

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 19, 2013

Volume 6 Issue 117

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Tuesday's strong close means the Fed Day edge on Wednesday is rather tame.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is back to neutral and so am I. The market is overbought and evidence is pointing slightly higher. It is not a strongly favorable situation to take on new exposure. So I am sidelined awaiting new opportunities.

**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 18, 2013	Strong close before a Fed Day	1 day	Bullish	
June 14, 2013	Gap & Reverse 2x	1-4 days	Bearish	-1.25%
<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	

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

**The Evidence**

The market rallied nicely on Tuesday. The SPX rose 0.8%, the NASDAQ gained 0.9%, and the Russell 2000 rose 1.2%. Breadth was strongly positive as the NYSE Up Issues % was 67% and the Up Volume % was 78%. Total NYSE volume sank ahead of Wednesday's Fed announcement.

The studies in the Quantifinder with compelling numbers tonight all relate to Wednesday being a Fed Day. In last night's letter I showed that the lower in the daily range that SPY closes on the day before a Fed Day, the greater the upside edge for the Fed Day. On Tuesday SPY closed strongly, meaning the upside Fed Day edge was reduced. Below is the study I showed last night that looked at closes in the top quartile.

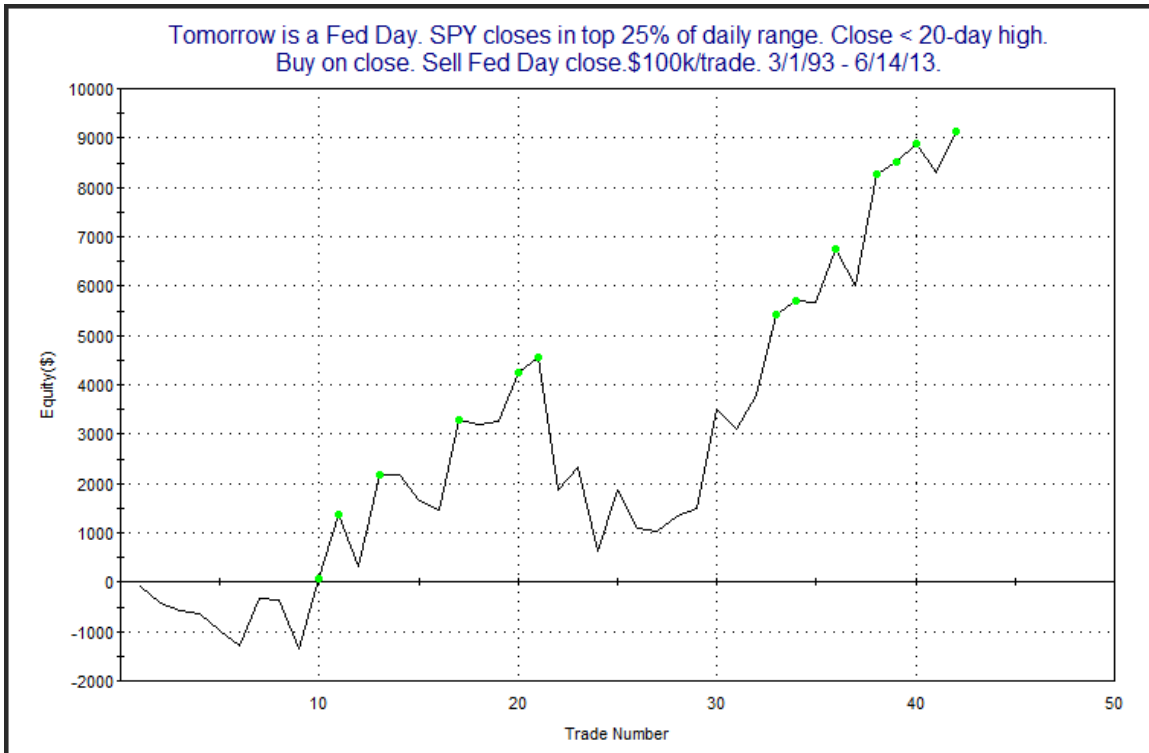
TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$9,401.13	Profit Factor	1.50
Gross Profit	\$28,181.69	Gross Loss	(\$18,780.56)
Total Number of Trades	63	Percent Profitable	49.21%
Winning Trades	31	Losing Trades	30
Even Trades	2		
Avg. Trade Net Profit	\$149.22	Ratio Avg. Win:Avg. Loss	1.45
Avg. Winning Trade	\$909.09	Avg. Losing Trade	(\$626.02)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

I've shown in the past that the upside Fed Day has not held over the years when the market has closed at an intermediate term high the day before. Today we did not close at a 20 day high. So I decided to combine this concept with the one from the first study and see what results looked like.

Tomorrow is a Fed Day. SPY closes in top 25% of daily range. Close < 20-day high.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 6/14/13.

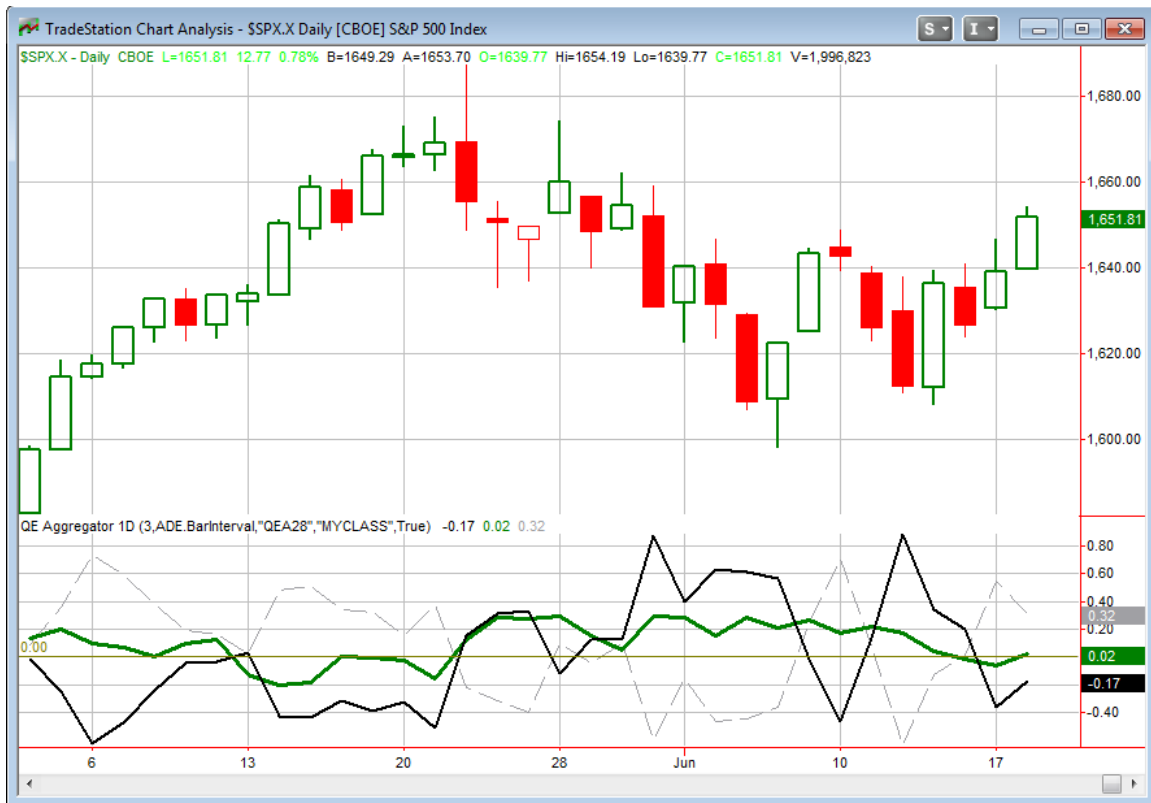
TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$9,131.30	Profit Factor	1.82
Gross Profit	\$20,273.24	Gross Loss	(\$11,141.94)
Total Number of Trades	42	Percent Profitable	50.00%
Winning Trades	21	Losing Trades	20
Even Trades	1		
Avg. Trade Net Profit	\$217.41	Ratio Avg. Win:Avg. Loss	1.73
Avg. Winning Trade	\$965.39	Avg. Losing Trade	(\$557.10)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,683.80)

The average winning to average loss ratio improves the book winning percentage remains around breakeven. Below is a profit curve showing how the trades have played out over time.



Not a terribly smooth curve, but at least it seems headed in the right direction. It seems there is still a mild bullish inclination, even though the market closed strongly on Tuesday.

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



The green Aggregator Line managed to inch just above 0 tonight. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is already short-term overbought. 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.

If no new studies emerge on Wednesday than expectations will remain slightly positive. of course that is pretty unlikely. Instead, expectations will probably be largely dependent upon what studies emerge on Wednesday. The Differential Pivot will be 1,629.76 on Wednesday. This is about 1.3% below Tuesday's close. That is a fairly sizable drop for just one day. More likely than closing down 1.3% on Wednesday is that it may take a multi-day selloff or consolidation to work off the overbought condition.

So the bad news is that we could not get the selloff into Wednesday's Fed Day that would've provided a nice long side opportunity. And with the market so overbought at the moment, I'm not inclined to try and get long near. The good news is that the loan Catapult trade due to reach its target price, and I will look to take profits on that that the open on Wednesday.

Fed Days will often elicit strong moves from the market. And those strong moves will often lead to compelling studies. So while expectations beyond Wednesday are a bit murky, we will likely see some worthwhile studies emerge fairly soon. But until that happens, I intend to patiently bide my time.

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

I last updated the intermediate-term outlook in the 6/17 letter. Link below:

**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 Pric	Current Pric	% Gain/Loss	Stop	Notes
EXC(1/3)	6/13/2013	\$30.40	\$31.15	2.47%		<b>sell on open</b>

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