

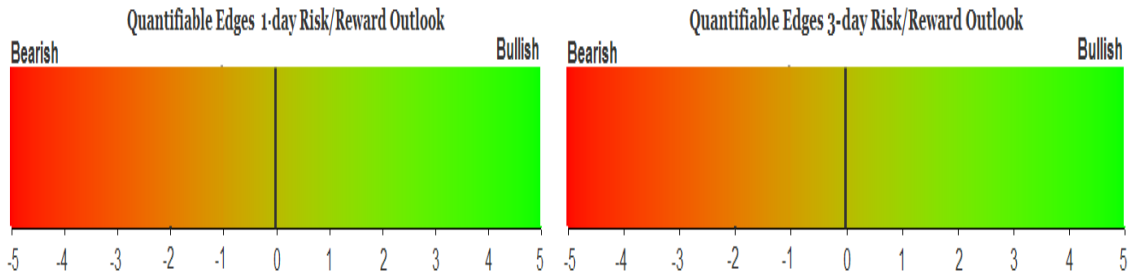
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 20, 2013

Volume 6 Issue 225

Market Overview



Signals Overview

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

Tonight's Research Points

- Nothing bullish showing up yet.

Short-term Outlook

The Bottom Line

The 2-day pullback could have further to go. But the market is no longer overbought versus recent expectations. I am not seeing a strong edge yet. If it continues to slide I anticipate I will likely start looking long.

Summary of Recent Active Studies (see Letters from listed dates for details)

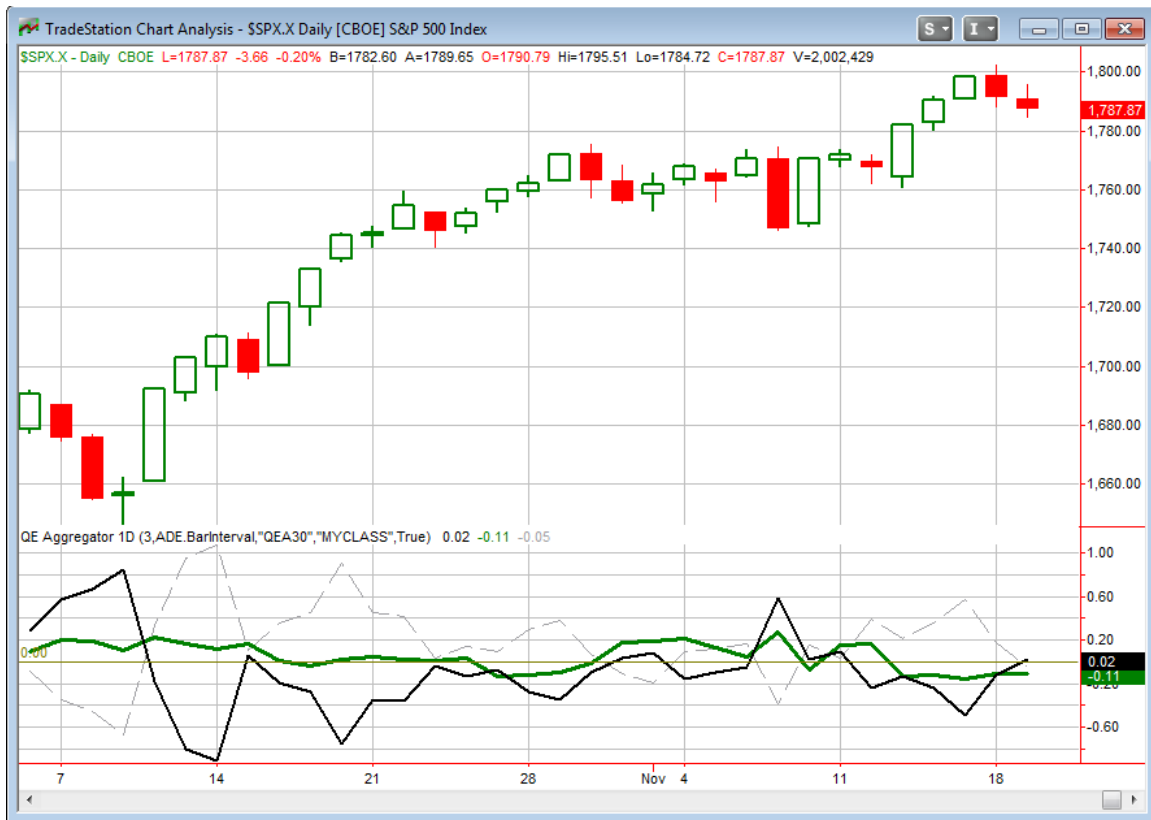
Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
November 15, 2013	Top 10% 10-day range opex Thurs.	1-5 days	Bearish	-1.70%
Active - Long Term				
November 19, 2013	Key Reversal	1-12 days	Bullish	2.55%
October 25, 2013	SPX > 50,2 Bollinger Band	1-50 days	Bullish	
October 21, 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

The market pulled back a bit more on Tuesday. The SPX lost 0.2%, the Nasdaq fell 0.4%, and the Russell 2000 dropped 0.5%. Breadth was negative as the NYSE Up Issues % was 33% and the Up Volume % was 32%. Total NYSE volume declined and was again light.

Despite the 2-day pullback we are not seeing bullish studies emerge. The pullback is not unexpected. The market was overbought, the post-opex study from last week suggested it was a prime time to see a dip, and the market is just getting over the weakest liquidity inflows of the month. So the Aggregator has been pointing this way. Of course I was ignoring the short signal as I have consistently done in 2013 thanks in large part to the incredibly bullish liquidity backdrop. But even 2 days of selling has done very little damage. If we see a third down day on Wednesday I would be very surprised if bullish studies don't emerge. But we are not there yet, so continued bearish expectations could keep the selloff going.

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



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 edged up just above 0. The positive Differential Line reading means the SPX is now slightly oversold versus recent expectations. So expectations are negative but the SPX is short-term oversold. 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 turn flat.

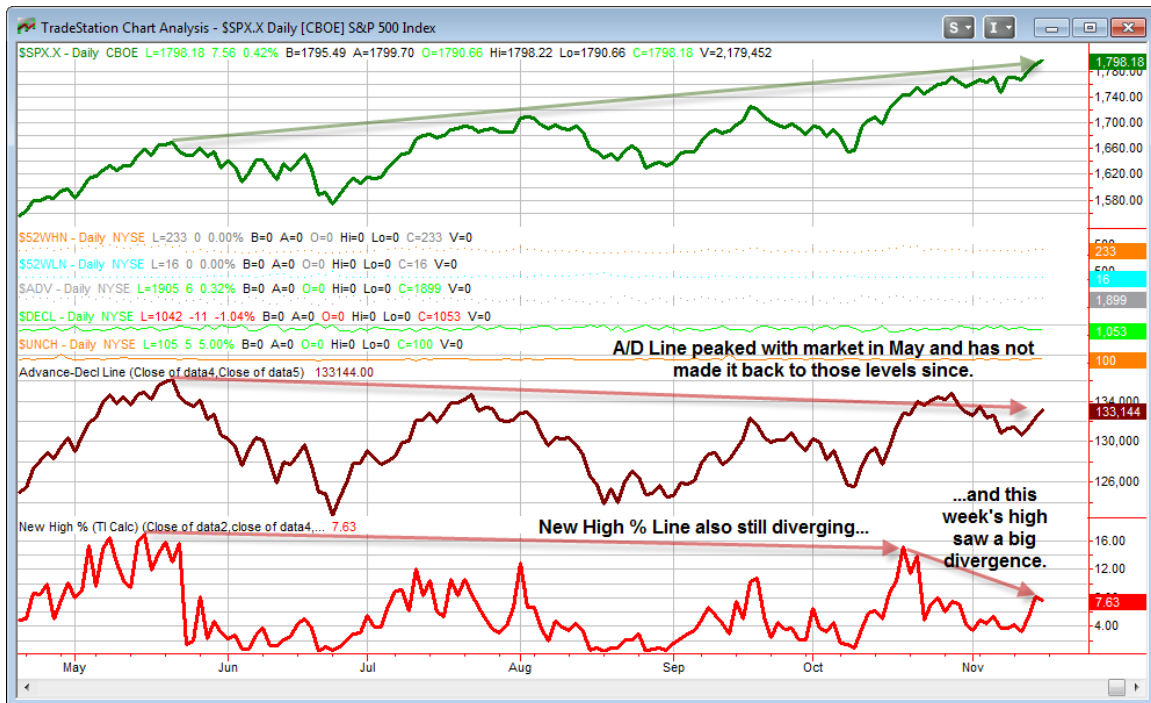
With the current active studies, expectations are slated to remain bearish on Wednesday. Of course this could change if additional bullish evidence emerges, and it probably will if SPX closes lower. The Differential Pivot will be 1790.79 on Wednesday. That is 0.2% above Tuesday's close. So it would only take a moderately higher close in order to move the SPX from oversold to overbought versus expectations.

The bears seem to have a chance to push things a little further here. Of course the market is already oversold versus the recent expectations, but other oscillators and indicators are showing it as still overbought. (For instance, it remains well above its 10-day moving average). I believe another down day will likely generate some bullish studies and probably a long-side edge worth pursuing, but with nothing to go on yet, I will not be adding any trade ideas tonight. I'll wait one more day to be sure.

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.

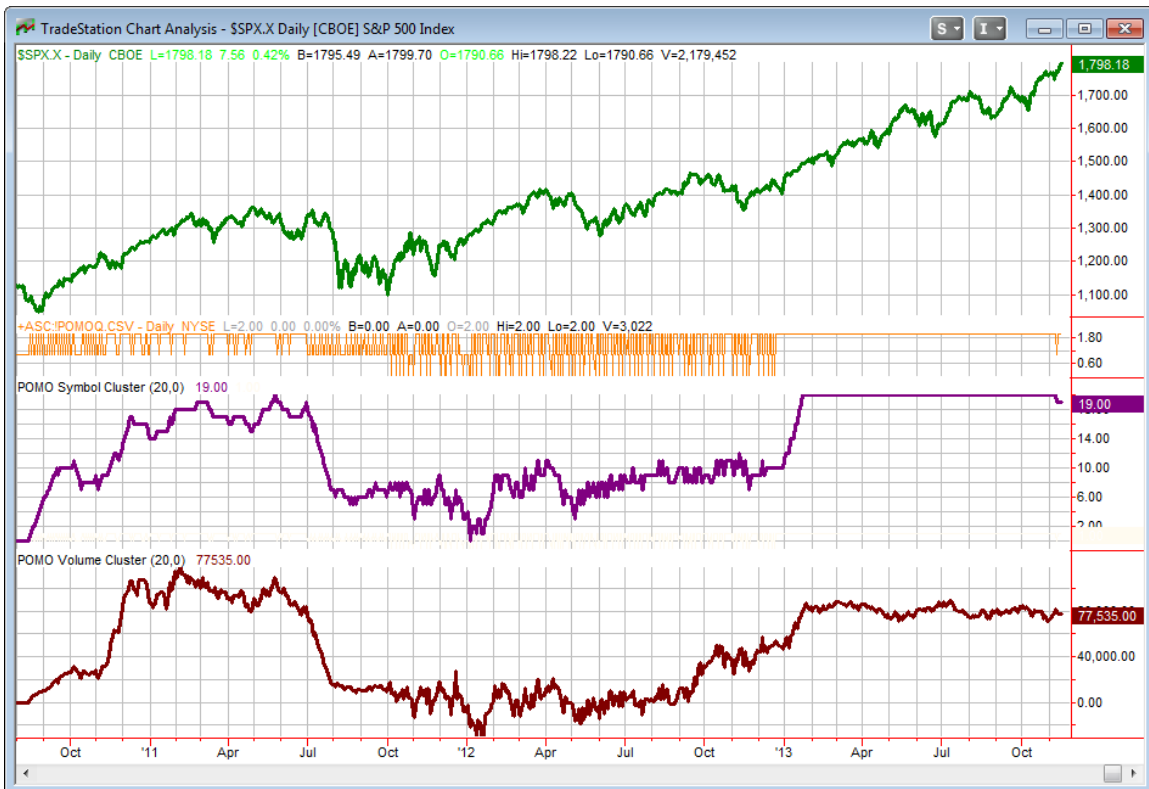
This opens up the possibility of a major top being put in. Note I said possibility, not probability. It needs to be understood that while the narrowing of New Highs and/or the turn down in the Advance/Decline Line has been a prerequisite for a top to take place, these breadth conditions have not been 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.

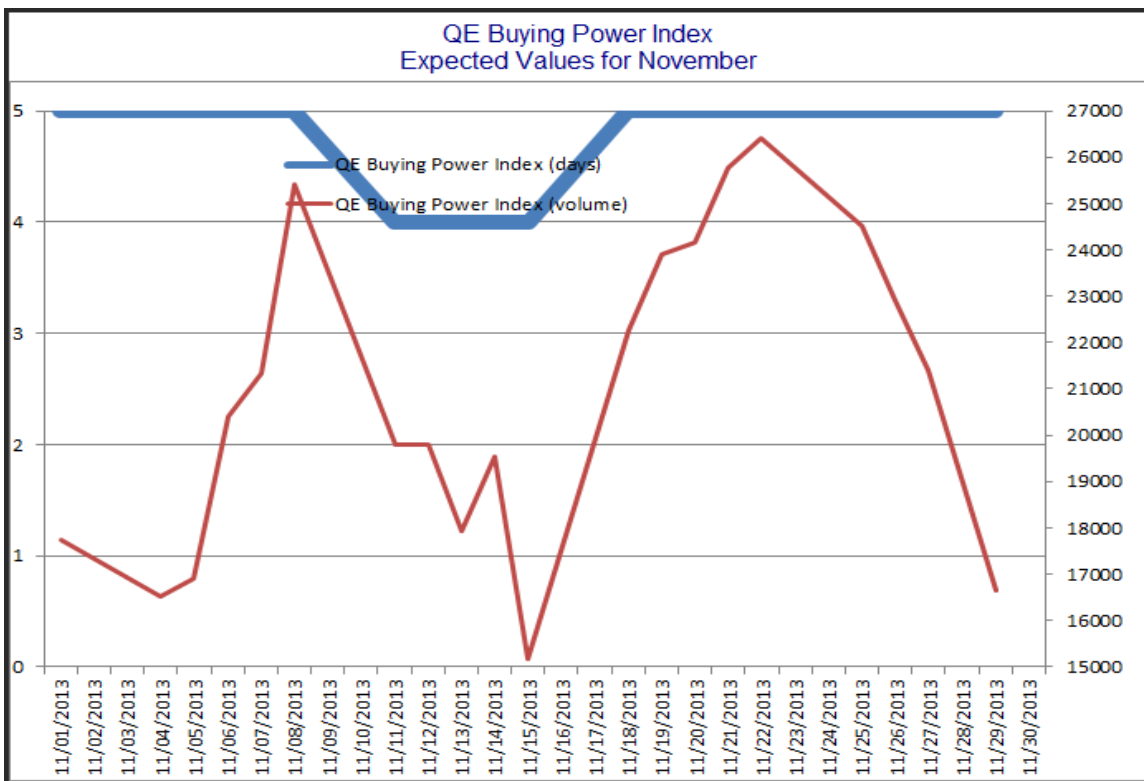
I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

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.



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 result 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.

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.

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