

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 12, 2013

Volume 6 Issue 240

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Long

Tonight's Research Points

- When the market has moved from a 50-day high to an 8-day low in just 2 days it has commonly been followed by a bounce.

Short-term Outlook

The Bottom Line

The sharp decline on Wednesday has the market quickly and strongly oversold. Evidence is pointing to a bounce and I am looking to position myself to take advantage of it.

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 12, 2013	2 unfilled up gaps & 50-day high	1-4 days	Bullish	
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	

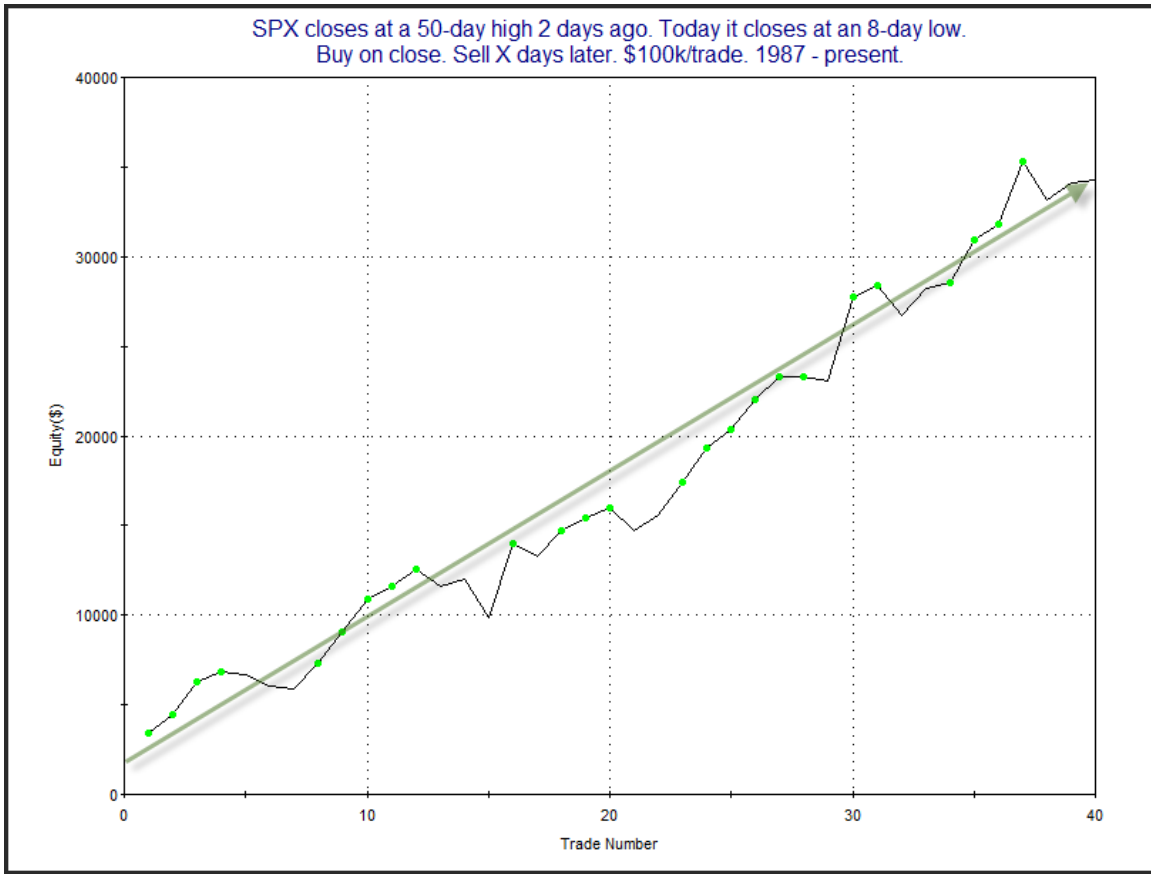
The Evidence

Overbought did not last for long this time, as the market took a bit of a beating on Wednesday, and is now well below the closing highs it was at just 2 days ago. The SPX fell 1.1%, the NASDAQ declined 1.4% and the Russell 2000 dropped 1.6%. Breadth was negative as the NYSE Up Issues % was 15.5% and the Up Volume % was 13%. With the accelerated selling, total NYSE volume rose from Tuesday’s level.

One interesting study from the Quantifinder looked at relatively sharp selloffs from intermediate-term highs. It showed that there has been a strong tendency for situations like the current one to bounce. The study was last seen in the 4/5/12 Letter. I have updated the results below.

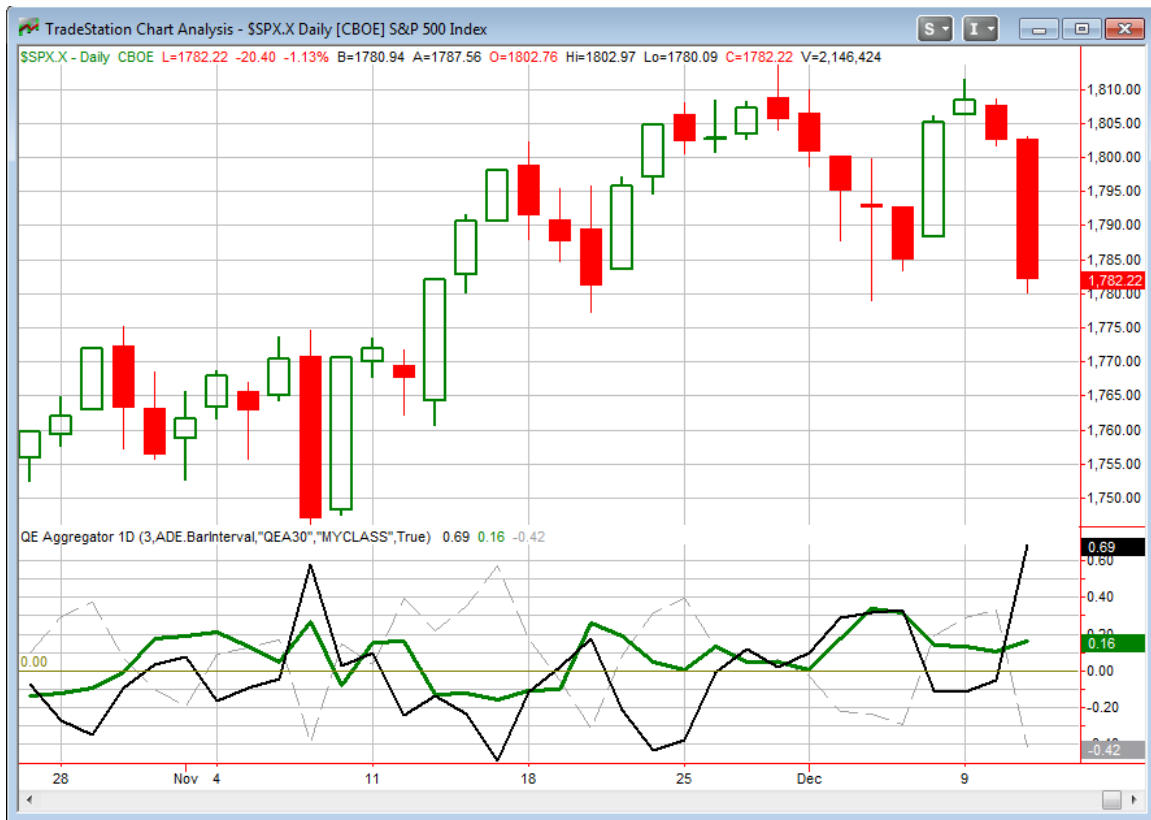
SPX closes at a 50-day high 2 days ago. Today it closes at an 8-day low. Buy on close. Sell X days later. \$100k/trade. 1987 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	31,733.52	40	27	13	67.50	1,895.39	4,726.48	-1,495.53	-3,502.11	1.27	2.63	793.34
4	34,279.60	40	30	10	75.00	1,481.72	4,732.80	-1,017.21	-2,147.75	1.46	4.37	856.99
3	14,205.14	40	25	15	62.50	1,159.01	2,985.55	-984.67	-2,866.27	1.18	1.96	355.13
2	8,189.46	40	23	17	57.50	1,011.06	3,515.34	-886.17	-2,051.10	1.14	1.54	204.74
1	8,685.78	42	25	17	59.52	757.58	2,002.36	-603.16	-2,200.08	1.26	1.85	206.80
88% of instances closed above the entry price at some point in the next week.												

The stats all suggest an upside edge over the next 1-4 days. Below I have produced a profit curve using a 4-day exit strategy.



The strong, steady upslope is quite impressive and makes the study all the more compelling.

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



With tonight's bullish study the green Aggregator Line moved a little 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 shot up to the highest level in a long time. The positive Differential Line reading means the SPX is already heavily oversold versus recent expectations. So expectations are positive and the SPX is strongly oversold. 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 set to remain bullish on Thursday. This could change if new bearish evidence emerges. The Differential Pivot will be 1818.60 on Thursday. That is a whopping 2.0% above Wednesday's close. It's highly unlikely the SPX achieves that on Thursday. It will probably take a multi-day bounce or consolidation to work off the oversold condition.

Evidence isn't overpowering, but it is certainly leaning bullish. And with the market already so strongly oversold, this appears to be an opportune place to begin scaling in to a long trade. I plan to do just that on Thursday.

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)

APC – @ \$85.26 (bought 1/3 size position)

New

APC – @ \$85.26 (buy 1/3 at limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(ABT, APC-2)

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. This is the 2nd of a possible 3 lots.

SPY – buy ¼ index position @ \$178.72 limit. Based on the short-term outlook above, I am looking to begin scaling in to an index trade.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APC(1/3)	12/11/2013	\$85.26	\$83.59	-1.96%		bought @ limit

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