

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 1, 2013

Volume 6 Issue 125

Market Overview



Signals Overview

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

Tonight's Research Points

- The 1st trading day of the month is often bullish, and that tendency has been stronger during uptrends when the market is not overbought.
- POMO flows are currently strong, but will weaken substantially in the next couple of weeks.

Short-term Outlook

The Bottom Line

Evidence is leaning bullish. The market is short-term overbought as measured by the Differential Line, but that is set to change as early as Monday. If the market struggles on Monday, I will likely look to take on a small amount of long exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 1, 2013	Enf of month. SPX < 10ma & > 200ma.	1-5 days	Bullish	2.20%
June 28, 2013	70% Advancing Issues 3 Days In Row	1-2 days	Bullish	
Active - Long Term				
June 28, 2013	70% Advancing Issues 3 Days In Row	1-85 days	Bullish	10.60%
June 28, 2013	SPY up 3 days on lower volume	1-19 days	Bearish	-4.00%
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	
Dropped Tonight				
June 28, 2013	3 unfilled up gaps	1 day	Bearish	

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

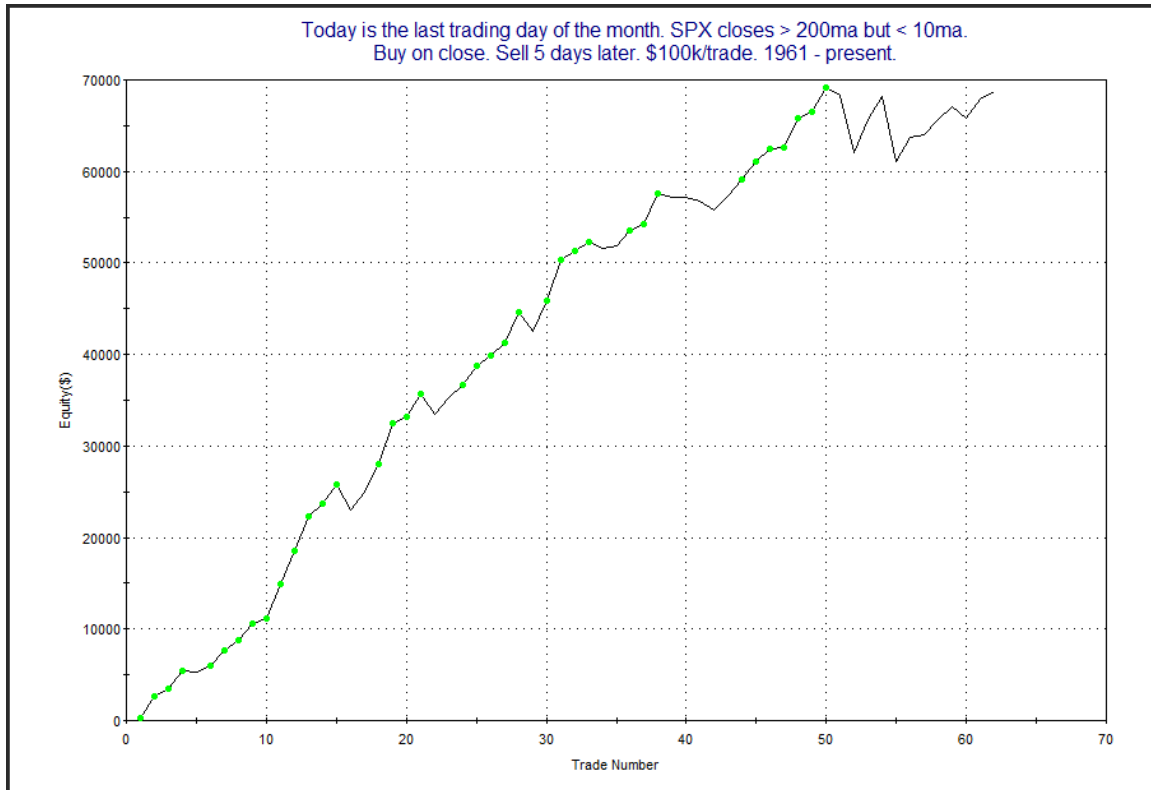
The Evidence

The market chopped around for much of the day on Friday. But it was a late selloff with just minutes to go that left most of the indices negative. SPX lost 0.4%, and the Russell 2000 fell 0.25%, but the NASDAQ closed less than 0.1%. Breadth was slightly negative as the NYSE Up Issues % was just under 50% and the Up Volume % was 41%. Total NYSE volume spiked – partially thanks to the Russell rebalance.

Several studies related to turn of the month triggered in the Quantifinder. Beginnings of new months often arrive with seasonal strength. This has especially been true 1) during long-term uptrends, and 2) when the market is not already short-term overbought. The study below was last seen in the 11/1/12 subscriber letter. It uses moving averages to take these concepts into account. All stats are updated.

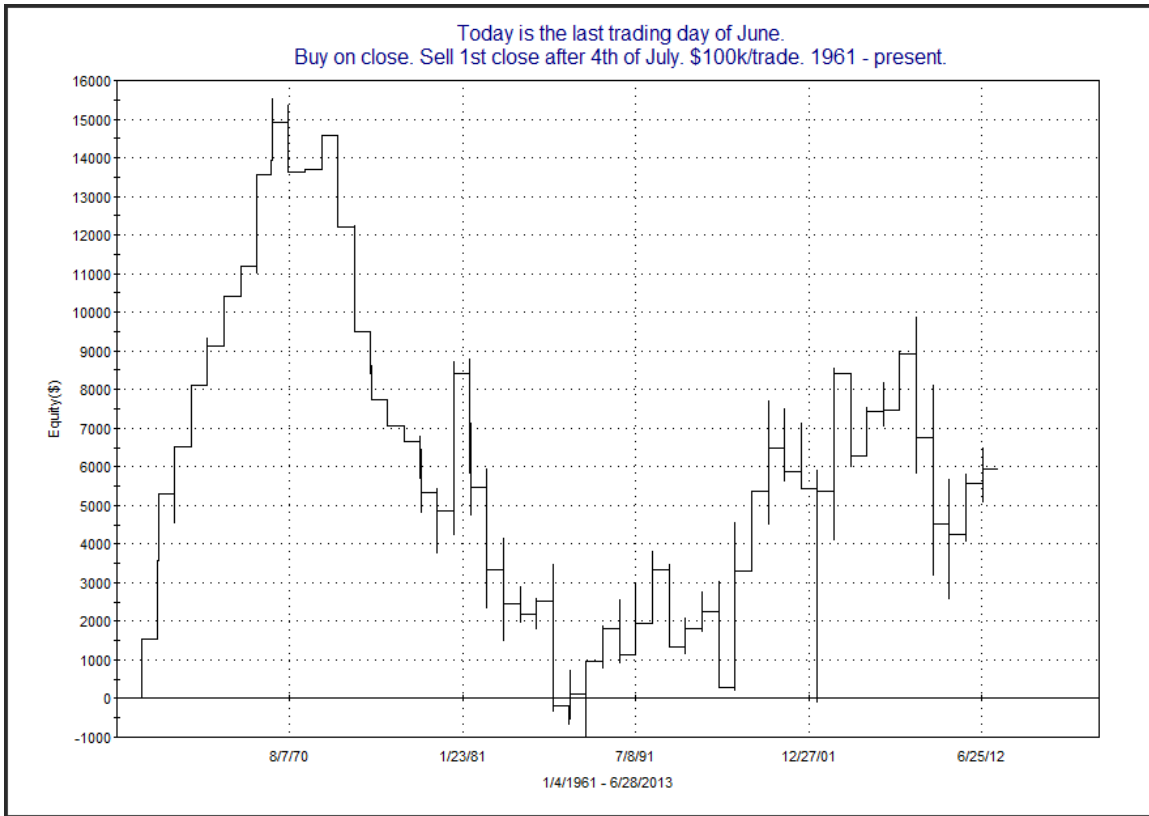
Today is the last trading day of the month. SPX closes > 200ma but < 10ma. Buy on close. Sell X days later. \$100k/trade. 1961 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	68,721.48	62	50	12	80.65	1,881.43	4,435.97	-2,112.50	-7,153.30	0.89	3.71	1,108.41
4	62,353.90	62	49	13	79.03	1,707.03	3,838.00	-1,637.75	-7,100.17	1.04	3.93	1,005.71
3	45,287.04	62	43	19	69.35	1,666.96	3,709.44	-1,389.05	-3,492.36	1.20	2.72	730.44
2	36,580.20	62	46	16	74.19	1,241.28	3,442.32	-1,282.41	-4,320.06	0.97	2.78	590.00
1	39,113.22	62	48	14	77.42	987.40	3,119.10	-591.56	-2,559.62	1.67	5.72	630.86
57 of 62 instances (92%) closed above the entry price at some point in the next 5 trading days.												

Day 1 has obviously provided strong numbers, but even beyond that there appears to be some follow through over the next few days. Below is a profit curve for the 5-day holding period.



There have been a couple of big drops fairly recently, but 8 of the last 10 instances have been higher, so this edge appears to be intact.

I am sometimes asked about 4th of July seasonality. Overall I have found it to be unreliable, especially compared to most other holidays. The study below shows results of buying the close on the last day of June and then holding until the close on the 1st trading day after the 4th of July.



It was good in the sixties, bad in the seventies, and complete sideways chop since then. So knowing this raises the question of whether our first study may not be so effective since it is the end of June, rather than any random month. To measure this I examined all times SPX closed above the 200ma but below the 10ma on the last day of June.

Today is the last trading day of June. SPX closes > 200ma but < 10ma.
Buy on close. Sell 1st close after 4th of July. \$100k/trade. 1961 - present.

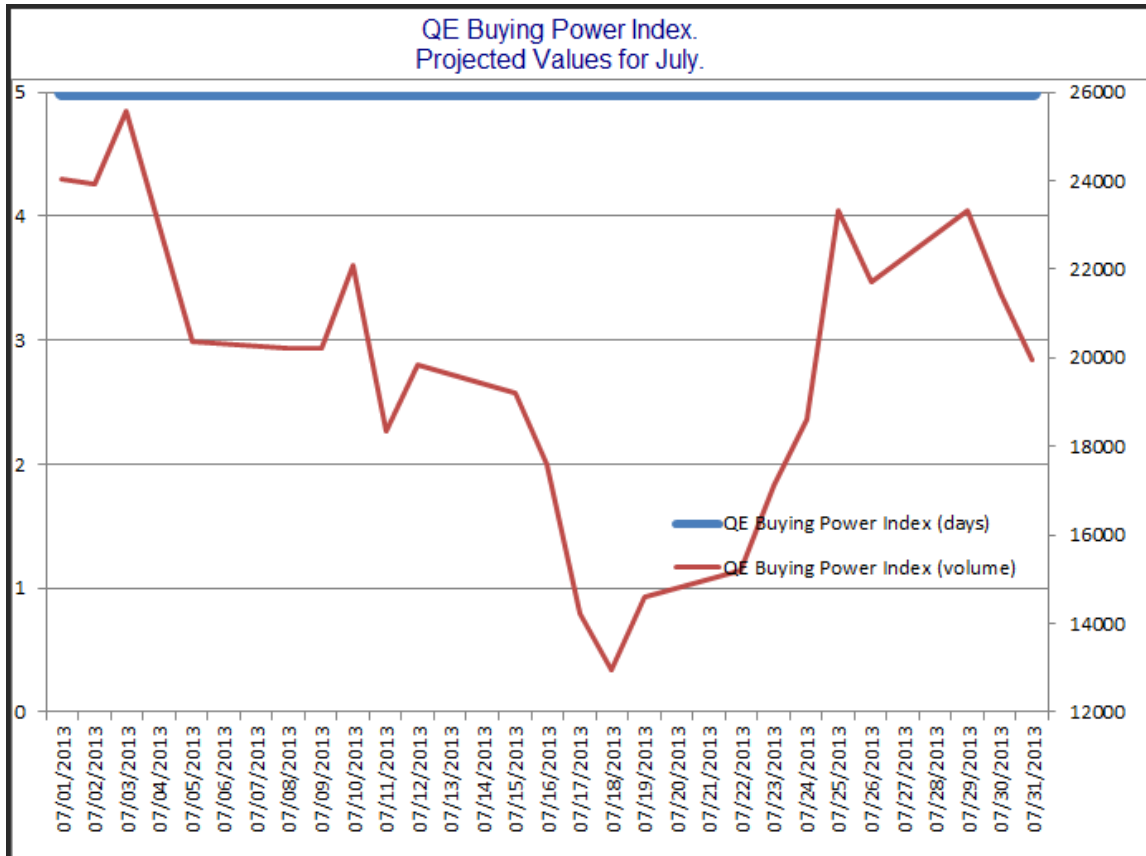
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$18,582.55	Profit Factor	7.60
Gross Profit	\$21,397.63	Gross Loss	(\$2,815.08)
Total Number of Trades	17	Percent Profitable	82.35%
Winning Trades	14	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$1,093.09	Ratio Avg. Win:Avg. Loss	1.63
Avg. Winning Trade	\$1,528.40	Avg. Losing Trade	(\$938.36)
Largest Winning Trade	\$3,535.00	Largest Losing Trade	(\$1,307.50)

As you can see, under these circumstances, July 4th week has done similar to the end of month study shown earlier. Below is a list of all the instances.

Today is the last trading day of June. SPX closes > 200ma but < 10ma. Buy on close. Sell 1st close after 4th of July. \$100k/trade. 1961 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
06/30/61	Buy	\$64.64	1.53%	\$1,531.53
07/05/61	Sell#2	\$65.63		\$0.00
06/28/63	Buy	\$69.37	1.23%	\$1,224.85
07/05/63	Sell	\$70.22		(\$734.91)
06/30/67	Buy	\$90.64	0.79%	\$794.16
07/05/67	Sell#2	\$91.36		\$0.00
06/28/68	Buy	\$99.58	2.37%	\$2,369.44
07/08/68	Sell	\$101.94		(\$180.72)
06/30/72	Buy	\$107.14	0.90%	\$895.68
07/05/72	Sell#2	\$108.10		\$0.00
06/30/78	Buy	\$95.52	(1.31%)	\$125.52
07/05/78	Sell#2	\$94.27		(\$1,830.50)
06/30/80	Buy	\$114.24	3.54%	\$3,850.00
07/07/80	Sell	\$118.28		(\$621.25)
06/30/83	Buy	\$168.11	(0.90%)	\$790.02
07/05/83	Sell#2	\$166.60		(\$1,847.34)
06/30/87	Buy	\$304.00	0.30%	\$902.00
07/06/87	Sell#2	\$304.91		(\$482.16)
06/30/89	Buy	\$317.97	0.84%	\$920.02
07/05/89	Sell#2	\$320.63		(\$178.98)
06/28/91	Buy	\$371.15	0.79%	\$1,821.13
07/05/91	Sell	\$374.08		\$0.00
06/30/95	Buy	\$544.75	0.46%	\$957.09
07/05/95	Sell#2	\$547.26		(\$58.56)
06/30/97	Buy	\$885.20	3.05%	\$4,262.72
07/07/97	Sell	\$912.20		(\$73.92)
06/30/00	Buy	\$1,454.60	(0.62%)	\$1,018.64
07/05/00	Sell#2	\$1,445.62		(\$826.20)
06/30/03	Buy	\$974.50	3.07%	\$3,168.12
07/07/03	Sell	\$1,004.42		(\$1,264.80)
06/30/05	Buy	\$1,191.32	1.15%	\$1,246.66
07/05/05	Sell#2	\$1,204.99		\$0.00
06/29/07	Buy	\$1,503.35	1.47%	\$1,532.52
07/05/07	Sell#2	\$1,525.40		\$0.00
Avg Run-up: 1.6% Avg Drawdown: -0.5%				

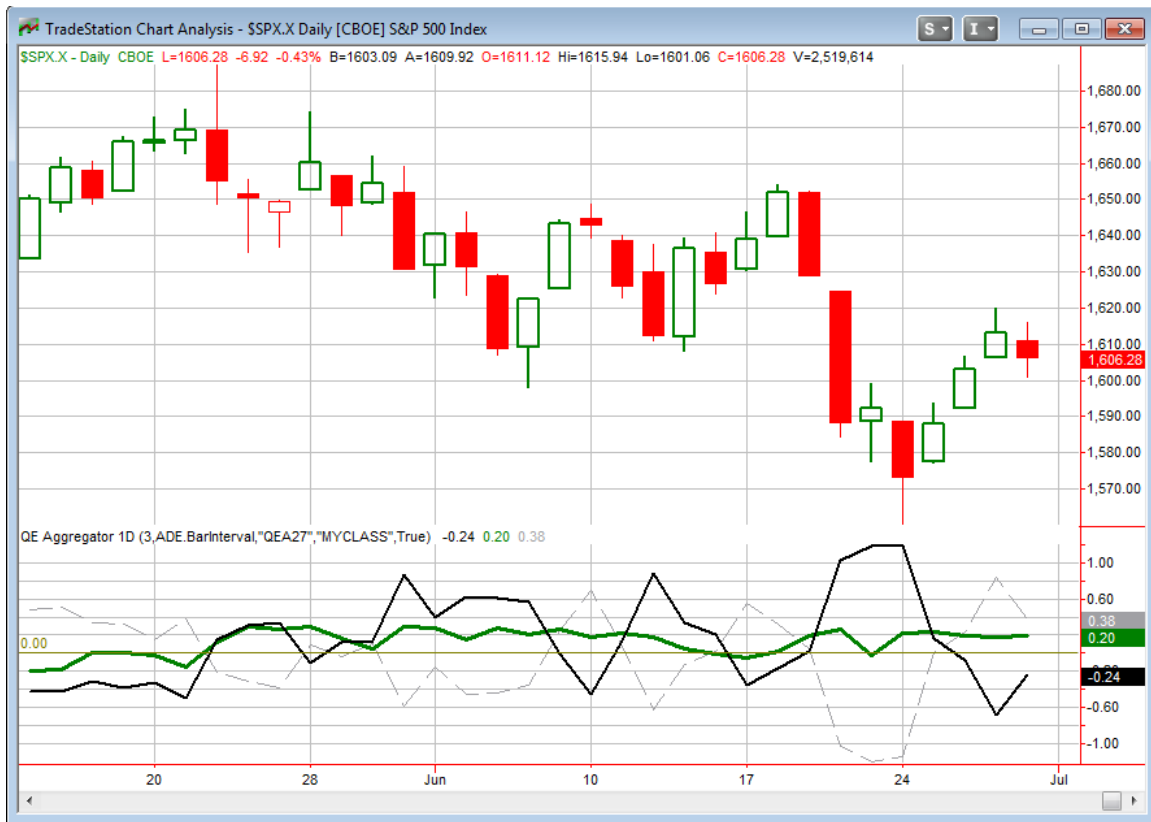
No real red flags here for me. With run-up over 3x the size of drawdown those stats are impressive as well.

On Friday the Fed released its POMO and AMBS schedules for July. The bottom line is that liquidity flows are expected to again be an \$85 billion inflow for July. I've calculated the July QE Buying Power Index, which shows the expected ebbs and flows of the liquidity infusion. .



Numbers this upcoming week look strong, and the end of the month looks pretty good also. But mid-month is scheduled to show some of the weakest readings of 2013, which could offer bears some opportunities.

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



Tonight's studies caused the green Aggregator Line to again remain 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 below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is 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 remain flat at the close.

Based on the current studies, expectations are slated to remain positive on Monday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 1,613.58 on Monday. This is about 0.5% *above* Friday's close. An inverted pivot means that the Differential Line will cross zero if the SPX closes flat. In other words, SPX will move from overbought to oversold versus expectations unless it closes up at least 0.5%.

We have positive expectations, strong turn of the month seasonality, and liquidity as good as it is going to be all month. With the Differential Pivot inverted, we'll also have an oversold market if SPX closes flat or lower. With all this in mind, I'll look to take on some long exposure if SPX closes much lower on Monday.

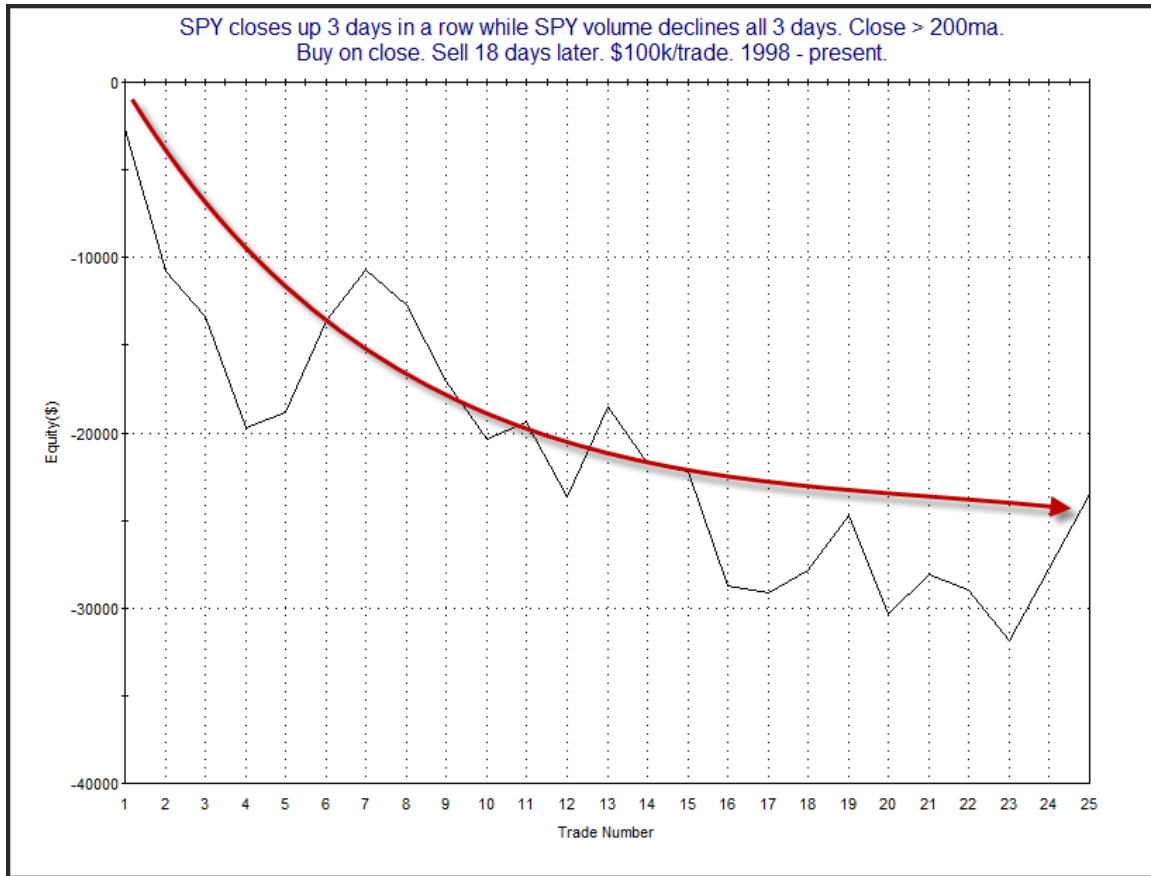
Intermediate-term Outlook (2 weeks – 2 months)– updated 7/1 – somewhat bullish

Despite closing down on Friday, the market bounced back bit this past week. And we had a few interesting studies trigger with intermediate-term implications. This first one below I copied from Thursday night’s subscriber letter.

There was one study that appeared with possible intermediate-term bearish inclinations. That study looked at the rise in SPY on declining volume each of the last 3 days. It was last seen in the 5/2/11 Subscriber Letter. I have updated the results table below.

SPY closes up 3 days in a row while SPY volume declines all 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - 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
20	-15,750.27	24	11	13	45.83	2,994.15	5,491.80	-3,745.07	-7,490.88	0.80	0.68	-656.26
19	-30,075.02	24	11	13	45.83	2,566.73	4,627.35	-4,485.31	-8,540.64	0.57	0.48	-1,253.13
18	-23,524.36	25	10	15	40.00	3,027.75	5,217.21	-3,586.79	-8,170.95	0.84	0.56	-940.97
17	-23,351.70	25	11	14	44.00	2,522.17	5,265.47	-3,649.68	-9,270.75	0.69	0.54	-934.07
16	-19,582.72	25	12	13	48.00	2,398.44	5,145.96	-3,720.30	-8,262.60	0.64	0.60	-783.31
15	-24,099.86	25	12	13	48.00	2,246.87	4,189.88	-3,927.87	-8,058.15	0.57	0.53	-963.99
14	-21,090.71	26	11	15	42.31	2,158.96	4,147.70	-2,989.29	-7,050.00	0.72	0.53	-811.18
13	-16,927.29	27	14	13	51.85	1,636.03	4,541.38	-3,063.98	-7,881.90	0.53	0.58	-626.94
12	-13,735.39	27	14	13	51.85	1,568.42	3,564.21	-2,745.64	-6,605.85	0.57	0.62	-508.72
11	-11,429.05	27	14	13	51.85	1,669.60	3,592.33	-2,677.19	-6,168.75	0.62	0.67	-423.30
10	-12,488.35	27	16	11	59.26	1,684.20	4,010.23	-3,585.06	-6,758.64	0.47	0.68	-462.53
9	-13,016.21	27	15	12	55.56	1,542.40	3,408.21	-3,012.69	-5,825.52	0.51	0.64	-482.08
8	-8,203.87	27	16	11	59.26	1,464.26	3,670.38	-2,875.64	-5,484.60	0.51	0.74	-303.85
7	-733.22	28	18	10	64.29	1,488.81	4,097.62	-2,753.17	-4,765.20	0.54	0.97	-26.19
6	-6,405.23	28	16	12	57.14	1,380.58	4,252.98	-2,374.55	-7,055.40	0.58	0.78	-228.76
5	-16,756.22	29	16	13	55.17	1,076.02	3,249.00	-2,613.27	-10,520.40	0.41	0.51	-577.80
4	-8,937.00	30	16	13	53.33	993.22	2,475.00	-1,909.89	-4,745.40	0.52	0.64	-297.90
3	-5,821.96	30	16	14	53.33	808.83	1,863.00	-1,340.23	-3,405.60	0.60	0.69	-194.07
2	-1,232.34	30	15	15	50.00	879.29	1,796.35	-961.45	-3,415.04	0.91	0.91	-41.08
1	-2,588.90	34	16	18	47.06	571.44	1,508.04	-651.77	-2,961.48	0.88	0.78	-76.14

There doesn't appear to be an overwhelming edge based on the data but it does hint at poor risk/reward for the intermediate-term. Below is an equity curve using a 18-day holding period.



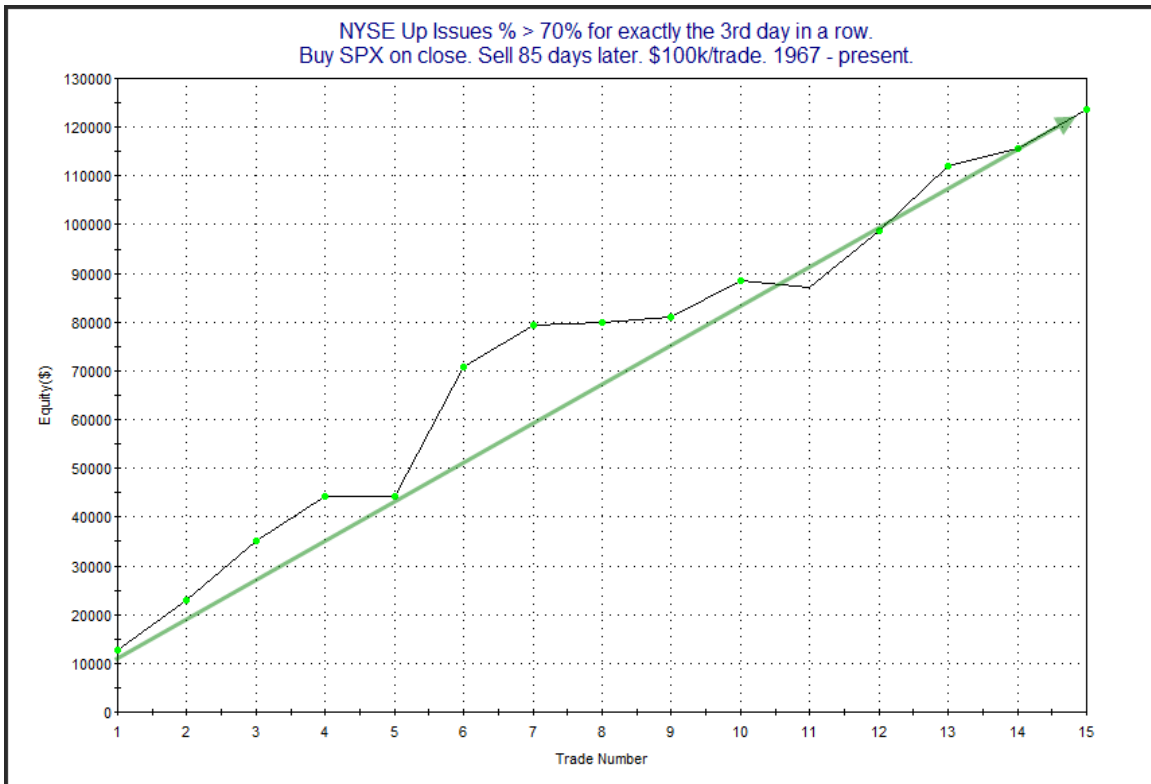
Though choppy, this would seem to support the idea that the market could suffer some losses. I believe it's worth including this study on the Intermediate-term Active List.

There was also another study on Thursday that looked at 3 consecutive days where NYSE advancers outnumbered decliners by at least 7:3. Short-term implications were bullish. But I neglected to properly examine the intermediate-term implications for this one until Friday when a subscriber prompted me to. Interestingly, the intermediate-term implications were very compelling. I have re-run the study below, but this time with an eye towards the intermediate-term results.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.
Buy SPX on close. Sell X days later. \$100k/trade. 1967 - 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
100	110,785.16	15	12	3	80.00	10,263.26	35,228.25	-4,124.64	-9,681.98	2.49	9.95	7,385.68
95	103,156.22	15	13	2	86.67	8,750.57	27,455.01	-5,300.59	-7,569.87	1.65	10.73	6,877.08
90	122,357.91	15	13	2	86.67	9,883.77	30,991.65	-3,065.58	-5,123.16	3.22	20.96	8,157.19
85	123,705.67	15	14	1	93.33	8,929.90	26,681.37	-1,312.89	-1,312.89	6.80	95.22	8,247.04
80	113,810.66	15	14	1	93.33	8,573.84	28,597.05	-6,223.12	-6,223.12	1.38	19.29	7,587.38
75	106,736.52	15	14	1	93.33	8,298.52	27,786.57	-9,442.75	-9,442.75	0.88	12.30	7,115.77
70	85,988.77	15	14	1	93.33	6,751.50	24,277.56	-8,532.18	-8,532.18	0.79	11.08	5,732.58
65	75,832.38	15	12	3	80.00	7,465.92	27,455.01	-4,586.24	-12,438.75	1.63	6.51	5,055.49
60	83,415.04	16	13	3	81.25	7,833.00	30,604.83	-6,137.98	-14,330.51	1.28	5.53	5,213.44
55	85,282.25	17	13	4	76.47	8,108.92	30,696.93	-5,033.43	-13,424.22	1.61	5.24	5,016.60
50	78,709.54	17	13	4	76.47	8,232.64	23,080.26	-7,078.71	-16,443.76	1.16	3.78	4,629.97
45	75,434.90	17	14	3	82.35	7,489.36	28,118.13	-9,805.37	-22,705.40	0.76	3.56	4,437.35
40	61,726.75	17	14	3	82.35	6,842.46	23,992.05	-11,355.88	-25,195.29	0.60	2.81	3,630.99
35	59,662.16	18	14	4	77.78	5,971.92	18,677.88	-5,986.16	-16,976.62	1.00	3.49	3,314.56
30	57,576.03	18	13	5	72.22	6,133.67	15,257.06	-4,432.34	-15,261.41	1.38	3.60	3,198.67
25	58,186.74	18	14	4	77.78	5,194.61	14,072.88	-3,634.44	-6,624.37	1.43	5.00	3,232.60
20	55,366.27	18	14	4	77.78	5,110.66	14,045.25	-4,045.75	-11,381.59	1.26	4.42	3,075.90
15	41,420.06	18	15	3	83.33	3,686.72	12,387.45	-4,626.90	-10,189.61	0.80	3.98	2,301.11
10	25,314.21	19	14	5	73.68	3,219.27	8,961.33	-3,951.10	-8,739.76	0.81	2.28	1,332.33
5	18,859.23	19	13	6	68.42	2,602.48	8,344.26	-2,495.50	-6,523.10	1.04	2.26	992.59

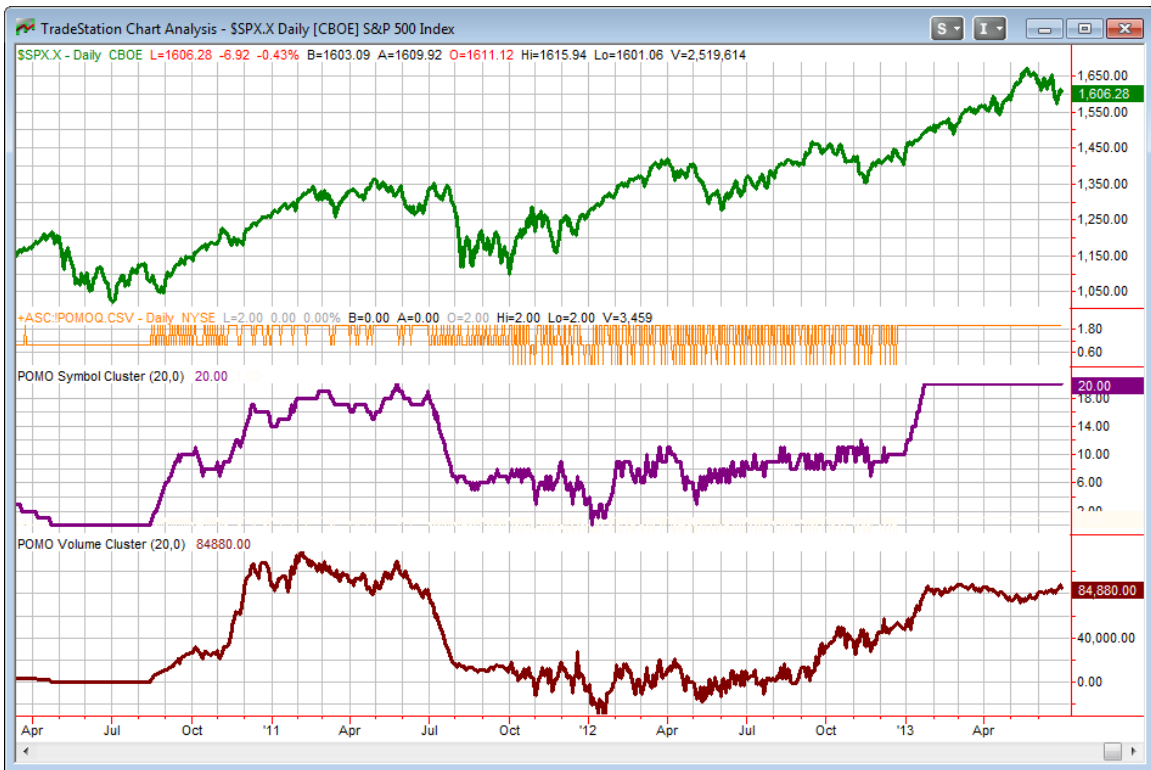
The results table suggests a strong consistent edge has followed this setup. Below is a performance graph to see how it has played out over time.



The curve appears to serve as further confirmation of the upside edge. The strong, steady upslope is very impressive. So I have now added this study to the intermediate-term active list as well.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

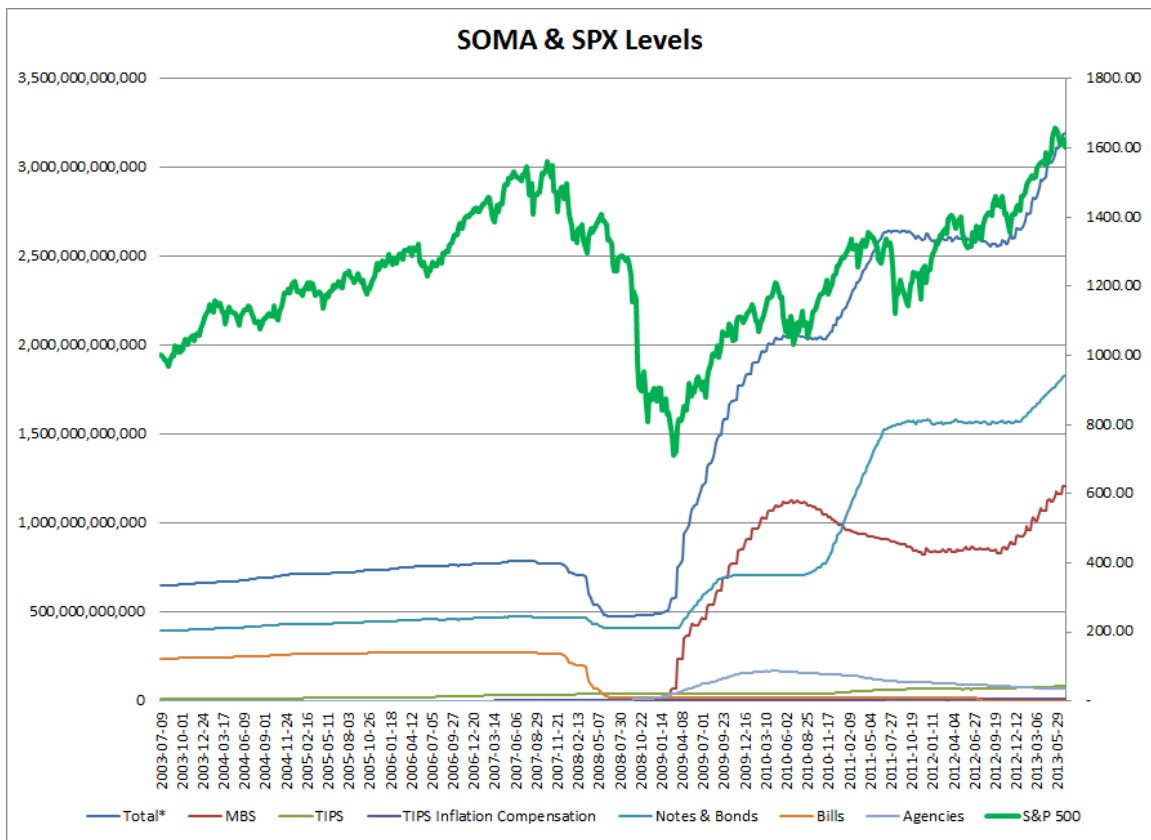
POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish 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 \$24.8 billion, which should help the market this upcoming week.

This week is expected to see POMO and AMBS inflows of about \$16.9 billion. That is low compared to last week but not bad for a holiday week.

I have not shown the SOMA chart in a while, so here it is:



SOMA is the System Open Market Account of the Fed. It is essentially the Fed's balance sheet of holdings. A quick look at the chart shows how the stock market (SPX is the green line) has done particularly well when the balance sheet has been rapidly expanding. But SPX has struggled during periods of SOMA decline or sideways chop. Recent growth in the SOMA has been very strong, and it has gone from \$2.7 trillion to \$3.2 trillion since the beginning of 2013.

That growth has occurred at a fairly steady rate of about \$85 billion/month. But since the size of the account is now so much bigger, \$85 billion now is about 20% less impactful on account holdings than it was just 6 months ago. In fact, to have the same impact

today, the Fed would need to up their purchases to about \$102 billion in July instead of the \$85 billion it currently has planned. The market has shown some worry lately of upcoming plans for the Fed to taper its pace. But when examined this way, that tapering has effectively already begun. And with the low levels of buying expected in the middle of July (as discussed in the Short-Term outlook above), we could get a preview of what real tapering may feel like.

Overall, I am still leaning bullish. There seems to be more evidence pointing in that direction. In addition to the growing SOMA and positive liquidity environment, we had the breadth thrust this week. And other bullish price and breadth studies remain in place as well. The bears can point to the Hindenburg Omen and the SPY rise on declining volume as hints to more downside. I am leaving the outlook at “somewhat bullish” again this 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

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 @ \$160.25 LIMIT ON CLOSE.** Based on the short-term outlook above, I'll begin scaling into a long position.*

Current Open Trade Ideas

None currently open. The last SPY lot was sold on Thursday's open for \$161.10.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2013 Hanna Capital Management, LLC.