

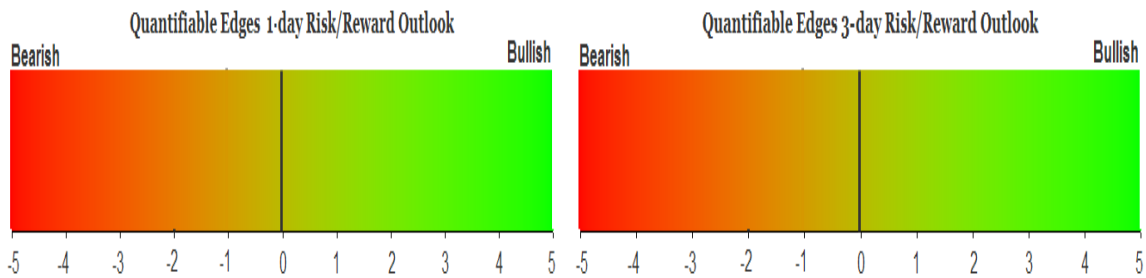
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 24, 2012

Volume 5 Issue 78

Market Overview



Signals Overview

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

Tonight's Research Points

- The unfilled gap down after an unfilled gap up on Friday suggests a downside edge.
- Wednesday is a Fed Day and weakness Tuesday could suggest a substantial upside edge leading up to the announcement.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. I rarely anticipate much in these scenarios but it appears a weak performance tomorrow could set up a Fed Day bounce. If it occurs I may look to get long at the close Tuesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 24, 2012	Unfilled gap down after unfilled gap up	1-3 days	Bearish	-1.80%
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	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
April 23, 2012	SPX up < 0.2% after 2 down	1 day	Bearish	

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

The Evidence

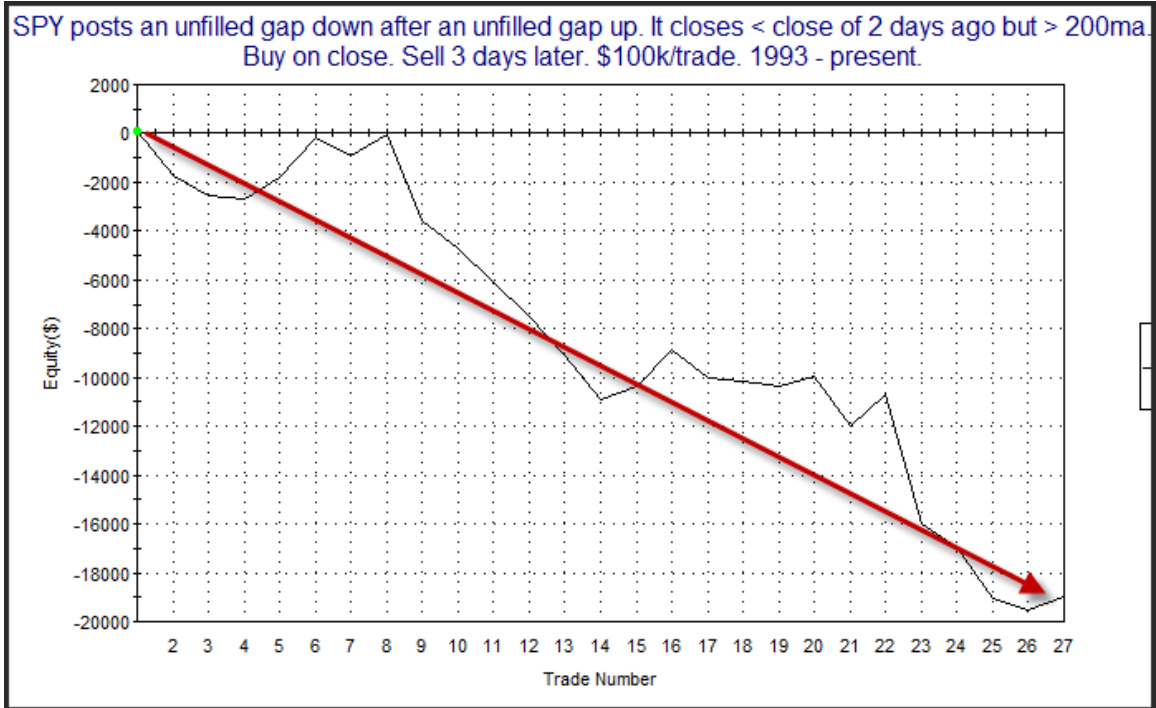
Overseas action set a negative tone on Monday. Despite stabilizing after about an hour the bounce was weak and the market never made up for much of its morning losses. The SPX dropped 0.8%, the Nasdaq declined 1.0% and the Russell 2000 closed down 1.5%. Breadth was strongly negative as the NYSE Up Issues % came in at 26% and the Up Volume % was 15%. Total NYSE volume dipped from the levels of the last couple of days.

After posting an unfilled gap up Friday, Monday’s unfilled gap down triggered a study last seen in the 5/12/11 Subscriber Letter. I have updated that study below.

SPY posts an unfilled gap down after an unfilled gap up. It closes < close of 2 days ago but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-7,913.64	25	9	16	36.00	1,389.50	3,445.05	-1,276.20	-3,791.20	1.09	0.61	-316.55
4	-5,930.72	25	10	15	40.00	1,251.96	3,174.85	-1,230.02	-4,926.08	1.02	0.68	-237.23
3	-18,987.21	27	9	18	33.33	858.48	1,574.59	-1,484.08	-5,321.00	0.58	0.29	-703.23
2	-15,519.69	27	9	17	33.33	718.79	1,714.90	-1,293.46	-3,893.00	0.56	0.29	-574.80
1	-366.36	27	13	13	48.15	486.63	1,325.15	-514.81	-1,564.50	0.95	0.95	-13.57

These results suggests a short-term bearish edge that effectively exhausts itself after 3 days. Below is a profit curve that assumes a 3-day exit strategy.



Certainly it has been choppy, but the trend has been down for a long time and it is currently near its lows. This study appears worthy of inclusion on the Active List.

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



Tonight's study helped to put the green Aggregator line squarely below 0. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still well above zero. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are bearish but the SPX is oversold versus recent expectations. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This meant the Aggregator System remained flat at the close. It was indicated as likely on the systems page shortly before the bell.

Based on the current studies, expectations will remain negative on Tuesday. Tuesday's action and the edges it generates will go a long way in the final determination, though. Meanwhile, the Differential Pivot will be 1,377.99 on Tuesday. This is about 0.8% above Monday's close. So SPX will need to close higher by at least this much in order to turn the Differential Line back to negative, signaling an overbought SPX.

So the Aggregator is neutral and I am not looking to rush into a position. But we do have Fed Day probabilities to consider. As I mentioned last night, Wednesday is a Fed Day. Fed Days have had a bullish tilt over the last 30 years. The upside edge has been substantially greater when action leading up to that day has been weak. Increased edges over typical Fed Days may be seen if the SPY closes in the lower end of its range, if it

closes down for at least the 2nd day in a row, or if it closes down over 0.5%. In other words, a weak performance on Tuesday could set up a bounce on Wednesday. It is also important to keep in mind that the upside edge really only persists up until the time of the announcement. On Wednesday the announcement is at 12:30.

With all this in mind, I am considering taking a long trade at Tuesday's close if it is weak and meets my criteria. I will almost certainly look to exit this trade around noon Wednesday in advance of the Fed announcement. Details are in the Trade Ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/23 – neutral

The intermediate-term outlook was last updated in the 4/23 letter. Subscribers who wish to view it may use the link below:

[2012-04-23 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

AAPL @ \$580.13 (filled @ \$578.94)

Catapult for ETF's Trades

None

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

In looking at current conditions, it is unlikely that we will see a large spike in the CBI anytime soon. A strong selloff would need to occur over many days for that to happen.

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 @ \$136.10 LIMIT ON CLOSE IF CLOSE IS IN BOTTOM HALF OF DAILY RANGE. It would take a poor performance and a weak close for me to try a Fed Day trade under current conditions. If action is this weak then there is a decent chance that other bullish studies could trigger as well, which would support the idea of a long trade. As I mentioned I likely will not hold this position beyond noon on Wednesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AAPL(1/3)	4/17/2012	\$578.94	\$571.70	-1.25%		Catapult

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