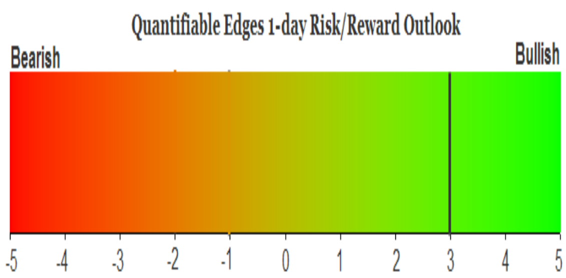
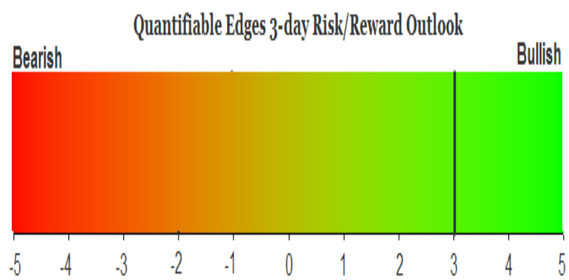
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 20, 2013 Volume 6 Issue 54

Market Overview





Signals Overview

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

Tonight's Research Points

- 3 down days from a 50-day high that close < 10ma but above 10-day low suggest an upside edge.
- Fed Days tend to be bullish when the market is not already at intermediate-term highs.
- Since 1982, 3 down days combined with a Fed Day has resulted in consistent gains over the next 3 days.

Short-term Outlook
The Bottom Line

The bullish case continues to build while the markets worry about news. A bounce appears likely in the next few days. I am long and looking to get longer.

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

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 20, 2013	3 dn. Tomorrow Fed Day	1-3 days	Bullish	2.00%
March 20, 2013	3 down from 50 < 10ma > 10-low	1-4 days	Bullish	1.80%
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	

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

The Evidence

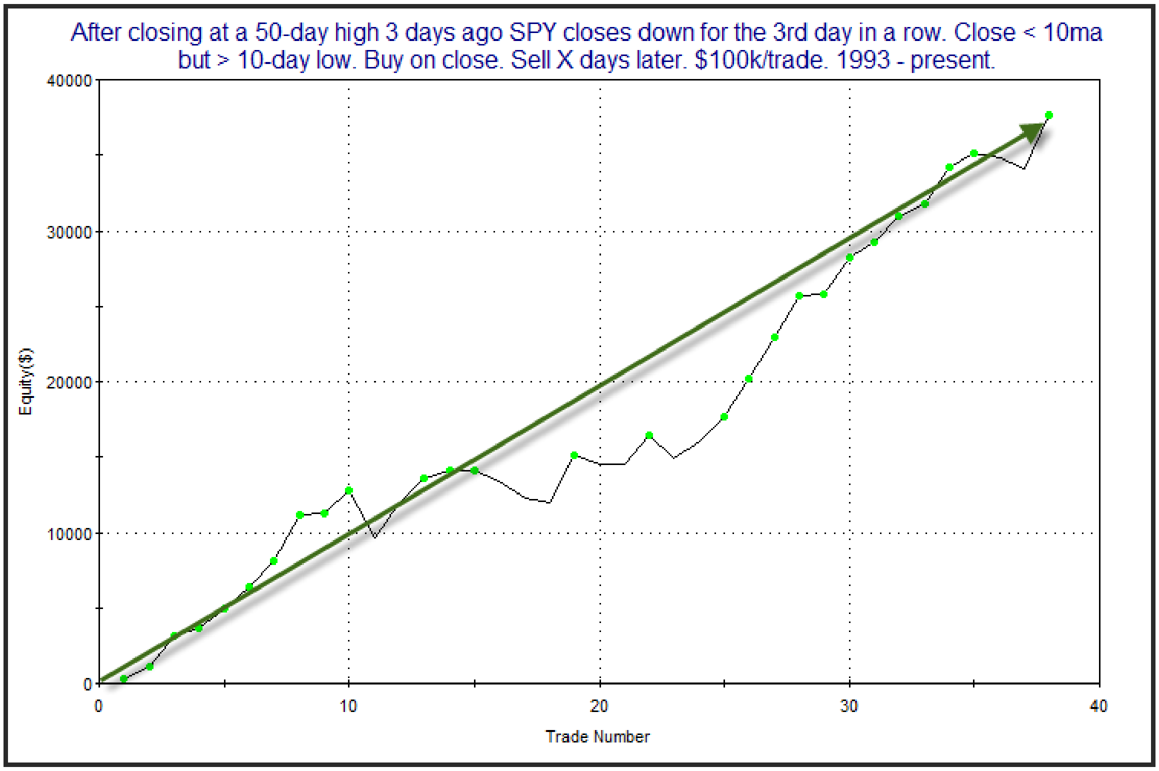
The selling continued on Tuesday but a rally late in the day kept the damage light. The SPX fell 0.2%, the Nasdaq declined 0.3% and Russell 2000 dropped 0.5%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 38%. Total NYSE volume rose slightly from Monday's level.

Tuesday marked the 3rd close lower in a row for SPY. Three-day pullbacks will often trigger a few bullish studies. The one below is the one I found most interesting. It was from the 7/25/12 letter. It looked at other times that SPY had a 3-day pullback from a 50-day high, and that pullback was deep enough to put it below the 10ma, but not deep enough to see it at a 10-day closing low. I have updated the stats table below.

After closing at a 50-day high 3 days ago SPY closes down for the 3rd day in a row. Close < 10ma but > 10-day low. 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	52,062.03	37	27	10	72.97	2,645.69	7,242.70	-1,937.15	-6,933.13	1.37	3.69	1,407.08
9	41,754.60	37	28	9	75.68	2,354.09	6,322.56	-2,684.43	-8,192.92	0.88	2.73	1,128.50
8	47,427.37	37	29	8	78.38	2,246.27	6,358.08	-2,214.30	-4,499.25	1.01	3.68	1,281.82
7	41,695.21	37	28	9	75.68	2,104.07	6,322.56	-1,913.18	-4,354.31	1.10	3.42	1,126.90
6	42,975.83	37	28	9	75.68	2,027.54	5,375.36	-1,532.82	-2,140.14	1.32	4.12	1,161.51
5	33,184.92	38	27	11	71.05	1,742.81	3,522.94	-1,261.00	-3,453.71	1.38	3.39	873.29
4	37,665.22	38	30	8	78.95	1,537.30	3,543.50	-1,056.73	-3,076.63	1.45	5.46	991.19
3	24,299.56	38	26	12	68.42	1,436.82	3,543.50	-1,088.16	-2,027.68	1.32	2.86	639.46
2	12,306.81	38	26	12	68.42	1,054.38	2,332.48	-1,258.92	-2,781.35	0.84	1.81	323.86
1	6,810.63	38	23	15	60.53	835.63	2,060.16	-827.26	-2,031.09	1.01	1.55	179.23

Under these circumstances, it appears bounces have been both reliable and powerful. Below is a look at the profit curve assuming a 4-day exit technique.



The curve appears to provide confirmation of the bullish tendency suggested by the stats table.

Other bullish inclinations appeared in the Quantifinder thanks to that fact that Wednesday is a Fed Day. I showed last night that weak closes (as measured by the daily range) prior to a Fed Day were more bullish than strong closes. On Tuesday SPY close just slightly above the midpoint of its range. Another Fed Day filter that popped up in today's Quantifinder is one that makes sure SPX does not close at a 20-day high. Times when it has the Fed Day tendency has been weak at best. The study below shows historical performance on Fed Days when SPX did not close at a new high the day before. It was last seen in the 4/25/12 letter. All stats have been updated.

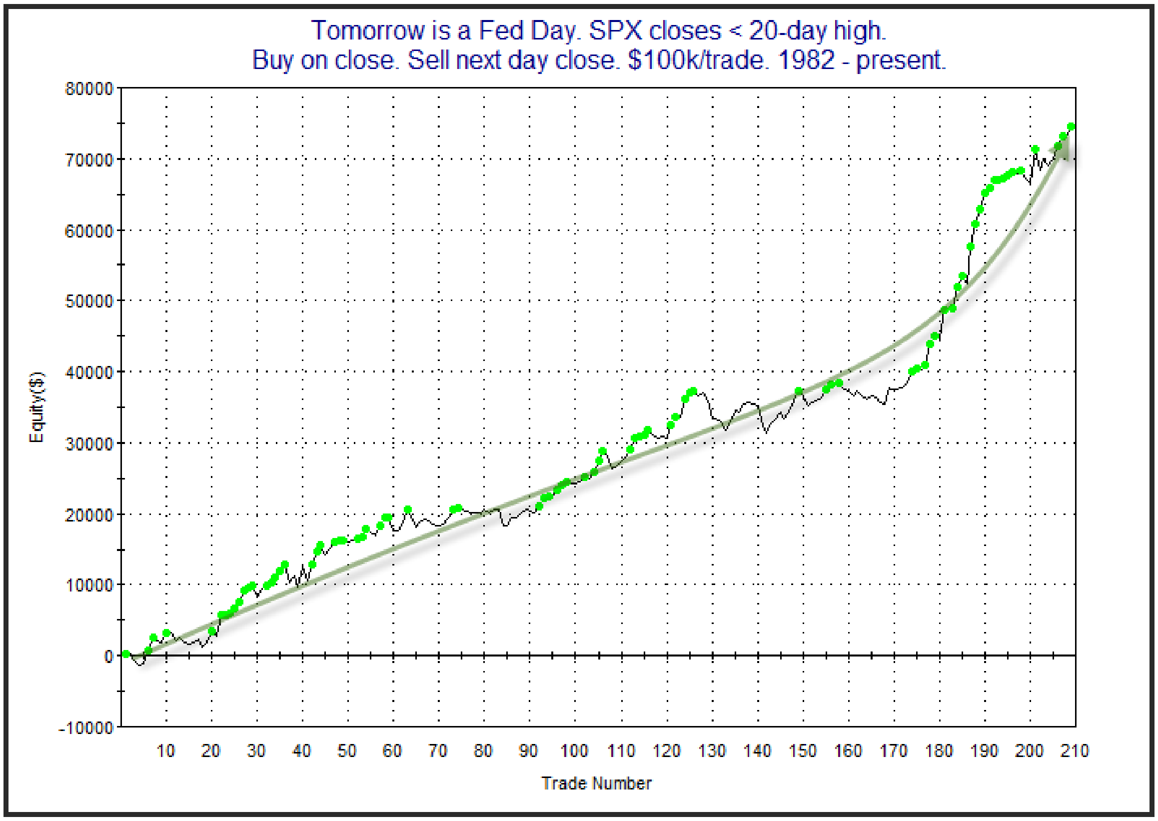
Tomorrow is a Fed Day. SPX closes < 20-day high.
Buy on close. Sell next day close. $100k/trade. 1982 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$74,160.74	Profit Factor	2.32
Gross Profit	$130,522.97	Gross Loss	($56,362.23)
Total Number of Trades	210	Percent Profitable	61.43%
Winning Trades	129	Losing Trades	81
Even Trades	0		
Avg. Trade Net Profit	$353.15	Ratio Avg. Win:Avg. Loss	1.45
Avg. Winning Trade	$1,011.81	Avg. Losing Trade	($695.83)
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.

But what if we combine the concept of the 3-day pullback with the Fed Day? That is something I have never shown before. (I'll show why below.) But the numbers in such a scenario have been very good. Here they are.

SPX closes down for at least the 3rd day in a row, but above the 200ma. Tomorrow is a Fed Day. Buy on close. Sell 3 days later. $100k/trade. 1982 - 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	20,995.15	15	12	3	80.00	2,263.81	4,608.35	-2,056.86	-3,270.96	1.10	4.40	1,399.68
4	22,815.24	15	13	2	86.67	1,932.81	4,690.50	-1,155.67	-1,433.11	1.67	10.87	1,521.02
3	23,298.00	15	15	0	100.00	1,553.20	3,940.55	0.00	0.00	100.00	100.00	1,553.20
2	15,084.72	15	12	3	80.00	1,296.14	3,744.45	-156.31	-243.60	8.29	33.17	1,005.65
1	7,492.59	15	12	3	80.00	726.11	1,852.38	-406.90	-462.09	1.78	7.14	499.51

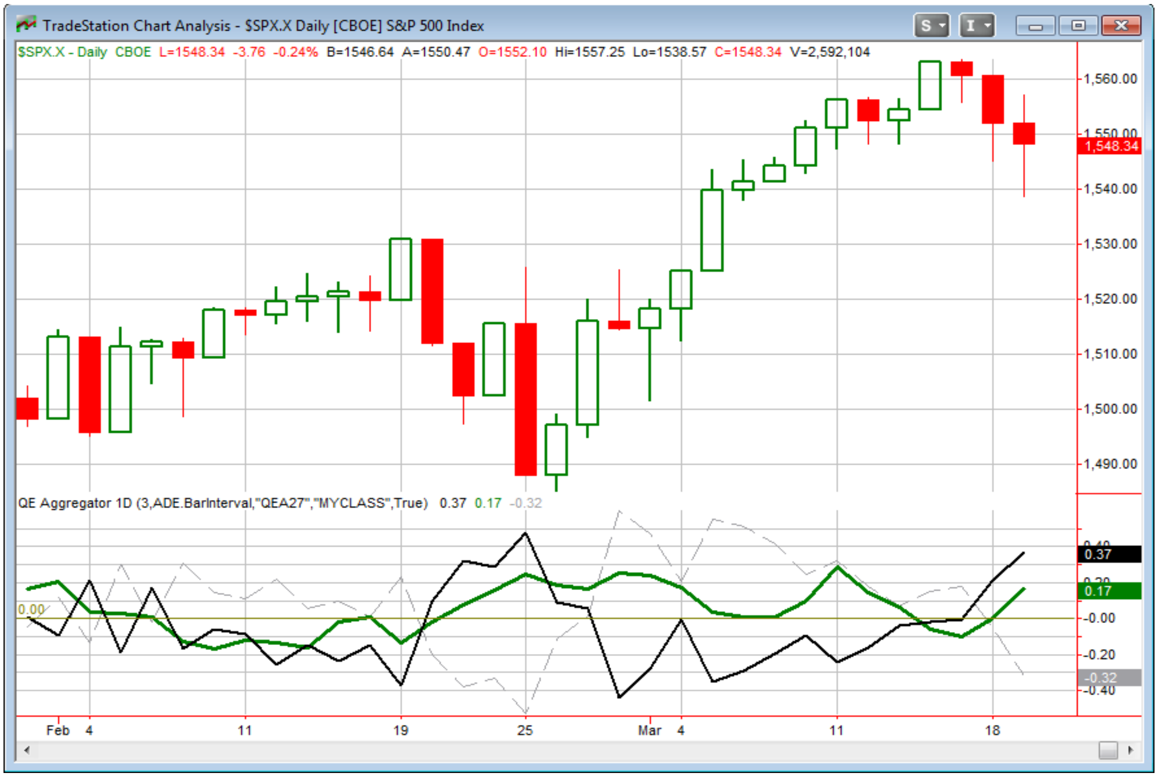
All of the 15 instances saw the market higher 3 days later. These are some very encouraging numbers for the bulls. Below is the list of instances.

SPX closes down for at least the 3rd day in a row, but above the 200ma. Tomorrow is a Fed Day. Buy on close. Sell 3 days later. $100k/trade. 1982 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/16/82	Buy	$135.41	[illegible]19%	$3,217.68
11/19/82	Sell	$137.02		$0.00
10/03/83	Buy	$165.80	2.70%	$3,069.27
10/06/83	Sell	$170.27		($615.06)
07/08/86	Buy	$241.58	0.26%	$780.57
07/11/86	Sell	$242.22		($792.96)
02/10/87	Buy	$275.07	1.68%	$2,116.29
02/13/87	Sell	$279.69		($431.97)
12/18/89	Buy	$343.68	0.32%	$391.50
12/21/89	Sell	$344.78		($1,177.40)
08/19/91	Buy	$376.46	3.95%	$4,110.15
08/22/91	Sell	$391.33		$0.00
11/04/91	Buy	$390.27	0.88%	$880.64
11/07/91	Sell	$393.71		($688.64)
07/06/93	Buy	$441.43	1.52%	$1,697.26
07/09/93	Sell	$448.13		($6.78)
09/20/93	Buy	$455.05	0.59%	$797.16
09/23/93	Sell	$457.74		($1,186.98)
11/14/95	Buy	$589.29	1.83%	$1,833.65
11/17/95	Sell	$600.07		($157.17)
12/18/95	Buy	$606.82	0.60%	$1,221.80
12/21/95	Sell	$610.49		($290.28)
12/16/96	Buy	$720.99	3.44%	$3,459.66
12/19/96	Sell	$745.77		($593.40)
03/30/98	Buy	$1,093.60	2.41%	$2,494.31
04/02/98	Sell	$1,120.01		($4.55)
05/18/98	Buy	$1,105.82	0.80%	$1,676.70
05/21/98	Sell	$1,114.64		$0.00
08/08/05	Buy	$1,223.13	1.20%	$1,584.36
08/11/05	Sell	$1,237.81		$0.00

I do have a concern here. There has only been 1 instance in nearly 15 years. And that took place in 2005. (The reason I've never shown this study before is that Quantifiable Edges did not start until 2008.) The setup has certainly been potent over a long period of time. But I am much less enthused about it than I would be if all these instances would have taken place over the last 10 years. Still, with an undefeated record I think it is worth consideration.

I have updated the Aggregator chart below.



The bullish studies tonight helped push the green Aggregator Line farther 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 jumped quite a bit higher. 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 remain long at the close.

Based on the current short-term studies, expectations are set to remain bullish on Wednesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1,559.10 on Wednesday. This is 0.7% above Tuesday's close. So it would take a close higher of at least this much to move the SPX from short-term oversold to short-term overbought.

I have some long exposure with XIV and GOOG, but my SPY index trade just missed getting filled thanks to the strong finish leaving SPY just barely in the top half of its range. With the outlook remaining bullish I'll try for another entry again tomorrow. I like the bullish studies that have emerged over the last few days. There is certainly increased worry among market participants. If the Fed hints at slowing down the liquidity pump at the meeting tomorrow, or if the situation in Cyprus continues to worsen, then this little pullback could certainly turn into something worse. But so far indications are that it is simply a pullback during a strong uptrend. It would seem to be a good time to have some long exposure (and also have capital on the sideline in case there is a downward acceleration). Details are in the Trade Ideas section near the bottom of the letter.

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 (filled)

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.

SPY – buy ¼ index position @ $154.61 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	$21.97	-0.23%		Aggressive VIX
GOOG(1/3)	3/19/2013	$807.79	$811.32	0.44%		bought @ limit