

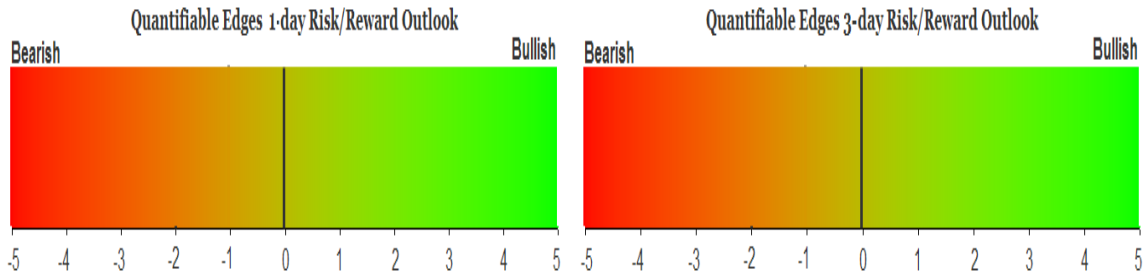
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 18, 2013

Volume 6 Issue 180

Market Overview



Signals Overview

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

Tonight's Research Points

- The breakout to a new 50-day high was accompanied by an unfilled gap up in the SPY, which has been a short-term positive.
- Unfilled gaps up that fail to make a higher high will often pull back over the next few days.
- Bullish Fed Day inclinations have not held true when the market has closed at a 20-day high and in the upper part of its daily range.
- 3 up days going into a Fed Day have done surprisingly well

Short-term Outlook

The Bottom Line

A neutral outlook and some big news pending are leaving me as an observer for the time being.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 18, 2013	SPY unfilled gap to 50-high breakout	1-5 days	Bullish	1.60%
September 18, 2013	SPY unfilled gap up inside day	1 day	Bearish	
September 17, 2013	20-day intraday high. Weak close.	1-3 days	Bullish	1.10%
September 17, 2013	10 days > 5ma. 10-high.	1-2 days	Bearish	-1.10%
September 17, 2013	VIX up. SPX 10-high > 200. Mon.	1-2 days	Bearish	-0.90%
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 closes > 200ma < 50-high	1-10 days	Bullish	
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				
<i>September 16, 2013</i>	<i>September positive into opex week</i>	<i>1-2 days</i>	<i>Bullish</i>	<i>1.10%</i>

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

The Evidence

Tuesday the market put in a solid move higher. The SPX rose 0.4%, the NASDAQ finished up 0.75%, and the Russell 2000 1.0%. Breadth was positive as the NYSE Up Issues % was 66% and the Up Volume % was 72%. Total NYSE volume declined some from Monday's level.

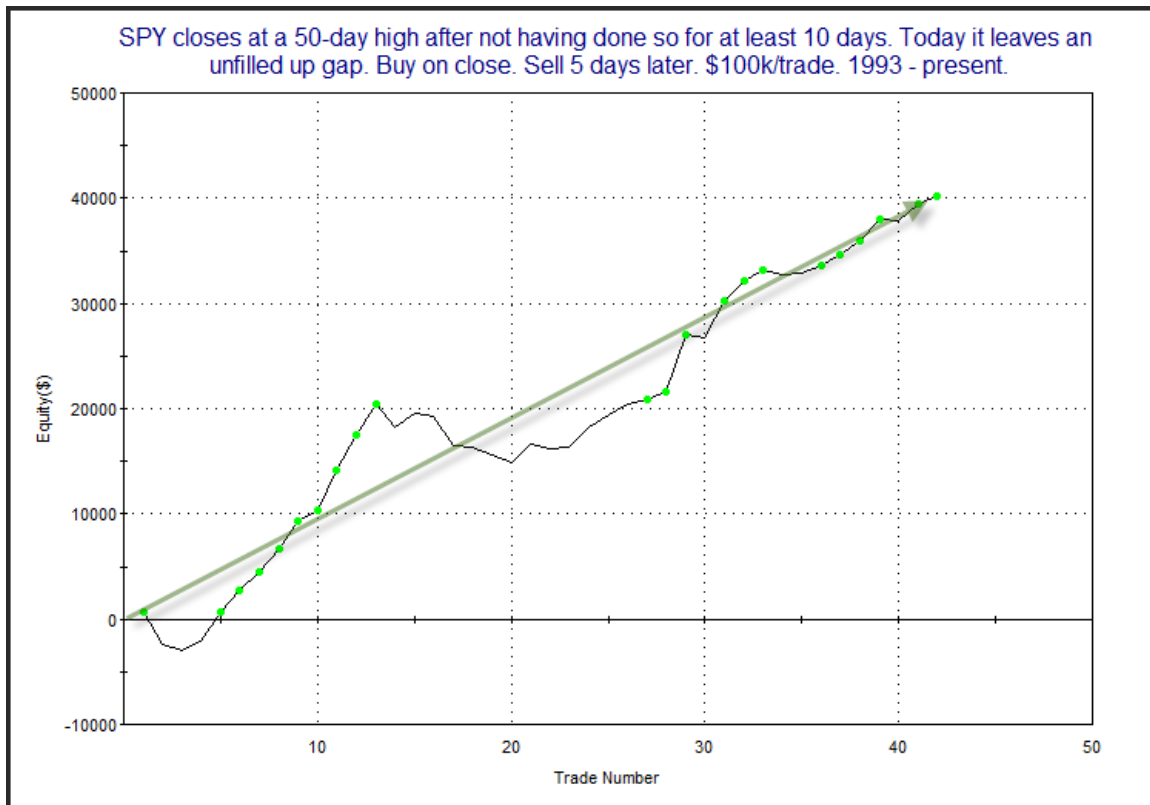
The move up on Tuesday led to a new 50-day closing high for SPY. A big positive associated with this breakout was the unfilled gap up.

In the 7/12/13 subscriber letter I looked at the importance of an unfilled upside gap on breakouts. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. 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	40,254.99	42	30	12	71.43	1,738.60	5,434.00	-991.91	-3,093.12	1.75	4.38	958.45
4	25,451.20	42	30	12	71.43	1,315.53	3,637.92	-1,167.88	-3,267.84	1.13	2.82	605.98
3	19,495.13	42	29	13	69.05	1,136.86	3,992.56	-1,036.45	-2,538.18	1.10	2.45	464.17
2	13,373.85	42	28	14	66.67	831.57	2,545.92	-707.87	-2,293.20	1.17	2.35	318.42
1	4,140.72	42	29	13	69.05	502.48	1,816.10	-802.40	-2,591.68	0.63	1.40	98.59

37 of 42 instances (88%) closed above the entry price at some point in the next week.

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The nice upslope on the equity curve confirms the bullish inclinations.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was nearly the same. This study also appeared in the 7/12/13 letter. These stats have not changed.

SPY closes at a 50-day high after not having done so for at least 10 days. No unfilled gap today.
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	3.13	38	22	16	57.89	1,035.77	2,671.20	-1,423.99	-4,285.26	0.73	1.00	0.08
4	-3,699.03	38	19	19	50.00	1,081.98	2,072.07	-1,276.67	-4,518.34	0.85	0.85	-97.34
3	1,615.79	38	20	18	52.63	1,091.84	2,927.90	-1,123.39	-5,133.72	0.97	1.08	42.52
2	-2,200.67	38	18	20	47.37	700.55	2,324.90	-740.53	-3,640.86	0.95	0.85	-57.91
1	657.06	38	20	17	52.63	475.49	1,586.97	-520.75	-2,448.72	0.91	1.07	17.29

As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.

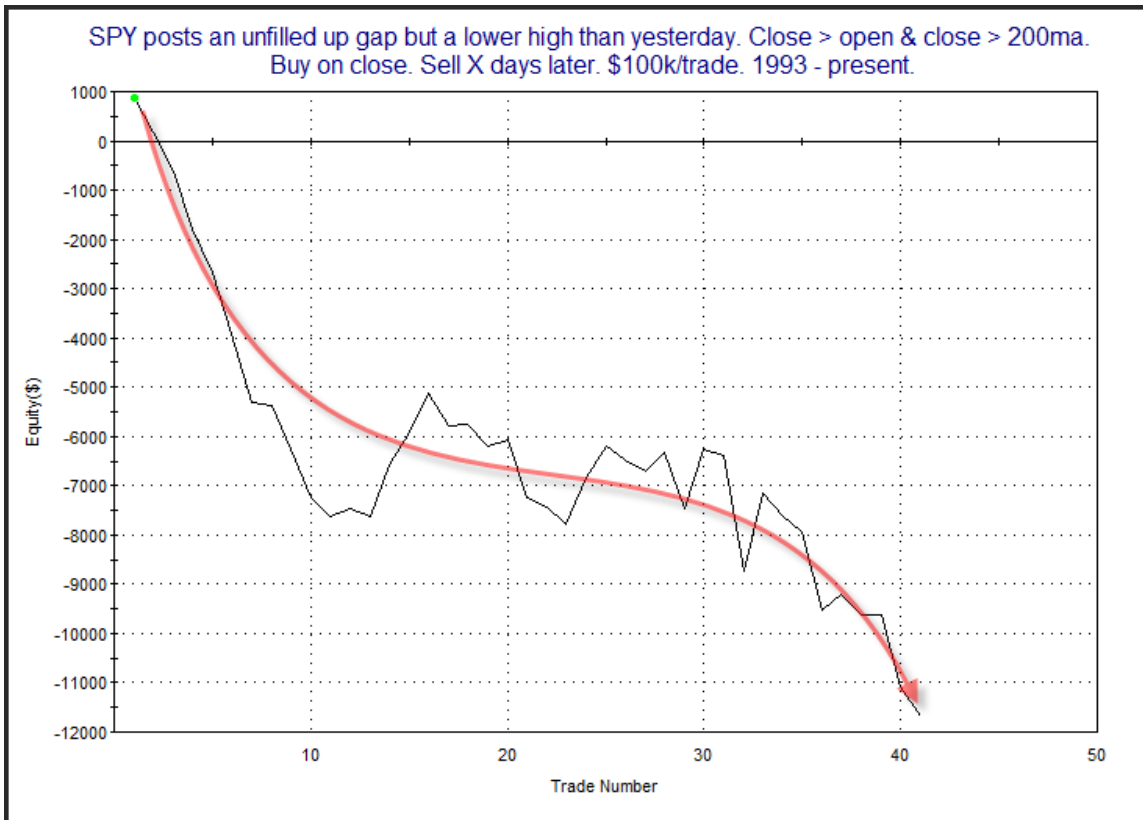
But not everything about SPY's pattern looked encouraging. The study below was last seen in the 3/27/13 Letter. It looks at days like Tuesday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results of that study below.

SPY posts an unfilled up gap but a lower high than yesterday. Close > open & 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	-8,945.73	38	17	21	44.74	1,259.57	2,556.33	-1,445.64	-3,477.70	0.87	0.71	-235.41
4	-9,653.39	38	18	20	47.37	1,085.07	1,964.02	-1,459.23	-7,544.70	0.74	0.67	-254.04
3	-10,837.89	39	18	21	46.15	830.87	2,311.02	-1,228.26	-6,150.30	0.68	0.58	-277.89
2	-10,637.95	41	16	25	39.02	822.47	1,859.92	-951.90	-2,929.90	0.86	0.55	-259.46
1	-11,694.01	41	13	27	31.71	676.34	1,600.62	-758.75	-2,348.90	0.89	0.43	-285.22

36 of 41 instances (88%) closed below the entry price at some point in the next week.

Implications here appear somewhat bearish, with most of the damage occurring on day 1. Below is a profit curve that shows how the downside edge has played out over time.



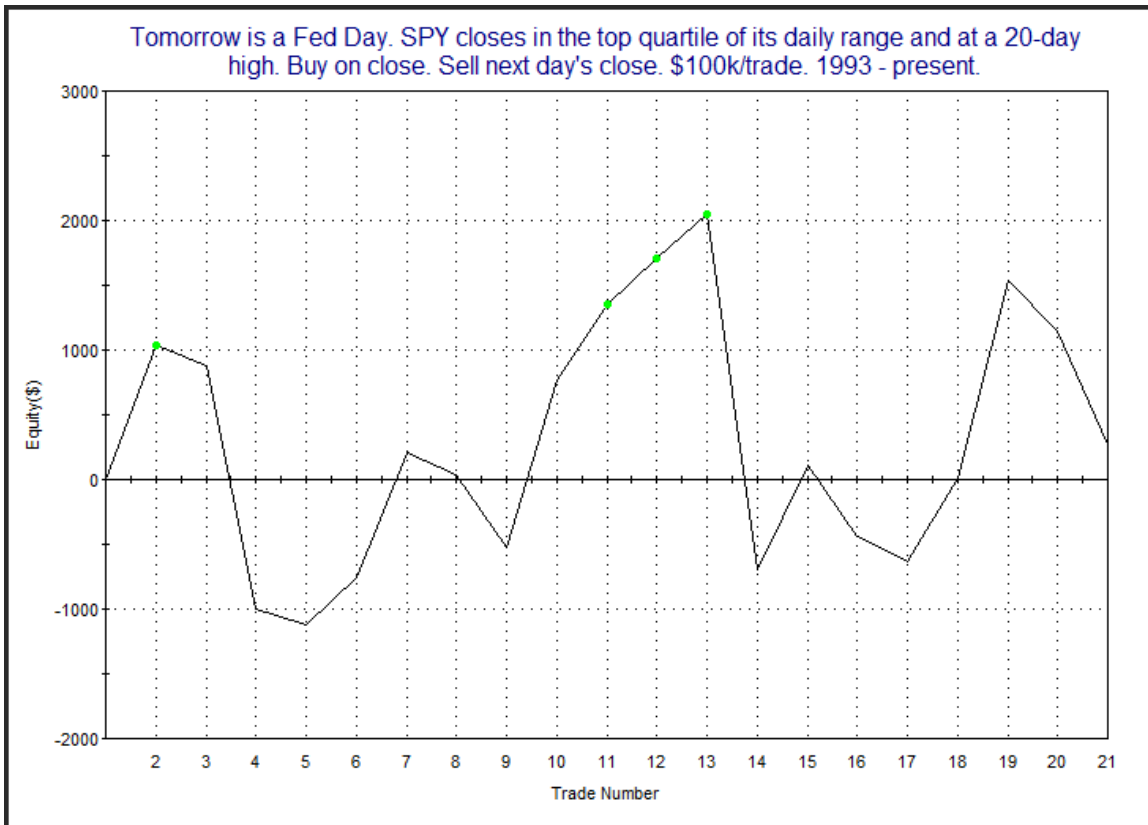
This is not an ideal profit curve but it still appears to suggest a downside edge. I felt it was worth giving this study consideration once again.

In general Fed Days have been strongly positive days. But both closes in the upper part of the daily range, and intermediate-term highs can reduce that upside edge. These are points I covered the over the last 2 nights. In the 5/1/13 subscriber letter I looked at the combination of a close in the upper end of the daily range along with a 20-day closing high. Results below are all updated.

Tomorrow is a Fed Day. SPY closes in the top quartile of its daily range and at a 20-day high. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Collapse ▲			
All Trades			
Total Net Profit	\$269.83	Profit Factor	1.04
Gross Profit	\$7,908.45	Gross Loss	(\$7,638.62)
Total Number of Trades	21	Percent Profitable	47.62%
Winning Trades	10	Losing Trades	10
Even Trades	1		
Avg. Trade Net Profit	\$12.85	Ratio Avg. Win:Avg. Loss	1.04
Avg. Winning Trade	\$790.85	Avg. Losing Trade	(\$763.86)
Largest Winning Trade	\$1,522.40	Largest Losing Trade	(\$2,739.69)

Results here suggest no edge whatsoever. Below is the equity curve.



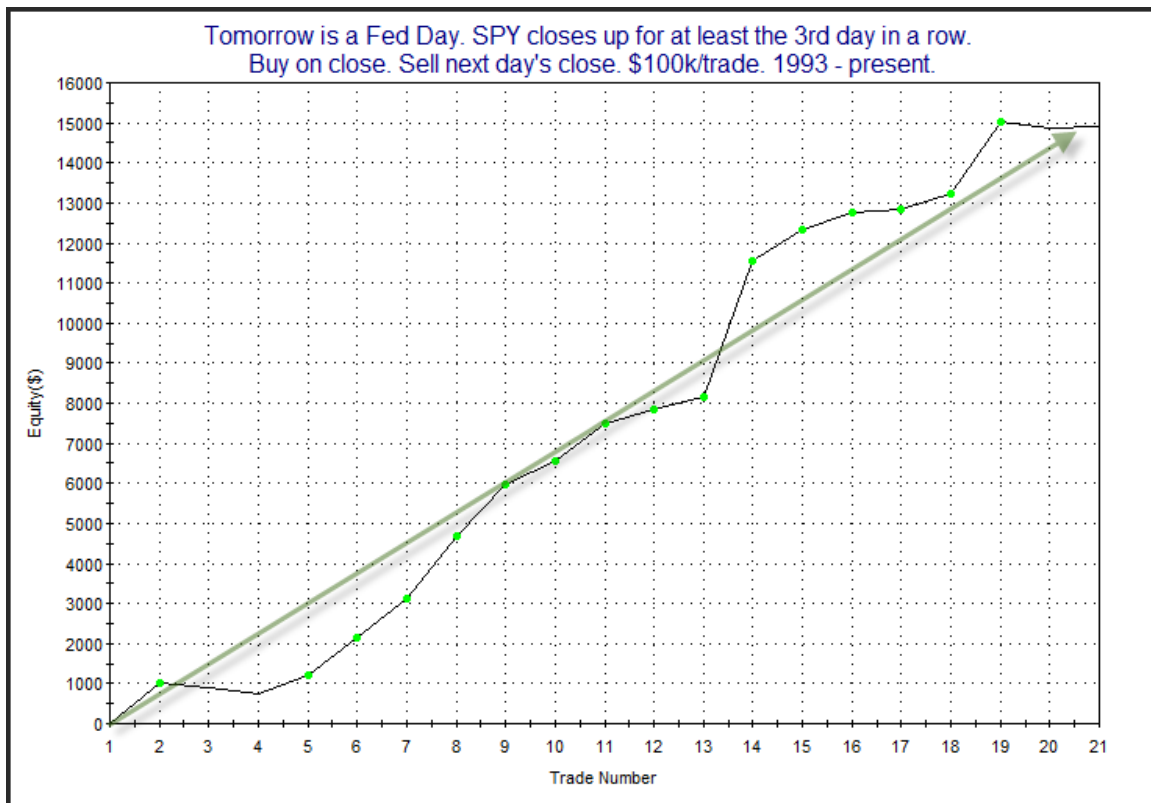
Fed Days under these conditions don't seem to provide the bullish edge they typically do otherwise.

Ironically, in a way that only the market can contradict itself, another study today suggested the move higher over the last few days may actually improve Wednesday's Fed Day outlook. The study requires at least three up days.

Tomorrow is a Fed Day. SPY closes up for at least the 3rd day in a row.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Collapse ▲			
All Trades			
Total Net Profit	\$14,914.69	Profit Factor	34.99
Gross Profit	\$15,353.50	Gross Loss	(\$438.81)
Total Number of Trades	21	Percent Profitable	80.95%
Winning Trades	17	Losing Trades	3
Even Trades	1		
Avg. Trade Net Profit	\$710.22	Ratio Avg. Win:Avg. Loss	6.17
Avg. Winning Trade	\$903.15	Avg. Losing Trade	(\$146.27)
Largest Winning Trade	\$3,383.38	Largest Losing Trade	(\$161.92)

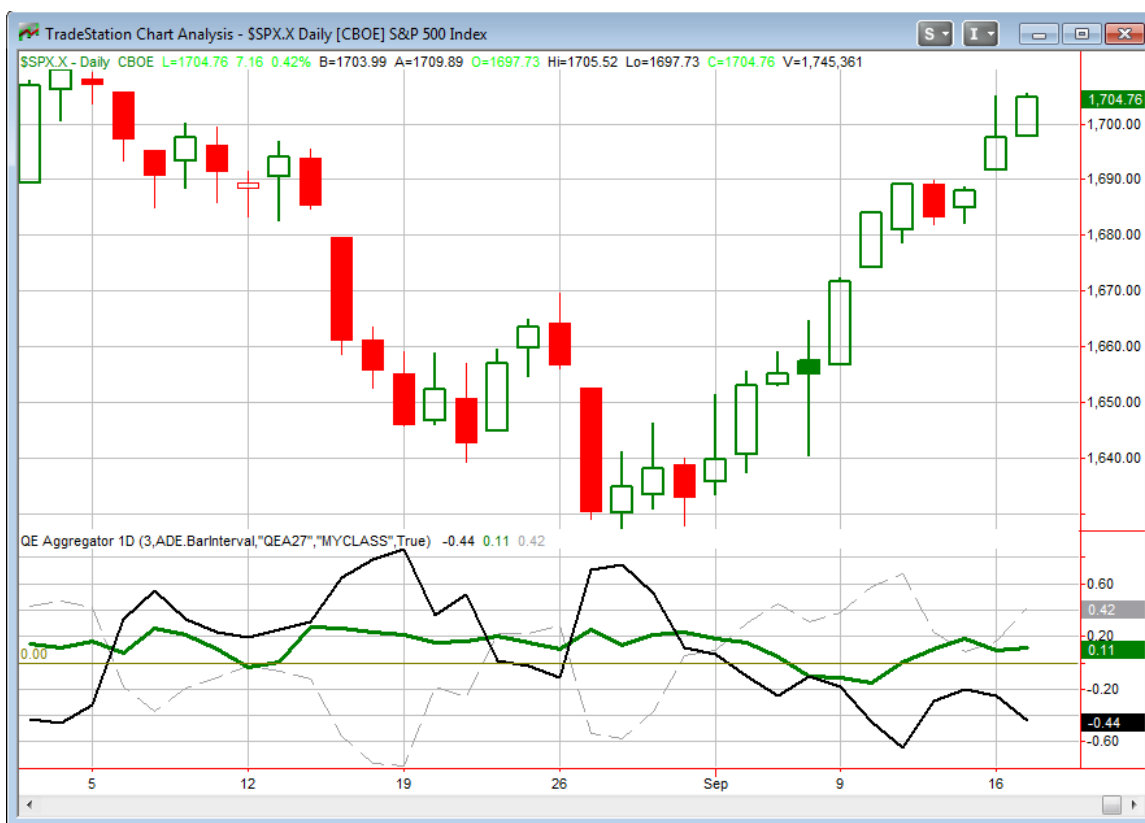
The average trade shown here is about twice as strong as the average Fed Day. Below is a profit curve.



With the Fed studies in a bit of conflict I'm inclined to just leave them off the active list. It wouldn't matter either way. Being just one-day studies, the influence wouldn't do much to the net expectations.

We also had some studies and indicators from last night trigger again. These included another new high after more than 2 weeks of closes above the 5ma, and another day with the VIX and SPX higher. The studies that triggered tonight were either the same or very similar, and with those already on the Active List I felt no need to put them on there again.

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



The green Aggregator Line is again 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 Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1692.80 on Wednesday. That's about 0.7% below Tuesday's close. So SPX will need to close down at least this much to move from overbought to oversold versus expectations.

So going into Wednesday there is not a clear and compelling edge. There is a big event scheduled though, and the Fed announcement is highly anticipated. Their statement will likely have a substantial impact on afternoon activity, and if the reaction is strong enough, it could at least begin to set up some tradable edges in the days that follow. But there does not appear to be anything for me to do right now. I'll wait for the reaction and then re-evaluate.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/16 – neutral

The intermediate-term outlook was last updated in the 9/16 Letter. Link below:

[2013-09-16 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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