

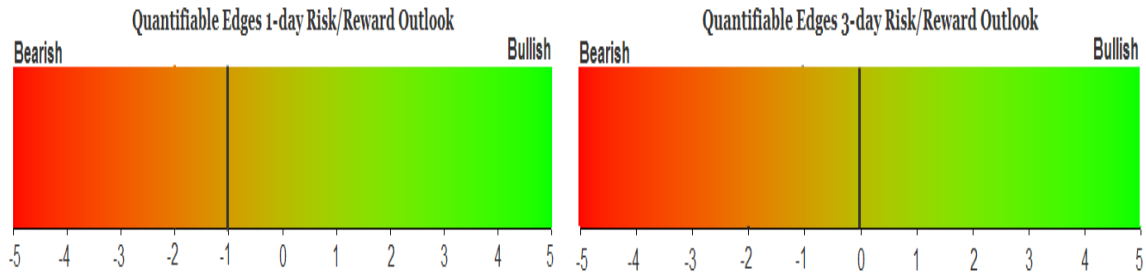
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 27, 2013

Volume 6 Issue 59

Market Overview



Signals Overview

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

Tonight's Research Points

- Unfilled gaps up that fail to make a higher high will often pull back over the next few days.
- Breakouts to a 50-day high that occur after a consolidation, like now, are more reliable.
- The fact that the 50-day SPX high occurred on declining volume is short-term bullish.

Short-term Outlook

The Bottom Line

Expectations turned to positive as the market moved to overbought, leaving the overall outlook neutral.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 22, 2013	Unfill gap up then gap dn	1-3 days	Bearish	
March 18, 2013	Unfill gap up then gap dn from 20-hi.	1-7 days	Bearish	-2.20%
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 20, 2013	3 down from 50 < 10ma > 10-low	1-4 days	Bullish	1.80%
March 19, 2013	2 unfilled gaps dn. 5-low. Close>200.	1-5 days	Bullish	1.80%
March 25, 2013	Inside day. Lower high. Close>open	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

The market gapped up Tuesday morning and never looked back. The SPX rose 0.8%, the Nasdaq closed up 0.5% and the Russell 2000 gained 0.4%. Breadth was squarely negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 32%. Total NYSE volume came in at the lowest level in over a month.

This was the 1st new high the SPX has made in over a week. The lower NYSE volume may sound concerning to some technicians, but when you're talking about the major index breakouts low volume is typically favorable. I discussed this last in the 7/30/12 subscriber letter. Today I will go through it again and update some of the stats.

Below are 2 studies. They look at SPX breakouts to new highs. The only difference between the two is that the 1st one requires a rise in volume and the 2nd one requires a decline in volume. Stats are updated for both of these.

SPX closes at a 50-day high after not doing so for at least 5 days. NYSE volume is higher than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	3,340.61	58	30	28	51.72	1,789.30	4,720.04	-1,797.80	-4,162.56	1.00	1.07	57.60
9	3,364.14	58	29	29	50.00	1,868.66	4,637.68	-1,752.65	-4,614.75	1.07	1.07	58.00
8	-565.05	60	33	27	55.00	1,607.10	4,058.40	-1,985.17	-5,227.95	0.81	0.99	-9.42
7	10,326.02	60	32	28	53.33	1,778.52	6,337.26	-1,663.81	-5,444.25	1.07	1.22	172.10
6	11,894.24	60	38	22	63.33	1,316.09	4,166.72	-1,732.59	-4,332.45	0.76	1.31	198.24
5	10,324.35	60	33	27	55.00	1,358.85	5,231.46	-1,278.43	-4,452.84	1.06	1.30	172.07
4	1,912.88	60	37	23	61.67	1,009.96	3,438.24	-1,541.55	-4,407.48	0.66	1.05	31.88
3	-1,150.86	60	34	26	56.67	937.64	3,830.40	-1,270.41	-5,137.56	0.74	0.97	-19.18
2	-8,091.88	60	29	31	48.33	668.67	1,998.39	-886.56	-3,134.16	0.75	0.71	-134.86
1	425.59	60	30	30	50.00	423.23	1,606.89	-409.04	-2,279.88	1.03	1.03	7.09

What we see here is that there is no edge apparent when the breakout is accompanied by an increase in volume. Now let's look at the study with decreasing volume.

SPX closes at a 50-day high after not doing so for at least 5 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	23,698.54	48	30	18	62.50	2,018.50	5,960.00	-2,047.58	-8,724.80	0.99	1.64	493.72
9	31,186.20	48	35	13	72.92	1,791.63	5,147.20	-2,424.69	-7,308.66	0.74	1.99	649.71
8	26,996.42	48	32	16	66.67	1,700.93	5,096.00	-1,714.59	-4,215.62	0.99	1.98	562.43
7	19,064.18	48	30	18	62.50	1,421.67	4,112.00	-1,310.33	-3,581.76	1.08	1.81	397.17
6	30,518.71	49	31	18	63.27	1,481.77	4,158.60	-856.45	-3,334.80	1.73	2.98	622.83
5	33,462.13	49	32	17	65.31	1,509.00	3,687.06	-872.12	-3,070.40	1.73	3.26	682.90
4	24,369.02	49	33	16	67.35	1,177.15	3,349.50	-904.81	-2,913.85	1.30	2.68	497.33
3	25,143.83	49	33	16	67.35	1,177.94	3,803.64	-858.02	-2,125.44	1.37	2.83	513.14
2	12,386.74	49	34	15	69.39	758.81	2,212.98	-894.18	-2,752.74	0.85	1.92	252.79
1	5,123.41	49	32	17	65.31	433.44	1,415.70	-514.51	-1,921.32	0.84	1.59	104.56

44 of 49 instances (90%) closed above the entry price at some point in the next week.

These stats are substantially better and suggest a decent upside edge over the next few days. Below is a profit curve assuming a 5-day holding period.



The strong steady upslope add additional confirmation of the edge.

The requirement that the market has not closed at a new high for 5 days was included to show that this is a fresh breakout and not a market that is already extended upwards and has been making new highs for multiple days. To see the effect of this filter I ran a few tests in the 7/30/12 Letter that demanded different periods without new highs. *These are not updated.* This first one looks at a 1-day holding period.

SPX closes at a 50-day high after not doing so for at least X days. NYSE volume is lower than yesterday. Buy SPX on close. Sell 1 day later. \$100k/trade. 1996 - 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	2,193.11	29	18	11	62.07	406.87	1,384.02	-466.41	-1,921.32	0.87	1.43	75.62
9	2,193.11	29	18	11	62.07	406.87	1,384.02	-466.41	-1,921.32	0.87	1.43	75.62
8	2,273.21	30	19	11	63.33	389.67	1,384.02	-466.41	-1,921.32	0.84	1.44	75.77
7	6,469.99	36	25	11	69.44	464.02	1,415.70	-466.41	-1,921.32	0.99	2.26	179.72
6	7,773.25	39	28	11	71.79	460.85	1,415.70	-466.41	-1,921.32	0.99	2.52	199.31
5	5,171.65	48	32	16	66.67	433.44	1,415.70	-543.65	-1,921.32	0.80	1.59	107.74
4	5,026.88	57	36	21	63.16	409.26	1,415.70	-462.21	-1,921.32	0.89	1.52	88.19
3	5,975.93	64	39	25	60.94	465.77	2,204.80	-487.57	-1,921.32	0.96	1.49	93.37
2	-89.78	78	45	33	57.69	455.33	2,204.80	-623.63	-2,378.78	0.73	1.00	-1.15
1	-2,625.15	111	60	51	54.05	467.01	3,358.36	-600.90	-2,378.78	0.78	0.91	-23.65
0	-12,828.90	253	124	129	49.01	473.44	3,358.36	-554.54	-2,447.06	0.85	0.82	-50.71

Here you see that fresh breakouts tend to do better than extended conditions. The “0-2 days” rows show slight negative expectations. Stats once you get out about 5 days look pretty strong and remain so as you go farther out.

I also ran this same test with a 3-day holding period. (Not updated.)

SPX closes at a 50-day high after not doing so for at least X days. NYSE volume is lower than yesterday. Buy SPX on close. Sell 3 days later. \$100k/trade. 1996 - 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	20,001.69	29	21	8	72.41	1,300.66	2,641.80	-914.01	-1,802.37	1.42	3.74	689.71
9	20,001.69	29	21	8	72.41	1,300.66	2,641.80	-914.01	-1,802.37	1.42	3.74	689.71
8	20,694.11	30	22	8	73.33	1,273.01	2,641.80	-914.01	-1,802.37	1.39	3.83	689.80
7	28,117.92	36	27	9	75.00	1,343.03	3,803.64	-904.88	-1,802.37	1.48	4.45	781.05
6	27,644.72	39	28	11	71.79	1,308.12	3,803.64	-816.59	-1,802.37	1.60	4.08	708.84
5	25,910.63	48	33	15	68.75	1,177.94	3,803.64	-864.10	-2,125.44	1.36	3.00	539.80
4	28,637.28	57	39	18	68.42	1,150.09	3,803.64	-900.90	-2,125.44	1.28	2.77	502.41
3	25,936.18	64	43	21	67.19	1,140.08	3,803.64	-1,099.40	-2,690.56	1.04	2.12	405.25
2	20,773.62	78	48	30	61.54	1,139.58	3,803.64	-1,130.87	-3,887.84	1.01	1.61	266.33
1	14,931.38	107	61	46	57.01	1,133.35	4,747.13	-1,178.33	-4,848.17	0.96	1.28	139.55
0	7,553.42	183	98	85	53.55	1,006.97	4,747.13	-1,072.11	-4,848.17	0.94	1.08	41.28

Results here suggest a similar conclusion. You are better off buying breakouts that haven't made a new high for at least a week or so than you are buying any random new high. Anything beyond a week shows fairly consistent results.

Lastly is that 7/30/12 subscriber letter I considered the fact that the breakout was not accompanied by a breakout in either the NASDAQ or the Russell 2000. I then took the low-volume breakout study above and filtered to see only those times, like now, where the SPX broke out without confirmation from those other indices.

SPX closes at a 50-day high after not doing so for at least 5 days. NYSE volume is lower than yesterday. Both the Nasdaq and the Russell 2000 failed to confirm and have still gone >= 5 days since a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	4,635.95	17	10	7	58.82	1,712.85	5,960.00	-1,784.65	-4,090.24	0.96	1.37	272.70
9	7,171.07	17	12	5	70.59	1,502.49	5,147.20	-2,171.76	-4,101.68	0.69	1.66	421.83
8	10,186.50	17	12	5	70.59	1,696.93	5,096.00	-2,035.33	-3,718.00	0.83	2.00	599.21
7	5,282.17	17	9	8	52.94	1,449.03	4,112.00	-969.89	-3,202.32	1.49	1.68	310.72
6	9,064.62	17	11	6	64.71	1,181.53	3,536.00	-655.36	-2,060.40	1.80	3.31	533.21
5	8,937.30	17	11	6	64.71	1,306.34	2,755.20	-905.41	-3,070.40	1.44	2.65	525.72
4	6,468.01	17	11	6	64.71	1,095.66	1,979.34	-930.71	-2,913.85	1.18	2.16	380.47
3	7,055.28	17	11	6	64.71	1,073.80	2,270.40	-792.75	-1,414.00	1.35	2.48	415.02
2	2,865.10	17	9	8	52.94	967.63	2,212.98	-730.44	-1,350.00	1.32	1.49	168.54
1	-2,002.76	17	7	10	41.18	527.50	950.40	-569.53	-1,721.70	0.93	0.65	-117.81

Day 1 was a bit weaker, but looking out beyond that, results were very comparable to the non-filtered sample set. So I'm not worried about this non-confirmation.

There were a few studies that appeared in the Quantifinder tonight that looked at low-volume days that made new short or intermediate-term highs and suggested bearish implications. I wanted to see whether this held true with a fresh breakout like the current one. So I took the low volume breakout study from above and changed the volume requirement to a 10-day volume low rather than just requiring lower volume than the day before. Those results are below.

SPX closes at a 50-day high after not doing so for at least 5 days. NYSE volume is the lowest in at least 10 days. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	14,149.93	8	5	3	62.50	3,257.41	5,960.00	-712.37	-850.08	4.57	7.62	1,768.74
9	14,123.99	8	7	1	87.50	2,206.46	5,147.20	-1,321.20	-1,321.20	1.67	11.69	1,765.50
8	11,353.93	8	7	1	87.50	1,862.29	5,096.00	-1,682.10	-1,682.10	1.11	7.75	1,419.24
7	8,593.45	8	7	1	87.50	1,322.52	4,112.00	-664.20	-664.20	1.99	13.94	1,074.18
6	10,993.23	8	6	2	75.00	1,945.27	3,536.00	-339.19	-418.50	5.74	17.21	1,374.15
5	10,597.78	8	7	1	87.50	1,651.67	2,755.20	-963.90	-963.90	1.71	11.99	1,324.72
4	7,148.55	8	6	2	75.00	1,336.34	1,860.80	-434.74	-744.39	3.07	9.22	893.57
3	9,091.36	8	6	2	75.00	1,740.23	2,353.52	-675.00	-1,190.70	2.58	7.73	1,136.42
2	7,213.68	8	7	1	87.50	1,223.38	1,888.00	-1,350.00	-1,350.00	0.91	6.34	901.71
1	-296.35	8	5	3	62.50	724.53	1,384.02	-1,306.34	-1,921.32	0.55	0.92	-37.04

Obviously the number of instances here makes the study less reliable. But with results this strong it appears that the very low volume on Tuesday should not be a concern. Low volume breakouts often have low volume because people don't believe it at first. When traders begin to become convinced the breakout is real then the move up can gain steam .

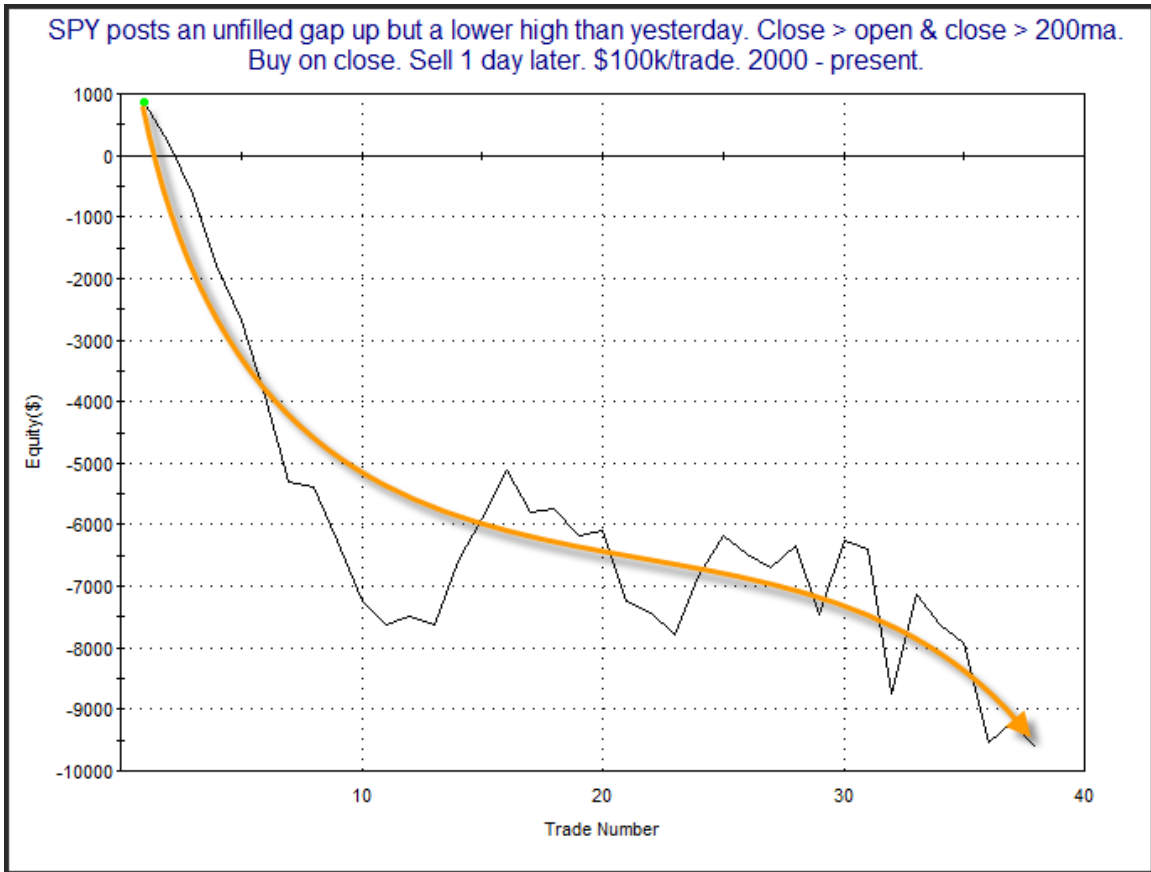
There was one bearish study that did seem worth some attention. It was one we last saw just 2 short days ago. It looks at days like Tuesday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results of that study below.

SPY posts an unfilled gap up but a lower high than yesterday. Close > open & close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-8,112.83	35	15	20	42.86	1,392.59	2,556.33	-1,450.09	-3,477.70	0.96	0.72	-231.80
4	-9,806.19	35	16	19	45.71	1,161.94	1,964.02	-1,494.59	-7,544.70	0.78	0.65	-280.18
3	-10,618.24	36	16	20	44.44	871.86	2,311.02	-1,228.40	-6,150.30	0.71	0.57	-294.95
2	-9,504.82	38	14	24	36.84	872.58	1,859.92	-905.04	-2,929.90	0.96	0.56	-250.13
1	-9,618.45	38	13	25	34.21	676.34	1,600.62	-736.43	-2,348.90	0.92	0.48	-253.12

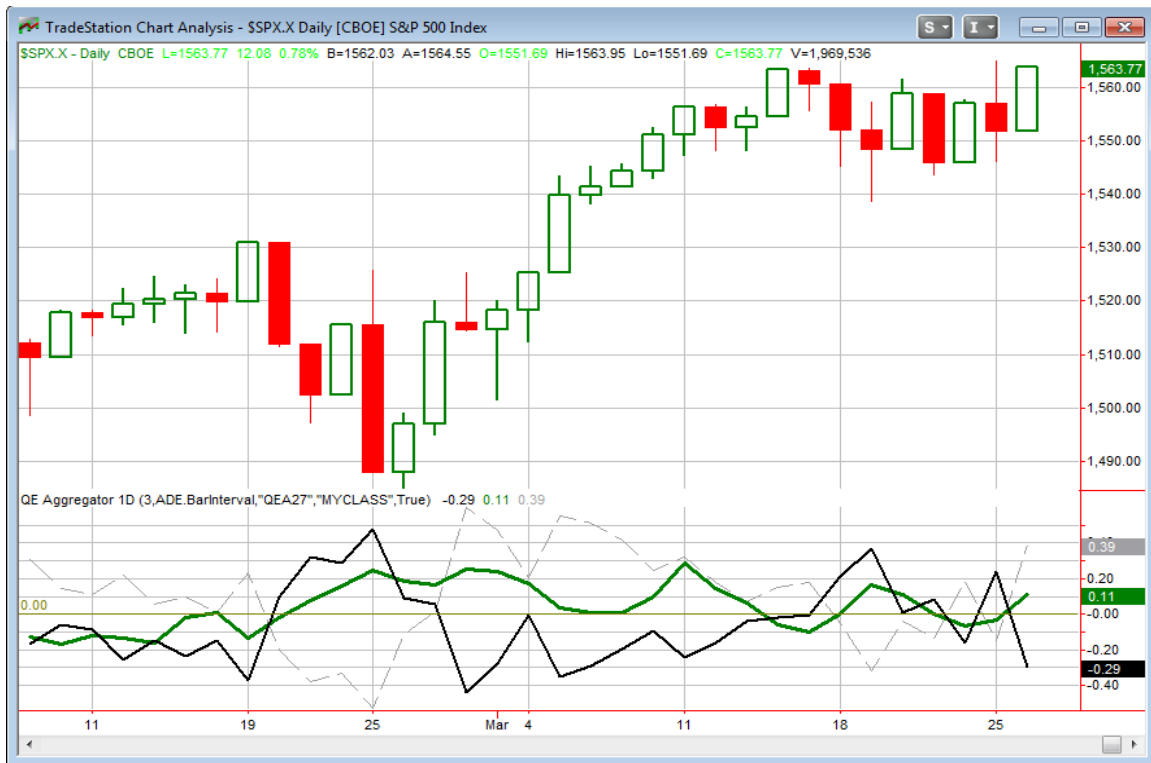
33 of 38 instances (87%) closed below the entry price at some point in the next week.

Implications here appear somewhat bearish, with most of the damage occurring on day 1. Below is a profit curve that shows how the downside edge has played out over time.



This is not an ideal profit curve but it still appears to suggest a downside edge. I felt it was worth giving this study consideration once again.

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



With tonight's mix of studies the green Aggregator Line jumped above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line fell below 0. The negative Differential Line reading means the SPX is now overbought versus recent expectations. So expectations are bullish but the SPX is already overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator system to remain flat at the close.

Expectations are slated to remain bullish on Wednesday with the current Active List studies. Of course that could easily change if new bearish evidence emerges. The Differential Pivot will be 1,557.54 on Wednesday. This is 0.4% below Tuesday's close. So SPX would need to close down at least this much to move from overbought to oversold versus expectations.

SPX is less than 2 points from an all-time closing high. And the breakout to the new rally high today could generate enough momentum to reach the all-time high and beyond. But with the market overbought I'm not inclined to take on new positions right now. Expectations are for more upside, but they aren't overly strong. I will wait to see if we get a pullback in the next day or so.

It is also notable that while 3-day expectations are bullish, the 1-day expectations are bearish. This is reflected in the negative risk/reward reading shown at the top of the

Letter. If things play out tomorrow with a pullback of greater than 0.4%, then that could set up for a long entry going into the bullish Holy Thursday and the bullish turn of the month.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/25 – bullish

The intermediate-term outlook was last updated in the 3/25 letter. Link below:

[2013-03-25 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BRF	3/22/2013	\$40.38	\$39.87	-1.26%		system 100524

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