

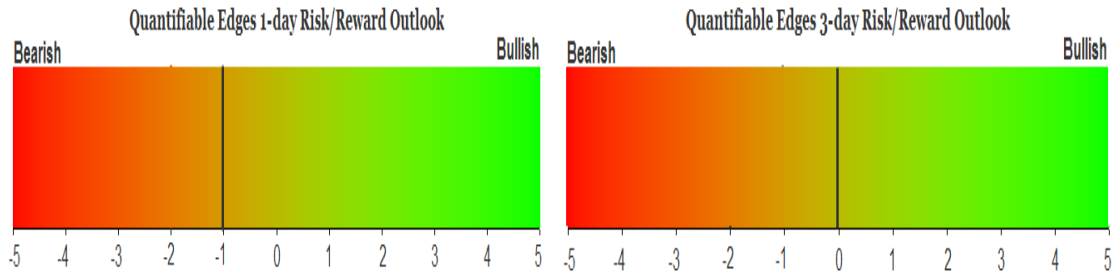
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 11, 2013

Volume 6 Issue 132

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY hitting 10-day highs after closing > 5ma for at least 10 straight days suggests extended condition likely to pull back.
- 5 higher closes without closing at a 50-day high during a long-term uptrend has typically been followed by more gains.

Short-term Outlook

The Bottom Line

The Aggregator now neutral. I have no interest in taking on new positions until a strong edge is more evident.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 11, 2013	5 up > 200 but < 50-high	1-10 days	Bullish	
July 11, 2013	10 closes > 5ma. Close 10-high	1-2 days	Bearish	
Active - Long Term				
July 11, 2013	5 up > 200 but < 50-high	1-15 days	Bullish	
July 10, 2013	RSI(2) crosses over 99. SPX > 200ma	1-15 days	Bullish	2.40%
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

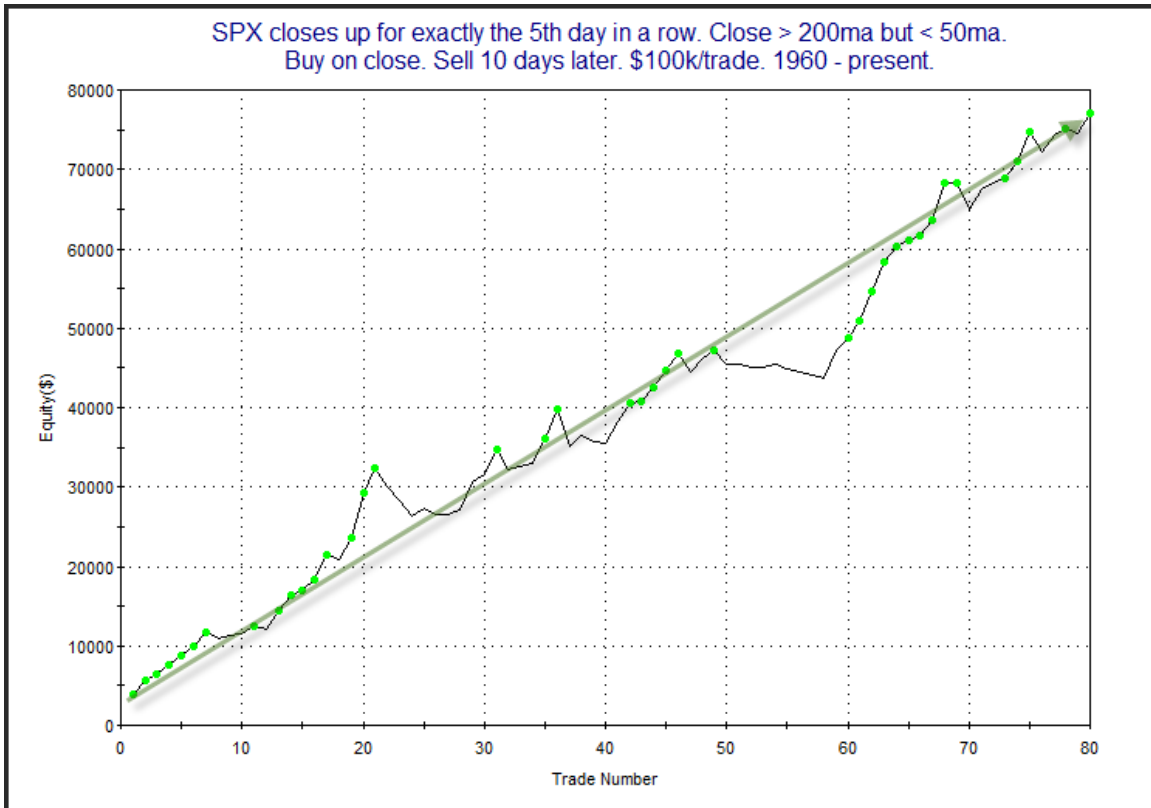
The rally continued on Wednesday. The SPX rose just 0.3 points, while the Nasdaq climbed 0.5%, and the Russell 2000 gained 0.2%. Breadth was mixed as the NYSE Up Issues % was 52% and the Up Volume % was 45%. Total NYSE volume continued to be light.

Last night I examined a study that showed when overbought conditions get powered through then odds will sometimes shift from a pullback to a continuation of the move higher. The study below is one of those that suggests SPX is overbought, and it is likely to continue moving higher. It was last seen in the 4/26/13 subscriber letter. All stats are updated.

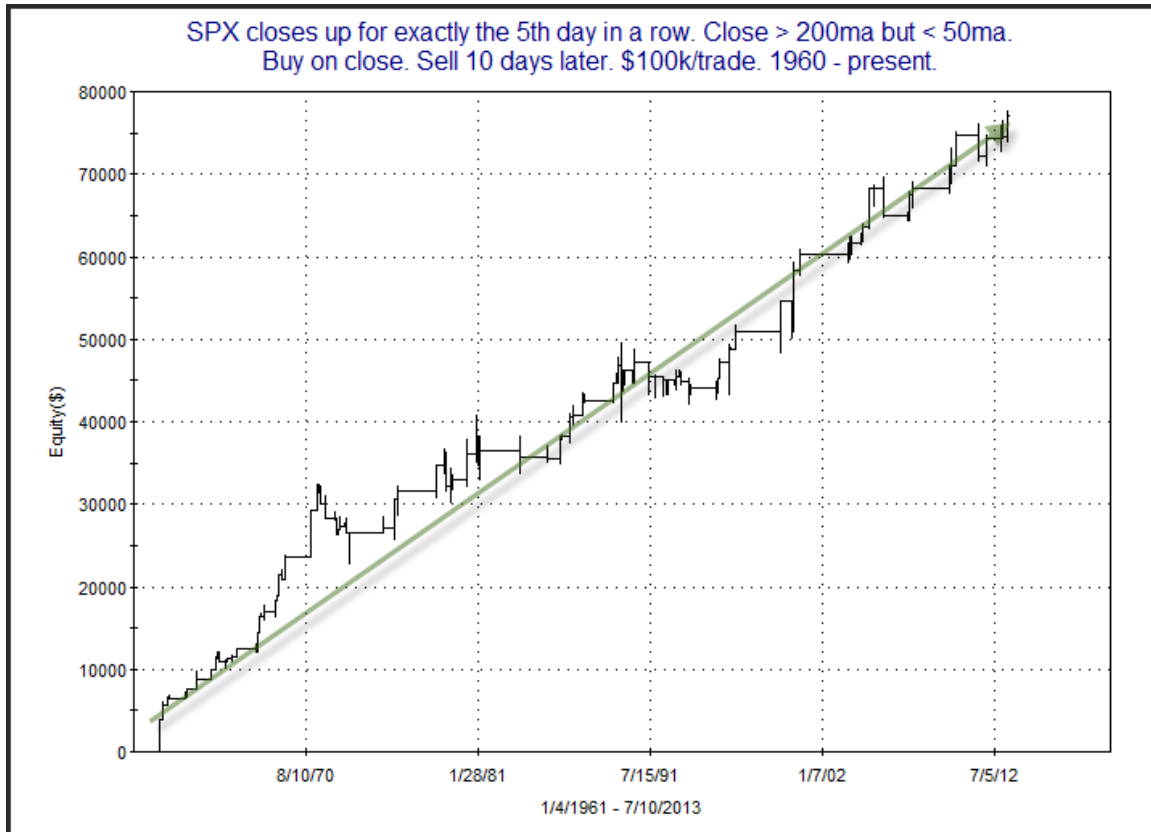
SPX closes up for exactly the 5th day in a row. Close > 200ma but < 50ma.
Buy on close. Sell X days later. \$100k/trade. 1960 - present.

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
15	113,231.39	77	53	24	68.83	2,828.94	8,288.00	-1,529.28	-4,879.10	1.85	4.09	1,470.54
14	100,757.42	77	52	25	67.53	2,687.94	8,272.60	-1,560.61	-4,738.50	1.72	3.58	1,308.54
13	100,260.26	77	57	20	74.03	2,434.29	6,401.50	-1,924.72	-3,773.44	1.26	3.60	1,302.08
12	89,488.55	79	57	22	72.15	2,241.45	5,925.50	-1,739.74	-3,661.77	1.29	3.34	1,132.77
11	75,943.79	80	54	26	67.50	2,096.53	6,110.00	-1,433.41	-4,887.00	1.46	3.04	949.30
10	77,107.29	80	57	23	71.25	1,870.98	5,675.25	-1,284.30	-4,684.28	1.46	3.61	963.84
9	73,017.08	80	53	27	66.25	1,945.35	5,228.75	-1,114.31	-4,910.55	1.75	3.43	912.71
8	65,224.12	81	57	24	70.37	1,615.52	5,146.50	-1,119.20	-3,376.64	1.44	3.43	805.24
7	57,618.38	81	53	28	65.43	1,664.93	5,698.75	-1,093.68	-3,500.70	1.52	2.88	711.34
6	48,953.60	81	58	23	71.60	1,379.35	5,134.75	-1,349.94	-3,359.36	1.02	2.58	604.37
5	41,004.45	81	57	24	70.37	1,220.01	4,476.75	-1,189.00	-3,716.53	1.03	2.44	506.23
4	28,897.62	81	54	27	66.67	1,031.22	3,983.25	-992.15	-3,494.78	1.04	2.08	356.76
3	25,624.37	81	53	28	65.43	998.64	2,796.50	-975.12	-3,359.36	1.02	1.94	316.35
2	12,467.20	81	51	30	62.96	769.03	2,479.25	-891.78	-3,748.50	0.86	1.47	153.92
1	6,920.66	81	49	32	60.49	508.32	2,211.54	-562.09	-2,193.72	0.90	1.38	85.44

These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.



This appears to be quite a consistent curve and makes the study even more compelling. Because the time-frame of the study is so long, I also decided to run a time-based chart in addition to the instance-based one.



This is just as impressive and shows that the edge has remained in place through many market regimes. I have also added this study to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.

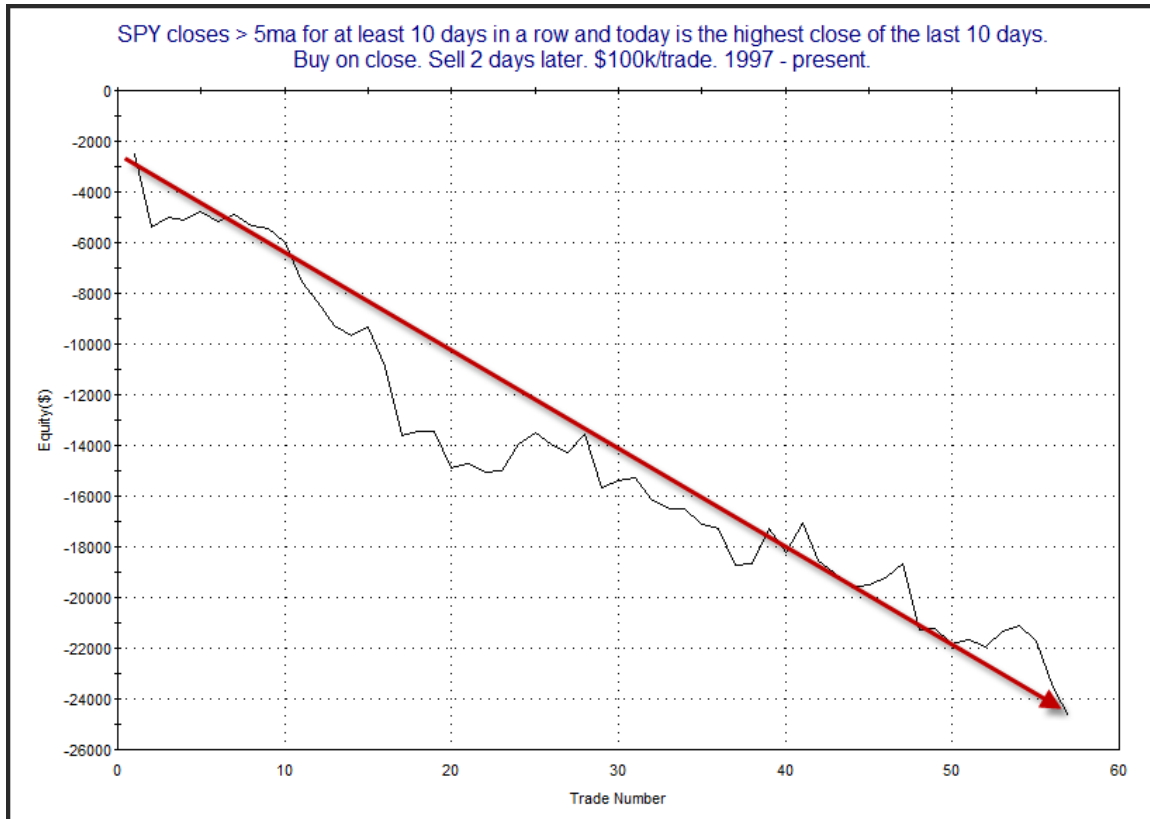
But not everything is pointing higher. SPY has now gone 10 days without closing below its 5ma. That's an unusually long period of time to hold above such a short-term moving average. The study below was last seen in the 5/16/13 subscriber letter. It looked at other instances in which the market had traded above the 5ma for at least 2 weeks and was now closing at a 10-day high. All results are updated.

SPY closes > 5ma for at least 10 days in a row and today is the highest close of the last 10 days.
Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-12,913.21	40	21	19	52.50	738.86	2,516.52	-1,496.28	-4,014.40	0.49	0.55	-322.83
4	-17,281.44	44	18	26	40.91	656.27	1,428.90	-1,119.01	-3,723.20	0.59	0.41	-392.76
3	-18,947.57	51	18	33	35.29	604.01	1,294.25	-903.63	-3,235.65	0.67	0.36	-371.52
2	-22,575.41	59	25	33	42.37	383.18	1,392.65	-974.39	-2,870.40	0.39	0.30	-382.63
1	-23,184.17	82	32	50	39.02	292.19	1,134.24	-650.68	-2,817.32	0.45	0.29	-282.73

89% of instances closed below the entry price at some point in the next week.

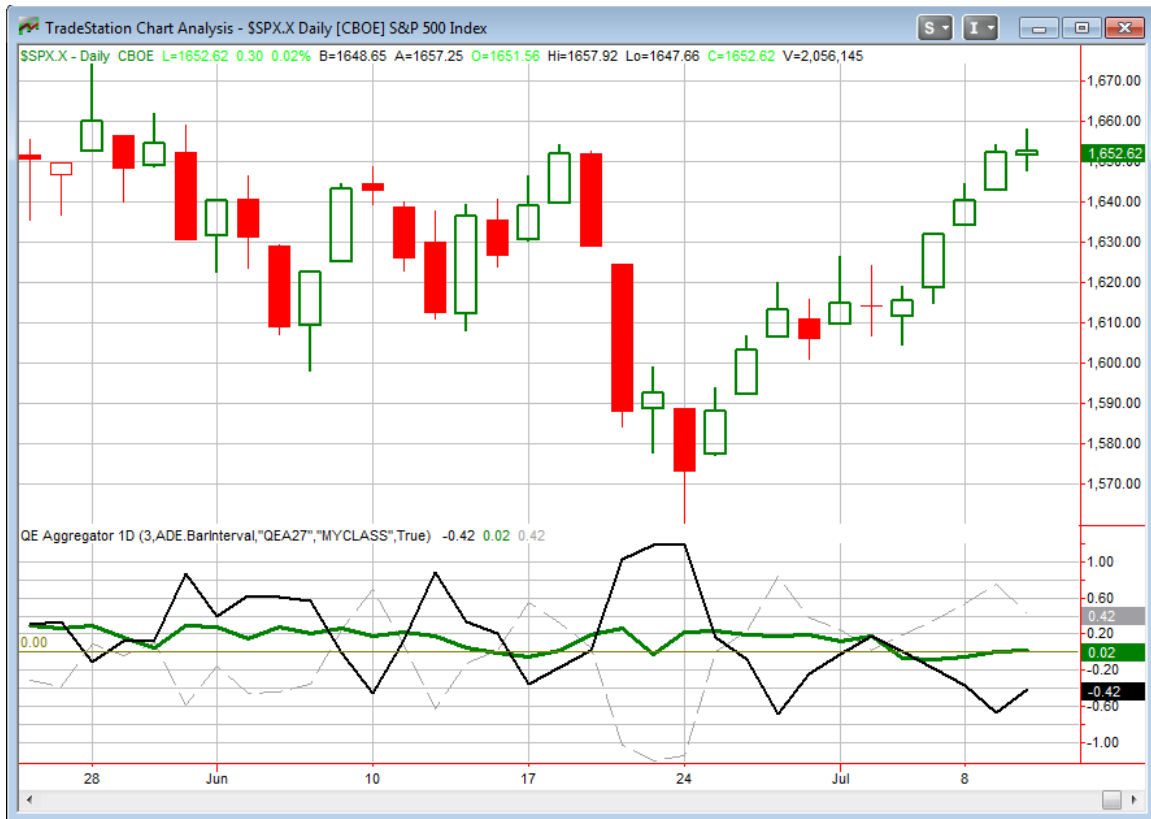
In the past this setup has almost always been followed by a short-term pullback. The downside edge doesn't last long, though. It seems to pretty much play itself out over the first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



The strong steady downslope seems to confirm the bearish edge.

So we have a mix of indications to consider tonight. This creates a scenario where I often find the Aggregator useful.

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



With tonight's studies taken into account the green Aggregator Line remained 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 slightly positive but 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 stay flat at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. The Differential Pivot will be 1,637.00 on Thursday. That is 0.9% below Wednesday's close. So unless there is a strong selloff Thursday, SPX will remain overbought.

Futures reacted well to Bernanke's speech after the close on Wednesday and this will likely lead to a strong open on Thursday. Where price goes from there is very unclear.

The strong overbought condition means extra risk for long positions, but it is so overbought that it also suggests a continuation higher is more likely. I'll remain sidelined until a more compelling edge emerges.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/8 – somewhat bullish

The intermediate-term outlook was last updated in the 7/8 letter. Link below:

[2013-07-08 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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