3 @ \$23.49 limit (filled)

CSCO – 1/3 @ \$23.44 limit (2nd lot) – not yet filled

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(KO, CSCO-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.

CSCO – buy 1/3 Catapult position @ \$23.00 LIMIT ON OPEN. If not filled on open, cancel order and look to buy @ \$23.44 LIMIT ON CLOSE. This is from the Catapult & CBI section above. I did not get filled on the 2nd lot of CSCO on Thursday. If we close down again on Friday, or if we are presented with a big gap down to buy into, then I will add this 2nd lot.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KO(1/3)	8/22/2013	\$38.28	\$38.10	-0.47%		sell on open
CSCO(1/3)	8/28/2013	\$23.49	\$23.45	-0.17%		Catapult
SPY (1/4)	8/28/2013	\$163.26	\$164.17	0.56%		sell on close >= \$164.24

KO barely hit its exit trigger Thursday morning before floundering around and finishing at its low in the afternoon. As is the standard protocol on a Catapult, I will look to exit at Friday's open.

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