

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 23, 2013

Volume 6 Issue 140

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- 10 days above the 5ma and a new 10-day high suggest the market is due for a brief pullback.
- A 50-day high, an inside day, and then another 50-day high have often been followed by a pullback.

Short-term Outlook

The Bottom Line

Some bearish studies tonight helped turn the Aggregator bearish. But a close lower would mean the end of the bearish signal, so it is not likely to last long. My intermediate-term outlook has me extra cautious of the short side, and I am not inclined to put capital at risk with the current setup.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 23, 2013	50-high. Inside day. 50-high.	1-5 days	Bearish	-2.00%
July 23, 2013	SPY 10 > 5ma. High close 10	1-2 days	Bearish	-1.00%
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	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

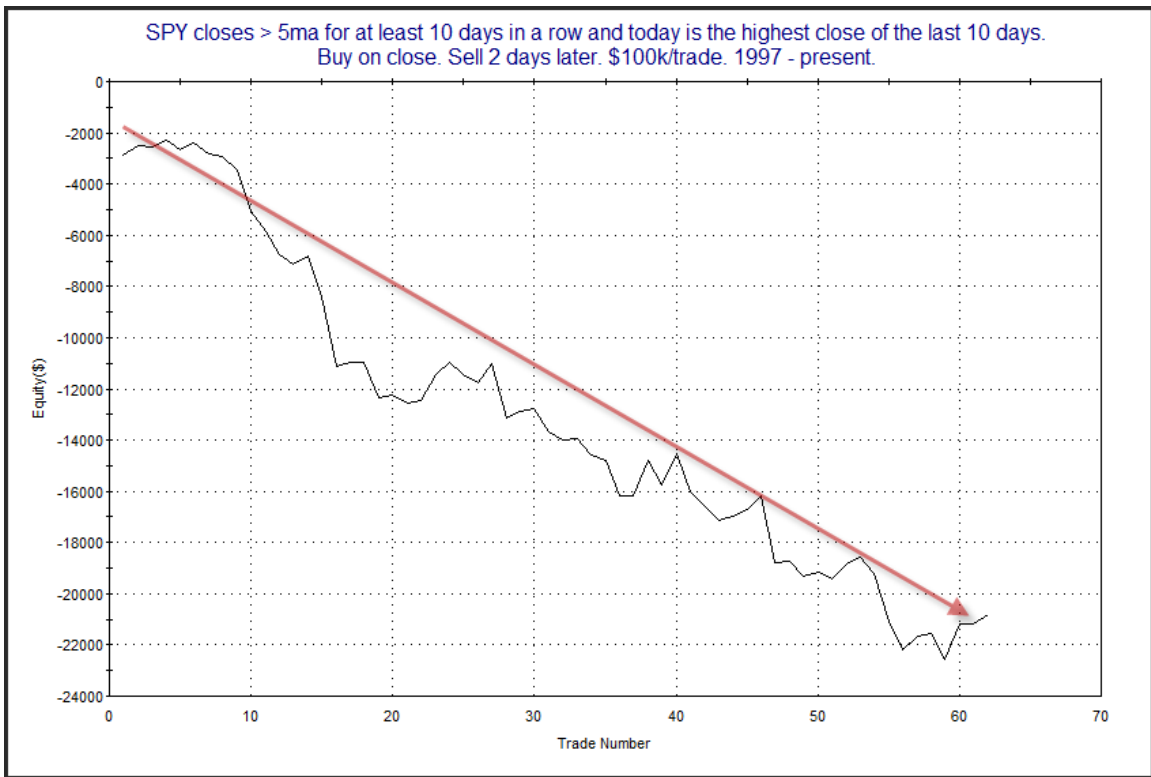
The market continued to grind higher on Monday. The SPX gained 0.2%, the Nasdaq rose 0.4%, and the Russell 2000 closed up 0.3%. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % was 65%. Total NYSE volume came in very light.

SPY has now gone 18 days without closing below its 5ma. That's something that has only been accomplished twice before. The 1st time was in 2/98 and the 2nd instance was in 1/04. The study below was last seen in just a few days ago in the 7/19/13 subscriber letter and has shown up a number of times lately. 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	-20,792.89	62	28	33	45.16	405.79	1,403.60	-974.39	-2,870.40	0.42	0.35	-335.37
1	-21,401.28	88	37	51	42.05	311.00	1,361.25	-645.26	-2,817.32	0.48	0.35	-243.20

In the past this setup has commonly 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 few instances the market has continued higher, but it has not yet changed the shape of the curve. I still believe this study is worthy of consideration.

After Thursday's move to a new high, Friday put in an inside day. With Monday closing at another new high the study below triggered. It was last seen in the 5/20/13 subscriber letter. I have updated all statistics.

After closing at a 50-day high 2 days ago, SPY posts an inside day yesterday and then closes at a new high again today. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-16,660.82	16	4	12	25.00	543.40	1,176.56	-1,569.53	-3,754.10	0.35	0.12	-1,041.30
4	-11,703.28	16	5	11	31.25	668.94	1,138.36	-1,368.00	-5,106.46	0.49	0.22	-731.46
3	-10,619.57	16	6	10	37.50	472.81	1,367.56	-1,345.64	-3,417.34	0.35	0.21	-663.72
2	-9,607.31	16	4	12	25.00	595.18	911.40	-999.00	-2,737.00	0.60	0.20	-600.46
1	-5,125.94	16	2	14	12.50	289.54	296.40	-407.50	-1,405.62	0.71	0.10	-320.37

Only 1 instance failed to close below the entry price at some point in the next 3 days. It triggered on 2/3/11.

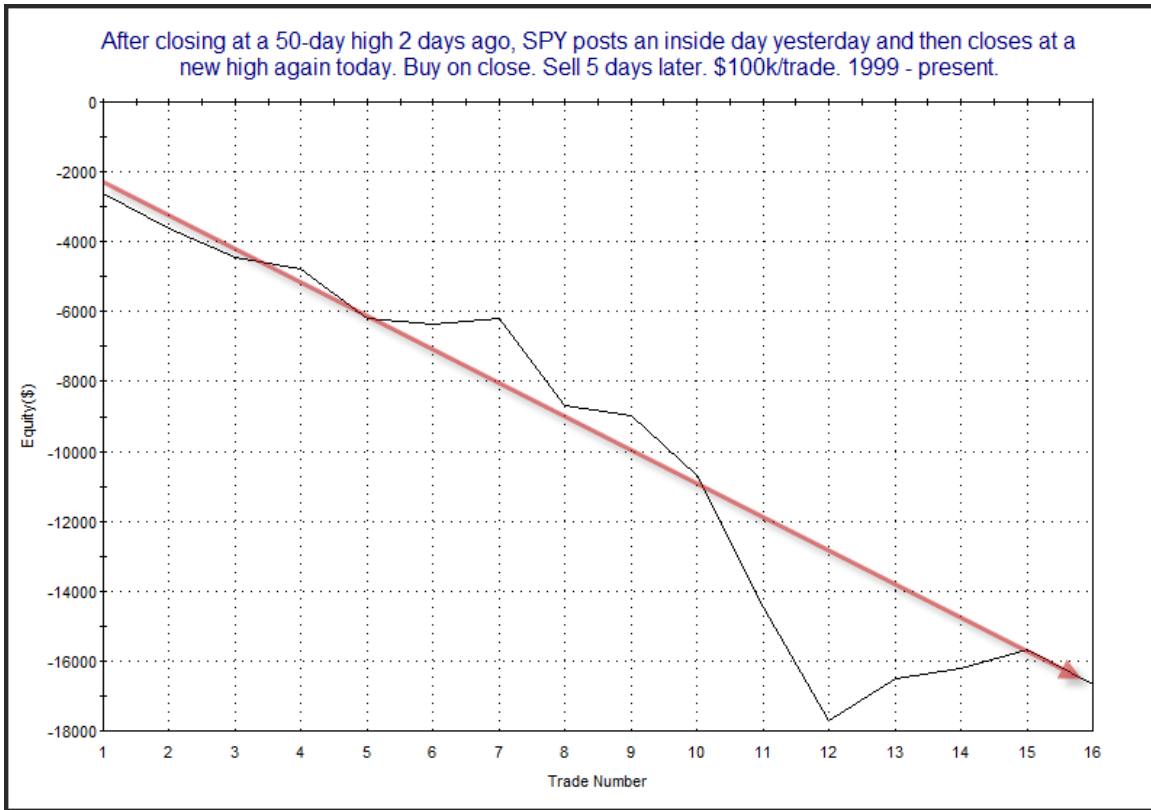
Stats here suggest a bearish inclination following action similar to the last 3 days. One day later the market has declined 14 of 16 times. Below I have listed all 16 instances

After closing at a 50-day high 2 days ago, SPY posts an inside day yesterday and then closes at a new high again today.
Buy on close. Sell 1 day later. \$100k/trade. 1999 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/08/99	Buy	\$127.75	(0.95%)	\$0.00
01/11/99	Sell	\$126.53		(\$1,978.46)
03/15/99	Buy	\$131.22	(0.38%)	\$335.28
03/16/99	Sell	\$130.72		(\$571.50)
11/18/99	Buy	\$142.63	(0.09%)	\$238.34
11/19/99	Sell	\$142.50		(\$441.63)
08/28/00	Buy	\$151.77	(0.12%)	\$72.38
08/29/00	Sell	\$151.59		(\$565.88)
06/22/05	Buy	\$121.57	(1.41%)	\$24.66
06/23/05	Sell	\$119.86		(\$1,430.28)
07/14/05	Buy	\$122.91	(0.06%)	\$105.69
07/15/05	Sell	\$122.84		(\$447.15)
07/22/05	Buy	\$123.54	(0.28%)	\$331.69
07/25/05	Sell	\$123.19		(\$558.21)
05/09/06	Buy	\$132.62	(0.05%)	\$98.02
05/10/06	Sell	\$132.55		(\$550.42)
11/22/06	Buy	\$140.92	(0.40%)	\$0.00
11/24/06	Sell	\$140.35		(\$510.48)
10/09/07	Buy	\$156.48	(0.17%)	\$0.00
10/10/07	Sell	\$156.22		(\$683.73)
05/06/09	Buy	\$92.14	(1.39%)	\$1,095.85
05/07/09	Sell	\$90.86		(\$2,018.10)
08/04/10	Buy	\$112.97	(0.11%)	\$0.00
08/05/10	Sell	\$112.85		(\$787.65)
02/03/11	Buy	\$130.78	0.28%	\$320.88
02/04/11	Sell	\$131.15		(\$420.20)
02/07/12	Buy	\$134.79	0.30%	\$318.63
02/08/12	Sell	\$135.19		(\$355.68)
03/19/12	Buy	\$140.85	(0.29%)	\$0.00
03/20/12	Sell	\$140.44		(\$857.89)
05/17/13	Buy	\$166.94	(0.01%)	\$383.36
05/20/13	Sell	\$166.93		(\$197.67)
Avg Run-up: \$208 Avg Drawdown: -\$773				

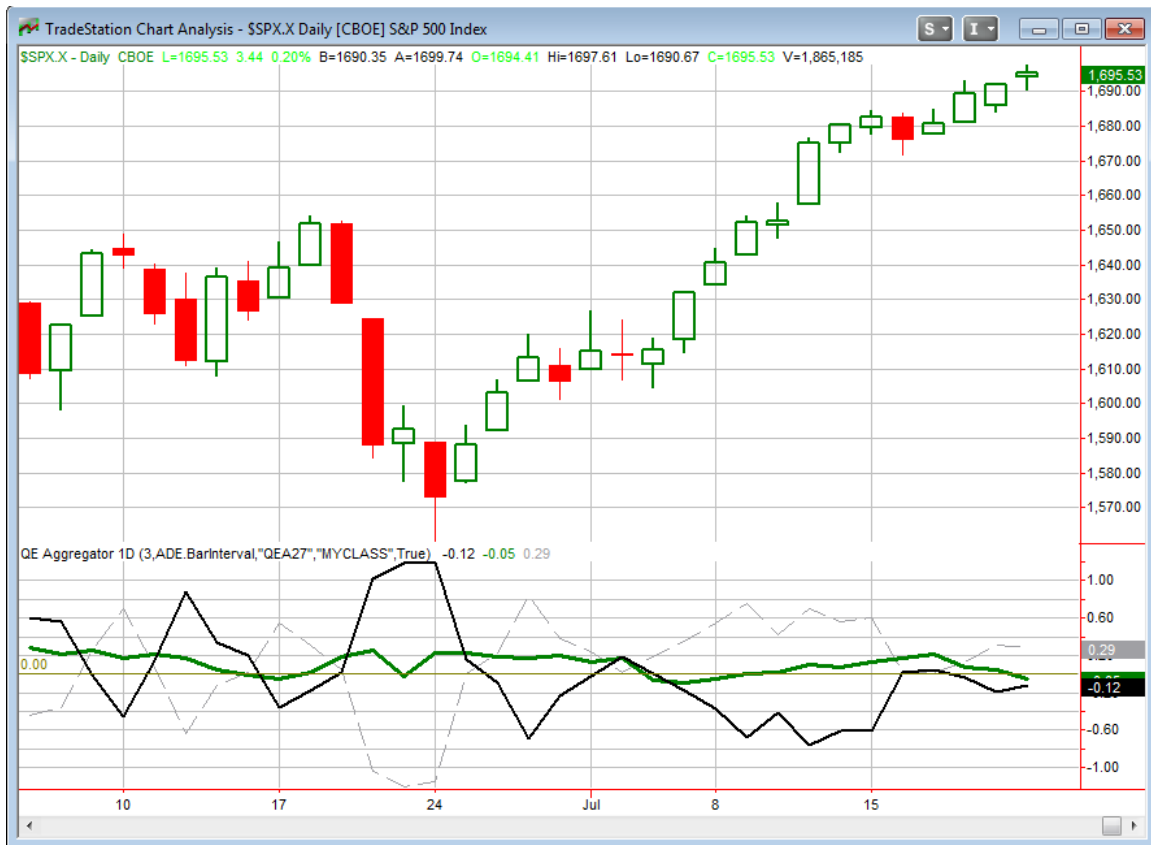
Risk/reward here heavily favors the short side. The average drawdown is nearly 4 times the size the average run-up. Also notable is that every instance saw drawdown of at least 0.35% the next day, but only 1 of the 16 instances saw run-up of at least 0.35%.

I also produced a 5-day profit curve.



The downslope here is impressive. With all this in mind I believe this study worthy of inclusion on the Active Studies List.

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



Tonight's studies helped the green Aggregator Line drop down below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is also below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are mildly negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator system turn short at the close.

Based on the current active studies, expectations are set to remain bearish on Tuesday. Of course this could change if additional bullish evidence emerges. The Differential Pivot will be *inverted* at 1,696.98 on Tuesday. That is about *1.5 points above* Monday's close. An inverted pivot means the Differential Line will cross through zero if SPX closes flat. So in order for SPX to remain overbought versus expectations it will need to close up about 1.5 points. Otherwise it will move back to an oversold condition.

With my "somewhat" bullish intermediate-term outlook, and quantitative easing still going strong, I have been especially picky about short trades. But even if I was not being picky, this is not an opportunity I would find very appealing. The reason is the inverted pivot. Inverted pivots generally allow for limited opportunity. That is because the short signal will close out Tuesday on any down close (or slight up close). So a quick profit is

possible, but if the market does as expected, the trade is done in 1 day. I do expect we will see a pullback sometime fairly soon. The market has gone too long without one. But I would rather wait for a setup with better risk/reward than to fight this liquidity-driven grind higher in the hopes of a quick gain.

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

The intermediate-term outlook was last updated in the 7/22 Letter. Link below:

[2013-07-22 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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