

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 14, 2013

Volume 6 Issue 221

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

## Tonight's Research Points

- Wednesday's gap lower and strong close at new highs sets up a bearish short-term pattern.
- The breakout was not confirmed by either an unfilled gap higher or by volume. Without this confirmation, there is no substantial edge.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is now pointing down and the SPX is overbought. This suggests a bearish edge. But I have not been inclined to fight liquidity and momentum all year, and that has not changed at this point. So I will not be looking to take on any short exposure.

**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 14, 2013	Gap dn reverse to 50-day high	1-2 days	Bearish	-1.60%
November 8, 2013	Outside reversal high to low	1-5 days	Bullish	2.10%
<b>Active - Long Term</b>				
October 25, 2013	SPX > 50,2 Bollinger Band	1-50 days	Bullish	
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	
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	

**The Evidence**

Wednesday started with a big gap lower, but the selling lasted about 10 seconds. The market fought its way back, and then accelerated further into the close, making new highs in the process. The SPX gained 0.8%, the Nasdaq rallied 1.2%, and the Russell 2000 rose 1.0%. Breadth was strongly positive as the NYSE Up Issues % was 65% and the Up Volume % was 81%. Total NYSE volume rose from Tuesday's level, but was not at an extreme.

A number of studies triggered related to the big gap down and then the strong reversal to a new high. None of them were encouraging. The one below was the most compelling of the bunch. Subscribers may recognize it from the Sunday letter. Results are updated.

SPY gaps down and opens below the low of 2 days ago. It then closes at a 50-day high. 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: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-14,659.98	12	5	7	41.67	700.64	1,289.20	-2,594.74	-4,996.75	0.27	0.19	-1,221.66
4	-15,937.56	12	2	10	16.67	1,328.37	2,371.65	-1,859.43	-4,597.01	0.71	0.14	-1,328.13
3	-18,786.07	13	4	9	30.77	769.10	1,132.85	-2,429.16	-5,083.65	0.32	0.14	-1,445.08
2	-14,114.36	13	2	11	15.38	415.96	444.50	-1,358.75	-2,919.84	0.31	0.06	-1,085.72
1	-11,176.94	13	2	11	15.38	118.11	219.30	-1,037.56	-1,935.36	0.11	0.02	-859.76

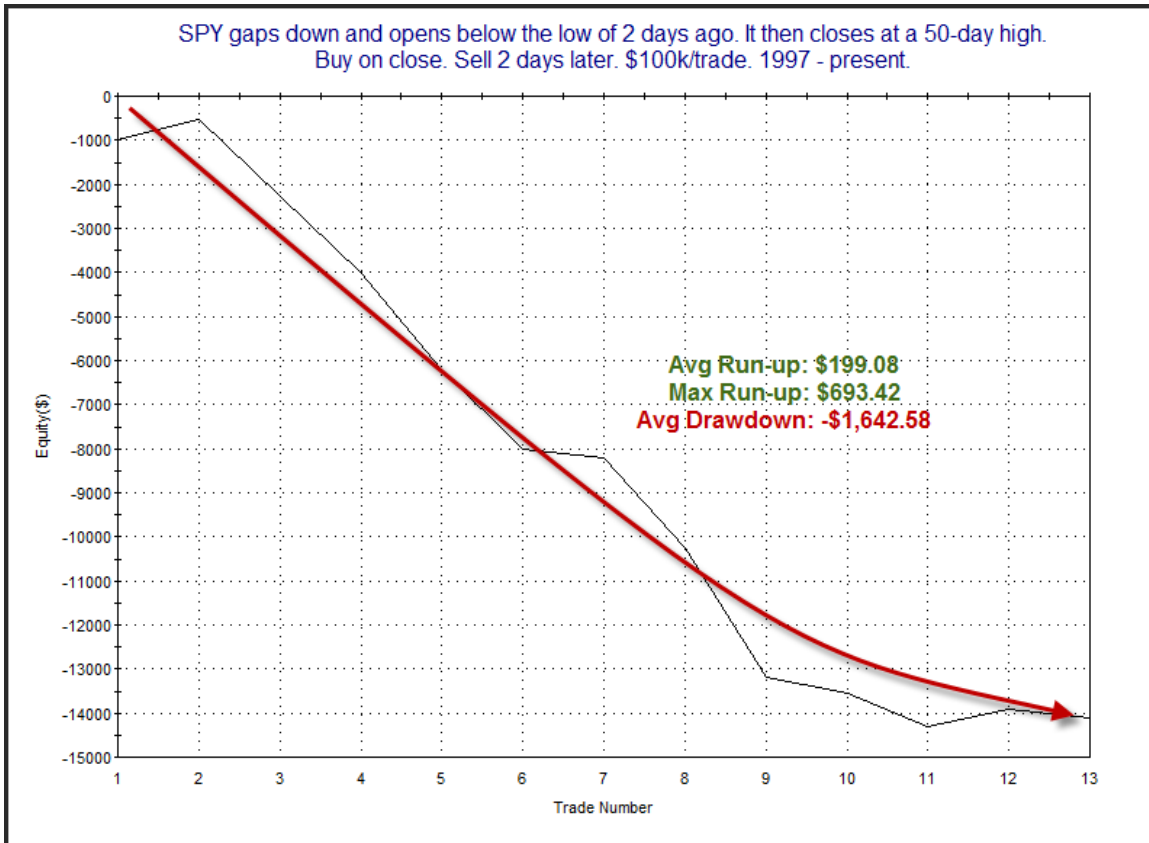
While more instances would be nice, the strongly negative record and powerful downside returns certainly suggest a bearish edge. Below I have listed all instances along with their 1-day holding period stats.

SPY gaps down and opens below the low of 2 days ago. It then closes at a 50-day high.  
Buy on close. Sell next day close. \$100k/trade. 1997 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/30/97	Buy	\$85.28	(0.62%)	\$257.84
06/02/97	Sell	\$84.75		(\$656.32)
04/17/98	Buy	\$112.38	(0.06%)	\$160.02
04/20/98	Sell	\$112.31		(\$444.50)
03/18/99	Buy	\$132.25	(1.94%)	\$287.28
03/19/99	Sell	\$129.69		(\$1,935.36)
01/19/00	Buy	\$147.00	(1.53%)	\$0.00
01/20/00	Sell	\$144.75		(\$2,169.20)
01/26/04	Buy	\$115.87	(1.03%)	\$0.00
01/27/04	Sell	\$114.68		(\$1,052.86)
10/06/04	Buy	\$114.62	(1.02%)	\$0.00
10/07/04	Sell	\$113.45		(\$1,098.72)
05/09/07	Buy	\$151.16	(1.05%)	\$0.00
05/10/07	Sell	\$149.58		(\$1,249.29)
05/06/08	Buy	\$142.05	(1.78%)	\$0.00
05/07/08	Sell	\$139.52		(\$2,052.76)
01/19/10	Buy	\$115.06	(1.02%)	\$0.00
01/20/10	Sell	\$113.89		(\$1,807.52)
01/05/11	Buy	\$127.64	(0.20%)	\$148.77
01/06/11	Sell	\$127.39		(\$493.29)
10/18/11	Buy	\$122.58	(1.18%)	\$407.50
10/19/11	Sell	\$121.13		(\$1,524.05)
02/23/12	Buy	\$136.63	0.22%	\$416.67
02/24/12	Sell	\$136.93		\$0.00
11/08/13	Buy	\$177.29	0.02%	\$135.36
11/11/13	Sell	\$177.32		(\$214.32)

The last 2 instances saw a very mild close higher. Note that 6 of the 13 instances saw no run-up at all the next day. This means an unfilled gap down occurred. Also note that the largest run-up of the remaining instances was just \$416.67 (0.4%). Every instance except the last 2 saw a larger drawdown than this. Risk/reward has therefore been heavily skewed to the downside.

Now let's look in more detail at the 2-day holding period.



The last few instances haven't made much downside progress. Even so, the stats are strongly in favor of the bears. The average drawdown is 8 times the size of the average run-up and over twice the size of the max run-up. I've again included this study on the Active List.

From the standpoint of suggesting an edge, the action on the breakout Wednesday was unremarkable. SPX did put in a 2-week base before breaking out today, but the breakout had no style. One thing we like to see with a fresh breakout is an unfilled gap up. Times where that occurs have shown a strong propensity to follow through over the next few days. The gap down Wednesday morning eliminated that possibility. And SPY breakouts without a gap up have shown no short-term edge over the years.

Volume is also a factor to consider. In general, we prefer volume to be either 1) low, or 2) extremely high. A rise in volume that does not reach an extreme level generally shows no compelling edge. In the 9/7/12 letter I showed the difference between just a rise in volume versus a very strong rise in volume. I'll review that below. This first study

shows times where the breakout occurred on extreme volume (and the volume was not attributable to it being op-ex Friday).

SPX closes at a 20-day high after not having done so for at least 10 days. Close > 200ma.  
**NYSE volume is the highest in 20 days.** It is not op-ex Friday.  
 Buy SPX on close. Sell X day later. \$100k/trade. 1993 - present.

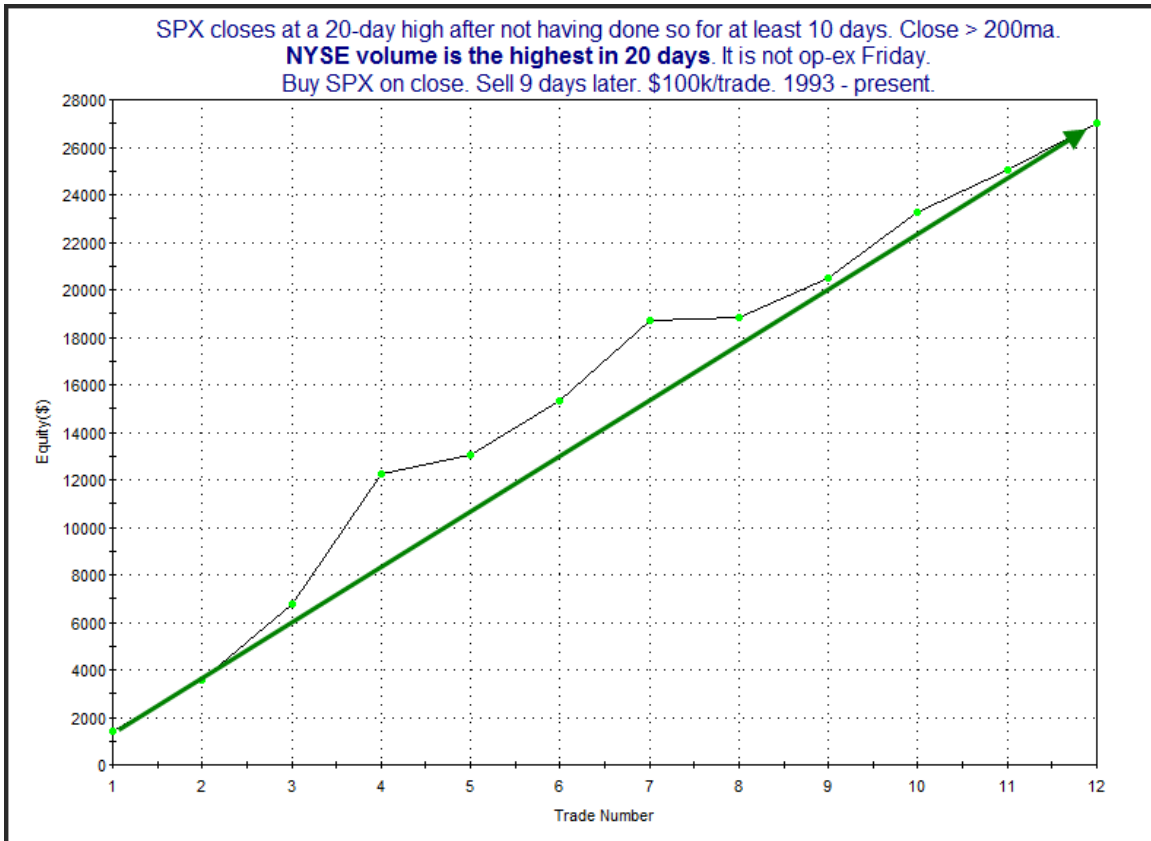
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	25,855.09	12	11	1	91.67	2,428.30	4,885.00	-856.26	-856.26	2.84	31.20	2,154.59
9	27,041.27	12	12	0	100.00	2,253.44	5,451.25	0.00	0.00	100.00	100.00	2,253.44
8	23,117.76	12	10	2	83.33	2,361.21	3,842.50	-247.17	-450.24	9.55	47.76	1,926.48
7	21,701.27	12	10	2	83.33	2,303.69	4,443.12	-667.79	-811.65	3.45	17.25	1,808.44
6	18,968.17	12	10	2	83.33	2,118.44	4,698.80	-1,108.11	-2,094.42	1.91	9.56	1,580.68
5	19,088.18	12	10	2	83.33	2,061.60	4,683.84	-763.91	-1,360.77	2.70	13.49	1,590.68
4	14,956.20	12	10	2	83.33	1,613.33	4,518.75	-588.55	-1,043.86	2.74	13.71	1,246.35
3	10,457.41	12	10	2	83.33	1,222.18	2,403.80	-882.17	-1,369.04	1.39	6.93	871.45
2	5,308.33	12	7	5	58.33	1,056.14	1,998.39	-416.94	-1,301.14	2.53	3.55	442.36
1	8,881.39	12	10	2	83.33	980.38	1,606.89	-461.21	-645.21	2.13	10.63	740.12

Instances are a bit low, but 12 for 12 nine days out helps provide confidence that a big volume spike would be a plus. Here is a look at the 1-day results.

SPX closes at a 20-day high after not having done so for at least 10 days.  
 Close > 200ma. **NYSE volume is the highest in 20 days.** It is not op-ex Friday.  
 Buy SPX on close. Sell next day's close. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/19/93	Buy	\$447.57	0.67%	\$673.46
05/20/93	Sell	\$450.59		(\$46.83)
09/12/96	Buy	\$671.16	1.40%	\$1,514.04
09/13/96	Sell	\$680.54		(\$1.48)
11/05/96	Buy	\$714.14	1.46%	\$1,464.40
11/06/96	Sell	\$724.60		(\$183.40)
04/29/97	Buy	\$794.05	0.92%	\$1,260.00
04/30/97	Sell	\$801.34		(\$355.00)
09/16/97	Buy	\$945.64	(0.28%)	\$488.25
09/17/97	Sell	\$943.00		(\$383.25)
10/28/99	Buy	\$1,342.44	1.53%	\$2,277.72
10/29/99	Sell	\$1,362.93		\$0.00
03/16/00	Buy	\$1,458.47	0.41%	\$1,282.48
03/17/00	Sell	\$1,464.47		(\$353.60)
06/02/00	Buy	\$1,477.26	(0.65%)	\$1.34
06/05/00	Sell	\$1,467.63		(\$842.86)
04/22/03	Buy	\$911.37	0.84%	\$912.33
04/23/03	Sell	\$919.02		(\$161.32)
11/03/04	Buy	\$1,143.20	1.62%	\$1,606.89
11/04/04	Sell	\$1,161.67		(\$74.82)
09/18/07	Buy	\$1,519.78	0.61%	\$1,232.40
09/19/07	Sell	\$1,529.03		\$0.00
09/06/12	Buy	\$1,432.12	0.40%	\$400.20
09/07/12	Sell	\$1,437.92		(\$46.23)
<b>Avg Run-up: \$1,092.79 Avg Drawdown: -\$204.07</b>				

These seem to confirm the 1-day upside edge. Below is a profit curve for the 9-day holding period.



That is a very straight curve, and serves as further confirmation that the setup leads to bullish tendencies.

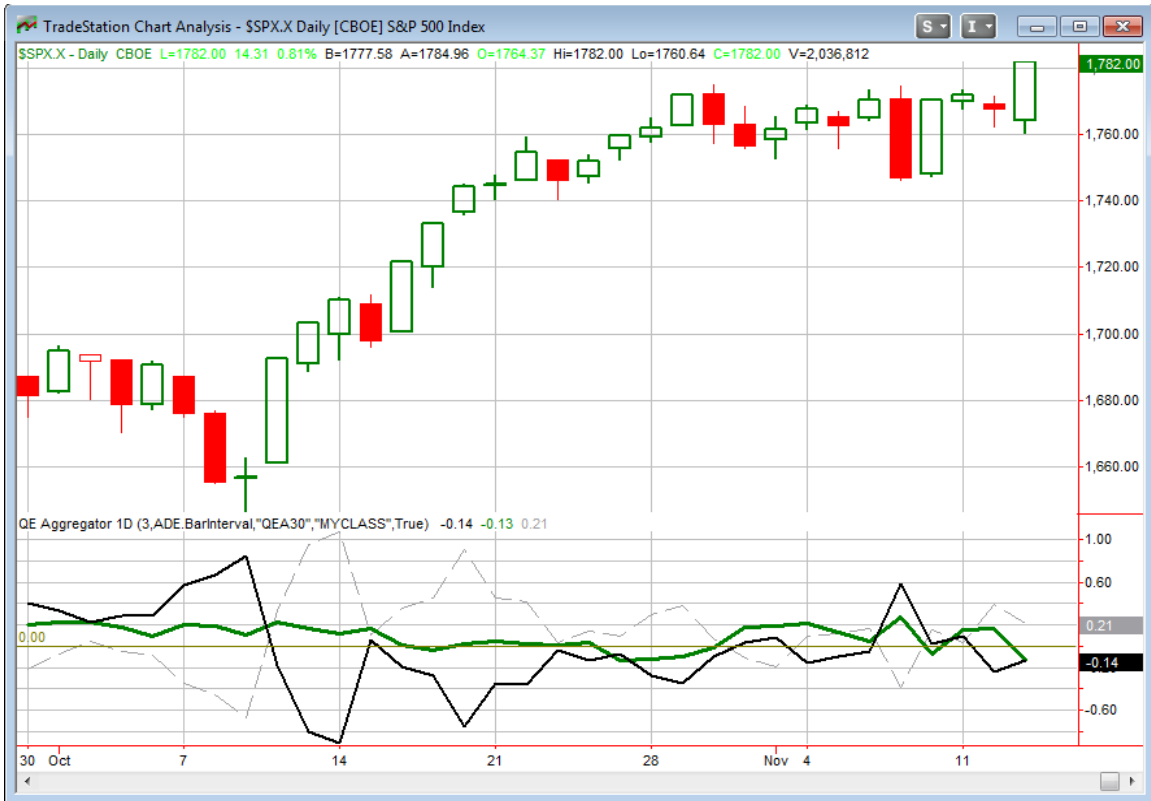
But the next study shows what happens if volume rises more modestly.

SPX closes at a 20-day high after not having done so for at least 10 days. Close > 200ma.  
**NYSE volume is higher than yesterday but < a 20-day high.** It is not op-ex Friday.  
 Buy SPX 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: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-2,396.36	39	19	20	48.72	1,612.99	4,544.29	-1,652.16	-4,162.56	0.98	0.93	-61.45
9	1,116.90	39	18	21	46.15	1,455.89	5,022.58	-1,194.72	-2,858.55	1.22	1.04	28.64
8	-4,312.46	39	21	18	53.85	1,183.32	5,296.50	-1,620.12	-4,375.02	0.73	0.85	-110.58
7	-3,892.36	39	17	22	43.59	1,389.35	4,984.06	-1,250.51	-4,953.00	1.11	0.86	-99.80
6	-1,643.95	39	19	20	48.72	1,242.64	4,666.27	-1,262.71	-4,512.96	0.98	0.93	-42.15
5	-9,211.61	39	16	23	41.03	921.90	2,288.73	-1,041.83	-3,651.84	0.88	0.62	-236.20
4	-10,766.21	39	16	23	41.03	1,047.17	2,443.50	-1,196.56	-4,419.36	0.88	0.61	-276.06
3	-1,370.88	39	21	18	53.85	892.02	2,074.32	-1,116.85	-4,159.44	0.80	0.93	-35.15
2	-1,147.82	39	23	16	58.97	594.32	1,718.79	-926.07	-2,413.44	0.64	0.92	-29.43
1	3,007.83	39	23	16	58.97	473.72	1,496.78	-492.99	-1,424.16	0.96	1.38	77.12

This is the situation that the market is currently in. And it does not appear to provide a substantial edge for either longs or shorts.

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



With tonight's bearish study factored in the green Aggregator Line dropped below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is short-term overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator signal to change to short.

With the current active studies, expectations are slated to remain bearish on Thursday. Of course this could change if additional bullish evidence emerges. The Differential Pivot will be 1777.89 on Thursday. That is 0.2% below Wednesday's close. So it would only take a close lower of this amount in order to move the SPX from overbought to oversold versus expectations.

There now appears to be a mild downside edge. Moderate evidence is saying a pullback is likely. And with the market extended this could be a favorable entry point. But I am still seeing the same issues that have kept me from taking these short setups all year. And that is 1) the bullish intermediate-term outlook and 2) the strong QE Buying Power Index. Shorts have had a very difficult time in this liquidity-driven rally. And with the pump still going at \$85 billion per month, those hard times seem likely to continue. Another issue that works against risk/reward here is that it will only take a mild pullback to flip the Differential Line. So if I short, and I am right tomorrow, I will be taking profits tight away. But if I am wrong, losses could easily continue to run. Therefore, despite the apparent downside edge, I plan to remain sidelined on Thursday. No new trade ideas tonight.

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

The intermediate-term outlook was last updated in the 11/11/13 letter. Link below:

[2013-11-11 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) – not filled – cancel order for now*

### ***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.*

**None tonight.**

## **Current Open Trade Ideas**

*None.*

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2013 Hanna Capital Management, LLC.