

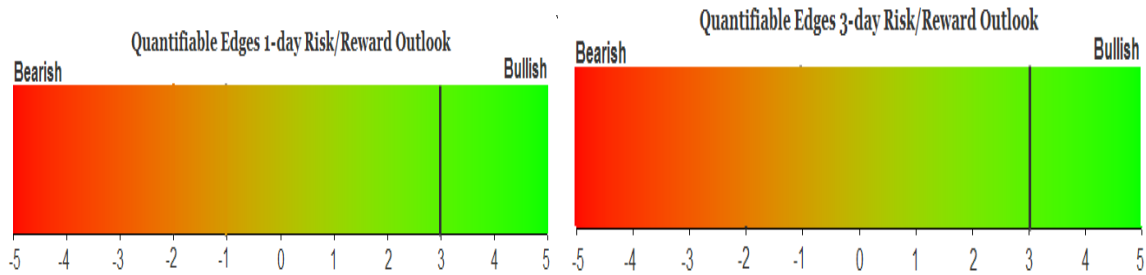
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 25, 2013

Volume 6 Issue 121

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The reversal attempt Friday that failed to follow through Monday suggests a short-term upside edge.
- 4 lower lows and a 20-day low in an uptrend has been often been followed by a rally.

## *Short-term Outlook*

### *The Bottom Line*

The studies are back to looking bullish, and with the edge looking strong, I am inclined to up my long exposure.

**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 25, 2013	Failed reversal.	1-4 days	Bullish	2.70%
June 25, 2013	4 lower lows. 20-low. Close > 200.	1-8 days	Bullish	2.40%
June 21, 2013	System 110524	1-7 days	Bullish	
June 21, 2013	1% drop. Bad breadt.	1-5 days	Bullish	
<b>Active - Long Term</b>				
June 4, 2013	Hindenburg Omen cluster	1-50 days	<b>Bearish</b>	<b>-8.60%</b>
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>				
<b>June 24, 2013</b>	<b>Weak bounce</b>	<b>1-3 days</b>	<b>Bearish</b>	<b>-2.00%</b>

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

***The Evidence***

The market got off to a rough start Monday, and the finish wasn't any better. In the end the SPX lost 1.2%, the NASDAQ closed down 1.1% and the Russell 2000 fell 1.3%. Breadth was strongly negative as the NYSE Up Issues % was 13% and the Up Volume % was just under 10%. Total NYSE volume was fairly high, but not nearly at options expiration levels from Friday.

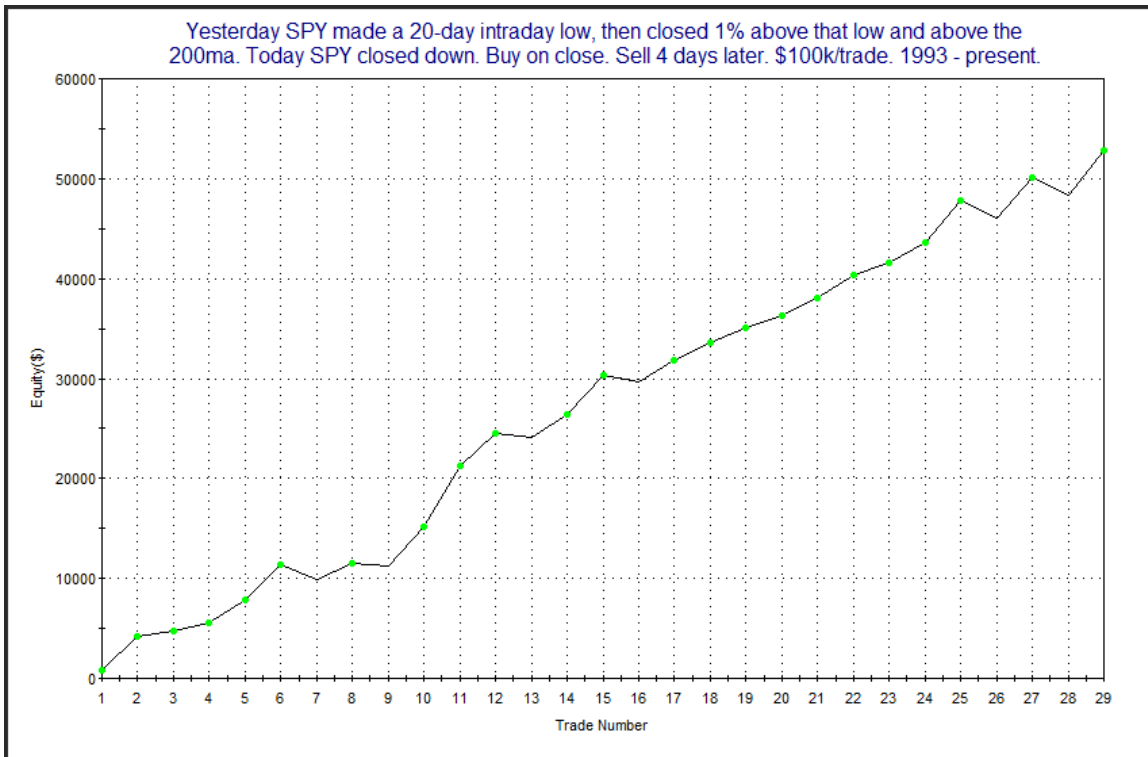
We have a bit of an interesting 2-day pattern that has emerged. On Friday, SPY dropped to a new intermediate-term low before attempting a rebound and closing more than 1% above its intraday low. Friday's intraday reversal obviously did not stick, since SPY closed down on Monday. In the past this has actually been a fairly reliable pattern suggesting an upside edge over the next few days. Below is a study that examines the setup.

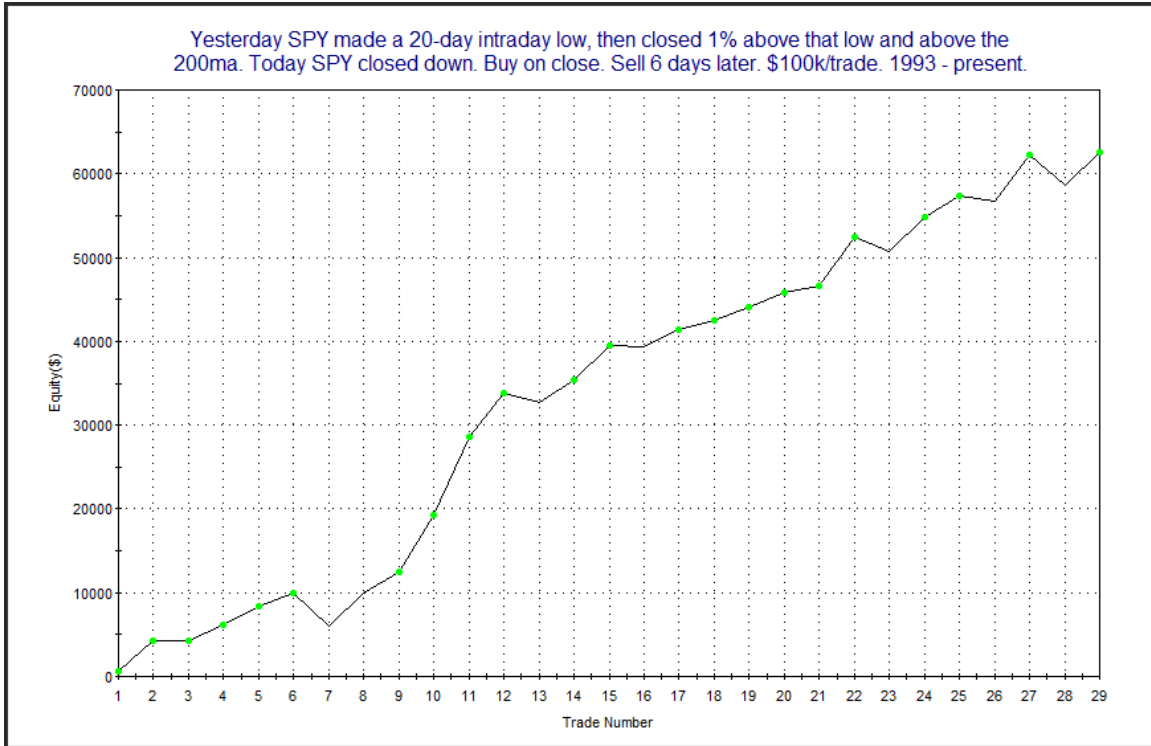
Yesterday SPY made a 20-day intraday low, then closed 1% above that low and above the 200ma. Today SPY closed down. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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
10	48,099.92	28	19	9	67.86	3,634.47	8,531.28	-2,328.33	-5,755.75	1.56	3.30	1,717.85
9	50,813.74	28	22	6	78.57	3,110.28	8,024.45	-2,935.41	-4,035.35	1.06	3.89	1,814.78
8	62,016.43	28	23	5	82.14	3,229.63	7,749.00	-2,453.01	-4,807.00	1.32	6.06	2,214.87
7	58,586.07	29	22	7	75.86	3,300.94	8,103.24	-2,004.93	-4,416.00	1.65	5.17	2,020.21
6	62,567.75	29	23	6	79.31	3,207.43	9,343.08	-1,867.21	-3,982.50	1.72	6.58	2,157.51
5	47,875.38	29	20	9	68.97	2,971.34	5,602.68	-1,283.48	-5,283.45	2.32	5.14	1,650.88
4	52,866.48	29	23	6	79.31	2,570.81	6,132.78	-1,043.70	-1,766.40	2.46	9.44	1,822.98
3	43,448.05	29	20	8	68.97	2,457.94	5,630.94	-713.84	-1,689.60	3.44	8.61	1,498.21
2	37,717.01	32	24	8	75.00	1,901.09	6,435.36	-988.64	-2,972.16	1.92	5.77	1,178.66
1	23,070.11	32	22	10	68.75	1,409.87	5,800.00	-794.71	-2,206.61	1.77	3.90	720.94

3/14/11 was the only instances not to close above the entry price at some point in the next week.

Obviously these numbers look very strong, especially over the 4 and 6-day periods. Below are profit curves for both the 4-day and 6-day holds.





These curves are both very impressive, and the steady upslope shows that the gains were not due to just a few outliers.

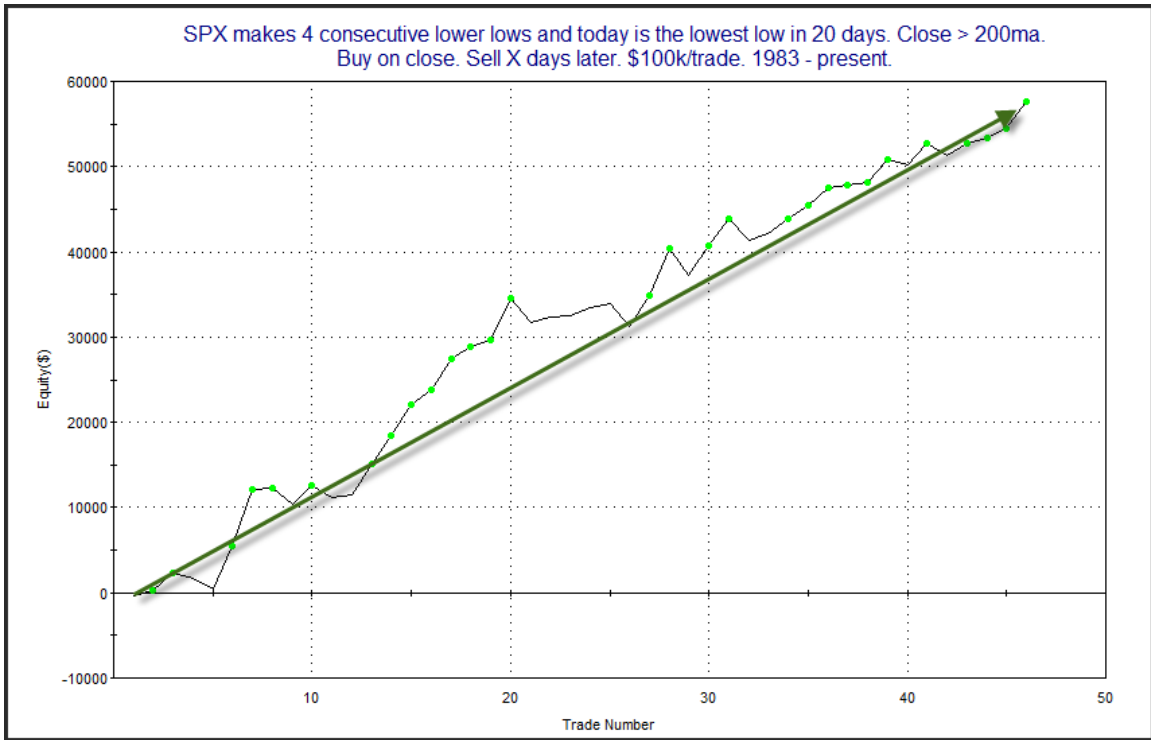
The next study considers the continually lower lows we've been seeing. It last appeared in the 10/24/12 subscriber letter. I have updated all stats below.

SPX makes 4 consecutive lower lows and today is the lowest low in 20 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1983 - 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	48,250.94	46	31	15	67.39	2,235.99	5,268.12	-1,404.33	-3,910.79	1.59	3.29	1,048.93
9	51,112.46	46	33	13	71.74	2,190.58	6,263.40	-1,628.96	-3,859.20	1.34	3.41	1,111.14
8	57,627.74	46	35	11	76.09	2,178.04	6,529.38	-1,691.25	-3,075.97	1.29	4.10	1,252.78
7	52,636.15	46	31	15	67.39	2,145.23	5,954.52	-924.41	-2,637.75	2.32	4.80	1,144.26
6	43,559.78	47	35	12	74.47	1,645.05	5,148.00	-1,168.08	-3,084.00	1.41	4.11	926.80
5	31,939.42	47	30	17	63.83	1,667.58	3,689.40	-1,064.01	-3,056.25	1.57	2.77	679.56
4	28,364.83	47	28	19	59.57	1,631.42	3,847.44	-911.31	-1,828.50	1.79	2.64	603.51
3	14,570.34	47	25	22	53.19	1,318.48	3,939.79	-835.99	-2,708.81	1.58	1.79	310.01
2	12,874.03	47	26	21	55.32	1,087.74	2,794.56	-733.68	-2,218.50	1.48	1.84	273.92
1	3,496.60	47	29	18	61.70	676.95	2,536.10	-896.38	-1,949.22	0.76	1.22	74.40

**41 of 47 instances (87%) closed above the entry price at some point in the next week.**

Results above suggest a solid bullish short-term edge. To see how it has played out over the years I have included below an equity curve assuming an 8-day exit strategy.



The strong, steady rise helps to confirm the upside edge suggested by the stats table. I have included the studies on the active list tonight.

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



Tonight's studies caused the green Aggregator Line to jump back up above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still very high above 0. The positive Differential Line reading means the SPX is strongly oversold versus recent expectations. So expectations are positive and the SPX is very 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.

Based on the current studies expectations are slated to remain positive on Tuesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1,595.43 on Tuesday. This is a sizable 1.4% above Monday's close. In other words, it will likely take a multi-day bounce or consolidation to work off the oversold condition.

I like tonight's studies. I like the fact that the market is strongly oversold. I like that we have liquidity at our backs. I don't like the fact that the CBI is still at zero. I don't like that the market now appears very reactive to news. And I don't like that the character of the market appears different than it has been the last several months. But overall, we have a strongly oversold market and strongly bullish Aggregator readings. So it's time that I look to increase my long exposure a bit. Details are in the Trade Ideas section down below.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 6/24 – somewhat bullish**

The intermediate-term outlook was last updated in the 6/24 letter. Link below:

[2013-06-24 QE Subscriber Letter.pdf](#)

**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 @ \$157.06 LIMIT.** Based on the short-term outlook above. I'm looking to add a little more exposure.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	6/20/2013	\$158.56	\$157.06	-0.95%		div adjusted

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