

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 11, 2013

Volume 6 Issue 111

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 days of strong Nasdaq breadth are often followed by a down day.

Short-term Outlook

The Bottom Line

I am not seeing a strong directional edge and am not inclined to take a large position until I do see one.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 11, 2013	Nasdaq strong breadth 3 days	1 day	Bearish	
June 7, 2013	20-low reversal > 200	1-6 days	Bullish	2.40%
June 6, 2013	Unfill Gap Dn, Poor Close, Over 200	1-8 days	Bullish	2.90%
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				
<i>June 6, 2013</i>	<i>20 low > 200</i>	<i>1-7 days</i>	<i>Bullish</i>	<i>2.35%</i>
<i>June 6, 2013</i>	<i>McOsc % Rank Sum < 5 last 4 days</i>	<i>1-4 days</i>	<i>Bullish</i>	<i>2.30%</i>
June 3, 2013	Big drop on Friday	1-6 days	Bullish	2.70%

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

The Evidence

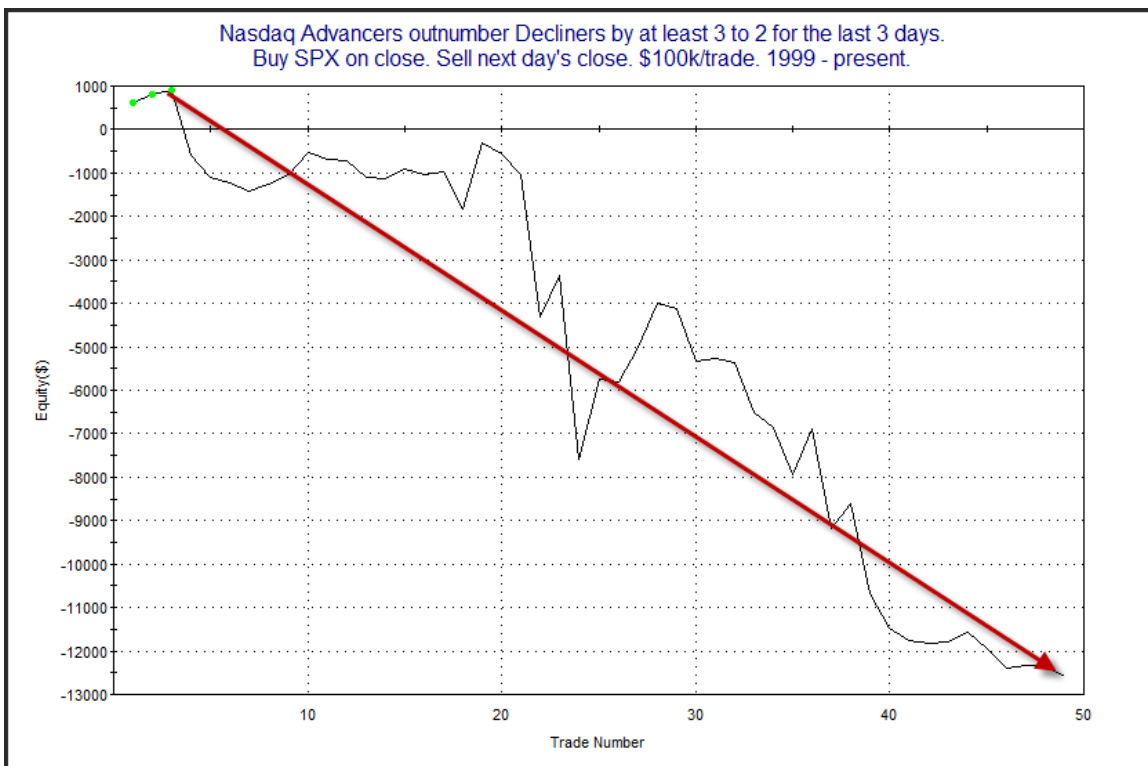
The market decided to take a break from its recent volatility on Monday. After a lot of wiggle, the major indices finished mixed. The SPX was nearly breakeven with a 0.57 point loss. Meanwhile the Nasdaq gained 0.1% and the Russell 2000 rose 0.5%. Breadth was mildly negative as the NYSE Up Issues % was 45% and the Up Volume % was 47%. Total NYSE volume came in at the lightest since the Friday before Memorial Day.

Trading sideways near the middle of the recent range will rarely generate substantial edges. And there was just one study worth mentioning tonight. It looked at other times Nasdaq advancers outnumbered decliners by more than 3:2 for 3 days in a row. It suggested a possible downside edge, which mostly played out the first day. I last showed it in the 10/18/12 letter. I decided to switch it slightly tonight to see how the SPX has fared the following day. Results below.

Nasdaq Advancers outnumber Decliners by at least 3 to 2 for the last 3 days.
Buy SPX on close. Sell next day's close. \$100k/trade. 1999 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	(\$12,591.14)	Profit Factor	0.45	
Gross Profit	\$10,238.71	Gross Loss	(\$22,829.85)	
Total Number of Trades	49	Percent Profitable	38.78%	
Winning Trades	19	Losing Trades	30	
Even Trades	0			
Avg. Trade Net Profit	(\$256.96)	Ratio Avg. Win:Avg. Loss	0.71	
Avg. Winning Trade	\$538.88	Avg. Losing Trade	(\$761.00)	
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)	

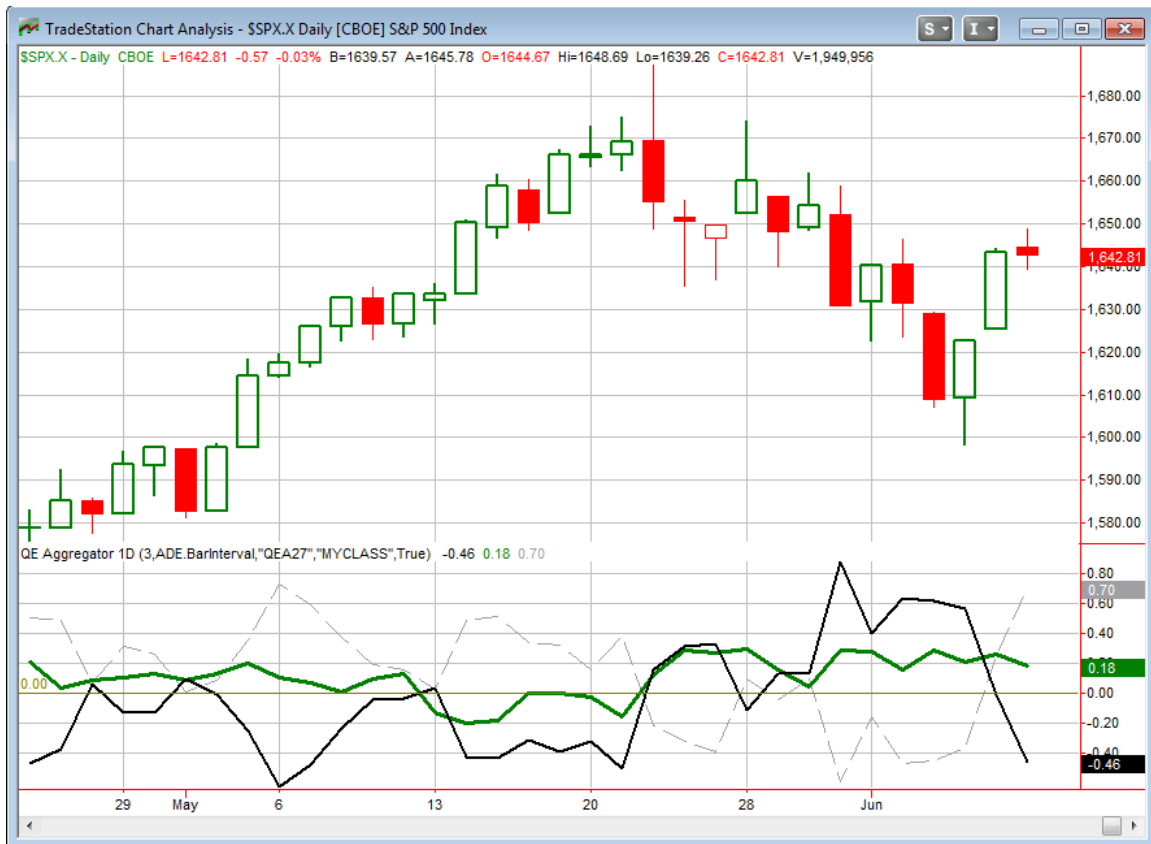
The numbers imply a bit of a downside edge. I also produced an equity curve.



It's definitely choppy, but it has moved from upper left to lower right for a long time. And with nothing else compelling triggering tonight, it is probably worth some consideration.

I would also note that we saw a couple of other studies reach their targets on Monday, and they have been removed from the Active List. So while the bullish studies are still in charge, they are starting to lessen.

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



Despite the mildly bearish study tonight the green Aggregator Line is still well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line continues to drop further 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 versus recent expectations. 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 remain flat at the close.

Based on the current studies, expectations are slated to remain positive on Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will

be 1,632.94 on Tuesday. This is 0.6% below Monday's close. So SPX would need to close down at least this much in order to move from overbought to oversold on Tuesday.

I really have no short-term directional conviction at the moment. We have a mix of studies, and while we are overbought in the very short-term, the market is mid-range over the last couple of weeks. I have exited all of Trade Ideas except for the EXC Catapult trade. And I expect that won't last much longer. The target has moved down once again and I have sandwiched it with a stop below recent support. I suspect the next few days will be interesting. I'll be on the lookout for the next favorable setup in order to put more capital back to work.

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

The intermediate-term outlook was last updated in the 6/10 letter. Link below:

[2013-06-10 QE Subscriber Letter.pdf](#)

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	\$165.31	-0.08%		sold on open
EXC(1/3)	5/30/2013	\$31.65	\$31.39	-0.82%	\$30.94	sell on close >= \$31.53
EXC(1/3)	5/31/2013	\$31.50	\$31.39	-0.35%	\$30.94	sell on close >= \$31.53
EXC(1/3)	6/3/2013	\$31.34	\$31.39	0.16%	\$30.94	sell on close >= \$31.53

EXC has not bounced in typical fashion for a Catapult trade, though it has had ample time. Wary of sitting through another leg down if recent lows should fail, I will place a stop a little below those lows.

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