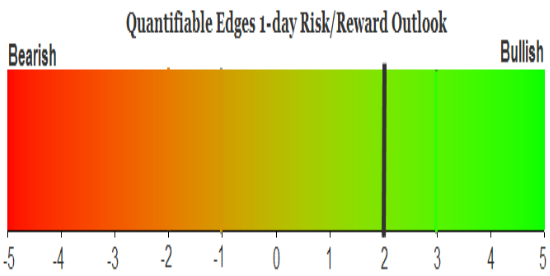
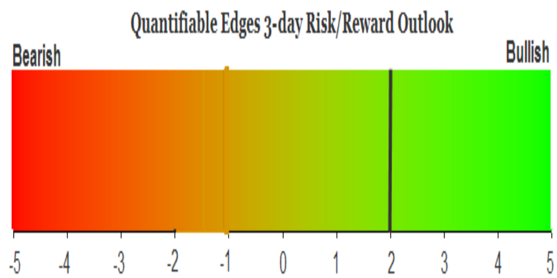
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 1, 2013 Volume 6 Issue 212

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Long

Tonight's Research Points

- Pullbacks into the end of the month have typically been followed by a rebound over the next several days.
- SPY has closed at a 5-day low for the 1st time in over 2 weeks. This suggests a short-term upside edge.

Short-term Outlook

The Bottom Line

Seasonality and price action are beginning to suggest an upside edge. The market is marginally oversold by some measures. I will look to begin scaling into long-side positions.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
November 1, 2013	Dn 2 poor close end of month >200	1-5 days	Bullish	2.20%
November 1, 2013	1st 5-low in 10 days	1-4 days	Bullish	1.70%
October 31, 2013	Strong drop from 50-day high	1-4 days	Bullish	1.20%
October 31, 2013	Weak breadth < 1% drop from 50	1-2 days	Bearish	
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%
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 30, 2013	***SPY > 5ma for 10 day. High close 1***	***1-2 days***	***Bearish***	

The Evidence

The market suffered a 2nd day of selling on Thursday. The SPX dropped 0.4%, the Nasdaq fell 0.3% and Russell 2000 declined 0.5%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % was 34%. Total NYSE volume came in at the highest level since opex Friday.

Thursday the SPY managed to close at a 5-day low after 16 days without doing so. In the 7/25/13 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

SPY closes at a 5-day low after not having done so for at least 10 days.
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: Max Losing Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	48,034.27	124	76	47	61.29	1,569.43	6,103.89	-4,906.44	-1,515.80	1.04	1.67	387.37
4	61,338.99	124	83	41	66.94	1,383.27	6,941.43	-6,244.56	-1,304.20	1.06	2.15	494.67
3	36,717.06	124	75	49	60.48	1,283.85	5,888.16	-5,295.84	-1,215.76	1.06	1.62	296.11
2	24,968.41	124	70	53	56.45	1,082.37	3,809.72	-3,737.28	-958.44	1.13	1.49	201.36
1	13,081.18	124	68	56	54.84	836.41	2,812.20	-3,909.03	-782.05	1.07	1.30	105.49

108 of 124 instances (87%) closed above the entry price at some point in the next week.

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.

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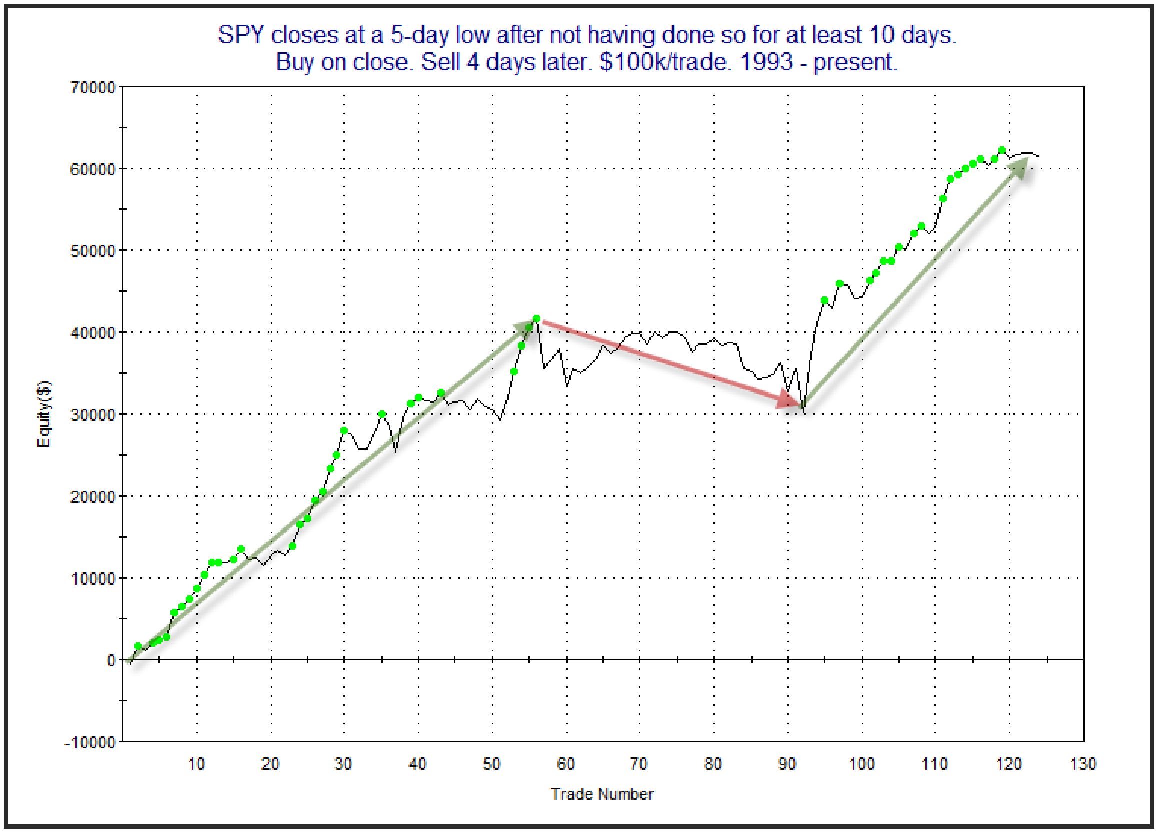

After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 35 trades or so the edge seems to have reasserted itself. Persistent uptrends normally wither before they die, rather than turn on a dime.

With Friday being the first of the month a number of seasonality-related studies triggered. I've showed a few times that the 1st of the month bullishness has primarily played out during uptrends. In the 7/31/13 Letter I examined all 1st days of the month when SPY was above its 200ma and broke them down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the top half of its range on the last day of the month. (Stats not updated.)

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SPY closes > 200ma. It closes in the top half of its daily range. It is the last trading day of the month. Buy on close. Sell next day's close. $100k/trade. 1996 - present..

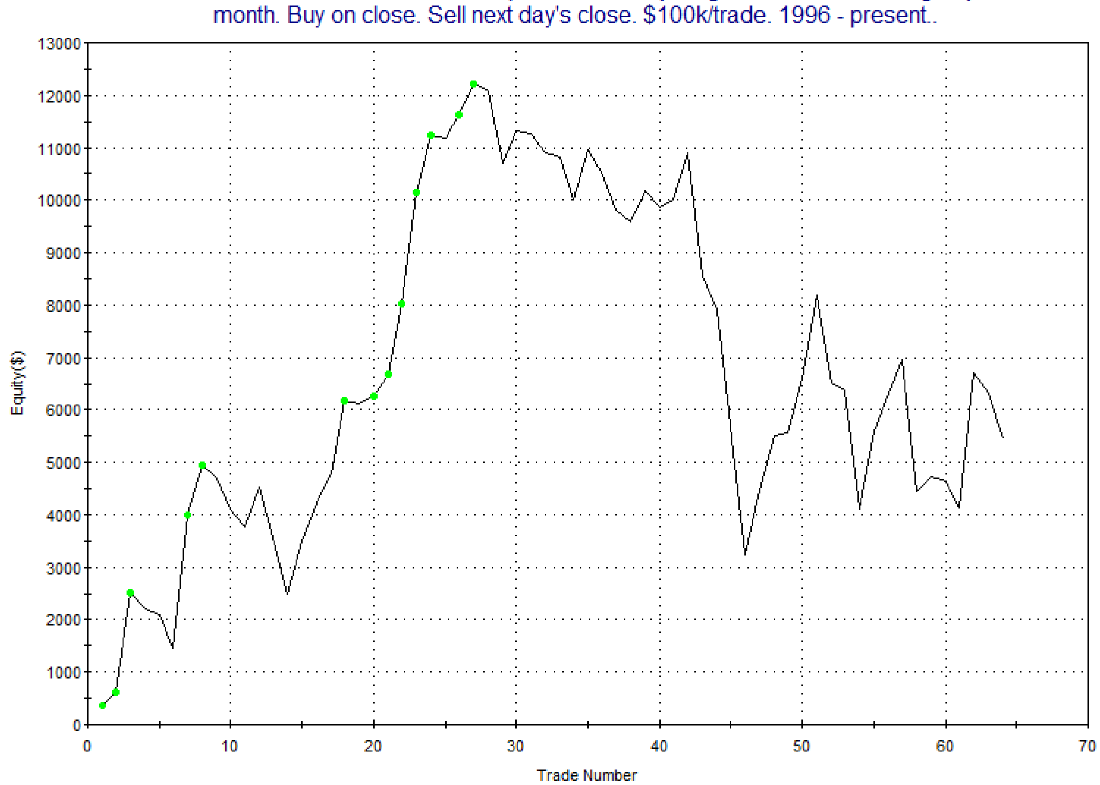
TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$5,441.15	Profit Factor	1.22
Gross Profit	$30,378.28	Gross Loss	($24,937.13)
Total Number of Trades	64	Percent Profitable	50.00%
Winning Trades	32	Losing Trades	32
Even Trades	0		
Avg. Trade Net Profit	$85.02	Ratio Avg. Win:Avg. Loss	1.22
Avg. Winning Trade	$949.32	Avg. Losing Trade	($779.29)
Largest Winning Trade	$2,562.30	Largest Losing Trade	($2,515.60)

The numbers here don't suggest any substantial edge. Below is the profit curve.

SPY closes > 200ma. It closes in the top half of its daily range. It is the last trading day of the month. Buy on close. Sell next day's close. $100k/trade. 1996 - present..



This paints an even bleaker picture.

But now let's look at the stats when SPY closed in the bottom half of its daily range, like Thursday. (Stats are updated.)

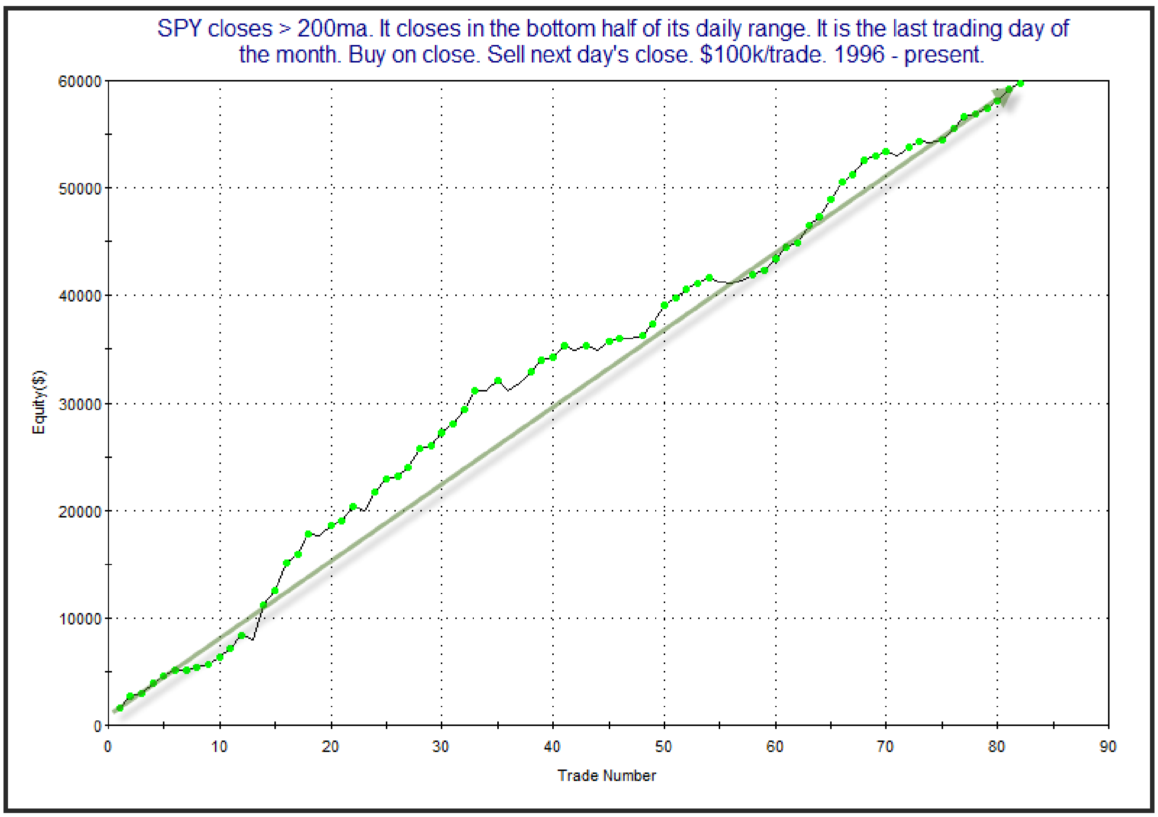
SPY closes > 200ma. It closes in the bottom half of its daily range. It is the last trading day of the month. Buy on close. Sell next day's close. $100k/trade. 1996 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$59,671.44	Profit Factor	16.52
Gross Profit	$63,517.38	Gross Loss	($3,845.94)
Total Number of Trades	82	Percent Profitable	85.37%
Winning Trades	70	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	$727.70	Ratio Avg. Win:Avg. Loss	2.83
Avg. Winning Trade	$907.39	Avg. Losing Trade	($320.50)
Largest Winning Trade	$3,295.88	Largest Losing Trade	($885.28)

The stats here are phenomenal. Gains absolutely blow away losses in every category. Gross gains are over 16x the size of gross losses. And the average win is actually bigger than the largest loss. That's an incredible stat when you are looking at a sample size of 82 instances. And the profit curve…



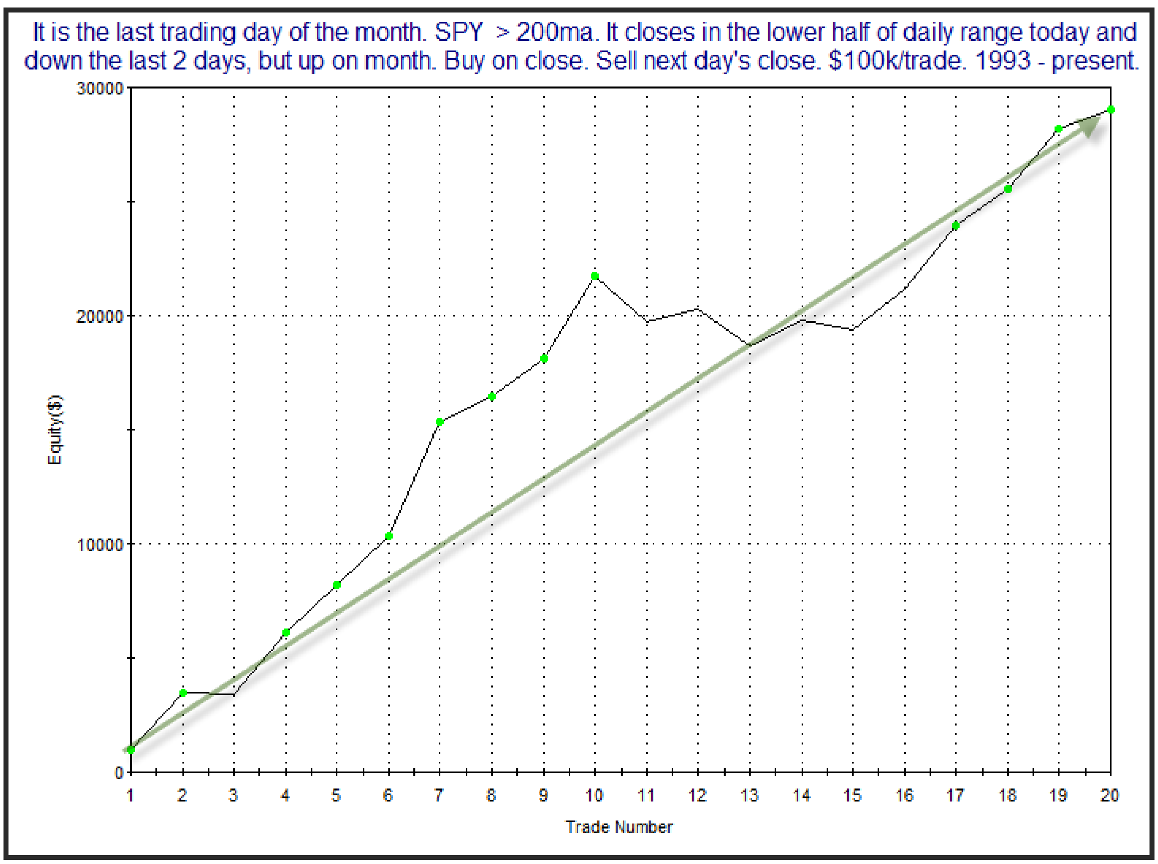
You will be hard pressed to find a long-term profit curve much straighter and more impressive than this one.

In the 2/1/13 letter I shared a study that showed 2+ down days into the end of a month when the month closed overall positive, was often followed by a rebound over the next week. I decided to combine that study with the one above, and I got the following results.

It is the last trading day of the month. SPY > 200ma. It closes in the lower half of daily range today and down the last 2 days, but up on month. Buy on close. Sell next day's close. $100k/trade. 1993 - present.

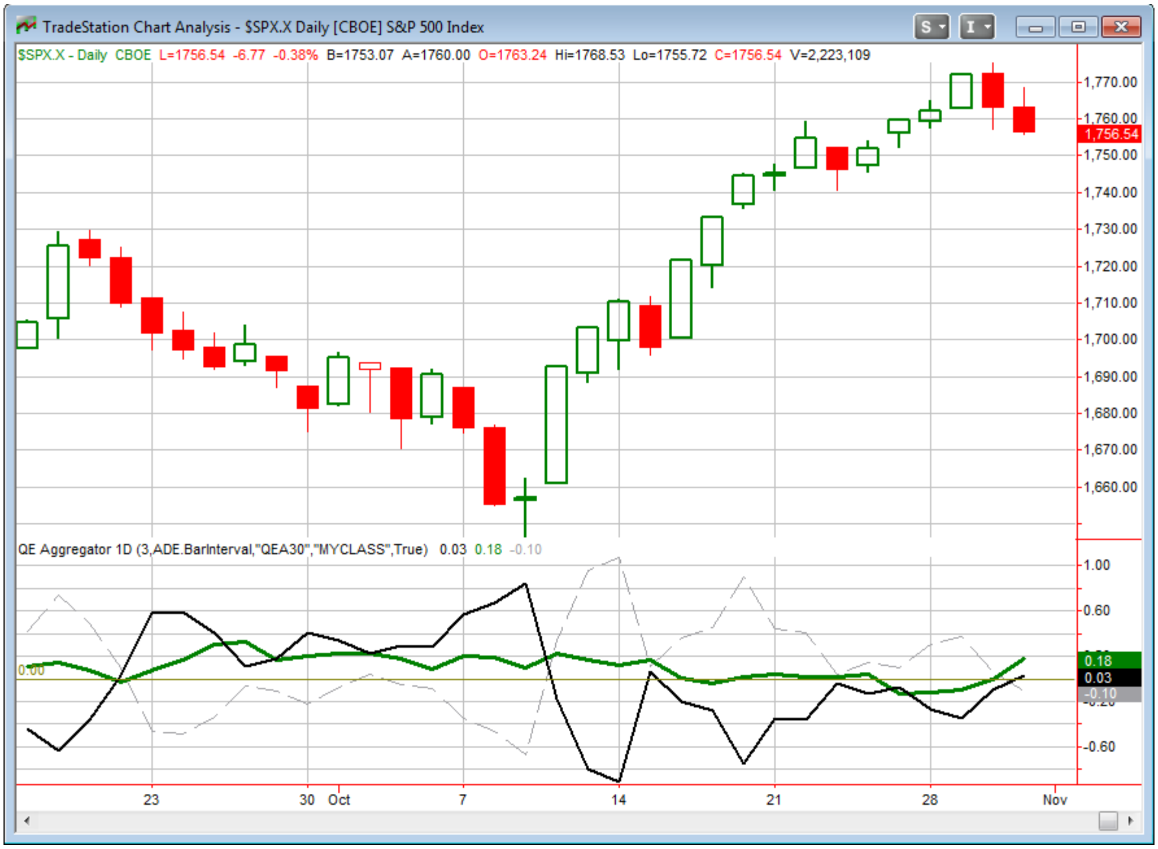
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Max Losing Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	29,003.73	20	16	4	80.00	2,068.26	5,025.88	-2,009.61	-1,022.10	2.02	8.09	1,450.19
4	25,481.97	20	16	4	80.00	1,793.65	3,718.84	-1,869.02	-804.10	2.23	8.92	1,274.10
3	21,487.62	20	15	5	75.00	1,745.18	3,269.52	-2,365.22	-938.00	1.86	5.58	1,074.38
2	12,702.35	20	14	6	70.00	1,133.82	3,135.34	-1,687.08	-528.53	2.15	5.01	635.12
1	11,939.07	20	15	5	75.00	893.09	1,792.50	-471.39	-291.46	3.06	9.19	596.95

The edge here appears to persist for up to a week. Below is a look at the 5-day equity curve.



The solid upslope seems to confirm the bullish edge. I have included this study in the Aggregator along with the first one tonight.

I have updated the Aggregator chart below.



With the bullish studies tonight the green Aggregator Line moved above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also rose above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is very 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 studies, expectations are set to remain positive on Friday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be 1765.63 on Friday. That is 0.5% above Thursday's close. So SPX would need to close up at least this much in order to move back to overbought on Friday.

We are seeing some evidence that a bounce is likely. But at this point the market is still only marginally oversold versus expectations. And in fact while SPX is oversold based on the Differential definition, it still closed above its 10-day moving average. So the decline could certainly worsen before the bounce comes. Therefore, I am not going to take on long index exposure unless we close lower again on Friday. That will put SPY down 3 days and it will also likely take it below its 10ma. But with the bullish Aggregator I did pick a trade idea off the triggers list tonight that looked appealing, and I will look to enter that at (or after) the open using a limit price. Details for both trade ideas are in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/28 – somewhat bullish
The intermediate-term outlook was last updated in the 10/28 Letter. Link below:
2013-10-28 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.

SPY – buy ¼ index position @ $175.78 LIMIT ON CLOSE. Base on the short-term outlook above I will look to start scaling into a long position if SPY closes down on Friday.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

NSC – buy @ $86.02 LIMIT. Based on system 11111. System 11111 has provided some nice opportunities over the years. NSC backtests very well with it. And with the Aggregator also bullish, this appears to be a favorable risk/reward setup. For subscribers that need a refresher on 11111 rules, you may refer to the System 11111 page using the link below:
http://www.quantifiableedges.com/members/11111.php

Below are backtested results for NSC over the years.

System 11111 returns for NSC.
$100k/trade. $0.01/share commission. 2000 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$14,669.51	Profit Factor	22.85
Gross Profit	$15,340.91	Gross Loss	($671.40)
Total Number of Trades	10	Percent Profitable	90.00%
Winning Trades	9	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	$1,466.95	Ratio Avg. Win:Avg. Loss	2.54
Avg. Winning Trade	$1,704.55	Avg. Losing Trade	($671.40)
Largest Winning Trade	$3,237.48	Largest Losing Trade	($671.40)

The numbers all look solid. Below are the individual instances.

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System 11111 returns for NSC. $100k/trade. $0.01/share commission. 2000 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
05/24/01	Buy	$22.30	(0.58%)	$0.00
05/31/01	Sell	$22.17		($4,565.52)
12/04/01	Buy	$18.79	1.54%	$2,641.00
12/07/01	Sell	$19.08		($1,478.96)
02/07/02	Buy	$21.00	3.33%	$3,761.19
02/11/02	Sell	$21.70		($904.59)
11/17/04	Buy	$33.86	0.24%	$236.24
11/22/04	Sell	$33.94		($3,691.25)
08/09/05	Buy	$36.90	0.95%	$1,029.80
08/09/05	Sell	$37.25		($162.60)
08/17/05	Buy	$36.40	0.63%	$1,181.21
08/19/05	Sell	$36.63		($1,813.02)
10/06/05	Buy	$39.48	2.28%	$3,190.32
10/07/05	Sell	$40.38		($50.64)
02/03/06	Buy	$48.78	1.99%	$2,848.11
02/06/06	Sell	$49.75		($348.33)
11/20/09	Buy	$50.58	2.85%	$3,572.66
11/23/09	Sell	$52.02		($19.63)
03/25/10	Buy	$54.66	2.10%	$2,322.83
03/29/10	Sell	$55.81		($932.79)

This does not appear to raise any red flags, except that there have been no triggers for over 3 years.

Current Open Trade Ideas

None.