

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 17, 2013

Volume 6 Issue 115

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- June is one of the few months that has not shown a bullish tendency during opex week.
- Wednesday's Fed Day should provide a seasonal edge.
- POMO flows should increase some this week, and even more next week.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. Evidence is weak. The market has been choppy. No edge now but if we get more selling heading into Wednesday, we could see a nice Fed Day edge emerge.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
June 14, 2013	Gap & Reverse 2x	1-4 days	Bearish	-1.25%
June 12, 2013	1% drop. Decliners 2x advancers.	1-5 days	Bullish	2.30%
June 6, 2013	Unfill Gap Dn, Poor Close, Over 200	1-8 days	Bullish	2.90%
<b>Active - Long Term</b>				
June 4, 2013	Hindenburg Omen cluster	1-50 days	Bearish	-8.60%
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	
<b>Dropped Tonight</b>				
June 7, 2013	20-low reversal > 200	1-6 days	Bullish	2.40%
May 23, 2013	3-hi. 3-low. 3-low close. Close > 200.	1-15 days	Bullish	4.10%

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

***The Evidence***

The good vibes from Thursday failed to carry over into Friday, and the major indices all faltered. The SPX and NASDAQ each lost 0.6%, while the Russell 2000 closed down 0.9%. Breadth was negative as the NYSE Up Issues % was 45% and the Up Volume % was 33%. Total NYSE volume came in light.

Back and forth action like we've seen the last few days rarely generates strongly compelling studies, and in this case that certainly held true. In fact, the only study the Quantifinder picked up noted that next week is options expiration week. For much of the year options expiration week is at least somewhat bullish. But June and July have not shown the same kind of bullish tendency over the years. Below are the monthly opex week returns since the beginning of 1984. This table was copied (not updated) from the 3/11/13 letter. (Note: SPX options were not available until mid-1983.)

**Op-Ex Week Performance by Month. 1984 - present. \$100k/trade.  
(Excludes September 2001)**

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
12	22,772.93	29	23	6	79.31	1,358.61	5,868.16	-1,412.53	-4,176.33	0.96	3.69	785.27
11	-828.54	29	17	12	58.62	1,355.92	3,718.25	-1,989.93	-8,351.64	0.68	0.97	-28.57
10	22,735.08	29	21	8	72.41	2,335.39	7,282.10	-3,288.50	-9,109.98	0.71	1.86	783.97
9	10,714.77	28	17	11	60.71	1,810.77	5,313.08	-1,515.30	-4,975.04	1.06	1.64	382.67
8	5,258.03	29	17	12	58.62	1,445.89	4,329.72	-1,610.18	-4,643.52	0.90	1.27	181.31
7	-4,108.73	29	13	15	44.83	1,531.20	6,921.25	-1,600.96	-7,953.12	0.96	0.83	-141.68
6	-879.88	29	16	13	55.17	1,257.62	3,786.09	-1,615.52	-3,998.19	0.78	0.96	-30.34
5	185.01	29	14	15	48.28	2,029.21	4,850.40	-1,881.60	-4,959.45	1.08	1.01	6.38
4	28,080.18	29	19	10	65.52	2,271.86	5,731.96	-1,508.53	-3,580.15	1.51	2.86	968.28
3	24,281.92	29	19	10	65.52	2,117.29	7,515.60	-1,594.66	-6,711.66	1.33	2.52	837.31
2	7,110.33	30	17	13	56.67	1,440.68	3,096.72	-1,337.02	-6,814.80	1.08	1.41	237.01
1	8,366.68	30	15	15	50.00	2,177.49	5,389.00	-1,619.71	-5,383.93	1.34	1.34	278.89

As you can see, June is just one of three months where opex week has failed to produce gains over the years. So we won't necessarily have typical opex seasonality helping the market.

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



Without new short-term evidence emerging on Friday afternoon, and with the expiration of another bullish study the green Aggregator Line fell below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are negative but the SPX is already short-term oversold. 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 slightly negative on Monday. Of course this could easily change if new bullish evidence emerges, or if SPX dips as much as 0.65% intraday, causing the bearish “Gap & Reverse 2x” study from the Short-Term Active List to hit its target. The Differential Pivot will be *inverted at* 1,621.50 on Monday. This is about 0.3% *below* Friday’s close. An inverted Pivot means the Differential Line will cross 0 if SPX closes flat. In this case, SPX will need to close down at least 0.3% in order to remain oversold. Otherwise it will be considered overbought versus recent expectations.

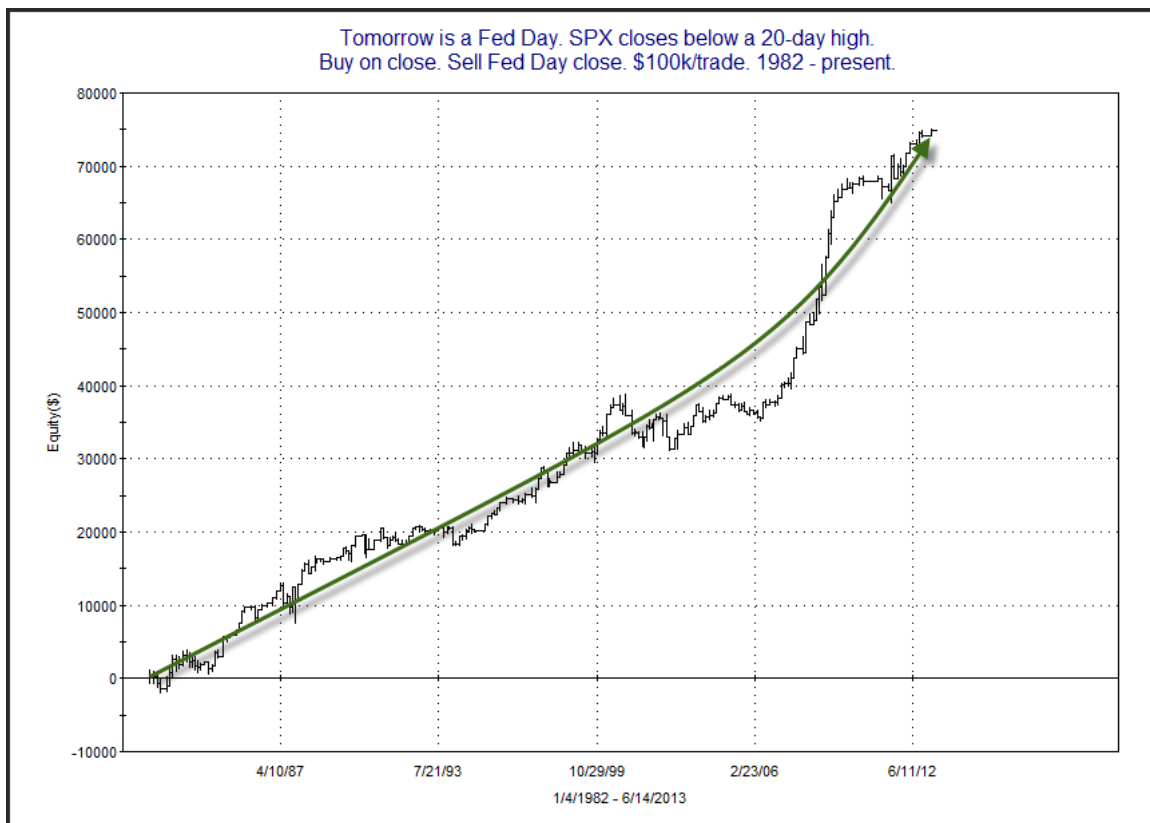
With evidence fairly weak, the Differential Pivot inverted, and the Aggregator System neutral, I see no incentive to take on new short-term exposure. This market simply is not providing the kind of edges I demand when looking for short-term trades. Of course that can change very quickly. And if we get further selling on Monday/Tuesday we could see a nice bullish edge emerge.

As I will discuss in the intermediate-term section below, this upcoming week we will see an increase in POMO buying. This should provide a better liquidity backdrop. And Wednesday we have a Fed Day. For those new to Quantifiable Edges, a Fed Day is simply a day where the Fed has a meeting (either 1 or 2 days) and announces any policy changes. Fed meetings are scheduled 8 times per year. Since 1982 there has been a strong tendency for the market to rise on Fed Days, and that tendency has primarily played out when the market was not already at intermediate-term highs. Assuming we don’t close at new highs on Tuesday, this will be the case going into Wednesday. The study below illustrates the upside Fed Day edge.

Tomorrow is a Fed Day. SPX closes below a 20-day high.  
Buy on close. Sell Fed Day close. \$100k/trade. 1982 - present.

TradeStation Performance Summary			Collapse ^
<b>All Trades</b>			
Total Net Profit	\$74,824.42	Profit Factor	2.33
Gross Profit	\$131,186.65	Gross Loss	(\$56,362.23)
Total Number of Trades	211	Percent Profitable	61.61%
Winning Trades	130	Losing Trades	81
Even Trades	0		
Avg. Trade Net Profit	\$354.62	Ratio Avg. Win:Avg. Loss	1.45
Avg. Winning Trade	\$1,009.13	Avg. Losing Trade	(\$695.83)
Largest Winning Trade	\$5,130.15	Largest Losing Trade	(\$2,932.39)

While the average day gained about 0.03% over this 31.5 year time period, Fed Days rose at a rate of about 12x that. And the equity curve has been impressive as well. See below.



The 2000 – 2003 bear market is the only period of time where Fed Days struggled at all. For most of history it has been a strong push higher. Those that would like to read more about Fed Day edges may refer to the “Fed Day” label on the Quantifiable Edges blog.

<http://quantifiableedges.blogspot.com/search/label/Fed%20Study>

I should also point out that over the last 10 years or so a good portion of this upside edge has played out during the night prior to the Fed Day. But like I note above there has not been an overnight edge when the market has closed at an intermediate-term high. This is something I showed on the Overnight Edges blog a while back. You can find it in the research summary post from 12/30/12.

<http://overnightedges.com/959/overnight-research-summary-for-last-few-weeks/>

And of course, for my most complete collection of Fed Day edges, there is The Quantifiable Edges Guide To Fed Days.

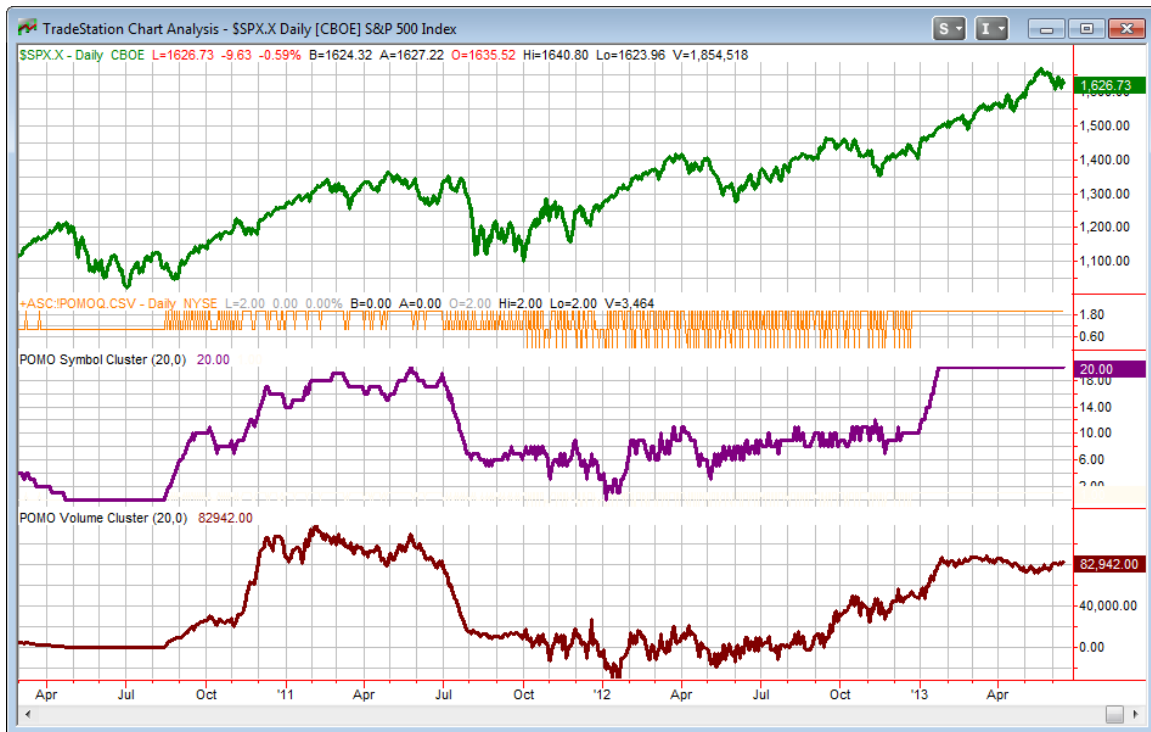
<http://www.quantifiableedges.com/fedguide>

***Intermediate-term Outlook (2 weeks – 2 months)– updated 6/17 – somewhat bullish***

For the third time in the last four weeks, SPX closed down on the week. Still, from the high on May 22 to the low on June 6, SPX only declined slightly over 5%. It has been more like a choppy consolidation than it has a selloff. And as with the chop not helping to generate short-term studies, this was the first week in a long time that we have not seen any intermediate-term studies emerge.

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 \$18.5 billion, which sounds like a lot of money to me, but it is the lowest expected inflow this month. Still, inflows of this size have typically led to a bullish environment.

This upcoming week is expected to see more Fed buying, with scheduled flows of about \$21.4 billion. And then next week we should see it ramp up even more, with flows over \$24 billion.

We still have a fair amount of bullish studies active, with the Hindenburg Omen being the only bearish one at this point. Momentum, breadth, and liquidity all favor the upside. The trend is not as clear as it was a few weeks ago, and the market has been chopping around quite a bit. At this point I am leaving the outlook at “somewhat bullish” – the same as last week. From a trading standpoint that 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 @ \$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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
EXC(1/3)	6/13/2013	\$30.40	\$30.63	0.76%		Catapult

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