

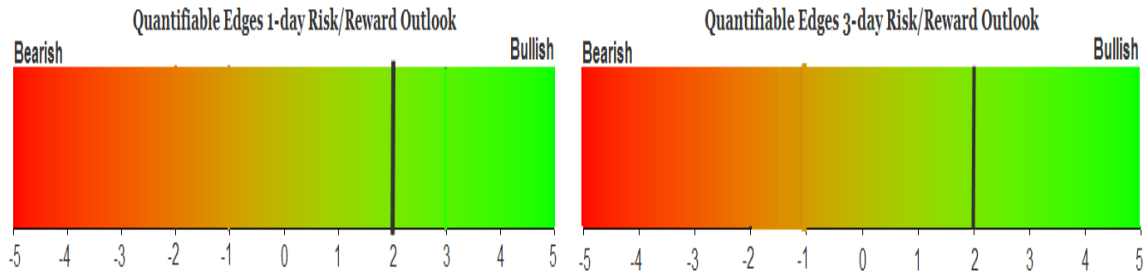
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 12, 2013

Volume 6 Issue 112

Market Overview



Signals Overview

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

Tonight's Research Points

- 1%+ drops on strongly negative breadth are often followed by a bounce.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but I have some concerns. These include weak evidence, relatively weak POMO flows, and a possible change in character for the market. So I think there is a moderate upside edge, but I am exercising caution.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 12, 2013	1% drop. Decliners 2x advancers.	1-5 days	Bullish	2.30%
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				
June 11, 2013	Nasdaq strong breadth 3 days	1 day	Bearish	

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

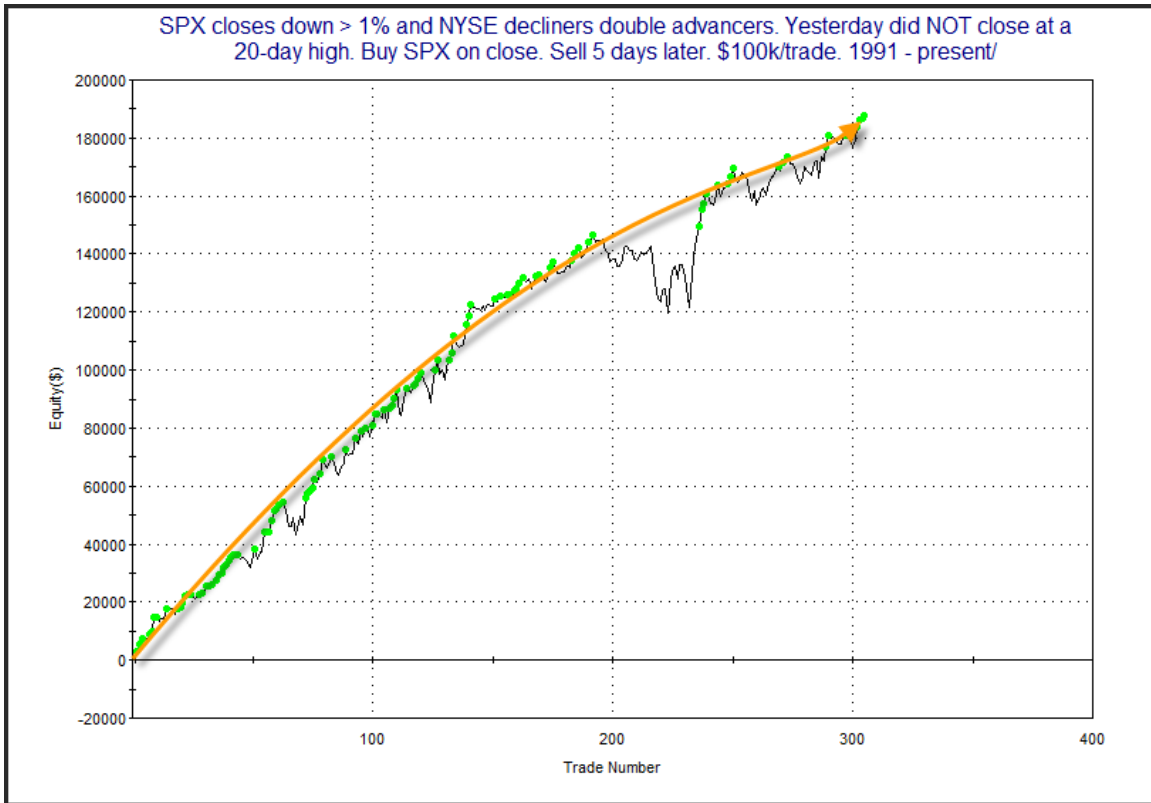
The Evidence

Volatility came back Tuesday and it resulted in a pretty big loss. The SPX and Nasdaq each lost 1% and the Russell 2000 lost 1.1%. Breadth was strongly negative as the NYSE Up Issues % was 14% and the Up Volume % was 16%. Total NYSE volume rose some from Monday's level but still was below average.

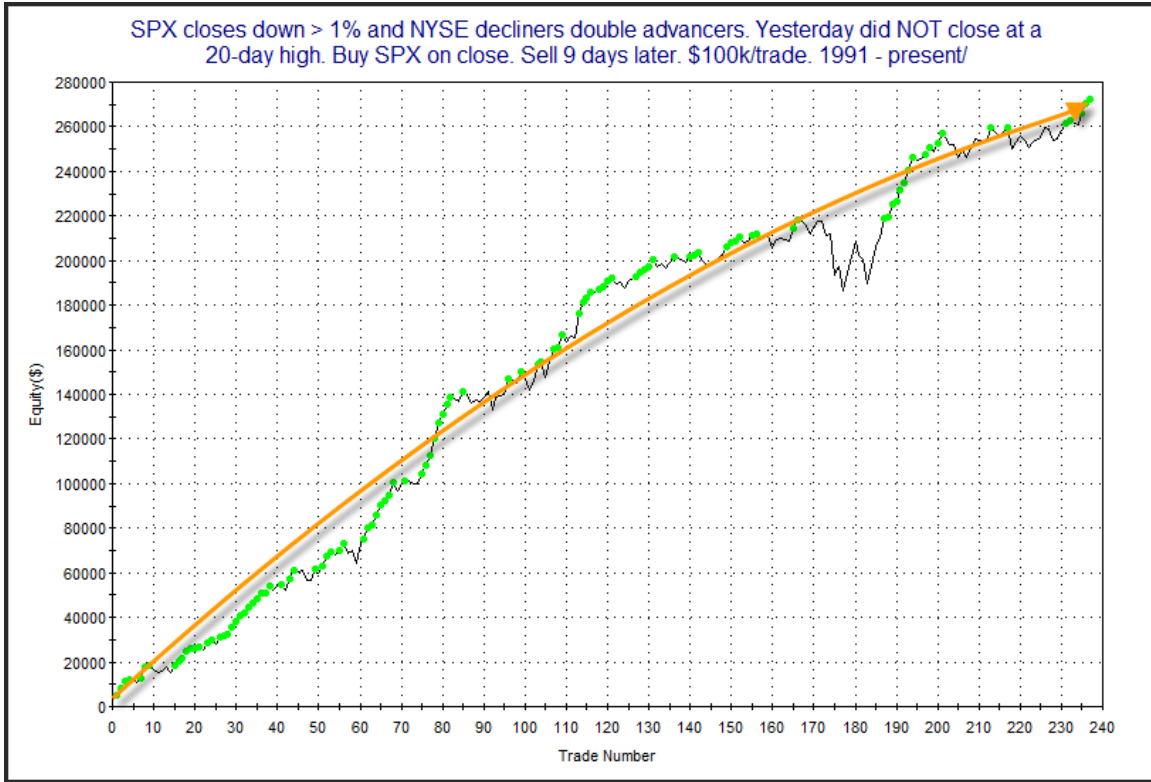
The study below was last discussed in the 6/12/12 letter, and I have shown it a number of times over the years. It looks at big drops on strongly negative breadth when the market did not make an intermediate-term high the day before. Stats are updated.

SPX closes down > 1% and NYSE decliners double advancers. Yesterday did NOT close at a 20-day high. Buy SPX 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	225,193.45	228	149	79	65.35	3,037.00	16,319.16	-2,877.47	-16,768.40	1.06	1.99	987.69
9	272,197.98	237	165	72	69.62	2,919.32	10,875.66	-2,909.58	-18,373.16	1.00	2.30	1,148.51
8	236,405.77	249	163	85	65.46	2,912.69	15,738.88	-2,804.27	-17,685.00	1.04	1.99	949.42
7	216,432.30	269	167	102	62.08	2,679.71	10,415.64	-2,265.48	-12,654.00	1.18	1.94	804.58
6	181,633.34	281	172	109	61.21	2,504.48	14,933.73	-2,285.66	-19,140.34	1.10	1.73	646.38
5	187,622.13	305	184	121	60.33	2,333.30	11,405.78	-1,997.56	-8,351.64	1.17	1.78	615.15
4	146,286.56	327	188	139	57.49	2,214.44	14,020.11	-1,942.65	-14,820.98	1.14	1.54	447.36
3	147,812.88	365	220	145	60.27	1,868.67	8,531.60	-1,815.83	-10,506.45	1.03	1.56	404.97
2	141,522.38	419	231	188	55.13	1,764.21	8,484.76	-1,414.95	-8,657.72	1.25	1.53	337.76
1	122,652.56	470	275	195	58.51	1,191.31	10,716.03	-1,051.07	-7,577.02	1.13	1.60	260.96

The stats table suggests a decent upside edge over the next 1-2 weeks. Below are the profit curves for the 5-day and 9-day holding periods. First the five.

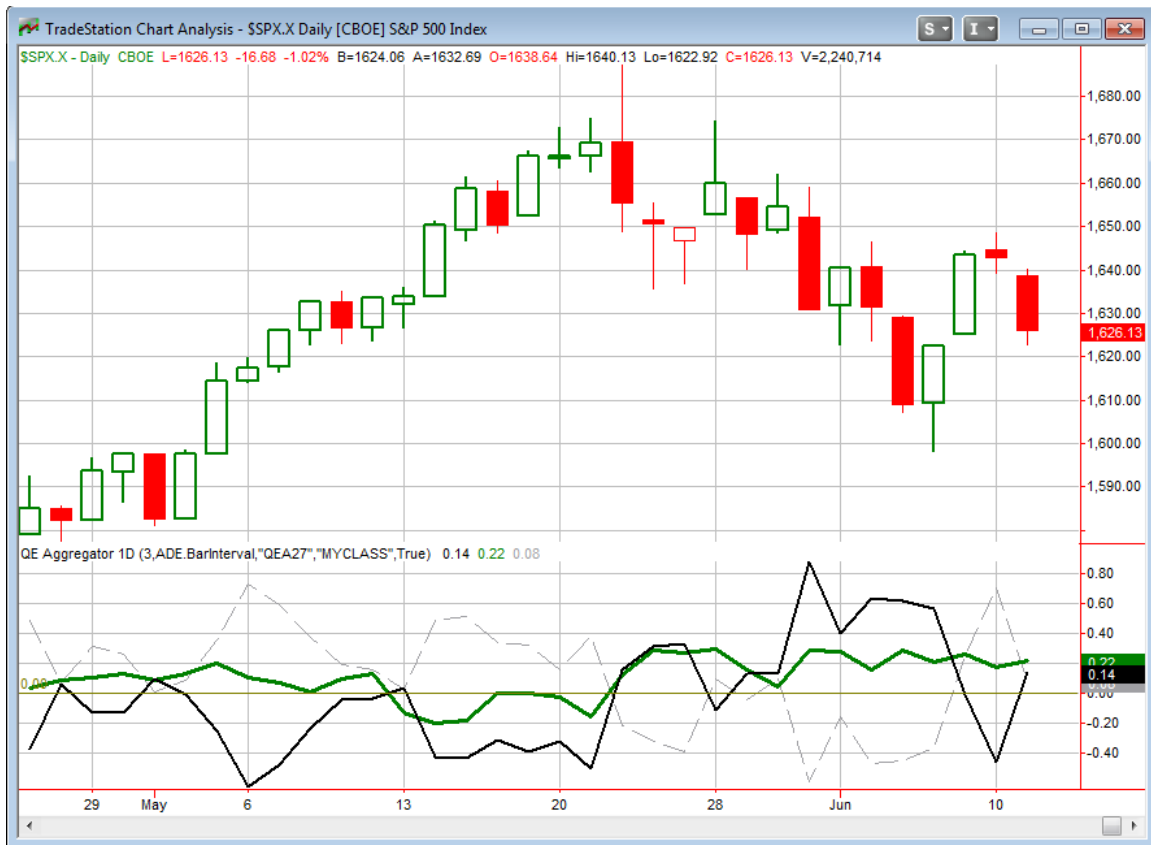


Other than the one rough period, it has been a pretty persistent rise in this curve. Now the 9-day curve.



This looks quite similar and suggests the upside edge which has been in place a long time, remains so. One caveat today though. While breadth clearly met the criteria, the price drop just barely met the 1% criteria, with a 1.02% decline. This reduces my confidence a little bit about the current situation.

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

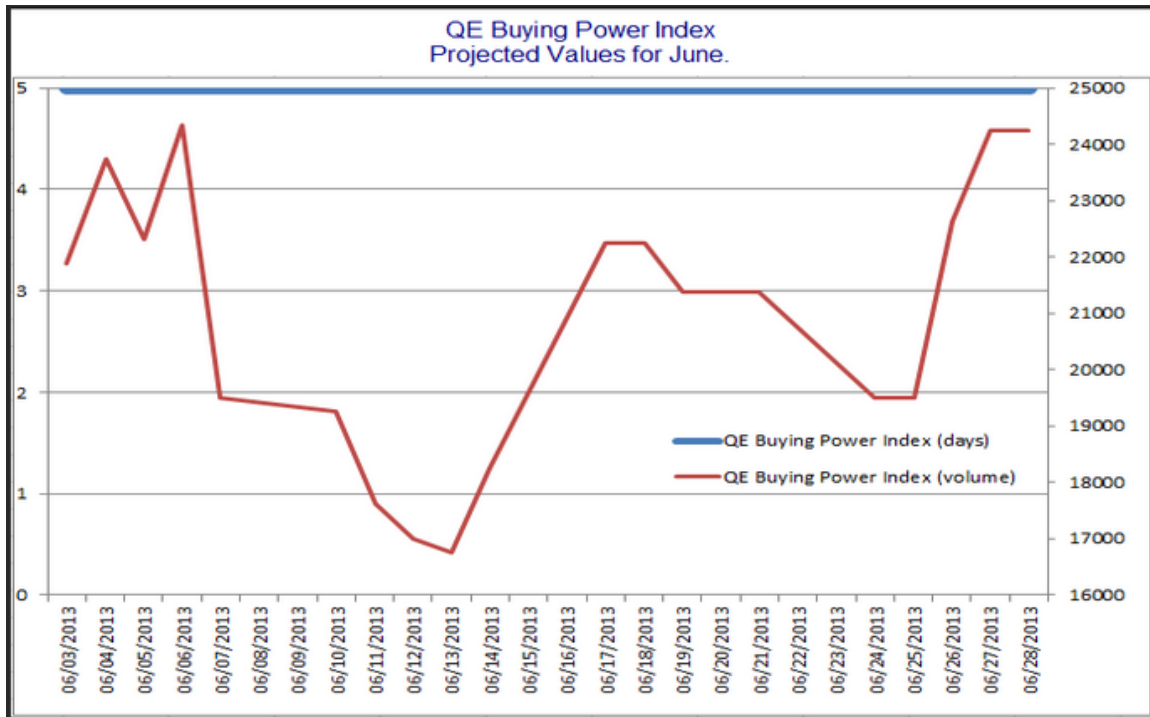


With only bullish studies left for the short-term, the green Aggregator Line is still well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line spiked up with Tuesday's selloff and is now back above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is short-term 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 turn from flat to 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 1,655.47 on Wednesday. This is a very large 1.8% above Tuesday's close. That is a pretty unlikely 1-day gain. We will probably need to see a multi-day rally or consolidation to work off the oversold condition.

So the Aggregator is back to showing a long-side edge. But I have some concerns. For one, as I mentioned above, the current setup just barely qualified for today's setup. And the other studies, while still active, are only so because the market did not reach as high as typical on the last bounce. So evidence is leaning bullish, but the evidence seems a little sketchy.

Further, as I mentioned in the intermediate-term outlook on Sunday, we are now in the weakest period of POMO flows that we will see all month. So if the bears are going to manage to sell down the market, we are in the prime time to see it happen from a liquidity standpoint. I've copied the June QE Buying Power Index chart for June below. The 5-day volume numbers is dropping and is set to bottom out on Thursday.



So perhaps the bears may have a chance to press their case a little in the next few days.

Additionally, there has not been much of anything in the way of lower highs on the SPX chart since the beginning of the year. Every dip has immediately gone on to make new highs. This time IS different as bounces have died out quickly over the last 3 weeks. Perhaps the market is undergoing a character change and beginning a corrective phase (although I suspect it will be a relatively brief one).

In sum, this means I will not immediately look to jump on this long Aggregator signal. If we get another relatively large selloff on Wednesday, then I will likely look to get in on Thursday. In fact, I strongly considered showing a trade idea that would buy SPY if it closed down 1% or somewhere around there. Ultimately, I just decided to see if new compelling bullish evidence emerges tomorrow, and then I'll do the buying Thursday if it does.

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

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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
EXC(1/3)	5/30/2013	\$31.65	\$31.20	-1.42%		<i>sell on open</i>
EXC(1/3)	5/31/2013	\$31.50	\$31.20	-0.95%		<i>sell on open</i>
EXC(1/3)	6/3/2013	\$31.34	\$31.20	-0.45%		<i>sell on open</i>

EXC did not meet its end-of-day target on Tuesday, but it DID hit its intraday target. So the standard play is to exit at the next day's open. And that is what I will do.

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