

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 25, 2013

Volume 6 Issue 207

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX is quite stretched on an intermediate-term basis, but that has led to more intermediate-term upside in the past.

Short-term Outlook

The Bottom Line

Pretty much a repeat of the last few nights. SPX remains slightly overbought and evidence is weak. It does not appear to be a high percentage spot to be initiating positions yet, so I'm not.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
October 24, 2013	5 up to 50-high, then 1 down	1-2 days	Bullish	0.80%
Active - Long Term				
October 25, 2013	SPX > 50, 2 Bollinger Band	1-50 days	Bullish	
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	
Dropped Tonight				
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	
October 24, 2013	Unfilled gap dn from 50-high	1 day	Bearish	

The Evidence

The market reversed much of Wednesday's losses on Thursday. The SPX finished up 0.3%, the Nasdaq rose 0.6%, and the Russell 2000 gained 0.7%. Breadth was mildly positive as the NYSE Up Issues % was 57% and the Up Volume % was 57%. Total NYSE volume came in at the lightest level in a little over a week.

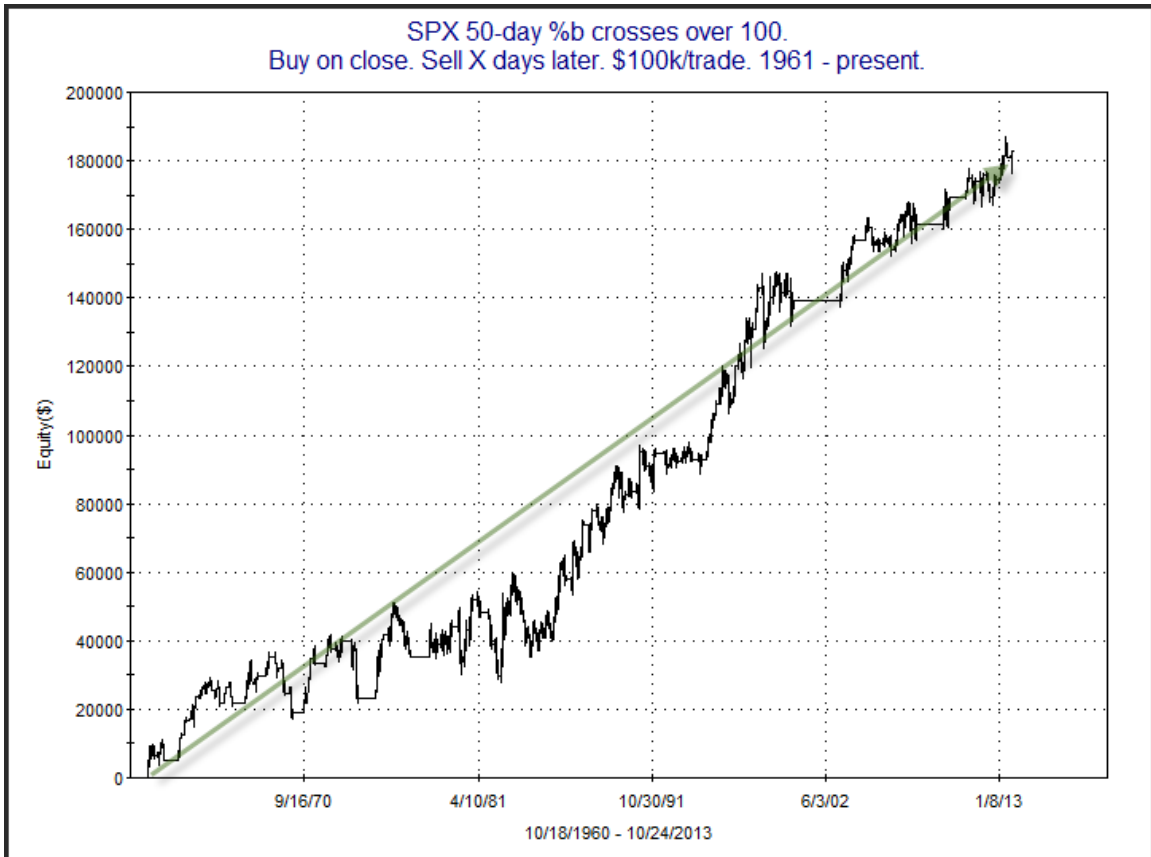
With the back and forth action over the last few days, compelling studies have been slow to emerge. One study from the 12/13/10 Subscriber Letter that triggered today has some potential intermediate-term implications, and it is fairly interesting, so I figured I would talk a little about it. This study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.

**SPX 50-day %b crosses over 100.
Buy on close. Sell X days later. \$100k/trade. 1961 - 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
50	181,047.84	129	76	53	58.91	5,120.76	18,408.18	-15,795.00	-3,926.98	1.30	1.87	1,403.47
45	140,228.42	135	74	61	54.81	5,202.19	15,807.96	-25,812.76	-4,012.02	1.30	1.57	1,038.73
40	151,007.61	138	81	57	58.70	4,596.66	17,624.67	-15,540.70	-3,882.84	1.18	1.68	1,094.26
35	133,029.77	146	86	60	58.90	4,151.84	15,782.13	-13,617.00	-3,733.81	1.11	1.59	911.16
30	91,025.95	151	89	62	58.94	3,393.33	11,920.74	-10,485.00	-3,402.90	1.00	1.43	602.82
25	73,359.53	157	89	68	56.69	3,157.85	10,859.94	-8,732.16	-3,054.25	1.03	1.35	467.26
20	60,645.95	167	93	74	55.69	2,779.64	9,501.30	-10,205.38	-2,673.80	1.04	1.31	363.15
15	69,894.84	182	103	79	56.59	2,460.84	7,843.46	-9,763.44	-2,323.69	1.06	1.38	384.04
10	72,831.20	201	127	74	63.18	1,764.46	8,239.16	-6,871.02	-2,044.00	0.86	1.48	362.34
5	37,668.66	244	144	99	59.02	1,166.16	5,030.81	-5,817.77	-1,315.73	0.89	1.29	154.38

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.

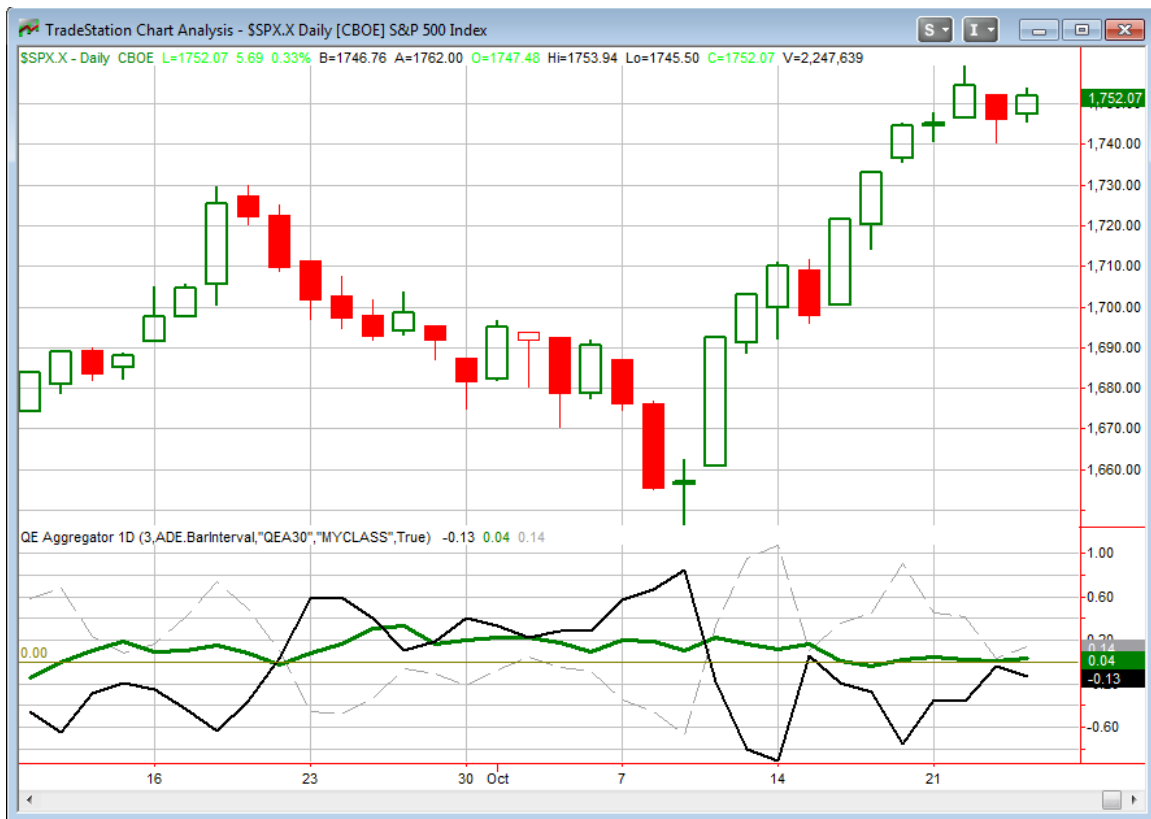
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That's a pretty steady upslope for a study without a very high "% Profitable". Overall, I like this study enough to add it to the intermediate-term active list.

Of course the short-term list is pretty bare at the moment, with 3 studies expiring on Thursday.

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



The green Aggregator Line again remained 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 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 again remain flat at the close.

The last remaining short-term study is set to expire on Friday. The intermediate-term outlook would keep expectations positive if nothing new emerges. But with the short-term list lacking, expectations will be largely dependent on action over the next few days. The Differential Pivot will be *slightly inverted* at 1756.03 on Friday. That is 0.2% *above* Thursday's close. An inverted pivot means the Differential Line will flip to positive if ES closes flat. In this case it will take a rise of at least 0.2% for SPX to remain overbought.

I feel like a broken record the last couple of nights but I am just not seeing a strong enough edge to put new capital at work. So I will continue to wait until a better edge appears.

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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