

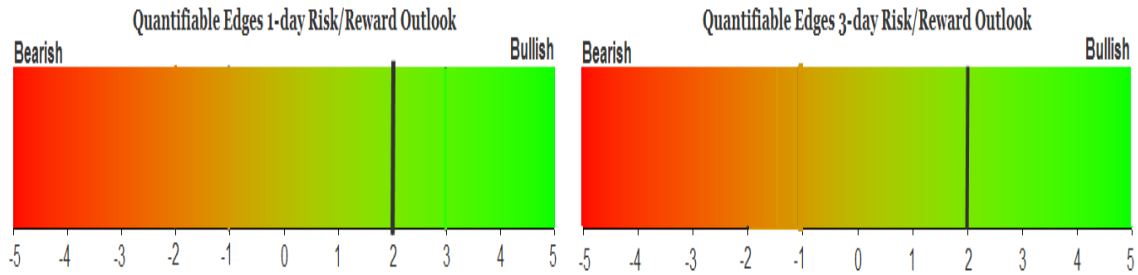
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 20, 2013

Volume 6 Issue 118

## 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.
- The strongly negative Fed Day suggests a short-term bounce.

## *Short-term Outlook*

### *The Bottom Line*

Expectations are positive and the market has now quickly turned oversold. I will be looking to take on some long exposure if SPX closes down again on Thursday.

**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 20, 2013             | Dive on Fed Day                        | 1 day       | Bullish |              |
| June 20, 2013             | 1% drop. Bad breadth.                  | 1-5 days    | Bullish |              |
| <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 18, 2013             | Strong close before a Fed Day          | 1 day       | Bullish |              |
| June 14, 2013             | Gap & Reverse 2x                       | 1-4 days    | Bearish | -1.25%       |

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

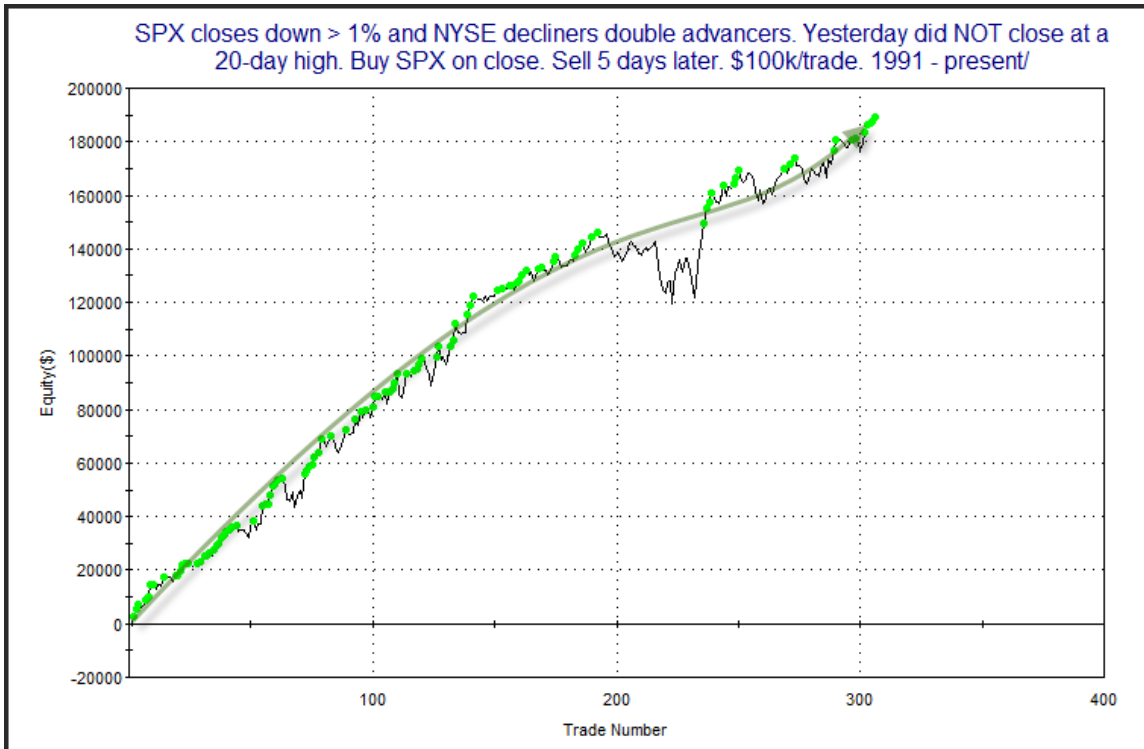
**The Evidence**

The market didn't seem to like what Ben Bernanke said on Wednesday and it sold off rather strongly. The SPX lost 1.4%, the NASDAQ fell 1.1%, and the Russell 2000 dropped 1.3%. Breadth was extremely negative as the NYSE Up Issues % was 16% and the Up Volume % was 8%. Total NYSE came in at the highest level in a few weeks..

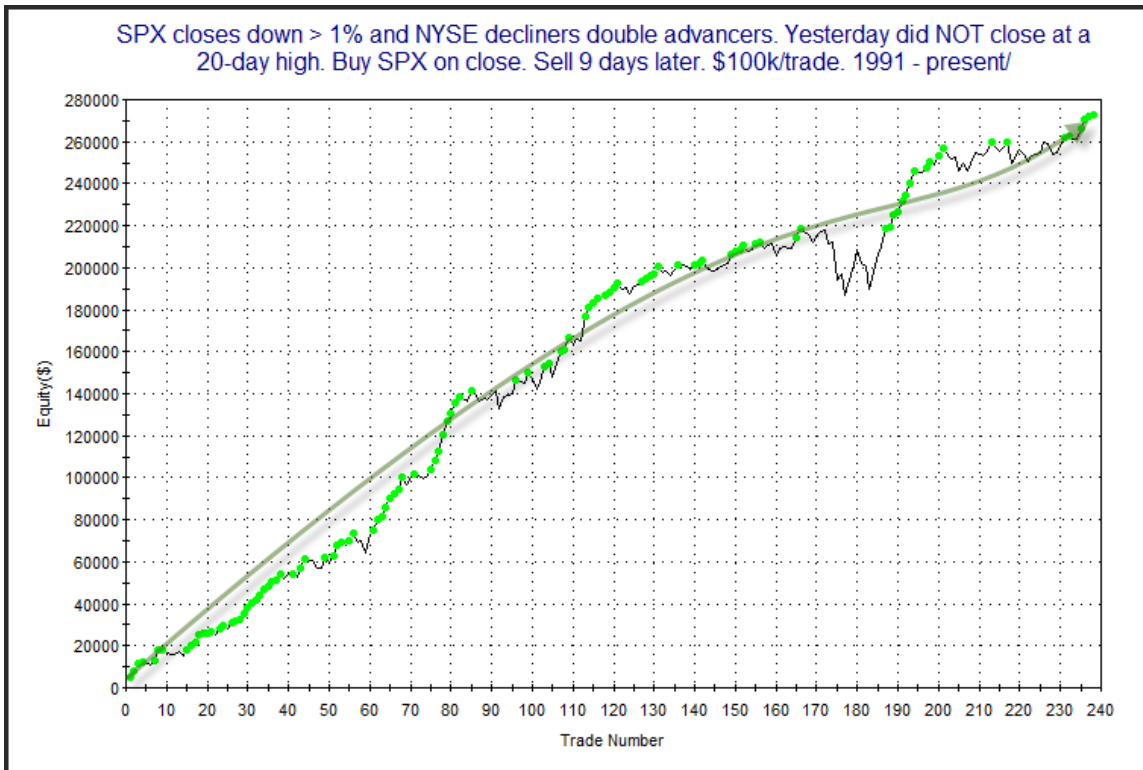
The study below was discussed just recently in the 6/12/13 letter, and I have shown it a number of times over the years. It looks at big drops on strongly negative breadth when the market did not make an intermediate-term high the day before. Stats are again updated.

| 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   | 224,948.84      | 229               | 149                 | 80                 | 65.07             | 3,037.00               | 16,319.16              | -2,844.56             | -16,768.40            | 1.07                | 1.99              | 982.31         |  |
| 9  | 272,540.80      | 238               | 166                 | 72                 | 69.75             | 2,903.80               | 10,875.66              | -2,909.58             | -18,373.16            | 1.00                | 2.30              | 1,145.13       |  |
| 8  | 235,294.34      | 250               | 163                 | 86                 | 65.20             | 2,912.69               | 15,738.88              | -2,784.59             | -17,685.00            | 1.05                | 1.98              | 941.18         |  |
| 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  | 181,804.16      | 282               | 173                 | 109                | 61.35             | 2,490.99               | 14,933.73              | -2,285.66             | -19,140.34            | 1.09                | 1.73              | 644.70         |  |
| 5  | 189,188.59      | 306               | 185                 | 121                | 60.46             | 2,329.15               | 11,405.78              | -1,997.56             | -8,351.64             | 1.17                | 1.78              | 618.26         |  |
| 4  | 147,074.06      | 328               | 189                 | 139                | 57.62             | 2,206.89               | 14,020.11              | -1,942.65             | -14,820.98            | 1.14                | 1.54              | 448.40         |  |
| 3  | 147,849.47      | 366               | 221                 | 145                | 60.38             | 1,860.38               | 8,531.60               | -1,815.83             | -10,506.45            | 1.02                | 1.56              | 403.96         |  |
| 2  | 142,146.41      | 420               | 232                 | 188                | 55.24             | 1,759.30               | 8,484.76               | -1,414.95             | -8,657.72             | 1.24                | 1.53              | 338.44         |  |
| 1  | 121,822.36      | 471               | 275                 | 196                | 58.39             | 1,191.31               | 10,716.03              | -1,049.94             | -7,577.02             | 1.13                | 1.59              | 258.65         |  |

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.

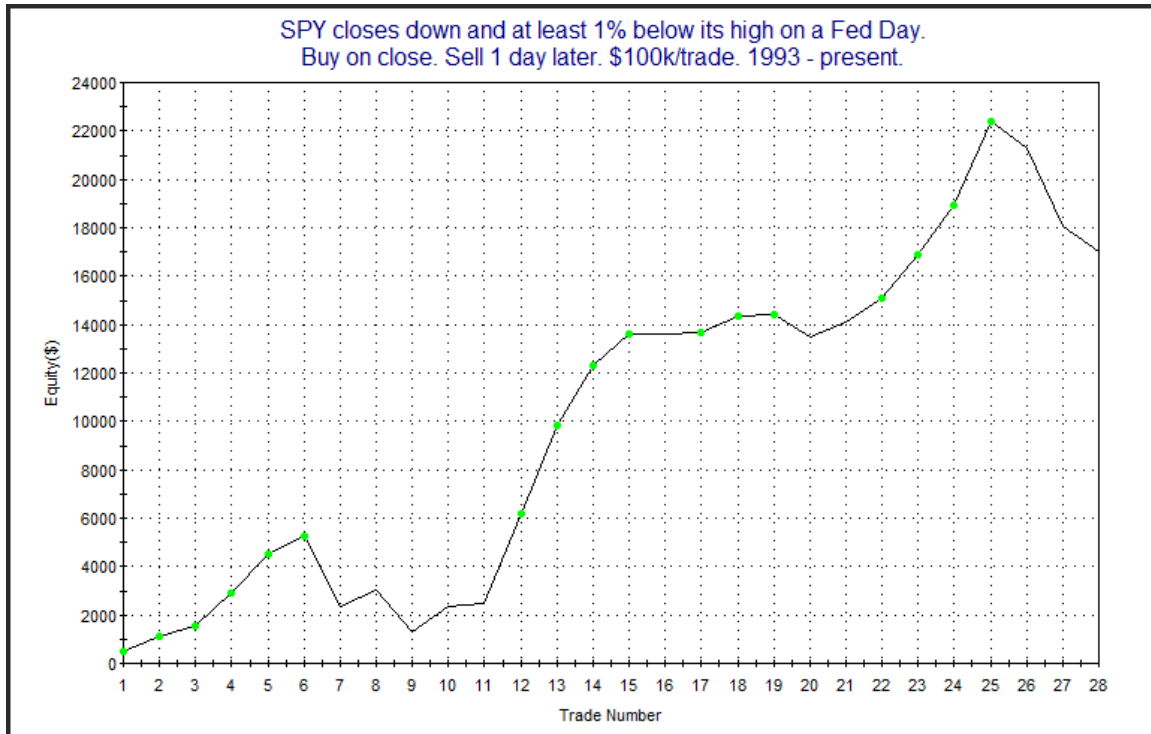
There was also an interesting study that appeared that looked at strong selling on Fed Days. It was last seen in the 11/5/09 letter. I have updated it below.

SPY closes down and at least 1% below its high on a Fed Day.  
Buy on close. Sell X days later. \$100k/trade. 1993 - 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      | 28,978.93       | 28                | 18                  | 10                 | 64.29             | 2,567.27               | 6,086.66               | -1,723.19             | -5,393.25             | 1.49                | 2.68              | 1,034.96       |
| 4      | 22,927.96       | 28                | 17                  | 11                 | 60.71             | 2,279.37               | 7,872.42               | -1,438.30             | -3,667.41             | 1.58                | 2.45              | 818.86         |
| 3      | 18,333.35       | 28                | 19                  | 9                  | 67.86             | 1,578.80               | 4,772.75               | -1,295.99             | -4,441.50             | 1.22                | 2.57              | 654.76         |
| 2      | 16,967.61       | 28                | 18                  | 10                 | 64.29             | 1,852.76               | 5,087.19               | -1,638.21             | -2,695.00             | 1.13                | 2.04              | 605.99         |
| 1      | 17,008.52       | 28                | 21                  | 7                  | 75.00             | 1,331.02               | 3,718.41               | -1,563.27             | -3,230.89             | 0.85                | 2.55              | 607.45         |

**27 of 28 instances closed above the entry price at some point in the next week.**

There appears to be a strong tendency to bounce – and much of the tendency has played out on day 1. Below is a profit curve.



The last 3 instances have not fared well for the 1-day holding period. Still, this study looks compelling to me overall. And adding to my confidence are the results below, where I added a 5-day high filter to the study tonight.

SPY closes down and at least 1% below its high on a Fed Day. Yesterday it closed at a 5-day high. Buy on close. Sell 1 day later. \$100k/trade. 1993 - present.

| Date/Time | Signal | Price    | % Profit | Run-up<br>Drawdown |
|-----------|--------|----------|----------|--------------------|
| 02/05/97  | Buy    | \$77.64  | 0.67%    | \$720.72           |
| 02/06/97  | Sell   | \$78.16  |          | (\$296.01)         |
| 03/25/97  | Buy    | \$78.75  | 0.43%    | \$1,154.79         |
| 03/26/97  | Sell   | \$79.09  |          | (\$469.53)         |
| 09/30/97  | Buy    | \$94.38  | 1.36%    | \$1,514.37         |
| 10/01/97  | Sell   | \$95.66  |          | \$0.00             |
| 01/31/01  | Buy    | \$137.02 | 0.66%    | \$677.97           |
| 02/01/01  | Sell   | \$137.93 |          | (\$561.33)         |
| 12/11/07  | Buy    | \$147.91 | 0.99%    | \$2,609.36         |
| 12/12/07  | Sell   | \$149.37 |          | (\$479.96)         |
| 01/30/08  | Buy    | \$134.91 | 1.77%    | \$2,689.83         |
| 01/31/08  | Sell   | \$137.30 |          | (\$1,267.11)       |
| 10/29/08  | Buy    | \$93.08  | 3.46%    | \$3,716.04         |
| 10/30/08  | Sell   | \$96.30  |          | (\$193.32)         |

All previous 7 instances have been followed by a close higher the next day.

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



The green Aggregator Line rose further 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 now also 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 long at the close.

If no new studies emerge on Thursday than expectations will remain positive. Of course that is subject to change as new studies emerge. The Differential Pivot will be 1,638.35 on Thursday. This is about 0.6% above Wednesday's close. In order for SPX to move from short-term oversold to short-term overbought on Thursday it will need to close up at least this much.

The Aggregator has been jumping around a bit lately as the market has chopped back and forth. I strongly suspect another close lower on Thursday would keep expectations bullish. I also think 2 down days in a row would be a pretty good entry point in a market this choppy. So I plan to get long on Thursday at the close if SPY closes down much. Details are in the Trade Ideas section below.

**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.

**SPY – buy ¼ index position @ \$163.25 LIMIT ON CLOSE.** – Based on the short-term outlook above I will begin scaling long if I can get a decent fill at the close on Thursday.

**Current Open Trade Ideas**

| Symbol   | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes               |
|----------|------------|-------------|---------------|-------------|------|---------------------|
| EXC(1/3) | 6/13/2013  | \$30.40     | \$31.00       | 1.97%       |      | <i>sold on open</i> |
|          |            |             |               |             |      |                     |
|          |            |             |               |             |      |                     |
|          |            |             |               |             |      |                     |
|          |            |             |               |             |      |                     |

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