

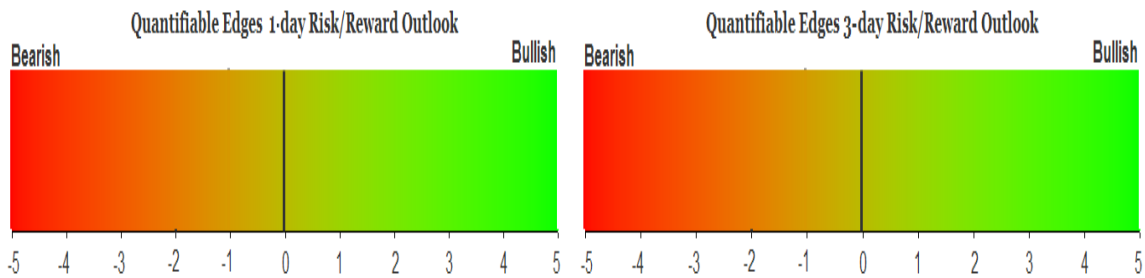
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 12, 2013

Volume 6 Issue 176

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The VXO is getting stretched to the downside. This used to suggest a bearish edge, but not in recent times.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is pointing slightly higher, but the market is strongly overbought. There is nothing for me to do but sit and wait for the next favorable trading opportunity.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
September 10, 2013	5 higher highs	1-4 days	Bearish	
September 10, 2013	5 higher closes > 200ma < 50-high	1-10 days	Bullish	
September 6, 2013	WR 10up then NR10 low volum	1-5 days	Bearish	-3.00%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
September 9, 2013	VIX up SPX up on Friday > 200ma	1-3 days	Bearish	-1.20%

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

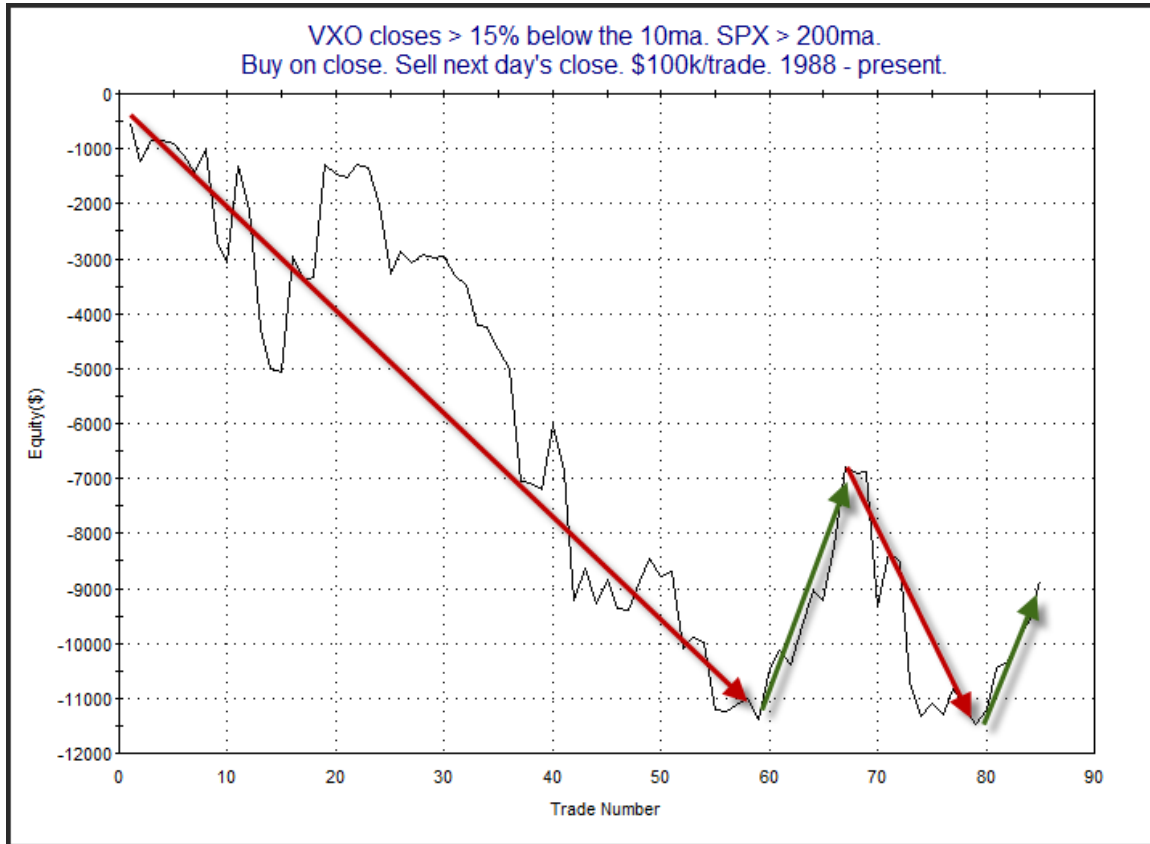
**The Evidence**

There was not a lot of movement in the market on Wednesday, and the major indices finished mixed. The SPX rose 0.3%, the NASDAQ fell 0.1%, and the Russell 2000 declined 0.1%. Breadth was mildly positive as the NYSE Up Issues % was 51% and the Up Volume % was 61%. Total NYSE volume declined some from yesterday's level.

The Quantifinder didn't show anything suggesting a strong directional edge. One index providing interesting readings is the VXO. It closed a little more than 15% below its 10ma. At one time, such rapid drops in the VXO were often followed by a move lower in the SPX. But this has not been as consistent in recent years. Below is a study from the 7/9/13 Subscriber Letter that shows this. I have updated the results.

VXO closes > 15% below the 10ma. SPX > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1988 - present.			
TradeStation Performance Summary			Collapse
All Trades			
Total Net Profit	(\$8,859.76)	Profit Factor	0.70
Gross Profit	\$20,691.82	Gross Loss	(\$29,551.58)
Total Number of Trades	85	Percent Profitable	41.18%
Winning Trades	35	Losing Trades	50
Even Trades	0		
Avg. Trade Net Profit	(\$104.23)	Ratio Avg. Win:Avg. Loss	1.00
Avg. Winning Trade	\$591.19	Avg. Losing Trade	(\$591.03)
Largest Winning Trade	\$2,096.10	Largest Losing Trade	(\$2,447.06)

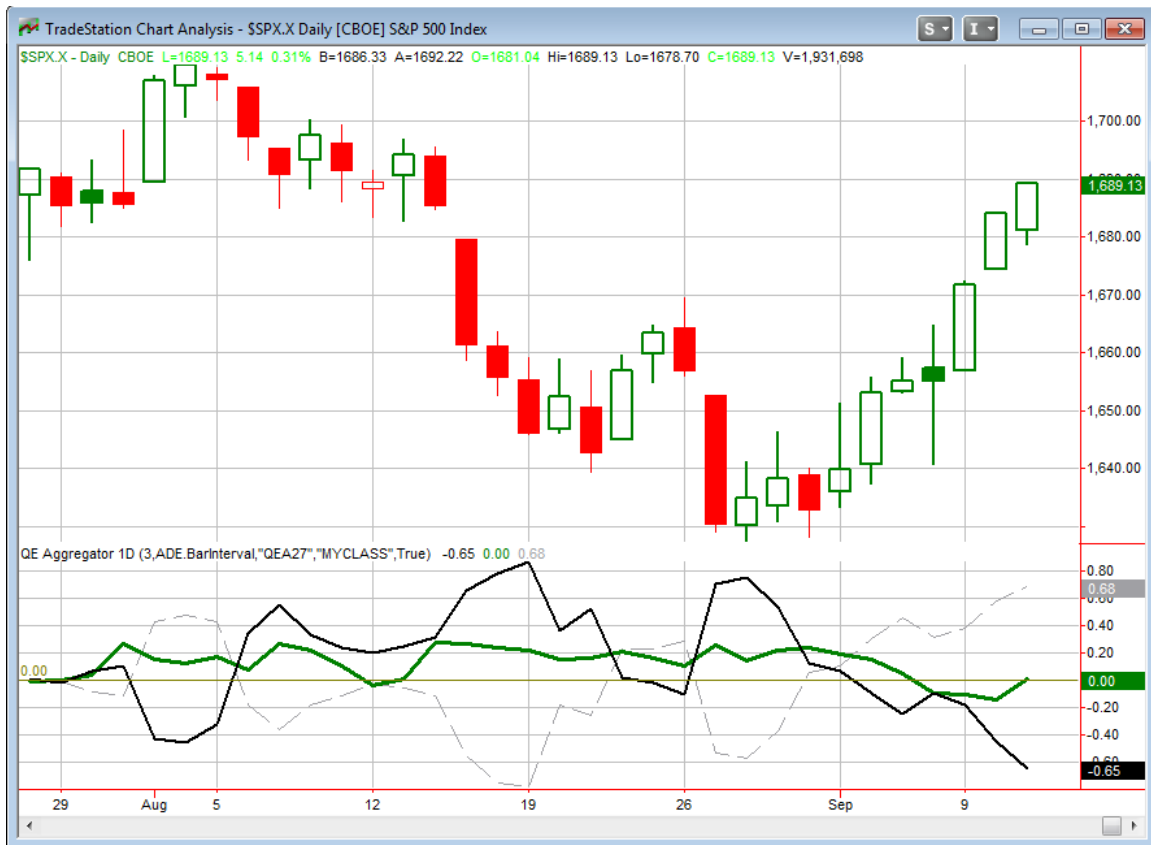
Stats here seem to suggest a bit of a downside inclination. But the equity curve tells a different story.



The downside edge seemed apparent for the 1<sup>st</sup> 60 instances or so. But the last 25 have been extremely choppy and shown no progress. So I will not be including this study on the Active List tonight.

With nothing being added to the short-term Active List tonight, we are down to 1 bullish study and 2 bearish ones, though the bearish ones are both near expiration.

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



The green Aggregator Line took a turn up tonight and is now just slightly 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 still below 0. The negative Differential Line reading means the SPX is (very) overbought versus recent expectations. So expectations are positive but the SPX is already strongly 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 turn flat at the close.

Based on the current group of studies, expectations are slated to remain bullish on Thursday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1668.83 on Thursday. That is a sizable 1.2% below Wednesday's close. So it will take a big drop on Thursday 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.

The rally has been so strong the last week and a half that we have seen studies the last few nights either saying "the market is strongly overbought and likely to move higher" or "the overbought level is strong enough that it used to suggest a downside edge, but not over the last few years during this period of quantitative easing". Even with expectations

slightly positive I have no inclination to buy into such an overbought condition. It could turn down fast from this level. And shorting right now while expectations are positive is out of the question. So I remain sidelined awaiting a more favorable risk/reward opportunity.

***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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