

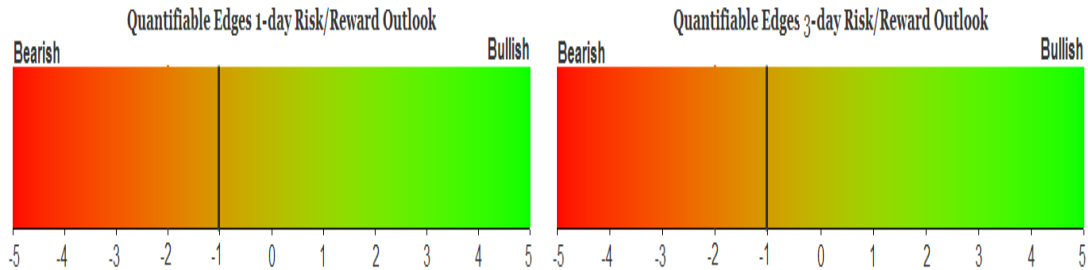
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 30, 2013

Volume 6 Issue 145

Market Overview



Signals Overview

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

Tonight's Research Points

- The weaker the close on Tuesday, the more bullish the setup for Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is very mildly bearish. But I anticipate that will flip to bullish on Tuesday if the market struggles and closes poorly. So I am setting up for a potential long trade.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 29, 2013	SPY up 2 but < 3 ago	1-2 days	Bullish	
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%
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 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 23, 2013	50-high. Inside day. 50-high.	1-5 days	Bearish	-2.00%

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

The Evidence

Monday saw generally moderate pullbacks in the major indices. The SPX and Nasdaq each lost 0.4%, and the Russell 2000 fell 0.7%. Breadth was negative as the NYSE Up Issues % was 30% and the Up Volume % was 33%. Total NYSE volume came in at the lightest level since 7/15.

The moderate action failed to generate any real compelling edges on Monday, but it should be an interesting week ahead of us.

One thing to keep in mind as we approach the close on Tuesday is that Wednesday is a Fed Day. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 6/18/13 letter. Below are the 4 quartiles from highest to lowest in the daily range (all updated).

Tomorrow is a Fed Day. SPY closes in top 25% of daily range.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

TradeStation Performance Summary Collapse ^

All Trades

Total Net Profit	\$8,020.26	Profit Factor	1.40
Gross Profit	\$28,181.69	Gross Loss	(\$20,161.43)
Total Number of Trades	64	Percent Profitable	48.44%
Winning Trades	31	Losing Trades	31
Even Trades	2		
Avg. Trade Net Profit	\$125.32	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	\$909.09	Avg. Losing Trade	(\$650.37)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <=75% of daily range.
Buy on close. Sell Fed Day close.\$100k/trade. 3/1/93 - 6/14/13.

TradeStation Performance Summary Collapse ^

All Trades

Total Net Profit	\$13,590.58	Profit Factor	2.06
Gross Profit	\$26,412.57	Gross Loss	(\$12,821.99)
Total Number of Trades	37	Percent Profitable	56.76%
Winning Trades	21	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	\$367.31	Ratio Avg. Win:Avg. Loss	1.47
Avg. Winning Trade	\$1,257.74	Avg. Losing Trade	(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25 and <=50% of daily range.
Buy on close. Sell Fed Day close.\$100k/trade. 3/1/93 - 6/14/13.

TradeStation Performance Summary Collapse ^

All Trades

Total Net Profit	\$10,267.79	Profit Factor	2.50
Gross Profit	\$17,119.75	Gross Loss	(\$6,851.96)
Total Number of Trades	27	Percent Profitable	70.37%
Winning Trades	19	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$380.29	Ratio Avg. Win:Avg. Loss	1.05
Avg. Winning Trade	\$901.04	Avg. Losing Trade	(\$856.50)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$20,552.27	Profit Factor	4.08
Gross Profit	\$27,234.96	Gross Loss	(\$6,682.69)
Total Number of Trades	35	Percent Profitable	74.29%
Winning Trades	26	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$587.21	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$1,047.50	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true over 3 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Traders that may look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

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



With both lines now so close to zero it is again impossible to decipher the green Aggregator Line reading, but it is barely negative. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is also just barely below 0. The negative Differential Line reading means the SPX is mildly overbought versus recent expectations. So expectations are a little negative and the SPX is slightly 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 to turn short at the close.

Based on the current active studies, expectations are set to remain bearish on Tuesday. Of course this could easily change if additional bullish evidence emerges (which is likely since we have a Fed Day on Wednesday). The Differential Pivot will be *inverted at* 1,689.39 on Tuesday. That is 0.2% *above* Monday's close. An inverted pivot means the Differential Line will cross through 0 if SPX closes flat. So for SPX to remain "overbought" versus expectations, it is going to need to close higher by at least 0.2%. Otherwise, it will register "oversold".

I have been extremely cautious this year about taking any short trades. The liquidity environment has been so strong that it makes shorting very dangerous. And it has also meant that I have had a bullish intermediate-term outlook all year. With a bullish intermediate-term outlook I am always careful about shorting, even without such a strong liquidity environment.

The setup we are currently seeing is about as weak of a short signal as you can get. Both lines are very close to 0 and the Differential Pivot is inverted, meaning the potential reward is very limited. So while the Aggregator is suggesting a possible short-side edge over the next 1-3 days, actually putting on a short index position is not even a consideration.

In fact, the combination of the Fed Day Wednesday and the inverted pivot have me considering a long trade if Tuesday plays out in a way that would favor the longside. In other words, a down day with a poor close would get me interested in a long trade. I may not hold onto it long. In fact, there is a good chance I will exit the long position before the Fed announcement on Wednesday. But I'll evaluate that a bit more tomorrow night if I actually get a fill. See the Trade Ideas section below for details.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/29 – somewhat bullish

The intermediate-term outlook was last updated in the 7/29 subscriber letter. Link below:

[2013-07-29 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.

SPY – Buy ¼ index position @ \$168.00 LIMIT ON CLOSE IF IT ALSO CLOSSES IN THE BOTTOM 25% OF THE DAILY RANGE. Based on the short-term outlook above, I will anticipate a long-side edge if the market closes poorly before a Fed Day. As mentioned, I may not even hold this position until the Fed announcement on Wednesday.

Current Open Trade Ideas

None.

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