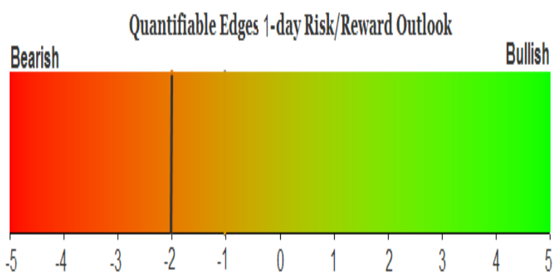
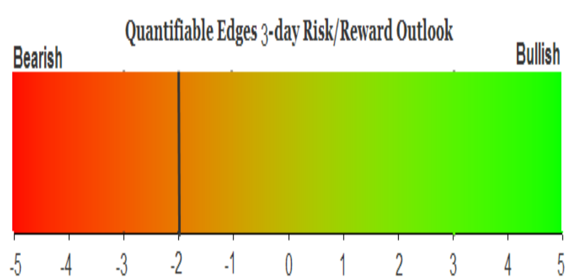
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 19, 2013 Volume 6 Issue 224

Market Overview





Signals Overview

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

Tonight's Research Points

- Key reversal days near short-term highs are often only temporary setbacks.
  .

Short-term Outlook
The Bottom Line
A pullback appears to have begun. Odds favor a little more selling but not an ultimate end to the up move. I am still not interested in shorting and will wait to see how this pullback unfolds.

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 15, 2013	Top 10% 10-day range opex Thurs.	1-5 days	Bearish	-1.70%
Active - Long Term				
November 19, 2013	Key Reversal	1-12 days	Bullish	2.55%
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

Monday was looking good for the bulls once again, but a hard drop in the afternoon caused most of the major indices to close lower. The SPX lost 0.4%, the Nasdaq fell 0.9%, and the Russell 2000 dropped 0.8%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % was 34%. Total NYSE volume declined and came in a bit light.

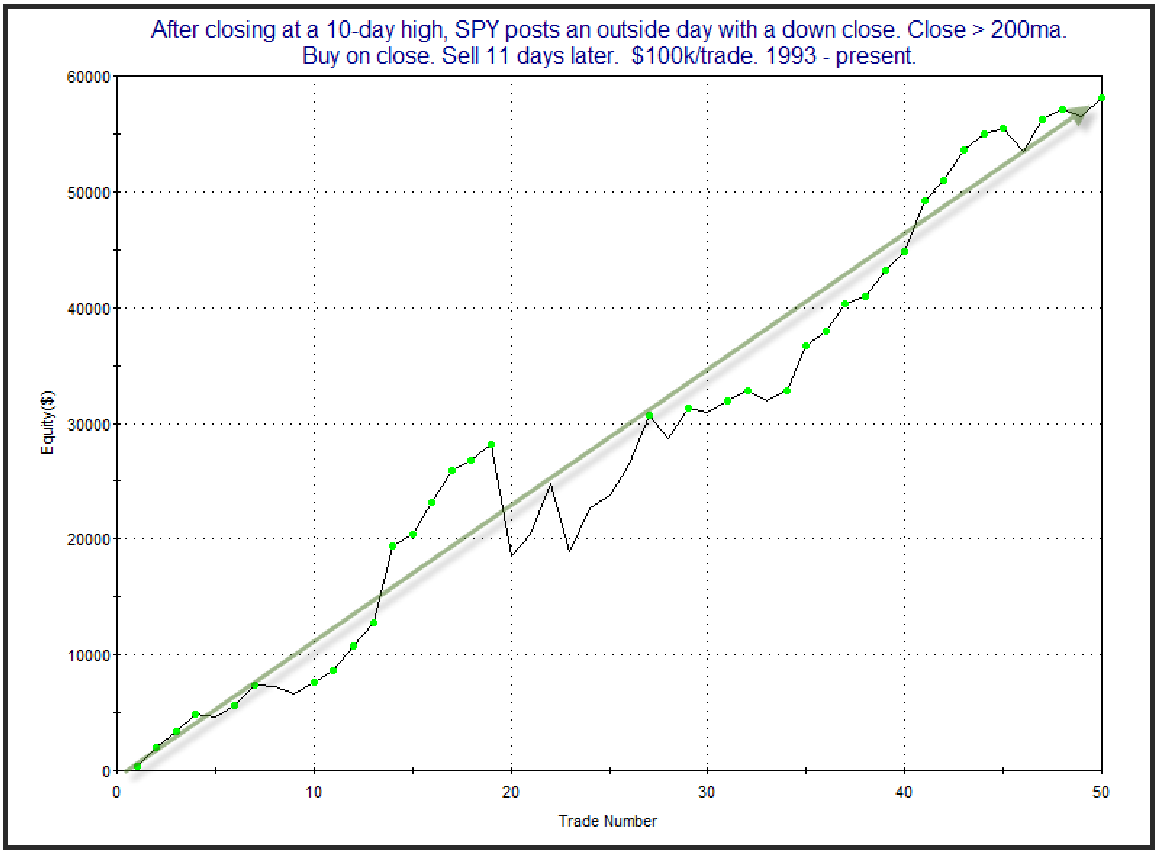
When price makes a new short-term high as it did Monday, and then reverses down to form an outside day and closes negative that is considered a "key reversal". I looked at reversals like this a number of times in the past. For the very short-term there rarely appears to be a substantial edge. Often test results will show churn or very mildly bearish numbers. But when you look out 1 to 2 weeks what you often see is that the uptrend most of the time will reassert itself. In the 12/4/12 subscriber letter there was a study that exemplified this. I have updated its results below.

After closing at a 10-day high, SPY posts an outside day with a down close. Close > 200ma.
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: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
12	60,812.03	50	38	12	76.00	2,320.34	8,494.78	-2,280.08	-8,389.36	1.02	3.22	1,216.24
11	58,138.70	50	40	10	80.00	2,018.80	6,726.11	-2,261.33	-9,630.04	0.89	3.57	1,162.77
10	43,393.14	51	37	13	72.55	1,801.01	5,990.24	-1,788.01	-5,992.40	1.01	2.87	850.85
9	35,820.29	52	36	16	69.23	1,776.02	5,267.28	-1,757.28	-5,764.17	1.01	2.27	688.85
8	43,568.02	53	35	18	66.04	1,974.63	7,603.99	-1,419.11	-4,587.23	1.39	2.71	822.04
7	37,146.88	54	34	20	62.96	1,915.48	7,694.36	-1,398.98	-4,962.72	1.37	2.33	687.91
6	35,041.73	56	36	20	64.29	1,759.40	5,189.82	-1,414.84	-4,591.36	1.24	2.24	625.75
5	27,811.91	60	38	22	63.33	1,411.25	4,428.81	-1,173.43	-4,346.17	1.20	2.08	463.53
4	5,773.17	60	30	30	50.00	1,446.06	3,915.78	-1,253.62	-4,228.43	1.15	1.15	96.22
3	-4,710.69	60	30	30	50.00	1,084.73	2,930.57	-1,241.76	-3,561.68	0.87	0.87	-78.51
2	-10,972.99	61	26	35	42.62	863.62	2,361.64	-955.06	-3,737.28	0.90	0.67	-179.89
1	-6,599.45	61	31	30	50.82	568.18	1,601.91	-807.10	-3,909.03	0.70	0.73	-108.19

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

A little weakness over the next couple of days is normal, but before the long move higher sees a continuation. Below is a profit curve using an 11-day holding period.



The strong, steady upslope serve as confirmation of the bullish edge. Of course today was not just a 10-day high. It was an all-time high. So I filtered a little further using a 50-day high to see whether that changed results dramatically.

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

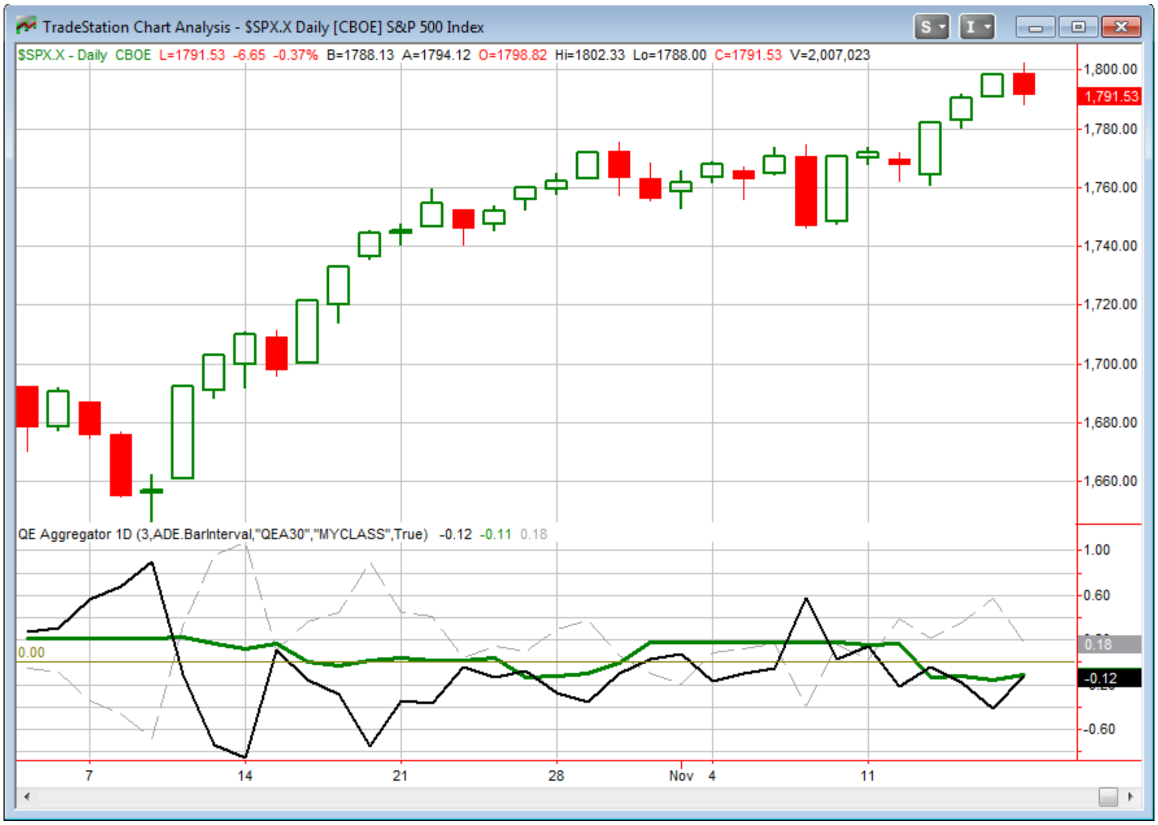
After closing at a 50-day high, SPY posts an outside day with a down close. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1993 - present.

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: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
12	28,684.49	33	24	9	72.73	2,158.20	6,533.28	-2,568.03	-8,389.36	0.84	2.24	869.23
11	24,757.73	33	25	8	75.76	1,794.41	4,465.22	-2,512.83	-9,630.04	0.71	2.23	750.23
10	15,097.62	33	23	10	69.70	1,530.71	5,433.93	-2,010.87	-5,992.40	0.76	1.75	457.50
9	17,310.53	34	22	12	64.71	1,800.73	5,109.36	-1,858.80	-5,764.17	0.97	1.78	509.13
8	25,389.43	35	23	12	65.71	1,838.68	5,456.88	-1,408.35	-4,587.23	1.31	2.50	725.41
7	22,333.09	35	23	12	65.71	1,711.71	4,440.15	-1,419.68	-4,962.72	1.21	2.31	638.09
6	28,555.04	37	25	12	67.57	1,728.71	4,813.38	-1,221.89	-4,591.36	1.41	2.95	771.76
5	25,219.89	40	27	13	67.50	1,442.83	4,428.81	-1,056.65	-4,346.17	1.37	2.84	630.50
4	13,012.67	40	23	17	57.50	1,368.43	3,915.78	-1,085.96	-3,646.08	1.26	1.70	325.32
3	2,482.87	40	22	18	55.00	1,065.53	2,439.51	-1,164.38	-3,561.68	0.92	1.12	62.07
2	-5,409.59	41	18	23	43.90	998.71	2,361.64	-1,016.80	-3,737.28	0.98	0.77	-131.94
1	-1,991.96	41	21	20	51.22	625.09	1,601.91	-755.95	-3,909.03	0.83	0.87	-48.58

Results here were not greatly different. Whether it is a short-term high or a long-term high, key reversals during uptrends rarely market the ultimate top. More often they simply lead to a quick pullback and then another leg up.

I have updated the Aggregator chart below.

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



The green Aggregator Line did not move much and remains below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also remains 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 remain short.

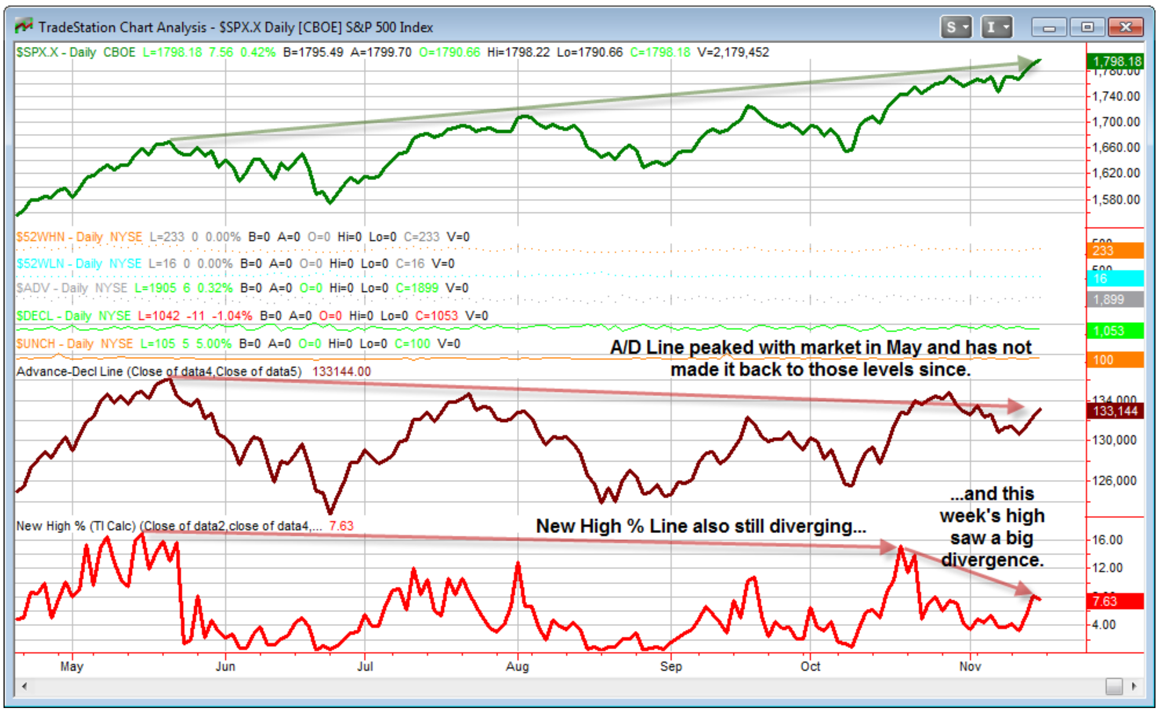
With the current active studies, expectations are slated to remain bearish on Tuesday. Of course this could change if additional bullish evidence emerges. The Differential Pivot will be 1788.94 on Tuesday. That is 0.1% below Monday's close. So it would only take a moderately lower close in order to move the SPX from overbought to oversold versus expectations.

Monday's selling did not turn the market oversold. And it also did not generate short-term bullish studies. And with the QE Buying Power Index still coming off its November low on Friday the bears may have an opportunity to push this a little further. I'm still not interested. I'm just not inclined to fight both strong momentum and strong overall liquidity. If the market continues to pull back we could see a long signal in the next few days. I'm waiting for that to occur. Hopefully it will allow me to catch the bounce that tonight's Key Reversal study suggests is likely.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/18 – somewhat bullish

In case there was any doubt whether SPX is in an uptrend, it closed higher for the 6th week in a row and finished Friday at a new all-time high.

But despite the new high, the Study of Tops indicators remain highly divergent. I've updated the indicators used in that report below.



The May SPX high was accompanied by new highs in both the A/D Line and the New High %, and that provided us some confidence that the next price top prior to a major decline was unlikely to occur until at least July. This held true and the market has continued higher, but the New High % and A/D Line have failed to keep up.

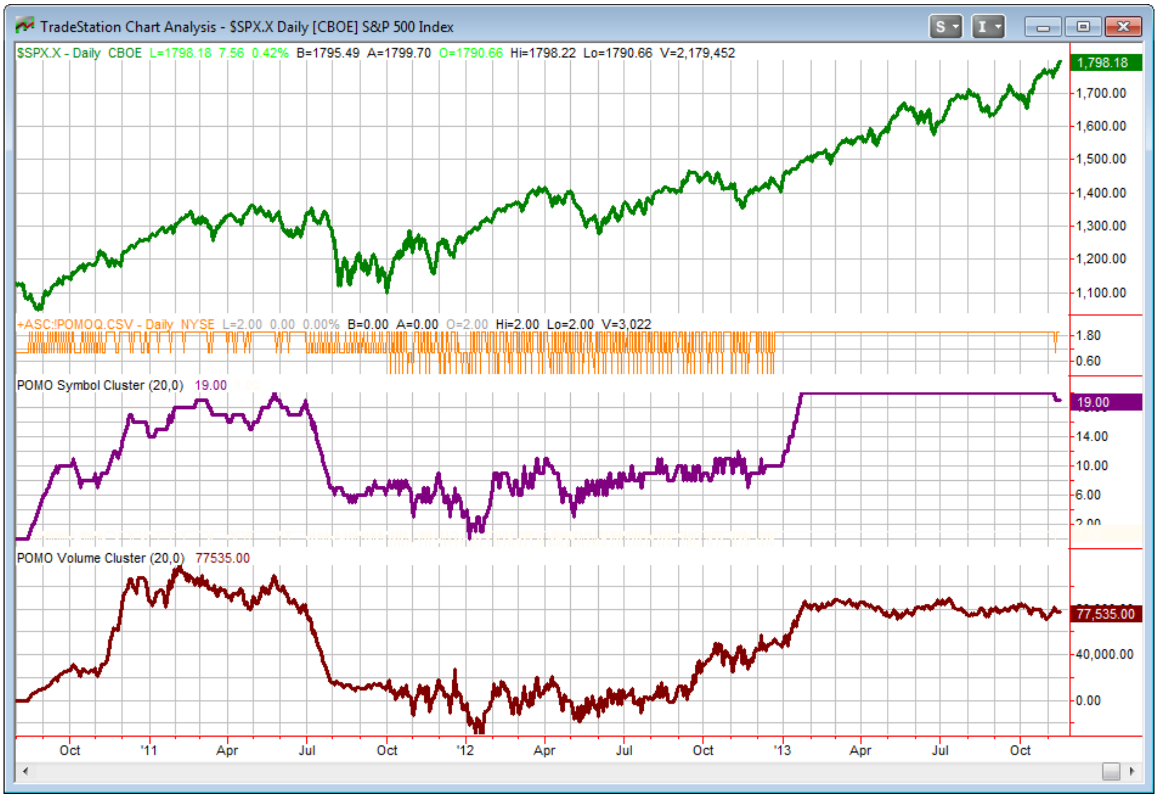
This opens up the possibility of a major top being put in. Note I said possibility, not probability. It needs to be understood that while the narrowing of New Highs and/or the turn down in the Advance/Decline Line has been a prerequisite for a top to take place, these breadth conditions have not been very useful in timing the tops. Often such divergences have persisted for many months, or even years. I therefore view these breadth divergences as possible warning signs – not as timing signals.

If the market continues higher and the New High % and A/D Line rally to new highs as well, then that would suggest the market is unlikely to reach a major price top for at least another 2 months. I'll continue to keep an eye on these indicators. For now they remain highly divergent. And the New High % is less than half of what it was at the May top. So the rally is occurring with fewer and fewer stocks participating. And from this point it will take a quite bit of work to get the New High % back to the May level.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

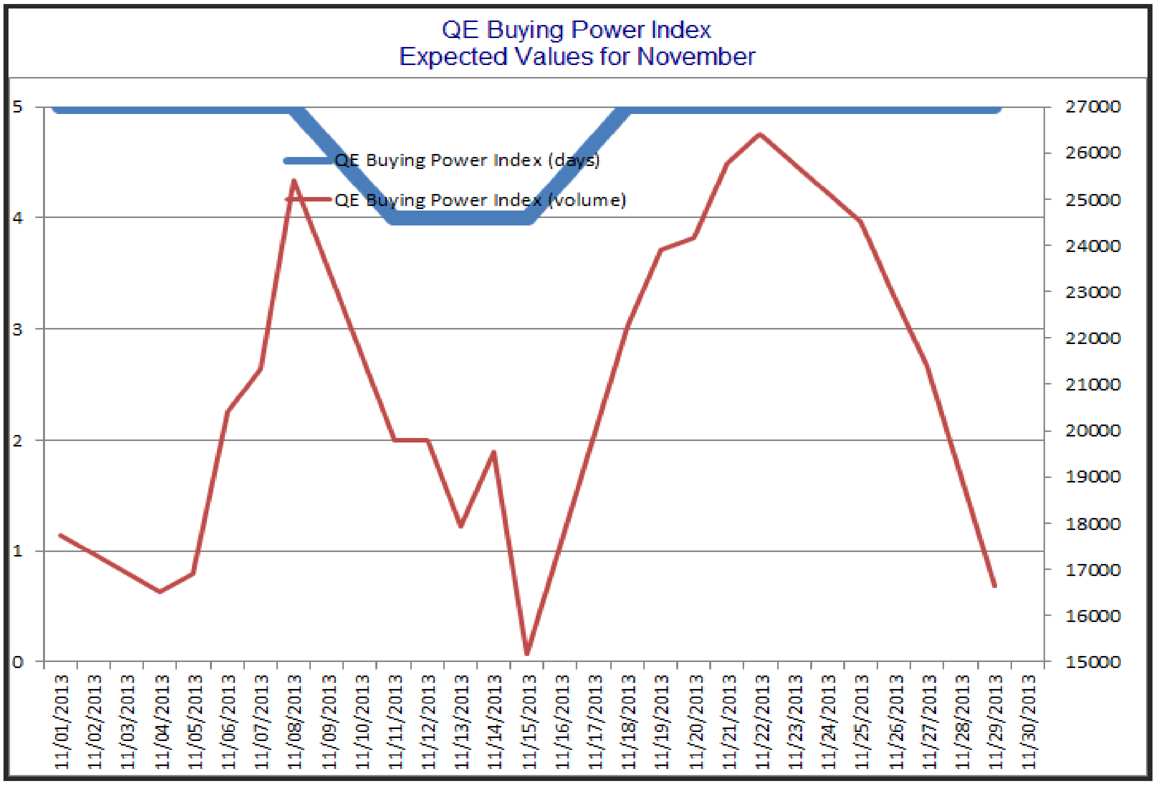
POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.

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



The POMO/AMBS volume indicator is now around the middle of its 2013 range. The days indicator is at 19, down just barely from 20 because the bond market was closed on Veterans Day. High readings like this were a rarity during past QE implementations, but have been the norm so far this year. We estimate net inflows this past week to have been about $15.5 billion, which is a pretty weak number for 2013. This could give bears an opportunity to push the market down over the next few days.

But I don't expect that opportunity to last long. This upcoming week will be one of the biggest of the year, with over $26 billion expected in Fed liquidity flows. It will soon results in the highest QE Buying Power Index reading of the month, as can be seen in the chart below.



Market action sometimes trails the QE Buying Power Index by a few days. So early in the week it is possible that we could see some selling. But very strong selling is unlikely to occur towards the end of the week or even early next week.

The overall intermediate-term outlook remains somewhat bullish. Liquidity flows are strong, and certainly have been a positive for a while now. Trend and momentum measures are also favoring more upside. But the breadth divergences noted by the QE Study of Tops remain in place. So I am keeping my outlook at somewhat bullish. I will continue to favor the long side with my swing trades and will be extra cautious about shorting.

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

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 tonight.

Current Open Trade Ideas

None.

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