

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 11, 2013

Volume 6 Issue 197

Market Overview



Signals Overview

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

Tonight's Research Points

- The strong 2nd day up that fails to make a new 10-day high has often been a bullish sign,
- A 15%+ drop in the VIX would be especially bearish if SPX was in a long-term downtrend. But since it is above the 200ma, the edge is not clear.

Short-term Outlook

The Bottom Line

We had a decent-sized upside edge coming into Thursday, but the huge rally seems to have realized much of the upside potential already. The edge now is not as clear. I will use this opportunity to take profits.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 11, 2013	Up 2nd day. Today > 1.5%. No 10-high	1 day	Bullish	
October 8, 2013	Unfill gap down poor close > 200ma	1-8 days	Bullish	
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				
October 10, 2013	Bounce < 0.2%	1 day	Bearish	
October 9, 2013	System 1100524	1-7 days	Bullish	
October 10, 2013	Reversal from 20-day low	1-6 days	Bullish	2.10%

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

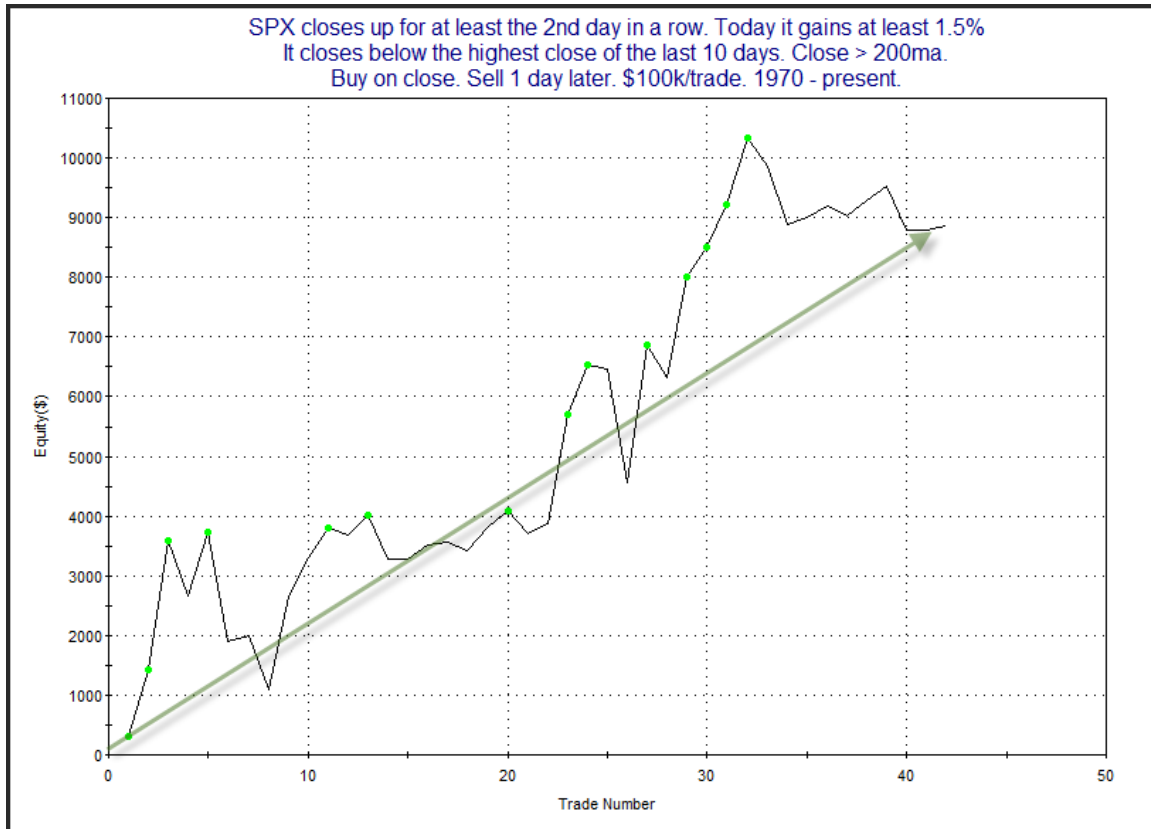
The Evidence

It was a strong day from start to finish on Thursday. The SPX gained 2.2%, the Nasdaq rose 2.3%, and the Russell 2000 rallied 2.5%. Breadth was also very strongly positive as the NYSE Up Issues % was 84% and the Up Volume % was 92%. Total NYSE volume came in a little lighter than the last 2 days.

The study below showed mild upside inclinations. It was last seen in the 11/20/12 Subscriber Letter. Results are all updated.

SPX closes up for at least the 2nd day in a row. Today it gains at least 1.5% It closes below the highest close of the last 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	9,253.55	40	22	18	55.00	1,950.10	4,538.32	-1,869.37	-5,142.84	1.04	1.28	231.34
4	8,488.20	40	23	17	57.50	1,650.06	4,176.22	-1,733.13	-9,721.62	0.95	1.29	212.20
3	4,853.21	40	20	20	50.00	1,439.52	3,331.32	-1,196.86	-3,152.82	1.20	1.20	121.33
2	8,011.34	40	23	17	57.50	1,021.39	2,887.20	-910.62	-2,202.18	1.12	1.52	200.28
1	8,856.22	42	27	15	64.29	696.59	2,306.40	-663.45	-1,888.10	1.05	1.89	210.86

The apparent upside edge pretty much plays itself out on day one. Below is an equity curve assuming a 1-day holding period.



It's definitely choppy, and has struggled a bit of late, but I thought it was compelling enough to include on the Active List for a 1-day edge.

Another notable bit of action today was the large drop in the VIX, which declined over 16% and triggered a study from 1/2/13 that looked at drops of 15% or more and suggested bearish implications. But there was also a similar study that used VXO. The 2nd study showed that when SPX is above the 200ma, the bearish edge was not prevalent. So I broke down the 15% drop in the VIX study the same way. First let's look at times like the present where SPX is in a long-term uptrend.

VIX drops at least 15% today. SPX > 200ma.
Buy SPX on close. Sell 1 day later. \$100k/trade. 1998 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$1,198.00	Profit Factor	1.39	
Gross Profit	\$4,250.32	Gross Loss	(\$3,052.32)	
Total Number of Trades	11	Percent Profitable	27.27%	
Winning Trades	3	Losing Trades	8	
Even Trades	0			
Avg. Trade Net Profit	\$108.91	Ratio Avg. Win:Avg. Loss	3.71	
Avg. Winning Trade	\$1,416.77	Avg. Losing Trade	(\$381.54)	
Largest Winning Trade	\$2,536.10	Largest Losing Trade	(\$1,421.28)	

Of the 11 instances, only 3 have closed up, but the *average* move higher has been about the same size as *the largest* move lower. Below I have listed all 11 instances.

VIX drops at least 15% today. SPX > 200ma. Buy SPX on close. Sell 1 day later. \$100k/trade. 1998 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/07/00	Buy	\$1,441.47	1.12%	\$1,579.41
01/10/00	Sell	\$1,457.60		\$0.00
06/29/06	Buy	\$1,272.87	(0.19%)	\$267.54
06/30/06	Sell	\$1,270.50		(\$184.86)
02/28/07	Buy	\$1,406.82	(0.26%)	\$187.44
03/01/07	Sell	\$1,403.17		(\$1,842.45)
03/06/07	Buy	\$1,395.41	(0.25%)	\$408.25
03/07/07	Sell	\$1,391.97		(\$338.67)
06/27/07	Buy	\$1,506.34	(0.04%)	\$561.00
06/28/07	Sell	\$1,505.71		(\$193.38)
09/18/07	Buy	\$1,519.78	0.61%	\$1,232.40
09/19/07	Sell	\$1,529.03		\$0.00
05/10/10	Buy	\$1,159.73	(0.34%)	\$924.50
05/11/10	Sell	\$1,155.79		(\$1,033.72)
03/21/11	Buy	\$1,298.38	(0.36%)	\$74.69
03/22/11	Sell	\$1,293.77		(\$437.36)
12/31/12	Buy	\$1,426.19	2.54%	\$2,536.80
01/02/13	Sell	\$1,462.42		\$0.00
01/02/13	Buy	\$1,462.42	(0.21%)	\$207.40
01/03/13	Sell	\$1,459.37		(\$468.52)
04/16/13	Buy	\$1,574.57	(1.43%)	\$0.00
04/17/13	Sell	\$1,552.01		(\$1,945.44)

Here you see the 3 big 1-day moves higher. So an edge is not clear under these circumstances. But when below the 200ma...

VIX drops at least 15% today. SPX < 200ma.
 Buy SPX on close. Sell 1 day later. \$100k/trade. 1998 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$15,813.90)	Profit Factor	0.02
Gross Profit	\$404.95	Gross Loss	(\$16,218.85)
Total Number of Trades	12	Percent Profitable	8.33%
Winning Trades	1	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	(\$1,317.82)	Ratio Avg. Win:Avg. Loss	0.27
Avg. Winning Trade	\$404.95	Avg. Losing Trade	(\$1,474.44)
Largest Winning Trade	\$404.95	Largest Losing Trade	(\$4,400.45)

...here the edge is clear. Stats don't get much more lopsided than these.

So we have 1 mildly bullish study to add to the Active List tonight. I have updated the [Aggregator](#) chart below.



With 1 study being added and 3 being removed from the Active List the green Aggregator Line is still above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the big rally caused the black Differential Line to take a huge dive and it is now below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is already 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 turn flat at the close.

Based on the current active studies, expectations are slated to remain positive again on Friday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1,662.70 on Friday. That is 1.8% below Thursday's close. It's fairly unlikely we'll see that accomplished on Friday. More likely it will require a multi-day selloff or consolidation to work off the overbought condition.

It is certainly a news-driven market, and Thursday's rally was initially sparked by talk of progress in Washington. I'll sometimes look to ride the move a little higher with at least some of my position when the market turns so strongly in my direction. But with the Aggregator neutral, and the market SO news-dependent, I don't see any good reason to press my luck. I'll be looking to exit all 3 lots of my index position on Friday morning if I can get out at anything near Thursday's closing price. I think stepping back for a day or so and evaluating what new edges may emerge is a decent plan at this point.

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

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	\$169.17	-0.43%		sell at \$169.00 limit
SPY (1/4)	9/25/2013	\$169.53	\$169.17	-0.21%		sell at \$169.00 limit
EMC	10/4/2013	\$25.16	\$25.16	0.00%		System 80402
SPY (1/4)	10/8/2013	\$165.48	\$169.17	2.23%		sell at \$169.00 limit
TGT(1/3)	10/8/2013	\$62.68	\$63.45	1.23%		sold on close
TGT(1/3)	10/9/2013	\$62.13	\$63.45	2.12%		sell on open

As per System 80402, EMC will be sold at the close if it closes \geq \$25.25.

As per the intraday update sent to gold subscribers on Thursday, 1 lot of TGT was sold at the close. The other will be exited at Friday's open.

I placed the limit for SPY selling a bit below Thursday's close. This is in case of a gap down, I want to be able to get out even if it tests gap fill (and fails to achieve it). If I don't get filled on this early on I may send out an intraday update with a strategy adjustment.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2013 Hanna Capital Management, LLC.