

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 5, 2013

Volume 6 Issue 214

Market Overview



Signals Overview

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

Tonight's Research Points

- The combination of a 2-day rally, low volume, and a close below a short-term high seems to suggest more upside is likely over the next few days.

Short-term Outlook

The Bottom Line

Evidence continues to point higher, with a new bullish study being added tonight. But the market is back to a short-term overbought state. I would prefer to enter when it is not so extended, and am not looking to take on new exposure on Tuesday.

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 5, 2013	Low vol 10. Up 2 but < 10-hi. C > 200.	1-3 days	Bullish	1.40%
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%
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 31, 2013	Strong drop from 50-day high	1-4 days	Bullish	1.20%

The Evidence

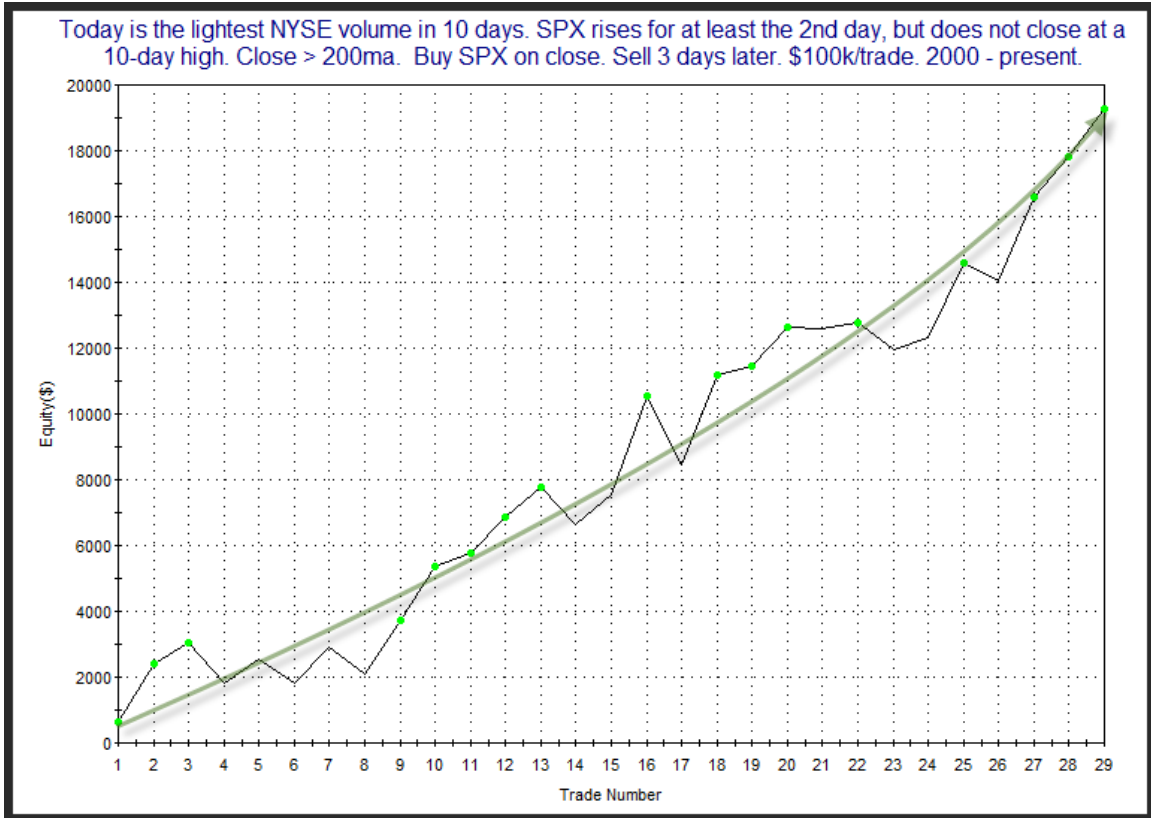
Bullish inclinations played out on Monday and the major indices posted gains. The SPX and the Nasdaq each gained 0.4%, and the Russell 2000 rallied 1.2%. Breadth was squarely positive as the NYSE Up Issues % was 66% and the Up Volume % was 73%. Total NYSE volume came in at the lightest level in a few weeks.

I took a fresh look at the market tonight, inspired by some studies from the 5/10/11 subscriber letter. I decided to examine the fact that volume came in very light along with the multi-day rise that failed to close at a new short-term high. The study I concocted is below.

Today is the lightest NYSE volume in 10 days. SPX rises for at least the 2nd day, but does not close at a 10-day high. Close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 2000 - 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	24,517.10	29	22	7	75.86	2,125.61	4,729.48	-6,514.56	-3,178.06	0.67	2.10	845.42
9	28,767.30	29	18	11	62.07	2,596.39	5,835.78	-5,586.56	-1,633.44	1.59	2.60	991.98
8	25,772.93	29	21	8	72.41	1,964.30	6,090.44	-4,238.08	-1,934.67	1.02	2.67	888.72
7	17,407.95	29	20	9	68.97	1,823.69	5,673.14	-4,337.84	-2,118.43	0.86	1.91	600.27
6	16,606.14	29	20	9	68.97	1,614.90	4,102.38	-3,187.50	-1,743.53	0.93	2.06	572.63
5	11,419.86	29	18	11	62.07	1,635.90	3,614.46	-4,134.88	-1,638.75	1.00	1.63	393.79
4	17,363.26	29	19	10	65.52	1,540.07	3,249.59	-2,662.56	-1,189.82	1.29	2.46	598.73
3	19,265.20	29	21	8	72.41	1,269.73	3,000.26	-2,081.28	-924.88	1.37	3.60	664.32
2	16,027.60	29	21	8	72.41	1,097.21	2,380.51	-1,767.90	-876.73	1.25	3.29	552.68
1	6,487.44	32	19	13	59.38	771.72	1,953.82	-1,611.60	-628.87	1.23	1.79	202.73

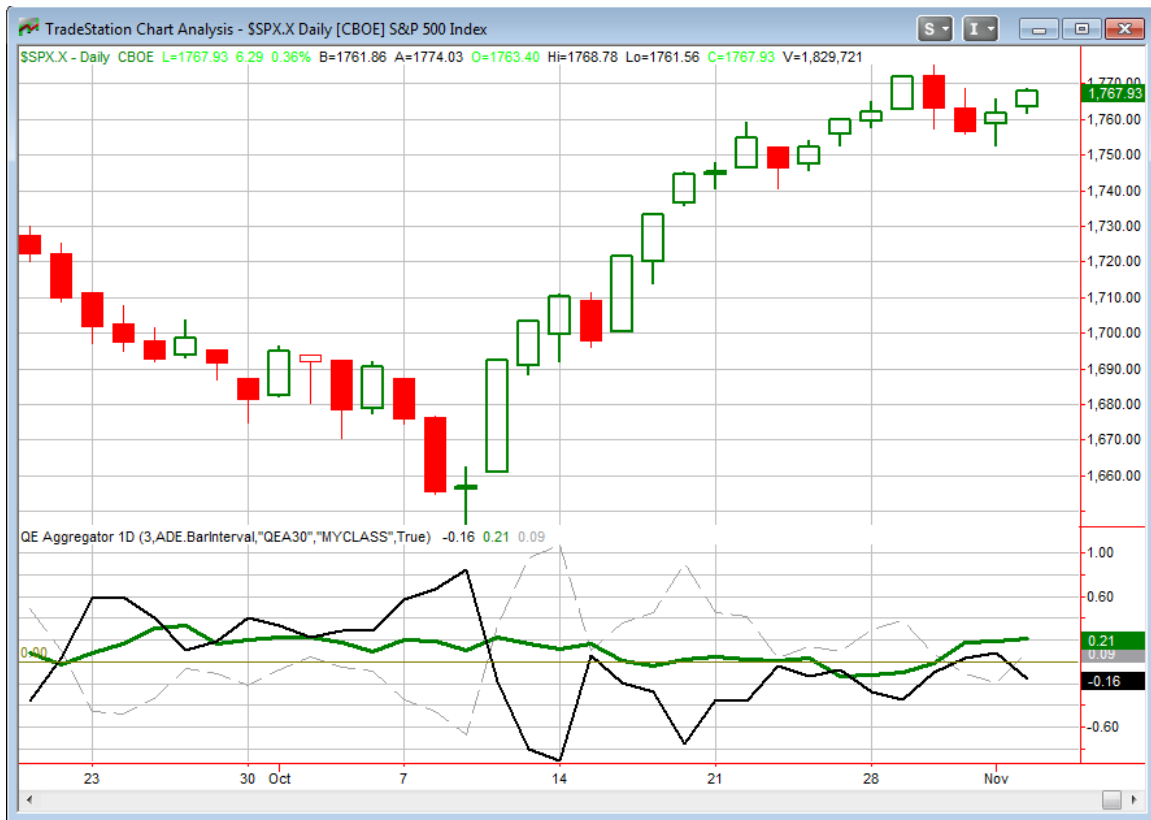
31 of 32 instances (97%) closed above the entry price at some point in the next week. The lone failure triggered 8/22/05.

Frankly I found these results to be surprisingly positive. With the market already up a couple of days I was shocked to see the incredibly high percent (97%) that saw follow through at some point in the next week. The size of the gains over the 3-day period also appeared impressive. Below is a profit curve using a 3-day exit strategy.



The strong upslope serves as confirmation of the bullish edge. It is also encouraging that the edge seems to have gained strength in recent instances. I have decided to include this study on the active list tonight.

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



With tonight's new study being taken into account the green Aggregator Line rose a little further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, with another day of gains, the black Differential Line sank squarely below 0. The negative Differential Line reading means the SPX is 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 change to flat at the close.

Based on the current studies, expectations are set to remain positive on Tuesday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 1757.74 on Tuesday. That is 0.6% below Monday's close. This means the SPX would need to close down at least this much in order to flip from overbought to oversold versus expectations.

I felt there was an edge a couple of days ago. Unfortunately, none of the trade ideas I posted received fills. That happens sometimes in strong markets. You get gaps up that don't allow you in. It can be frustrating if you let it be. But making money trading is not about catching every move. It about taking your shots when the odds are in your favor.

It did not work out on this last pullback, but that is ok. There is nothing I can do about that now. I'll simply wait for the next tradable opportunity and look to play that when it arrives. I don't think now is a very opportune time. But that could change as quickly as tomorrow.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/4 – somewhat bullish

The intermediate-term outlook was last updated in the 11/4 letter. Link below:

[2013-11-04 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

Current Open Trade Ideas

None. Unfortunately, no fills over the last couple of days.

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