

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 4, 2013

Volume 6 Issue 234

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 down days from a 50-day high that closes < 10ma but above 10-day low suggest an upside edge.
- System 11111 is set up for SPY – which has led to short-term bounces in the past.

Short-term Outlook

The Bottom Line

Evidence is looking better tonight and the market is now more oversold. I am already long and will look to get longer on 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 4, 2013	3 down from 50-high < 10ma > 10-low	1-4 days	Bullish	1.75%
December 4, 2013	System 11111	1-4 days	Bullish	
December 2, 2013	SPX dn. Up Issues > 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 3, 2013	Continuation Tuesday	1 day	Bearish	

The Evidence

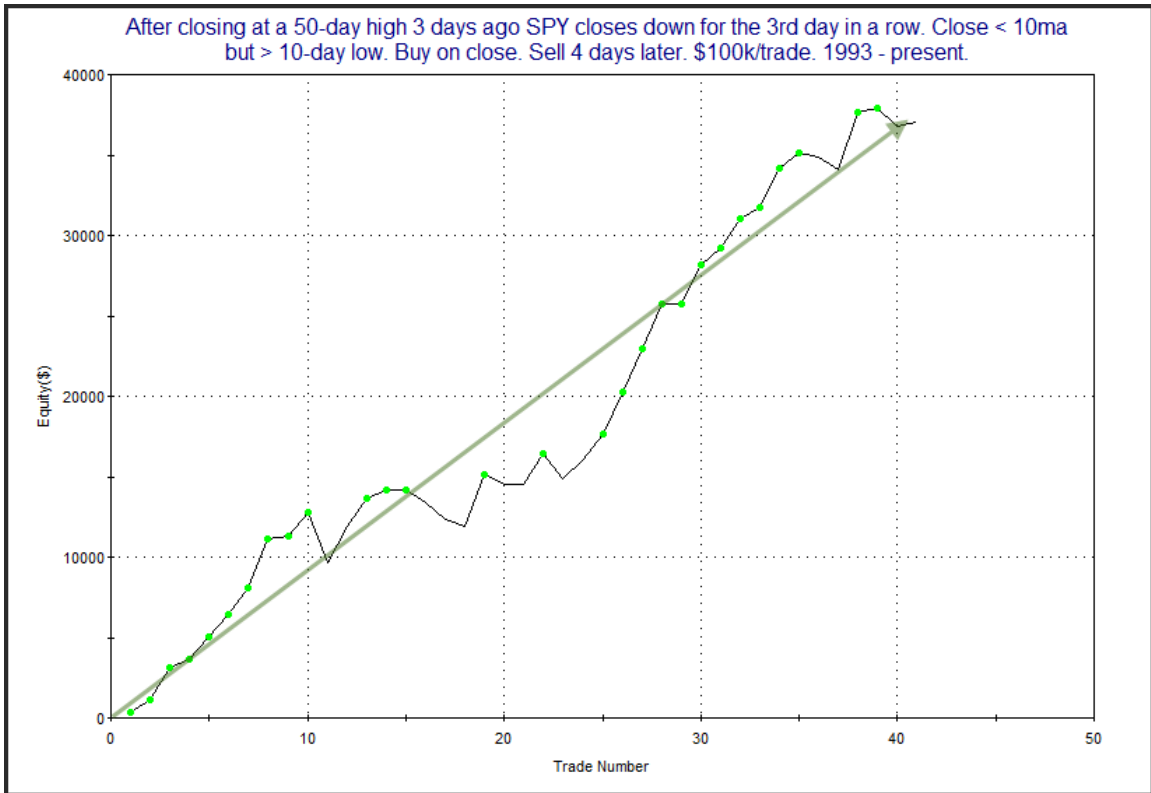
Tuesday was pretty difficult for much of the day, but a rally in the afternoon kept the numbers from looking too bad. The SPX declined 0.3%, the Nasdaq dropped 0.2%, and the Russell 2000 fell 0.5%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % was also 38%. Total NYSE volume rose for the 2nd day in a row.

Tuesday marked the 3rd close lower in a row for SPY. Three-day pullbacks will often trigger a few bullish studies. The one below is the one I found most interesting. It was from the 8/8/13 letter. It looked at other times that SPY had a 3-day pullback from a 50-day high, and that pullback was deep enough to put it below the 10ma, but *not* deep enough to see it at a 10-day closing low. I have updated the stats table below.

After closing at a 50-day high 3 days ago SPY closes down for the 3rd day in a row. Close < 10ma but > 10-day low. 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
10	49,424.10	40	28	12	70.00	2,565.50	7,242.70	-1,867.50	-6,933.13	1.37	3.21	1,235.60
9	40,746.62	40	29	11	72.50	2,322.14	6,322.56	-2,417.77	-8,192.92	0.96	2.53	1,018.67
8	44,192.98	40	30	10	75.00	2,202.40	6,358.08	-2,187.91	-4,499.25	1.01	3.02	1,104.82
7	38,605.97	40	29	11	72.50	2,077.40	6,322.56	-1,967.15	-4,354.31	1.06	2.78	965.15
6	41,284.71	40	29	11	72.50	1,992.82	5,375.36	-1,500.65	-2,140.14	1.33	3.50	1,032.12
5	33,365.72	41	28	13	68.29	1,717.02	3,522.94	-1,131.61	-3,453.71	1.52	3.27	813.80
4	37,015.55	41	32	9	78.05	1,456.03	3,543.50	-1,064.14	-3,076.63	1.37	4.86	902.82
3	25,211.80	41	28	13	68.29	1,368.25	3,543.50	-1,007.63	-2,027.68	1.36	2.92	614.92
2	12,167.78	41	27	14	65.85	1,018.17	2,332.48	-1,094.49	-2,781.35	0.93	1.79	296.78
1	8,472.69	41	26	15	63.41	803.14	2,060.16	-827.26	-2,031.09	0.97	1.68	206.65

Under these circumstances, it appears bounces have been both reliable and powerful. Below is a look at the profit curve assuming a 4-day exit technique.



The curve appears to provide confirmation of the bullish tendency suggested by the stats table.

It is also notable that SPY is now set up to trigger QE numbered system 11111 on Wednesday. A trade at or below SPY's closing price would mean an entry for this system. System 11111 has done fairly well over the years. With SPY, it has done very well. I last noted this in the 9/25/12 Letter. Below are the updated stats.

SPY system 11111.
\$100k/trade. \$0.01/share commission. 1994 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$9,231.72	Profit Factor		27.42
Gross Profit	\$9,581.09	Gross Loss		(\$349.37)
Total Number of Trades	12	Percent Profitable		91.67%
Winning Trades	11	Losing Trades		1
Even Trades	0			
Avg. Trade Net Profit	\$769.31	Ratio Avg. Win:Avg. Loss		2.49
Avg. Winning Trade	\$871.01	Avg. Losing Trade		(\$349.37)
Largest Winning Trade	\$2,456.58	Largest Losing Trade		(\$349.37)

There have not been a whole lot of instances but the stats are extremely lopsided in favor of the bulls. Below is the list of hypothetical trades.

SPY system 11111.
\$100k/trade. \$0.01/share commission. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/06/94	Buy	\$47.25	0.53%	\$655.03
09/08/94	Sell	\$47.50		(\$253.56)
04/03/95	Buy	\$50.12	0.58%	\$877.80
04/04/95	Sell	\$50.41		(\$99.75)
05/19/95	Buy	\$51.98	1.33%	\$1,468.39
05/22/95	Sell	\$52.67		(\$114.42)
02/16/96	Buy	\$65.06	0.06%	\$275.94
02/21/96	Sell	\$65.10		(\$1,808.94)
10/01/96	Buy	\$68.59	0.57%	\$670.22
10/01/96	Sell	\$68.98		(\$218.55)
12/04/96	Buy	\$74.83	0.73%	\$788.24
12/09/96	Sell	\$75.38		(\$2,899.12)
11/24/99	Buy	\$140.75	0.36%	\$1,508.04
12/02/99	Sell	\$141.25		(\$1,239.00)
11/02/06	Buy	\$136.51	1.15%	\$1,292.10
11/06/06	Sell	\$138.08		(\$226.30)
09/01/09	Buy	\$101.95	0.11%	\$1,257.75
09/04/09	Sell	\$102.06		(\$2,320.50)
03/23/12	Buy	\$139.20	1.73%	\$1,730.38
03/26/12	Sell	\$141.61		(\$466.70)
08/24/12	Buy	\$140.31	2.47%	\$2,463.70
09/06/12	Sell	\$143.77		(\$127.80)
09/24/12	Buy	\$145.15	(0.35%)	\$746.65
09/27/12	Sell	\$144.64		(\$1,507.00)

Avg bars in trade: 3.5

The short time in these trades and the high percent that end up profitable speaks to the probability of a quick bounce here. I have incorporated this setup into the Aggregator as well. Subscribers may find a link to system the 11111 page below:

<http://www.quantifiableedges.com/members/11111.php>

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



The new bullish studies tonight helped the green Aggregator Line move further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also now well above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are squarely 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 Wednesday. Of course this could change if strong new bearish evidence emerges. The Differential Pivot will be 1810.02 on Wednesday. That is 0.8% above Tuesday's close. So it will take a close higher of at least this much to move SPX from oversold to overbought versus expectations.

I like the bullish evidence better at this point and the SPX is now oversold enough that there is room for it to bounce without immediately becoming overbought. This appears to be a long-side opportunity with favorable risk/reward. I will look to scale further into my index trade on Wednesday.

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.

SPY – Buy ¼ index position @ \$179.75 LIMIT. This would be the 2nd of up to 4 lots for this trade. Based on the short-term outlook above.

XIV – Buy ½ position @ \$31.66 LIMIT ON CLOSE. This would be the 2nd and final lot for this trade. The VIX is now quite stretched. Contango is still evident in the VIX futures, and we are showing a strong likelihood of a market bounce. I still like XIV and will scale into the 2nd half of the position if it closes down again on Wednesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/29/2013	\$180.95	\$179.75	-0.66%		Aggregator
XIV(1/2)	12/2/2013	\$32.78	\$31.67	-3.39%		Aggressive XIV
TWX	12/3/2013	\$65.46	\$65.46	0.00%		bought on close - 80402

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2013 Hanna Capital Management, LLC.