

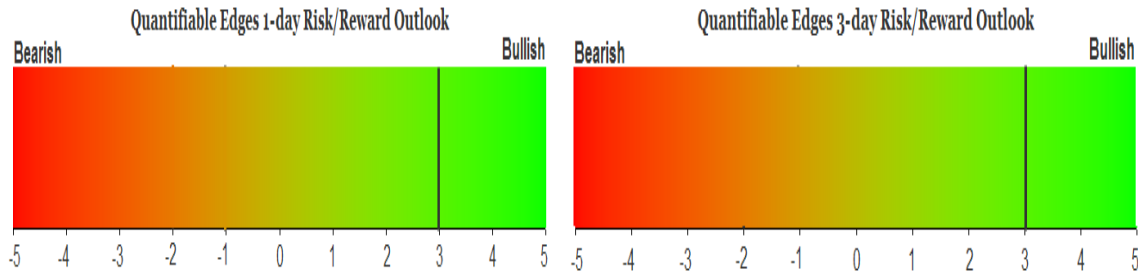
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 8, 2013

Volume 6 Issue 217

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The extremely low TICK Tomoscillator is suggesting a short-term bounce.
- The QE Buying Power System is signaling a buy.
- Key reversal days near short-term highs are often only temporary setbacks.
- Outside days that close at bottom of a recent range often create a strongly bullish setup.

## *Short-term Outlook*

### *The Bottom Line*

Evidence appears strong but the market is in somewhat uncharted territory. I am looking to take on a small amount of exposure, but intend to do it slowly.

**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>				
November 8, 2013	Outside reversal high to low	1-5 days	Bullish	
November 8, 2013	TICK Tomoscillator < -200. 5-low	1-2 days	Bullish	
November 8, 2013	QE Buying Power Index Long Signal	1-5 days	Bullish	
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
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%

**The Evidence**

What started off with an early move to a new high turned into a vicious reversal. The SPX lost 1.3%, the Nasdaq fell 1.9% and the Russell 2000 dropped 1.8%. Breadth was strongly negative as the NYSE Up Issues % was 22% and the Up Volume % was 16%. Total NYSE volume came in at the highest level since September.

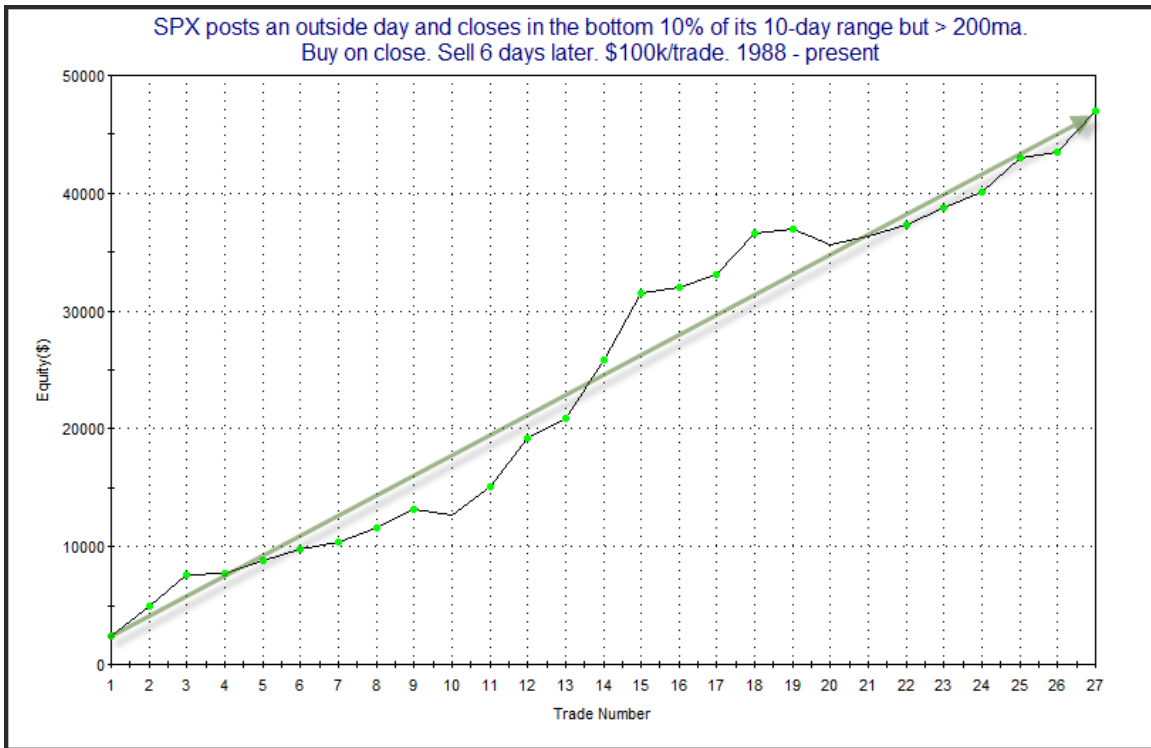
I noted on Twitter that Thursday was the 1<sup>st</sup> time ever that SPY posted a 20-day high and a 10-day low on the same day. In fact there has only been 1 other time that SPY managed a 10-day high and a 10-day low on the same day. And that was an up day, so it did not look anything like Thursday.

Here's what many analysts will tell you about Thursday's action: the reversal was bearish. The fact that the market couldn't hold on to its morning gains was a bad sign. The break down to a new low was bad. Of course most analysts don't bother testing their ideas. The reversal was so extreme that we can't test 20-high to 10-low, but some other reversal studies appeared that may be able to shed some light for us. The study below is from the 2/26/13 letter. It examines the reality of an outside day occurring and putting the SPX near the lower end of its range during a long-term uptrend.

SPX posts an outside day and closes in the bottom 10% of its 10-day range but > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1988 - 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	45,552.67	26	21	5	80.77	2,487.20	6,549.66	-2,142.23	-1,335.69	1.86	7.82	1,752.03
9	46,524.99	26	21	5	80.77	2,507.59	6,622.56	-3,224.13	-1,226.88	2.04	8.58	1,789.42
8	48,056.75	26	21	5	80.77	2,578.11	5,596.29	-2,364.18	-1,216.72	2.12	8.90	1,848.34
7	43,988.02	27	22	5	81.48	2,259.52	5,846.58	-2,644.46	-1,144.27	1.97	8.69	1,629.19
6	46,940.34	27	25	2	92.59	1,951.90	5,645.64	-1,353.73	-928.60	2.10	26.27	1,738.53
5	44,852.20	27	24	3	88.89	1,933.99	5,460.84	-869.01	-521.20	3.71	29.69	1,661.19
4	32,104.29	27	21	6	77.78	1,827.41	5,187.49	-2,964.25	-1,045.22	1.75	6.12	1,189.05
3	27,946.63	27	19	8	70.37	1,811.64	5,339.18	-1,665.30	-809.32	2.24	5.32	1,035.06
2	20,556.26	29	20	9	68.97	1,239.70	3,591.28	-1,105.36	-470.87	2.63	5.85	708.84
1	7,009.25	29	23	6	79.31	544.28	1,285.13	-1,799.08	-918.22	0.59	2.27	241.70

Rarely do I see results more bullish than these. Not only is the consistency incredibly impressive, but the size of the average trade is very large for using a “> 200ma” filter. This study is a great reminder that common perception of a day’s action can sometimes be very far from the truth. And it isn’t just the numbers that look good. Here is the profit curve.



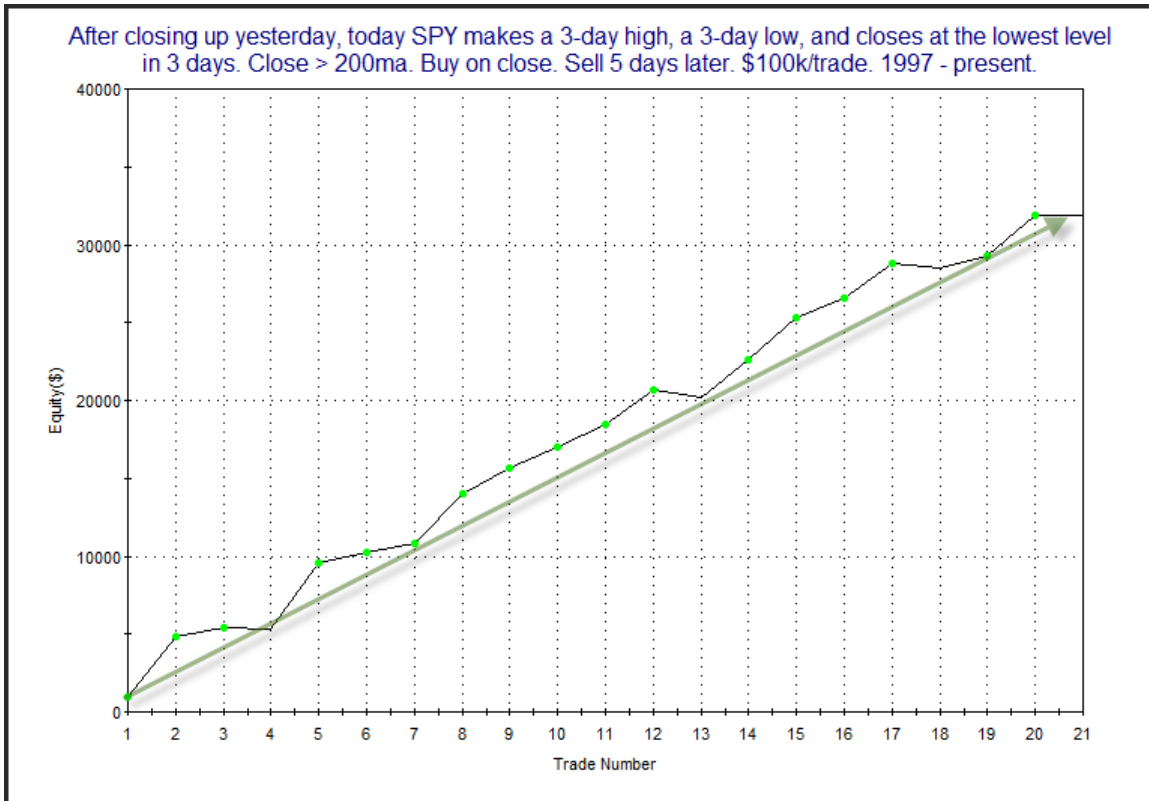
That is a nice straight profit curve.

The study below was last shown in the 12/4/12 subscriber letter. It looks for the reversal day to engulf both of the last two days, close at a three day low, and still be above the 200ma. All results are updated.

After closing up yesterday, today SPY makes a 3-day high, a 3-day low, and closes at the lowest level in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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
12	40,441.72	20	16	4	80.00	2,829.81	7,684.16	-2,350.04	-1,208.79	2.34	9.36	2,022.09
11	39,988.11	20	17	3	85.00	2,711.17	5,982.90	-3,624.25	-2,033.94	1.33	7.55	1,999.41
10	37,063.25	20	15	5	75.00	2,834.35	6,438.74	-1,926.40	-1,090.39	2.60	7.80	1,853.16
9	35,602.64	21	16	5	76.19	2,697.84	6,845.74	-3,430.00	-1,512.57	1.78	5.71	1,695.36
8	28,241.04	21	14	6	66.67	2,749.77	5,456.88	-7,031.50	-1,709.28	1.61	3.75	1,344.81
7	33,662.29	21	14	7	66.67	2,904.99	6,365.48	-1,635.06	-1,001.08	2.90	5.80	1,602.97
6	34,188.94	21	16	5	76.19	2,336.41	5,193.32	-1,492.96	-638.73	3.66	11.71	1,628.04
5	31,838.66	21	17	4	80.95	1,926.43	4,273.50	-489.14	-227.66	8.46	35.96	1,516.13
4	18,312.85	21	14	7	66.67	1,725.02	4,533.98	-2,123.52	-833.92	2.07	4.14	872.04
3	5,384.38	21	13	8	61.90	1,605.22	3,903.34	-5,283.03	-1,935.44	0.83	1.35	256.40
2	4,205.30	21	12	9	57.14	1,436.30	3,244.78	-3,737.28	-1,447.81	0.99	1.32	200.25
1	125.80	21	13	8	61.90	625.69	2,359.84	-3,909.03	-1,001.02	0.63	1.02	5.99

After the first three days or so, there appears to be a strong and consistent upside edge. Below is a profit curve that assumes a 5-day holding period.



Equity curves don't get much straighter than this. It appears to be a nice confirmation of the bullish suggestion by the stats table.

There was also a study that used the TICK TomOscillator. The TICK TomOscillator is an indicator that uses recent closing TICK values to determine buying and selling interest at the end of the day. It was developed by Tom McClellan, and I made a minor % Rank adjustment for 1 type of readings. For those who would like to learn more about the TICK TomOscillator, including exactly how to calculate it, the link below is a good place to start.

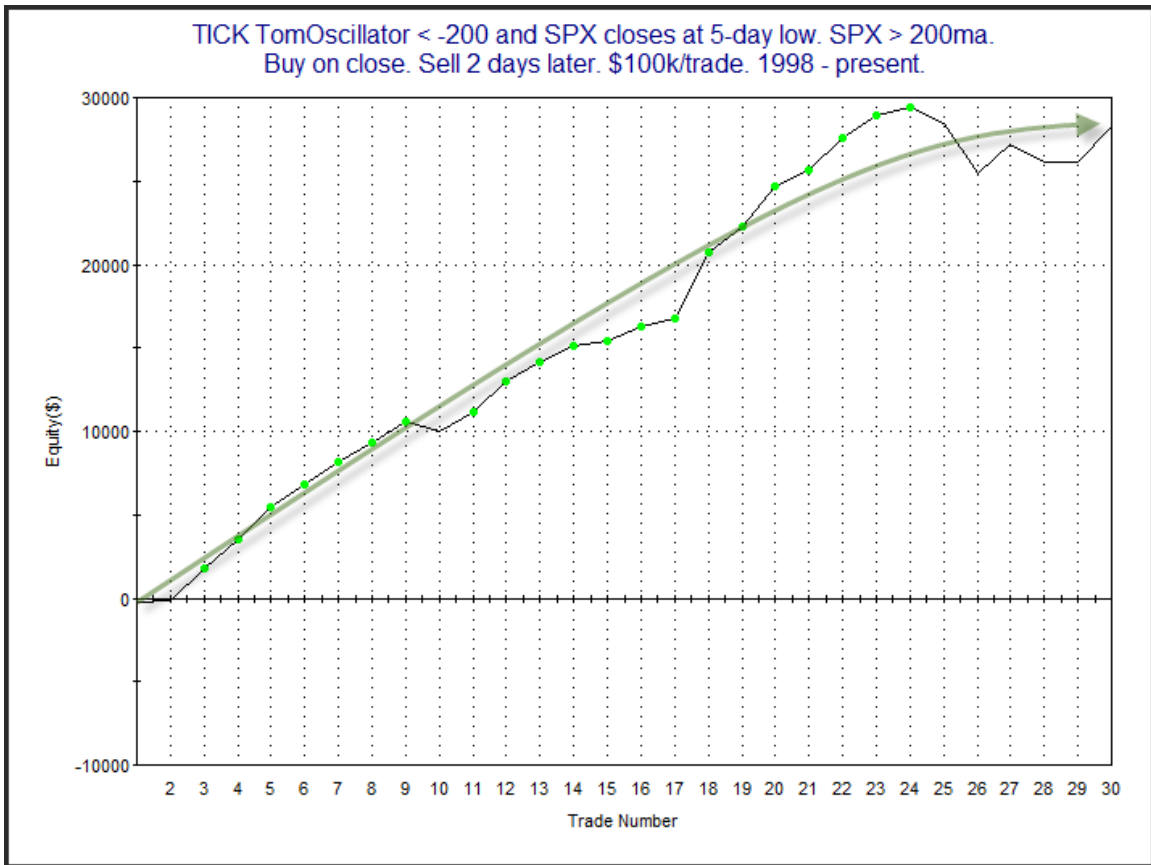
<http://quantifiableedges.blogspot.com/2011/05/how-nyse-closing-tick-can-be-utilized.html>

The study below looks for an extremely low reading in conjunction with a short-term oversold price condition during a long-term uptrend. It last appeared in the 3/7/12 letter. I have updated it below.

TICK TomOscillator < -200 and SPX closes at 5-day low. SPX > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1998 - 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	18,556.79	25	17	8	68.00	1,893.82	3,892.40	-3,385.80	-1,704.77	1.11	2.36	742.27
4	17,658.27	25	17	8	68.00	1,712.06	4,190.40	-3,863.84	-1,430.84	1.20	2.54	706.33
3	29,903.45	28	21	7	75.00	1,837.20	5,471.10	-2,558.68	-1,239.68	1.48	4.45	1,067.98
2	28,274.95	30	25	5	83.33	1,361.97	4,041.90	-2,943.71	-1,154.84	1.18	5.90	942.50
1	22,893.82	36	27	9	75.00	1,103.23	4,396.50	-1,953.32	-765.92	1.44	4.32	635.94

There has been a strong propensity for the market to bounce over the next 2 days. Below is an equity curve that shows how the edge has played out over time.



After an incredibly steady upslope, there were a few little stumbles in recent times. I will continue to monitor the shape of this curve going forward, but still believe it suggests an upside edge.

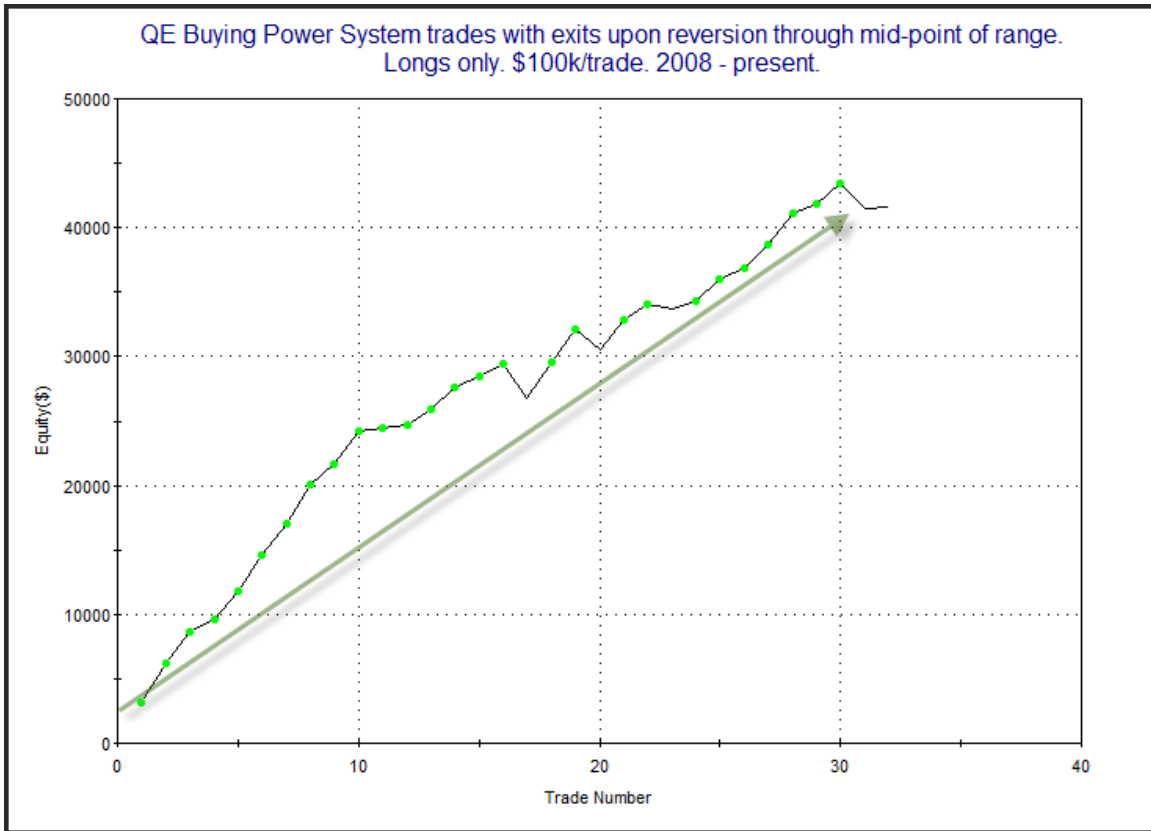
Subscribers that are Tradestation users and would like to place the TICK TomOscillator on their own charts may find it among the [QE Indicators/Functions for Tradestation](#). code.

Of course the low close also helped to trigger a long in the QE Buying Power System tonight. This system looks to get long any time SPX closes in the bottom 20% of the 10-day range and the QE Buying Power Index is  $\geq 3$ . It shorts whenever the QE Buying Power Index  $\leq 0$  and SPX closes in the top 20% of the 10-day range. Below are long-only results for the simplified version of the system that just looks to exit when the index closes back above the midpoint of its 10-day range.

QE Buying Power System trades with exits upon reversion through mid-point of range.  
Longs only. \$100k/trade. 2008 - present.

TradeStation Performance Summary <span style="float: right;">Collapse </span>			
All Trades			
Total Net Profit	\$41,553.01	Profit Factor	7.29
Gross Profit	\$48,158.62	Gross Loss	(\$6,605.61)
Total Number of Trades	32	Percent Profitable	87.50%
Winning Trades	28	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,298.53	Ratio Avg. Win:Avg. Loss	1.04
Avg. Winning Trade	\$1,719.95	Avg. Losing Trade	(\$1,651.40)
Largest Winning Trade	\$3,160.20	Largest Losing Trade	(\$2,750.44)

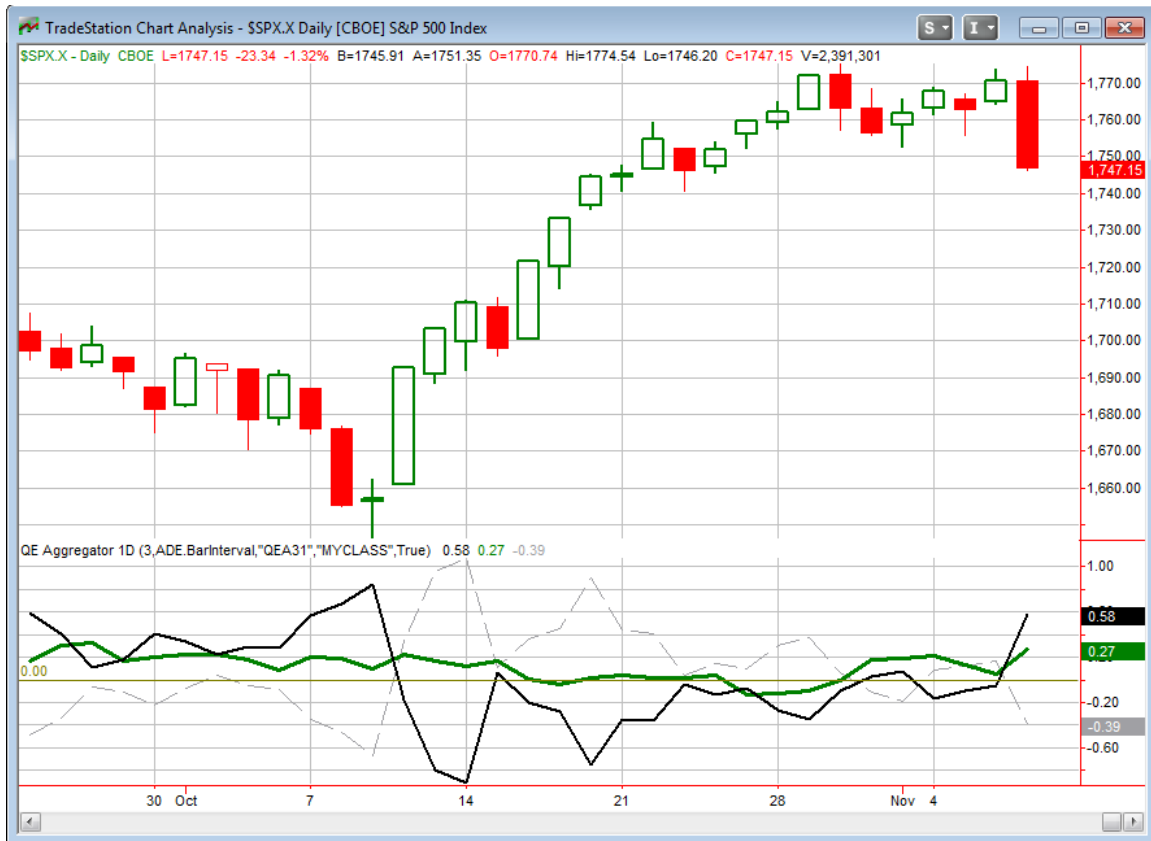
Some very strong stats here. This suggests a substantial upside edge in buying pullbacks when you have also had strong liquidity. And here is a look at the profit curve.



The curve is as impressive as the stats, and serves as confirmation of the upside edge.

So we have a number of new studies worthy of inclusion on the Active List tonight.

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



With all the bullish studies tonight the green Aggregator Line spiked further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line jumped up and is now well above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is 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 change to long at the close.

With the current active studies, expectations are slated to remain bullish on Friday. It would take some very compelling bearish evidence to change this. The Differential Pivot will again be 1772.04 on Friday. That is 1.4% above Thursday's close. So it will take a close up of at least that much to move the SPX from oversold to overbought. That's unlikely to happen in 1 day. A more likely scenario is a multi-day rally or consolidation to work off the oversold condition.

It was a quick job of going from overbought to substantially oversold. The evidence is fairly compelling, but we need to keep in mind a few things: 1) This selloff is less than 1 day old, 2) The movement from a 20-day high to a 10-day low was unprecedented. While I used some less stringent studies to examine the action, this time IS different. So

we are not looking at very similar setups when considering the possible implications. Overall, it appears there is some precedent to expect a bounce. But with the 2 points above in mind, I intend to scale in slowly here. I will look to begin taking on some long exposure, though. Details are in the Trade Ideas section below.

***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***

*AMZN -1/3 @ \$343.56 (buy 1/3 @ limit)*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 1(AMZN)***

### **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 @ \$174.93 limit.** Based on the short-term outlook above, I will look to begin scaling into a long index position. The limit is equal to Thursday's closing price.

**AMZN – buy 1/3 catapult position @ \$343.56 limit.** This is a Catapult trigger as listed in the Catapult & CBI section above. Catapults tend to be volatile, and I encourage subscribers to explore them carefully before taking any action. This is the 1<sup>st</sup> of up to 3 lots in AMZN.

### **Current Open Trade Ideas**

*None.*

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