

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 19, 2013

Volume 6 Issue 53

Market Overview



Signals Overview

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

Tonight's Research Points

- The 1st 5-day low in over 2-weeks is usually followed by a move higher.
- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.

Short-term Outlook

The Bottom Line

Evidence is now slightly bullish and the Differential Line is overbought. I am partially long and will be looking to add more long exposure if we get more selling.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 19, 2013	1st 5-day low in over 2 weeks	1-4 days	Bullish	1.60%
March 19, 2013	2 unfilled gaps dn. 5-low. Close>200.	1-5 days	Bullish	1.80%
March 18, 2013	Unfill gap up then gap dn from 20-hi.	1-7 days	Bearish	-2.20%
March 15, 2013	Top 10% 10-day range. Opex tmrw.	1-5 days	Bearish	-1.80%
Active - Long Term				
March 13, 2013	5 days up to 50-high, then 1 down	1-10 days	Bullish	2.00%
January 14, 2013	Breadth Divergence (from Tops Study)	int term	Bearish	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
March 15, 2013	SPY>5ma 10 days. Today 10-high	1-2 days	Bearish	-1.10%
March 14, 2013	20 low volume and high close	1-3 days	Bearish	-1.30%
March 13, 2013	Pullback from persistent upmove	1-4 days	Bullish	1.30%

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

The Evidence

The market underwent some selling on Monday after turmoil in Cyprus put traders on edge. The SPX and Russell 2000 each declined 0.55%, while the Nasdaq lost 0.35%. Breadth was squarely negative as the NYSE Up Issues % was 38% and the Up Volume % came in at 27%. Total NYSE volume came in fairly light.

Interesting that Friday and Monday both posted unfilled gaps down – never reaching breakeven at any point during the day. This triggered some compelling studies in the Quantifinder. The 2 below were last seen in the 2/22/13 Letter.

This first study looked at other instances where SPY left 2 unfilled down gaps while trading above the 200ma. It has been updated below.

SPY leaves an unfilled gap down for the 2nd day in a row. It closes > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	25,015.61	24	20	4	83.33	1,658.77	3,940.02	-2,039.94	-3,627.12	0.81	4.07	1,042.32
4	17,293.59	24	18	6	75.00	1,331.98	4,388.28	-1,113.69	-3,342.64	1.20	3.59	720.57
3	8,521.85	24	15	9	62.50	1,146.25	3,325.14	-963.54	-2,747.01	1.19	1.98	355.08
2	2,972.03	24	11	13	45.83	1,159.71	2,948.14	-752.68	-2,436.12	1.54	1.30	123.83
1	2,209.19	24	13	11	54.17	804.34	1,974.15	-749.75	-1,849.26	1.07	1.27	92.05
22 of 24 instances (92%) closed above the entry price at some point in the next week.												

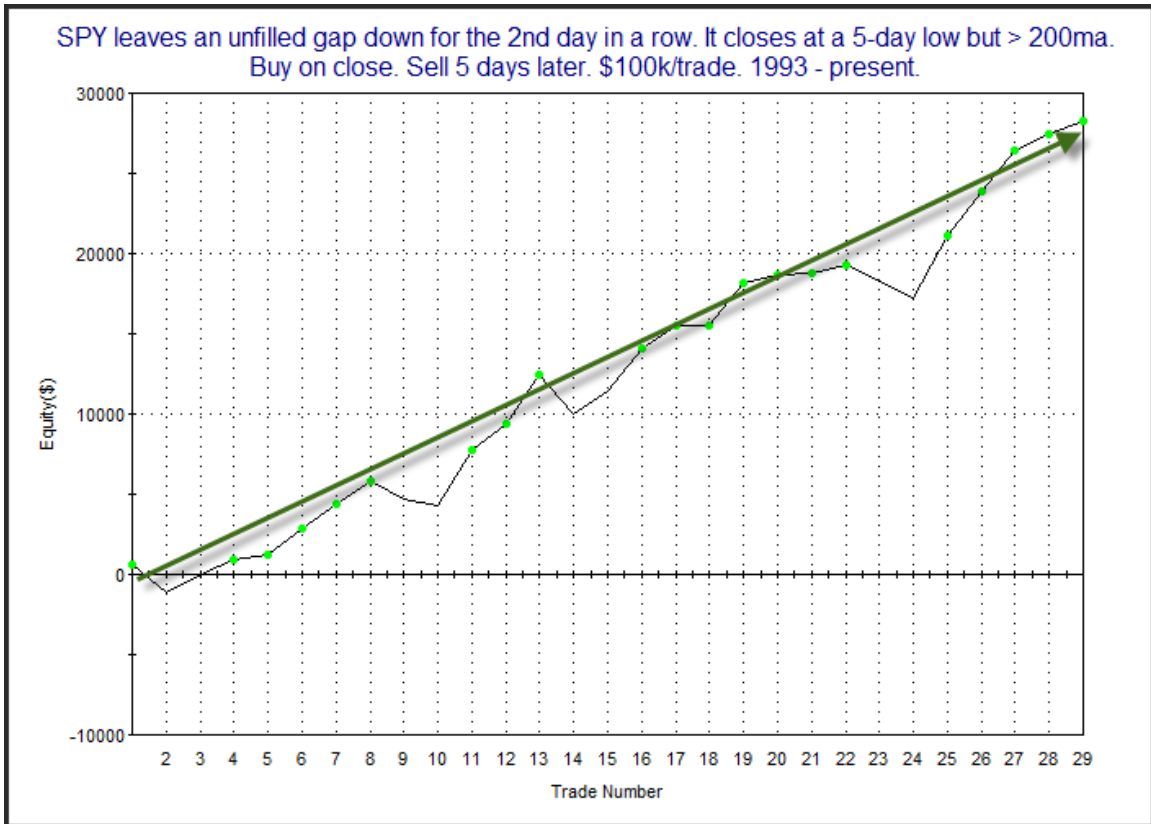
As you can see there has been a strong upside tendency to bounce over the next week. That tendency was not nearly as prominent prior to 1998, which is why the study does not look back further than that.

But if we also require a 5-day low close then we are talking about a setup that has suggested an upside edge since the inception of the SPY in 1993. This study is also from the 2/22/13 Letter, and has also been updated.

SPY leaves an unfilled gap down for the 2nd day in a row. It closes at a 5-day low 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	28,268.07	29	23	6	79.31	1,570.39	3,940.02	-1,308.48	-2,465.95	1.20	4.60	974.76
4	22,003.48	29	22	7	75.86	1,317.19	4,388.28	-996.38	-1,920.60	1.32	4.15	758.74
3	13,928.54	29	19	10	65.52	1,139.85	3,325.14	-772.86	-1,645.38	1.47	2.80	480.29
2	6,100.69	29	17	12	58.62	1,001.40	2,948.14	-910.26	-2,436.12	1.10	1.56	210.37
1	1,435.52	30	17	13	56.67	683.37	1,974.15	-783.21	-1,849.26	0.87	1.14	47.85

Only 1 instance failed to close above the entry price at some point in the next 6 days. That instance took place on 9/14/99.

Here again the numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 5-day holding period.



The steady upward slope acts as confirmation of the bullish edge.

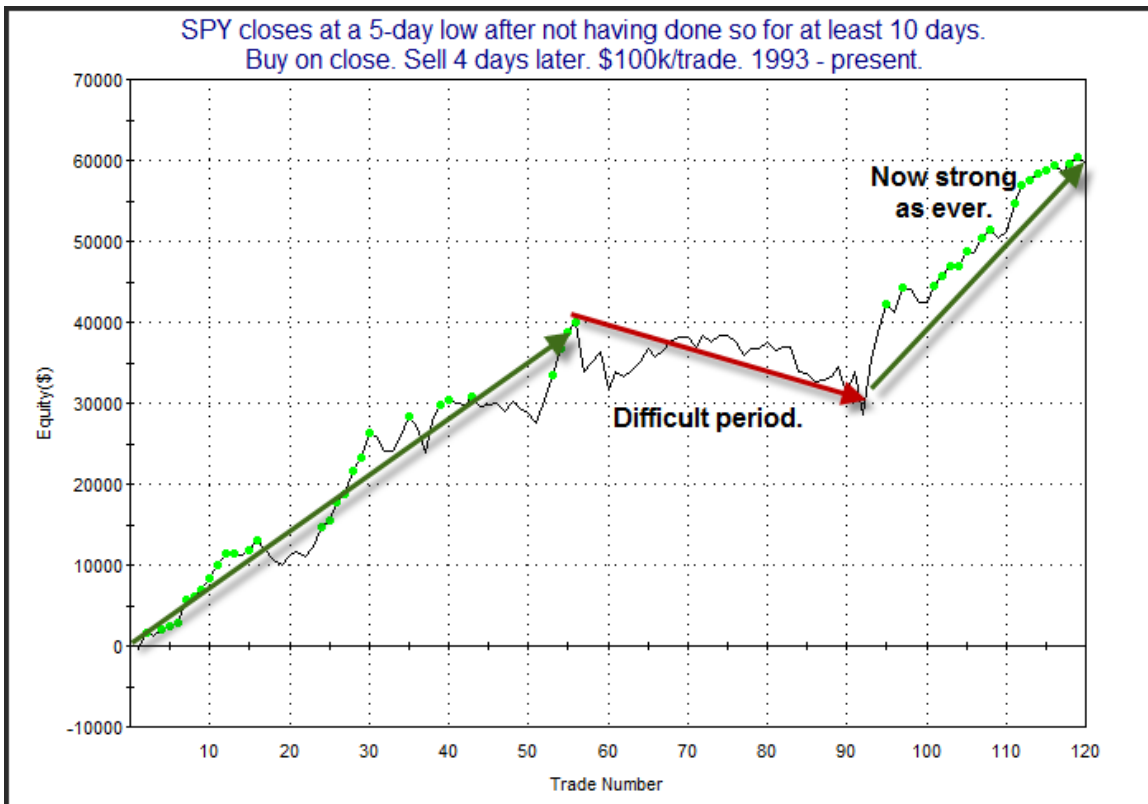
The market had gone quite a while without a pullback before the last 2 days. Monday, for the 1st time in a while, SPY closed at a 5-day low. In the 2/1/13 letter I looked at other instances of SPX closing at a 5-day low after going at least 2 weeks without one. I have updated that study below.

SPY closes at a 5-day low after not having done so for at least 10 days.
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
10	99,174.38	120	81	39	67.50	2,155.01	8,925.10	-1,932.86	-8,623.54	1.11	2.32	826.45
9	85,865.24	120	81	39	67.50	1,956.17	8,933.76	-1,861.15	-6,709.56	1.05	2.18	715.54
8	79,004.11	120	80	39	66.67	1,881.49	8,908.38	-1,833.71	-7,113.48	1.03	2.10	658.37
7	63,094.16	120	79	41	65.83	1,797.92	6,851.52	-1,925.39	-7,790.40	0.93	1.80	525.78
6	52,030.66	120	77	43	64.17	1,641.82	6,523.92	-1,729.99	-9,559.44	0.95	1.70	433.59
5	49,776.59	120	76	43	63.33	1,559.27	6,103.89	-1,598.33	-4,906.44	0.98	1.72	414.80
4	59,603.42	120	79	41	65.83	1,437.28	6,941.43	-1,315.65	-6,244.56	1.09	2.10	496.70
3	36,704.79	120	74	46	61.67	1,291.94	5,888.16	-1,280.40	-5,295.84	1.01	1.62	305.87
2	23,157.21	120	66	53	55.00	1,121.67	3,809.72	-959.87	-3,737.28	1.17	1.46	192.98
1	13,262.55	120	67	53	55.83	845.27	2,812.20	-818.31	-3,909.03	1.03	1.31	110.52

105 of 120 instances (88%) closed above the entry price at some point in the next week.

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 30 trades or so the edge seems to have reasserted itself. Persistent uptrends normally wither before they die, rather than turn on a dime.

Also of note is that Wednesday is a Fed Day. Below is an excerpt from the 1/29/13 Letter in which I discuss some Fed Day tendencies.

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 10/23/12 letter. Below are the 4 quartiles from highest to lowest in the daily range (not updated tonight).

SPY closes in top 25% of daily range. Tomorrow is a Fed Day. Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$10,668.70	Profit Factor	1.61
Gross Profit	\$28,181.69	Gross Loss	(\$17,512.99)
Total Number of Trades	61	Percent Profitable	50.82%
Winning Trades	31	Losing Trades	28
Even Trades	2		
Avg. Trade Net Profit	\$174.90	Ratio Avg. Win:Avg. Loss	1.45
Avg. Winning Trade	\$909.09	Avg. Losing Trade	(\$625.46)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

SPY closes > 50% and <= 75% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

TradeStation Performance Summary

[Collapse ^](#)

All Trades

Total Net Profit	\$12,892.90	Profit Factor	2.01
Gross Profit	\$25,714.89	Gross Loss	(\$12,821.99)
Total Number of Trades	36	Percent Profitable	55.56%
Winning Trades	20	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	\$358.14	Ratio Avg. Win:Avg. Loss	1.50
Avg. Winning Trade	\$1,285.74	Avg. Losing Trade	(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

SPY closes > 25% and <= 50% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

TradeStation Performance Summary

[Collapse ^](#)

All Trades

Total Net Profit	\$10,501.80	Profit Factor	2.60
Gross Profit	\$17,070.96	Gross Loss	(\$6,569.16)
Total Number of Trades	25	Percent Profitable	72.00%
Winning Trades	18	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$420.07	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	\$948.39	Avg. Losing Trade	(\$938.45)
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. 2003 - 9/30/2012

TradeStation Performance Summary

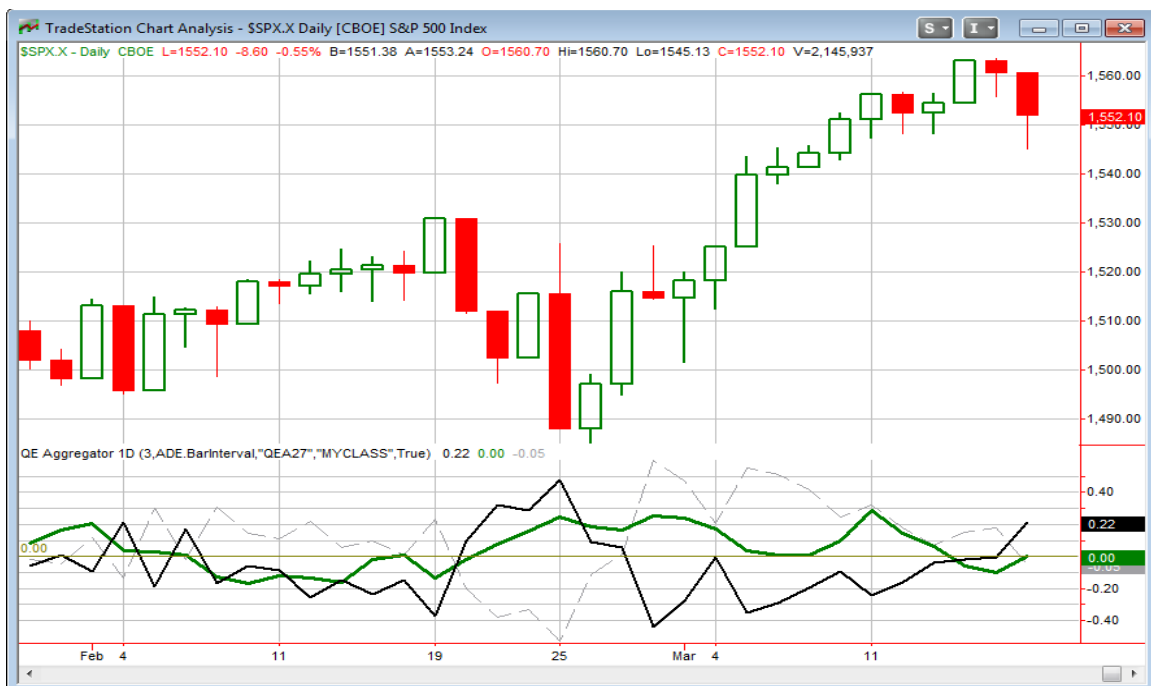
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All Trades

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 2.5 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.



The bullish studies tonight managed to move the green Aggregator Line back to just barely above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also moved above 0. The positive reading means the SPX is oversold versus recent expectations. So expectations are bullish and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator system to turn from short to long.

Based on the current short-term studies, expectations are set to remain bullish on Tuesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1,565.34 on Tuesday. This is 1.2% above Monday's close. So it would take a strong rally on Tuesday to move the SPX from short-term oversold to short-term overbought.

Expectations, while now bullish, are just barely so. I do not intend to get overly excited just yet. On Monday I took a long position in XIV as planned for reasons discussed in last night's letter. As you'll see in the Trade Ideas section below, there is 1 Catapult that triggered on Monday, and I will look to take advantage of it on Tuesday.

If SPX should suffer more selling tomorrow, I expect we will see additional bullish studies emerge. With Wednesday being a Fed Day, I will look to take advantage of both Fed Day and Aggregator edges should SPX close poorly. Details are all in the Trade Ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/18 – bullish

The intermediate-term outlook was last updated in the 3/18 letter. Link below:

[2013-03-18 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

GOOG – 1/3 @ \$807.79 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(GOOG)

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.

GOOG – buy 1/3 Catapult position @ \$807.79 limit. This is a Catapult trade as listed in the Catapult section above.

SPY – buy ¼ index position @ \$154.96 LIMIT ON CLOSE IF IT CLOSSES IN BOTTOM HALF OF DAILY RANGE. This is based on the short-term outlook above.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/18/2013	\$22.02	\$22.02	0.00%		bought on close

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