

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 10, 2013

Volume 6 Issue 174

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Long

Tonight's Research Points

- 5 higher highs under similar circumstances in the past has often been followed by a pullback.
- 5 higher closes in an uptrend that is not making new 50-day highs has historically suggested a strong market that is likely to continue higher over the next few weeks.

Short-term Outlook

The Bottom Line

There appears to be a bit of a downside edge, but this is not a friendly environment for shorting, so I am sitting out for now.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 10, 2013	5 higher highs	1-4 days	Bearish	
September 10, 2013	5 higher closes > 200ma < 50-high	1-10 days	Bullish	
September 9, 2013	VIX up SPX up on Friday > 200ma	1-3 days	Bearish	-1.20%
September 6, 2013	WR10 up then NR10 low volum	1-5 days	Bearish	-3.00%
September 5, 2013	1st close > 10ma in > 15 days. > 200ma.	1-5 days	Bullish	1.40%
Active - Long Term				
September 10, 2013	5 higher closes > 200ma < 50-high	1-10 days	Bullish	
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				
September 3, 2013	End of month < 10ma and > 200ma	1-5 days	Bullish	2.20%
August 28, 2013	Unfill gap > 200. Close low 25% range.	1-8 days	Bullish	3.30%

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

The Evidence

News-driven markets tend to be less reliable in the way they react to technical and quantitative indicators. And the potential fading of war drums helped the market power through bearish inclinations and overbought readings on Monday. The major indices all closed nicely higher. The SPX rose 1.0%, the NASDAQ rallied 1.3%, and the Russell 2000 gained 1.6%. Breadth was strongly positive as the NYSE Up Issues % was 79% and the Up Volume % was 87%. Total NYSE volume sank a little from Friday's level.

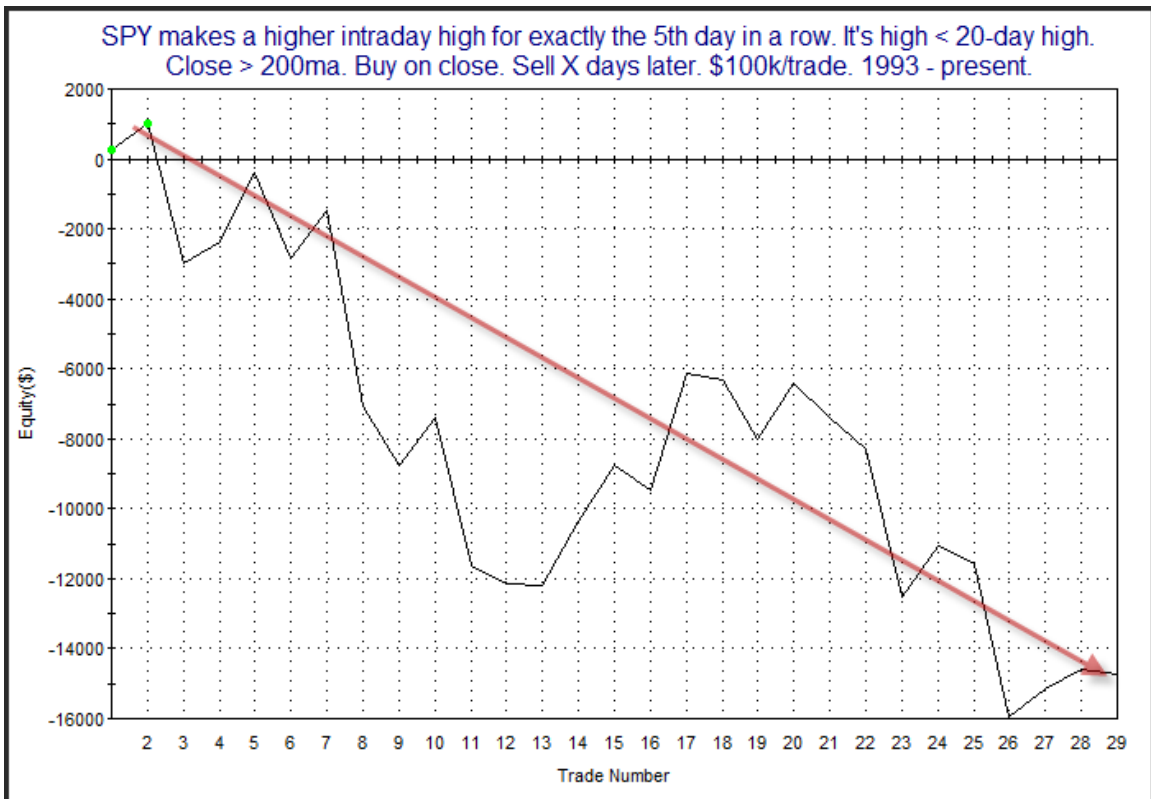
Some interesting but conflicting studies triggered today in the Quantifinder. Let's take a look at them, and I'll try and sort out the meaning a bit.

This first study examines situations with five higher highs. It is similar to one from the 10/12/11 subscriber letter. The original study simply looked at five higher highs that failed to also post a 20-day high. In tonight's version, I also added a 200-day moving average filter.

SPY makes a higher intraday high for exactly the 5th day in a row. It's high < 20-day high.
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	-15,155.53	29	16	13	55.17	1,162.48	3,168.00	-2,596.56	-6,714.00	0.45	0.55	-522.60
4	-14,743.56	29	13	16	44.83	1,346.52	3,317.60	-2,015.52	-5,590.34	0.67	0.54	-508.40
3	-11,112.47	29	15	14	51.72	928.66	2,675.20	-1,788.74	-4,244.74	0.52	0.56	-383.19
2	-8,509.57	29	12	17	41.38	702.59	1,361.36	-996.51	-2,348.97	0.71	0.50	-293.43
1	-6,551.27	29	12	17	41.38	444.83	1,088.14	-699.36	-2,245.23	0.64	0.45	-225.91

Like the original study, we see what appears to be a downside edge. The profit curve using a 4-day exit strategy can be found below.



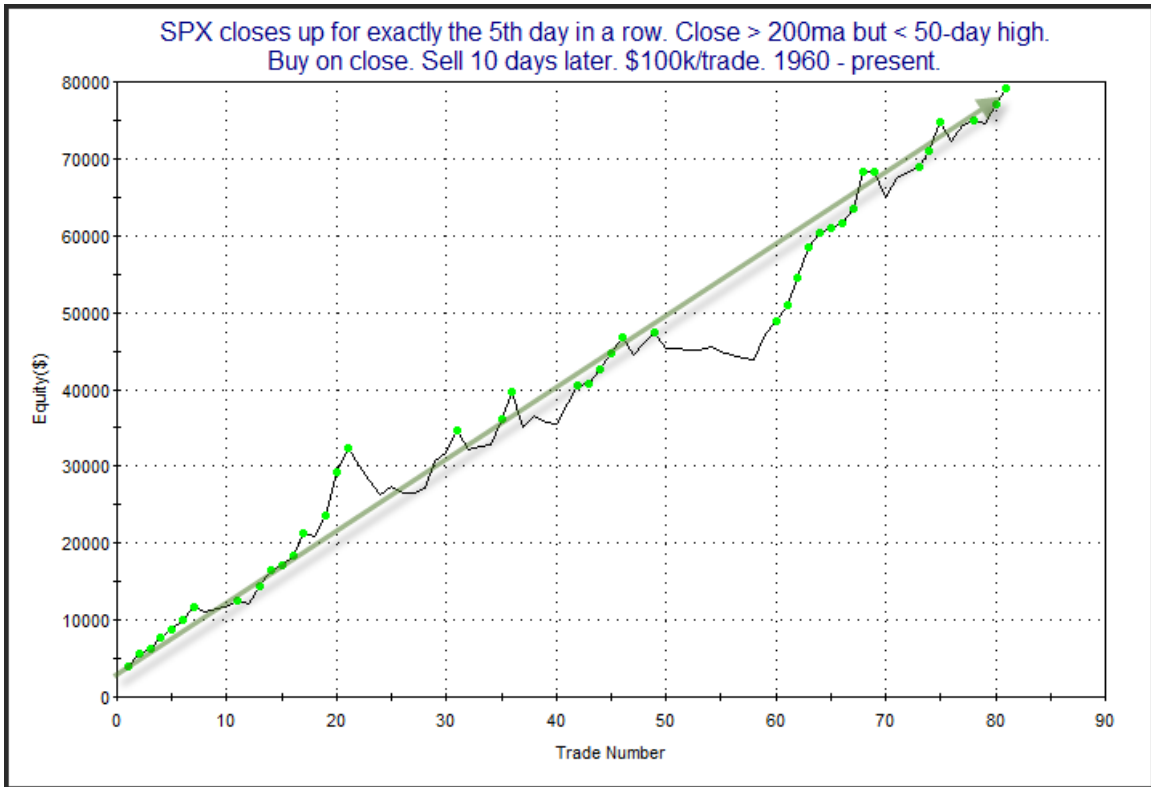
The chart is certainly choppy, but it heads from upper left to lower right with some persistency. This study certainly seems worthy of some consideration.

This next study utilizes a phenomenon that I have spoken of a number of times in the past. That is that when the market begins to get overbought it will often suggest a

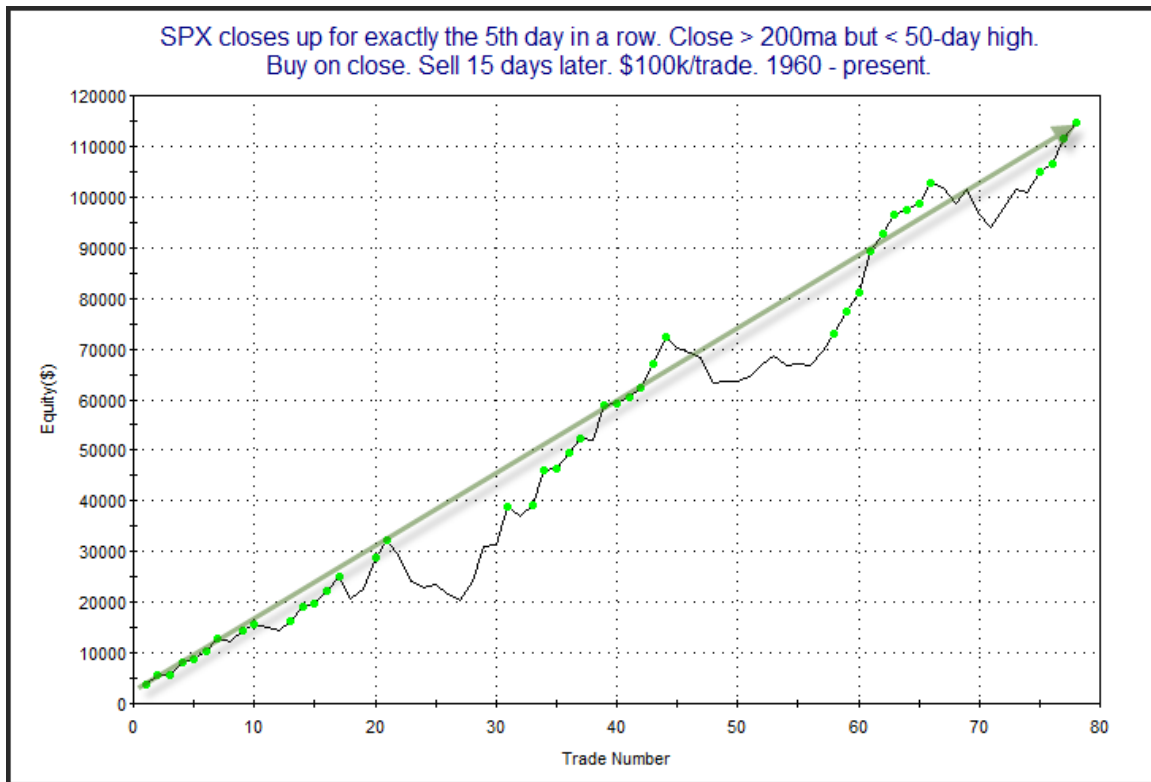
pullback is likely, but when overbought gets powered through then odds will sometimes shift from a pullback to a continuation of that move. This study demonstrates the continuation concept. It was last seen in the 12/12/12 subscriber letter.

SPX closes up for exactly the 5th day in a row. Close > 200ma but < 50-day high. Buy on close. Sell X days later. \$100k/trade. 1960 - 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
15	115,217.98	78	54	24	69.23	2,813.35	8,288.00	-1,529.28	-4,879.10	1.84	4.14	1,477.15
14	102,757.83	78	53	25	67.95	2,674.97	8,272.60	-1,560.61	-4,738.50	1.71	3.63	1,317.41
13	102,222.86	78	58	20	74.36	2,426.16	6,401.50	-1,924.72	-3,773.44	1.26	3.66	1,310.55
12	91,830.35	80	58	22	72.50	2,243.18	5,925.50	-1,739.74	-3,661.77	1.29	3.40	1,147.88
11	78,201.59	81	55	26	67.90	2,099.46	6,110.00	-1,433.41	-4,887.00	1.46	3.10	965.45
10	79,106.49	81	58	23	71.60	1,873.19	5,675.25	-1,284.30	-4,684.28	1.46	3.68	976.62
9	75,403.28	81	54	27	66.67	1,953.51	5,228.75	-1,114.31	-4,910.55	1.75	3.51	930.90
8	67,798.72	82	58	24	70.73	1,632.06	5,146.50	-1,119.20	-3,376.64	1.46	3.52	826.81
7	59,986.59	82	54	28	65.85	1,677.95	5,698.75	-1,093.68	-3,500.70	1.53	2.96	731.54
6	51,158.60	82	59	23	71.95	1,393.34	5,134.75	-1,349.94	-3,359.36	1.03	2.65	623.89
5	42,701.85	82	58	24	70.73	1,228.24	4,476.75	-1,189.00	-3,716.53	1.03	2.50	520.75
4	30,316.02	82	55	27	67.07	1,038.26	3,983.25	-992.15	-3,494.78	1.05	2.13	369.71
3	27,417.17	82	54	28	65.85	1,013.34	2,796.50	-975.12	-3,359.36	1.04	2.00	334.36
2	14,121.39	82	52	30	63.41	786.06	2,479.25	-891.78	-3,748.50	0.88	1.53	172.21
1	8,264.66	82	50	32	60.98	525.03	2,211.54	-562.09	-2,193.72	0.93	1.46	100.79

These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.



This appears to be quite a consistent curve and makes the study even more compelling. I also ran the 15-day profit curve.



Much like the 10-day curve, the 15-day shows impressive upslope. In addition to the short-term Active List, have also added this study to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.

But how can two seemingly similar studies show such vastly different results? To settle the issue, I could either 1) throw them both into the aggregator, 2) throw them both away, or 3) dig a little deeper. I decided to run a study looking at times that SPY both made a higher high and higher close for at least the fifth day around under similar circumstances. Below are those results.

SPY makes a higher high & higher close for at least the 5th day in a row.
 Close > 200ma but < 50-day high. Buy on close. Sell X days later. \$100k/trade. 1960 - 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
15	17,357.12	9	8	1	88.89	2,178.03	4,296.60	-67.14	-67.14	32.44	259.52	1,928.57
14	17,353.98	9	8	1	88.89	2,216.76	4,788.00	-380.12	-380.12	5.83	46.65	1,928.22
13	14,133.85	9	8	1	88.89	1,897.12	4,227.30	-1,043.12	-1,043.12	1.82	14.55	1,570.43
12	12,261.95	9	7	2	77.78	1,903.99	3,425.19	-532.99	-947.42	3.57	12.50	1,362.44
11	13,185.17	9	8	1	88.89	1,759.11	3,080.70	-887.74	-887.74	1.98	15.85	1,465.02
10	8,474.86	9	7	2	77.78	1,581.13	2,795.89	-1,296.51	-2,469.26	1.22	4.27	941.65
9	10,586.18	9	8	1	88.89	1,531.22	3,036.60	-1,663.58	-1,663.58	0.92	7.36	1,176.24
8	4,422.65	9	7	2	77.78	971.30	2,570.40	-1,188.23	-2,230.54	0.82	2.86	491.41
7	6,925.77	9	7	2	77.78	1,221.16	2,060.10	-811.19	-1,551.68	1.51	5.27	769.53
6	6,379.81	9	7	2	77.78	1,185.72	1,795.50	-960.12	-1,879.92	1.23	4.32	708.87
5	4,859.68	9	8	1	88.89	789.30	1,596.00	-1,454.70	-1,454.70	0.54	4.34	539.96
4	4,013.61	9	6	3	66.67	872.11	1,591.20	-406.36	-690.30	2.15	4.29	445.96
3	1,202.20	10	6	4	60.00	676.43	1,918.28	-714.09	-853.44	0.95	1.42	120.22
2	-1,326.32	10	4	6	40.00	529.20	1,361.36	-573.85	-1,471.68	0.92	0.61	-132.63
1	-1,748.97	12	4	8	33.33	604.07	755.08	-520.66	-1,311.40	1.16	0.58	-145.75

These results are interesting, and do a pretty good job of explaining how the discrepancy could exist. The very short-term, in this case 1-2 days, there has been the struggle suggested by the first "higher high" study. But after that, it appears that the "higher close" study that suggests the market is overbought and likely to go higher reigns supreme. Of course after the first few days, that "higher high" study lost effectiveness anyway. After seeing these results, I was actually comfortable placing both studies on the short-term active list and in the Aggregator.

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



The mixed evidence tonight caused the green Aggregator Line to hold steady down below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is also below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator signal to remain short at the close.

Based on the current group of studies, expectations are slated to remain negative on Tuesday. Of course this could change if bullish evidence emerges. The Differential Pivot will be 1661.32 on Tuesday. That is about 0.6% below Monday's close. So for SPX to move from overbought to oversold versus expectation it will need to close down at least this much.

Based on the evidence and the overbought nature of the market there appears to be a downside edge. If I were inclined to short, then this would be a setup that would probably get me interested. But I am still wary of shorting against the long-term trend into this news-driven, liquidity flush environment. So I intend to wait it out another day or so and see if something even more compelling emerges. For those subscribers more inclined to short than me, there were a number of stocks and ETFs that triggered system -81217 on the systems triggers sheet.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/10 – neutral

The intermediate-term outlook was last updated in the 9/9 Letter. Link below:

[2013-09-09 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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 tonight.](#)

Current Open Trade Ideas

None

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