

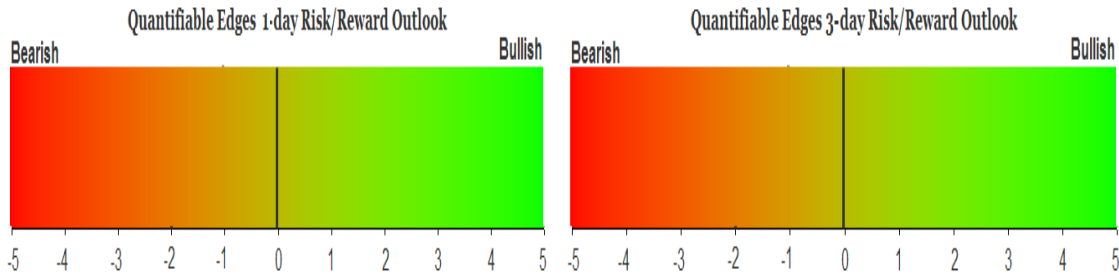
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 26, 2013

Volume 6 Issue 143

Market Overview



Signals Overview

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

Tonight's Research Points

- A gap up and reversal down followed by a gap down and reversal up suggests a bearish short-term edge when SPY is uptrending.

Short-term Outlook

The Bottom Line

The Aggregator is still neutral. These back and forth wiggles are not helping generate a strong edge. I was looking for a long-side fill if we closed down on Thursday, but with the move up it again becomes a waiting game.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 26, 2013	SPY gap & reverse 2 days > 10 & 200	1-4 days	Bearish	-1.20%
July 25, 2013	1st 5-low in 10 days	1-4 days	Bullish	1.60%
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%
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	
Dropped Tonight				
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	

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

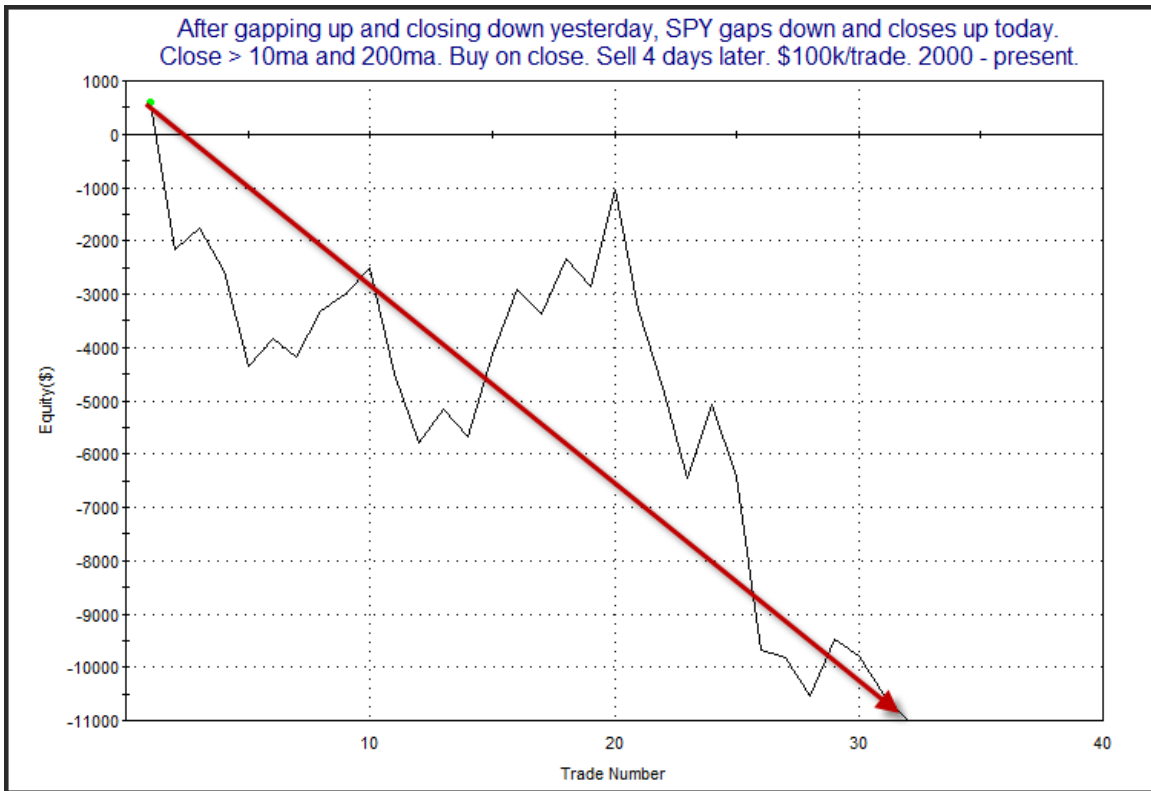
The Evidence

After a weak open the market reversed on Thursday and the major indices finished higher. The SPX gained 0.3%, the Nasdaq closed up 0.7%, and the Russell 2000 rose 1.0%. Breadth was moderately positive as the NYSE Up Issues % was 56% and the Up Volume % was 61%. Total NYSE volume declined some from Wednesday's level.

The way SPY has gapped and reversed the last couple of days triggered the study below, which was last seen in the 6/14/13 subscriber letter. Stats are updated.

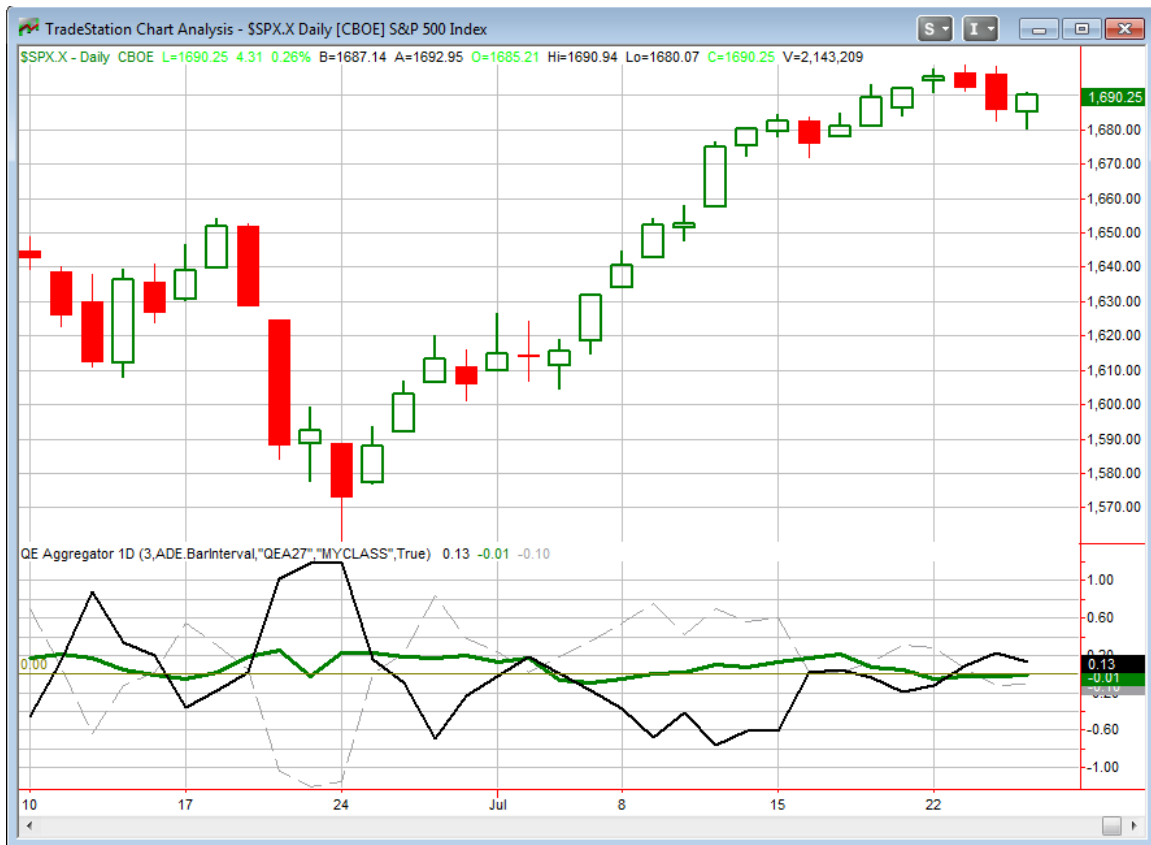
After gapping up and closing down yesterday, SPY gaps down and closes up today. Close > 10ma and 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-8,315.21	31	17	14	54.84	786.22	1,775.87	-1,548.64	-4,262.13	0.51	0.62	-268.23
4	-10,987.24	32	13	19	40.63	912.50	1,803.51	-1,202.62	-3,226.86	0.76	0.52	-343.35
3	-7,022.74	33	15	18	45.45	819.06	1,784.12	-1,072.70	-2,098.04	0.76	0.64	-212.81
2	-5,617.35	35	17	17	48.57	609.77	1,935.96	-940.20	-3,107.14	0.65	0.65	-160.50
1	-6,097.46	35	16	19	45.71	373.53	805.00	-635.47	-1,485.70	0.59	0.49	-174.21

The edge isn't huge but risk/reward has seemed to favor the bears under these circumstances. Below is an equity curve which illustrates how the 4-day exit would have performed over time.



No one would call this a smooth curve, but it seems to be getting somewhere, and that is down. And the recent performance appears to be the most bearish of all. This one is a bit of a close call, but I decided to include it on the Active List.

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



Tonight's bearish study helped keep the green Aggregator Line just slightly below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remained above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are mildly negative but the SPX is 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 to stay flat at the close.

Based on the current active studies, expectations are set to remain bearish on Friday. Of course this could change if additional bullish evidence emerges. The Differential Pivot will be 1,691.96 on Friday. That is just 0.1% above Thursday's close. So SPX will change to "overbought versus expectations" on just about any close higher.

Morning action made it look as though we might get another close lower on Thursday, which would have set up some decent odds for a bounce. But the bounce could not wait and it began around noon on Thursday. The afternoon rally was not enough to move the SPX back to overbought, but it was enough to kill the upside edge. So the Aggregator is still neutral. I did not get a fill on my long trade idea. And I am back to waiting for a higher-probability entry once again.

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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