

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 14, 2013

Volume 6 Issue 114

Market Overview



Signals Overview

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

Tonight's Research Points

- A gap up and reversal down followed by a gap down and reversal up suggests a bearish short-term edge when SPY is uptrending.

Short-term Outlook

The Bottom Line

The Aggregator is slightly bullish, but Friday is really open to anything. Expectations could finish positive or negative, and the overbought/oversold line is very close to breakeven. I am not looking for more exposure tonight.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 14, 2013	Gap & Reverse 2x	1-4 days	Bearish	
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	

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

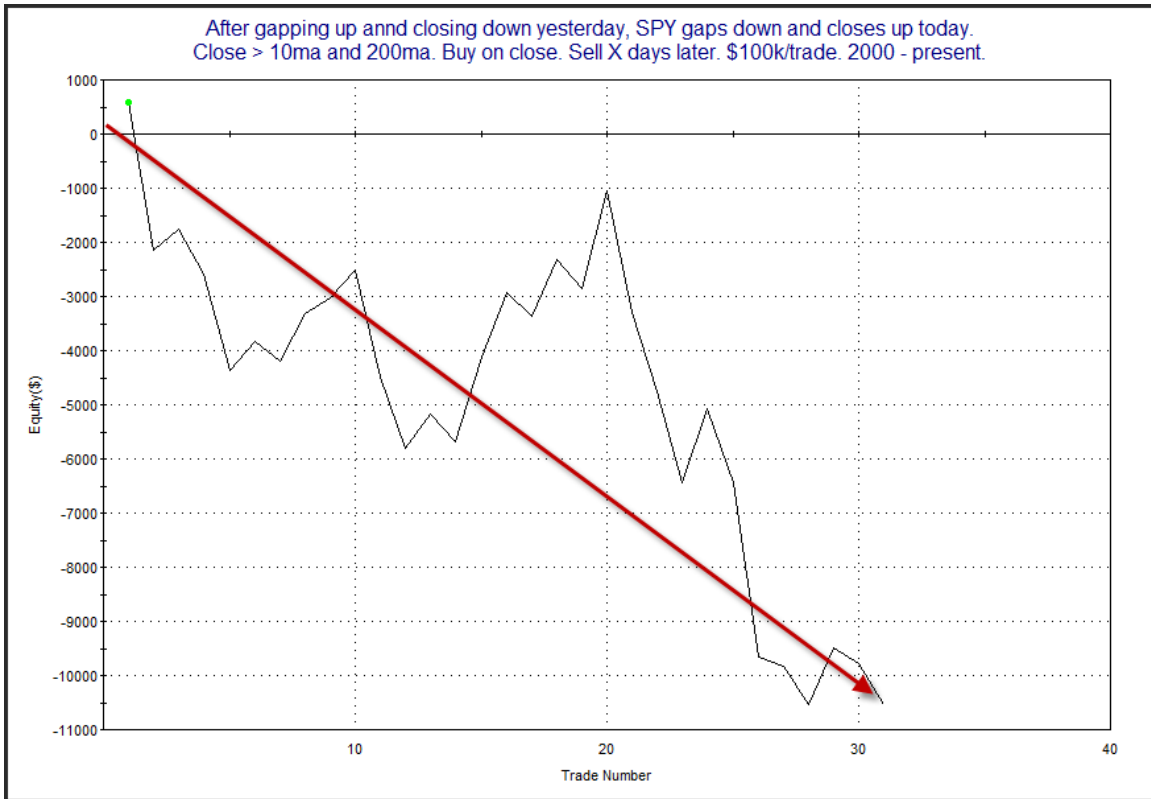
The Evidence

The market put in a nice rally on Thursday. The SPX gained 1.5%, the Nasdaq rose 1.3% and the Russell 2000 closed up 1.8%. Breadth was strongly positive as the NYSE Up Issues % was 84% and the Up Volume % was 90%. Total NYSE volume rose some.

The way SPY has gapped and reversed the last couple of days triggered the study below, which was last seen in the 8/23/12 subscriber letter. Stats are updated.

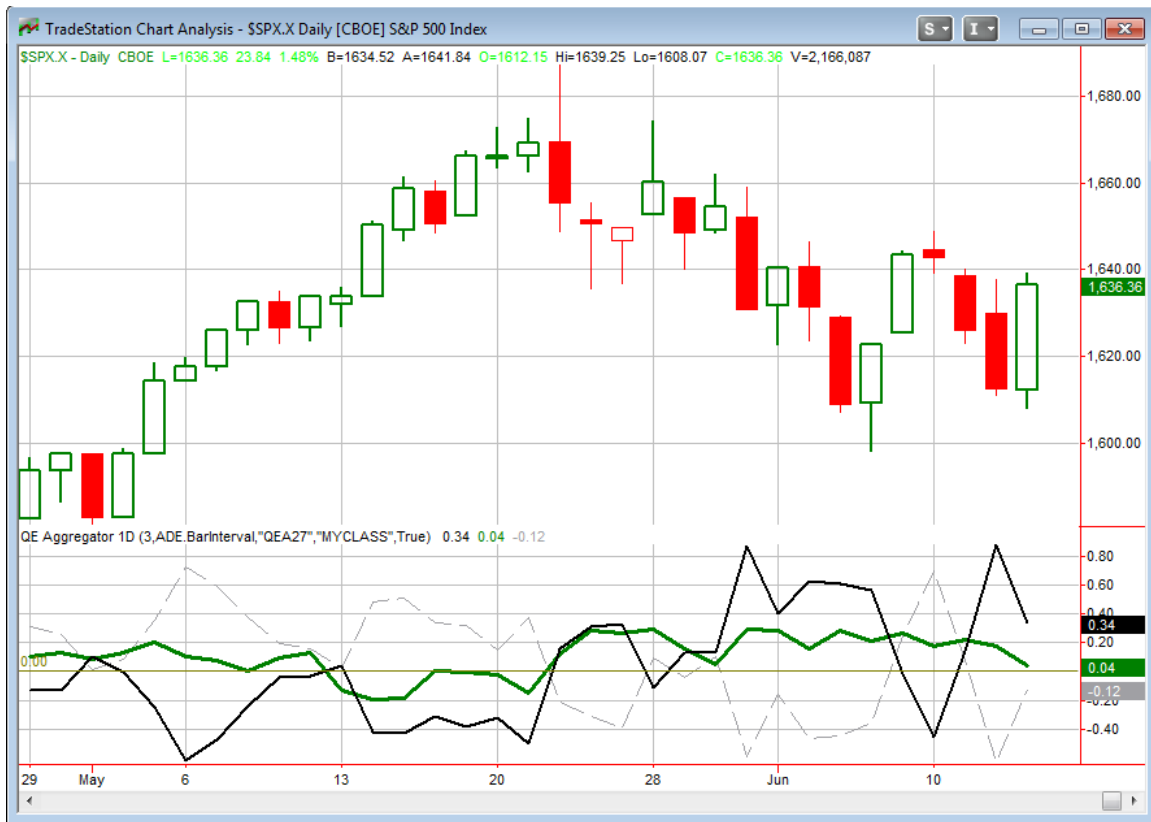
After gapping up and closing down yesterday, SPY gaps down and closes up today. Close > 10ma and 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-5,390.73	30	17	13	56.67	786.22	1,775.87	-1,442.81	-4,262.13	0.54	0.71	-179.69
4	-10,525.16	31	13	18	41.94	912.50	1,803.51	-1,243.76	-3,226.86	0.73	0.53	-339.52
3	-7,952.98	32	14	18	43.75	811.12	1,784.12	-1,072.70	-2,098.04	0.76	0.59	-248.53
2	-5,757.19	34	16	17	47.06	639.14	1,935.96	-940.20	-3,107.14	0.68	0.64	-169.33
1	-5,471.22	34	16	18	47.06	373.53	805.00	-635.98	-1,485.70	0.59	0.52	-160.92

The edge isn't huge but risk/reward has seemed to favor the bears under these circumstances. Below is an equity curve which illustrates how the 4-day exit would have performed over time.



No one would call this a smooth curve, but it seem to be getting somewhere, and that is down. And the recent performance appears to be the most bearish of all. This one is a bit of a close call, but I decided to include it on the active list.

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



Tonight's mildly bearish study caused the green Aggregator Line to dip a little but it still holds above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held 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 turn slightly negative on Friday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 1,636.61 on Friday. This is a mere 0.25 points above Thursday's close. So basically any up close will turn the market overbought, and any down close will leave it oversold. This leaves open all possibilities for the Aggregator on Friday.

Well, what can I say? I was cautious about this long Aggregator for a number of reasons and my caution was punished on Thursday. While ES dipped strongly during the night, it did not provide the big gap down I was requiring for an entry at the open. And we obviously weren't anywhere near the lower close that I was demanding for an end-of-day entry. I got long the Catapult trade idea from last night, but other than that I just ended up watching as I missed this one. That's always disappointing when that happens but I

still believe my reasons for caution were valid, and if presented with the same evidence, would likely handle it very similar once again.

As for tonight – nothing for me to do. If I was long I would be looking to take profits on Friday. And with so many possibilities that could set up on Friday (overbought/oversold & evidence leaning long/short all yet to be determined) I am not inclined to jump in before I know what I am facing.

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 @ \$30.40 (filled)

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EXC(1/3)	6/13/2013	\$30.40	\$30.71	1.02%		Catapult

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