

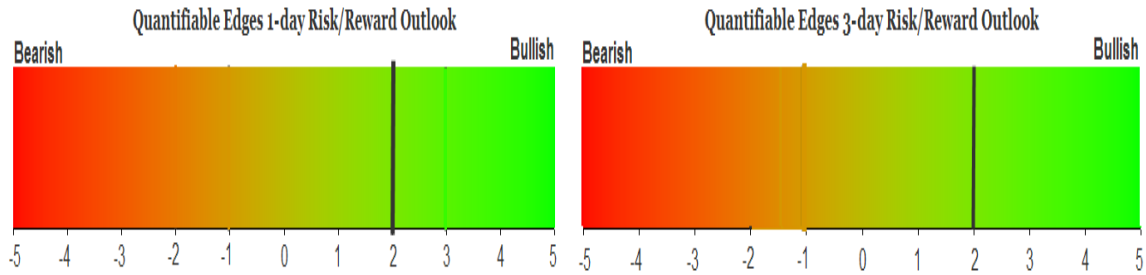
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 13, 2013

Volume 6 Issue 113

Market Overview



Signals Overview

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

Tonight's Research Points

- 3-day pullbacks are often bullish, but this one seems a bit lacking.

Short-term Outlook

The Bottom Line

The Aggregator is again bullish. I'm not overly enthused, but will begin to dip my toe in the long side if I can get a favorable fill.

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

Wednesday started off strong but it did not last. The SPX lost 0.8%, the Nasdaq declined 1.1% and the Russell 2000 fell 0.9%. Breadth was strongly negative as the NYSE Up Issues % was 17% and the Up Volume % was 19%. Total NYSE volume was just a little below Tuesday's.

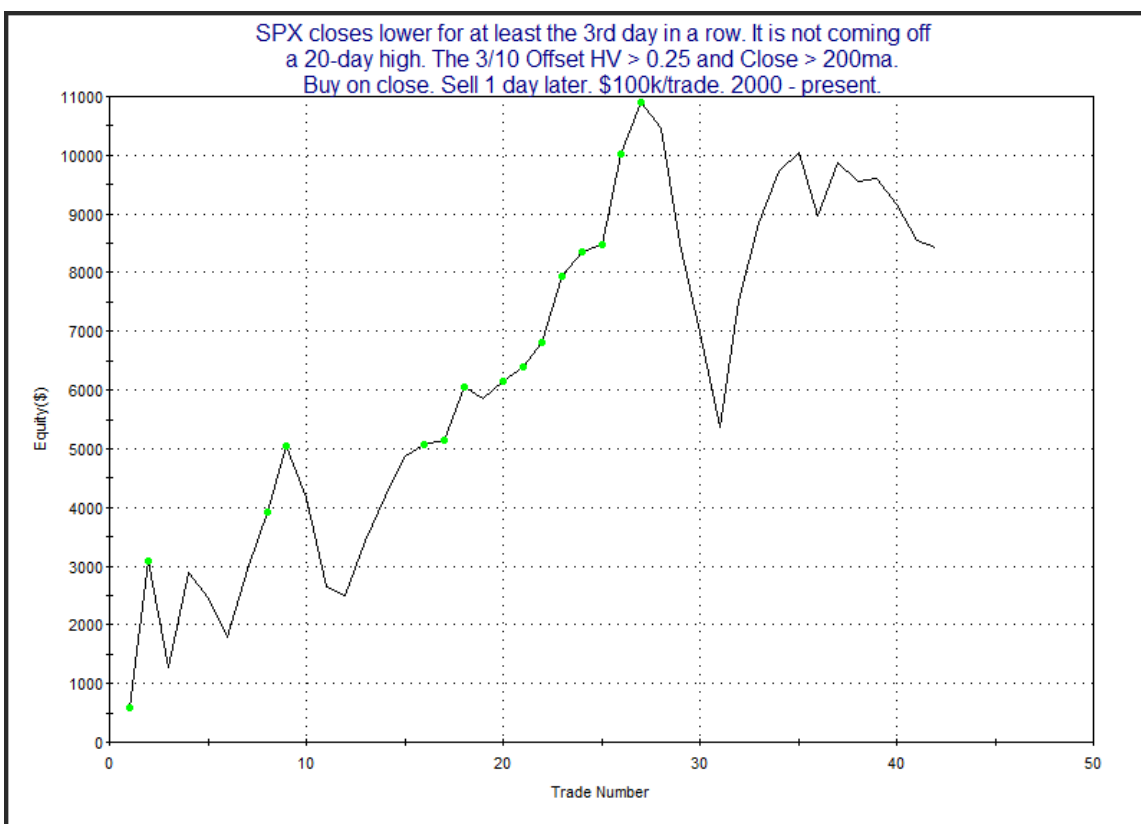
There were a number of studies that trigger in the Quantifinder that dealt with 3-day pullbacks. As with mostly anything, 3-day pullback are not all made the same. In an uptrend they generally carry a bullish tendency, but there are nuances I have found over the years that seem to raise or lower the chances of success. For instance, when the 3rd day down is a bigger loss than both of the other 2, that sometimes signals panic/washout or whatever you want to call it. In situations like that the studies typically come out better. We are not in that kind of situation.

If it is not a washout, then a quiet pullback is often favored. To measure "quiet" I use the 3/10 Offset HV indicator that can be found on the charts page. The indicator compares 3-day historical volatility (HV) with 10-day HV as of 3 days ago. Low readings are an indication of quiet, and raise the likelihood of a "big move" in the next few days. They also act as a nice filter for pullbacks. Pullbacks that have a higher 3/10 Offset HV reading have not fared as well as very low readings. With all this in mind, I played around with a number of studies, some of which were from the Quantifinder. All of them said basically the same thing: the pullback so far is not providing much of an upside edge. The study below combines a few of the concepts, and it's results were typical of the results I kept getting.

SPX closes lower for at least the 3rd day in a row. It is not coming off a 20-day high. The 3/10 Offset HV > 0.25 and Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

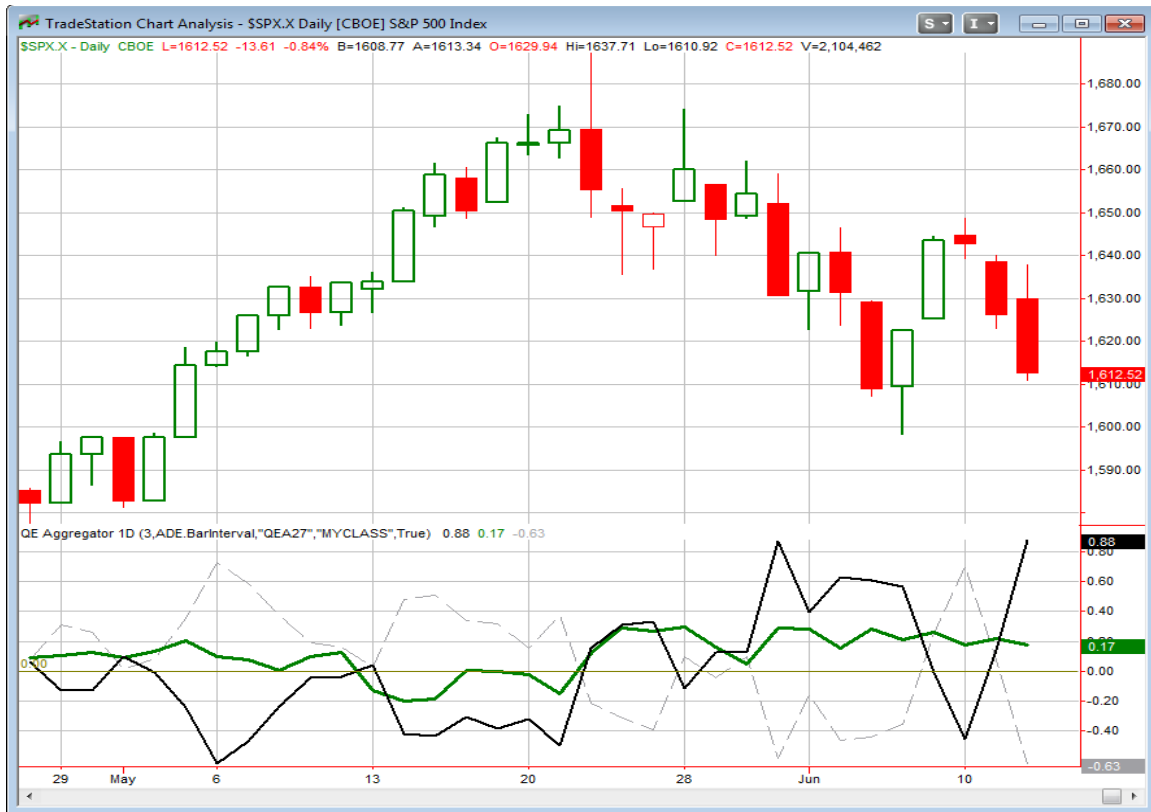
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	19,408.07	34	21	13	61.76	2,797.41	6,470.87	-3,025.96	-13,993.88	0.92	1.49	570.83
9	31,252.82	34	22	12	64.71	2,666.02	6,030.49	-2,283.29	-10,059.36	1.17	2.14	919.20
8	25,128.79	35	23	12	65.71	2,448.69	6,612.06	-2,599.26	-14,092.68	0.94	1.81	717.97
7	24,937.30	36	23	13	63.89	2,126.12	5,520.06	-1,843.34	-8,018.76	1.15	2.04	692.70
6	16,368.19	36	22	14	61.11	1,879.54	5,415.54	-1,784.41	-7,966.32	1.05	1.66	454.67
5	17,187.28	39	19	20	48.72	2,017.83	5,555.16	-1,057.58	-3,385.80	1.91	1.81	440.70
4	16,772.68	42	23	19	54.76	1,757.56	4,731.13	-1,244.80	-3,863.84	1.41	1.71	399.35
3	11,002.76	42	24	18	57.14	1,404.08	3,709.44	-1,260.84	-4,464.88	1.11	1.48	261.97
2	6,161.58	42	24	18	57.14	1,153.92	3,585.76	-1,196.25	-7,559.56	0.96	1.29	146.70
1	8,421.36	42	26	16	61.90	852.84	2,503.90	-859.52	-1,953.32	0.99	1.61	200.51

So we see some upside inclinations, but after day 1, it is very mild for the next week. Really hardly worth thinking much about. Below is a profit curve for a 1-day holding strategy.



Recent history has not been good. In fact, there has been no progress since 2007 – about 6 years. So it appears we have a 3-day pullback that is not helping to provide a compelling upside edge.

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



With nothing really changing 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 continued its run higher and is now strongly 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 remain long at the close.

Based on the current studies, expectations are slated to remain positive on Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,652.84 on Thursday. This is a whopping 2.5% above Wednesday's close. That is a very unlikely 1-day gain. We will probably need to see a multi-day rally or consolidation to work off the oversold condition.

This is simply one of those cases where the Aggregator appears to be more bullish than I am. It is why I treat the Aggregator not as a drop-dead signal, but rather as my favorite indicator. Based on the readings, the market is strong oversold short-term, (which I agree with), and there is fairly strong evidence of a bounce (which I don't). The same issues from last night still remain. POMO flows are relatively weak this week, the change in character for the market is becoming more evident, and I am not seeing strong bullish studies emerge. Still, we are quite oversold, in an uptrend, and bearish evidence for the short-term is non-existent. So I decided I will look to begin scaling in on Thursday if I can get a favorable entry price. Details are in the Trade Ideas section lower down.

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

New

EXC – buy 1/3 @ \$30.40

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(EXC)

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 @ \$160.75 LIMIT ON OPEN. If not filled on open, cancel order and look to buy @ \$161.50 LIMIT ON CLOSE. I am not inclined to step in front of an intraday selloff, but if I can get a favorable entry price either near the open or the close, I will take it.

EXC – buy 1/3 Catapult position @ \$30.40 LIMIT. This is based on the Catapult trigger shown above. And yes, this is the same stock that just closed out a Catapult trade. Very unusual to see it happen again so fast.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>EXC(1/3)</i>	<i>5/30/2013</i>	<i>\$31.65</i>	<i>\$31.31</i>	<i>-1.07%</i>		<i>sold on open</i>
<i>EXC(1/3)</i>	<i>5/31/2013</i>	<i>\$31.50</i>	<i>\$31.31</i>	<i>-0.60%</i>		<i>sold on open</i>
<i>EXC(1/3)</i>	<i>6/3/2013</i>	<i>\$31.34</i>	<i>\$31.31</i>	<i>-0.10%</i>		<i>sold on open</i>

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