

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 24, 2013

Volume 6 Issue 184

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Long

Tonight's Research Points

- 3 down days from a 50-day high that closes < 10ma but above 10-day low suggest an upside edge.
- 3-day pullbacks going into a Tuesday have been strongly prone to upside reversals.
- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.

Short-term Outlook

The Bottom Line

After 3 down days the pullback is looking buyable. I plan to start scaling in.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 24, 2013	3 dn from 50-high < 10ma > 10-low	1-4 days	Bullish	1.80%
September 24, 2013	Turnaround Tuesday	1-5 days	Bullish	2.60%
September 24, 2013	2 unfilled gaps down 5-low & > 200ma	1-6 days	Bullish	2.10%
September 23, 2013	Weakest week	1-4 days	Bearish	-2.40%
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				
September 24, 2013	2 unfilled gaps down 5-low & > 200ma	1-10 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	

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

The Evidence

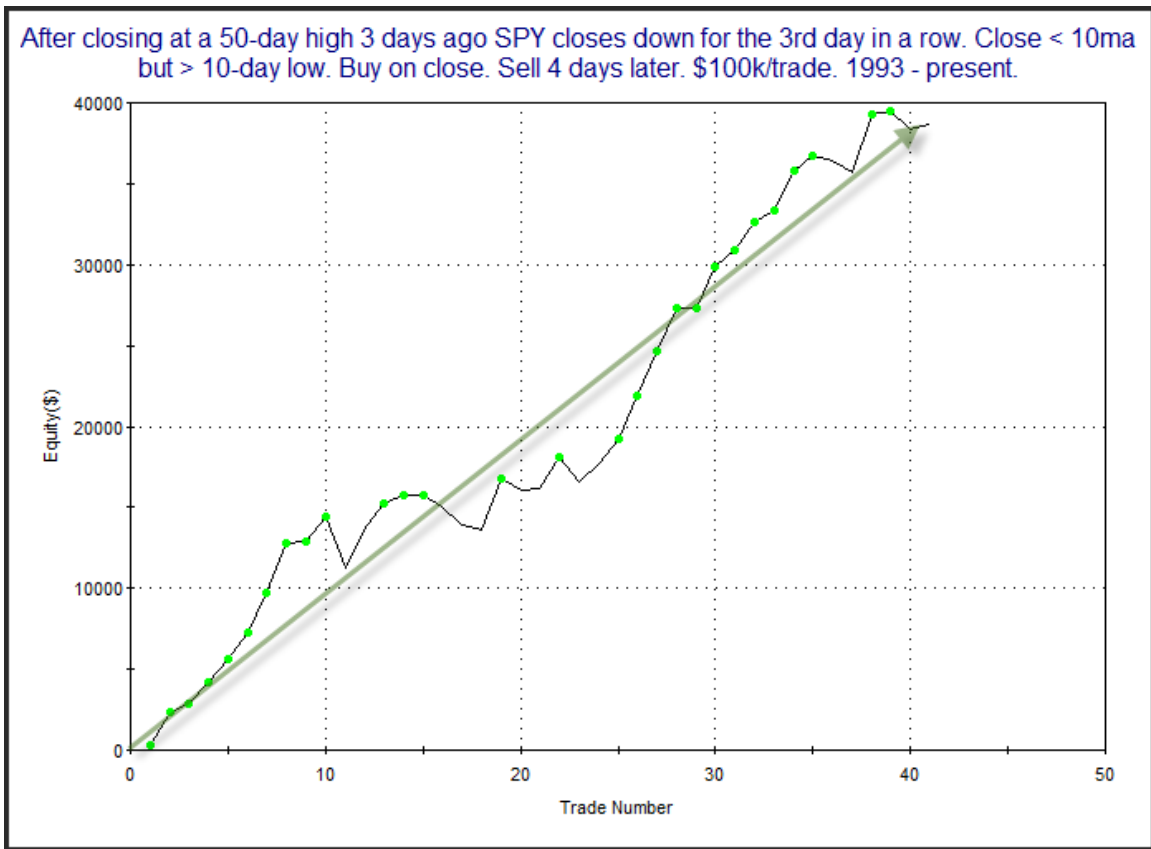
The market declined again on Monday. The SPX dropped 0.5%, the Nasdaq fell 0.3%, and the Russell 2000 declined less than 0.1%. Breadth was negative as the NYSE Up Issues % was 42% and the Up Volume % was 32%. Volume declined from opex Friday levels.

Monday marked the 3rd close lower in a row for SPY. Three-day pullbacks will often trigger a few bullish studies. I've include below a couple of the most compelling ones that relate to the current setup. This first one was from the 8/8/13 letter. It looked at other times that SPY had a 3-day pullback from a 50-day high, and that pullback was deep enough to put it below the 10ma, but *not* deep enough to see it at a 10-day closing low. I have updated the stats table below.

After closing at a 50-day high 3 days ago SPY closes down for the 3rd day in a row. Close < 10ma but > 10-day low. 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
10	48,880.01	40	28	12	70.00	2,546.07	7,242.70	-1,867.50	-6,933.13	1.36	3.18	1,222.00
9	42,864.20	40	29	11	72.50	2,395.16	6,322.56	-2,417.77	-8,192.92	0.99	2.61	1,071.61
8	45,183.84	40	30	10	75.00	2,235.43	6,358.08	-2,187.91	-4,499.25	1.02	3.07	1,129.60
7	38,917.72	40	29	11	72.50	2,088.15	6,322.56	-1,967.15	-4,354.31	1.06	2.80	972.94
6	43,907.39	40	29	11	72.50	2,083.26	5,375.36	-1,500.65	-2,140.14	1.39	3.66	1,097.68
5	34,919.06	41	28	13	68.29	1,772.50	3,522.94	-1,131.61	-3,453.71	1.57	3.37	851.68
4	38,637.26	41	32	9	78.05	1,506.71	3,543.50	-1,064.14	-3,076.63	1.42	5.03	942.37
3	27,097.58	41	28	13	68.29	1,435.60	3,543.50	-1,007.63	-2,027.68	1.42	3.07	660.92
2	12,948.31	41	27	14	65.85	1,047.08	2,332.48	-1,094.49	-2,781.35	0.96	1.85	315.81
1	8,996.18	41	27	14	65.85	784.03	2,060.16	-869.48	-2,031.09	0.90	1.74	219.42

Under these circumstances, it appears bounces have been both reliable and powerful. Below is a look at the profit curve assuming a 4-day exit technique.

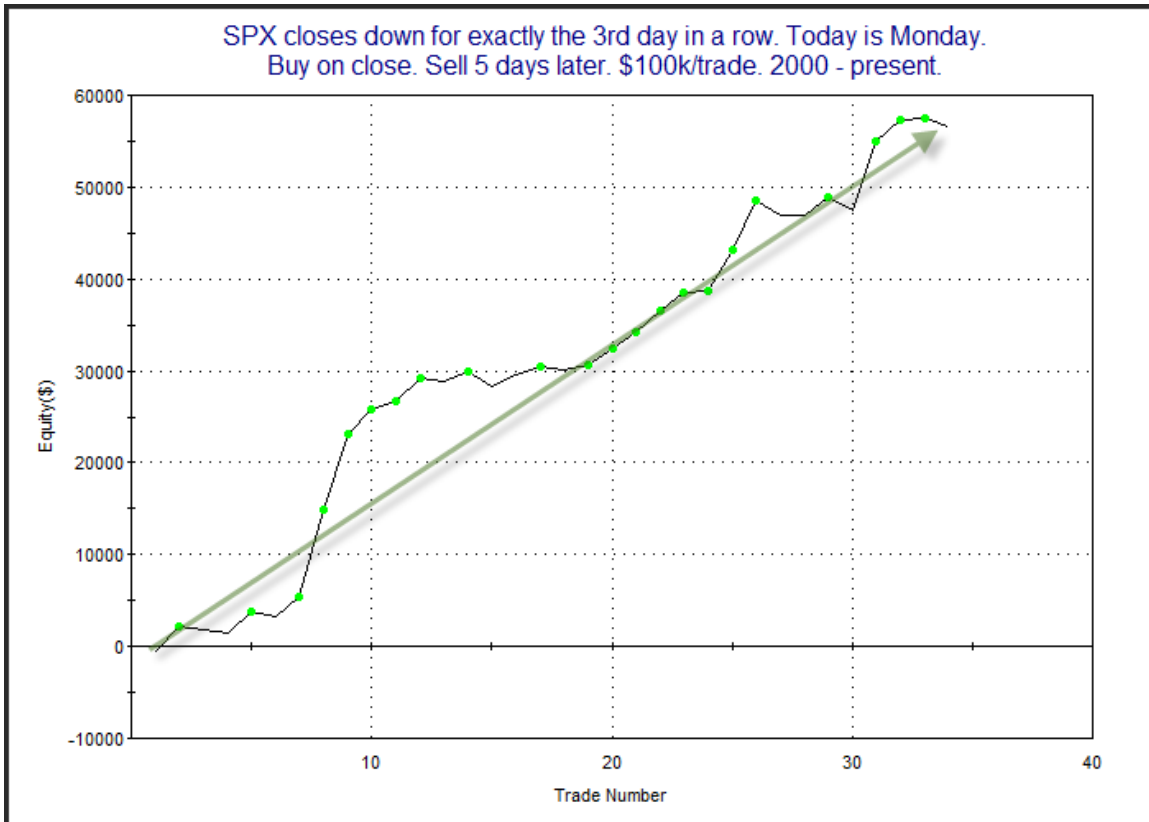


The curve appears to provide confirmation of the bullish tendency suggested by the stats table.

I've discussed many times in the past that Tuesdays have a well-earned reputation for being a day when the market will often halt a decline. The study below is one from the larger [Turnaround Tuesday study](#). It was last published in the 9/24/12 Subscriber Letter. All statistics are updated.

SPX closes down for exactly the 3rd day in a row. Today is Monday. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	60,677.96	33	25	8	75.76	2,854.72	13,815.90	-1,336.26	-4,387.46	2.14	6.68	1,838.73
9	65,640.93	33	27	6	81.82	2,614.70	11,206.23	-825.98	-1,686.96	3.17	14.25	1,989.12
8	64,869.56	33	27	5	81.82	2,617.22	11,382.35	-1,159.07	-2,031.30	2.26	12.19	1,965.74
7	63,123.56	33	27	6	81.82	2,578.80	11,104.17	-1,084.02	-2,148.96	2.38	10.71	1,912.84
6	50,636.15	33	24	9	72.73	2,433.36	10,034.53	-862.72	-1,676.79	2.82	7.52	1,534.43
5	56,571.71	34	24	10	70.59	2,688.43	9,572.31	-795.07	-1,714.92	3.38	8.12	1,663.87
4	44,895.31	34	27	7	79.41	1,946.48	8,810.76	-1,094.24	-2,964.25	1.78	6.86	1,320.45
3	37,295.09	34	23	11	67.65	1,994.02	8,432.34	-778.86	-1,873.02	2.56	5.35	1,096.91
2	24,976.00	34	25	9	73.53	1,323.28	5,018.23	-900.68	-1,602.76	1.47	4.08	734.59
1	17,103.72	34	21	13	61.76	1,301.04	4,723.23	-786.00	-2,680.15	1.66	2.67	503.05
30 of 34 instances (88%) closed above the entry price at some point in the next week												

As you can see the market has strongly favored a quick move higher. And when that move hasn't happened on Tuesday it has often happened in the next few days. Below is an equity curve showing a 4-day exit strategy.



While the strength of the edge has oscillated some it has provided fairly consistent results over time. Certainly this study seems to suggest an upside edge.

Another notable aspect of the price action over the last 2 days is that both Friday and Monday SPY posted unfilled gaps down – never reaching breakeven at any point during the day.

The study below looked at other instances where SPY left 2 unfilled down gaps while trading above the 200ma. It was last seen in the 5/28/13 letter and has been updated below.

**SPY leaves an unfilled gap down for the 2nd day in a row. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1998 - 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	30,348.61	25	17	8	68.00	2,509.84	5,325.39	-1,539.84	-4,320.54	1.63	3.46	1,213.94
9	32,634.15	26	20	6	76.92	2,190.84	4,882.41	-1,863.78	-4,075.15	1.18	3.92	1,255.16
8	29,251.79	26	17	8	65.38	2,360.26	4,742.40	-1,359.08	-4,700.95	1.74	3.69	1,125.07
7	27,568.74	27	20	6	74.07	2,073.93	4,429.74	-2,318.33	-4,604.10	0.89	2.98	1,021.06
6	29,747.02	27	21	6	77.78	1,827.45	3,828.72	-1,438.24	-3,671.57	1.27	4.45	1,101.74
5	25,099.07	27	21	6	77.78	1,611.98	3,940.02	-1,458.75	-3,627.12	1.11	3.87	929.60
4	16,808.34	27	20	7	74.07	1,230.70	4,388.28	-1,115.08	-3,342.64	1.10	3.15	622.53
3	7,811.36	27	16	11	59.26	1,094.24	3,325.14	-881.49	-2,747.01	1.24	1.81	289.31
2	3,375.63	27	12	15	44.44	1,101.77	2,948.14	-656.37	-2,436.12	1.68	1.34	125.02
1	4,049.71	27	15	12	55.56	835.28	1,974.15	-706.62	-1,849.26	1.18	1.48	149.99

25 of 27 instances (93%) closed above the entry price at some point in the next week

As you can see there has been a strong upside tendency to bounce over the next week. That tendency was not nearly as prominent prior to 1998, which is why the study does not look back further than that.

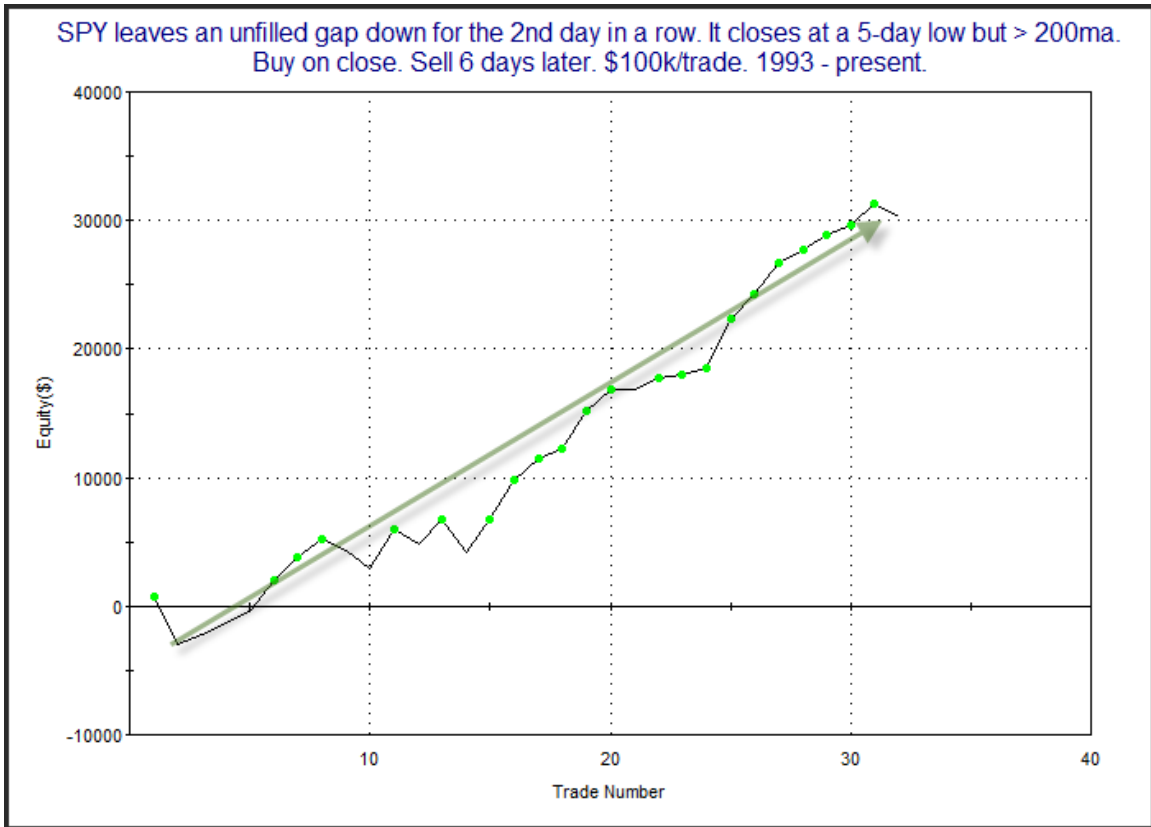
But if we also require a 5-day low close then we are talking about a setup that has suggested an upside edge since the inception of the SPY in 1993. I last showed this in the 5/28/13 letter as well and have updated the results below.

**SPY leaves an unfilled gap down for the 2nd day in a row. It closes at a 5-day low but > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.**

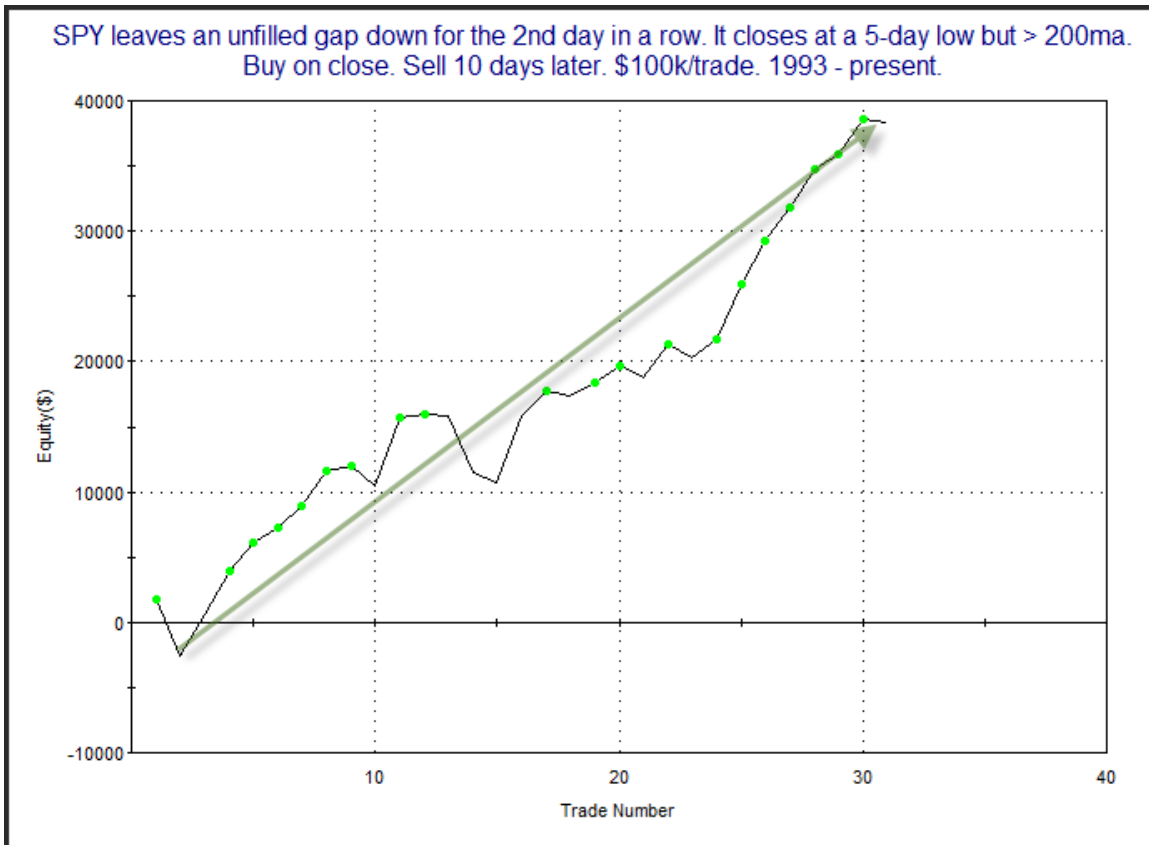
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	38,277.85	31	22	9	70.97	2,371.43	5,325.39	-1,543.73	-4,353.36	1.54	3.76	1,234.77
9	36,545.35	32	26	6	81.25	2,059.04	4,882.41	-2,831.61	-6,273.96	0.73	3.15	1,142.04
8	32,392.59	32	23	8	71.88	2,099.63	4,574.25	-1,987.36	-4,801.50	1.06	3.04	1,012.27
7	23,369.44	32	23	8	71.88	1,926.68	4,429.74	-2,618.02	-5,057.58	0.74	2.12	730.29
6	30,258.36	32	25	7	78.13	1,645.19	3,828.72	-1,553.05	-3,734.50	1.06	3.78	945.57
5	28,351.53	32	24	8	75.00	1,533.13	3,940.02	-1,055.45	-2,465.95	1.45	4.36	885.99
4	21,518.23	32	24	8	75.00	1,234.01	4,388.28	-1,012.26	-1,920.60	1.22	3.66	672.44
3	13,218.05	32	20	12	62.50	1,098.56	3,325.14	-729.43	-1,645.38	1.51	2.51	413.06
2	6,504.29	32	18	14	56.25	971.57	2,948.14	-784.56	-2,436.12	1.24	1.59	203.26
1	3,276.04	33	19	14	57.58	720.53	1,974.15	-743.85	-1,849.26	0.97	1.31	99.27

Only 1 instance failed to close above the entry price at some point in the next 6 days. It triggered on 9/14/99.

Here again the numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 6-day holding period.

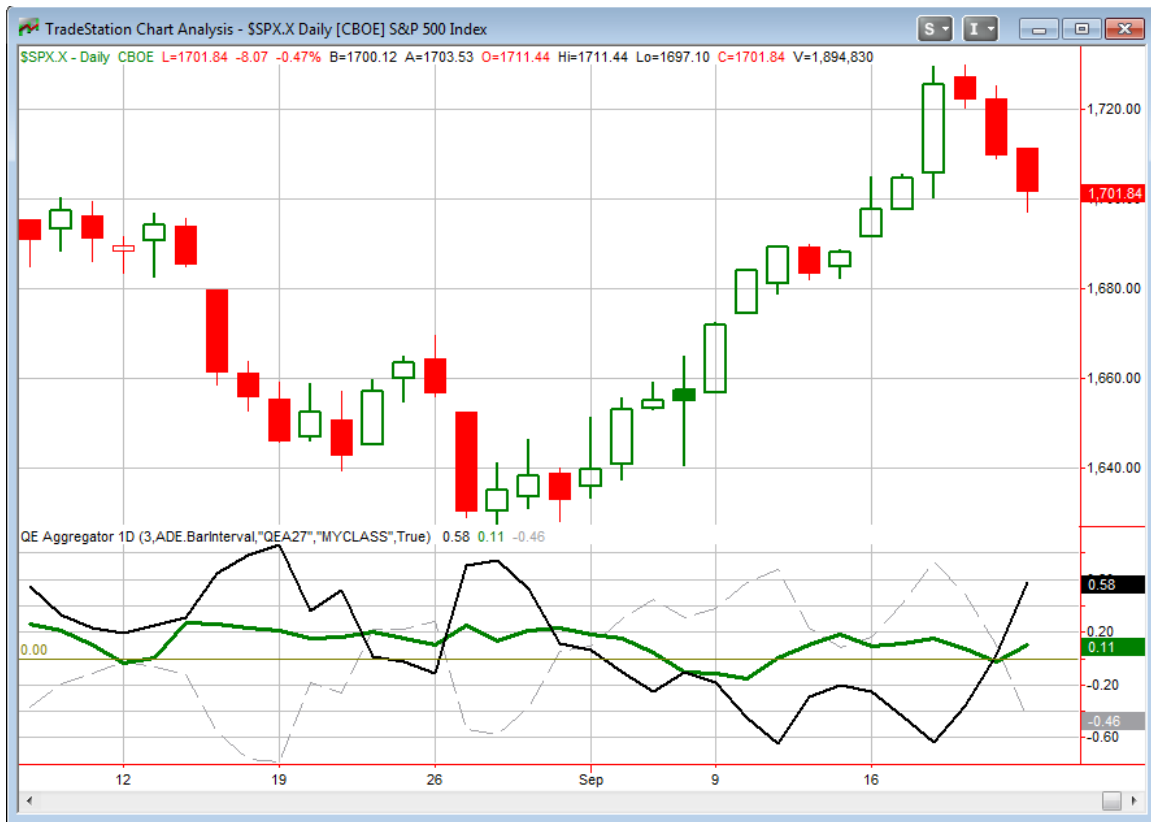


The steady upward slope acts as confirmation of the bullish edge. Since the 10-day numbers were also I strong I ran a profit curve for that as well.



This is also very strong, and it has compelled me to include this study on the intermediate-term Active List as well.

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



The pullback studies tonight helped the green Aggregator Line jump back above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose and is now strongly above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are now a little positive and the SPX is quite oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator signal to turn long at the close.

Based on the current group of studies, expectations are slated to remain bullish on Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1727.87 on Tuesday. That's a sizable 1% above Monday's close. That would be a very large 1-day gain. A more likely scenario would be a multi-day rally or consolidation to work off the oversold condition.

Things seem to be lining up here for a bounce. I intend to start scaling in to a long trade to try and take advantage of this bounce. With seasonality so poor right now, and QE numbers underwhelming last week (as detailed in the intermediate-term outlook yesterday), we could see another day or two of selling. If we do get further selling on Tuesday I will likely begin to get more aggressively long on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 9/23 – somewhat bullish*

The intermediate-term outlook was last updated in the 9/23/13 Letter. Link below:

[2013-09-23 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.

SPY – buy ¼ index position @ \$169.93 LIMIT. Based on the Aggregator and the short-term outlook above, I will look to begin scaling into a long position.

Current Open Trade Ideas

None

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