

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 24, 2013

Volume 6 Issue 206

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- Unfilled gap patterns from high levels like we saw on Wednesday will often be followed by another day of selling.

## *Short-term Outlook*

### *The Bottom Line*

Wednesday's small pullback did not change much. SPX remains slightly overbought and evidence is mixed. It does not appear to be a high percentage spot to be initiating positions yet.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
October 24, 2013	Unfilled gap dn from 50-high	1 day	Bearish	
October 24, 2013	5 up to 50-high, then 1 down	1-2 days	Bullish	0.80%
October 18, 2013	Top 10% 10-day range. Tmrw opex	1-5 days	Bearish	
October 18, 2013	NYSE Up Iss % Rank > 90 2x & 60-high	1-5 days	Bullish	
<b>Active - Long Term</b>				
October 24, 2013	5 up to 50-high, then 1 down	1-10 days	Bullish	2.00%
October 21, 2013	70% Advancing Issues 3 Days In Row	1-75 days	Bullish	10.60%
October 14, 2013	VIX big swing	1-8 days	Bullish	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
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 22, 2013	VIX up SPX up 2x. SPX 50-high	1 day	Bearish	
October 18, 2013	SPX 50-high breakout, low vol	1-4 days	Bullish	

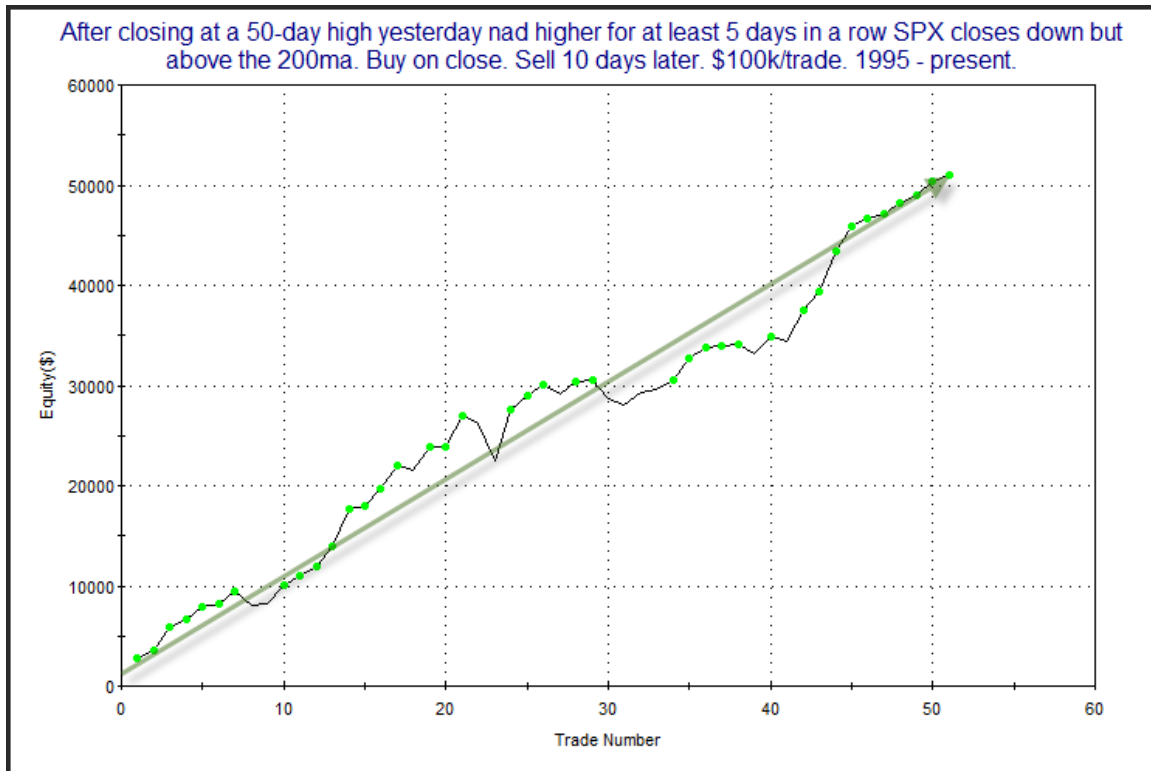
**The Evidence**

The market struggled on Wednesday for the first time in a while. The SPX finished down 0.5%, the Nasdaq fell 0.6%, and the Russell 2000 sank 0.4%. Breadth was squarely negative as the NYSE Up Issues % was 45% and the Up Volume % was 32%. Total NYSE volume slumped a little from Tuesday's level.

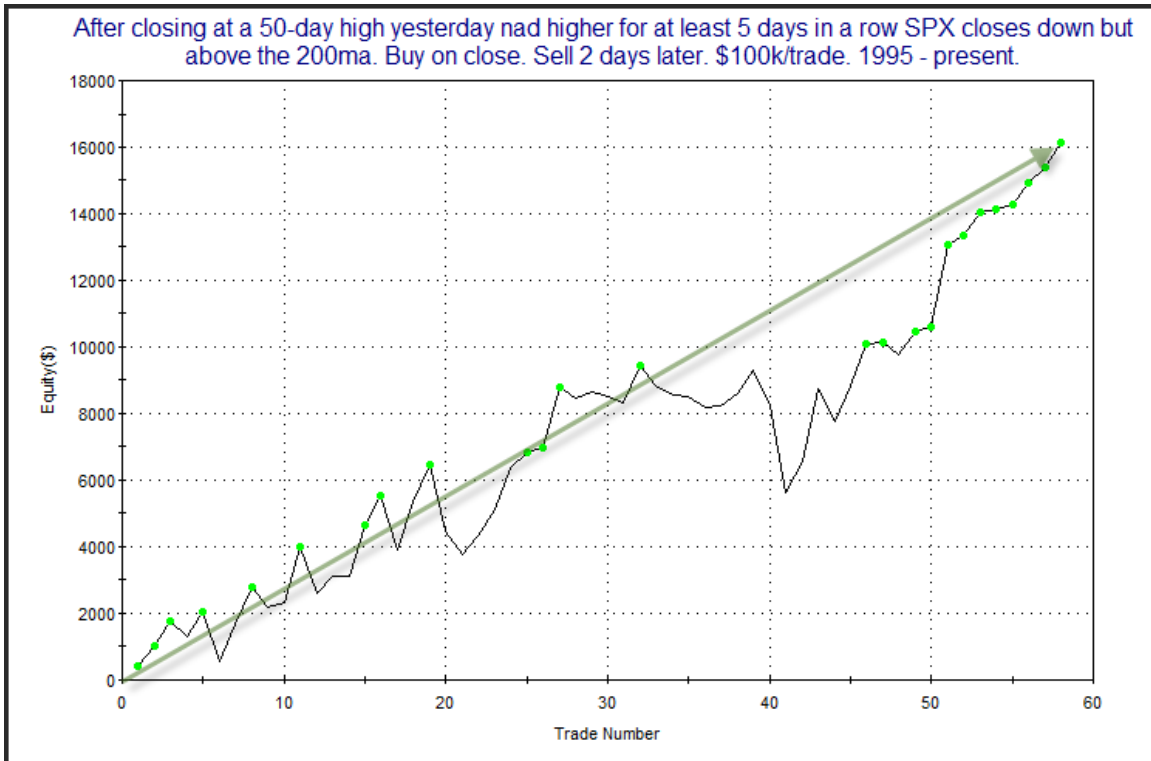
One study that triggered tonight suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 5/10/13 Letter. I have updated the stats in the table below.

After closing at a 50-day high yesterday nad higher for at least 5 days in a row SPX closes down but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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: Max Losing Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	51,022.69	51	42	9	82.35	1,480.22	5,131.35	-3,672.90	-1,238.51	1.20	5.58	1,000.44
9	50,942.98	54	44	10	81.48	1,481.25	5,023.20	-4,151.40	-1,423.22	1.04	4.58	943.39
8	44,480.02	55	38	17	69.09	1,688.03	4,878.08	-4,874.10	-1,156.77	1.46	3.26	808.73
7	35,998.88	56	37	19	66.07	1,556.37	3,874.76	-3,912.48	-1,136.15	1.37	2.67	642.84
6	36,106.99	58	39	19	67.24	1,423.85	4,307.20	-3,637.71	-1,022.26	1.39	2.86	622.53
5	26,596.09	58	36	22	62.07	1,234.27	4,252.50	-2,466.75	-810.80	1.52	2.49	458.55
4	28,173.63	58	36	22	62.07	1,249.73	3,843.00	-3,003.39	-764.39	1.63	2.68	485.75
3	16,727.53	58	37	21	63.79	924.33	2,472.85	-1,992.34	-832.03	1.11	1.96	288.41
2	16,159.63	58	40	18	68.97	783.39	2,437.50	-2,614.95	-843.10	0.93	2.06	278.61
1	9,570.20	58	37	20	63.79	546.43	1,751.19	-1,744.10	-532.39	1.03	1.90	165.00

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a quick little boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 2-day curve.



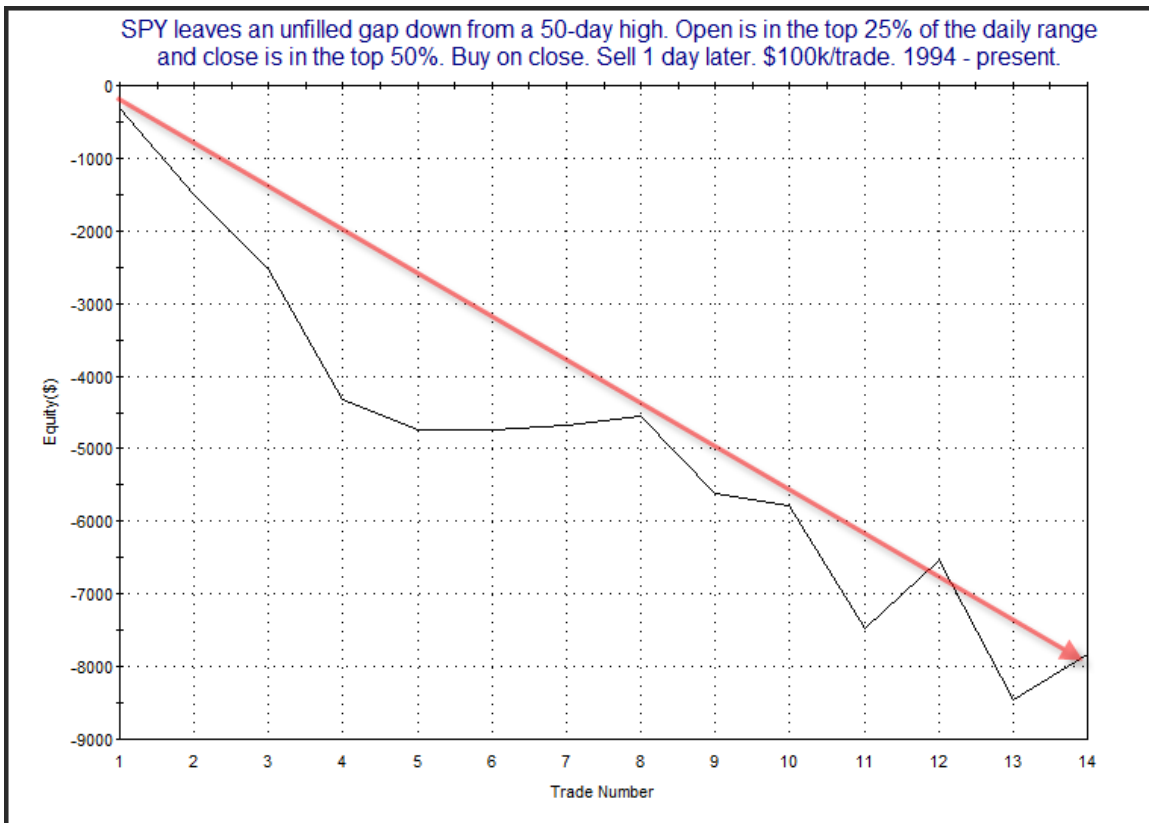
Results are choppy here but the curves look somewhat similar. And even with more whipsaws this one appears worthy of consideration. I have included this study on both the short-term and intermediate-term active lists.

This next study examined action like we saw today in SPY. It looked at unfilled gaps down from high levels that both open and close in the upper part of the day's range. It was last seen in the 2/16/11 Letter and has been updated below.

SPY leaves an unfilled gap down from a 50-day high. Open is in the top 25% of the daily range and close is in the top 50%. Buy on close. Sell 1 day later. \$100k/trade. 1994 - present.

TradeStation Performance Summary		Collapse ^	
<b>All Trades</b>			
Total Net Profit	(\$7,822.32)	Profit Factor	0.18
Gross Profit	\$1,760.94	Gross Loss	(\$9,583.26)
Total Number of Trades	14	Percent Profitable	28.57%
Winning Trades	4	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	(\$558.74)	Ratio Avg. Win:Avg. Loss	0.46
Avg. Winning Trade	\$440.24	Avg. Losing Trade	(\$958.33)
Largest Winning Trade	\$938.96	Largest Losing Trade	(\$1,922.82)

The numbers look bearish. Let's also examine the profit curve.



I like the downslope here and also included this study on the Short-Term Active List.

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



With the mix of studies tonight the green Aggregator Line again remained just barely 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 still (slightly) below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. (And it appears especially neutral when they are both so close to 0.) This caused the Aggregator signal to remain flat at the close.

Based on the current active studies, expectations are slated to remain positive on Thursday. There is not much left on the Active List after tomorrow, though, so this could easily change if new bearish evidence emerges. The Differential Pivot will be 1745.06 on Thursday. That is just 0.1% below Wednesday's close. So it won't take much of a move lower for SPX to turn oversold and the Differential line to flip positive.

So as far as I am concerned there is nothing for me to do just yet. One down day has not relieved an overbought condition, and evidence is mixed and underwhelming. Give me another day or two of a pullback and I'll probably get interested in the long side. For now I remain in "wait and see" mode.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 10/21 – somewhat bullish***

The intermediate-term outlook was last updated in the 10/21 letter. Link below.

[2013-10-21 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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