

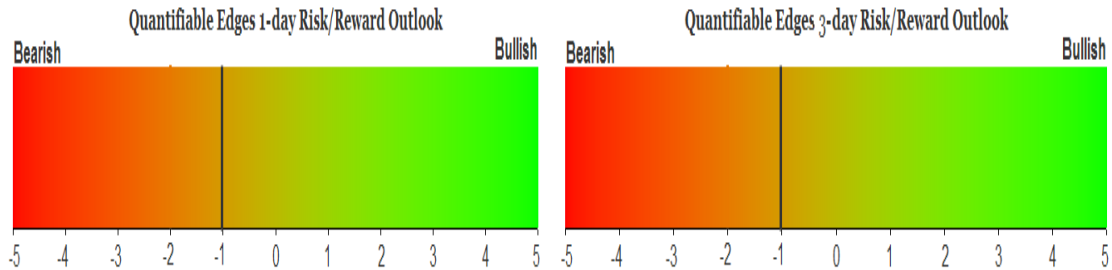
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 5, 2013

Volume 6 Issue 128

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- Weak breadth on a day the SPX rises suggests a downside edge.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a bit of a downside edge. But the edge is small, and the market is only barely overbought versus expectations. I am not inclined to take a position at this point. More agile traders could look to take advantage of a possible gap up on Friday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 5, 2013	SPX up. NYSE Up Issues < 40%	1-3 days	Bearish	-1.50%
July 1, 2013	Enf of month. SPX < 10ma & > 200ma.	1-5 days	Bullish	2.20%
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	

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

The Evidence

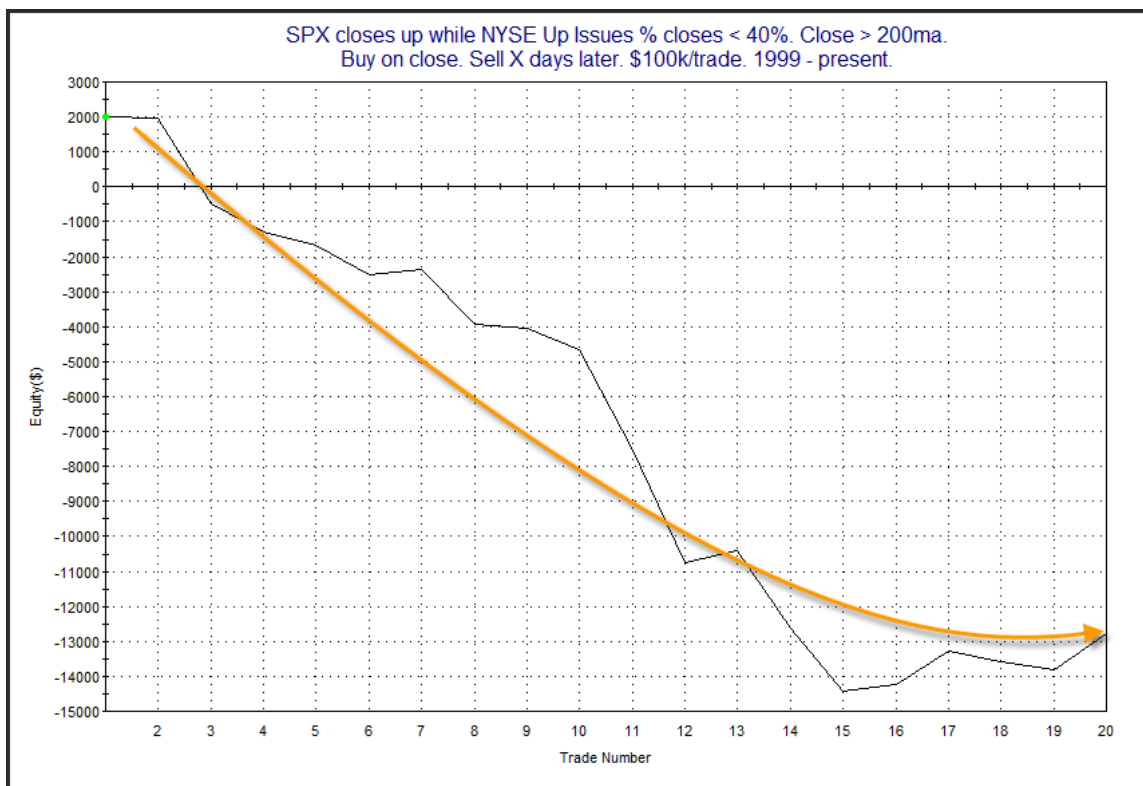
The market got off to a rough start on Wednesday. It gapped down large, but fought its way back throughout the morning. In the end SPX closed up 0.1%, the Nasdaq rose 0.3%, and the Russell 2000 gained 0.2%. Breadth was weak as the NYSE Up Issues % was 37% and the Up Volume % was 47%. Total NYSE was light since it was a half-day before a holiday for traders.

There were a number of volume-related studies that triggered, but with it being a half-day, the low volume was expected and not a sign of complacency. So taking those studies into account would be a mistake.

Wednesday's weak breadth could imply negative ramifications moving forward. In the 5/14/13 Subscriber Letter I looked at other instances where the SPX closed higher while the Up Issues % came in under 40%. Results above the 200ma showed a steady and persistent downside edge. I have updated them below.

SPX closes up while NYSE Up Issues % closes < 40%. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-5,594.80	20	10	10	50.00	1,047.15	3,850.49	-1,606.63	-3,398.20	0.65	0.65	-279.74
4	-8,907.88	20	8	12	40.00	1,075.63	3,230.74	-1,459.41	-4,083.30	0.74	0.49	-445.39
3	-12,781.90	20	6	14	30.00	780.98	2,002.32	-1,247.70	-3,191.92	0.63	0.27	-639.10
2	-9,822.93	20	9	11	45.00	698.68	1,525.61	-1,464.64	-3,844.10	0.48	0.39	-491.15
1	-3,376.48	20	8	12	40.00	1,071.49	2,468.88	-995.70	-2,302.95	1.08	0.72	-168.82

The numbers here appear to suggest a solid downside edge. Now let's take a peek at the equity curve assuming a 3-day holding period.



The downslope seems to be flattening out a bit, so I'll be watching this study carefully, but at this point it still seems to suggest a downside edge.

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



With tonight's bearish study the green Aggregator Line dropped a little below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also fell just below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator system to turn from long to short at the close.

Based on the current studies, expectations are slated to remain negative on Friday. Of course this could easily change if new bullish evidence emerges. The Differential Pivot will be *inverted* at 1,623.02 on Friday. This is about 0.5% *above* Wednesday's close. An inverted pivot means that the Differential line will cross through zero if SPX closes flat. In this case it will take a rise of about 0.5% in order to keep SPX overbought.

The Aggregator suggests a downside edge, but it isn't a very compelling one in my eyes, and I have no intention of acting upon it. Both the Aggregator and the Differential lines are just barely below 0. Additionally, with the Differential Pivot inverted, if the Aggregator is right and the market does move lower on Friday, then it will already be oversold. So the opportunity to profit is limited. With the edge seemingly small, and the opportunity to profit limited, I'll just pass.

Agile traders still could look to take advantage of situations like this. We had a similar (but reverse) setup on Tuesday night. There appeared to be a limited upside edge on

marginal evidence. I elected not to take it. It played out Wednesday with SPX rising a little over a point. But agile day-traders could have bought on the gap down and gotten out by the end of the day with a nice gain. Something similar could occur Friday. Futures rose nearly 15 points overnight Wednesday night, so there is a good chance there is a gap up on Friday. Of course the Employment report is due to be released Friday morning before the open, and that could have a big say in where the market opens.

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

The intermediate-term outlook was last updated in the 7/1 Letter. Link below:

[2013-07-01 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.

[None tonight.](#)

Current Open Trade Ideas

None.

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