

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 5, 2013

Volume 6 Issue 107

Market Overview



Signals Overview

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

Tonight's Research Points

- A 4th Hindenburg signal has triggered. This seems to have somewhat more bearish intermediate-term implications than last night's study showed with just 3 signals.

Short-term Outlook

The Bottom Line

I still favor a bounce and I remain positioned to take advantage of it. If it comes on Wednesday, I may lighten up some.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 4, 2013	SPX dn 1.5% then up w/ poor breadth	1-2 days	Bullish	1.90%
June 3, 2013	Big drop on Friday	1-6 days	Bullish	2.70%
Active - Long Term				
June 4, 2013	Hindenburg Omen cluster	1-50 days	Bearish	-8.60%
May 23, 2013	3-hi. 3-low. 3-low close. Close > 200.	1-15 days	Bullish	4.10%
May 9, 2013	Breadth Confirms Rally (Study of Tops)	int term	Bullish	
May 6, 2013	Nasdaq leading SPX	int term	Bullish	
April 29, 2013	Sell in May unless Jan-April strong	1-6 months	Bullish	6.80%
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	

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

The Evidence

Tuesday started off strong but the market couldn't hold its gains and it reversed sharply. The SPX and Nasdaq each lost 0.6%, and the Russell 2000 fell 0.9%. Breadth was negative as the NYSE Up Issues % was 37% and the Up Volume % was 32%. Total NYSE volume fell for the 2nd day in a row.

Tuesday marked the 6th day in a row that the SPX has reversed direction. Back and forth action like that will often leave us without the kind of stretched conditions that tend to generate compelling studies. And that is what happened on Tuesday.

But there was one interesting occurrence, and that was the 4th Hindenburg trigger firing in the last 5 days. Last night I went into great detail about the Hindenburg Omen. I also showed results following times where there have been single triggers, and then clusters of 2 or 3 signals within a 30-day period. For those that may have missed that discussion you may find below a link to last night's letter.

[2013-06-04 QE Subscriber Letter.pdf](#)

With the 4th trigger occurring on Tuesday I decided to look at other times that we have had 4 signals occur.

Buy SPX when 4th Hindenburg signal triggers. Sell X days later. \$100k/trade. 1980 - 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
100	3,391.84	6	4	2	66.67	2,253.68	4,313.40	-2,811.44	-3,671.20	0.80	1.60	565.31
95	2,251.47	6	2	4	33.33	5,391.13	5,552.40	-2,132.70	-4,635.15	2.53	1.26	375.24
90	-6,768.51	6	1	5	16.67	4,666.20	4,666.20	-2,286.94	-6,882.20	2.04	0.41	-1,128.08
85	-1,785.13	6	2	4	33.33	5,233.79	7,141.18	-3,063.18	-6,553.95	1.71	0.85	-297.52
80	-2,948.55	6	2	4	33.33	5,001.79	7,248.39	-3,238.04	-6,169.80	1.54	0.77	-491.43
75	-12,287.99	7	2	5	28.57	5,901.81	8,515.03	-4,818.32	-9,034.35	1.22	0.49	-1,755.43
70	-14,583.82	7	3	4	42.86	2,242.89	3,749.51	-5,328.12	-9,322.50	0.42	0.32	-2,083.40
65	-26,186.07	7	1	6	14.29	130.20	130.20	-4,386.04	-10,467.60	0.03	0.00	-3,740.87
60	-26,858.71	7	2	5	28.57	661.72	949.65	-5,636.43	-11,602.80	0.12	0.05	-3,836.96
55	-26,693.29	7	1	6	14.29	1,201.20	1,201.20	-4,649.08	-8,851.04	0.26	0.04	-3,813.33
50	-27,686.75	7	1	6	14.29	841.10	841.10	-4,754.64	-9,493.04	0.18	0.03	-3,955.25
45	-29,673.11	7	0	7	0.00	0.00	0.00	-4,239.02	-14,483.52	0.00	0.00	-4,239.02
40	-28,693.52	7	1	6	14.29	1,454.79	1,454.79	-5,024.72	-11,889.84	0.29	0.05	-4,099.07
35	-38,493.18	7	0	7	0.00	0.00	0.00	-5,499.03	-14,149.68	0.00	0.00	-5,499.03
30	-20,848.20	8	2	6	25.00	3,961.84	5,262.60	-4,795.31	-13,738.80	0.83	0.28	-2,606.02
25	-20,138.58	8	2	6	25.00	4,752.80	6,253.80	-4,940.70	-12,343.52	0.96	0.32	-2,517.32
20	-26,971.95	8	1	7	12.50	4,796.40	4,796.40	-4,538.34	-9,672.80	1.06	0.15	-3,371.49
15	-15,967.14	8	2	6	25.00	3,896.04	4,301.89	-3,959.87	-8,414.48	0.98	0.33	-1,995.89
10	-17,296.82	11	3	8	27.27	1,678.33	2,279.81	-2,791.48	-6,566.95	0.60	0.23	-1,572.44
5	-11,576.08	12	3	9	25.00	1,274.64	2,769.90	-1,711.11	-4,884.75	0.74	0.25	-964.67

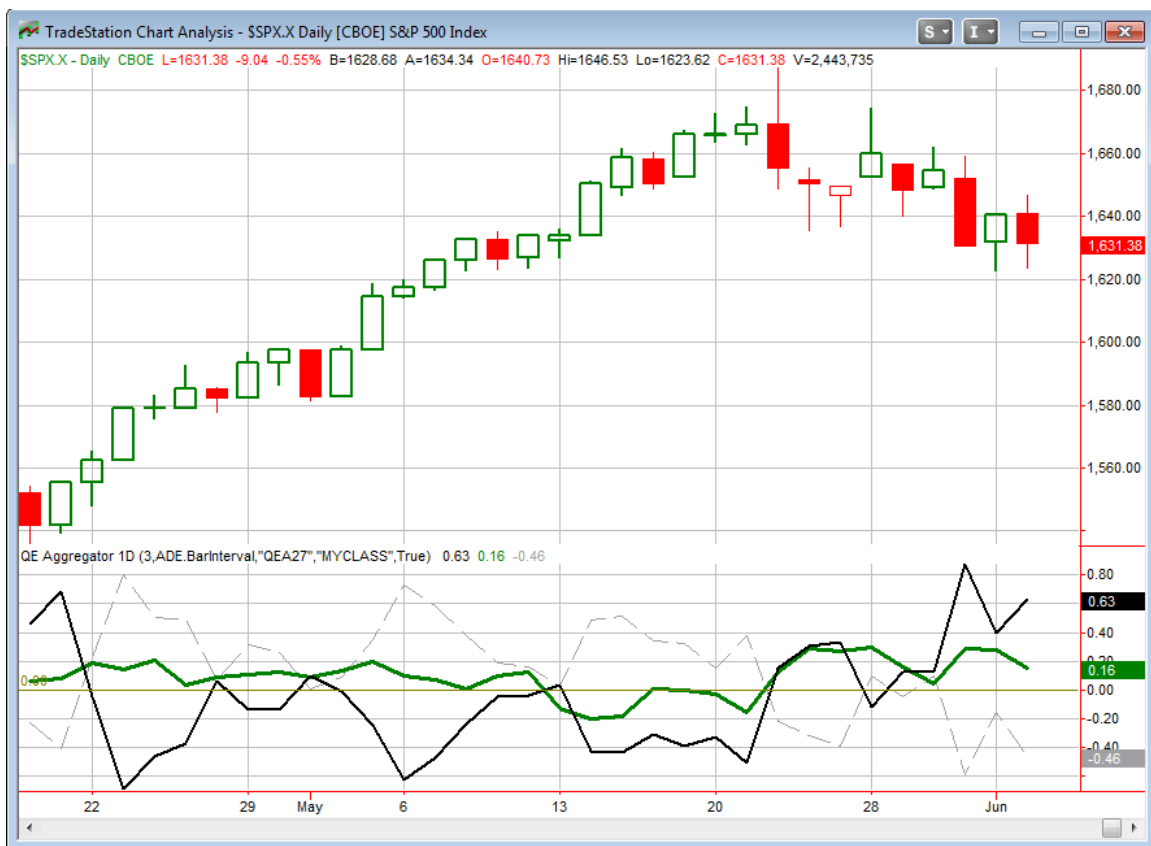
There are only 7 instances when looking out 35-75 days, but with all of them being down 35 days later these results warrant closer investigation. Below are the individual instances.

Buy SPX when 4th Hindenburg signal triggers. Sell 35 days later. \$100k/trade. 1980 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
02/14/80	Buy	\$116.72	(14.16%)	\$1,001.52
04/07/80	Sell	\$100.19		(\$16,264.00)
07/24/86	Buy	\$237.94	(3.06%)	\$6,846.00
09/12/86	Sell	\$230.66		(\$3,864.00)
03/15/94	Buy	\$467.01	(3.35%)	\$873.12
05/05/94	Sell	\$451.38		(\$6,666.10)
12/08/99	Buy	\$1,403.88	(3.11%)	\$5,262.52
01/28/00	Sell	\$1,360.16		(\$3,385.28)
04/24/06	Buy	\$1,308.11	(6.45%)	\$1,412.84
06/13/06	Sell	\$1,223.69		(\$6,504.84)
07/20/07	Buy	\$1,534.10	(5.37%)	\$853.45
09/10/07	Sell	\$1,451.70		(\$10,627.50)
10/25/07	Buy	\$1,514.39	(3.07%)	\$2,532.42
12/14/07	Sell	\$1,467.95		(\$7,147.14)
Avg Run-up: 2.7% Avg Drawdown: -7.8%				

The numbers here are certainly impressive, with every instance being down 3%-plus 35 days later. And the avg drawdown is nearly 3x the avg run-up. I included the Hindenburg Omen on the intermediate-term active list last night, though I was not overly impressed with the results. Now with 4 triggers occurring the results appear a bit more impressive. When markets have been split like this in the past, it has typically led to some trouble. Instances are low, but I am now viewing this 4-cluster Hindenburg Omen as a cautionary flag.

Unfortunately, like I said above, we did not have anything trigger with compelling short-term implications. So the short-term list will remain the same.

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



Without any changes tonight the green Aggregator Line remained well above zero. 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 far above 0. The positive

Differential Line reading means the SPX is strongly oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator system to remain long at the close.

Based on the current studies, expectations are slated to remain positive on Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,638.76 on Wednesday. This is just 0.5% above Tuesday's close. That is not a very large rise considering the recent volatility. But with the choppy, back and forth action over the last 6 days, the Differential Pivot will likely move above 1650 on Thursday, before dipping down again on Friday.

So the Aggregator is suggesting a short-term upside edge. But a close higher on Wednesday could temporarily remove the long signal. Without new evidence, and with the Differential Pivot fairly close by, I am not inclined to add new exposure on Wednesday. I will look to exit part of my current long index position at the close if SPX does manage to finish above its Differential Pivot. I will leave the remaining lot open and re-evaluate tomorrow night.

As you'll see below the CBI remains at 6. This has historically been a slightly bullish reading, but not one I have relied upon. If the CBI manages to reach 10 or higher, that has been a highly reliable signal that a short-term bounce is near. If selling intensifies over the next couple of days we could easily see the CBI reach that level. It is very unlikely that I will get fully invested without a CBI of at least 10.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/3 –bullish

The intermediate-term outlook was last updated in the 6/3 letter. Link below:

[2013-06-03 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

SO – buy 1/3 @ \$44.89 LIMIT (bought @ \$44.67)

SO – buy 1/3 @ \$44.26 LIMIT (bought @ \$44.26)

EXC – buy 1/3 @ \$31.65 LIMIT (bought @ \$31.65)

SO – buy 1/3 @ \$44.13 LIMIT (bought @ \$44.13)

EXC – buy 1/3 @ \$31.50 LIMIT (bought @ \$31.50)

EXC – buy 1/3 @ \$31.34 LIMIT (bought @ \$31.34)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6(SO-3, EXC-3)

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	5/23/2013	\$165.45	\$163.56	-1.14%		Aggregator
SO (1/3)	5/29/2013	\$44.67	\$43.95	-1.61%		Catapult
SO (1/3)	5/30/2013	\$44.26	\$43.95	-0.70%		Catapult
EXC(1/3)	5/30/2013	\$31.65	\$31.59	-0.19%		sell on close >= \$31.81
SO (1/3)	5/31/2013	\$44.13	\$43.95	-0.41%		Catapult
EXC(1/3)	5/31/2013	\$31.50	\$31.59	0.29%		sell on close >= \$31.81
EXC(1/3)	6/3/2013	\$31.34	\$31.59	0.80%		sell on close >= \$31.81
SPY(1/4)	6/3/2013	\$163.65	\$163.56	-0.05%		sell on SPX close > 1638.75

I am looking to exit one lot of SPY on an SPX close above the Differential Pivot.

EXC will meet its end-of-day target around \$31.81 and I will look to exit at the close (rather than Thursday's open) if that occurs.

If SO mounts a rally Wednesday I may send out an intraday alert indicating I will exit all or part of that position at the close as well. It would need to close up about 1% on Wednesday to hit its end-of-day target.

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.