

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 3, 2013

Volume 6 Issue 233

Market Overview



Signals Overview

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

Tonight's Research Points

- Under similar circumstances “Turnaround Tuesday” has acted more like “Continuation Tuesday”.

Short-term Outlook

The Bottom Line

Tuesday does not look great, but overall evidence for the next few days remains positive. I already have some long exposure. I may add a little more, but since Tuesday looks dicey, most buying will be delayed until Wednesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
December 3, 2013	Continuation Tuesday	1 day	Bearish	
December 2, 2013	SPX dn. Up Issus > 55%	1-3 days	Bullish	1.10%
Active - Long Term				
December 2, 2013	Nasdaq leading SPX	int term	Bullish	
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	
Dropped Tonight				
December 2, 2013	Monday after Thanksgiving bearish	1 day	Bearish	
December 2, 2013	Nasdaq Up Iss % > 60% 3 days in row	1 day	Bearish	
December 2, 2013	1st of Month - poor close & Fri	1 day	Bullish	

The Evidence

Monday was near breakeven for most of day but some late selling took the indices negative. The SPX declined 0.3%, the Nasdaq dropped 0.4%, and the Russell 2000 fell 1.2%. Breadth was strongly negative as the NYSE Up Issues % was 28% and the Up Volume % was 29%. Total NYSE volume rose from the holiday levels of the last couple of days, but was still fairly light.

As I laid out in the [“Turnaround Tuesday” study from the 9/25/12 blog](#), Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. But as I showed in the 8/13/13 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row. Here are those results.

SPX closes down for exactly the 2nd day in a row. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$20,470.12	Profit Factor	1.76
Gross Profit	\$47,318.24	Gross Loss	(\$26,848.12)
Total Number of Trades	69	Percent Profitable	52.17%
Winning Trades	36	Losing Trades	33
Even Trades	0		
Avg. Trade Net Profit	\$296.67	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,314.40	Avg. Losing Trade	(\$813.58)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)

The win rate is 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (*unlike* now).

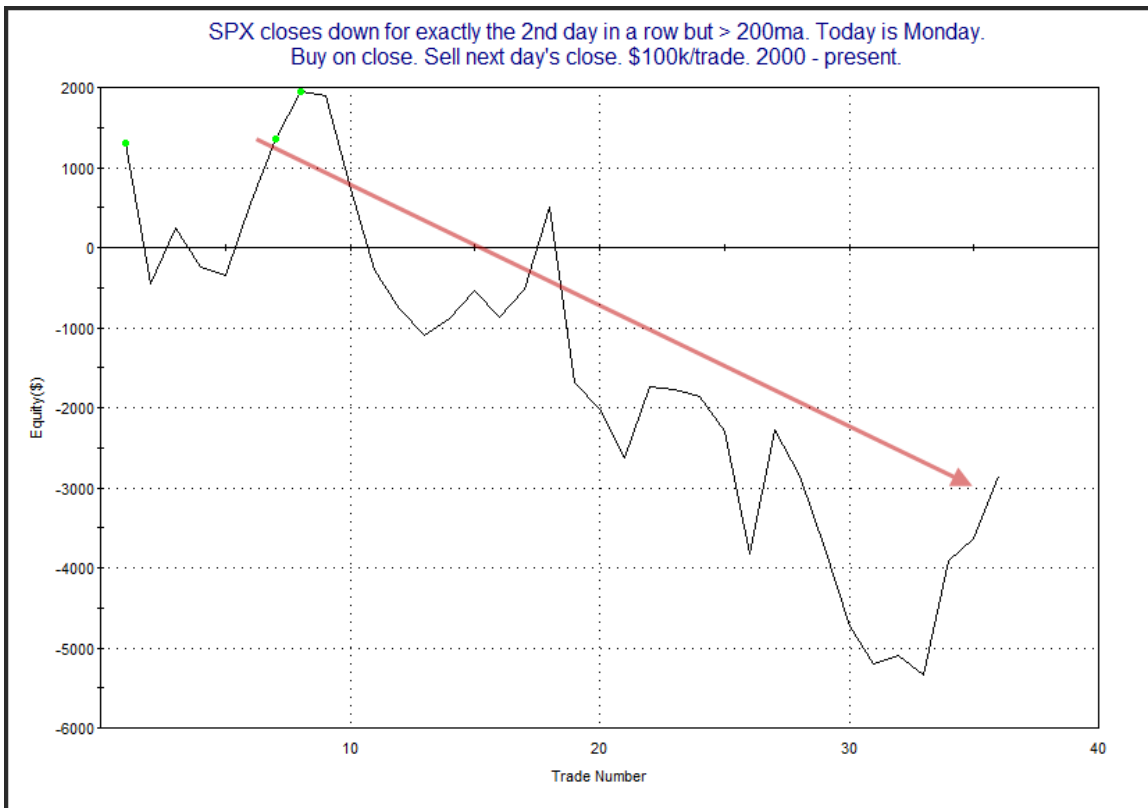
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$23,315.03	Profit Factor	2.83
Gross Profit	\$36,050.39	Gross Loss	(\$12,735.36)
Total Number of Trades	33	Percent Profitable	63.64%
Winning Trades	21	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$706.52	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,716.69	Avg. Losing Trade	(\$1,061.28)

We see here just under half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	(\$2,844.91)	Profit Factor	0.80
Gross Profit	\$11,267.85	Gross Loss	(\$14,112.76)
Total Number of Trades	36	Percent Profitable	41.67%
Winning Trades	15	Losing Trades	21
Even Trades	0		
Avg. Trade Net Profit	(\$79.03)	Ratio Avg. Win:Avg. Loss	1.12
Avg. Winning Trade	\$751.19	Avg. Losing Trade	(\$672.04)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn’t fit here. In fact, the tendency appears to be a continuation of the 2-day pullback. “Continuation Tuesday” appears to be more appropriate. Below is the profit curve.



Definitely choppy, and the last few instances did not conform. But while the edge here is not clear-cut, there appears to be a small bearish tendency. I have included this on the short-term Active List.

In the 8/13/13 Letter I also broke down this study by night & day performance. The results there were interesting. To do this I needed to use SPY instead of SPX, so the instances are slightly different. Below are the (updated) night and day returns of Monday's close to Tuesdays close after 2 down days above the 200ma.

SPY closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's open. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$5,944.96	Profit Factor	2.62
Gross Profit	\$9,621.99	Gross Loss	(\$3,677.03)
Total Number of Trades	46	Percent Profitable	71.74%
Winning Trades	33	Losing Trades	12
Even Trades	1		
Avg. Trade Net Profit	\$129.24	Ratio Avg. Win:Avg. Loss	0.95
Avg. Winning Trade	\$291.58	Avg. Losing Trade	(\$306.42)
Largest Winning Trade	\$1,116.18	Largest Losing Trade	(\$1,023.40)

SPY closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.
Buy tomorrow's open. Sell on close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$8,276.28)	Profit Factor	0.61
Gross Profit	\$13,008.96	Gross Loss	(\$21,285.24)
Total Number of Trades	46	Percent Profitable	43.48%
Winning Trades	20	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	(\$179.92)	Ratio Avg. Win:Avg. Loss	0.79
Avg. Winning Trade	\$650.45	Avg. Losing Trade	(\$818.66)
Largest Winning Trade	\$2,457.00	Largest Losing Trade	(\$1,910.65)

As you can see, the negative tendency is all due to Tuesday's day session. The overnight actually appears bullish. Day traders may want to keep this in mind, especially if the market gaps up on Tuesday.

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



The current mix of studies has the green Aggregator Line a just barely above 0. It is so close, it is registering as “0” on the chart. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are barely 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 remain long.

With the current active studies, expectations are set to remain bullish on Tuesday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be 1810.67 on Tuesday. That is just 0.5% above Monday’s close. So it will take a close higher of at least this much to move SPX from oversold to overbought versus expectations.

The Aggregator is bullish, but it is a really close call. And with the outlook for Tuesday's trading day negative, I'm inclined to wait another day before adding further to my long index position. I did note a nice setup for Numbered System 80402 in TWX. Details are in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/2 – bullish

The intermediate-term outlook was last updated in the 12/2 subscriber letter.

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.

TWX – buy @ \$65.60 LIMIT ON OPEN. If not filled on open, cancel order and then look to enter later @ \$65.60 LIMIT ON CLOSE. Tuesday's intraday looks dicey, so I either want a good entry at the open, or I will wait for the close to take this trade. The trade idea is based on Numbered System 80402. 80402 has done well over the years, and TWX has been a standout among stocks. Below are the historical results for TWX:

Numbered System 80402 results for TWX.
\$100k/trade. \$0.01/share commission. 2000 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$42,280.24	Profit Factor		21.83
Gross Profit	\$44,309.76	Gross Loss		(\$2,029.52)
Total Number of Trades	15	Percent Profitable		93.33%
Winning Trades	14	Losing Trades		1
Even Trades	0			
Avg. Trade Net Profit	\$2,818.68	Ratio Avg. Win:Avg. Loss		1.56
Avg. Winning Trade	\$3,164.98	Avg. Losing Trade		(\$2,029.52)
Largest Winning Trade	\$9,476.90	Largest Losing Trade		(\$2,029.52)

The stats are impressive, with 14 of 15 winners and gross gains over 21x the size of gross losses. Below is the list of instances.

Numbered System 80402 results for TWX.
\$100k/trade. \$0.01/share commission. 2000 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/03/00	Buy	\$205.86	9.50%	\$10,160.75
01/03/00	Sell	\$225.42		(\$1,527.75)
08/07/03	Buy	\$35.17	5.89%	\$6,143.24
08/11/03	Sell	\$37.24		(\$225.44)
03/11/04	Buy	\$39.95	2.53%	\$3,673.36
03/17/04	Sell	\$40.96		(\$2,556.46)
01/25/05	Buy	\$45.32	(1.99%)	\$0.00
02/15/05	Sell	\$44.42		(\$4,389.94)
02/09/07	Buy	\$53.70	1.19%	\$1,452.36
02/15/07	Sell	\$54.34		(\$1,768.90)
03/14/07	Buy	\$48.11	4.82%	\$4,820.96
03/20/07	Sell	\$50.43		(\$685.74)
06/14/07	Buy	\$51.55	1.18%	\$1,396.08
06/14/07	Sell	\$52.16		(\$329.63)
01/07/10	Buy	\$28.92	0.86%	\$1,136.85
01/11/10	Sell	\$29.17		(\$1,929.20)
05/21/10	Buy	\$29.29	5.63%	\$5,681.78
05/27/10	Sell	\$30.94		(\$2,790.46)
01/31/11	Buy	\$31.72	1.86%	\$2,174.88
02/01/11	Sell	\$32.31		(\$882.56)
06/16/11	Buy	\$34.60	1.53%	\$2,425.92
06/17/11	Sell	\$35.13		(\$635.36)
03/15/12	Buy	\$35.96	3.11%	\$3,307.01
03/23/12	Sell	\$37.08		(\$1,750.77)
05/18/12	Buy	\$34.62	1.88%	\$2,079.36
05/29/12	Sell	\$35.27		(\$1,906.08)
11/06/12	Buy	\$43.04	4.34%	\$5,110.60
11/07/12	Sell	\$44.91		(\$998.89)
06/03/13	Buy	\$58.28	0.84%	\$1,404.66
06/07/13	Sell	\$58.77		(\$3,391.74)

I see nothing here that concerns me. The last loser was in 2005, and there have been 11 winners in a row since then. Gold subscribers may learn more about Numbered System 80402 on the website: <http://www.quantifiableedges.com/members/80402.php>

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/29/2013	\$180.95	\$180.53	-0.23%		Aggregator
XIV(1/2)	12/2/2013	\$32.78	\$32.48	-0.92%		bought at limit

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