

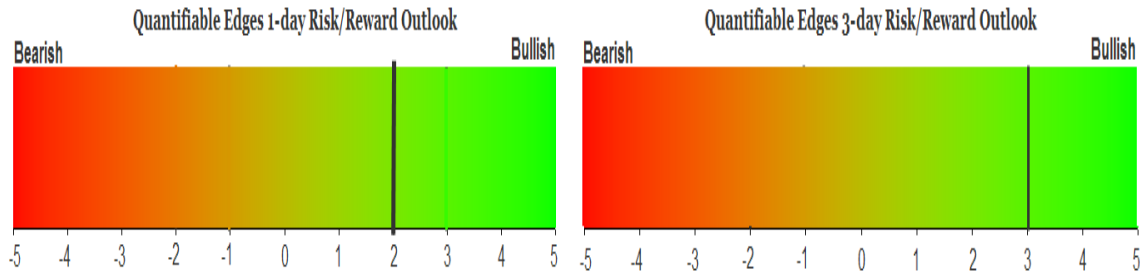
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 10, 2013

Volume 6 Issue 196

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The reversal pattern from the 20-day low suggests the bounce could last a few more days.
- Very small gains after multiple down days have often been followed by more selling.

## *Short-term Outlook*

### *The Bottom Line*

Not much got accomplished on Wednesday, but a bounce still appears likely. I am long and looking to take advantage of it.

**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 10, 2013	Reversal from 20-day low	1-6 days	Bullish	
October 10, 2013	Bounce < 0.2%	1 day	Bearish	
October 9, 2013	System 1100524	1-7 days	Bullish	
October 8, 2013	Unfill gap down poor close > 200ma	1-8 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	
<b>Dropped Tonight</b>				
October 8, 2013	VIX spike to 50-high	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**

After bouncing all over, the market did not change much from Tuesday. The SPX gained 0.1%, the Nasdaq fell 0.5%, and the Russell 2000 declined 0.4%. Breadth was also mixed as the NYSE Up Issues % was 48% and the Up Volume % was 54%. Total NYSE volume rose slightly from Tuesday's level.

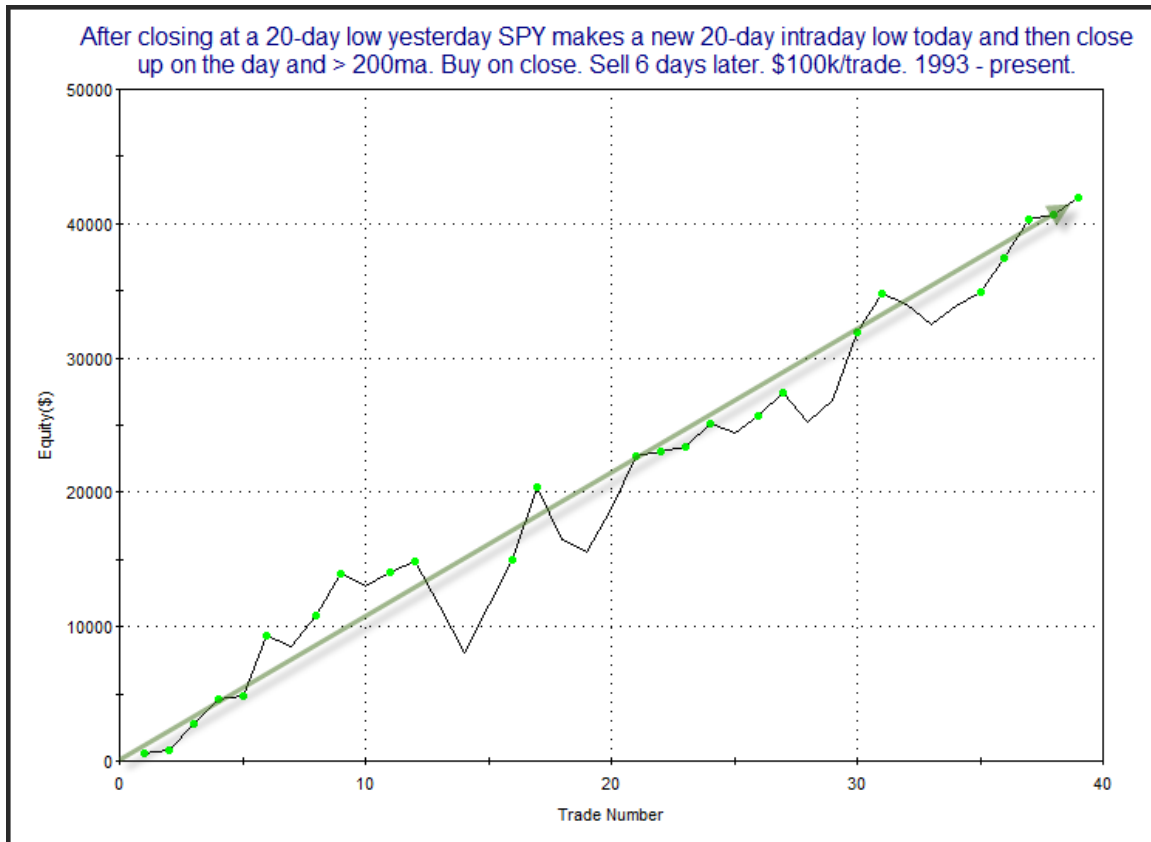
The study below was last seen in the 8/29/13 Letter. It looks at a possible reversal pattern off a 20-day low. All stats are updated.

After closing at a 20-day low yesterday SPY makes a new 20-day intraday low today and then close up on the day and > 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	47,776.14	36	27	9	75.00	2,322.28	6,600.62	-1,658.37	-3,844.83	1.40	4.20	1,327.11
9	44,352.51	37	26	11	70.27	2,486.11	5,154.99	-1,844.20	-4,258.20	1.35	3.19	1,198.72
8	37,036.51	38	26	12	68.42	2,443.76	5,216.64	-2,208.44	-4,268.86	1.11	2.40	974.64
7	43,560.86	39	27	12	69.23	2,363.86	5,585.14	-1,688.61	-3,531.11	1.40	3.15	1,116.95
6	41,952.06	39	29	10	74.36	2,096.85	5,411.67	-1,885.66	-3,952.19	1.11	3.22	1,075.69
5	38,718.18	39	29	9	74.36	1,796.62	5,029.50	-1,487.09	-3,450.35	1.21	3.89	992.77
4	29,702.31	39	26	13	66.67	1,642.52	3,213.00	-1,000.24	-2,284.36	1.64	3.28	761.60
3	17,926.84	42	26	16	61.90	1,310.89	4,462.50	-1,009.77	-3,560.24	1.30	2.11	426.83
2	18,958.27	44	28	16	63.64	1,318.22	4,105.50	-1,122.00	-2,471.52	1.17	2.06	430.87
1	10,134.60	44	26	18	59.09	937.49	2,562.30	-791.12	-1,792.48	1.19	1.71	230.33

**90% of instances closed above the entry price at some point in the next week.**

Results here seem to suggest a solid upside edge. Below is a profit curve using a 6-day exit strategy.



This curve appears strong and steady, providing greater confidence in the results.

Last night we saw some evidence suggesting the market was primed to bounce. So far it appears weak, but perhaps the bounce has begun. And this study suggests it has a ways yet to go.

But the SPX bounce was so weak that it could be a concern. In the 11/12/12 letter I looked to see whether there was a substantial difference in performance following a small move down after two down days versus a small move up after two down days. Below I have updated that study.

First let's consider what happens after two down days are followed by a third lower close, but that third close is a drop of less than 0.2%.

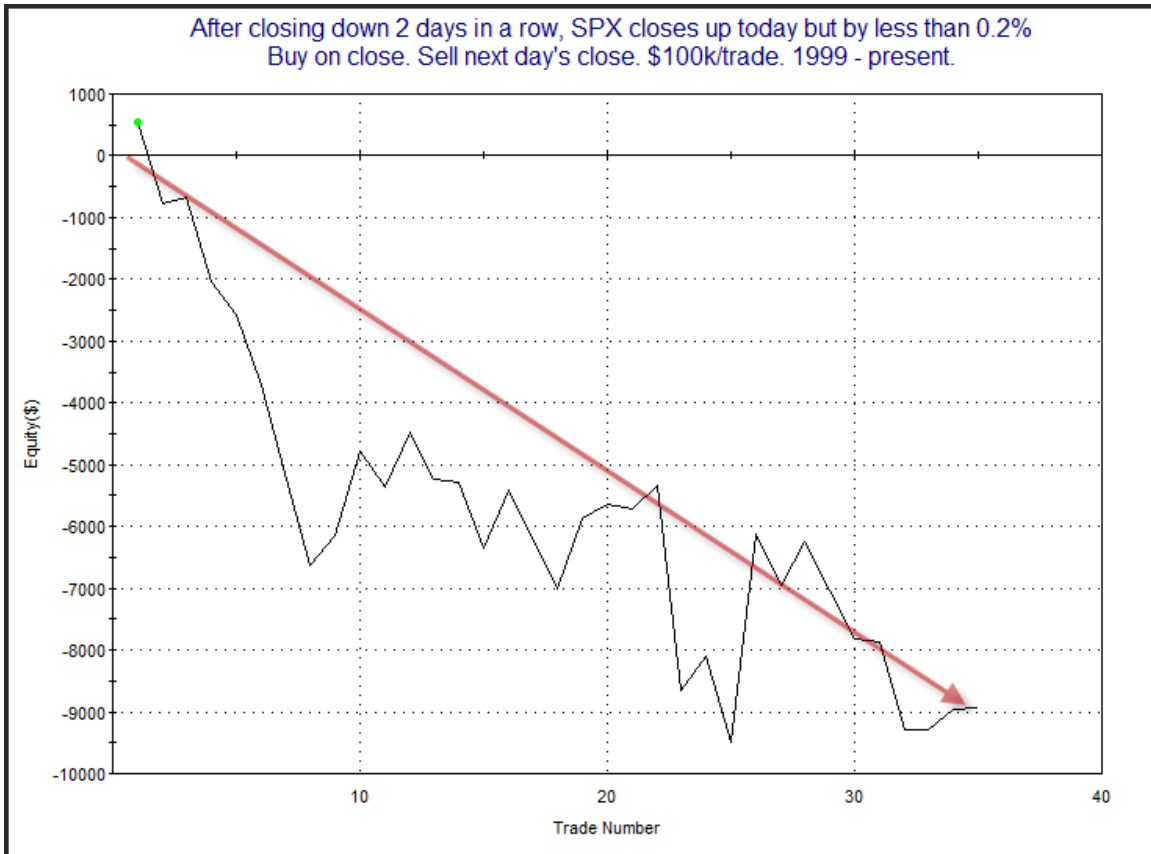
SPX declines for the 3rd day in a row. Today's drop is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	12,546.78	35	16	19	45.71	2,341.54	5,379.66	-1,311.46	-2,963.52	1.79	1.50	358.48
4	9,587.09	35	18	17	51.43	2,001.36	5,553.52	-1,555.14	-4,672.36	1.29	1.36	273.92
3	-3,854.11	35	20	15	57.14	1,479.84	4,047.64	-2,230.06	-6,686.40	0.66	0.88	-110.12
2	11,747.60	35	22	13	62.86	1,513.48	4,123.60	-1,657.62	-4,296.24	0.91	1.55	335.65
1	10,957.50	35	25	10	71.43	870.62	2,286.08	-1,080.80	-2,452.26	0.81	2.01	313.07

Results here are a bit mixed, but at least day one appears to suggest a bit of an upside edge.

Now let's look at times like the present where two down days were followed by an up day, but that up day rose less than 0.2%.

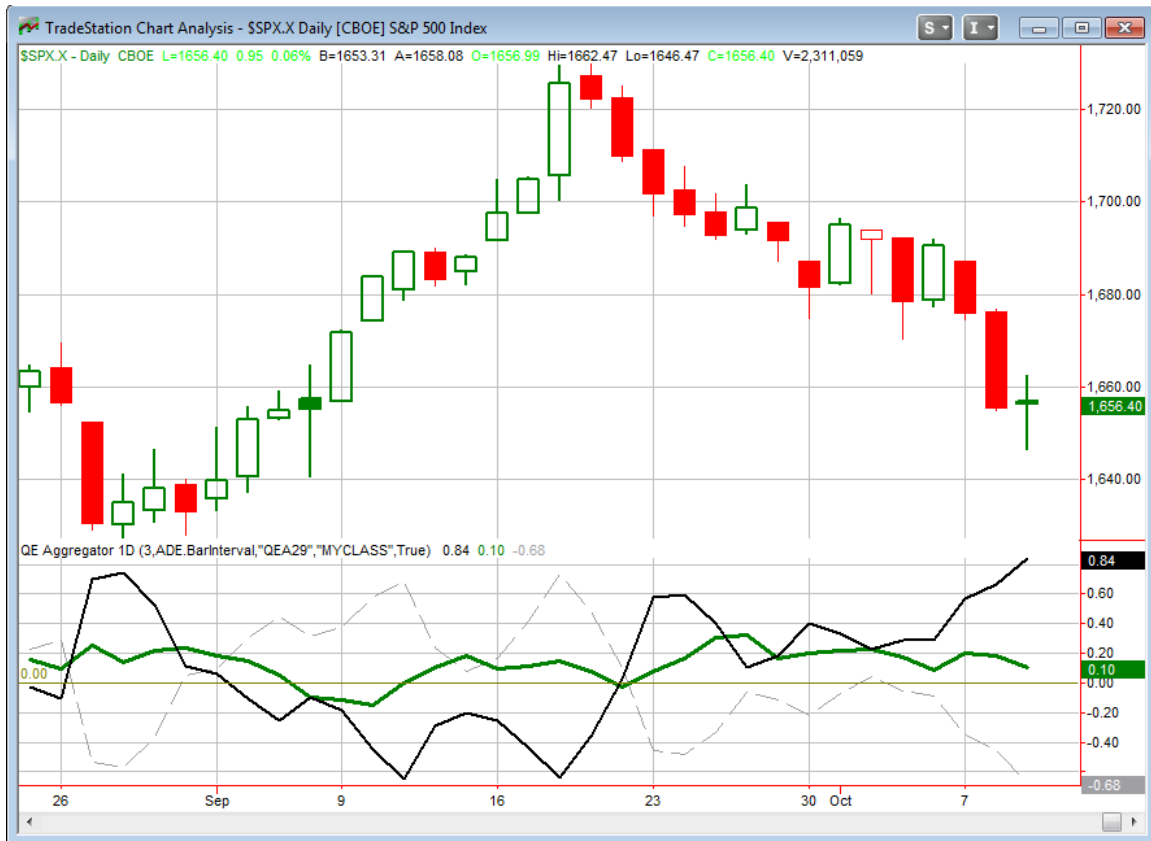
After closing down 2 days in a row, SPX closes up today but by less than 0.2% Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	7,224.07	35	18	17	51.43	2,162.52	7,590.88	-1,864.78	-5,506.23	1.16	1.23	206.40
4	-9,564.99	35	16	19	45.71	1,668.35	4,662.24	-1,908.34	-7,588.98	0.87	0.74	-273.29
3	-10,421.53	35	15	20	42.86	1,464.73	3,939.79	-1,619.63	-5,685.45	0.90	0.68	-297.76
2	-4,223.26	35	15	20	42.86	1,312.97	4,732.64	-1,195.89	-3,197.70	1.10	0.82	-120.66
1	-8,934.23	35	15	20	42.86	739.43	3,390.64	-1,001.28	-3,325.38	0.74	0.55	-255.26

As you can see, results here suggest a small down day is substantially different than a small up day. While not overwhelming, the edge in this case would appear to be for more downside, most of which is realized on day one. Lastly, I decided to show a profit curve assuming a 1-day holding period.



I don't love this curve, but I suppose it is good enough to merit some small consideration.

So we have two new studies to add to the Active List tonight. I have updated the [Aggregator](#) chart below.



With the mix of studies tonight 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 also still well above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is strongly 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 active studies, expectations are slated to remain positive again on Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,683.64 on Thursday. That is a 1.6% above Wednesday's close. It's fairly unlikely we'll see that accomplished on Thursday. More likely it will require a multi-day bounce or consolidation to work off the oversold condition.

Nothing really has changed from yesterday. The market is strongly oversold and overdue for a decent-sized bounce. But conditions remain abnormal and market action continues to be news-dominated. Additionally, the CBI is stuck at just 2, so there is not a high level of capitulation evident. I already have a pretty sizable long position. I am not inclined to increase my exposure at this point, but am looking to take advantage of the expected bounce with the positions I already have.

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

The intermediate-term outlook was last updated in the 10/7 Letter. Link below:

[2013-10-07 QE Subscriber Letter.pdf](#)

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### **Open Catapult Triggers**

TGT – 1/3 @ \$62.68 (bought at limit)

TGT – 1/3 @ \$62.13 (bought at limit)

#### **Catapult for ETF's Trades**

None

#### **Broad Market Large Cap CBI – 2(TGT-2)**

### **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	\$165.60	-2.53%		Aggregator
SPY (1/4)	9/25/2013	\$169.53	\$165.60	-2.32%		Aggregator
EMC	10/4/2013	\$25.16	\$24.81	-1.39%		System 80402
SPY (1/4)	10/8/2013	\$165.48	\$165.60	0.07%		Aggregator
TGT(1/3)	10/8/2013	\$62.68	\$62.69	0.02%		Catapult
TGT(1/3)	10/9/2013	\$62.13	\$62.69	0.90%		Catapult

As per System 80402, EMC will be sold at the close if it closes  $\geq$  \$25.38.

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