

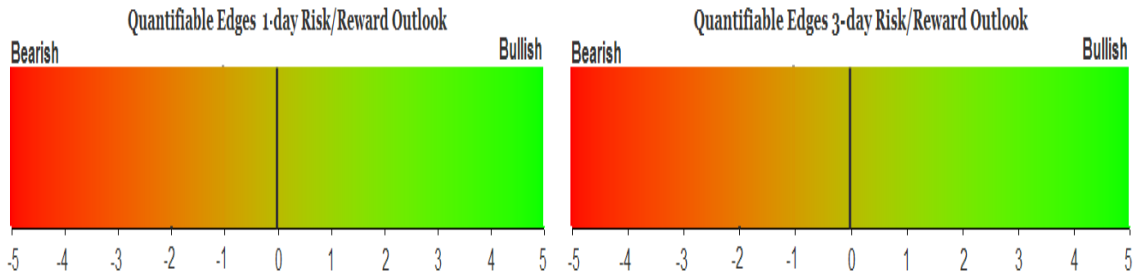
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 22, 2013

Volume 6 Issue 139

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 days of gains on rising volume to a 50-day high used to carry bullish implications, but that is questionable these days.
- A breadth divergence is now creating an environment where the market could be susceptible to a major decline.

Short-term Outlook

The Bottom Line

The Aggregator remains neutral with expectations mildly positive and the SPX a little overbought. I see no reason to get involved under these circumstances and am awaiting the next favorable trading 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 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
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 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

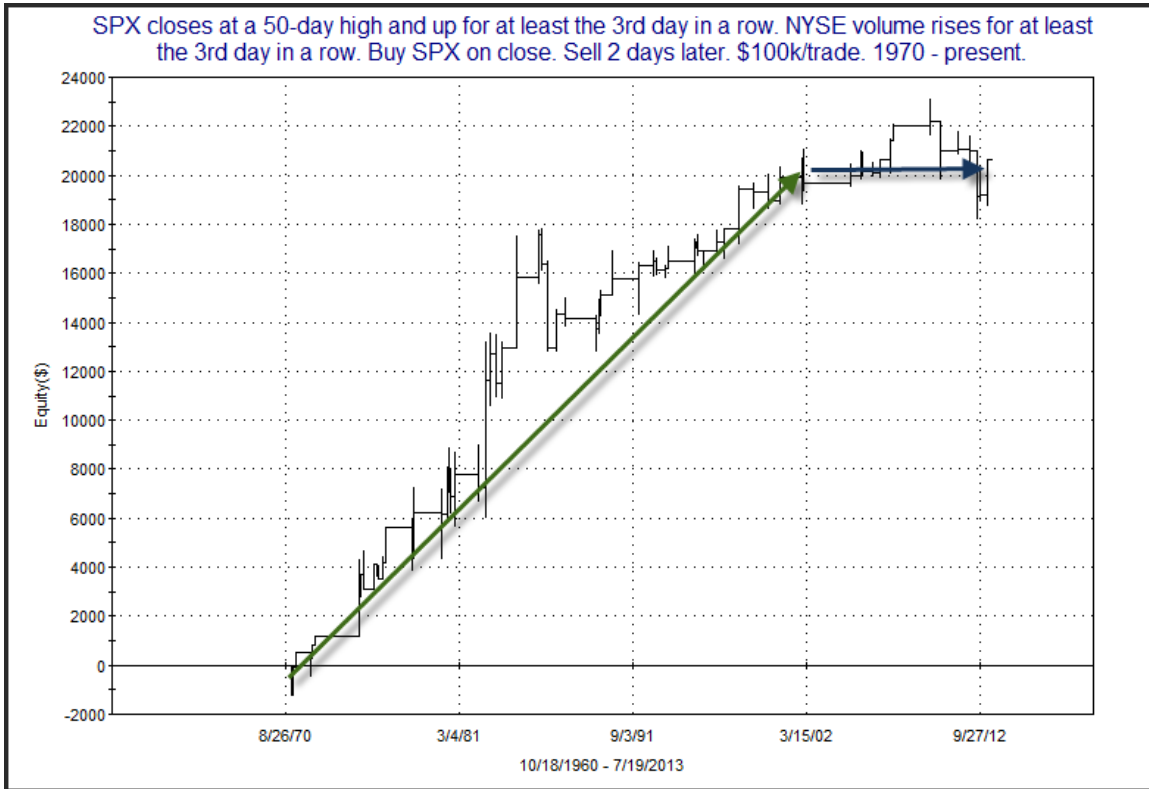
The SPX continued to grind higher on Friday, but the overall market showed mixed results. The SPX rose 0.2%, and the Russell 2000 gained 0.1%, but the NASDAQ lost 0.7%. Breadth was slightly positive as the NYSE Up Issues % was 51% and the Up Volume % was 56%. Total NYSE volume rose, but it had help from monthly options expiration.

When the market is bumping along at new highs it often leads to either 1) few or zero studies triggering in the Quantifinder, or 2) studies triggering that don't show a substantial edge. On Friday we got a lot of #2. There was one that was highlighted in green that I thought was worth a closer look. It was last seen in the 7/20/12 Subscriber Letter. It looked at persistent rises to new highs on rising volume. All stats below are updated.

SPX closes at a 50-day high and up for at least the 3rd day in a row. NYSE volume rises for at least the 3rd day in a row. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	23,404.00	72	44	28	61.11	1,234.08	4,765.28	-1,103.41	-3,827.55	1.12	1.76	325.06
4	8,633.36	72	43	29	59.72	976.93	6,138.16	-1,150.85	-3,898.65	0.85	1.26	119.91
3	16,054.91	72	45	27	62.50	885.74	4,376.64	-881.61	-4,388.45	1.00	1.67	222.98
2	20,608.74	72	44	28	61.11	877.47	4,399.92	-642.86	-3,412.80	1.36	2.14	286.23
1	5,913.38	82	45	37	54.88	518.52	2,755.52	-470.81	-1,602.28	1.10	1.34	72.11

The numbers here suggest a mild upside edge over the next couple of days. But I do have reservations about this one. Let's take a look at the profit curve and then I'll discuss my concerns.

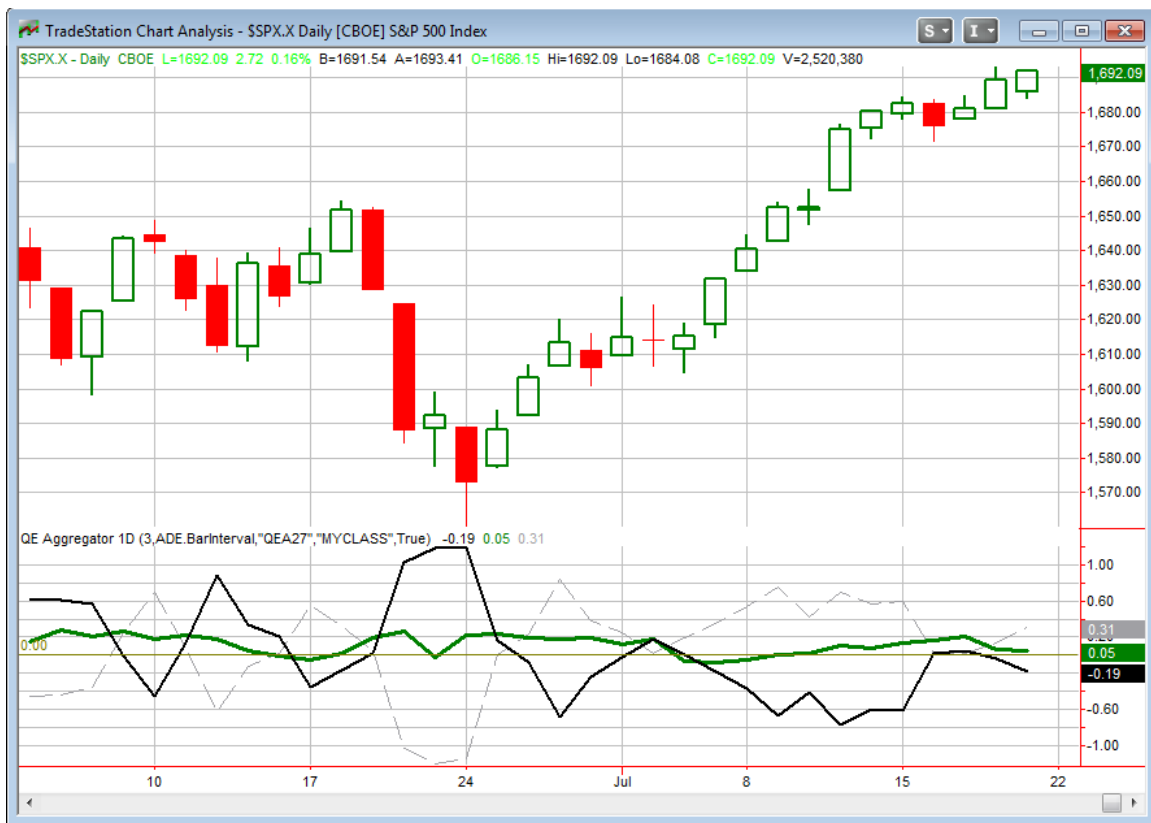


This study looks back a long way. And for a long time it looked solid. But the recent pullback on the profit curve has put it back near 2002 levels. That is a long time for no progress to be made. Additionally, while Friday did see a rise in volume, it was largely due to opex. So I'm not sure it really meets the spirit of the setup anyway. I might

dismiss this study based on either of these concerns. With both of them, there is no way I include it on the Active List.

So there is nothing new that I will be adding for the short-term.

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



Without anything new triggering 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 fell a little further below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are mildly 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 remain flat at the close.

Based on the current active studies, expectations are set to remain bullish on Monday. Of course this could change if additional bearish evidence emerges. The Differential Pivot

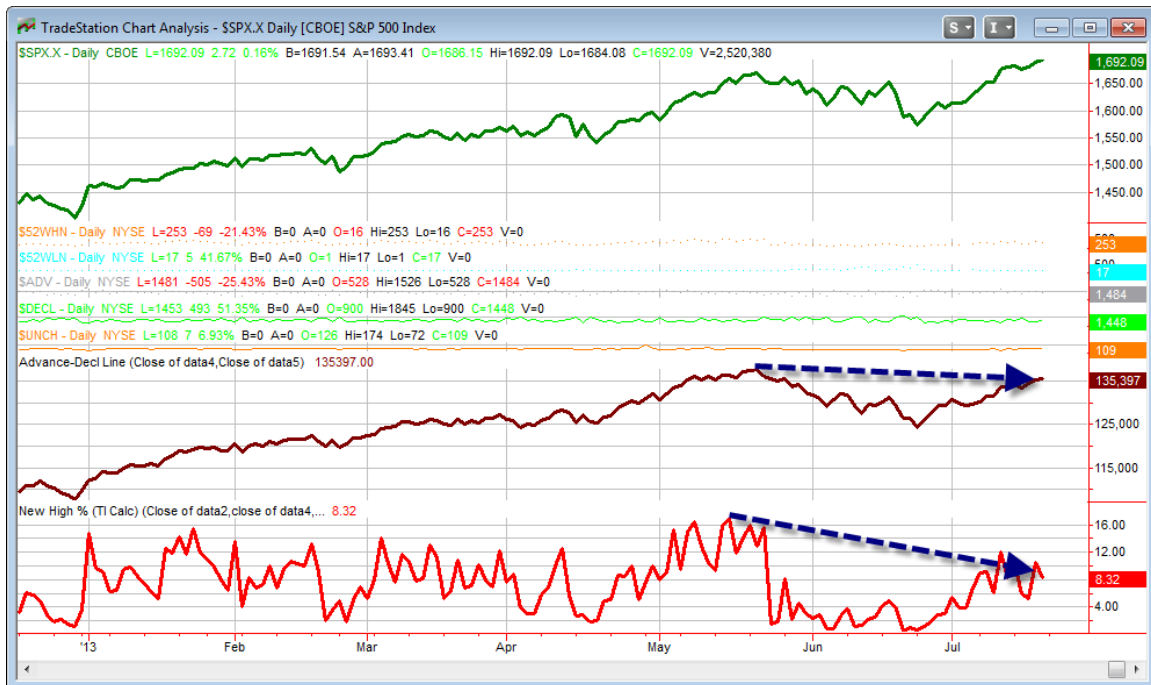
will be 1,689.56 on Monday. That is 0.15% below Friday's close. So the market would only need to close down a little bit in order to move from overbought to oversold versus expectations.

The Aggregator is neutral and I just don't see a strong short-term edge here. So I won't be putting any more short-term capital to work until I feel there is a better risk/reward setup.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/22 – somewhat bullish

The uptrend persisted this past week. SPX finished at new highs on Friday. It also closed up 4 of the 5 days and is now up 11 of the last 12. So there is no doubt about the current long-term trend.

But there was one somewhat concerning development this past week, and that was the lower number of new highs we are seeing posted. In the Quantifiable Edges Study of Tops (always available on the Downloads page for subscribers) I went through every major top since 1970. For purposes of that study I defined a “major top” as any top that was followed by a decline of at least 20%. I found that in every case, there was a divergence in the % of NYSE issues hitting new 52 week highs, and that the divergence was in effect for at least 2 months before any market top. The % of NYSE stocks making new highs peaked on May 15 at a level of 16.96%. Friday it finished at 8.32%, which is a substantially lower level. And we are now more than 2 months from that May 15th date. The chart below is an updated chart of the SPX, and it is similar to those shown in the Study of Tops.

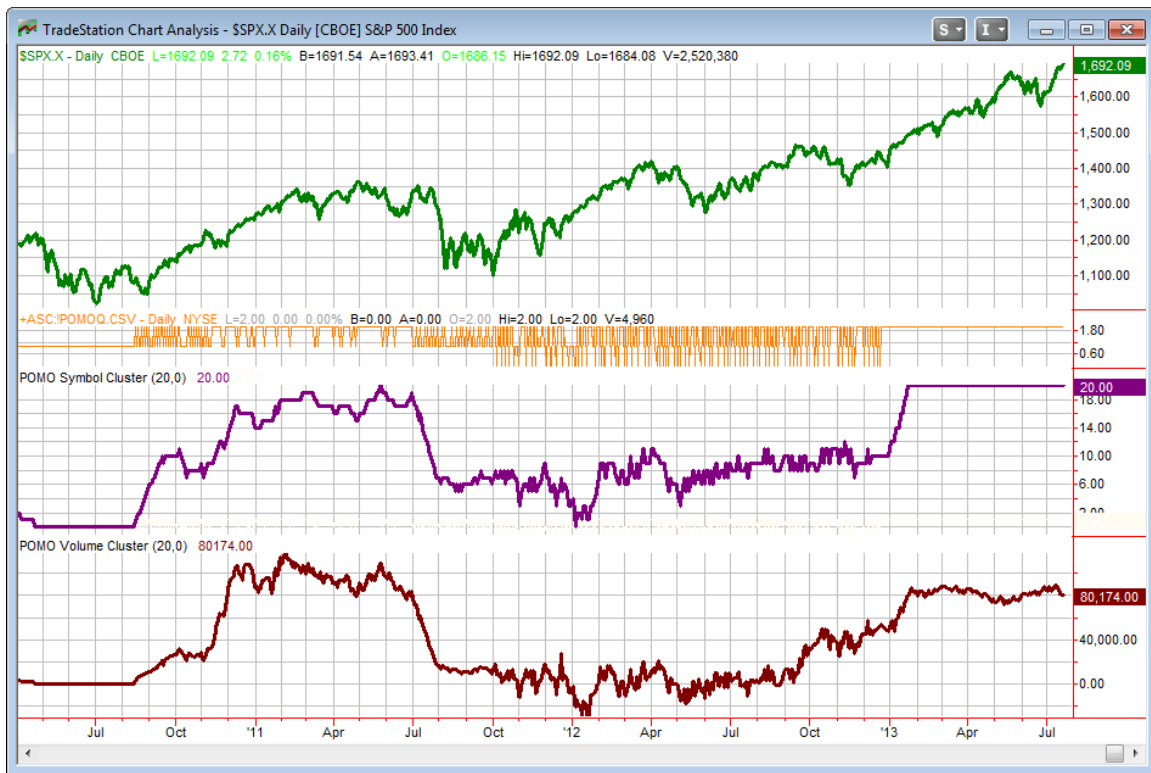


The indicator on the bottom is the NYSE % of stocks making new 52-week highs. The divergence there is clear. The maroon indicator above that, which is also in a divergence, is the Advance/Decline Line. It is important to keep in mind that these divergences can persist for months, and even years, before the market eventually begins its major decline. They are not a good timing device. But they are something to be aware of, and they provide a condition from which the market is capable of beginning a major decline. Without a divergence in place, we could feel comfortable (as we did in May) that the next major decline was highly unlikely to begin for at least a couple of months. I'll continue to watch this indicator closely going forward.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that

date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS volume indicator remains in its 2013 range. The days indicator is *still* maxed out at 20, which was a rarity during past QE implementations, but has been the norm so far this year. We estimate net inflows this past week to have been about \$14.6 billion, which is the lowest 5-day week so far in 2013.

This week is expected to see POMO and AMBS inflows of about \$21.7 billion, which is above average. It is important to keep in mind there generally seems to be a few day lag with the liquidity flows, so the lower flows of this past week could still have an impact on this upcoming week. But the overall increase in flows from here through the end of the month should provide a nice continued wind at the market's back going forward.

The breadth divergences we are now seeing is a new concern. And we also had breadth warnings from the Hindenburg Omens from early June. But the majority of the other studies, including those related to trend, momentum, and liquidity, all point higher. I'm on the lookout for any evidence that would change (or confirm) my somewhat bullish stance. But for now, I still believe it is appropriate. I will continue to look to the long side for most of my trades until my outlook worsens.

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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