

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 11, 2013

Volume 6 Issue 175

Market Overview



Signals Overview

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

Tonight's Research Points

- More evidence that short-term overbought is signaling intermediate-term strength.

Short-term Outlook

The Bottom Line

There appears to be a bit of a downside edge, but the opportunity to profit is small and the risk is high. I have no interest in shorting here.

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	WR 10 up then NR10 low volum	1-5 days	Bearish	-3.00%
Active - Long Term				
September 11, 2013	RSI2 crosses over 99. Close > 200ma	1-15 days	Bullish	2.40%
September 10, 2013	5 higher closes > 200ma < 50-high	1-15 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 5, 2013	1st close > 10ma in > 15 days. > 200ma	1-5 days	Bullish	1.40%

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

The Evidence

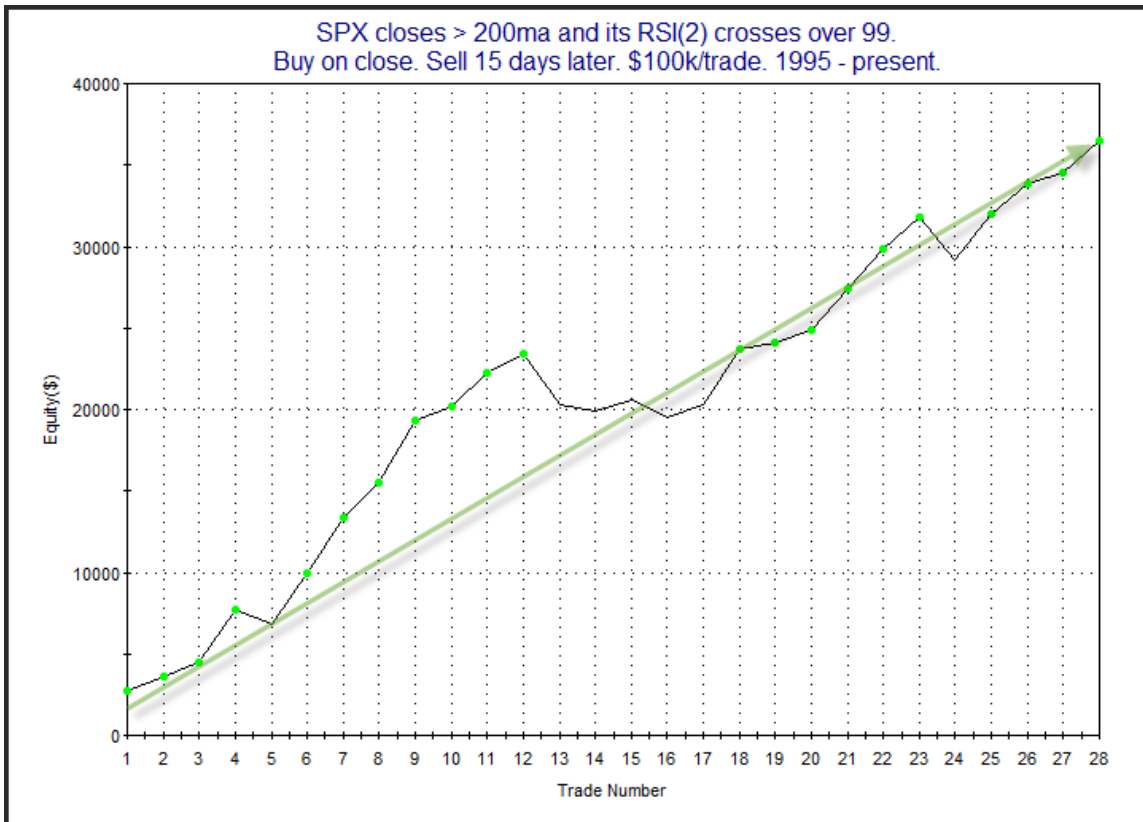
The major indices put in strong gains again on Tuesday. The SPX rose 0.7%, the NASDAQ rallied 0.6%, and the Russell 2000 gained 0.9%. Breadth was squarely positive as the NYSE Up Issues % was 65% and the Up Volume % was 74%. Total NYSE volume came in at the highest level in a week.

When the market starts to get short-term overbought we often see studies pop up that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that downside edges are no longer prevalent. We saw this in a study last night and another one popped up tonight. The study below exemplifies the kind of extreme short-term overbought scenario the market is now in.

SPX closes > 200ma and its RSI(2) crosses over 99.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	36,530.82	28	23	5	82.14	1,935.55	3,782.11	-1,597.39	-3,063.60	1.21	5.57	1,304.67
14	30,514.14	28	22	6	78.57	1,852.90	4,461.36	-1,708.26	-2,699.52	1.08	3.98	1,089.79
13	29,002.39	29	23	6	79.31	1,730.24	3,989.82	-1,798.84	-3,320.01	0.96	3.69	1,000.08
12	27,070.29	29	22	7	75.86	1,662.94	4,058.61	-1,359.21	-3,175.53	1.22	3.85	933.46
11	28,375.42	29	22	7	75.86	1,750.83	4,106.40	-1,448.99	-2,523.21	1.21	3.80	978.46
10	23,061.91	30	21	9	70.00	1,684.38	3,770.55	-1,367.79	-2,793.28	1.23	2.87	768.73
9	18,768.92	30	20	10	66.67	1,536.82	3,453.27	-1,196.74	-3,440.07	1.28	2.57	625.63
8	20,240.28	30	19	11	63.33	1,621.24	3,547.80	-960.29	-3,460.32	1.69	2.92	674.68
7	12,835.67	31	18	13	58.06	1,368.59	3,564.39	-907.62	-4,153.62	1.51	2.09	414.05
6	4,425.46	31	18	13	58.06	1,096.82	2,634.36	-1,178.25	-5,296.92	0.93	1.29	142.76
5	2,292.48	31	20	11	64.52	839.55	1,782.39	-1,318.04	-3,596.40	0.64	1.16	73.95
4	3,149.48	31	21	10	67.74	838.51	2,442.90	-1,445.92	-3,039.18	0.58	1.22	101.60
3	-1,376.66	32	19	13	59.38	776.52	1,982.20	-1,240.82	-2,880.45	0.63	0.91	-43.02
2	-679.09	32	18	14	56.25	694.07	1,998.39	-940.88	-2,348.76	0.74	0.95	-21.22
1	772.93	32	16	16	50.00	619.77	2,096.10	-571.46	-3,515.37	1.08	1.08	24.15

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously this study does not help us with the short-term, but I have added it to the intermediate-term list.

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



Tonight's study brightens the intermediate-term picture, but the green Aggregator Line looks primarily at the short-term and therefore remains 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 turn slightly bullish on Wednesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1656.44 on Wednesday. That is a sizable 1.6% below Tuesday's close. So it will take a big drop on Wednesday for SPX to move from overbought to oversold versus expectations. It will more likely take a multi-day decline or consolidation to work off the overbought condition.

Short-term evidence still leans bearish. And there is no arguing that the market is overbought. But studies over the last few nights are showing that the short-term strength we are seeing is likely to lead to intermediate-term strength. This would limit downside opportunity. Additionally, expectations are set to turn positive on Wednesday. So unless

you are an adept daytrader, there seems to be very little point in trying to short here. I'm going to sit out and see how things play out over the next day or so before considering putting any new capital at risk.

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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