

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 26, 2013

Volume 6 Issue 122

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 unfilled gap up and close higher would be bullish from a short-term low, but from an intermediate-term low bullish inclinations are no longer apparent.

Short-term Outlook

The Bottom Line

The bounce today did not raise any real red flags, and it appears it could continue. I still have a small long position and am looking to benefit from a short-term rally.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
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	
Active - Long Term				
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 bounced back nicely on Tuesday. SPX gained 1.0%, the NASDAQ closed up 0.8% and the Russell 2000 rose 1.1%. Breadth was strongly positive as the NYSE Up Issues % was 80% and the Up Volume % was 87%. Total NYSE volume declined from levels of the last few days.

The Quantifinder referred to a few studies from the 5/22/12 subscriber letter that were fairly interesting. I have updated them all below.

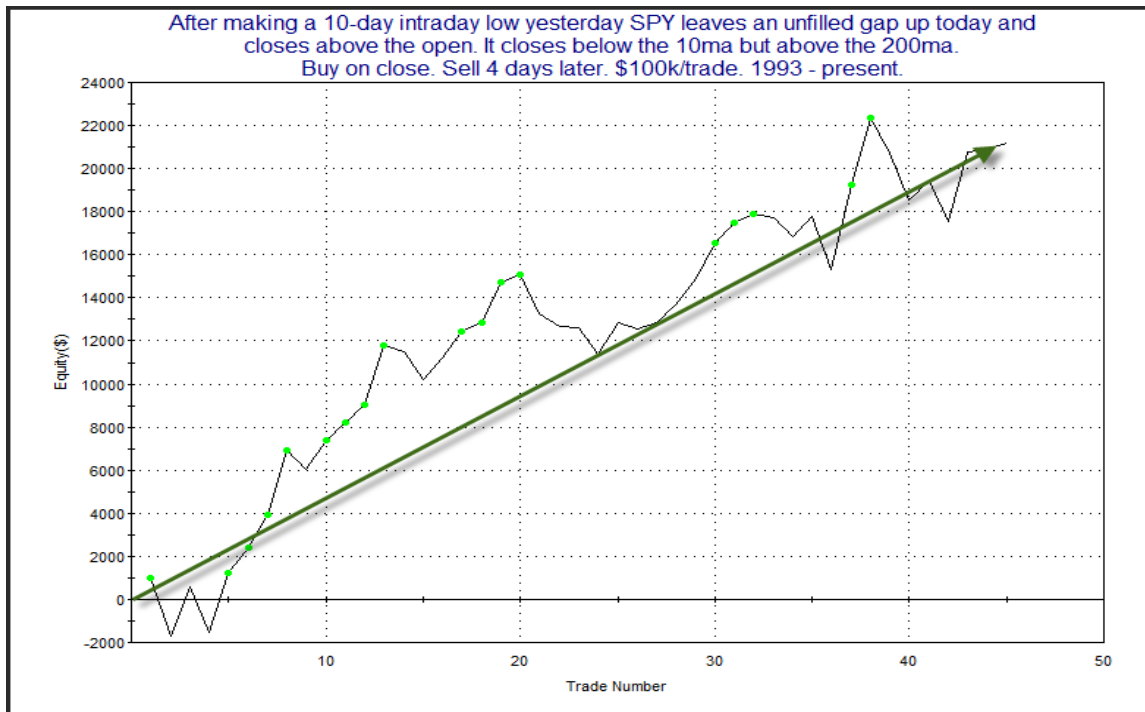
The price action in SPY showed some strength in that it gapped up, never filled, and closed above the open. When the market is coming off an oversold level in an uptrend and is still not overbought, this pattern will often be followed by further gains. This is demonstrated in the study below.

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
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	22,590.60	40	23	17	57.50	2,191.94	5,666.72	-1,636.71	-4,060.20	1.34	1.81	564.77
9	28,479.24	41	21	20	51.22	2,587.26	6,522.72	-1,292.66	-3,329.90	2.00	2.10	694.62
8	30,926.20	41	27	14	65.85	1,954.69	5,468.09	-1,560.75	-5,654.80	1.25	2.42	754.30
7	35,040.13	42	27	14	64.29	2,149.82	5,136.00	-1,643.21	-9,172.30	1.31	2.52	834.29
6	24,882.71	44	25	19	56.82	1,986.09	5,589.68	-1,303.66	-3,309.80	1.52	2.00	565.52
5	19,935.73	44	27	17	61.36	1,642.60	4,106.63	-1,436.15	-3,739.32	1.14	1.82	453.08
4	21,191.11	45	29	16	64.44	1,434.75	3,904.83	-1,276.04	-2,744.82	1.12	2.04	470.91
3	5,103.62	48	25	23	52.08	1,129.86	3,914.92	-1,006.21	-2,996.76	1.12	1.22	106.33
2	3,439.75	48	26	22	54.17	1,017.20	2,828.00	-1,045.79	-2,355.20	0.97	1.15	71.66
1	-1,366.12	48	21	26	43.75	829.98	2,121.60	-722.91	-2,895.33	1.15	0.93	-28.46

91% of instances closed above the entry price at some point in the next week.

Results here appear to suggest a solid edge over the next several days. With 91% showing further gains at some point in the next week, the reliability of the setup appears very good. To get an idea of how the edge has played out over time I have run the equity curve below using a 4-day exit parameter.



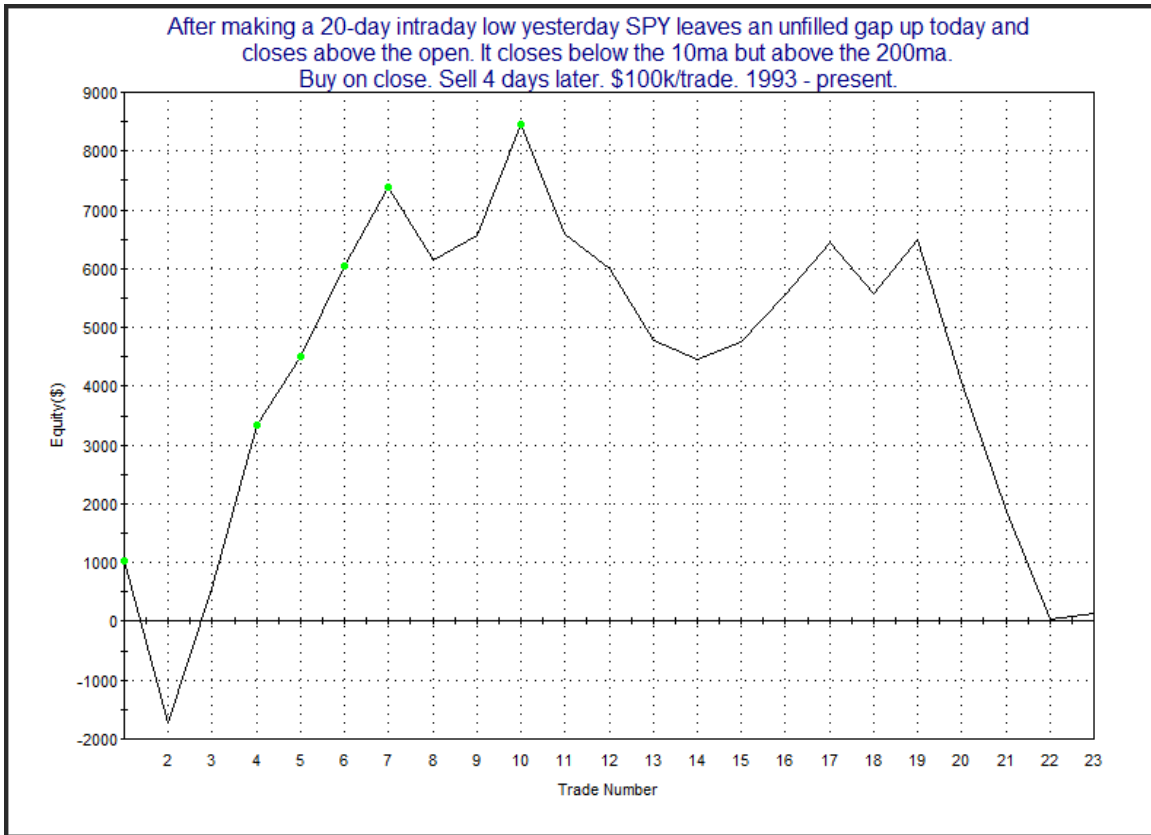
The slope has remained upwards for a long time. While it isn't perfectly smooth it does appear to confirm the upside edge suggested by the stats table.

But we aren't just at a short-term 10-day low. The market made a 20-day low as well. When the market is hitting intermediate-term lows rather than just short-term lows then this pattern has struggled. The study below demonstrates this.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

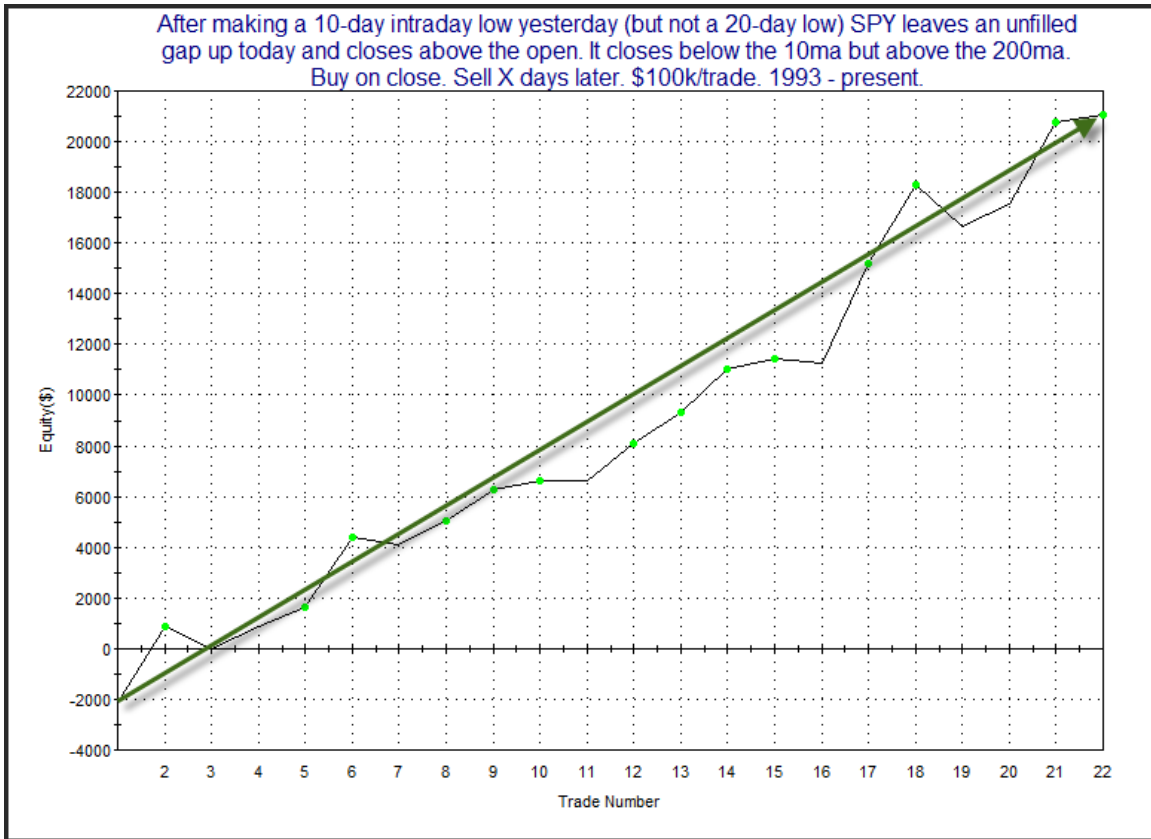
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	3,881.45	19	9	10	47.37	1,933.13	3,828.88	-1,351.68	-2,717.55	1.43	1.29	204.29
9	4,678.57	20	9	11	45.00	2,133.23	4,314.36	-1,320.04	-2,929.59	1.62	1.32	233.93
8	3,951.50	20	12	8	60.00	1,367.50	3,893.00	-1,557.32	-2,884.17	0.88	1.32	197.58
7	8,420.85	21	11	10	52.38	1,869.03	3,843.00	-1,213.84	-2,770.56	1.54	1.69	400.99
6	2,821.13	22	10	12	45.45	1,855.09	4,057.88	-1,310.81	-3,222.18	1.42	1.18	128.23
5	-1,631.74	22	10	12	45.45	1,835.78	3,073.60	-1,665.79	-3,739.32	1.10	0.92	-74.17
4	135.61	23	13	10	56.52	1,189.63	2,790.34	-1,532.96	-2,744.82	0.78	1.01	5.90
3	-7,961.70	25	11	14	44.00	767.16	1,773.00	-1,171.46	-2,996.76	0.65	0.51	-318.47
2	-5,841.74	25	12	13	48.00	758.96	1,931.20	-1,149.95	-2,355.20	0.66	0.61	-233.67
1	-1,704.76	25	10	15	40.00	857.38	2,121.60	-685.24	-1,777.90	1.25	0.83	-68.19

And here is the equity curve using a 4-day exit.



No edge is suggested here.

Lastly let's look at the curve when the market has just made a 10-day low but not a 20-day low.



It appears the ideal setup here is one where the market is making short-term lows but not intermediate-term lows. With intermediate-term lows now being made the bullish inclinations of the pattern are in question. It does not appear worthy of inclusion in the Aggregator.

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



The green Aggregator Line held firm above zero on Tuesday. Positive readings mean net expectations from the Active List are for upside 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 positive and the SPX is 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 remain positive on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1,599.12 on Wednesday. This is about 0.7% above Tuesday's close. So it will take a close higher of at least this much in order for the SPX to flip from oversold to overbought.

So while the market put in a decent day on Tuesday, there still appears to be room for more upside in the next few days. I have a partial long position that I intend to hold another day. The SPY trade idea from last night missed filling by just \$0.01. I've therefore decided to leave it alone and see if the market pulls back some on Wednesday and fills me.

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	\$158.57	0.01%		div adjusted

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