

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 17, 2013

Volume 6 Issue 201

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Long

Tonight's Research Points

- 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

The Aggregator is back to neutral and short-term evidence is lacking. I see no reason to get involved here.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
None				
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 16, 2013	3 higher HLC. Down but HL higher	1-4 days	Bullish	1.40%
October 8, 2013	Unfill gap down poor close > 200m	1-8 days	Bullish	

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

The Evidence

News emerged on Wednesday that the U.S. may re-open for governing, and the market celebrated. The SPX rallied 1.4%, and the Russell 2000 and Nasdaq each gained 1.2%. Breadth was also positive as the NYSE Up Issues % was 80% and the Up Volume % was 87%. Total NYSE volume rose from Tuesday's level.

Not only did the news of a government deal help to boost the market, but it also lowered perceived risk and caused the VIX to drop over 21%. That is a big number, and the 2nd time in the last week that we have seen a big drop. When the SPX is in a long-term downtrend, such VIX action has been bearish. But during uptrends, it has not proven to be so. This is something I covered in the 10/11/13 letter just a few days ago. I have copied that commentary below.

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.

I also broke down Wednesday's VIX action a few other ways tonight, including adding a filter for a large VIX spike the previous day. I kept getting the same answer – no consistent edge.

One impact the large gain had on Wednesday is that it caused the two remaining bullish studies from last night to hit their profit targets. They were therefore removed from the list and we are left with a rare blank for the short-term active list. This means Aggregator values are being calculated solely on the intermediate-term studies.

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



With only intermediate-term studies active the green Aggregator Line remained barely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the rally helped the black Differential Line to drop down below 0. The negative Differential Line reading means the SPX is now slightly overbought versus recent expectations. So expectations are positive but the SPX is now 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 Thursday. Of course with the short-term active list blank, expectations will be largely affected by any new studies that emerge in the next few days. Of course I will be keeping a careful eye out for clues. The Differential Pivot will be 1718.55 on Thursday. That is just 0.2% below Wednesday's close. So it won't take much of a pullback on Thursday to push SPX back to "oversold vs expectations".

With political turmoil and a rather small upside edge I decided last night to forsake any new positions. It would not have mattered much since the market left such a sizable unfilled gap up Wednesday morning, but you could say it was a little bit of a missed opportunity. In any case, the Aggregator is now back to a neutral state, and I'm right there with it. Without compelling short-term evidence and with the market overbought I

don't see a compelling reason to take a side here. I'm waiting for the next favorable risk/reward setup, which is never too far away.

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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