

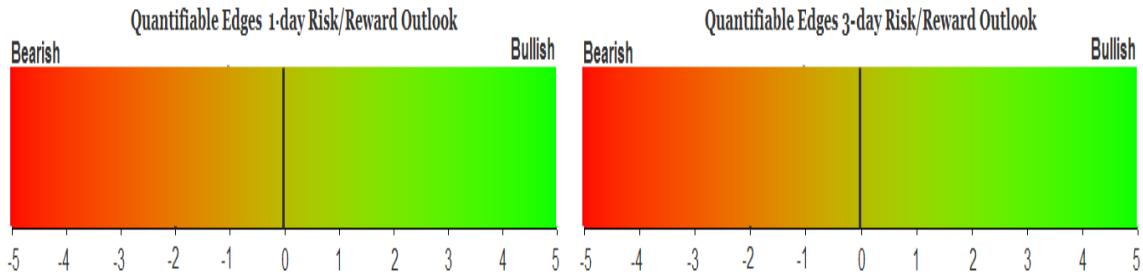
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 11, 2013

Volume 6 Issue 239

Market Overview



Signals Overview

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

Tonight's Research Points

- An unfilled gap down from a 50-day high is not bearish, but it used to be.

Short-term Outlook

The Bottom Line

Tuesday saw a little pullback that provided few clues. I'd like to see a bit more selling before I consider taking on some long index exposure, but even sideways action will work off the short-term overbought condition.

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 10, 2013	2 unfilled up gaps & 50-day high	1-3 days	Bullish	
December 9, 2013	Low vol bounce from oversold	1-5 days	Bullish	1.90%
Active - Long Term				
December 2, 2013	Nasdaq leading SPX	int term	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 6, 2013	4+ days dn. Today big drop. > 200ma	1-3 days	Bullish	1.90%

The Evidence

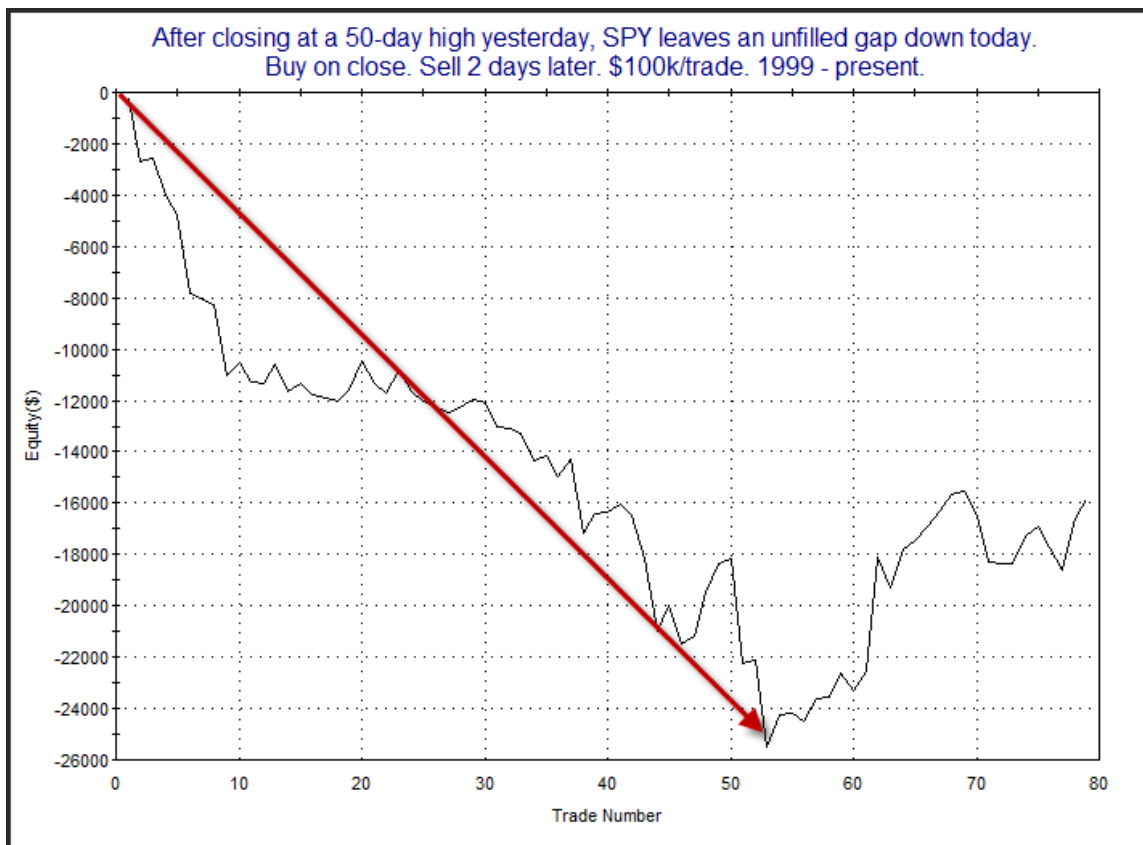
Though the gap down on Tuesday was not terribly large, SPY never managed to fill it. Instead it traded in a fairly mild range and finished moderately lower like most of the indices. The SPX fell 0.3%, the NASDAQ declined 0.2% and the Russell 2000 dropped 0.9%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % was 38%. Total NYSE volume came in as light as we've seen since the day after Thanksgiving.

The unfilled gap down following Monday's unfilled gap up triggered a few studies in the Quantifinder that suggested possible bearish inclinations. But the recent results were not compelling as the curves had flattened out. So I elected to ignore them for tonight.

This flattening can sometimes signal a change in character for the market. Sometimes it is temporary and sometimes it is long-lasting. Another study that triggered today provides a good example or a formerly solid study that suddenly stopped working. In this case it was soon after QE1 that it began to lose its downward edge – something we have seen with several bearish studies over the last few years. The study simply looked at unfilled gaps down from 50-day highs. It was last shown in the 11/1/11 Letter, and I have updated the results to the present.

After closing at a 50-day high yesterday, SPY leaves an unfilled gap down today. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-5,527.83	69	33	36	47.83	1,204.64	4,371.06	-1,257.81	-4,404.92	0.96	0.88	-80.11
4	-4,551.62	71	35	36	49.30	1,076.83	3,107.94	-1,173.35	-4,021.24	0.92	0.89	-64.11
3	-5,387.55	72	37	35	51.39	776.18	4,506.60	-974.46	-3,618.23	0.80	0.84	-74.83
2	-15,843.45	79	37	42	46.84	734.01	4,449.76	-1,023.86	-4,109.04	0.72	0.63	-200.55
1	-12,469.47	79	35	44	44.30	637.02	1,952.85	-790.12	-2,786.00	0.81	0.64	-157.84

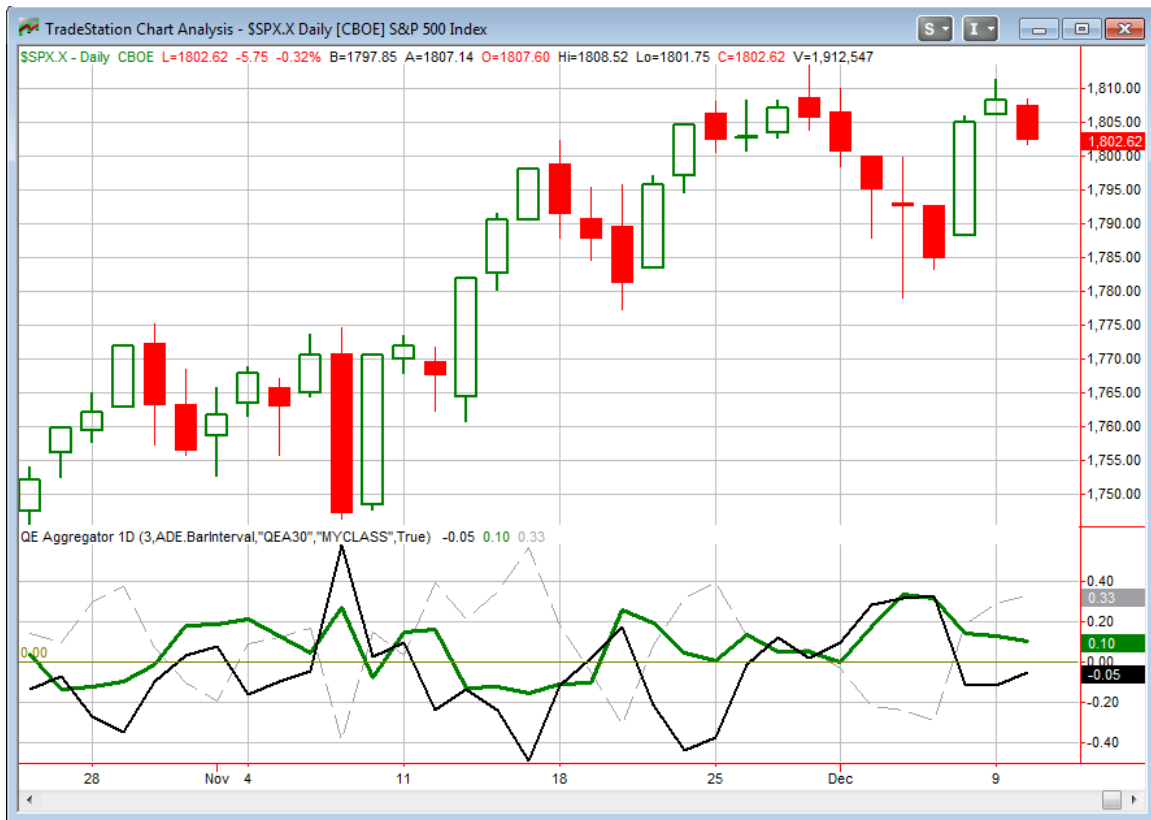
The numbers here are mildly suggestive of a couple more days of selling. The 2-day stats are the most compelling. So here is a profit curve for the 2-day.



For over 10 years the curve headed lower, but the last new low was 2010. I cast this study aside quite a while ago, and I am glad I did. But it is interesting to go back and look at it once in a while. Perhaps if we ever reach a point where the economy is strong and the Fed is not juicing it then this setup will go back to suggesting bearish implications. Or perhaps not.

So I have nothing compelling to add to the Active List tonight.

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



With nothing new to add 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 is still below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is short-term 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 set to remain bullish on Wednesday. This could change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 1819.42 on Wednesday. That is *0.9% above* Tuesday's close. An inverted pivot means the Differential Line will cross zero if SPX closes flat. So in this case, unless SPX rises at least 0.9%, it will be considered "oversold" versus expectations on Wednesday.

Overall, evidence is just moderately bullish. And while there seems to be some room for SPX to run before being overbought on Wednesday, the setup does not appear worthy of taking on new index exposure. Of course another down day on Wednesday could be enough to get me interested. There was one Catapult that triggered, and I have listed it below in the Catapult & CBI section and as a Trade Idea.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/9 – bullish

The intermediate-term outlook was last updated in the 12/9 Letter.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

ABT 1/3 @ \$36.92 (buy 1/3 at limit) (not filled – cancel for now)

New

APC – @ \$85.26 (buy 1/3 at limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2(ABT, APC)

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.

APC – buy 1/3 Catapult position @ \$85.26 limit. This is a Catapult setup. While they have done well over the years, they can be very volatile. Traders should keep this in mind.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/2/2013	\$32.78	\$33.14	1.10%		<i>sold @ limit</i>

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