

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 16, 2013

Volume 6 Issue 200

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	75% Long XIV	Flat	Long

Tonight's Research Points

- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days.

Short-term Outlook

The Bottom Line

The Aggregator is now bullish. But I am not yet enthralled with the setup. So I am waiting for more favorable risk/reward before jumping in.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 16, 2013	Unfill gap down poor close > 200ma	1-4 days	Bullish	1.40%
October 8, 2013	Unfill gap down poor close > 200ma	1-8 days	Bullish	
Active - Long Term				
October 14, 2013	VIX big swing	1-8 days	Bullish	
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 15, 2013	SPY big gap down & close 10-high	1 day	Bearish	
October 15, 2013	SPX up 10-high. VIX up. Monday.	1 day	Bearish	

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

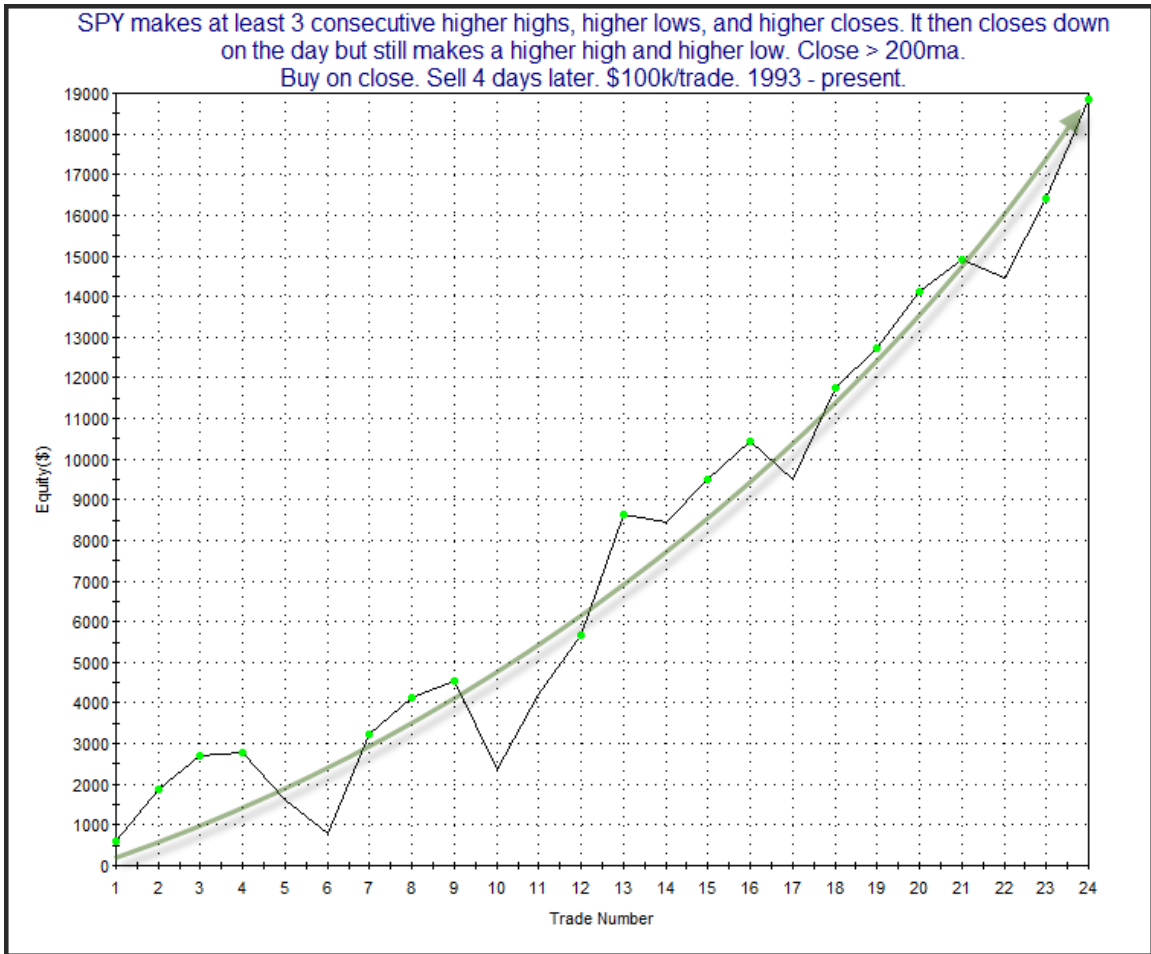
The Evidence

The 1-day risk/reward pointed lower last night thanks to a couple of 1-day bearish studies. And this time the market acted in accordance with history and sold off. The SPX fell 0.7%, the Nasdaq dropped 0.6%, and the Russell 2000 lost 1.0%. Breadth was also negative as the NYSE Up Issues % was 23% and the Up Volume % was 25%. Total NYSE volume rose from the level of the last couple of days.

While SPY pulled back Tuesday and closed lower, it still made a higher high and a higher low. The study below is from the 9/13/13 letter and examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

SPY makes at least 3 consecutive higher highs, higher lows, and higher closes. It then closes down on the day but still makes a higher high and higher low. Close > 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
5	13,279.28	24	15	9	62.50	1,499.94	3,602.64	-1,024.42	-2,800.26	1.46	2.44	553.30
4	18,848.03	24	18	6	75.00	1,367.30	2,958.05	-960.58	-2,191.22	1.42	4.27	785.33
3	9,685.10	24	17	7	70.83	948.44	2,432.70	-919.77	-2,640.33	1.03	2.50	403.55
2	6,904.36	24	19	4	79.17	619.71	2,004.60	-1,217.54	-1,804.67	0.51	2.42	287.68
1	4,448.35	24	16	8	66.67	448.80	1,002.03	-341.55	-1,137.92	1.31	2.63	185.35

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



The upslope is impressive. This study certainly appears worthy of consideration. I have included it on the short-term Active List.

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



With tonight's study factored in the green Aggregator Line remained firmly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the pullback helped the black Differential Line to spike back up above 0. The positive Differential Line reading means the SPX is now slightly oversold versus recent expectations. So expectations are positive and the SPX is mildly 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 active studies, expectations are slated to remain positive again on Wednesday. This is largely because there are no remaining bearish studies on the Active List. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1711.38 on Wednesday. That is 0.8% above Tuesday's close. So it will take a bit of a rally on Wednesday to put SPX back in an "overbought" state.

So the Aggregator is suggesting a bullish edge. And there probably is one, but I am not really loving the risk/reward just yet for my own trading. The market is only marginally oversold (and has only closed down 1 day), the bullish evidence, while compelling, is not plentiful, and the political game of chicken is keeping risks elevated. So despite what appears to be a bit of an upside edge, I am not yet jumping in. If we get continued selling and additional bullish evidence, then I will start scaling in to the long side. But not yet for me.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/14 – somewhat bullish

The intermediate-term outlook was last updated in the 10/14/13 Letter. Link below:

[2013-10-14 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

None.

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