

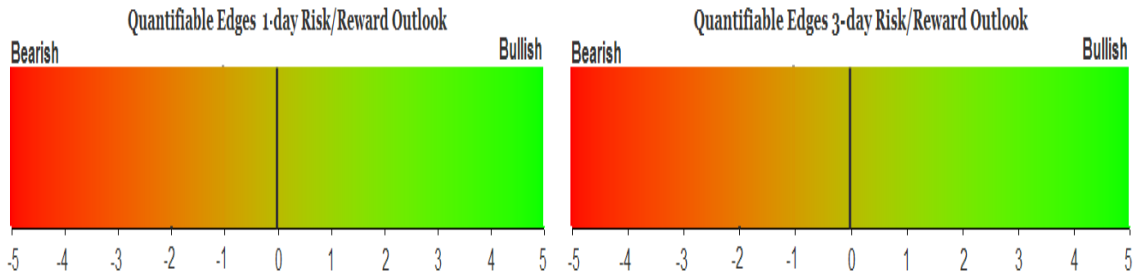
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 19, 2013

Volume 6 Issue 138

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 unfilled up gaps and a 50-day high are a short-term positive.
- 10 days above the 5ma and a new 10-day high suggest the market is due for a brief pullback.
- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.
- The breakout to a new 50-day high from congestion in an uptrend suggest bullish implications.

Short-term Outlook

The Bottom Line

The Aggregator is back to neutral. I am too. I am waiting for the next strong opportunity.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 19, 2013	2 unfilled up gaps & 50-day high	1-2 days	Bullish	
July 19, 2013	Breakout & close above intraday high	1-5 days	Bullish	
July 19, 2013	SPY 10 > 5ma. High close 10	1-2 days	Bearish	
July 19, 2013	Top 10% of range pre-opex	1-5 days	Bearish	
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 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	
Dropped Tonight				
<i>July 17, 2013</i>	<i>5 up, 50-high, then down</i>	<i>1-2 days</i>	<i>Bullish</i>	
<i>July 12, 2013</i>	<i>SPY breakaway gap</i>	<i>1-5 days</i>	<i>Bullish</i>	<i>1.65%</i>

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

The Evidence

Any question of trend was put to rest on Thursday as the market made new highs. The SPX closed up 0.5%, the Nasdaq rose less than 0.1%, and Russell 2000 gained 0.7%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % was 74%. Total NYSE volume came in higher than the last few days.

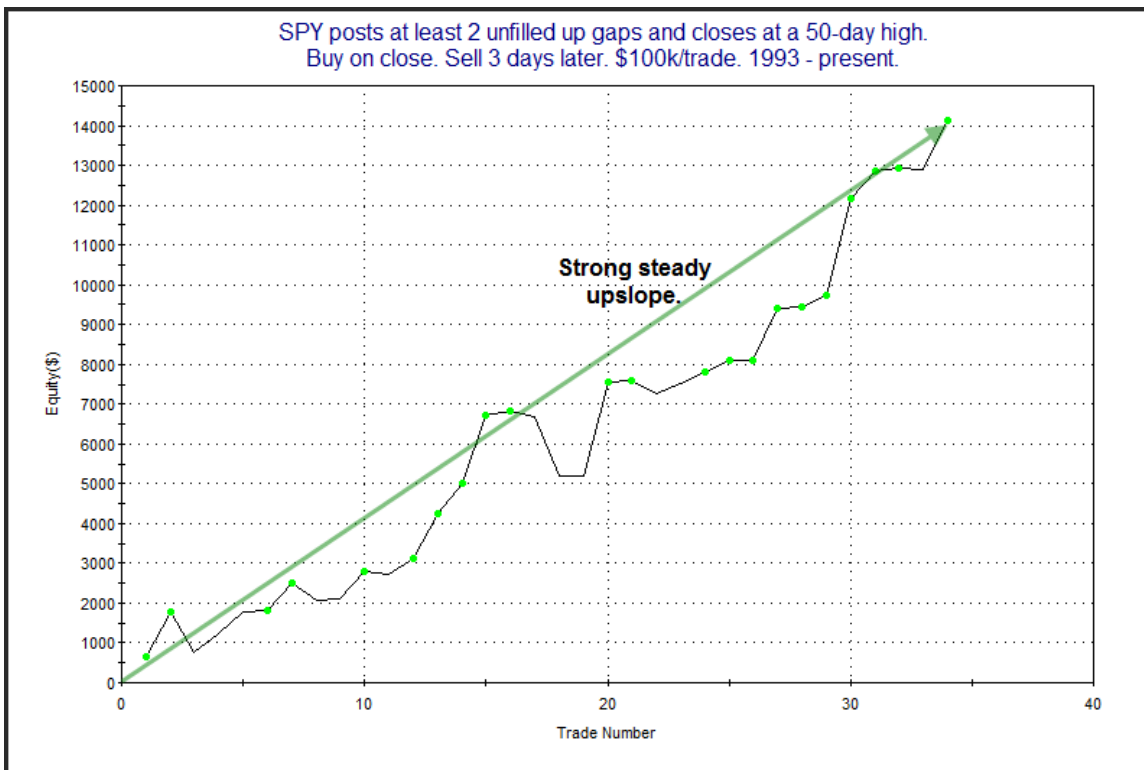
There was a real mix of bullish and bearish studies that triggered in the Quantifinder today. First I'll examine the bullish ones. This first study was last seen in the 9/10/12 Subscriber Letter. It looks at other times the market has posted two consecutive unfilled up-gaps and closed at a 50-day high. The unfilled up-gaps are considered a sign of strength. All stats are updated.

**SPY posts at least 2 unfilled up gaps and closes at a 50-day high.
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
5	13,258.18	34	25	9	73.53	953.40	2,013.72	-1,175.20	-4,508.40	0.81	2.25	389.95
4	16,985.35	34	27	7	79.41	925.12	2,475.56	-1,141.84	-2,720.25	0.81	3.13	499.57
3	14,127.72	34	26	8	76.47	678.49	2,419.84	-439.11	-1,509.60	1.55	5.02	415.52
2	7,037.51	34	23	10	67.65	528.37	1,858.87	-511.50	-947.24	1.03	2.38	206.99
1	-969.02	40	21	19	52.50	312.27	980.49	-396.14	-1,942.24	0.79	0.87	-24.23

39 of 40 instances (97.5%) posted a close above the entry price at some point in the next 5 trading days.

The size of the follow-through isn't terribly large, but it has been very, very consistent that some follow through was achieved in the next few days. Below is the 3-day profit curve.



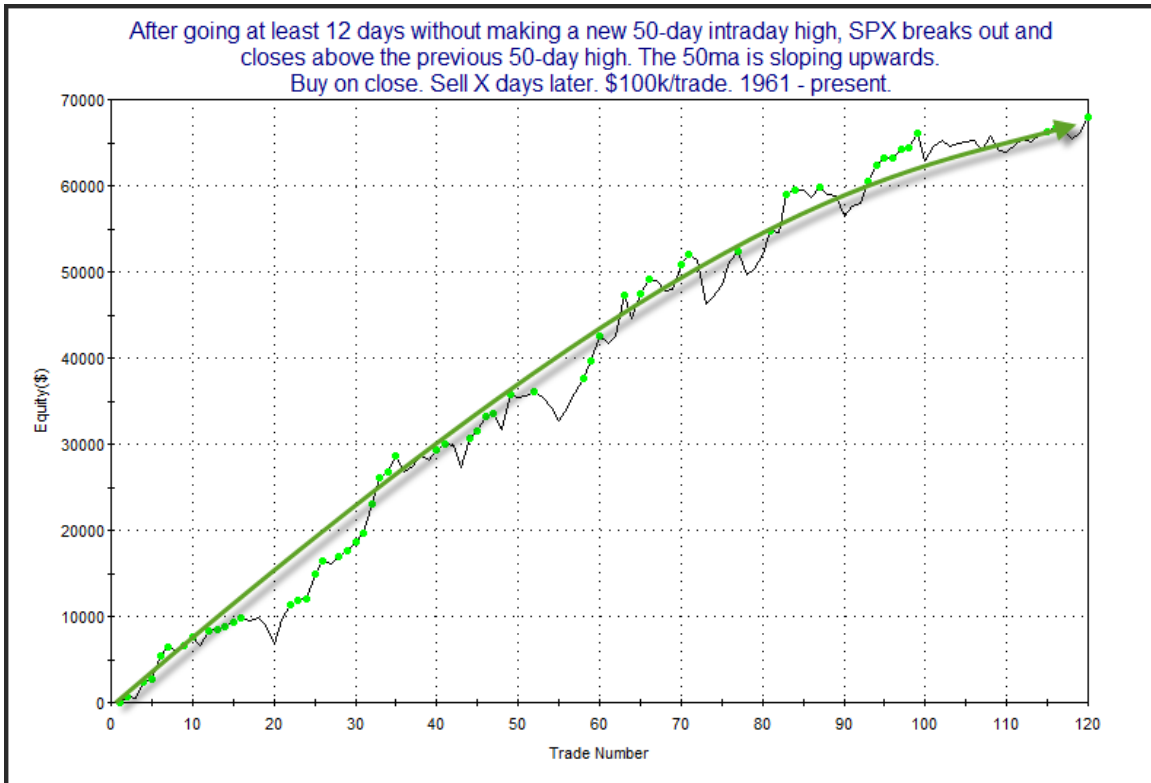
The curve here is strong, and fairly steady. This study seems well worth consideration, and I have included on the Active List.

Also on the positive side, breakouts to new highs after a multi-week period of consolidation during an intermediate-term uptrend often get some upside follow through. Below is a breakout study last seen in the 10/15/09 Letter.

After going at least 12 days without making a new 50-day intraday high, SPX breaks out and closes above the previous 50-day high. The 50ma is sloping upwards.
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	67,891.31	120	83	37	69.17	1,327.80	4,765.28	-1,143.68	-5,099.06	1.16	2.60	565.76
4	55,986.02	120	80	40	66.67	1,141.23	4,440.00	-882.82	-4,296.18	1.29	2.59	466.55
3	44,809.63	120	80	40	66.67	984.90	3,950.00	-849.57	-5,878.78	1.16	2.32	373.41
2	41,271.57	120	78	42	65.00	800.73	2,913.52	-504.42	-1,749.60	1.59	2.95	343.93
1	26,949.86	120	78	41	65.00	515.17	2,755.52	-322.77	-1,292.50	1.60	3.04	224.58

Stats are not overwhelming, but they appear solid and worth closer examination. So below is the profit curve for a 5-day holding strategy.



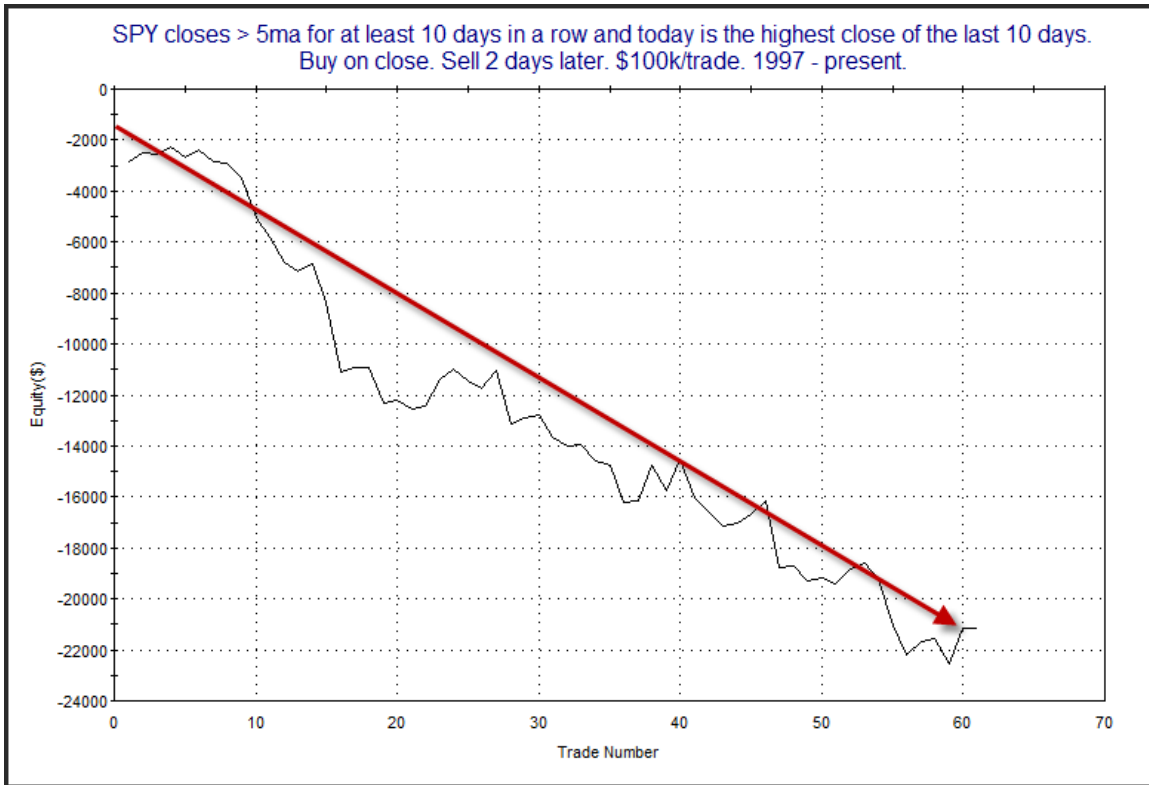
It is not as steep lately but the upside edge has been in place a long time and it is again making new highs. This study seems worth consideration.

Of course as I mentioned, studies were mixed. There were also 2 with bearish indications.

SPY has now gone 15 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 just a few days ago in the 7/15/13 subscriber letter. It looks at other instances in which the market has traded above the 5ma for at least 2 weeks and is 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	-11,243.41	41	22	19	53.66	781.17	2,516.52	-1,496.28	-4,014.40	0.52	0.60	-274.23
4	-15,871.79	45	19	26	42.22	695.92	1,428.90	-1,119.01	-3,723.20	0.62	0.45	-352.71
3	-16,729.09	53	20	33	37.74	654.53	1,790.80	-903.63	-3,235.65	0.72	0.44	-315.64
2	-21,165.85	61	27	33	44.26	407.01	1,403.60	-974.39	-2,870.40	0.42	0.34	-346.98
1	-21,773.91	86	35	51	40.70	318.13	1,361.25	-645.26	-2,817.32	0.49	0.34	-253.18

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.



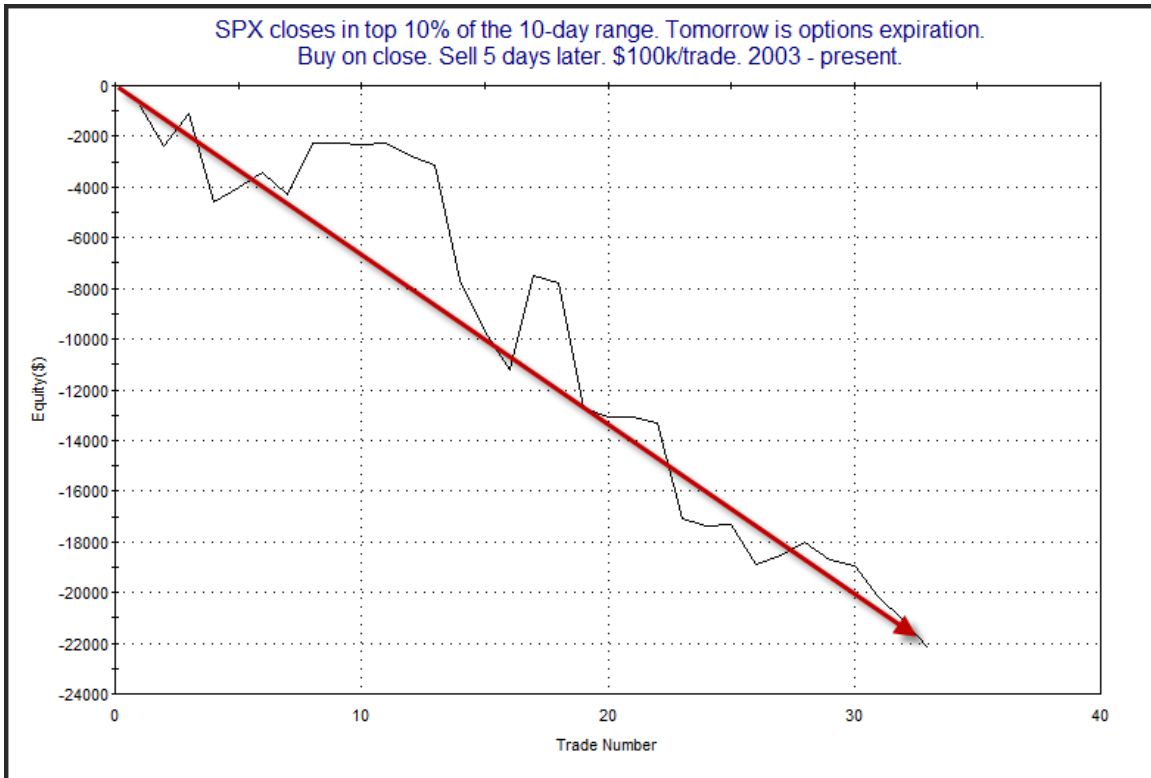
The last 2 instances the market has continued higher, but the strong steady downslope seems to confirm the bearish edge.

The other bearish study was last seen in the 8/17/12 subscriber letter. It looks at other times the market closed at a high level just before options expiration. It generally has been a bad time for an overbought market.

SPX closes in top 10% of the 10-day range. Tomorrow is options expiration.
Buy on close. Sell X days later. \$100k/trade. 2003 - present.

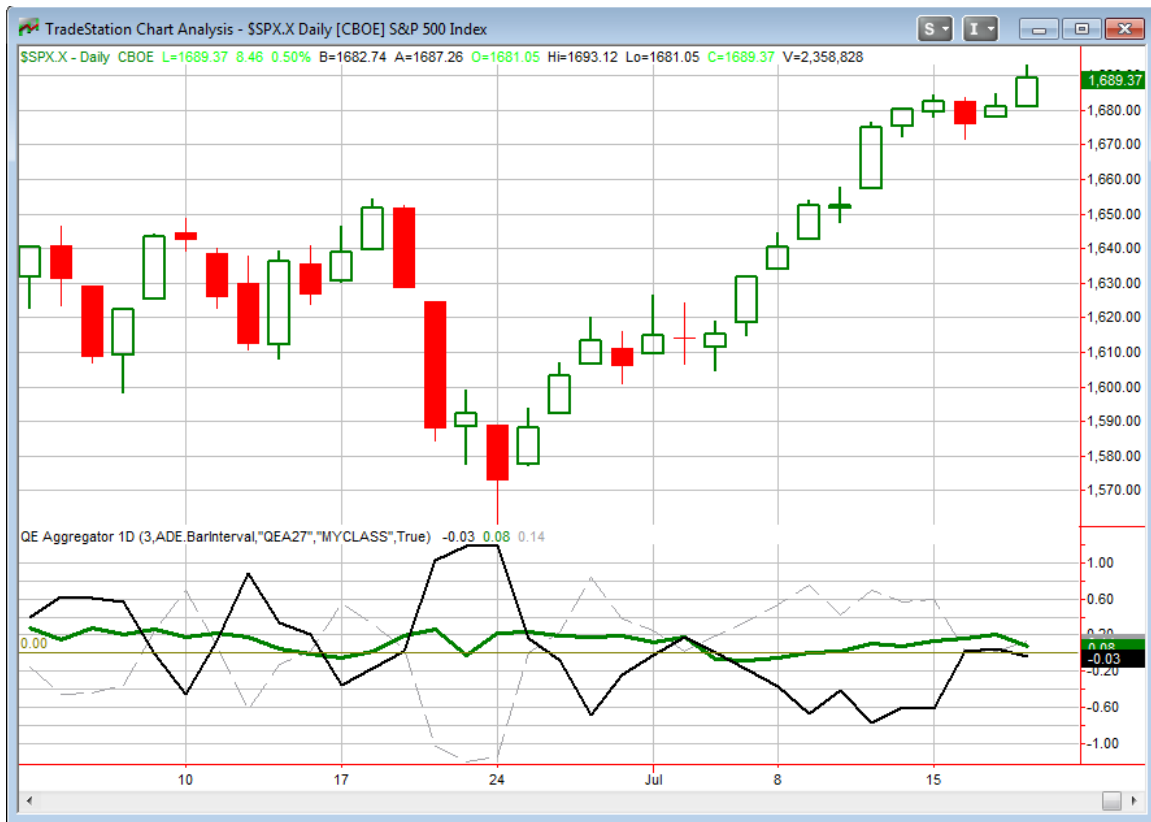
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-22,195.54	33	10	23	30.30	920.01	3,768.30	-1,365.03	-4,932.90	0.67	0.29	-672.59
4	-19,226.48	33	12	21	36.36	803.95	1,994.25	-1,374.95	-2,899.20	0.58	0.33	-582.62
3	-11,069.42	33	16	17	48.48	641.91	2,166.00	-1,255.29	-2,828.70	0.51	0.48	-335.44
2	-10,290.30	33	19	14	57.58	458.69	1,588.40	-1,357.53	-3,784.65	0.34	0.46	-311.83
1	-3,603.48	33	18	15	54.55	371.56	2,286.84	-686.10	-2,875.60	0.54	0.65	-109.20

The numbers here are fairly compelling. To confirm the downside edge, I also produced a profit curve. The profit curve is based on a 5-day holding strategy.



The curve would seem to confirm the downside edge and suggests we are entering a period of possible seasonal weakness.

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



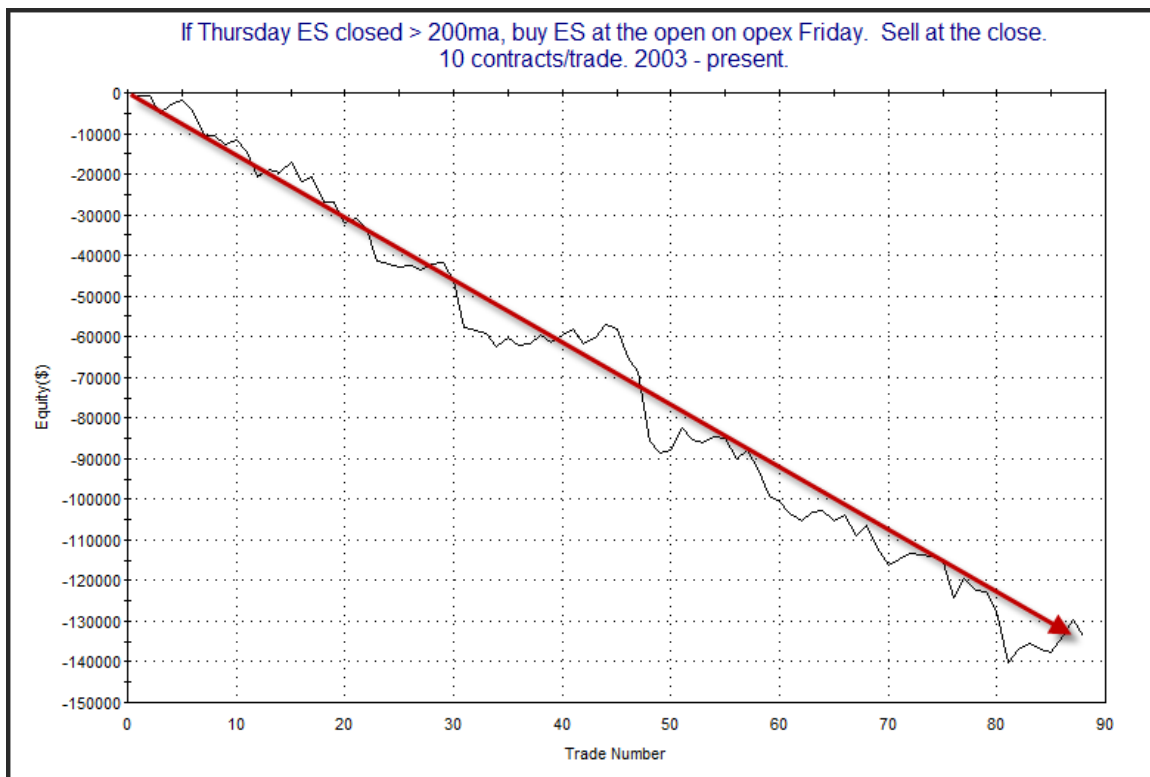
Tonight's mix of studies helped keep the green Aggregator Line above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the rally caused the black Differential Line to dip down just below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but SPX is slightly 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 turn from long to flat at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. Of course this could change if additional bearish evidence emerges. The Differential Pivot will be 1,682.54 on Friday. That is 0.4% below Thursday's close. So the market would need to close down at least this much in order to move from overbought to oversold.

With the Aggregator now back to neutral and SPX bumping at new highs there does not appear to be a strong edge at the moment. While I may have been too cautious the last couple of days in looking for more of a pullback before getting long, there is no edge to chasing now. So I will again be sitting out and awaiting the next strong risk/reward setup.

A couple of other things to mention. First, while SPX made a new high today for the first time in nearly 2 months, the total number of NYSE stocks making new highs is far from the level of 2 months ago. This raises a caution flag and sets the market up for a possible major top. I discuss these divergences in detail in the Study of Tops (available free for subscribers on the downloads page). I will discuss this more in this weekend's letter.

Lastly, I also wanted to share the chart below for those subscribers that may be inclined to daytrade. It is one that I shared Thursday afternoon in the Overnight Edges trading room. It looks at intraday performance on opex Friday when the market is in a long-term uptrend.



That is about as steady of an intraday downside edge as you will find in an uptrend. Short-term traders may want to keep this in mind.

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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