

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 7, 2013

Volume 6 Issue 216

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 chop is not providing any compelling directional clues.

Short-term Outlook

The Bottom Line

Mildly bullish expectations and a mildly overbought market have me sidelined still. I hate trying to short a trend this strong backed by huge liquidity flows, but I also hate trying to get long a trend this overdone. I will likely be waiting for a decent pullback before taking on much in the way of new trades.

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%
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				
November 1, 2013	1st 5-low in 10 days	1-4 days	Bullish	1.70%

The Evidence

The market saw a sizable gap up on Wednesday morning, but after moves both up and down, it finished mixed. The SPX gained 0.4%, but the Nasdaq lost 0.2% and the Russell 2000 fell 0.4%. Breadth was mildly positive as the NYSE Up Issues % was 52% and the Up Volume % was 58%. Total NYSE volume came in a little lighter than Tuesday.

This back and forth chop is making it difficult for strong directional edges to emerge. There was one study from Overnight Edges that looked at unfilled gaps up like Wednesday that followed unfilled gaps down like Tuesday. It suggested a moderate downside edge for the overnight period. I looked at implications out further than that this evening and was disappointed to find there was no consistent tendency.

We had one study come off the Short-term Active List tonight, leaving just two more, both of which are scheduled to expire on Thursday afternoon.

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



With the studies dwindling, the green Aggregator Line dipped a little but is still above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line stayed 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. In this case they are pinching 0 very closely on both sides. This caused the Aggregator signal to remain flat at the close.

With the last 2 short-term studies expiring Thursday, expectations will be dependent on 1) the intermediate-term studies, and 2) new studies that emerge. So Thursday's action could easily swing expectations in either direction. The Differential Pivot will again be *inverted at 1778.16* on Thursday. That is 0.4% *above* Wednesday's close. An inverted pivot simply means the Differential Line will cross 0 if SPX closes flat. For SPX to remain in an overbought state it is going to need to rise at least 0.4%. Otherwise it will flip to "oversold" versus expectations.

The market is getting into a very uncomfortable area here for me. I have not wanted to short it because of the strong liquidity (QE Buying Power Index) and the positive intermediate-term outlook. But the trend has now been so strong for so long that it is getting overdone. SPY has not closed more than 1% below a 10-day closing high in 20 days now. That is something that has only happened 27 times in the last 20 years. To me

that suggests a bit of a pullback is due. And there is a decent chance I will not try a long index trade here until we get a noticeable pullback – one that takes SPX down a few percentage points, or at least below its 10ma. So it seems I am unwilling to short and unwilling to go long at this point. I am somewhat stuck waiting for a pullback to occur. Times like this will often test one's patience. I intend to pass that test.

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.

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