

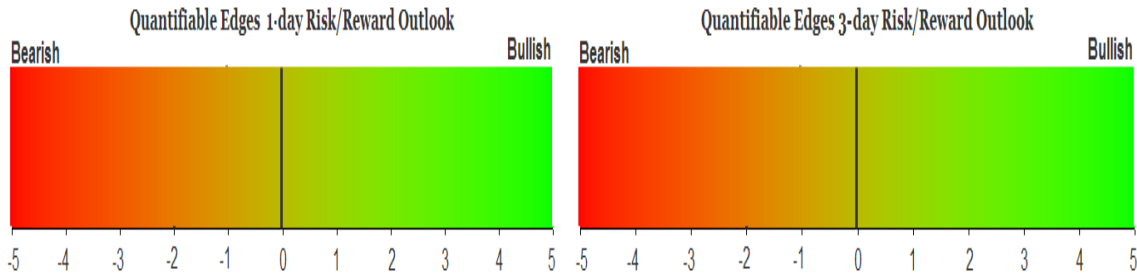
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 10, 2013

Volume 6 Issue 110

Market Overview



Signals Overview

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

Tonight's Research Points

- The bounce was strong enough over the last 2 days that much of the upside edge has been realized and the potential for further gains is reduced.
- I examine Hindenburg Omens and POMO flows in the intermediate-term section.

Short-term Outlook

The Bottom Line

The bounce has been good enough that it has brought the market back to a short-term neutral state. It is unclear to me whether the market will continue higher or whether another leg down is about to ensue. I'm getting fairly flat and waiting for the next favorable opportunity to put capital back to work.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 7, 2013	20-low reversal > 200	1-6 days	Bullish	2.40%
June 6, 2013	20 low > 200	1-7 days	Bullish	2.35%
June 6, 2013	McOsc % Rank Sum < 5 last 4 days	1-4 days	Bullish	2.30%
June 6, 2013	Unfill Gap Dn, Poor Close, Over 200	1-8 days	Bullish	2.90%
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	
Dropped Tonight				
June 6, 2013	<i>TICK Tomoscillator low extreme</i>	<i>1-3 days</i>	<i>Bullish</i>	

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

The Evidence

Thursday's bounce carried into Friday with some help from a bullish reaction to the employment report. The SPX and the Nasdaq each rose 1.3%, and the Russell 2000 rallied 0.8%. Breadth was strongly positive as the NYSE Up Issues % was 69% and the Up Volume % was 74%. Total NYSE volume came in at the lightest level of the week.

After being strongly oversold the market has bounced back quite nicely the last 1½ days. The effect has basically been to work off the oversold condition and leave several indices just a little above their 10-day moving averages. In other words, it has been a quick trip from near-panic to fairly neutral. Had the reversal not been so strong then the current upside potential would be a little better. But since the move was so good (and I'm not complaining), it took out much of the upside edge. I demonstrated this a little in the 2/28/11 subscriber letter.

There I looked at patterns similar to the current one where SPY made a 10-day intraday low yesterday and then posted an unfilled gap up today along with a close above the open (and above the 200ma). I broke it down by instances that closed above the 10ma versus instances that closed below it. I have updated those tables below.

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It **closes < 10ma** and closes > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

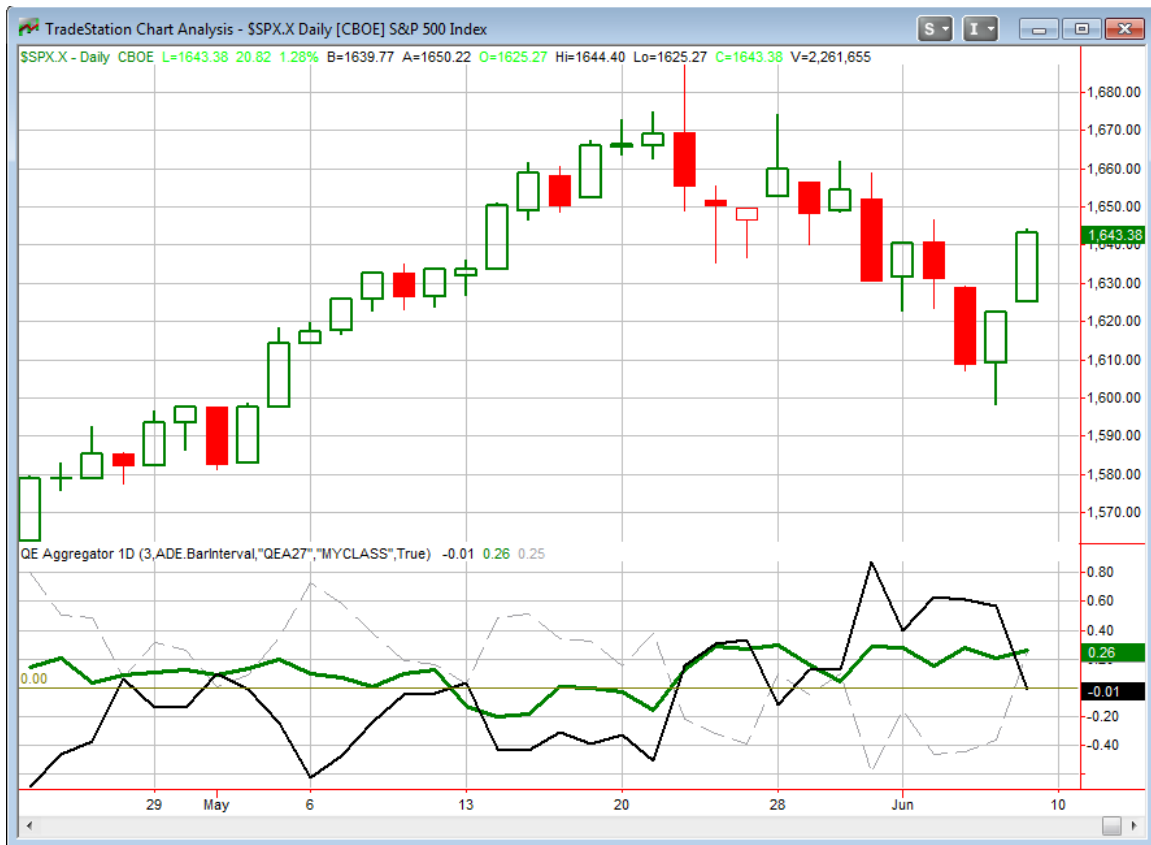
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	19,935.73	44	27	17	61.36	1,642.60	4,106.63	-1,436.15	-3,739.32	1.14	1.82	453.08
4	21,191.11	45	29	16	64.44	1,434.75	3,904.83	-1,276.04	-2,744.82	1.12	2.04	470.91
3	5,103.62	48	25	23	52.08	1,129.86	3,914.92	-1,006.21	-2,996.76	1.12	1.22	106.33
2	3,439.75	48	26	22	54.17	1,017.20	2,828.00	-1,045.79	-2,355.20	0.97	1.15	71.66
1	-1,366.12	48	21	26	43.75	829.98	2,121.60	-722.91	-2,895.33	1.15	0.93	-28.46

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It **closes > 10ma** and also closes > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-856.55	24	11	13	45.83	1,087.65	2,776.20	-986.21	-2,249.52	1.10	0.93	-35.69
4	-258.36	24	13	11	54.17	794.01	2,134.22	-961.86	-2,586.55	0.83	0.98	-10.76
3	-2,451.65	24	12	12	50.00	864.64	1,742.62	-1,068.94	-2,475.20	0.81	0.81	-102.15
2	-3,398.90	24	13	11	54.17	611.89	1,325.28	-1,032.13	-2,293.20	0.59	0.70	-141.62
1	-5,016.00	24	11	13	45.83	460.52	1,150.14	-775.52	-2,591.68	0.59	0.50	-209.00

So the current situation falls into the 2nd category. Wins & losses are basically breakeven but the losses were a bit bigger. I don't view this as a bearish edge, but I think it demonstrates my point fairly well. Had we not bounced so much, we would have a better chance of seeing more follow-through. As is, it appears some caution and some profit-taking is warranted.

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



The studies still on the Active List have the green Aggregator Line well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the strong rally on Friday caused the black Differential Line to drop down to barely below 0. The negative Differential Line reading means the SPX is slightly overbought versus recent expectations. So expectations are positive but the SPX is already 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 system to turn flat at the close.

Based on the current studies, expectations are slated to remain positive on Monday. Of course this could change if solid bearish evidence emerges. The Differential Pivot will be 1,620.13 on Monday. This is 1.4% below Friday's close. So SPX would need to close down at least this much in order to move from overbought to oversold on Monday.

I exited a good portion of my long positions near the close on Friday. I will look to exit the rest of my index position on Monday. This will just leave me with some Catapult System exposure. I don't see a good reason to press my luck here. I would instead prefer to step aside. The recent drop was fairly sharp. I will now be on the lookout for clues to whether the short-term is likely to continue higher or whether another leg down will

emerge. But we are now at a place where the edge is not completely clear, and so I'll pocket some gains and get neutral until the next compelling edge emerges.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/10 – somewhat bullish

If someone told you Thursday at noon that the week was going to finish positive, you may have thought them nuts. It sure didn't feel positive at that point. But it didn't take long to change the look of the weekly chart. And the SPX ended up in the green. From an intermediate-term studies standpoint there was just one added to the Active List.

It was a well-publicized intermediate-term signal that triggered a few times this week - the Hindenburg Omen. The Hindenburg Omen was created by Jim Miekka in 1995. It looks to identify times when there is a split market developing, which could signal trouble ahead. Monday and Tuesday we saw Hindenburg Omen signals. These marked the 3rd and 4th signals (under the less strict rules) that we have seen in the last 2 weeks.

Below are the rules for a Hindenburg Omen signal.

1. The daily number of NYSE new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically, 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% there have only been 4 instances since 1980 where there has been a cluster of 3 or more triggers. They all saw lower prices ahead, but this does not give us a sample size that is even remotely workable. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.)
2. The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows.
3. The McClellan Oscillator is negative on the same day.
4. New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).

It is generally viewed that a single Hindenburg Omen signal is not a reliable indication of a market top, but that numerous signals provide a more reliable indication of danger. This is something I explored in the past and updated this week. So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

Buy SPX when 1st 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	9,987.35	23	12	11	52.17	6,841.50	13,171.60	-6,555.51	-19,079.85	1.04	1.14	434.23
95	13,052.60	24	13	11	54.17	6,816.97	17,946.48	-6,869.81	-22,416.88	0.99	1.17	543.86
90	-3,650.88	24	12	12	50.00	6,758.52	15,961.92	-7,062.76	-20,572.65	0.96	0.96	-152.12
85	2,576.99	24	12	12	50.00	7,702.17	16,670.24	-7,487.42	-21,465.22	1.03	1.03	107.37
80	-14,115.87	24	11	13	45.83	7,219.99	16,583.84	-7,195.06	-21,552.30	1.00	0.85	-588.16
75	-12,979.72	24	12	12	50.00	6,471.07	14,501.70	-7,552.72	-22,917.59	0.86	0.86	-540.82
70	-17,197.09	24	10	14	41.67	8,318.72	17,714.32	-7,170.31	-20,289.64	1.16	0.83	-716.55
65	-27,173.27	24	10	14	41.67	7,642.90	16,609.84	-7,400.16	-21,508.76	1.03	0.74	-1,132.22
60	-41,230.50	24	10	14	41.67	6,547.07	17,197.44	-7,621.52	-24,323.31	0.86	0.61	-1,717.94
55	-62,429.48	24	9	15	37.50	6,517.21	14,306.24	-8,072.29	-27,246.71	0.81	0.48	-2,601.23
50	-37,488.28	24	9	15	37.50	7,233.64	14,509.04	-6,839.40	-29,846.67	1.06	0.63	-1,562.01
45	-30,160.56	25	11	14	44.00	5,674.61	13,151.98	-6,612.95	-23,971.88	0.86	0.67	-1,206.42
40	-26,559.29	25	10	15	40.00	6,640.76	12,520.58	-6,197.79	-23,520.93	1.07	0.71	-1,062.37
35	-27,150.59	26	11	15	42.31	6,113.09	12,021.20	-6,292.97	-24,659.19	0.97	0.71	-1,044.25
30	-13,105.41	27	14	13	51.85	4,840.74	9,855.58	-6,221.21	-22,460.42	0.78	0.84	-485.39
25	-2,627.51	28	14	14	50.00	5,152.84	9,781.64	-5,340.52	-27,340.01	0.96	0.96	-93.84
20	-4,315.56	29	16	13	55.17	3,949.12	9,257.67	-5,192.43	-19,533.91	0.76	0.94	-148.81
15	7,508.64	31	15	16	48.39	3,253.54	9,103.68	-2,580.91	-8,166.80	1.26	1.18	242.21
10	3,255.00	37	19	18	51.35	2,522.20	9,012.33	-2,481.49	-7,899.90	1.02	1.07	87.97
5	-10,839.06	44	17	27	38.64	1,849.17	4,926.56	-1,565.74	-5,775.12	1.18	0.74	-246.34

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period, which is a common time-period that Hindenburg watchers look for.

Buy SPX when 2nd 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	19,339.22	12	7	5	58.33	8,104.55	17,883.98	-7,478.53	-18,879.12	1.08	1.52	1,611.60
95	18,964.27	13	8	5	61.54	7,790.60	17,605.78	-8,672.11	-21,212.88	0.90	1.44	1,458.79
90	20,547.32	13	9	4	69.23	6,690.45	20,476.59	-9,916.68	-20,011.68	0.67	1.52	1,580.56
85	3,243.66	14	6	8	42.86	10,080.32	20,455.19	-7,154.78	-21,883.68	1.41	1.06	231.69
80	2,405.00	14	7	7	50.00	8,214.81	18,961.47	-7,871.24	-21,961.68	1.04	1.04	171.79
75	5,748.77	14	7	7	50.00	8,372.79	17,861.51	-7,551.54	-23,181.60	1.11	1.11	410.63
70	-6,904.36	14	8	6	57.14	6,688.00	21,700.67	-10,068.06	-19,060.08	0.66	0.89	-493.17
65	-25,530.96	14	6	8	42.86	7,818.50	20,504.41	-9,055.25	-23,131.68	0.86	0.65	-1,823.64
60	-16,264.54	14	7	7	50.00	6,160.29	19,457.95	-8,483.79	-22,011.60	0.73	0.73	-1,161.75
55	-33,157.03	14	6	8	42.86	6,624.41	18,625.49	-9,112.94	-26,329.68	0.73	0.55	-2,368.36
50	-32,247.86	14	5	9	35.71	7,722.44	17,961.02	-7,873.34	-29,889.60	0.98	0.54	-2,303.42
45	-28,520.09	15	6	9	40.00	5,741.73	16,345.32	-6,996.72	-24,766.56	0.82	0.55	-1,901.34
40	-25,103.58	15	6	9	40.00	6,326.03	14,615.13	-7,006.64	-24,853.92	0.90	0.60	-1,673.57
35	-20,159.24	15	7	8	46.67	5,528.46	13,303.31	-7,357.31	-22,211.28	0.75	0.66	-1,343.95
30	-25,451.65	15	7	8	46.67	4,884.77	11,007.09	-7,455.63	-20,354.88	0.66	0.57	-1,696.78
25	-22,588.16	16	8	8	50.00	4,720.73	10,173.56	-7,544.25	-23,381.28	0.63	0.63	-1,411.76
20	-25,965.01	17	7	10	41.18	3,944.37	8,886.35	-5,357.56	-22,295.52	0.74	0.52	-1,527.35
15	4,319.83	18	8	10	44.44	3,145.17	8,305.02	-2,084.16	-6,748.56	1.51	1.21	239.99
10	-3,034.14	23	8	15	34.78	2,981.07	9,247.23	-1,792.18	-5,748.21	1.66	0.89	-131.92
5	1,574.82	28	11	17	39.29	2,353.07	6,245.73	-1,429.94	-3,352.36	1.65	1.06	56.24

Some of these numbers look a little worse, but you'd probably need to squint to notice. I next checked instances that triggered a 3rd signal in a 30-day period.

Buy the SPX when the 3rd 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: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade	All: Max Losing Trade	All: Max Winning Trade
100	18,189.83	9	6	3	66.67	6,521.01	-6,978.75	0.93	1.87	2,021.09	-16,085.07	18,512.90
95	9,304.48	9	5	4	55.56	6,711.67	-6,063.47	1.11	1.38	1,033.83	-16,770.54	16,070.66
90	101.55	9	4	5	44.44	9,036.94	-7,209.24	1.25	1.00	11.28	-19,277.67	18,595.58
85	6,033.07	9	5	4	55.56	7,852.24	-8,307.03	0.95	1.18	670.34	-21,362.25	18,884.96
80	-10,368.80	10	4	6	40.00	8,639.87	-7,488.05	1.15	0.77	-1,036.88	-19,449.82	16,528.58
75	-4,108.84	10	4	6	40.00	10,775.33	-7,868.36	1.37	0.91	-410.88	-22,758.23	18,289.24
70	-12,895.26	10	4	6	40.00	8,797.08	-8,013.93	1.10	0.73	-1,289.53	-21,021.08	19,119.22
65	-25,072.11	10	3	7	30.00	8,434.30	-7,196.43	1.17	0.50	-2,507.21	-23,731.66	17,909.76
60	-23,437.47	10	4	5	40.00	5,846.03	-9,364.32	0.62	0.50	-2,343.75	-22,576.69	17,209.10
55	-29,818.46	10	2	8	20.00	10,436.19	-6,336.35	1.65	0.41	-2,981.85	-20,673.65	17,905.52
50	-25,203.09	10	2	8	20.00	11,705.02	-6,076.64	1.93	0.48	-2,520.31	-22,263.69	17,255.74
45	-32,230.99	10	3	7	30.00	7,255.22	-7,713.81	0.94	0.40	-3,223.10	-25,143.29	15,507.80
40	-40,485.19	10	3	7	30.00	6,532.64	-8,583.30	0.76	0.33	-4,048.52	-26,846.01	13,700.50
35	-32,141.50	10	2	8	20.00	8,676.37	-6,186.78	1.40	0.35	-3,214.15	-22,795.79	11,461.78
30	-32,085.92	11	4	7	36.36	6,414.52	-8,249.14	0.78	0.44	-2,916.90	-23,844.34	10,991.14
25	-36,341.93	11	4	7	36.36	5,376.68	-8,264.09	0.65	0.37	-3,303.81	-25,105.73	9,841.04
20	-37,079.86	11	4	7	36.36	4,136.00	-7,660.55	0.54	0.31	-3,370.90	-21,406.07	8,458.80
15	-26,985.45	13	6	7	46.15	3,205.22	-6,602.39	0.49	0.42	-2,075.80	-26,924.26	7,078.68
10	-39,038.35	14	5	9	35.71	1,892.94	-5,389.23	0.35	0.20	-2,788.45	-25,784.94	3,159.86
5	-9,973.42	18	5	13	27.78	1,848.15	-1,478.01	1.25	0.48	-554.08	-3,509.22	4,174.28

Between 35 and 55 days out there appears to be some pretty poor returns on a very small sample size. I would also note that 6 of the 10 instances looking out 50-days saw drawdowns of at least 5%.

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.

In all, there just is not enough data for me to make a strong statement about the Hindenburg Omen. But when there have been at least 4 signals in the past, market difficulty has commonly occurred. My take is that the 4-cluster Hindenburg Omen we recently saw is a possible warning sign. I think results are strong enough to give it some consideration and I have included it on the intermediate-term active list.

This is the 1st time we have seen a sizable cluster of Hindenburg triggers since 2007. Subscribers that wish to study Hindenburgs more on their own may download the Tradestation strategy code from the member downloads page.

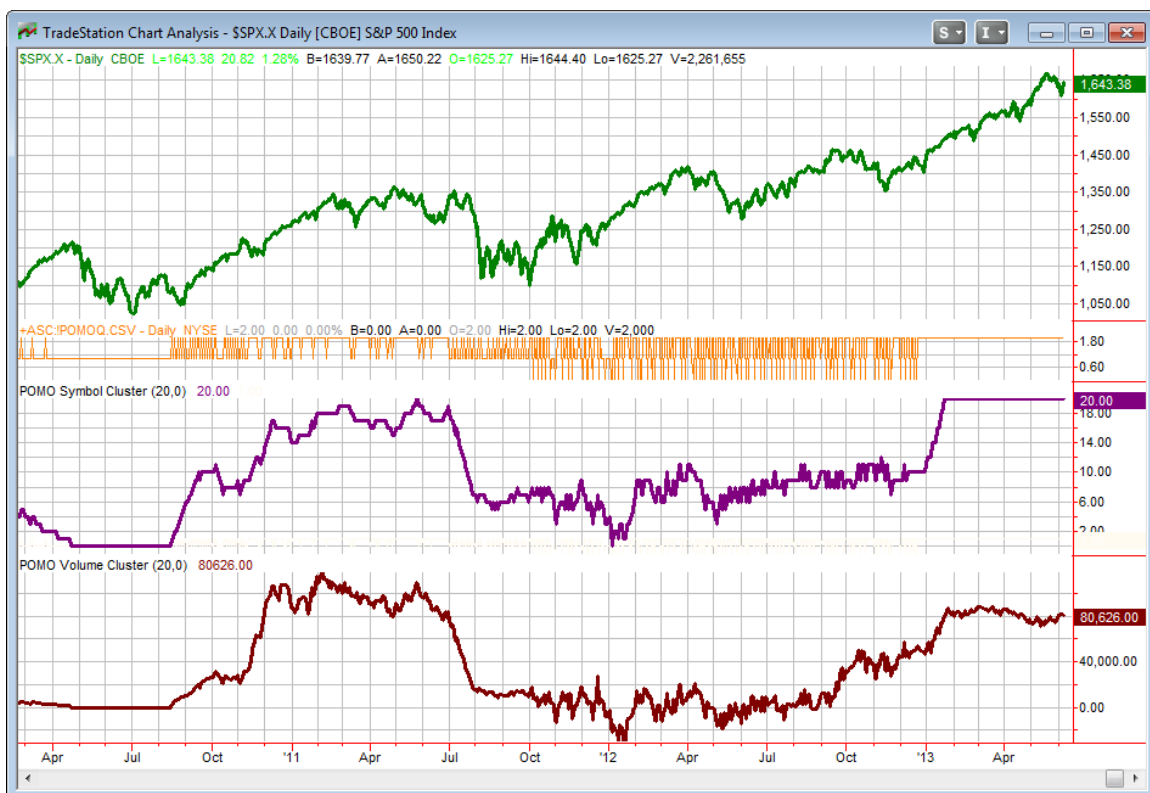
<http://www.quantifiableedges.com/members/memdownloads.php>

I would also note that Tom McClellan wrote an interesting piece on the history of the indicator a while back. You may find a link to that write-up below.

http://www.mcoscillator.com/learning_center/kb/special_market_reports/hindenburg_omen_signaled_but_also_not/

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS volume indicator remains in its 2013 range. The days indicator is *still* maxed out at 20, which was a rarity during past QE implementations, but has been the norm so far this year. We estimate net inflows this past week to have been about \$20

billion, which is pretty good sized week. In the past, inflows of this magnitude have typically been bullish looking out over the next several days.

This upcoming week is expected to be the smallest of June, with scheduled flows of about \$18billion. Though lower than other weeks this month, that is still an amount that has typically kept the liquidity environment positive in the past.

Many more bullish studies are active than bearish, but we got our first bearish warning sign in the form of the cluster of Hindenburg Omen signals. Meanwhile momentum, breadth, and liquidity all favor the upside. I scaled back my outlook just slightly, going from “Bullish” to “Somewhat Bullish” this week. From a trading standpoint that still means I will be favoring longs and being extra selective about any shorts.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

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

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 – 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	\$164.80	-0.39%		sell @ \$164.50 limit
SO (1/3)	5/29/2013	\$44.67	\$44.56	-0.25%		sold on open
SO (1/3)	5/30/2013	\$44.26	\$44.56	0.68%		sold on open
EXC(1/3)	5/30/2013	\$31.65	\$31.35	-0.95%		sell on close >= \$31.65
EXC(1/3)	5/31/2013	\$31.50	\$31.35	-0.48%		sell on close >= \$31.65
EXC(1/3)	6/3/2013	\$31.34	\$31.35	0.03%		sell on close >= \$31.65
SPY(1/4)	6/3/2013	\$163.65	\$164.80	0.70%		sold on close
AVP(1/3)	6/6/2013	\$22.61	\$23.69	4.78%		sold on close
LMT(1/3)	6/6/2013	\$103.59	\$107.36	3.64%		sold on close
SPY(1/4)	6/6/2013	\$161.20	\$164.80	2.23%		sold on close

I put a limit of \$164.50 on the last SPY lot in case of a gap down. If it gaps below there I will give it a little time to bounce up. If it does not trigger an exit in the first 30 minutes or so I will likely send out an intraday email placing a stop below the low of the day.

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