

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 17, 2013

Volume 6 Issue 136

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Strong drops from 50-day highs have consistently been followed by bounces.
- 5 days higher to a 50-day high rarely sees the move up end abruptly.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is already suggesting an upside edge, but I would like to see a bit more of a pullback before getting excited.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
July 17, 2013	50-high yest. Biggest drop 10 today	1-4 days	Bullish	
July 17, 2013	5 up, 50-high, then down	1-2 days	Bullish	
July 15, 2013	10 closes > 5ma. Close 10-high	1-2 days	Bearish	
July 12, 2013	SPY breakaway gap	1-5 days	Bullish	1.65%
July 11, 2013	5 up > 200 but < 50-high	1-10 days	Bullish	
<b>Active - Long Term</b>				
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***

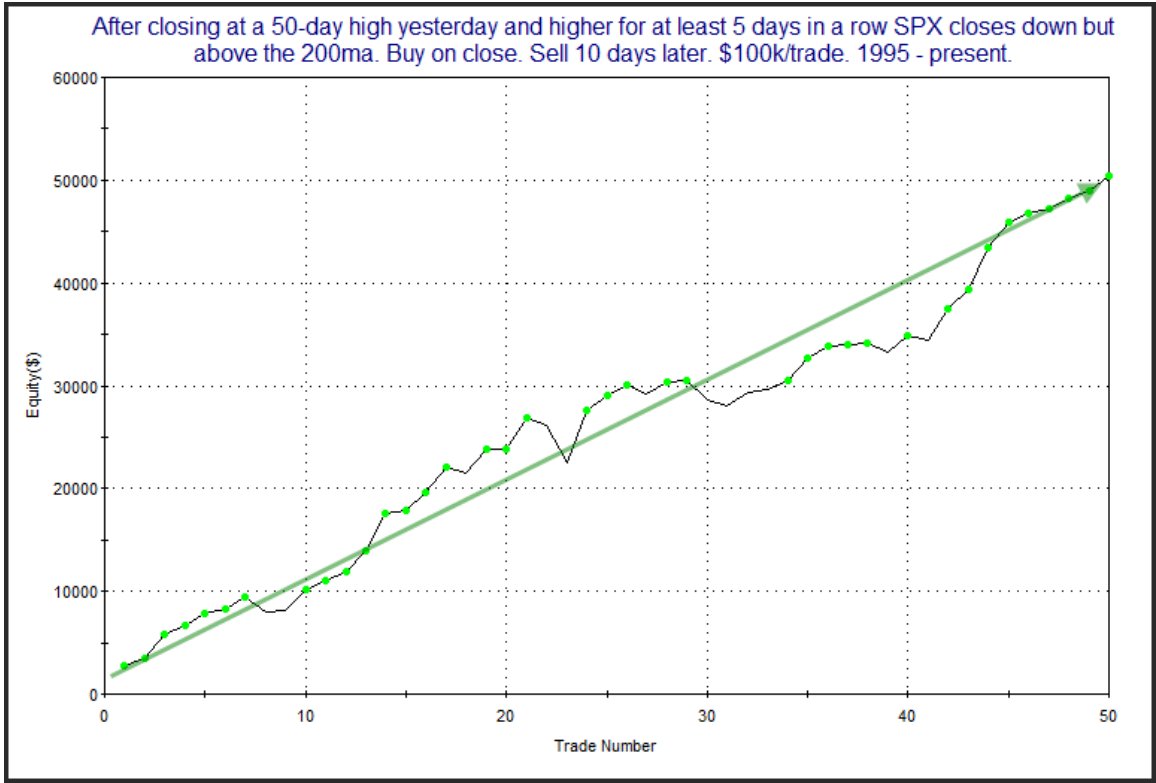
The market finally took a little breather and pulled back on Tuesday. The SPX and Russell 2000 each lost 0.4%, while the Nasdaq fell 0.3%. Breadth was negative as the NYSE Up Issues % was 35% and the Up Volume % was 37%. Total NYSE volume rose some from Monday, but was still light.

One possible market positive is that prior to Tuesday's drop the market was locked in a persistent rally. I've shown a few different ways in the past that persistent rallies are unlikely to end abruptly. Instead they will either continue higher after a brief pullback, or action will become choppy prior to a sizable move lower. The study below exemplifies this and was last seen in the 8/14/12 subscriber letter.

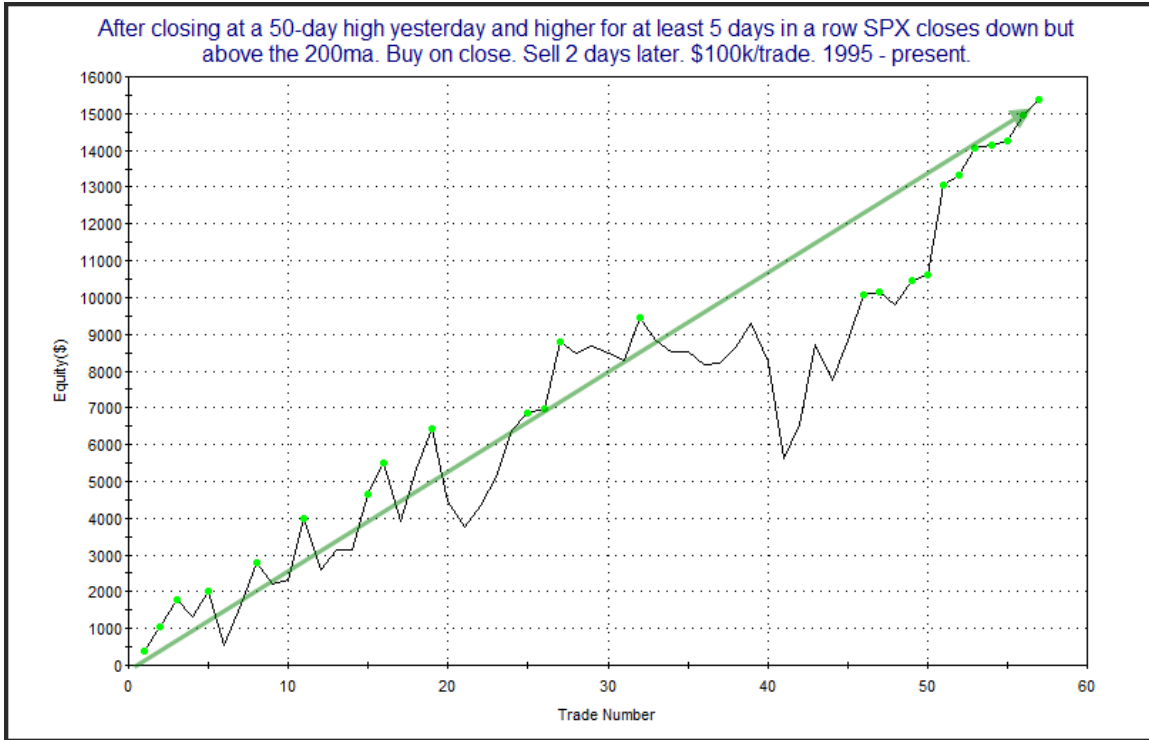
After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present.

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	50,450.39	50	41	9	82.00	1,502.36	5,131.35	-1,238.51	-3,672.90	1.21	5.53	1,009.01
9	50,407.85	53	43	10	81.13	1,503.26	5,023.20	-1,423.22	-4,151.40	1.06	4.54	951.09
8	43,572.01	54	37	17	68.52	1,709.11	4,878.08	-1,156.77	-4,874.10	1.48	3.22	806.89
7	35,173.46	55	36	19	65.45	1,576.68	3,874.76	-1,136.15	-3,912.48	1.39	2.63	639.52
6	35,535.87	57	38	19	66.67	1,446.29	4,307.20	-1,022.26	-3,637.71	1.41	2.83	623.44
5	25,644.42	57	35	22	61.40	1,242.35	4,252.50	-810.80	-2,466.75	1.53	2.44	449.90
4	27,036.71	57	35	22	61.40	1,252.95	3,843.00	-764.39	-3,003.39	1.64	2.61	474.33
3	15,793.56	57	36	21	63.16	924.06	2,472.85	-832.03	-1,992.34	1.11	1.90	277.08
2	15,386.14	57	39	18	68.42	783.64	2,437.50	-843.10	-2,614.95	0.93	2.01	269.93
1	9,295.85	57	36	20	63.16	553.99	1,751.19	-532.39	-1,744.10	1.04	1.87	163.09

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a quick little boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 2-day curve.



Results are choppy here but the curves look somewhat similar. And even with more whipsaws this one appears worthy of consideration.

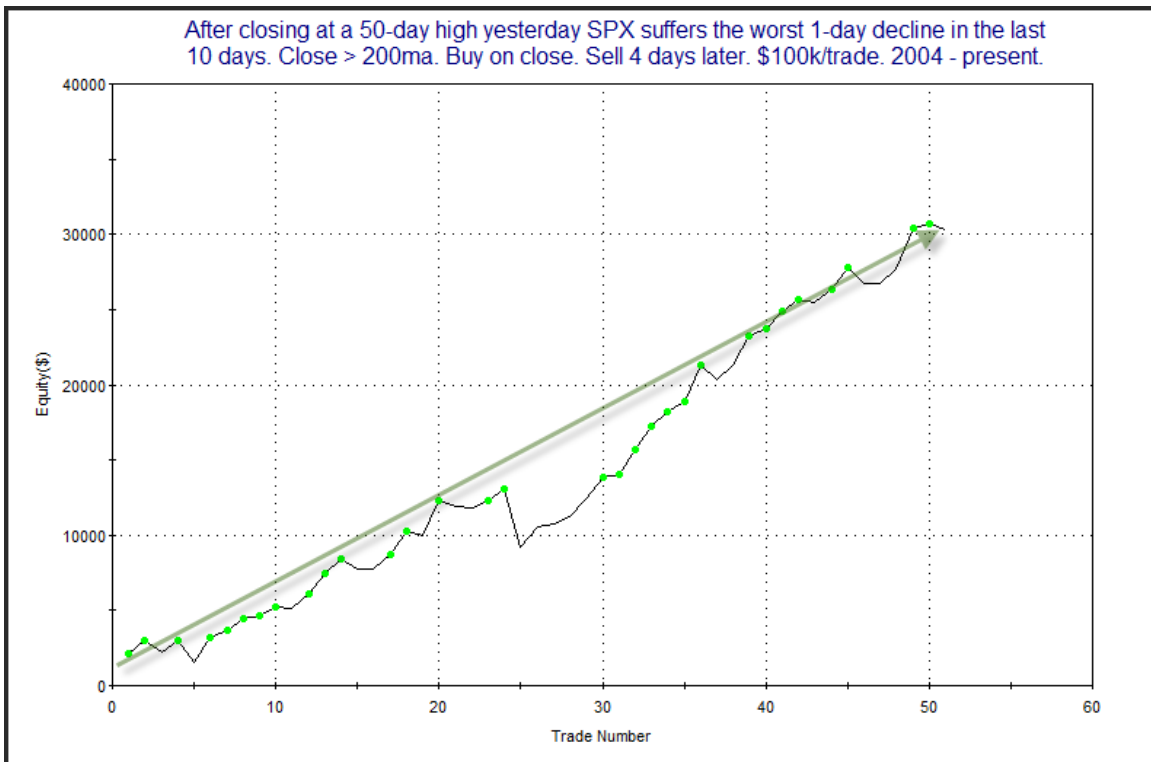
This next study looks at what happen when a relatively sharp down day occurs after a 50-day high. It was last seen in the 5/17/13 Letter. All stats are updated.

After closing at a 50-day high yesterday SPX suffers the worst 1-day decline in the last 10 days. Close > 200ma. Buy on close. Sell 4 days later. \$100k/trade. 2004 - 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	26,510.19	47	33	14	70.21	1,362.38	3,149.37	-1,317.74	-3,454.00	1.03	2.44	564.05
4	30,303.82	51	37	14	72.55	1,096.57	2,725.38	-733.51	-3,895.76	1.49	3.95	594.19
3	20,445.69	52	37	15	71.15	848.29	2,192.40	-729.41	-1,808.21	1.16	2.87	393.19
2	12,213.86	53	31	22	58.49	806.12	2,437.50	-580.72	-1,777.55	1.39	1.96	230.45
1	5,047.07	53	31	22	58.49	534.23	1,249.60	-523.37	-1,354.59	1.02	1.44	95.23

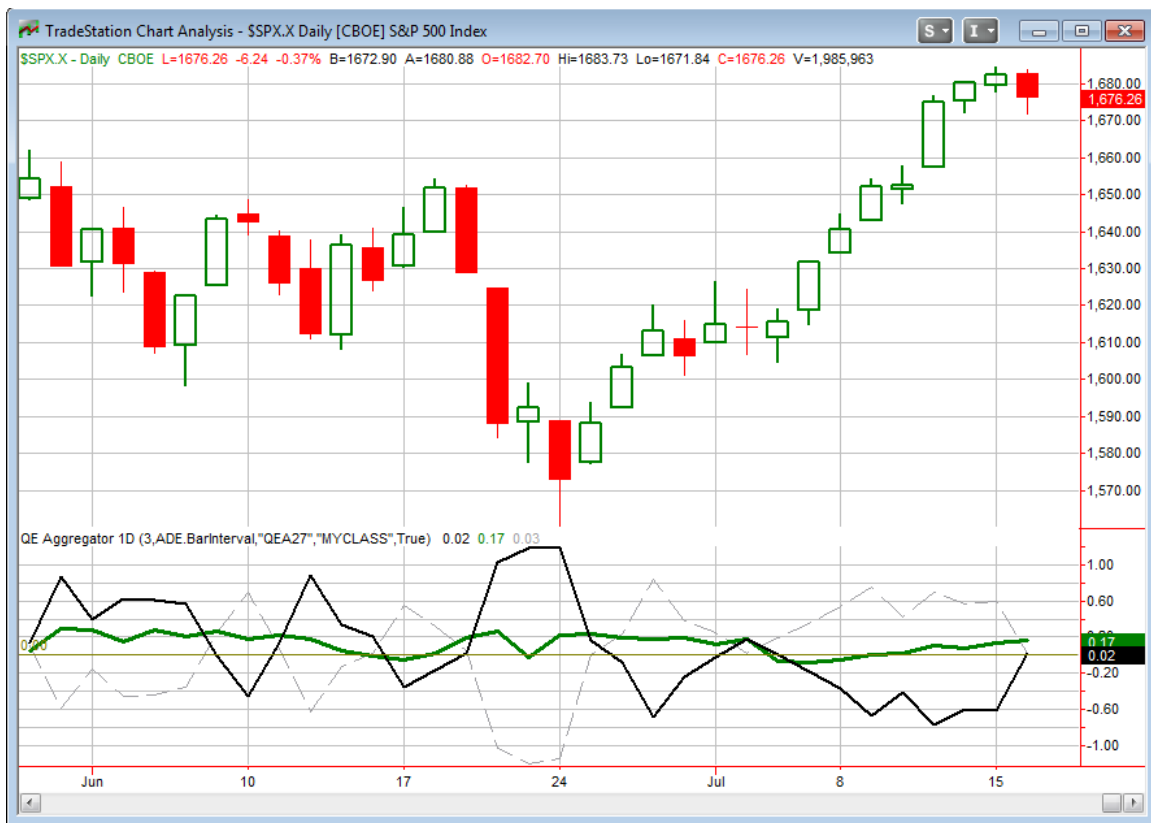
49 of 53 instances (92%) closed above the entry price at some point in the next 5 days.

Over the last 9 1/2 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



The steady upslope seems to confirm the bullish inclination. I've included this study on the active list.

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

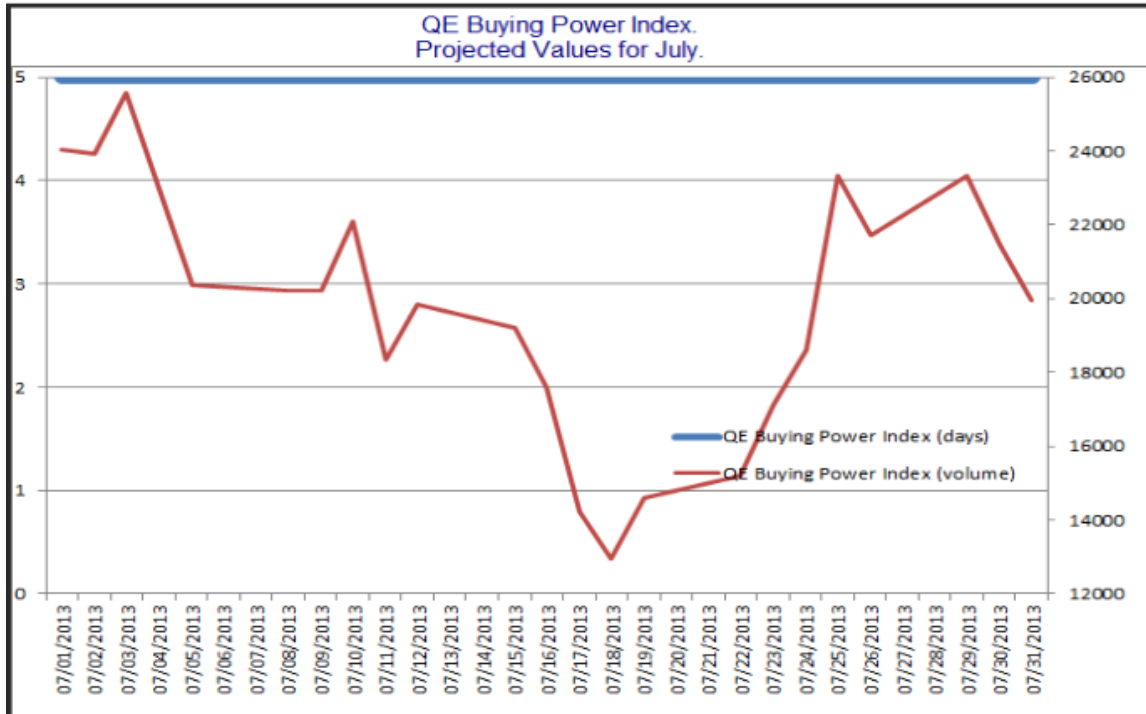


Tonight's bullish studies ensured the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose to a point where it closed just barely above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and SPX is slightly 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 turn long at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. The Differential Pivot will be 1,683.41 on Wednesday. That is 0.4% above Tuesday's close. So the market would need to close up at least this much in order to move from oversold to overbought.

So the Aggregator is suggesting an upside edge. But really what are we looking at here? We have some decent, though not overwhelming, bullish short-term evidence. And we have a market that is considered oversold, but only versus recent statistical expectations. Other measurements would say we are still squarely overbought on a short-term basis. For instance, SPY, QQQ and IWM all closed in the top 11% of their 10-day range. So it

would seem there is still some room for this pullback to go before the market becomes truly “oversold”. Now I am not seeing compelling evidence suggesting that a continuation of the pullback is likely, but as I have discussed since the beginning of the month, if there is going to be one in July, this would seem to be a very opportune time. The reason I say this is that liquidity flows (specifically the 5-day volume numbers) are hitting their lowest levels of 2013 in the next couple of days. Below is a copy of the July projected QE Buying Power Index from QE Buying Power page on the website.



As you can see, Thursday is the low day. After that the index begins to creep higher. That doesn't mean Thursday is a projected “bottom”. What it does mean is that liquidity flows leading up to Thursday will be so weak that in the days soon before and after the market will be without the strong liquidity support it is used to. And perhaps bears might be able to take advantage of this.

So while I considered starting to scale into a long position based on the Aggregator, I'm going to give it at least 1 more day. I'll give the bears a chance here, and likely scoop up some shares if they do manage to push prices lower. But for Wednesday, it is another quiet summer day for me.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 7/15 – somewhat bullish**

The intermediate-term outlook was last updated in the 7/15 letter. Link below:

[2013-07-15 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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