

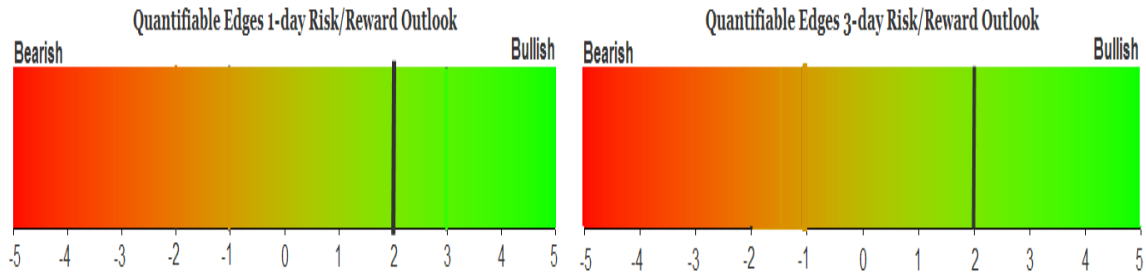
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 18, 2013

Volume 6 Issue 137

Market Overview



Signals Overview

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

Tonight's Research Points

- The intraday high, unfilled gap, and weak close imply short-term strength.

Short-term Outlook

The Bottom Line

The Aggregator is still 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
Active				
July 18, 2013	20-high. Unfilled gap up. Close<open.	1-3 days	Bullish	
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 12, 2013	SPY breakaway gap	1-5 days	Bullish	1.65%
July 11, 2013	5 up > 200 but < 50-high	1-10 days	Bullish	
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 market quickly got back to its winning ways Wednesday. The SPX, Nasdaq, and Russell 2000 all gained between 0.28% and 0.37%. Breadth was positive as the NYSE Up Issues % was 65% and the Up Volume % was 67%. Total NYSE volume came in higher than the last few days.

Unfilled up gaps are generally a sign of strength. And the new 20-day high put in on Wednesday also shows strength. But some traders may have been disappointed that SPY faded after the open and finished in the lower part of its daily range. Historically, unfilled gaps and 20-day intraday highs as was put in on Wednesday have been followed by much more positive action when the rally closed meekly. Wednesday's action is actually preferable. This is something I examined in detail in the 1/11/12 & 8/7/12 Subscriber Letters.

In those letters I ran a test of performance following unfilled upside gaps that make a 20-day high. I broke out the results by times the SPY closed above the open versus times where it closed below the open. Tonight I took another look at those studies.

First let's look at those times where the finish was relatively strong (from the 8/14/12 Letter):

**SPY posts a 20-day intraday high and an unfilled up gap. Close > open and > 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	13,122.90	122	68	53	55.74	1,658.55	6,056.96	-1,880.35	-6,391.84	0.88	1.13	107.56
9	10,964.75	129	72	55	55.81	1,542.25	5,404.74	-1,819.59	-5,953.86	0.85	1.11	85.00
8	2,717.67	134	75	58	55.97	1,350.63	5,456.48	-1,699.65	-6,071.52	0.79	1.03	20.28
7	-484.39	139	78	58	56.12	1,230.64	5,145.60	-1,663.35	-5,839.16	0.74	0.99	-3.48
6	4,935.02	146	77	68	52.74	1,052.93	4,931.26	-1,119.71	-4,876.48	0.94	1.06	33.80
5	7,600.83	152	81	69	53.29	1,018.20	4,539.48	-1,085.12	-3,561.24	0.94	1.10	50.01
4	8,997.80	166	91	74	54.82	968.77	4,627.26	-1,069.74	-3,532.12	0.91	1.11	54.20
3	-10,950.39	179	100	77	55.87	666.82	2,659.03	-1,008.22	-5,080.34	0.66	0.86	-61.18
2	-7,201.35	191	101	89	52.88	540.01	2,545.92	-693.74	-3,016.48	0.78	0.88	-37.70
1	2,339.95	204	105	98	51.47	405.04	2,380.38	-410.10	-2,817.32	0.99	1.06	11.47

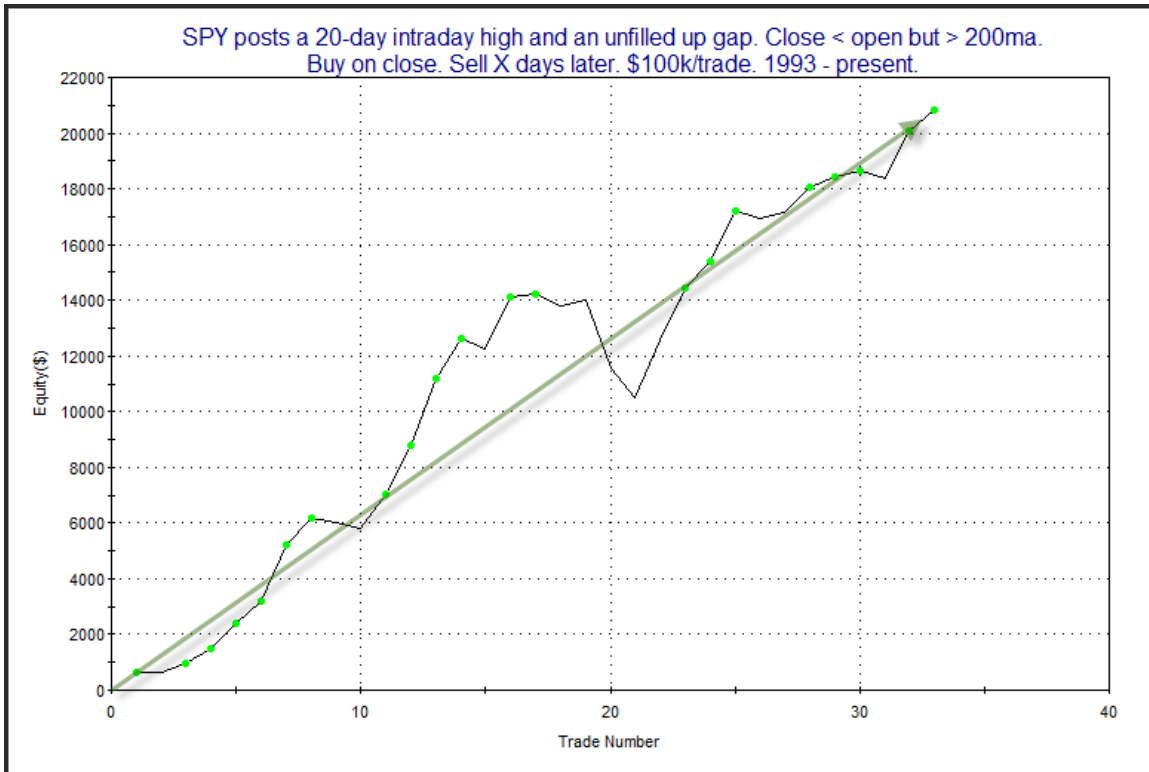
There doesn't appear to be any edge in either direction here. Now let's examine times like the present where SPY closed below the open. (Also last seen in the 8/14/12 letter.)

**SPY posts a 20-day intraday high and an unfilled up gap. Close < open but > 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	29,976.90	29	18	11	62.07	2,491.34	4,838.35	-1,351.57	-4,810.68	1.84	3.02	1,033.69
9	24,109.21	30	22	8	73.33	1,754.17	3,741.10	-1,810.33	-5,564.16	0.97	2.66	803.64
8	21,698.31	30	21	8	70.00	1,758.40	3,352.48	-1,903.52	-6,021.40	0.92	2.42	723.28
7	20,760.55	30	19	11	63.33	1,875.74	3,751.55	-1,352.59	-4,952.36	1.39	2.40	692.02
6	22,052.04	30	20	10	66.67	1,811.42	4,159.10	-1,417.63	-6,414.24	1.28	2.56	735.07
5	17,997.28	30	18	12	60.00	1,576.13	3,754.17	-864.42	-4,540.20	1.82	2.74	599.91
4	18,261.38	31	23	8	74.19	1,070.24	3,436.02	-794.26	-2,228.24	1.35	3.87	589.08
3	20,803.28	33	24	8	72.73	1,078.54	2,362.10	-635.21	-2,427.88	1.70	5.09	630.40
2	14,768.54	34	22	12	64.71	962.12	1,998.70	-533.18	-926.12	1.80	3.31	434.37
1	6,479.40	35	23	12	65.71	511.48	1,708.92	-440.39	-1,015.84	1.16	2.23	185.13

**31 of 35 instances (89%) closed above the entry price
at some point in the next 3 days.**

These results are substantially better than earlier where the finish was good. I also examined the 3-day profit curve tonight.



A little choppy, but overall it shows nice persistency. Rather than worrying about the weak finish, perhaps bulls should be excited by it.

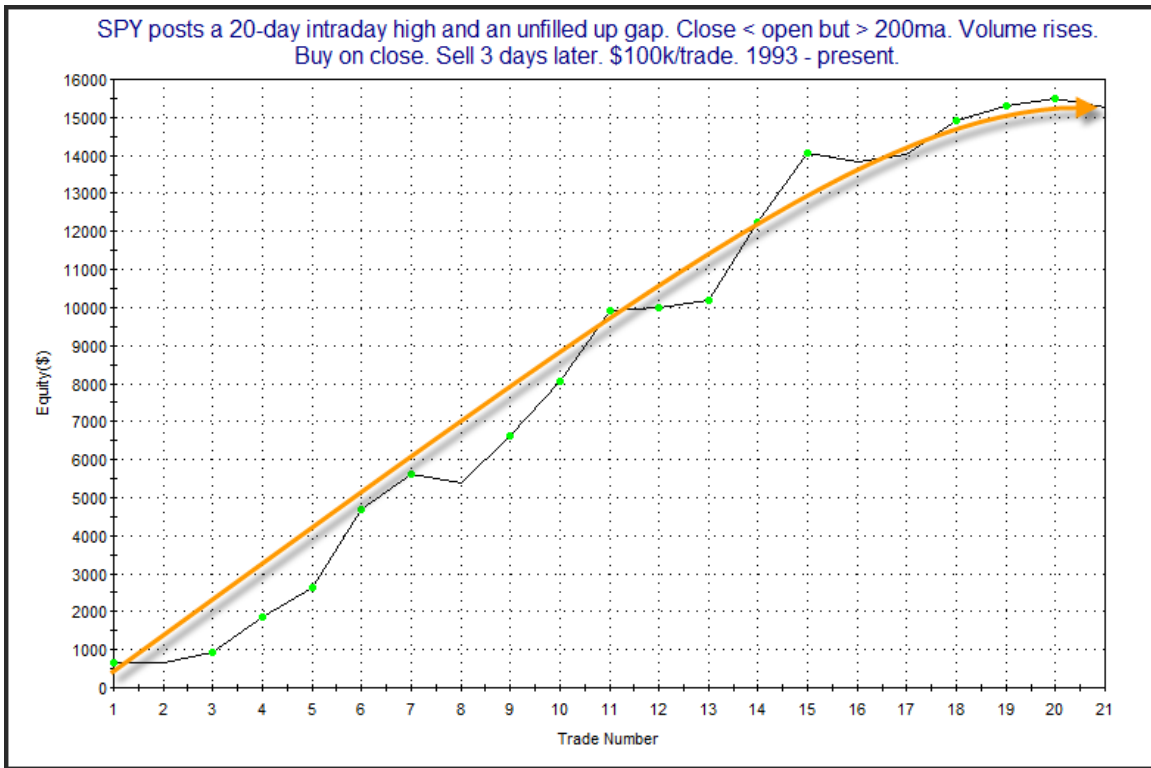
In the 1/11/12 Letter I also added a volume filter to see what a rise in SPY volume might mean.

SPY posts a 20-day intraday high and an unfilled up gap. Close < open but > 200ma. Volume rises.
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	26,436.11	19	12	7	63.16	2,758.46	3,751.11	-952.21	-2,117.20	2.90	4.97	1,391.37
9	19,507.71	19	14	5	73.68	1,806.16	3,384.84	-1,155.71	-1,837.44	1.56	4.38	1,026.72
8	17,619.07	19	13	5	68.42	1,819.52	3,352.48	-1,206.93	-1,581.20	1.51	3.92	927.32
7	17,211.95	19	12	7	63.16	1,996.42	3,310.89	-963.59	-1,451.12	2.07	3.55	905.89
6	17,854.47	19	13	6	68.42	1,845.46	3,008.79	-1,022.75	-2,000.96	1.80	3.91	939.71
5	14,189.26	20	11	9	55.00	1,681.40	3,754.17	-478.46	-1,879.20	3.51	4.30	709.46
4	15,148.53	20	16	4	80.00	1,033.17	3,436.02	-345.53	-628.68	2.99	11.96	757.43
3	15,256.50	21	17	3	80.95	939.82	2,056.39	-240.14	-252.60	3.91	22.18	726.50
2	10,097.80	22	15	7	68.18	859.93	1,998.70	-400.16	-926.12	2.15	4.60	458.99
1	7,236.23	22	17	5	77.27	507.44	1,708.92	-278.07	-479.96	1.82	6.20	328.92

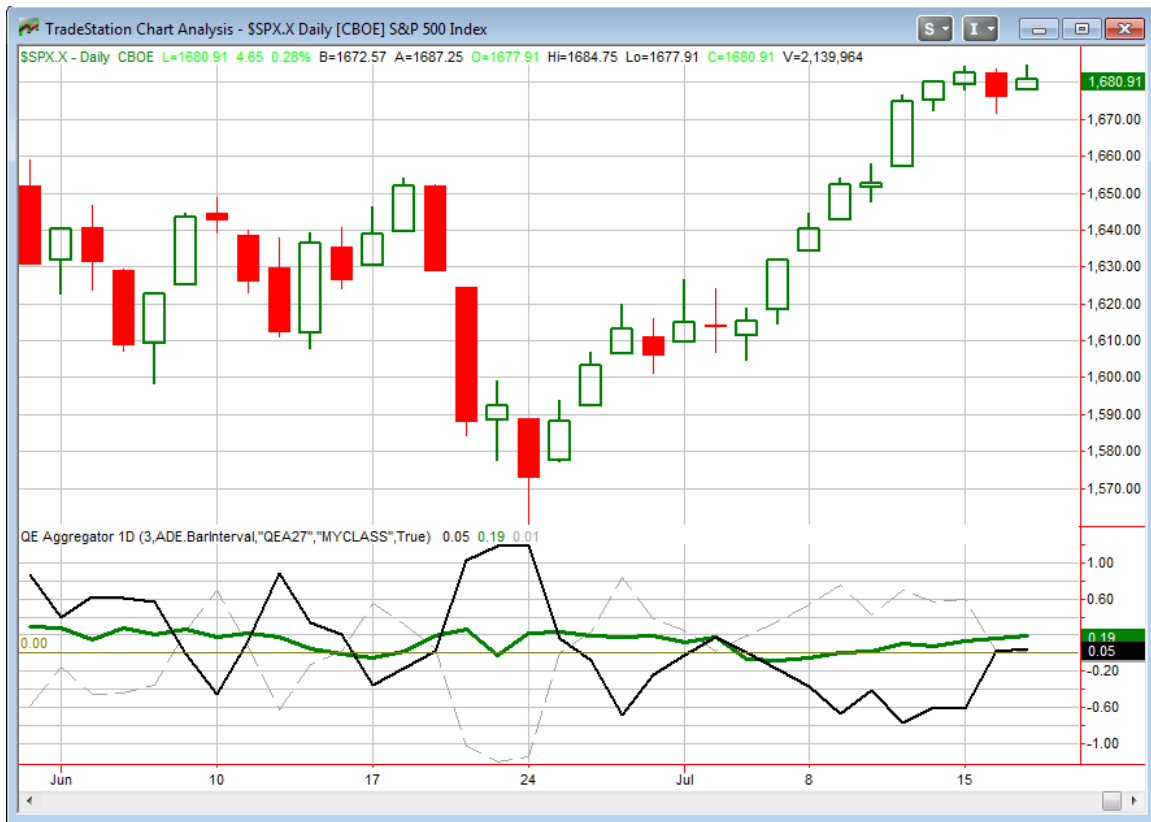
21 of 22 instances (95%) closed above the entry price at some point in the next 3 days.

Results here appear solid all-around, and the edge even plays out a little longer than the 3-4 days of the previous study. To get an idea of how the edge has looked over time I have created an equity curve using a 3-day exit below.



This is another solid-looking equity curve. The pattern appears to suggest a solid upside edge.

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



Tonight's bullish studies helped elevate the green Aggregator Line further 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 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 to remain long at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. The Differential Pivot will be 1,687.71 on Thursday. That is 0.4% above Wednesday's close. So the market would need to close up at least this much in order to move from oversold to overbought.

Everything I said last night still holds true. While the Aggregator is suggesting a longside edge, I still would like to see a deeper pullback. While SPX is "oversold" according to the Differential Line, it is still right near the top of its intermediate and short-term ranges. Liquidity flows have been relatively low over the last few days and that will continue tomorrow, opening up the door for the bears to gain an edge over the next few days. Markets like this can be a real test of patience, but the more patience I have learned over time, the better my own results have become. So I plan to wait another day and see what emerges.

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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