

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 29, 2013

Volume 6 Issue 231

Market Overview



Signals Overview

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

Tonight's Research Points

- Strong seasonality is now in effect.
- SPX and VIX up 2 days in a row with SPX at a 50-day high suggests a pullback.

Short-term Outlook

The Bottom Line

The Aggregator is now somewhat bullish. Friday looks to have an upside edge, and if it does not play out, then Monday will likely have even more of an upside edge.

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

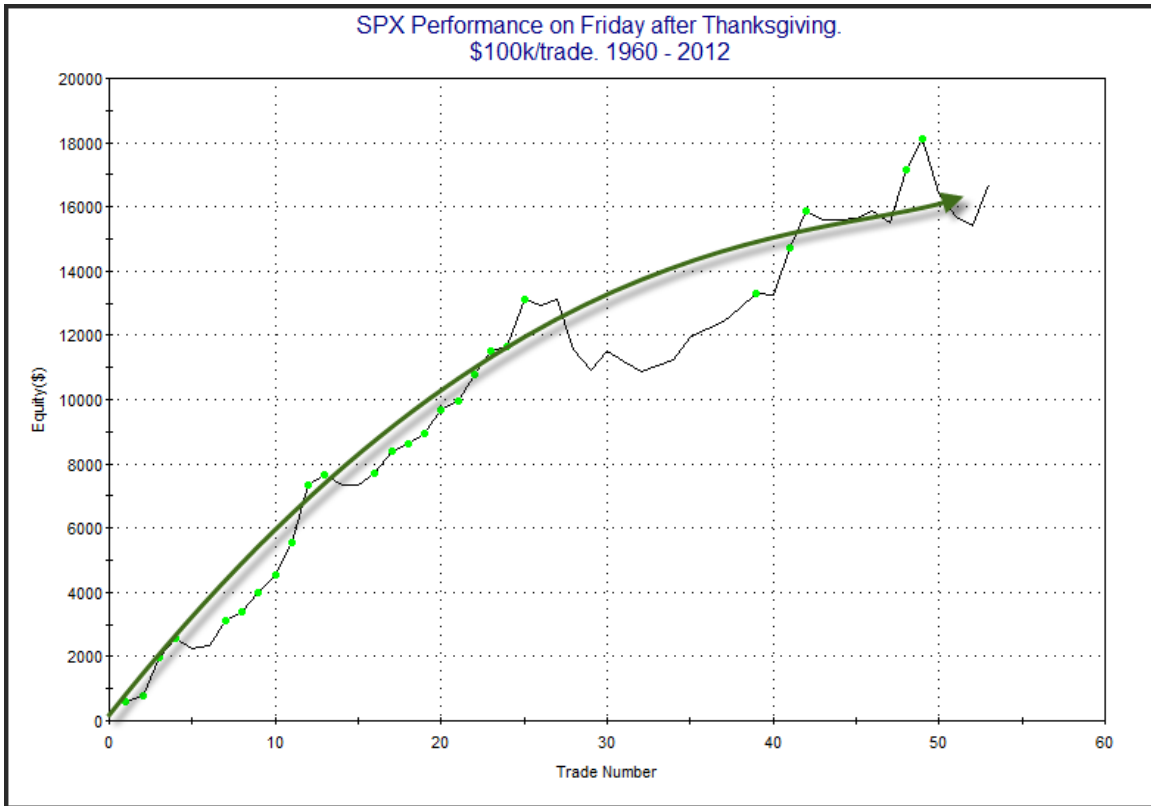
Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
November 29, 2013	VIX up SPX 50-high 2 days in row	1 day	Bearish	
November 29, 2013	Thanksgiving Fri Bullish	1 day	Bullish	
Active - Long Term				
November 21, 2013	3-day pullback. Low 3/10 Offset HV	1-10 days	Bullish	
October 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

Wednesday was typical for the day before Thanksgiving – a quietly rising market. The SPX rose 0.3%, the Nasdaq was up about 0.7%, and the Russell 2000 gained 0.6%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % was also 62%. Total NYSE volume was very light with many traders taking the day off.

There were a number of studies that included low volume and/or a small range as part of the criteria. I am ignoring these for tonight. The low volume and range was not due to complacency, but rather to the holiday, so it would be dangerous to try and read anything into it.

As I discussed a few days ago, Friday is seasonally bullish. The chart below is copied from Sunday's letter. It shows how the Friday after Thanksgiving has performed over time.



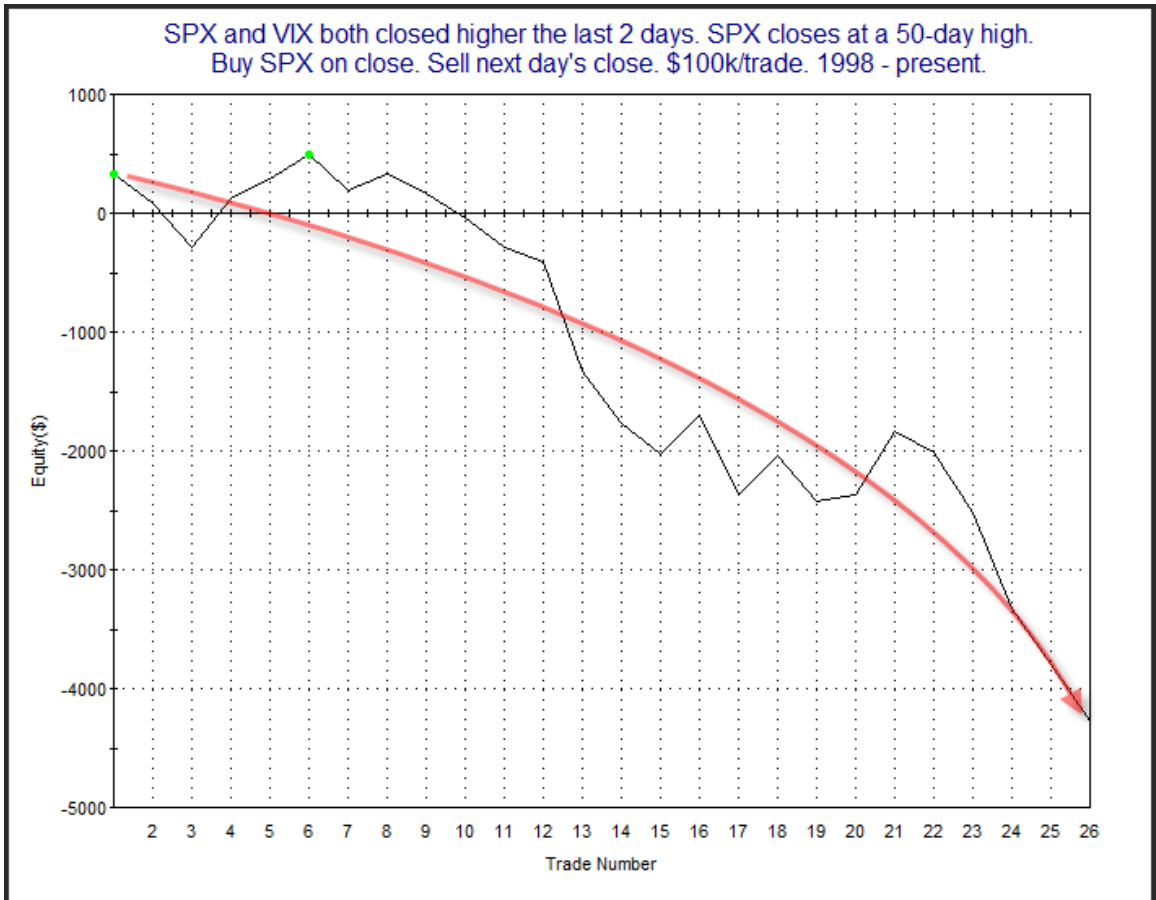
So Friday looks good based on seasonality. Monday's seasonality is a bit more involved. The Monday after Thanksgiving is typically bearish, but the 1st day of the month has positive seasonality. I'll discuss this more near the bottom of the letter.

A few VIX related studies triggered once again. The VIX most often will trade opposite SPX. But today it rose along with it. That's not too unusual for one day, but the same thing also happened yesterday. This triggered the study below which was last seen a month ago in the 10/30/13 subscriber letter, and has been updated.

SPX and VIX both closed higher the last 2 days. SPX closes at a 50-day high.
Buy SPX on close. Sell next day's close. \$100k/trade. 1998 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$4,277.10)	Profit Factor	0.37
Gross Profit	\$2,524.36	Gross Loss	(\$6,801.46)
Total Number of Trades	26	Percent Profitable	34.62%
Winning Trades	9	Losing Trades	17
Even Trades	0		
Avg. Trade Net Profit	(\$164.50)	Ratio Avg. Win:Avg. Loss	0.70
Avg. Winning Trade	\$280.48	Avg. Losing Trade	(\$400.09)
Largest Winning Trade	\$537.24	Largest Losing Trade	(\$924.70)

The stats appear somewhat bearish. While, 2-3 days have seen larger drops, their equity curves were not terribly appealing. Below is the 1-day profit curve.



The downside edge seems to be increasing in recent instances. This study appears worthy of the Short-Term Active List.

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



The current mix of studies has the green Aggregator Line mildly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose back above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX has underperformed over the last few days. 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 turn long.

With the current active studies, expectations are unclear on Friday, and could go either way. I think a lot of it will be dependent on where SPY closes within its daily range, but more of that in the study a little lower down. The Differential Pivot will be *inverted at* 1806.90 on Wednesday. That is 0.33 points *below* Wednesday's close. An inverted pivot means the Differential Line will cross through 0 on a flat SPX close. In this case SPX is

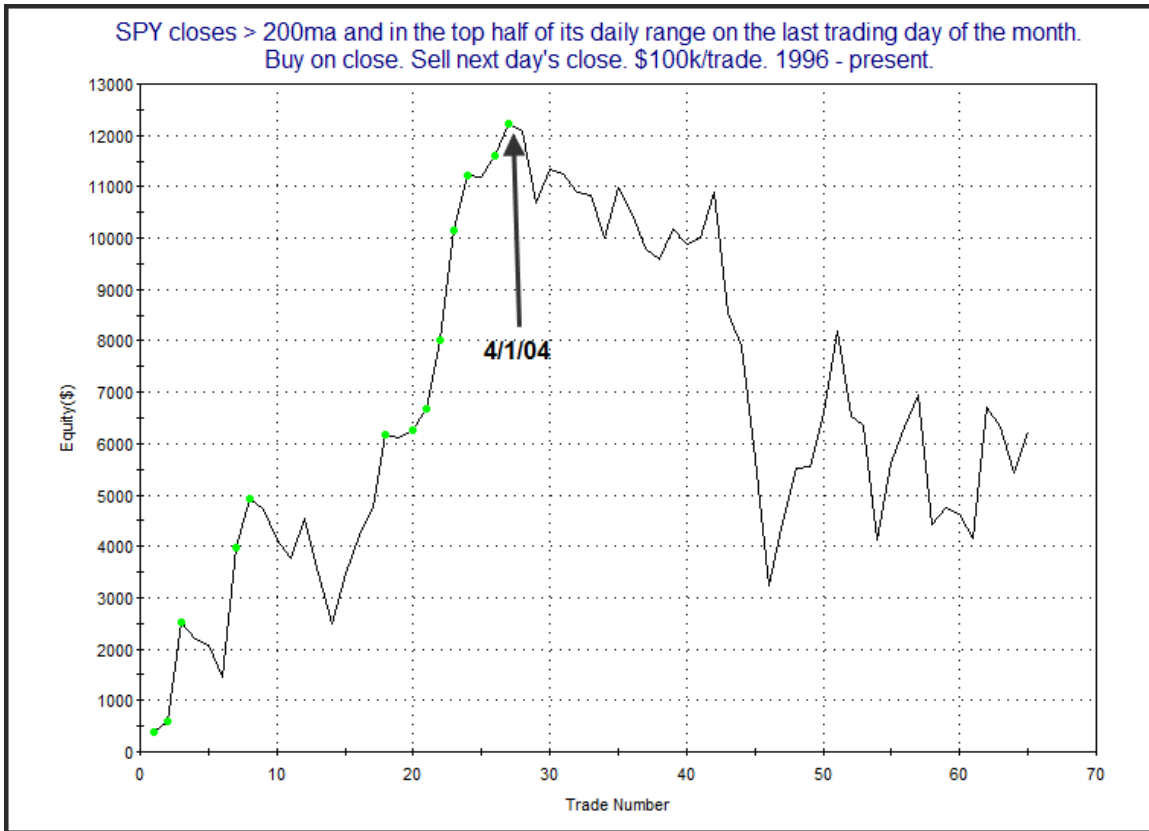
going to need to close down at least this much in order to remain oversold. Otherwise it will be considered “overbought” versus expectations.

The 1st day of the month has been notorious for being a strong seasonal day. This is no big secret and has been documented by many people. Of course over the years there are a number of traders that have tried ways to take advantage of this strong seasonality. So much so that it will often drive the price up on the afternoon of the last day of the month. When this occurs it takes a lot of the “1st day” edge away. But times where the market fails to rally ahead of the end of the month, the 1st day edge has been especially strong. In the 11/1/13 Letter I examined all 1st days of the month when SPY was above its 200ma and broke them down by whether the previous day closed in the top or bottom half of the daily range. I’ll review that and add a little more to it today. First let’s look at times the market closed in the top half of its range on the last day of the month.

SPY closes > 200ma and in the top half of its daily range on the last trading day of the month.
Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Collapse ↕			
All Trades			
Total Net Profit	\$6,232.50	Profit Factor	1.25
Gross Profit	\$31,169.63	Gross Loss	(\$24,937.13)
Total Number of Trades	65	Percent Profitable	50.77%
Winning Trades	33	Losing Trades	32
Even Trades	0		
Avg. Trade Net Profit	\$95.88	Ratio Avg. Win:Avg. Loss	1.21
Avg. Winning Trade	\$944.53	Avg. Losing Trade	(\$779.29)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

The numbers here don’t suggest a substantial edge. Below is the profit curve.



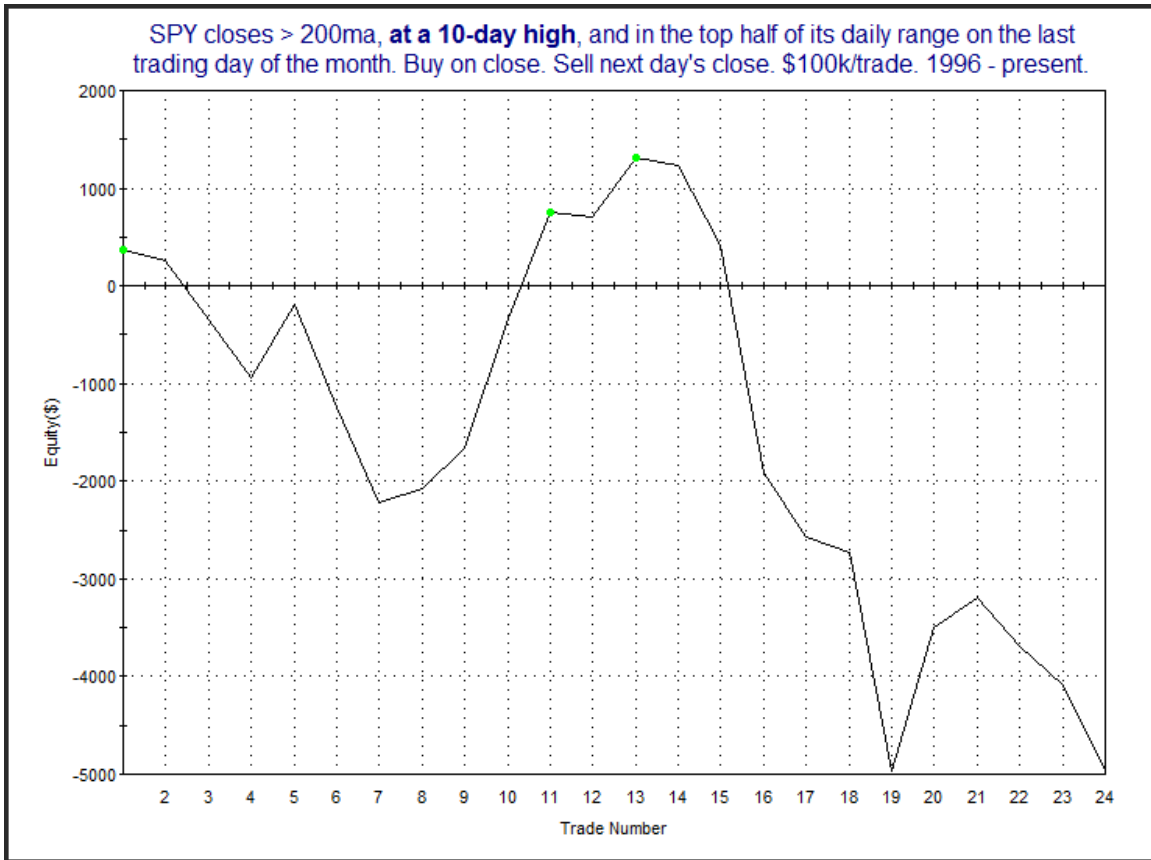
This paints an even bleaker picture. A close in the top half of the daily range cannot be trusted to follow through the next day.

Of course a close in the top half of the range would also likely mean a positive close on the day. This would place SPY at another new high. Here's how the setup above would've performed if it also left SPY at a 10-day high.

SPY closes > 200ma, **at a 10-day high**, and in the top half of its daily range on the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	(\$4,959.18)	Profit Factor	0.57
Gross Profit	\$6,482.05	Gross Loss	(\$11,441.23)
Total Number of Trades	24	Percent Profitable	37.50%
Winning Trades	9	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	(\$206.63)	Ratio Avg. Win:Avg. Loss	0.94
Avg. Winning Trade	\$720.23	Avg. Losing Trade	(\$762.75)
Largest Winning Trade	\$1,476.15	Largest Losing Trade	(\$2,338.52)

These numbers actually seem to favor the bears. Let's also look at the profit curve.



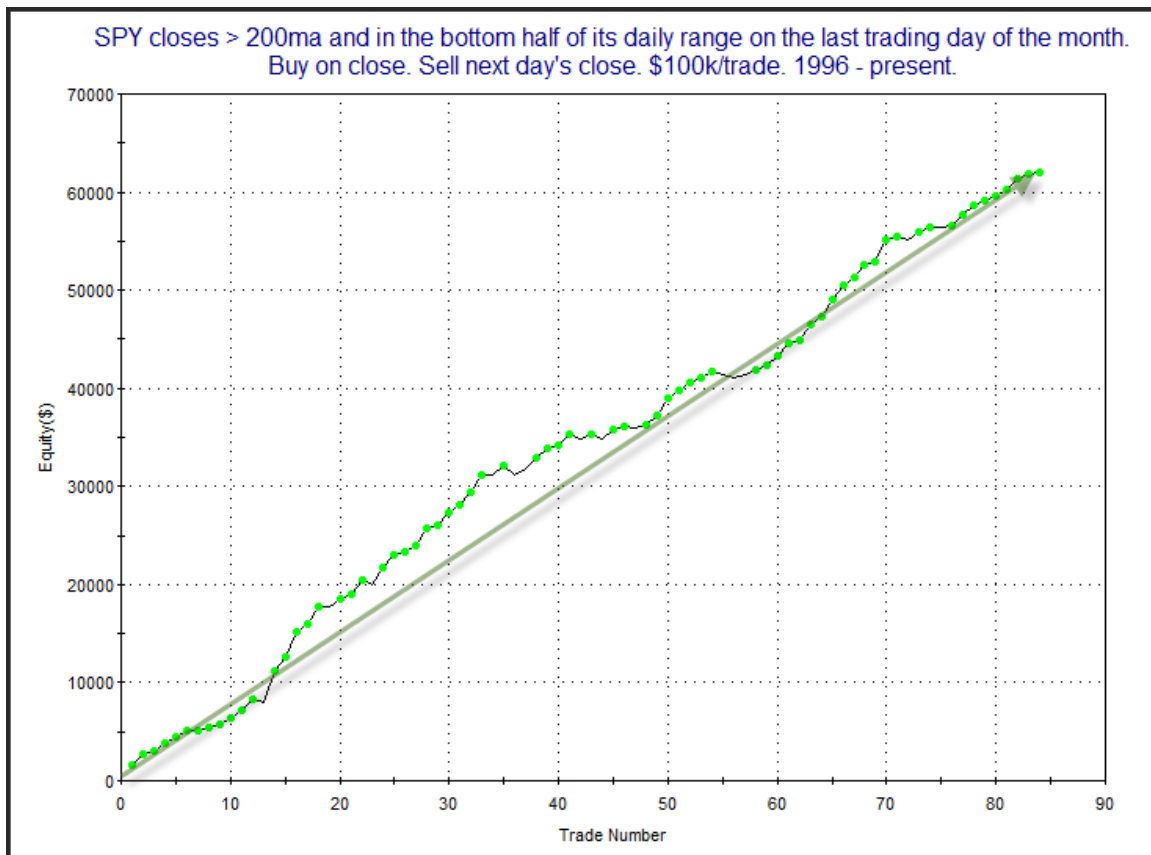
The curve is not smooth, and I'm not convinced that it makes for a compelling bearish edge, but it certainly is ugly enough to cause me to dismiss any bullish "1st day of month" inclination.

Now let's look at the stats when SPY closed in the bottom half of its daily range.

SPY closes > 200ma and in the bottom half of daily range on the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$62,034.36	Profit Factor	17.13
Gross Profit	\$65,880.30	Gross Loss	(\$3,845.94)
Total Number of Trades	84	Percent Profitable	85.71%
Winning Trades	72	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$738.50	Ratio Avg. Win:Avg. Loss	2.85
Avg. Winning Trade	\$915.00	Avg. Losing Trade	(\$320.50)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$885.28)

The stats here are phenomenal. Gains absolutely blow away losses in every category. Gross gains are over 17x the size of gross losses. And the *average* win is actually bigger than the *largest* loss. That's an incredible stat when you are looking at a sample size of 84 instances. And the profit curve...



You will be hard pressed to find a long-term profit curve much straighter and more impressive than this one.

Of course there is a chance that it could close in the bottom half of its range, but still up on the day. This would again leave it at a 10-day high. But in this case, the 10-day high does not seem to matter. See below.

SPY closes > 200ma, **at a 10-day high**, and in the bottom half of daily range on the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Collapse 			
All Trades			
Total Net Profit	\$5,985.01	Profit Factor	16.42
Gross Profit	\$6,373.14	Gross Loss	(\$388.13)
Total Number of Trades	6	Percent Profitable	83.33%
Winning Trades	5	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$997.50	Ratio Avg. Win:Avg. Loss	3.28
Avg. Winning Trade	\$1,274.63	Avg. Losing Trade	(\$388.13)
Largest Winning Trade	\$1,850.94	Largest Losing Trade	(\$388.13)

Too few instances to draw any real conclusions here, but the numbers are almost perfectly in line with those without the 10-day high filter. So if it happened, I would not find it discouraging.

With all this in mind I'll be looking for a weak close on Friday to possibly take a short-term position. The bullish seasonal edge would appear to be strong enough that it could overcome most bearish indications. And bearish indications would be unlikely to kick in with a lower close. Traders tomorrow should be wary about volume-related studies. Several will likely pop up since volume will almost certainly be very light. It doesn't suggest complacency. It just suggests people are taking the day off. Therefore I'll be ignoring both volume and range-based studies.

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 @ \$181.00 LIMIT ON CLOSE IF SPY CLOSSES IN BOTTOM HALF OF DAILY RANGE. Based on the short-term section above, I'll look for a drop on Friday to rebound on Monday.

Current Open Trade Ideas

None.

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