

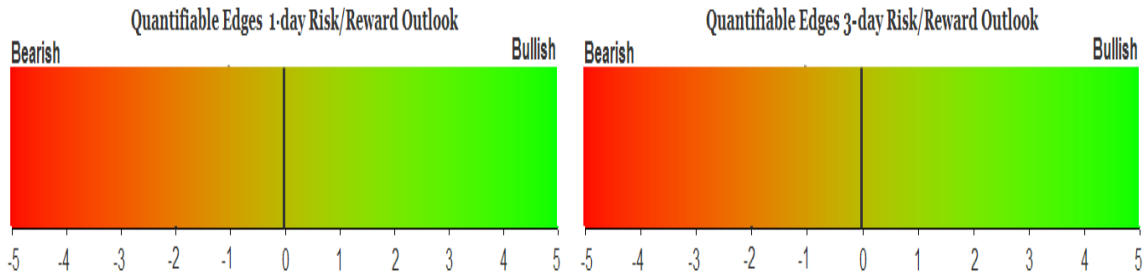
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 13, 2013

Volume 6 Issue 177

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- After over 5 days higher the market pulled back today. When the market has been in a similar position in the past, the 1-2 week timeframe has been strong.
- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days.

## Short-term Outlook

### The Bottom Line

More upside evidence but the market is still overbought. I plan to wait for a bit more of a pullback before considering a long trade.

*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 13, 2013	Down day after 5+ up. Close > 200ma.	1-9 days	Bullish	
September 13, 2013	3 Higher HLC. Then low cls. Higher h&l	1-4 days	Bullish	
September 10, 2013	5 higher highs	1-4 days	Bearish	
September 10, 2013	5 higher closes > 200ma < 50-high	1-10 days	Bullish	
<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 6, 2013	WR10up then NR10 low volum	1-5 days	Bearish	-3.00%

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

**The Evidence**

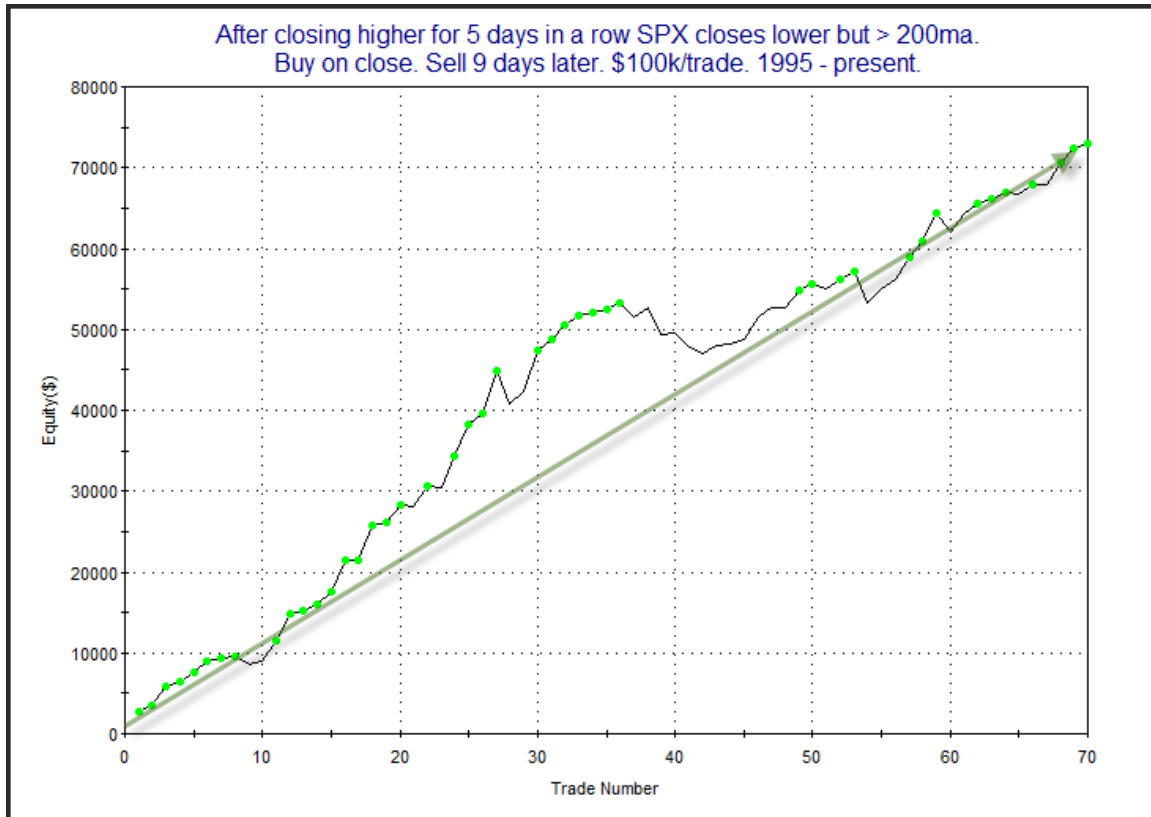
For the 1<sup>st</sup> time in nearly 2 weeks the major indices all closed lower on Thursday. The SPX dropped 0.3%, the NASDAQ fell 0.2%, and the Russell 2000 declined 0.7%. Breadth was negative as the NYSE Up Issues % was 31% and the Up Volume % was 28%. Total NYSE volume declined for the 2<sup>nd</sup> day in a row.

Thursday's moderately lower close triggered some bullish studies that looked at pullbacks after at least 5 consecutive up days. The studies below were last seen in the 11/27/12 Subscriber Letter. I have updated the results.

After closing higher for 5 days in a row SPX closes lower but > 200ma. 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
10	72,293.16	64	52	12	81.25	1,691.46	5,131.35	-1,305.21	-3,672.90	1.30	5.62	1,129.58
9	72,998.87	70	57	13	81.43	1,631.20	5,196.49	-1,536.87	-4,151.40	1.06	4.65	1,042.84
8	66,554.11	71	51	20	71.83	1,804.22	4,878.08	-1,273.05	-4,874.10	1.42	3.61	937.38
7	51,801.35	72	51	21	70.83	1,558.93	3,874.76	-1,319.25	-3,970.62	1.18	2.87	719.46
6	51,203.68	75	53	22	70.67	1,467.68	4,307.20	-1,208.35	-3,637.71	1.21	2.93	682.72
5	40,031.62	75	50	25	66.67	1,267.90	4,252.50	-934.54	-3,188.16	1.36	2.71	533.75
4	38,872.85	75	49	26	65.33	1,222.98	3,843.00	-809.74	-3,003.39	1.51	2.85	518.30
3	24,039.09	75	49	26	65.33	976.80	2,797.08	-916.30	-2,852.01	1.07	2.01	320.52
2	16,760.91	75	50	25	66.67	799.83	2,480.28	-929.23	-2,614.95	0.86	1.72	223.48
1	7,717.73	75	47	27	62.67	513.68	1,751.19	-608.34	-2,531.86	0.84	1.47	102.90

**67 of 75 instances (89%), including the last 14, closed above the entry price at some point in the next week**

Initially there appears to be a moderate inclination for a move higher. Once you get out 9-10 days the upside edge appears very substantial. Below is an equity curve using a 9-day exit strategy.



There's some wiggle here but the periods of pullback have been short and mild. This appears to confirm the bullish edge.

In the 11/27/12 letter I showed times SPX had accomplished the 5 up days without closing at a 50-day high. I have also updated those stats.

**After closing higher for 5 days in a row but not at a 50-day high SPX closes lower but > 200ma.  
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
10	24,994.48	17	13	4	76.47	2,331.07	4,644.11	-1,327.35	-2,964.60	1.76	5.71	1,470.26
9	23,743.60	17	14	3	82.35	2,106.48	5,196.49	-1,915.70	-3,251.34	1.10	5.13	1,396.68
8	23,117.28	17	14	3	82.35	2,065.22	4,770.49	-1,931.92	-4,038.66	1.07	4.99	1,359.84
7	16,582.37	17	15	2	88.24	1,513.32	3,335.92	-3,058.68	-3,970.62	0.49	3.71	975.43
6	15,096.69	17	14	3	82.35	1,589.81	2,736.52	-2,386.86	-3,388.23	0.67	3.11	888.04
5	13,435.53	17	14	3	82.35	1,354.38	2,590.50	-1,841.93	-3,188.16	0.74	3.43	790.33
4	10,699.22	17	13	4	76.47	1,148.90	2,600.40	-1,059.13	-2,494.80	1.08	3.53	629.37
3	7,311.56	17	12	5	70.59	1,138.56	2,797.08	-1,270.24	-2,852.01	0.90	2.15	430.09
2	601.28	17	10	7	58.82	865.61	2,480.28	-1,150.69	-2,455.11	0.75	1.07	35.37
1	-1,852.47	17	10	7	58.82	392.49	716.31	-825.34	-2,531.86	0.48	0.68	-108.97

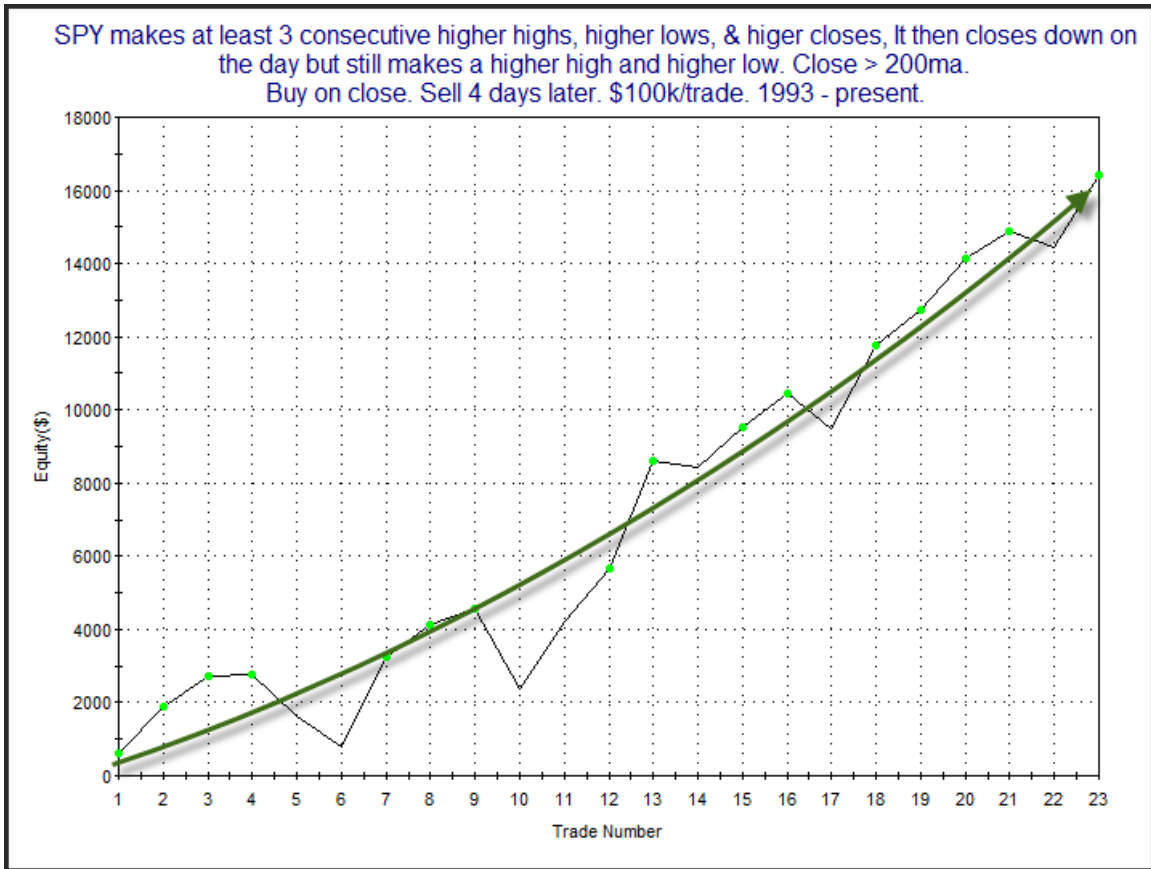
The day or so is iffy, but after that the upside edge appears even stronger than without the filter applied. Of course the number of instances is a bit low, but the market position doesn't appear to raise any red flags. The idea behind this study is that strong moves higher tend to weaken before they roll over. The five days up suggest the move is strong. Since they rarely turn on a dime, this 1st dip is not likely the end of the up move. And in this case the fact that we are not yet at a 50-day high suggests it is not long-term overextended either. I used the broader study to generate estimates for the Aggregator.

While SPY pulled back Thursday and closed lower, it still made a higher high and a higher low. The study below are from the 5/10/13 letter and examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

**SPY makes at least 3 consecutive higher highs, higher lows, & higher closes, It then closes down on the day but still makes a higher high and higher low. 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	11,027.57	23	14	9	60.87	1,446.24	3,602.64	-1,024.42	-2,800.26	1.41	2.20	479.46
4	16,424.93	23	17	6	73.91	1,305.20	2,958.05	-960.58	-2,191.22	1.36	3.85	714.13
3	8,432.18	23	16	7	69.57	929.41	2,432.70	-919.77	-2,640.33	1.01	2.31	366.62
2	6,100.60	23	18	4	78.26	609.49	2,004.60	-1,217.54	-1,804.67	0.50	2.25	265.24
1	4,223.77	23	15	8	65.22	463.75	1,002.03	-341.55	-1,137.92	1.36	2.55	183.64

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



The upslope is impressive. This study also appears worthy of consideration.

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



The green Aggregator Line rose further tonight and is now well 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 overbought versus recent expectations. So expectations are positive but the SPX is 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 remain flat at the close.

Based on the current group of studies, expectations are slated to remain bullish on Friday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1677.93 on Friday. That's about 0.3% below Thursday's close. So SPX will need to close down at least this much to move from overbought to oversold versus expectations.

My outlook matches with the Aggregator in that I am neutral. Evidence for a rise is pretty good, but risk/reward isn't great with the market still overbought. A decent-sized down day on Friday will probably turn the Aggregator bullish. I considered placing a long trade idea for the close on Friday if it is down a fair amount, but I ultimately decided not to rush in ahead of the actual signal. The market is still susceptible to Syria and Fed news, both of which will likely have developments occur in the next week. So I'll take the weekend to assess whatever clues the market provides on Friday.

**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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