

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 24, 2013

Volume 6 Issue 141

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- When SPX closes down but breadth is strong, it has often led to gains over the next few days.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is back to neutral. And that is basically where I sit as well. There will be a pullback here at some point, and it will likely provide the next decent trading opportunity.

**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 24, 2013	SPX down. NYSE Up Issue > 55%	1-3 days	Bullish	1.20%
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	Breakout & close above intraday high	1-5 days	Bullish	
July 19, 2013	Top 10% of range pre-opex	1-5 days	Bearish	
July 11, 2013	5 up > 200 but < 50-high	1-10 days	Bullish	
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
July 19, 2013	2 unfilled up gaps & 50-day high	1-2 days	Bullish	

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

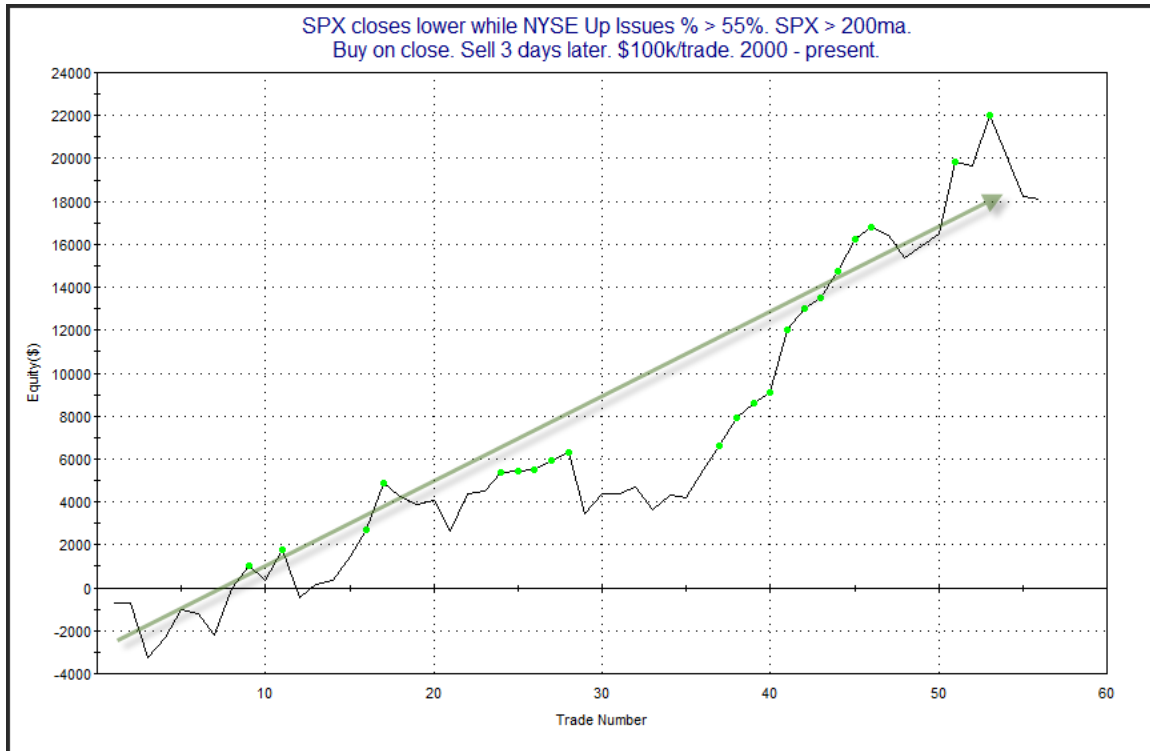
**The Evidence**

It was a rare down day for most of the indices on Tuesday. The SPX lost 0.2%, the Nasdaq fell 0.6%, and the Russell 2000 declined 0.1%. Breadth was positive though as the NYSE Up Issues % was 56% and the Up Volume % was 58%. Total NYSE volume rose some from Monday, but continues to look Summer-light.

Breadth was unusually strong for a day that the indices declined. The study below was last seen in the 1/4/13 Letter. It looks at days like Tuesday where SPX declines despite strong breadth. Results are updated.

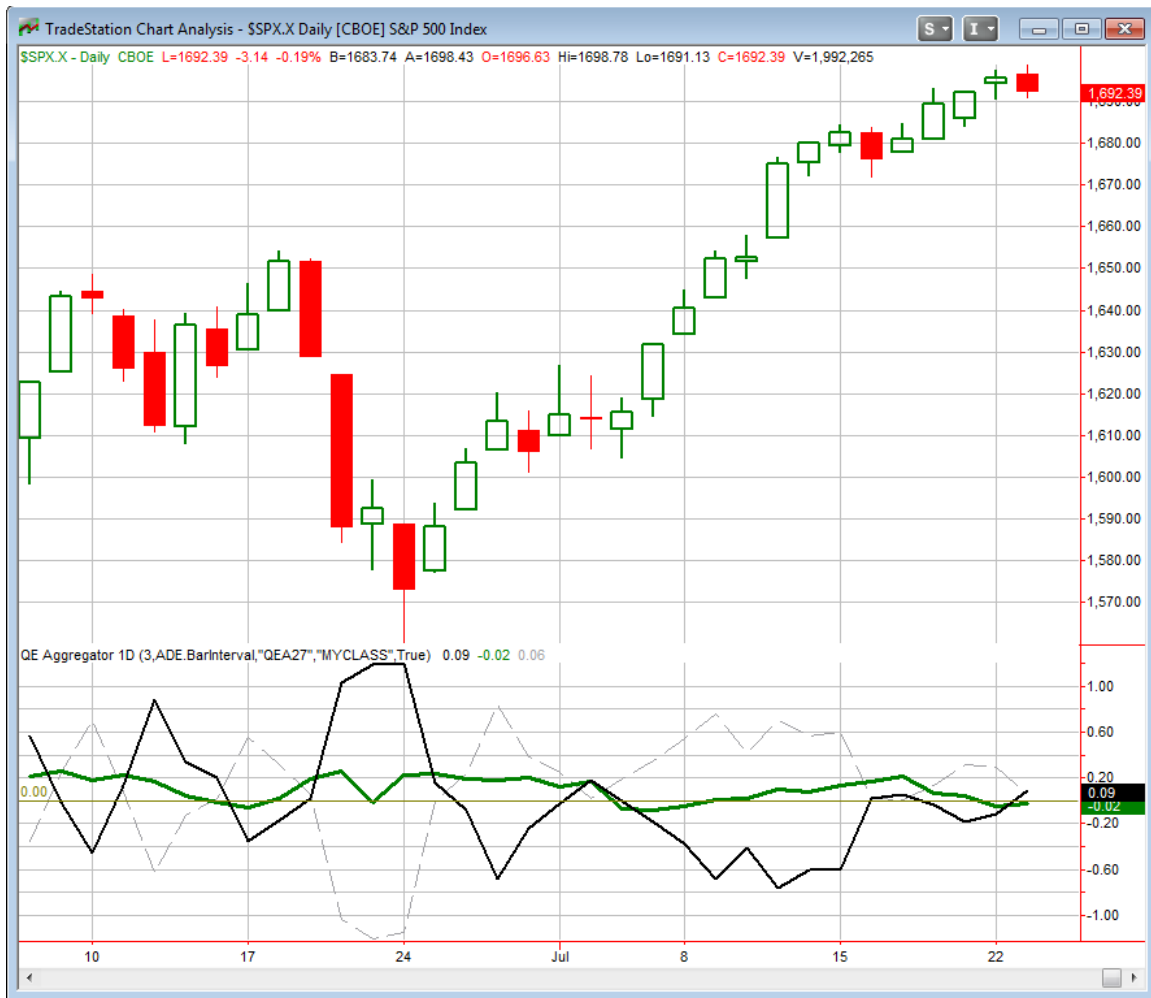
SPX closes lower while NYSE Up Issues % > 55%. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	17,908.36	52	32	20	61.54	1,374.74	3,616.92	-1,304.17	-4,012.80	1.05	1.69	344.39
4	19,072.02	54	33	21	61.11	1,308.72	3,429.00	-1,148.36	-2,921.28	1.14	1.79	353.19
3	18,102.79	56	37	19	66.07	1,012.83	3,373.50	-1,019.57	-2,852.01	0.99	1.93	323.26
2	17,119.35	57	39	18	68.42	861.12	3,025.12	-914.69	-3,119.03	0.94	2.04	300.34
1	14,427.91	59	35	24	59.32	719.39	2,484.00	-447.95	-1,348.29	1.61	2.34	244.54

The edge isn't huge, but it does appear to be worth a closer look. The equity curve below gives a better idea of how it has played out over time.



While the curve certainly appears choppy, it has persisted upwards. I believe this study is worth taking into consideration and I've included it among the active studies.

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



Even with the bullish study tonight the green Aggregator Line stayed below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the slight selloff helped the black Differential Line move back above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are mildly negative but the SPX is already oversold. 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 turn flat at the close.

Based on the current active studies, expectations are set to remain bearish on Wednesday. Of course this could change if additional bullish evidence emerges. The Differential Pivot will be 1,697.63 on Wednesday. That is 0.3% above Tuesday's close. So SPX will need to rise this much in order to move back into overbought territory.

Obviously "oversold" is a relative term. With the Aggregator I compare it to recent expectations. So although SPX is up over the last few days, it is not up as much as was

expected a few days ago. But anyone looking at a daily chart of the SPX would think I was nuts. It has been almost a straight shot higher for most of July and this is only the 3<sup>rd</sup> down day all month. And frankly, it would take some very compelling evidence to get me to take a long trade without a bit deeper pullback.

Of course expectations are negative and the overall Aggregator signal is neutral, so I am not yet concerned with getting long. I remain sidelined awaiting a better risk/reward setup.

Runaway moves can be very frustrating for some traders. Especially if they are sidelined (or short in the case of an up move). They will sometimes feel they are “missing out”. I stopped comparing my performance to the SPX (or any other index) a long time ago. Such comparisons are not productive. Sometimes I will lag the market. Sometimes I will beat it. Over long periods I’m confident I will beat it but I don’t really care. And short time periods matter not at all. What matters to me is that I am able to make money over extended periods. That I have sound methods for doing so, and that I execute those methods as they should be. I need to have the awareness and the guts to take a trade when a favorable opportunity presents itself. And I need to have the patience to wait until one does. Right now, for my short-term trading, patience is required. But I can’t get frustrated and I can’t get lackadaisical, because at some point (likely soon), patience will no longer be required. Action will be. And I’ll be ready.

***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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