

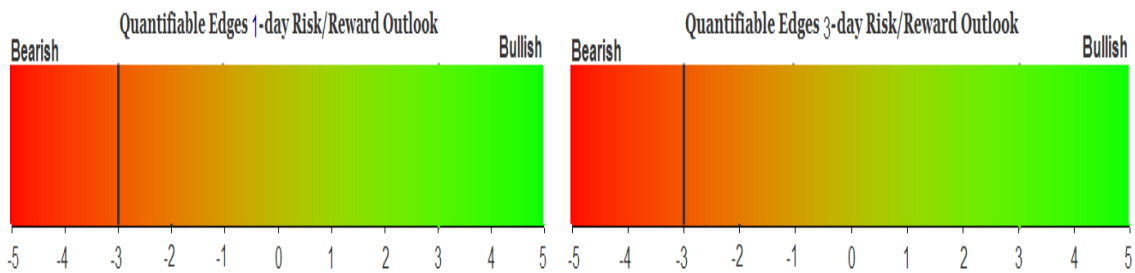
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 26, 2012

Volume 5 Issue 80

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Gap-n-go action on a Fed Day has often been followed by pullbacks.

## Short-term Outlook

### The Bottom Line

Short-term evidence is now suggesting a downside edge. Wednesday's rally moved the SPX squarely into overbought territory. I'm looking to position for a dip in the coming days.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
April 26, 2012	Gap & go on a Fed Day	1-2 days	Bearish	-1.50%
April 24, 2012	Unfilled gap down after unfilled gap up	1-3 days	Bearish	-1.80%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
<i>April 25, 2012</i>	<i>Fed Day Wednesday</i>	<i>1 day</i>	<i>Bullish</i>	

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

### The Evidence

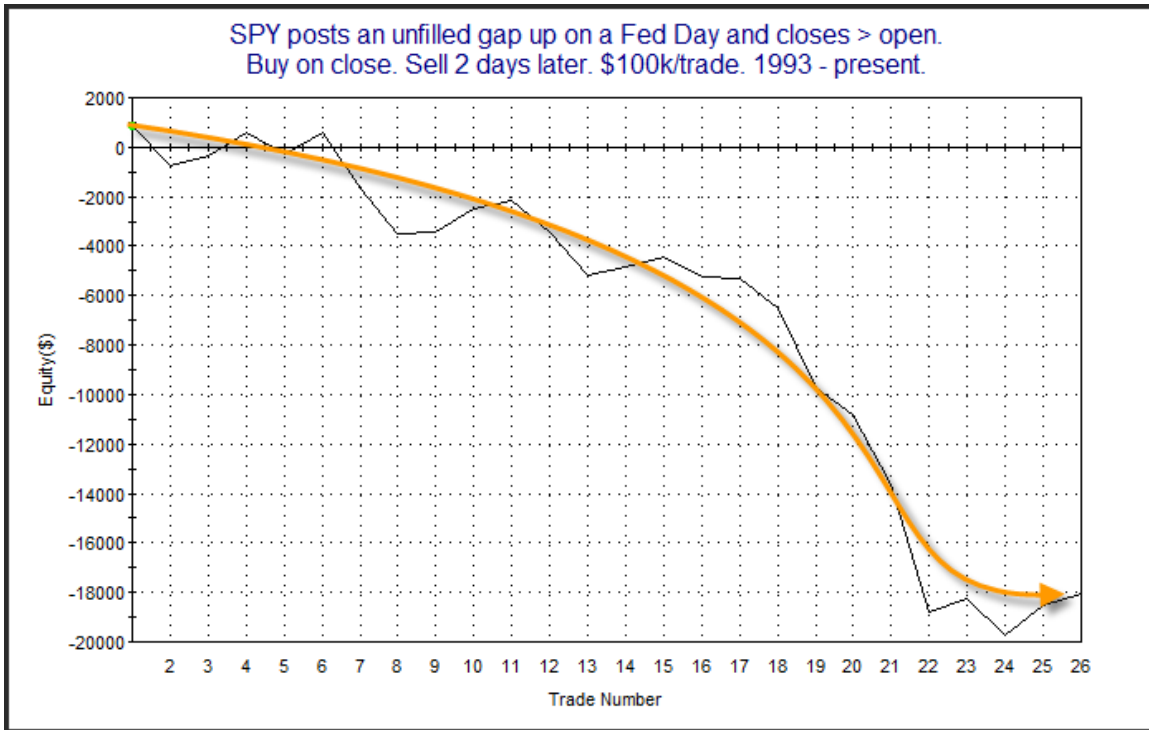
Between Apple earnings and the Fed announcement market participants were in a buying mood on Wednesday. The SPX gained 1.4%, the Nasdaq rallied 2.3%, and the Russell 2000 rose 1.8%. Breadth was strongly positive as the NYSE Up Issues % came in at 76% and the Up Volume % was 82%. Total NYSE volume rose from the levels of the last couple of days.

SPX closed right near the top of its 2-week range. If it can break out from here it could make a run at the early April highs. But the rally today did not trigger bullish studies.

Action in SPY was notable because it gapped up to start the day and continued higher without ever filling that gap. When such action has occurred on a Fed Day in the past it has often been followed by a pullback. This is something I showed in the 11/3/11 subscriber letter. The results table below is updated.

SPY posts an unfilled gap up on a Fed Day and closes > open. 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: Profit Factor	All: Avg Trade
5	-23,943.79	26	10	16	38.46	1,124.08	5,434.00	-2,199.04	-6,223.36	0.51	0.32	-920.91
4	-10,329.43	26	14	12	53.85	1,264.78	3,637.92	-2,336.36	-5,244.16	0.54	0.63	-397.29
3	-18,336.63	26	10	15	38.46	974.43	3,992.56	-1,872.07	-5,502.64	0.52	0.35	-705.26
2	-18,085.82	26	12	14	46.15	618.69	1,200.94	-1,822.15	-5,216.64	0.34	0.29	-695.61
1	-10,467.47	26	10	16	38.46	508.63	1,821.56	-972.11	-3,248.96	0.52	0.33	-402.60
<b>23 of 26 instances (88.5%) posted a close below the entry price at some point in the next week.</b>												

The statistics suggest a moderate 1-2 day downside edge. The 88.5% pullback rate over the week is considerable. Below is a profit curve that assumes a 2-day holding period.



The last 2 trades have not been typical, but the study still seems worthy of consideration. I have included it on the Short-Term Active List.

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



Tonight's bearish study helped push the green Aggregator line further below 0. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, Wednesday's strong rally caused the black Differential Line to dive down below zero. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are bearish and the SPX is overbought versus recent expectations. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This meant the Aggregator System turned from flat to short at the close. This was indicated as likely on the systems page shortly before the bell.

Based on the current studies, expectations will remain negative on Thursday. Thursday's action and the edges it generates will go a long way in the final determination, though. Meanwhile, the Differential Pivot will be 1,362.79 on Thursday. This is a whopping 2% below Wednesday's close. It would therefore take a selloff of this magnitude on Thursday to move the SPX out of overbought territory and flip the Differential Line back to positive. That large of a decline is unlikely. A more likely scenario would be a multi-day decline or consolidation to wear off the overbought condition.

So we have some evidence suggesting a short-term downside edge, and with the SPX now short-term overbought the Aggregator is now negative. I am too. The evidence isn't overwhelming though, and with my intermediate-term outlook neutral I am not looking to

get aggressive here. Instead I will simply look to take on a small short position Thursday if the market allows. Details are in the Trade Ideas section near the bottom of the letter.

***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***

*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 - short 1/4 index position @ \$139.19 LIMIT.*** This is based on the short-term outlook above. I will take a small short position in anticipation of a decline over the next few days.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>AAPL(1/3)</i>	<i>4/17/2012</i>	<i>\$578.94</i>	<i>\$610.00</i>	<i>5.36%</i>		<i>sold on close</i>

*AAPL* – AAPL was sold at the close as per the intraday update sent to subscribers about 10:25am EST.

This closes out the recent cluster of Catapult trades. While several of the trades did not receive fills due to the strong gap up on 4/11, the three triggers we got filled on all closed nicely positive. This of course meant another profitable cluster for the Catapults. Remarkably, it has now been more than three years since we have seen a losing Catapult cluster. Over that time there have been 23 clusters in a row that have generated positive returns. (Warning - this streak will end at some point.) Subscribers who have not incorporated Catapults into their trading plan in some small way, may want to consider doing so. A good bit of information on Catapults can be found in the Catapult Exit Designer available on the downloads page, and also in the Catapult & CBI presentation available on the videos page.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2012 Hanna Capital Management, LLC.