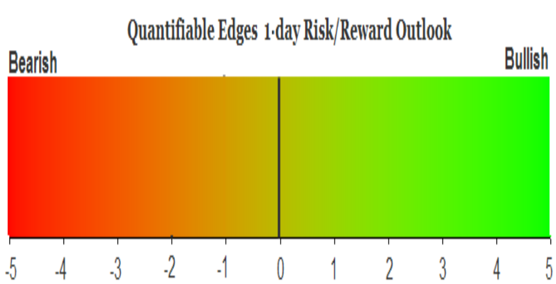
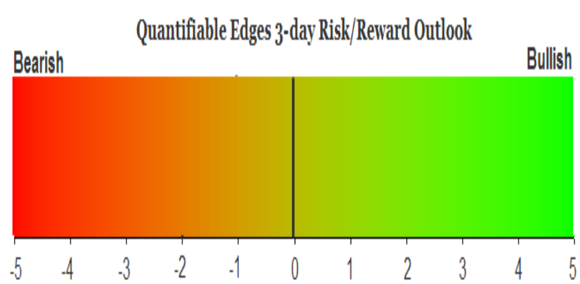
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 25, 2012 Volume 5 Issue 79

Market Overview





Signals Overview

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

Tonight's Research Points

- Wednesday is a Fed Day. Fed Days have had a bullish tilt historically.

Short-term Outlook
The Bottom Line

The Aggregator is neutral. I am largely sidelined and awaiting the next compelling opportunity.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 25, 2012	Fed Day Wednesday	1 day	Bullish	
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	

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

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

The Evidence

The market was quiet on Tuesday and the indices were mixed. The SPX gained 0.4% and the Russell 2000 rose 0.8% while the Nasdaq declined 0.3%. Breadth was solidly positive as the NYSE Up Issues % came in at 66% and the Up Volume % was 70%. Total NYSE volume fell for the 2^{nd} day in a row.

As I have mentioned the last couple of days, tomorrow is a Fed Day. Fed Days have a long history of bullish behavior. The returns have not shown an upside edge when the SPX has closed at an intermediate-term high just before the Fed Day, but other than that they've have shown considerable strength. The study below was last seen in the 3/15/11 Subscriber Letter. I have updated all the stats.

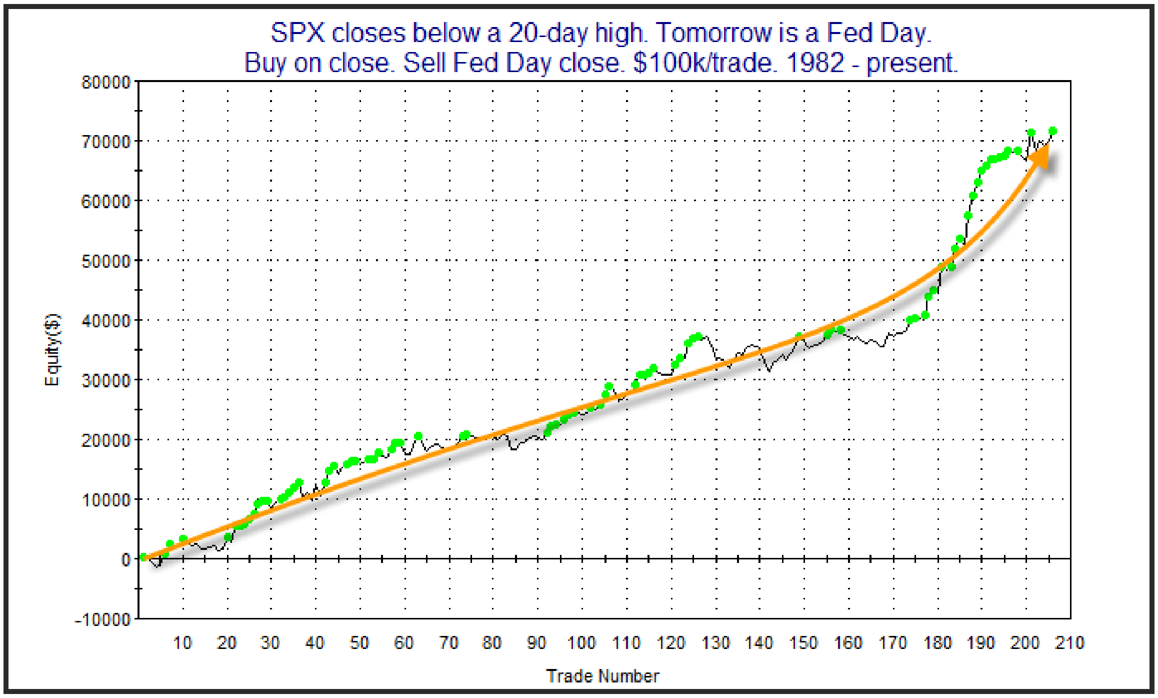
SPX closes below a 20-day high. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. $100k/trade. 1982 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$71,789.43	Profit Factor	2.29
Gross Profit	$127,558.46	Gross Loss	($55,769.03)
Total Number of Trades	206	Percent Profitable	61.65%
Winning Trades	127	Losing Trades	79
Even Trades	0		
Avg. Trade Net Profit	$348.49	Ratio Avg. Win:Avg. Loss	1.42
Avg. Winning Trade	$1,004.40	Avg. Losing Trade	($705.94)
Largest Winning Trade	$5,130.15	Largest Losing Trade	($2,932.39)

As you can see, every stat on the performance summary favors the bulls. Below is an equity curve.



A steady upslope for many years has seen an acceleration in the last few. Overall, this study appears to suggest a compelling case for the bulls on Wednesday.

In the Quantifiable Edges Guide to Fed Days I broke down the Fed Day returns by time of day. The most interesting finding I uncovered when I did this was that there has been no consistent edge after the announcement. The upside edge has typically played itself out between the close the day before and the time the announcement is made. Wednesday's announcement is set for 12:30, which is a bit earlier than the typical 2:15. About a year ago the Fed proclaimed that it would announce at 12:30 and follow it with a press conference on 3 of the 8 Fed Days each year.

I have updated the Aggregator chart below.

Even with tonight's study the green Aggregator line remains 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 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 Wednesday. Wednesday's action and the edges it generates will go a long way in the final determination, though. Meanwhile, the Differential Pivot will be 1,377.92 on Wednesday. This is about 0.4% above Tuesday'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.

I was hoping for a weak market on Tuesday to provide a favorable long entry to take advantage of Wednesday's Fed Day. Unfortunately, the market did not provide me with that favorable entry. The last week or so has been a test of my patience as the market has provided little in the way of tradable edges. Still, I will remain patient and wait for the market to provide a compelling edge before taking on new exposure.

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

AAPL @ $580.13 (filled @ $578.94)

Catapult for ETF's Trades

None

***Broad Market Large Cap CBI* – 1(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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AAPL(1/3)	4/17/2012	$578.94	$560.28	-3.22%		Catapult

AAPL – AAPL released earnings after the bell and the reaction was good. After closing at $560.28, AAPL was trading over $600 at the close of the after-hours session. AAPL will need to trade as high as $597.67 intraday on Wednesday in order to trigger an exit for this Catapult position. This seems fairly likely since it was over $600 already. The standard exit would be to close out the position at the open on Thursday. With tomorrow being a Fed Day I would rather not subject myself to the volatility after the announcement. If AAPL reaches $597.67 before noon I will either simply sell at noon, or I will utilize a stop based on an intraday support. For now I set it up the following way:

If AAPL hits $597.67 intraday I will place a stop order at $580.00 to protect my profits against a reversal. If not hit by noon EST, I will exit the trade at noon. (If $597.67 is not reached no stop will be placed and the position will not be exited at noon.)

I may amend the above approach if AAPL forms a consolidation in the first couple hours of trading. This could allow me to simply place a tighter stop and not utilize the time exit, therefore allowing the chance to realize further gains if the market rallies in the afternoon. If I decide to do this I will send an intraday update by 11:45am EST to gold subscribers. (Of course subscribers should handle all trade ideas however they best see fit.)