

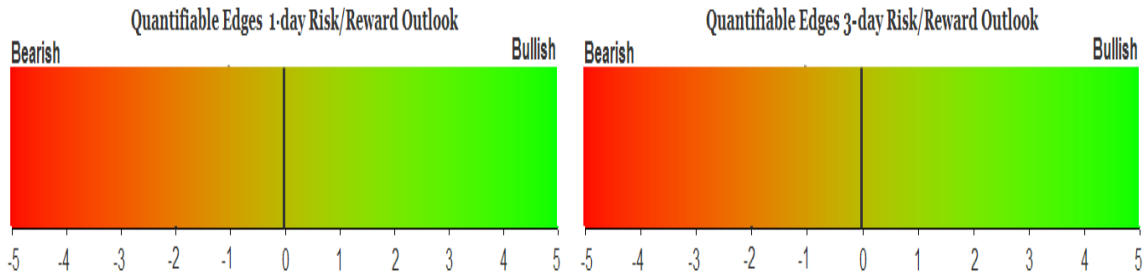
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 20, 2013

Volume 6 Issue 182

Market Overview



Signals Overview

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

Tonight's Research Points

- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.

Short-term Outlook

The Bottom Line

The Aggregator is still neutral, with positive expectations and an overbought market. So I am still biding my time waiting for the next strong opportunity.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 20, 2013	SPX top 10% 10-day range pre-opex	1-5 days	Bearish	-1.80%
September 19, 2013	High Volume Breakout to new 50-hi	1-6 days	Bullish	1.90%
September 19, 2013	100-day high close on Fed Day	1-6 days	Bullish	1.00%
September 18, 2013	SPY unfilled gap to 50-high breakout	1-5 days	Bullish	1.60%
Active - Long Term				
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	

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

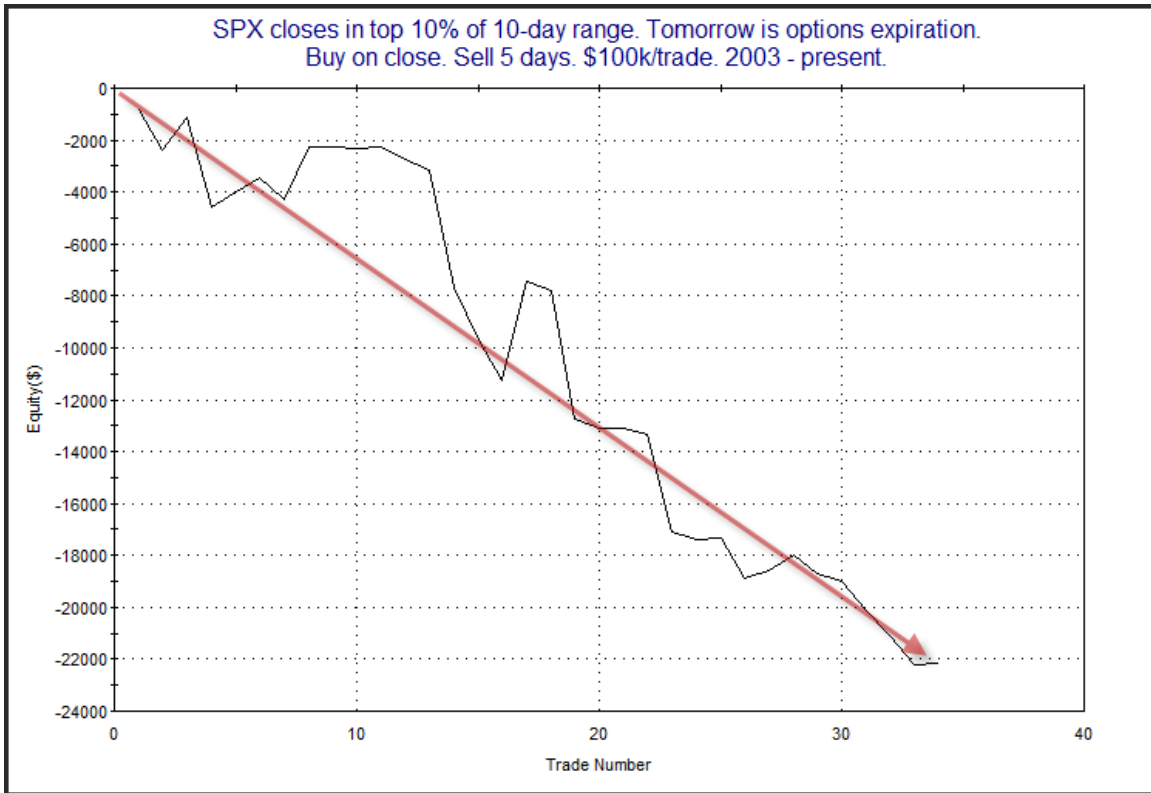
The Evidence

After Wednesday's big rise, Thursday was basically a quiet consolidation. The SPX and Russell 2000 each fell 0.2% while the Nasdaq gained 0.2%. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % was 35%. Total NYSE volume dropped quite a bit from Wednesday.

The study below was last seen in the 3/15/13 Letter. It looks at times the market closed at a high level just before options expiration. It generally has been a bad time for an overbought market.

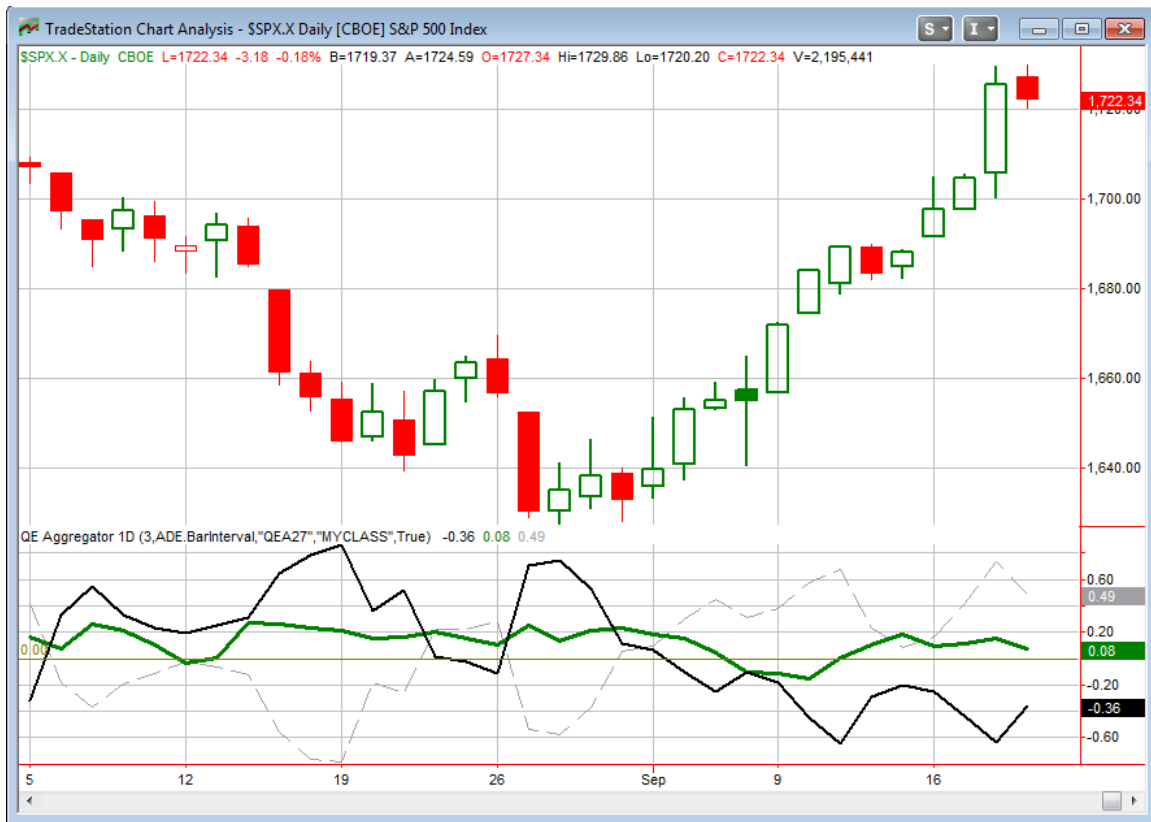
SPX closes in top 10% of 10-day range. Tomorrow is options expiration. Buy on close. Sell X days. \$100k/trade. 2003 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-22,143.62	34	11	23	32.35	841.10	3,768.30	-1,365.03	-4,932.90	0.62	0.29	-651.28
4	-19,428.85	34	12	22	35.29	803.95	1,994.25	-1,321.65	-2,899.20	0.61	0.33	-571.44
3	-10,891.24	34	17	17	50.00	614.63	2,166.00	-1,255.29	-2,828.70	0.49	0.49	-320.33
2	-9,926.86	34	20	14	58.82	453.93	1,588.40	-1,357.53	-3,784.65	0.33	0.48	-291.97
1	-3,443.00	34	19	15	55.88	360.45	2,286.84	-686.10	-2,875.60	0.53	0.67	-101.26

The numbers here are fairly compelling. To confirm the downside edge, I also produced a profit curve. The profit curve is based on a 5-day holding strategy.



The curve would seem to confirm the downside edge. Overbought into seasonal weakness often leads to a pullback. And as I mentioned last night, and will discuss in more detail in this weekend's letter, next week is historically the worst performing week of the year.

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



Despite tonight's bearish study the green Aggregator Line remained 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 strong bearish evidence emerges. The Differential Pivot will be 1711.35 on Friday. That's 0.6% below Thursday's close. So SPX will need to close down at least this much in order to move from overbought to oversold versus expectations.

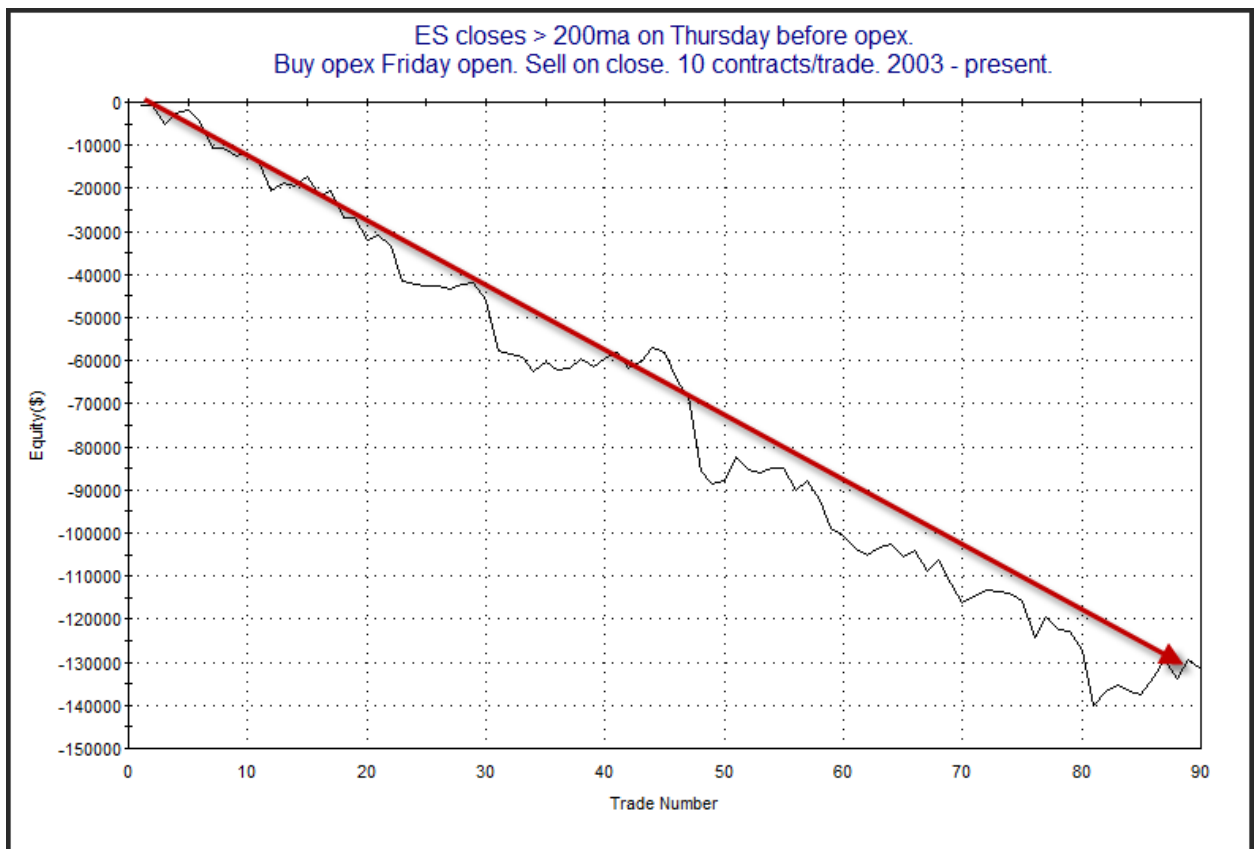
The studies are still leaning bullish, but the market is still overbought. And with seasonality turning bad in the next few days, I am going to give it an opportunity to pull back before committing to the long side. I will not be doing anything before the weekend.

For those Quantifiable Edges subscribers that daytrade, below is a little study that I shared in the Overnight Edges Trade Discussion Room on Thursday afternoon. It looks at intraday performance on opex Fridays during long-term uptrends.

ES closes > 200ma on Thursday before opex.
Buy opex Friday open. Sell on close. 10 contracts/trade. 2003 - present.

TradeStation Performance Summary Collapse ↕			
All Trades			
Total Net Profit	(\$131,750.00)	Profit Factor	0.34
Gross Profit	\$66,375.00	Gross Loss	(\$198,125.00)
Total Number of Trades	90	Percent Profitable	38.89%
Winning Trades	35	Losing Trades	54
Even Trades	1		
Avg. Trade Net Profit	(\$1,463.89)	Ratio Avg. Win:Avg. Loss	0.52
Avg. Winning Trade	\$1,896.43	Avg. Losing Trade	(\$3,668.98)
Largest Winning Trade	\$5,625.00	Largest Losing Trade	(\$17,125.00)

These are some pretty weak looking numbers. Here is the profit curve.



Be careful on the long side if you are daytrading Friday.

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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