

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 7, 2013

Volume 6 Issue 193

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Evidence remains light, but pointing upwards.

## *Short-term Outlook*

### *The Bottom Line*

SPX is oversold and evidence is moderately positive. I am looking for a bounce, but not getting too heavily invested .

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
October 1, 2013	2 unfilled down gaps & 5-low	1-6 days	Bullish	
<b>Active - Long Term</b>				
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 a couple of days of selling, the market put in a pretty good bounce on Friday. The SPX and Russell 2000 each rose 0.7% and the Nasdaq gained 0.9%. Breadth was solidly positive as the NYSE Up Issues % was 65% and the Up Volume % was 72%. Total NYSE volume was light, though and came in at the lowest level of the week.

Again we saw nothing trigger in the Quantifinder. It's been an extremely quiet week with regards to research. The Quantifinder has somewhere around 1100 studies that are tracked, related to everything from price action, to breadth, volatility, intermarket relationships, seasonality, sentiment, and more. So to have a day where nothing triggers is unusual. They happen though – typically about once or twice and month. So to have it occur 3 times in 4 days is extremely unusual. In fact, I cannot recall another 3 out of 4 day stretch since I created the Quantifinder in 2009.

I thought the price and volume combination might be worth some edge on Friday, especially with it being the last day before the weekend. So I looked at it a few different ways. And I was not able to find any consistent and compelling edge (which put a big smirk on the face of the Quantifinder). If you are going to hit a stretch where compelling studies are going to be lacking, it will often happen during a choppy back and forth period during a long-term uptrend. And that pretty well describes this past week.

So while we still have some previous evidence suggesting a mild upside edge, it is going to take some patience to wait for a strong edge to emerge.

There are again no new studies to add to the Active List tonight, but I have updated the [Aggregator](#) chart below.



The green Aggregator Line is fading but still remains 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.

There is still just 1 active short-term study. And it is bullish. This combined with the bullish intermediate-term outlook means expectations are slated to remain positive again on Monday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be 1,704.79 on Monday. That is 0.8% above Friday's close. So SPX will need to close up at least this much in order to move from oversold to overbought versus expectations.

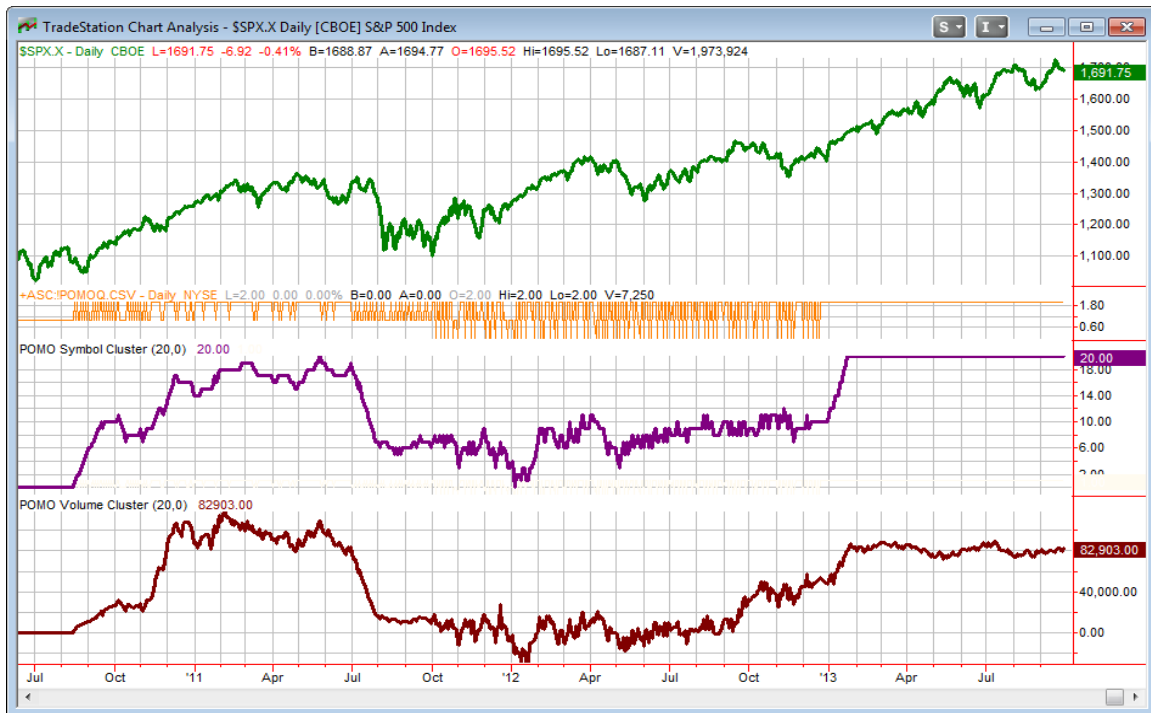
There appears to be a bit of an upside edge. The market is still oversold and the active studies are still suggesting more upside. I have a bit of a long position from earlier in the week. At this point I intend to simply maintain it and not add to it. Of course I am monitoring the market carefully, and if it turns overbought, or if bearish evidence emerges, then I will look to exit my index longs and await the next opportunity.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 10/7 – somewhat bullish**

As I mentioned in the short-term outlook, action this past week was extremely choppy. And the SPX ran up and down a lot, but in the end it went almost nowhere. The net for the week was a 1.25 point loss. And not only were short-term studies extremely light, but new intermediate-term studies also failed to emerge.

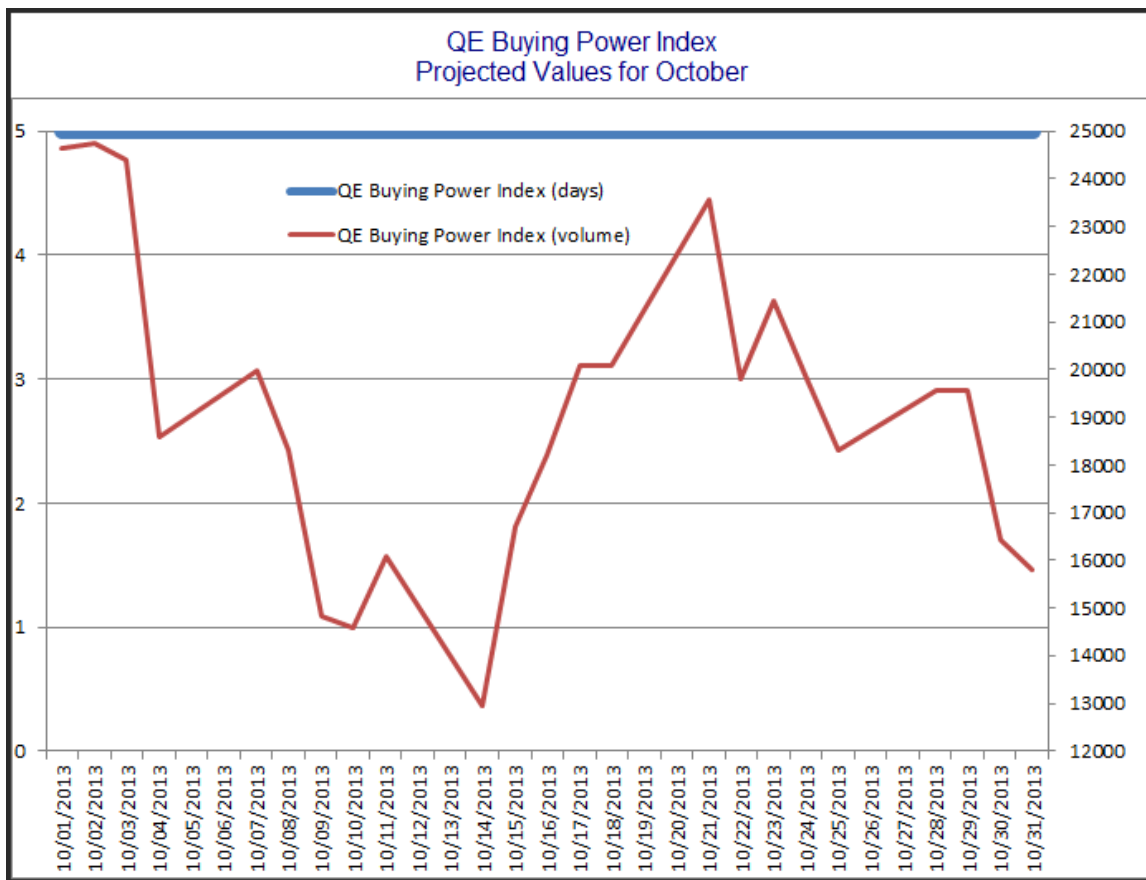
I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

*POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.*



The POMO/AMBS volume indicator remains in its 2013 range. The days indicator is *still* maxed out at 20, which was a rarity during past QE implementations, but has been the norm so far this year. We estimate net inflows this past week to have been about \$18.8 billion, which is a little below average for this year, but still an amount that has typically served as a wind at the markets back.

Expected flows for this week are even lighter – about \$16 billion. This means that towards the end of the week and into next will the market will be receiving a lower amount of positive stimulus than it has become accustomed to. On Tuesday night I updated the QE Buying Power expectations chart for October. I have pasted it below along with the comments I made in that letter.



*As a quick reminder, the red volume line is the expected 5-day total of AMBS and POMO purchases. High levels suggest strong liquidity flows that can help provide a bullish backdrop in the following week or so. Bears generally have an easier time gaining traction when liquidity flows are light. You'll note the lightest flows of the month occur leading up to mid-month. So just after that could be a possible opportune time for a selloff to occur. Interestingly, the end of the month also looks rather weak. Also notable is*

*that the strongest readings for October are occurring now. In other words, the liquidity backdrop is stronger now than it is going to be for the rest of the month.*

The overall intermediate-term outlook has changed very little from last week. We've seen some warnings signs between the QE Study of Tops breadth divergences and the Hindenburg Omens in in July/August. So there is a possibility that a major decline could unfold. Political risks are a wildcard with the ongoing government shutdown. But liquidity remains bullish and betting against this uptrend has punished many traders and analysts in 2013. I am keeping my intermediate-term outlook at "somewhat bullish". This means I will be inclined to trade the long side, and would need to see extremely compelling evidence in order to consider a short.

### **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	\$168.89	-0.59%		sell SPX close > 1,704.78
SPY (1/4)	9/25/2013	\$169.53	\$168.89	-0.38%		sell SPX close > 1,704.78
EMC	10/4/2013	\$25.16	\$25.43	1.07%		System 80402

*As per System 80402, EMC will be sold at the close if it closes  $\geq$  \$25.79.*

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