

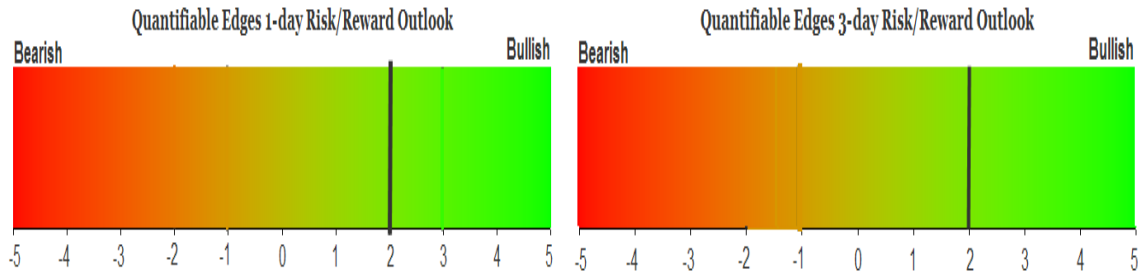
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 17, 2012

Volume 5 Issue 73

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Long

Tonight's Research Points

- Positive breadth on a down day for the SPX has commonly been followed by short-term strength.
- Tax Day is seasonally bullish.

Short-term Outlook

The Bottom Line

The Aggregator is back to positive. I'm moderately bullish and maintaining my conservative long position.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 17, 2012	SPX down. Up Issues % > 55%	1-2 days	Bullish	0.95%
April 16, 2012	Down 1% on 2:1 negative breadth	1-3 days	Bullish	1.90%
April 16, 2012	Op-ex & Tax Time seasonally bullish	1-3 days	Bullish	1.90%
April 11, 2012	System 110524	1-7 days	Bullish	2.30%
Active - Long Term				
March 14, 2012	SPX & TNX hit 50-day highs	1-50 days	Bearish	
March 14, 2012	50-day high on strong breadth	1-50 days	Bullish	8.00%
March 5, 2012	Negative breadth divergences	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
April 10, 2012	4 down. Biggest drop today. SPX > 200ma	1-5 days	Bullish	2.10%
April 2, 2012	SPX 3-day high. Nas/Rus down 3 days.	1-10 days	Bullish	4.30%

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

The Evidence

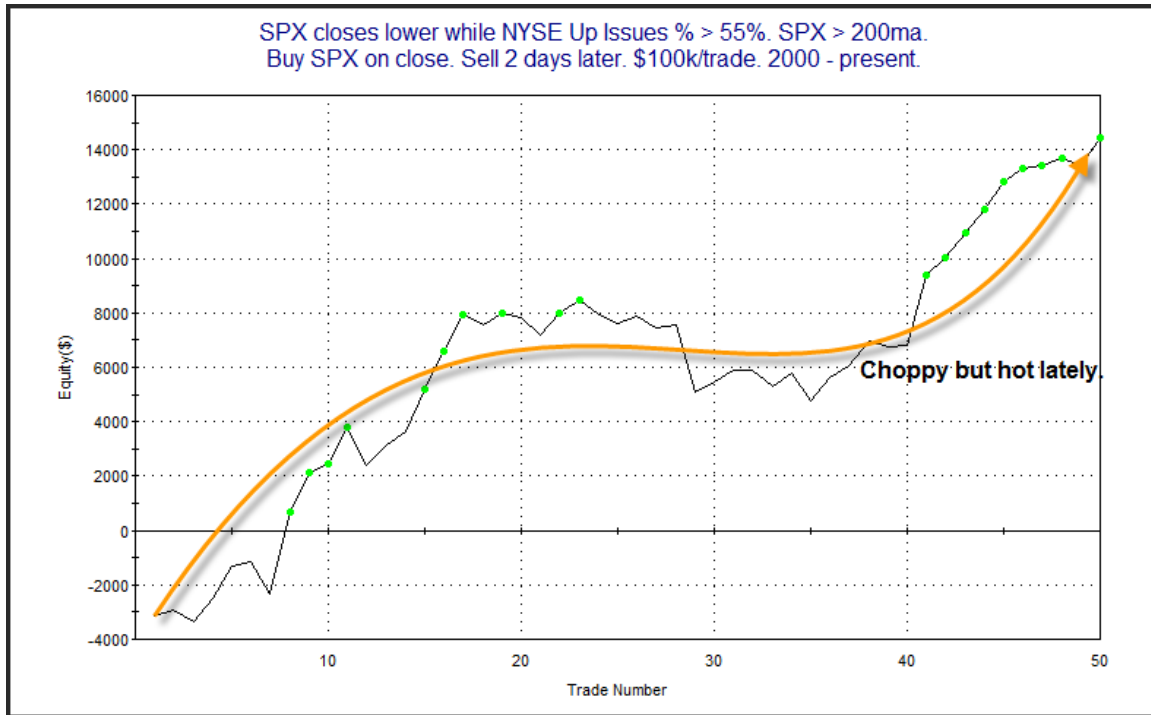
Apple and Google took in on the chin today and the major indices, especially the NDX, suffered thanks to their oversize weightings. The SPX nearly broke even with a 0.1% loss. The Nasdaq fell 0.8%. Meanwhile, the Russell 2000 managed a 0.2% gain. Breadth finished positive as the NYSE Up Issues % came in at 57% and the Up Volume % was 53%. Total NYSE volume came in lighter than the last few days.

The study below was last seen in the 2/1/12 letter. It considered the strong breadth on a day the SPX declined, and suggested an upside edge. Results are updated.

SPX closes lower while NYSE Up Issues % > 55%. SPX > 200ma. Buy SPX 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	19,244.31	46	30	16	65.22	1,373.39	3,616.92	-1,372.34	-4,012.80	1.00	1.88	418.35
4	16,800.62	47	29	18	61.70	1,304.03	3,429.00	-1,167.57	-2,921.28	1.12	1.80	357.46
3	15,946.12	49	34	15	69.39	918.32	2,923.44	-1,018.46	-2,852.01	0.90	2.04	325.43
2	14,418.43	50	35	15	70.00	788.88	3,025.12	-879.49	-3,119.03	0.90	2.09	288.37
1	10,501.06	52	31	21	59.62	663.88	2,310.88	-479.97	-1,348.29	1.38	2.04	201.94

88% of instances posted a close above the entry price at some point in the next week.

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

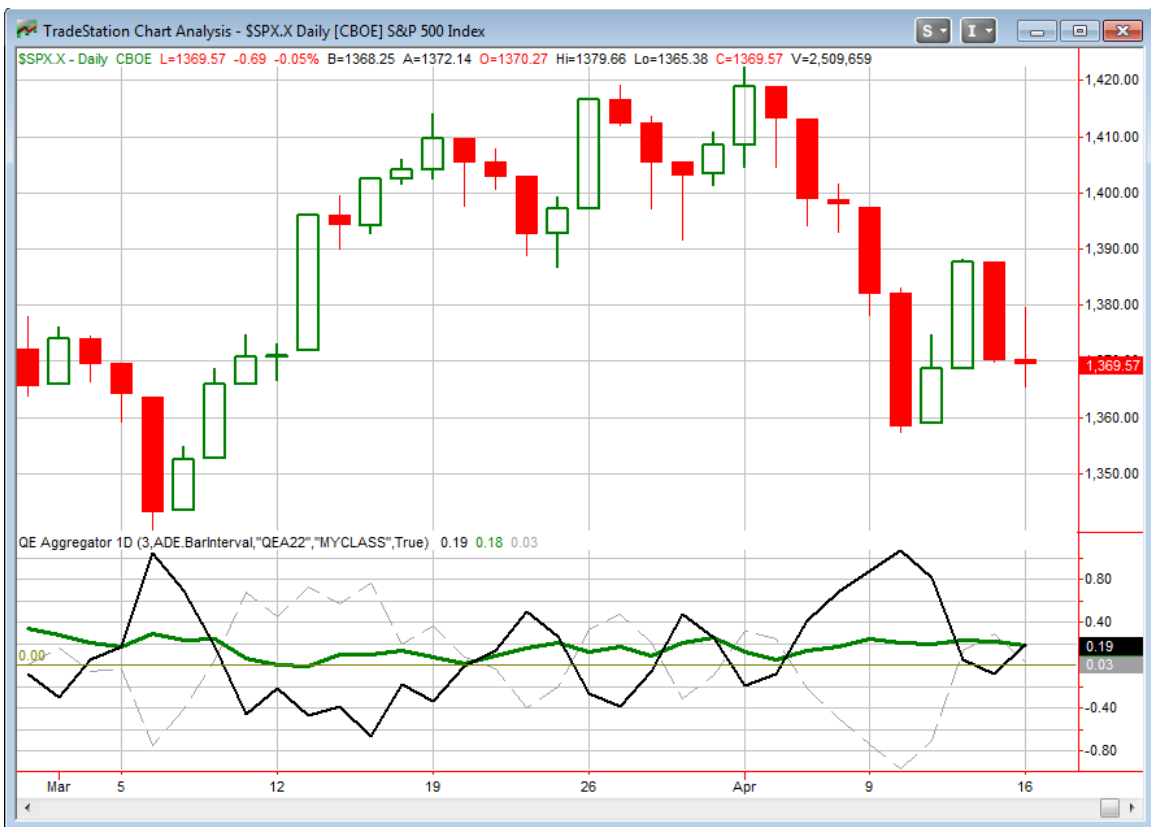


While the curve certainly appears choppy, the edge has been quite strong lately. The 3-5 day charts don't see quite as pronounced of a dip in the middle, which also alleviates some concern. I believe this study is worth taking into consideration and I've included it among the active studies.

As I mentioned last night, Tuesday is the day income taxes are due. Tax Day and the day after have historically shown bullish tendencies. Below are the Tax Day stats I showed last night.

SPX Tax Day Performance. \$100k/trade. 1981 - 2011.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$10,656.95	Profit Factor	3.05
Gross Profit	\$15,852.71	Gross Loss	(\$5,195.76)
Total Number of Trades	31	Percent Profitable	70.97%
Winning Trades	22	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$343.77	Ratio Avg. Win:Avg. Loss	1.25
Avg. Winning Trade	\$720.58	Avg. Losing Trade	(\$577.31)
Largest Winning Trade	\$3,322.23	Largest Losing Trade	(\$1,601.32)

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



The short-term studies are all bullish so the green Aggregator Line remains strongly positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose back above zero. A positive Differential reading means the SPX has underperformed expectations over the

last few days. So net expectations are bullish and the SPX is oversold versus recent expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This meant the Aggregator System changed from flat to long at the close. This was projected on the systems page before the bell.

Based on the current studies, expectations are scheduled to remain positive on Tuesday. It would take strongly bearish evidence to change this. Meanwhile, the Differential Pivot will be 1,396.07 on Tuesday. This is a whopping 1.9% above Monday's close. A move higher of this magnitude on Tuesday appears unlikely. A more likely scenario that would take the Differential line back below 0 is a multi-day move higher.

So the Aggregator is back to bullish, and there is a fair amount of evidence pointing to a rally over the next few days. My stance is very similar to last night. I want some long exposure to take advantage of the upside edge, but I am not going to get aggressively long for 2 reasons: 1) My intermediate-term outlook is neutral. 2) POMO flows are weak and expected to be strongly net negative this week. While I thought of adding back the lot I took off Friday afternoon, I decided instead to just hold the 1 lot of SPY. If we go lower on Tuesday and evidence continues to favor the bulls, then I will reconsider upping my exposure tomorrow night. There is one new Catapult trade that I am looking to take.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/16 – neutral

The intermediate-term outlook was last updated in the 4/16/12 letter. A link to that letter is below.

[2012-04-16 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

BAX @ \$57.67 – not filled and not looking for fill at this point

New

AAPL @ \$580.13 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2/2(BAX, AAPL)

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.

AAPL – buy 1/3 Catapult position @ \$580.13 limit. Based on Catapult trigger shown above.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	4/9/2012	\$138.03	\$136.99	-0.75%		Aggregator
KO(1/3)	4/11/2012	\$72.02	\$72.44	0.58%		<i>sold on close</i>

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