

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 13, 2013

Volume 6 Issue 241

Market Overview



Signals Overview

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

Tonight's Research Points

- A 20-day closing low in an uptrend often marks a decent buying area.

Short-term Outlook

The Bottom Line

Again the market is oversold with a fair amount of bullish evidence. I'm looking for a bounce, and intend to add to my long position.

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 13, 2013	20-day low > 200ma	1-7 days	Bullish	2.00%
December 12, 2013	2 unfilled up gaps & 50-day high	1-4 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 10, 2013	2 unfilled up gaps & 50-day high	1-3 days	Bullish	

The Evidence

The market zig-zagged quite a bit on Thursday. It could not get any rally attempt going. So in the end the major indices finished mostly negative. The SPX fell 0.4%, the NASDAQ declined 0.1% and the Russell 2000 gained 0.2%. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % was also 40%. Volume did not come in as high as Wednesday.

There were a few studies that showed up related to 3-day pullbacks in the SPX. But this pullback did not exhibit strong characteristics. Odds are often more appealing if the 3rd day is a washout, or if it is a relatively quiet pullback and the 3/10 offset HV comes in very low. None of that happened today, so I ignored the 3-day pullback evidence.

One potential positive is that SPX closed at a new 20-day low for the 1st time since early October. Intermediate-term lows during a long-term uptrend will often suggest an upside edge. The study below was last seen in the 10/8/13 Letter. It looked at times the SPX closed at a 20-day low, but still above the 200ma. I have updated the results table.

SPX closes at a 20-day low. SPX > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1991 - present.

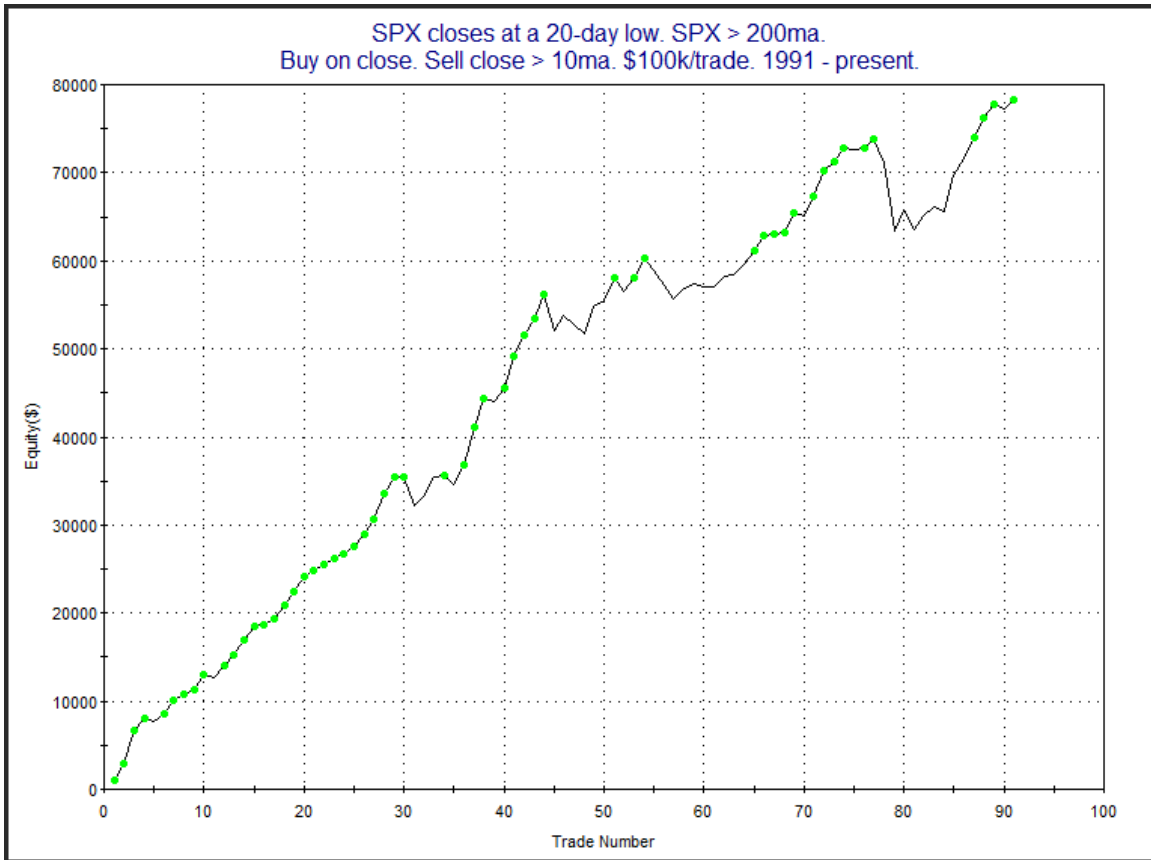
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	69,610.65	90	59	31	65.56	2,390.42	5,656.16	-2,304.01	-13,993.88	1.04	1.97	773.45
9	79,224.15	91	61	30	67.03	2,264.94	5,167.64	-1,964.58	-10,059.36	1.15	2.34	870.60
8	84,654.98	98	68	30	69.39	2,221.58	5,982.72	-2,213.74	-14,092.68	1.00	2.27	863.83
7	90,465.92	100	71	29	71.00	2,032.12	5,454.72	-1,855.67	-8,018.76	1.10	2.68	904.66
6	77,244.10	102	67	35	65.69	1,970.35	5,461.44	-1,564.83	-7,966.32	1.26	2.41	757.30
5	73,243.24	109	65	44	59.63	1,895.42	4,608.35	-1,135.44	-5,114.56	1.67	2.47	671.96
4	44,553.30	118	70	48	59.32	1,526.33	4,690.50	-1,297.71	-3,994.08	1.18	1.72	377.57
3	42,561.70	133	82	51	61.65	1,266.09	5,471.10	-1,201.13	-6,688.99	1.05	1.69	320.01
2	46,573.18	155	94	61	60.65	1,105.74	4,259.29	-940.44	-4,320.06	1.18	1.81	300.47
1	18,814.41	215	128	86	59.53	759.30	5,117.46	-911.35	-6,826.40	0.83	1.24	87.51

The stats since 1991 all appear to suggest an upside edge. The edge seems to persist for between 1-2 weeks. Another thing I did in that letter was to examine results using a reversion-based exit rather than a time-based exit. To do this I simply said that the trade would be held until SPX closed above its 10ma. Results of this "system" are below.

SPX closes at a 20-day low. SPX > 200ma.
Buy on close. Sell close > 10ma. \$100k/trade. 1991 - present.

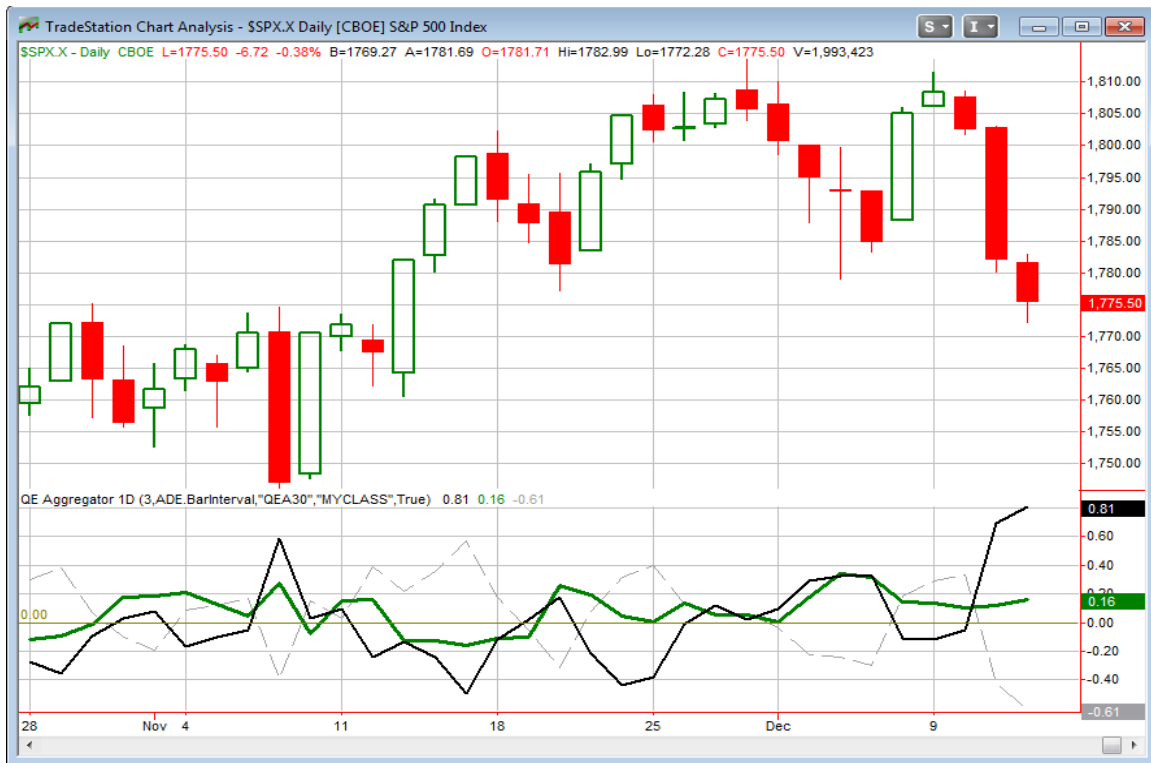
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$78,229.40	Profit Factor		3.47
Gross Profit	\$109,919.42	Gross Loss		(\$31,690.02)
Total Number of Trades	91	Percent Profitable		78.02%
Winning Trades	71	Losing Trades		20
Even Trades	0			
Avg. Trade Net Profit	\$859.66	Ratio Avg. Win:Avg. Loss		0.98
Avg. Winning Trade	\$1,548.16	Avg. Losing Trade		(\$1,584.50)
Largest Winning Trade	\$4,277.94	Largest Losing Trade		(\$7,630.40)

The winning percentage and profit factor are both impressive, and with the average trade making nearly 0.9% this study appears worth further consideration. Below is an equity curve showing how the edge has played out over time.



What I see here is a curve that suggests a strong, persistent edge over a long period of time. The dip a while back occurred at the time of the US debt downgrade in the summer of 2011. That losing instance cost 7.6% and was the largest loss of the entire period. But as you can see the curve now appears to be back on track.

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



With tonight's bullish study the green Aggregator Line again 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 is now very high compared to recent readings. The positive Differential Line reading means the SPX is 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 remain long.

With the current active studies, expectations are set to remain bullish on Friday. This could change if new bearish evidence emerges. The Differential Pivot will be 1808.92 on Friday. That is a whopping 1.9% above Thursday's close. It's highly unlikely the SPX achieves that in one day. It will probably take a multi-day bounce or consolidation to work off the oversold condition.

Evidence is building for the bulls and the market is extremely oversold. Perhaps some of the selling is due to anxiety ahead of next week's Fed meeting. And so perhaps a strong bounce may not come until that is out of the way. I certainly want to be long, but my pace of scaling in is where I'm doing a little head scratching. Strong seasonality is about to kick in. (More on that this weekend.) Oversold going into a strong seasonal period is very often a good setup. So I want to be longer than I am now. Therefore, if I can get a decent entry tomorrow then I intend to take it for one more lot.

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)

APC – @ \$83.59 (bought 1/3 size position)

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.

SPY – buy ¼ index position @ \$178.00 limit. Based on the short-term outlook above, I am looking to take on a little more exposure here.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APC(1/3)	12/11/2013	\$85.26	\$83.67	-1.86%		Catapult
APC(1/3)	12/12/2013	\$83.74	\$83.67	-0.08%		Catapult
SPY(1/4)	12/12/2013	\$178.62	\$178.13	-0.27%		Aggregator

APC was dealt a blow after hours when a lawsuit settled against them. It is down a large amount. Traders may decide how they prefer handle these kind of situations. There is no “right” answer. I will ride the trade until the exit triggers. This will likely be a sizable loss either way. It is a risk with Catapults (and all stock trades) that one smacks you every once in a while. (And stops do not help in situations like this where big drops occur outside of market hours.) There were a few Catapults that had horrible news in 2008, but this is the 1st one I can remember since then. Anyway, it is just one trade. And though the result will almost certainly be disappointing, it is not going to break me, nor will it change my approach to Catapults. They have done too well for too long for me to get very worked up about this.

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