

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 27, 2013

Volume 6 Issue 230

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Strong seasonality is now in effect.
- 5 higher highs is not indicative of a rally in need of a pullback when it is at an intermediate-term high.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator remains neutral, but the market is going to turn oversold on Wednesday unless it gains 0.6%. I'm a buyer on a gap down. Otherwise, I wait.

**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 26, 2013	Thanksgiving Wed Bullish	1 day	Bullish	
<b>Active - Long Term</b>				
November 21, 2013	3-day pullback. Low 3/10 Offset HV	1-10 days	Bullish	
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**

Tuesday saw the market put in mostly small gains. The SPX rose less than ½ point, the Nasdaq was up about 0.5%, and the Russell 2000 gained 0.9%. Breadth was mixed as the NYSE Up Issues % was 53% and the Up Volume % was 48%. Total NYSE volume came in fairly high compared to the last few days.

First thing to say is that Wednesday is seasonally bullish. But I have shown that in detail in the last 2 letters, so I don't see the need for a repeat here. You may look at last night's letter if you want to see it all again.

An interesting study from the Quantifinder looked at the possible impact of 5 higher highs occurring. I last looked at this in the 3/11/13 letter. The studies examined the impact of the position of the market when the 5 higher highs occurred. I broke it down again tonight. I wanted to see all times the 5 higher highs were accompanied by a 50-day high versus times they weren't. First let's look at times where 5 higher highs occur without a 50-day high.

SPY makes a higher high for the 5th day in a row but not a 50-day intraday high. 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
5	-17,916.11	58	30	28	51.72	1,443.33	8,382.48	-2,186.29	-6,714.00	0.66	0.71	-308.90
4	-36,327.57	58	24	34	41.38	1,149.52	3,317.60	-1,879.88	-7,879.83	0.61	0.43	-626.34
3	-10,938.77	58	31	27	53.45	1,096.27	4,059.44	-1,663.82	-4,560.85	0.66	0.76	-188.60
2	2,229.42	58	31	27	53.45	984.80	5,364.26	-1,048.13	-2,399.36	0.94	1.08	38.44
1	-2,108.69	58	26	32	44.83	630.07	3,057.76	-577.83	-2,245.23	1.09	0.89	-36.36

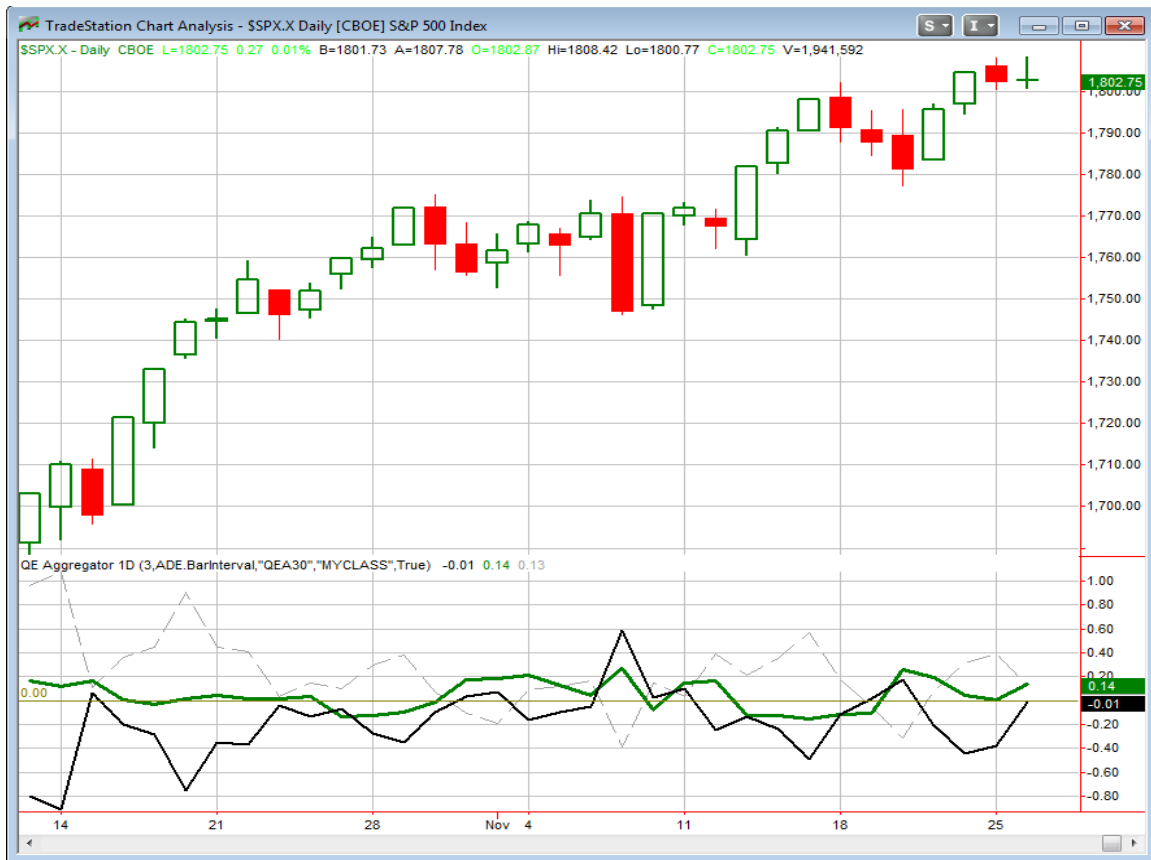
Stats over the 1<sup>st</sup> few days suggest a possible mild downside edge. After 5 higher highs the market will sometimes need a breather.

But what of times (like now) when a strong uptrend exists and the market is also making a 50-day high? Those stats can be found below.

SPY makes a higher high for the 5th day in a row and a 50-day intraday high. 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
5	2,765.84	57	28	29	49.12	1,189.71	3,452.80	-1,053.31	-3,514.00	1.13	1.09	48.52
4	-63.85	57	30	27	52.63	934.56	2,413.62	-1,040.76	-3,646.08	0.90	1.00	-1.12
3	-4,627.54	57	31	25	54.39	740.76	2,362.10	-1,103.65	-3,561.68	0.67	0.83	-81.18
2	-2,087.41	57	31	25	54.39	580.46	2,545.92	-803.27	-2,585.46	0.72	0.90	-36.62
1	-1,945.11	57	29	28	50.88	358.89	1,495.81	-441.17	-1,745.63	0.81	0.84	-34.12

Interestingly, the number of instances has been almost exactly the same. But with an intermediate-term rally also occurring the tendency to pull back no longer exists. So the 5 higher highs are really of no concern in situations like the current one.

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



With seasonality to consider the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remains just barely below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is slightly overbought. 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 remain flat.

With the current active studies, expectations are slated to remain bullish on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be *inverted at 1813.78* on Wednesday. That is 0.6% *above* Tuesday's close. An inverted pivot means the Differential Line will cross through 0 on a flat SPX close. In this case SPX is going to need to close at least 0.6% higher in order to remain overbought on Wednesday. Otherwise it will be considered "oversold" versus expectations.

So the market is not oversold, but it is going to take a bit of a rally on Wednesday to keep it from getting there. This gives me a little bit of room to the upside if I take a position. So with expectations positive and the market threatening "oversold" I am interested in taking on some exposure Wednesday morning if the market gaps down. If it doesn't,

then I will cancel my order and re-evaluate after the close. Details are in the Trade Ideas section down below.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/25 – somewhat bullish***

The intermediate-term outlook was last updated in the 11/25 letter. Link below.

[2013-11-25 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.*

**SPY – buy ¼ index position @ \$180.50 LIMIT ON OPEN. If not filled on open, order should be cancelled.** I'm a buyer if we gap down. Otherwise, I will continue to wait for a better entry.

### **Current Open Trade Ideas**

*None.*

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