

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 27, 2013

Volume 6 Issue 187

Market Overview



Signals Overview

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

Tonight's Research Points

- VIX up / SPX up is a bearish setup during long-term downtrends, but during uptrends it is not terribly predictive.

Short-term Outlook

The Bottom Line

A number of studies expired, leaving us without a lot to go on. And with Thursday's bounce the market is less overbought. So while the edge still appears to be to the upside, it is not as substantial as it was the last couple of days.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 26, 2013	5 down > 20-day low	1-2 days	Bullish	
September 25, 2013	Turn Tues Fail	1-6 days	Bullish	2.60%
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	
Dropped Tonight				
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 25, 2013	SPX up. Up Issue % > 55%	1-2 days	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 finally bounced on Thursday. But after 5 days down, Thursday wasn't much of an up day. The SPX closed up 0.4%, the Nasdaq gained 0.7%, and the Russell 2000 rose 0.5%. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % was 57%. Total NYSE volume fell for the 4th day in a row.

Another index that closed up today was the VIX. As many readers are likely aware, VIX is a volatility index. Typically VIX will trade counter to the SPX. So if SPX rises, VIX will sink and if SPX falls, VIX will most often rise. There are some calculation-induced tendencies around the weekend, so often when I show studies on VIX I will break them down by day of the week. In the 4/25/13 Subscriber Letter I studied other mid-week occurrences of SPX and VIX both closing higher. I found that the long-term trend played a big part in the short-term reaction to this setup. First I'll show VIX up & SPX up when the market is below the 200ma.

SPX and VIX both close higher on a Tues, Wed, or Thurs. Close < 200ma. Buy SPX 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
5	-32,433.88	30	10	20	33.33	1,809.48	5,674.40	-2,526.43	-7,204.80	0.72	0.36	-1,081.13
4	-53,725.84	31	8	23	25.81	1,335.16	3,696.70	-2,800.31	-7,745.95	0.48	0.17	-1,733.09
3	-38,097.73	31	9	22	29.03	1,236.71	2,587.14	-2,237.64	-5,299.32	0.55	0.23	-1,228.96
2	-29,272.16	32	10	22	31.25	1,582.34	3,181.60	-2,049.80	-6,672.34	0.77	0.35	-914.75
1	-11,260.93	34	16	18	47.06	1,025.40	3,644.16	-1,537.07	-3,035.25	0.67	0.59	-331.20

This obviously seems to suggest a downside edge.

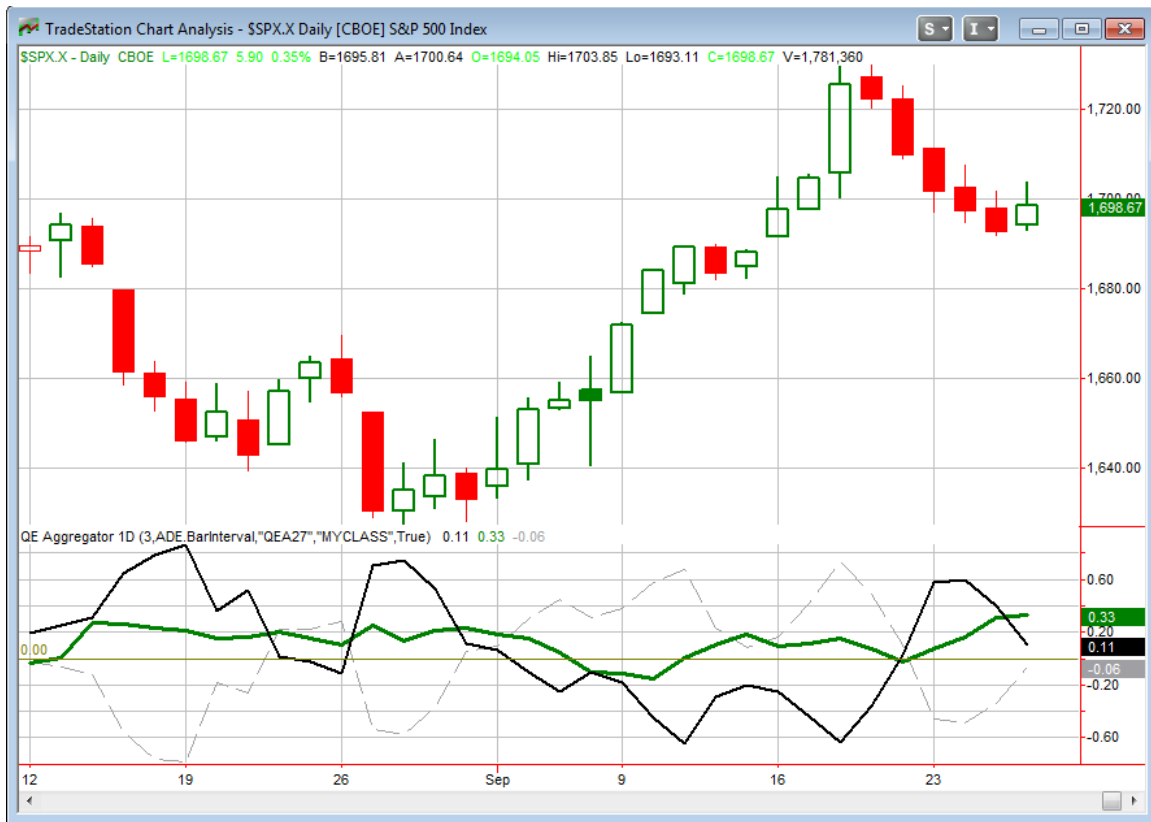
Now let's look at occurrences above the 200ma.

SPX and VIX both close higher on Tues, Wed, or Thurs. 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
5	9,036.28	116	67	49	57.76	1,080.19	3,549.70	-1,292.58	-4,171.80	0.84	1.14	77.90
4	1,975.02	123	65	58	52.85	1,052.50	3,154.00	-1,145.47	-4,354.72	0.92	1.03	16.06
3	-1,259.85	128	71	57	55.47	854.40	3,288.60	-1,086.35	-3,671.32	0.79	0.98	-9.84
2	-21.88	133	68	65	51.13	715.65	3,962.70	-749.01	-2,848.17	0.96	1.00	-0.16
1	-6,177.67	146	75	71	51.37	481.14	1,970.50	-595.25	-2,079.70	0.81	0.85	-42.31

No discernible edge here. This is the kind of situation the market is currently dealing with. So while this is all interesting to me, it isn't terribly predictive today. And nothing else emerged with compelling odds, so I will not be adding any studies to the Active List tonight.

Several studies did expire and fall off the Active List. So it went from 7 to just 2, and they were both bullish.

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



The green Aggregator Line remains 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 also still above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is 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 remain long at the close.

Based on the current group of studies, expectations are slated to remain bullish on Friday. But with only 1 short-term study with a life span into next week, this could easily change if bearish evidence emerges. Aggregator values over the next few days will be greatly impacted by whatever new studies arise. The Differential Pivot will be 1,701.11 on Friday. That's just over 0.1% above Thursday's close. So SPX would only need to close up a small amount to move from oversold to overbought versus expectations.

There still appears to be an upside edge, but it does not appear as potent as it did the last few days. So I am not looking to add any more long exposure on Friday. In fact, if the market rallies and closes above the Differential Pivot, then I will be content to take my SPY profits ahead of the weekend.

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY (1/4)	9/24/2013	\$169.90	\$169.69	-0.12%		sell SPX close > 1,701.10
SPY (1/4)	9/25/2013	\$169.53	\$169.69	0.09%		sell SPX close > 1,701.10
AKAM	9/25/2013	\$51.93	\$52.77	1.62%		sold on close
APA	9/26/2013	\$86.63	\$86.49	-0.16%		System 11111

AKAM hit its target according to System 11111 and was exited at the close.

If APA triggers a System 11111 exit, I will get out of it at the close as well. Right now it appears it would take a close around \$86.85 or higher.

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