

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 6, 2013

Volume 6 Issue 236

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 4+ day pullbacks that experience the worst day of the pullback are normally primed for a bounce.
- The QE Buying Power System is signaling a buy.

## *Short-term Outlook*

### *The Bottom Line*

Evidence continues to build for the bulls. The employment report is a bit of a wildcard, but I expect a bounce to be coming soon.

**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>				
December 6, 2013	4+ days dn. Today big drop. > 200ma	1-3 days	Bullish	1.90%
December 6, 2013	QE Buying Power System	1-6 days	Bullish	
December 5, 2013	VIX up 7 days	1-3 days	Bullish	2.10%
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	
<b>Active - Long Term</b>				
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	

**The Evidence**

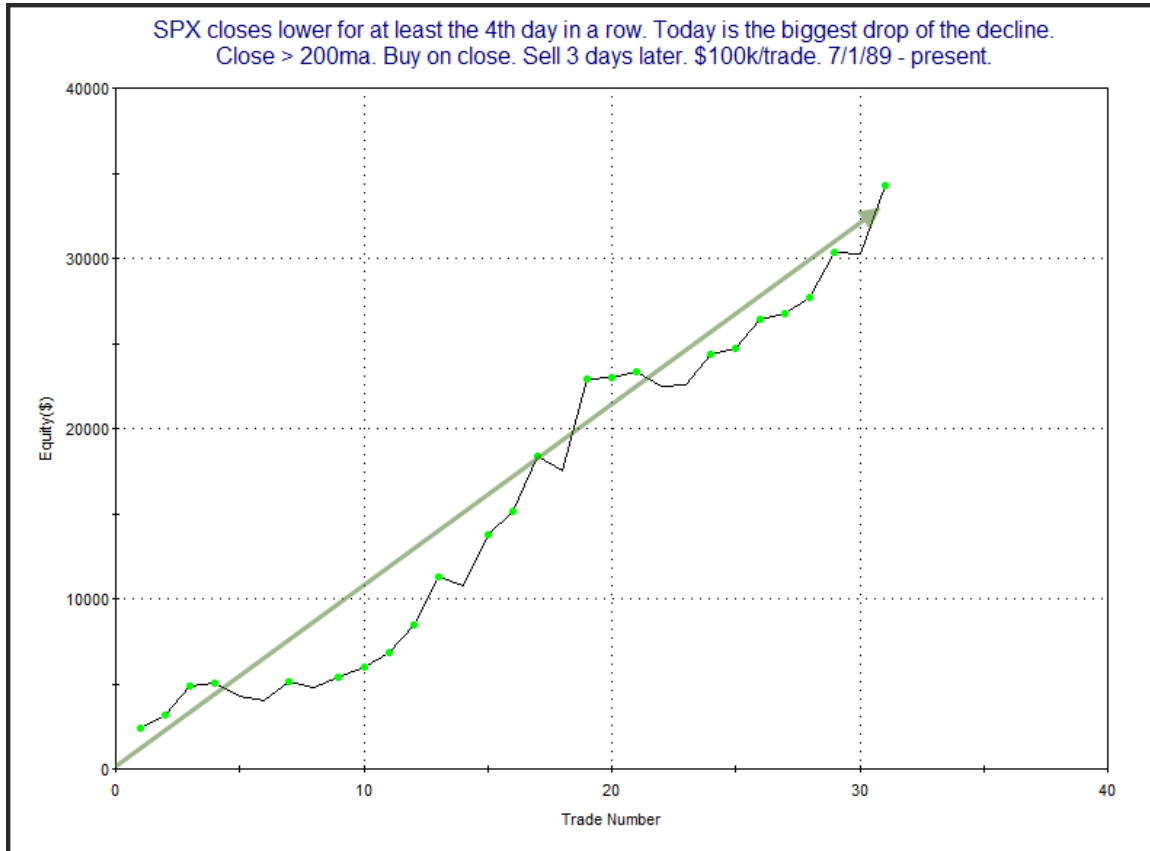
Thursday was a mixed day for the market. The SPX declined 0.4% and the Nasdaq fell 0.1%, but the Russell 2000 rose 0.1%. Breadth was negative as the NYSE Up Issues % was 34% and the Up Volume % was 46%. Total NYSE volume declined a little from the level of the last few days.

A few studies appeared in the Quantifinder. Perhaps the most compelling price-based study came from the 12/31/12 Subscriber Letter. It looks at multi-day moves lower that have accelerated.

SPX closes lower for at least the 4th day in a row. Today is the biggest drop of the decline. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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	41,268.97	31	26	5	83.87	1,650.57	7,070.28	-329.15	-909.36	5.01	26.08	1,331.26
4	34,132.16	31	24	7	77.42	1,670.19	5,187.49	-850.34	-1,776.42	1.96	6.73	1,101.04
3	34,285.47	31	24	7	77.42	1,580.18	5,339.18	-519.83	-849.87	3.04	10.42	1,105.98
2	30,028.78	32	24	8	75.00	1,470.82	4,809.66	-658.85	-1,343.84	2.23	6.70	938.40
1	18,551.02	35	24	11	68.57	1,051.03	5,117.46	-606.71	-1,699.92	1.73	3.78	530.03

**100% of instances closed above the entry price at some point in the next 6 days.**

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of that over the last 6 years. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact just before the period shown there were 2 trades that were losers. Still, the evidence appears strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



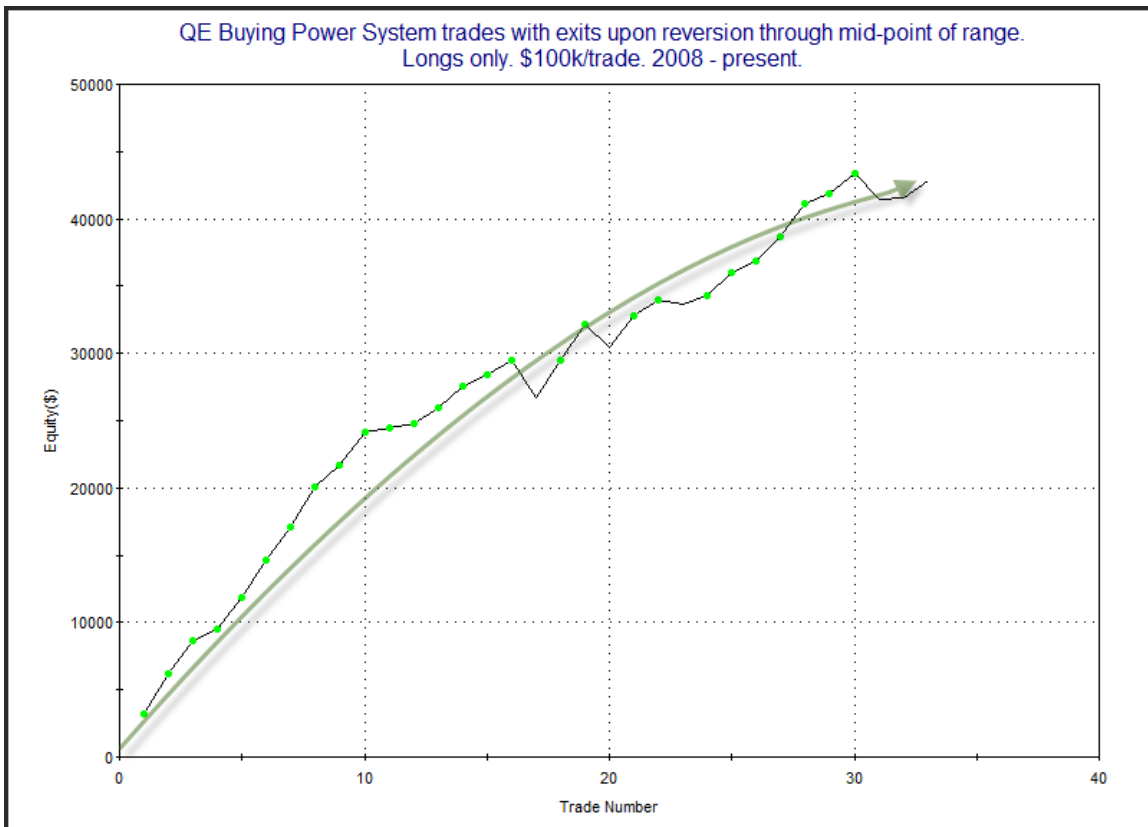
The strong upslope serves as confirmation of the bullish edge.

Of course the low close also helped to trigger a long in the QE Buying Power System tonight. This system looks to get long any time SPX closes in the bottom 20% if the 10-day range and the QE Buying Power Index is  $\geq 3$  (the index is can be found on the charts page and is currently maxed out at 5). It shorts whenever the QE Buying Power Index  $\leq 0$  and SPX closes in the top 20% of the 10-day range. Below are long-only results for the simplified version of the system that just looks to exit when the index closes back above the midpoint of its 10-day range.

QE Buying Power System trades with exits upon reversion through mid-point of range.  
 Longs only. \$100k/trade. 2008 - present.

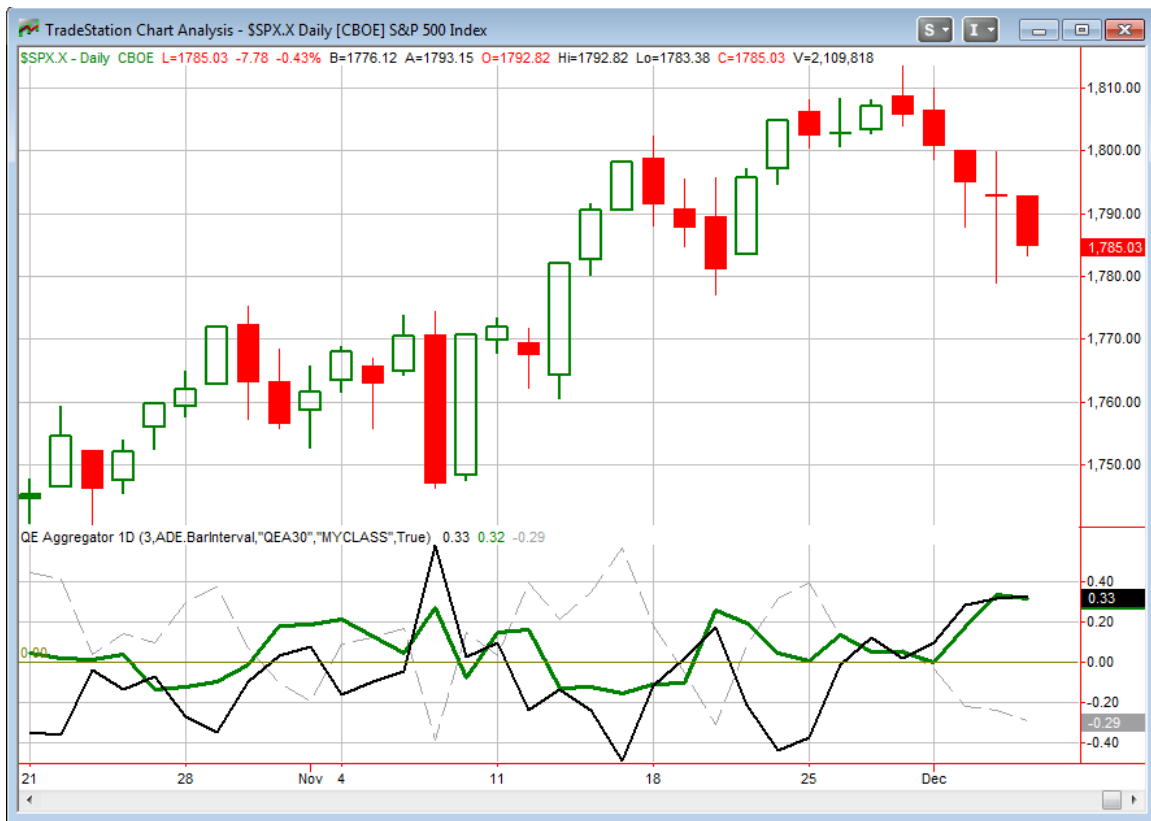
TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$42,890.23	Profit Factor	7.49
Gross Profit	\$49,495.84	Gross Loss	(\$6,605.61)
Total Number of Trades	33	Percent Profitable	87.88%
Winning Trades	29	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,299.70	Ratio Avg. Win:Avg. Loss	1.03
Avg. Winning Trade	\$1,706.75	Avg. Losing Trade	(\$1,651.40)
Largest Winning Trade	\$3,160.20	Largest Losing Trade	(\$2,750.44)

Some very strong stats here. This suggests a substantial upside edge in buying pullbacks when you have also had strong liquidity. And here is a look at the profit curve.



The curve is as impressive as the stats, and serves as confirmation of the upside edge. POMO flows were very low last week, so it is no great surprise that we have seen the market pull back some this week. But this week's liquidity flows have been strong, so they should help to provide a layer of support for the market to rally off of in the coming days.

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



Tonight's bullish studies helped the green Aggregator Line remain strongly 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 still well above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are strongly 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 Friday. This is unlikely to change without a strong move higher and some very compelling downside

evidence. The Differential Pivot will be 1799.24 on Friday. That is 0.8% above Wednesday's close. So it will take a close higher of at least this much to move SPX from oversold to overbought versus expectations.

In last night's letter I discussed the worry that could ensue ahead of the employment report. That seems to have happened to a degree. But I also showed that over the last year and a half, such worry has been a big waste of time. The market has performed very well on employment days since July of 2012. Below is one more look at the table I showed.

Tomorrow is an employment day. Buy at close. Sell next day's close. \$100k/trade. 7/1/2012 - present.			
Date/Time	VIX % CHG	XIV % CHG	SPX % CHG
07/05/12	(2.29%)	1.19%	(0.94%)
07/06/12			
08/02/12	(10.98%)	7.11%	1.90%
08/03/12			
09/06/12	(7.82%)	5.60%	0.40%
09/07/12			
10/04/12	(1.51%)	1.30%	(0.03%)
10/05/12			
11/01/12	5.39%	(2.54%)	(0.94%)
11/02/12			
12/06/12	(4.10%)	3.72%	0.29%
12/07/12			
01/03/13	(5.01%)	1.95%	0.49%
01/04/13			
01/31/13	(9.66%)	5.25%	1.01%
02/01/13			
03/07/13	(3.60%)	1.28%	0.45%
03/08/13			
04/04/13	0.22%	(0.26%)	(0.43%)
04/05/13			
05/02/13	(5.45%)	2.21%	1.05%
05/03/13			
06/06/13	(8.96%)	4.61%	1.28%
06/07/13			
07/03/13	(8.20%)	5.25%	1.02%
07/05/13			
08/01/13	(7.42%)	2.40%	0.16%
08/02/13			
09/05/13	0.51%	(0.84%)	0.01%
09/06/13			
10/21/13	1.29%	(0.52%)	0.57%
10/22/13			
11/07/13	(7.26%)	4.14%	1.34%
11/08/13			

Evidence for a bounce continues to build, and I'll look to scale in more using a few different trade ideas on Friday. Details are in the Trade Ideas section at the bottom of the letter.

***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***

*New*

*ABT @ \$36.92 (buy 1/3 at limit)*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 1 (ABT)***

**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.*

**XIV – Buy ½ position @ \$31.57 LIMIT ON OPEN. This would be the 2<sup>nd</sup> and final lot for this trade.** If the employment report causes more worries we could get a sizable gap down at the open. XIV might get a discount if this occurred and I would make 1 more attempt here to add this 2<sup>nd</sup> lot.

**SPY – Buy ¼ index position @ \$178.05 LIMIT ON CLOSE.** This is based on the short-term outlook above. A bounce should be coming. I will take on a 3<sup>rd</sup> lot (of possible 4) on Friday if we close down at least 0.5%.

**ABT – Buy 1/3 Catapult position @ \$36.92 LIMIT.** This is based on the Catapult setup that triggered above. Catapults can be very volatile. Traders considering them should use the tools on the website to explore them further, including the Catapult & CBI presentation on the videos page.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/29/2013	\$180.95	\$178.94	-1.11%		Aggregator
XIV(1/2)	12/2/2013	\$32.78	\$31.77	-3.08%		Aggressive XIV
TWX	12/3/2013	\$65.46	\$65.59	0.20%		sell on close > \$65.87
SPY(1/4)	12/4/2013	\$179.10	\$178.94	-0.09%		Aggregator

TWX will be sold according to system 80402 rules on a close > \$65.87.

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