

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 4, 2013

Volume 6 Issue 64

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Strong drops from 50-day highs have consistently been followed by bounces.

### *Short-term Outlook*

#### *The Bottom Line*

A strong drop combined with new bullish short-term evidence suggest an upside edge. I intend to start scaling in to some long positions.

*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 4, 2013	Big drop from 50-day high	1-4 days	Bullish	1.20%
April 1, 2013	Early April strong	1-4 days	Bullish	2.00%
<b>Active - Long Term</b>				
January 14, 2013	Breadth Divergence (from Tops Study)	int term	<b>Bearish</b>	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
March 27, 2013	Low volume breakout	1-5 days	Bullish	
<b>April 2, 2013</b>	<b>Broad but weak drop from 50-day</b>	<b>1-2 days</b>	<b>Bearish</b>	<b>-1.60%</b>

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

***The Evidence***

The market got knocked down a bit on Wednesday with declines coming across the board. The SPX and Nasdaq both fell 1.1% while the Russell 2000 suffered a 1.7% loss. Breadth was strongly negative as the NYSE Up Issues % was 21% and the Up Volume % came in at 15%. Total NYSE volume rose to the highest level in a few weeks.

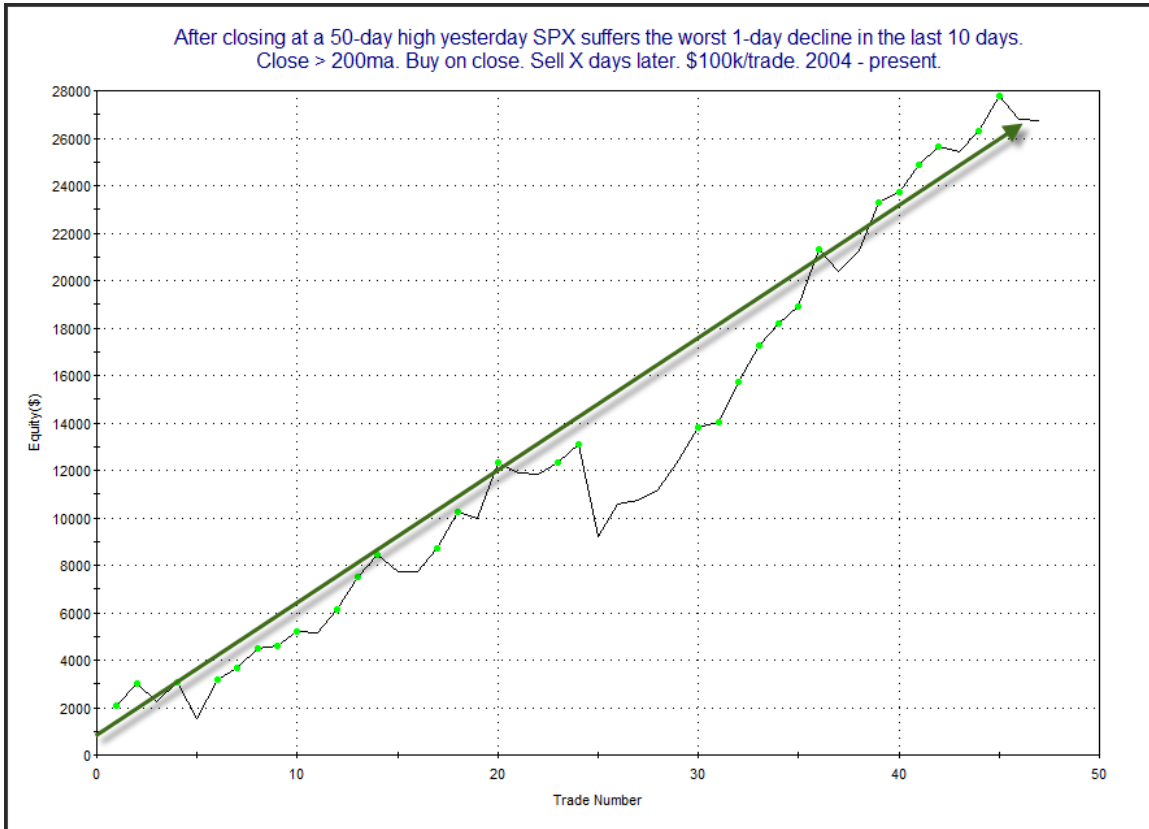
A few studies appeared in the Quantifinder that examined large drops from short or intermediate-term highs. The general message was the same – there appeared to be a moderate upside edge. The study below was last seen in the 7/23/12 letter. It provided ample number of instances and also represented the current setup fairly. I did slice and dice it a few different ways. There were other studies that appeared that required either strong volume, weak breadth, a drop of at least 1%, or some combination of those things. Adding these filters did not seem to change results substantially, so I left the study as-is. Below are the updated results.

After closing at a 50-day high yesterday SPX suffers the worst 1-day decline in the last 10 days.  
 Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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	26,124.37	36	29	7	80.56	1,466.07	4,119.18	-2,341.68	-4,685.59	0.63	2.59	725.68
9	21,592.57	36	25	11	69.44	1,473.89	3,551.34	-1,386.80	-5,470.08	1.06	2.42	599.79
8	21,169.10	39	29	10	74.36	1,258.03	3,147.72	-1,531.38	-4,532.00	0.82	2.38	542.80
7	21,327.78	41	27	14	65.85	1,376.19	3,761.94	-1,130.68	-3,390.64	1.22	2.35	520.19
6	20,661.34	42	32	10	76.19	1,258.76	3,331.38	-1,961.90	-3,859.68	0.64	2.05	491.94
5	21,179.86	44	30	14	68.18	1,320.94	2,693.34	-1,317.74	-3,454.00	1.00	2.15	481.36
4	26,750.17	47	34	13	72.34	1,076.47	2,399.28	-757.68	-3,895.76	1.42	3.72	569.15
3	16,248.97	48	33	15	68.75	823.94	2,159.82	-729.41	-1,808.21	1.13	2.49	338.52
2	9,637.54	49	29	20	59.18	760.07	2,437.50	-620.23	-1,777.55	1.23	1.78	196.68
1	3,057.84	49	28	21	57.14	510.06	1,249.60	-534.46	-1,354.59	0.95	1.27	62.40

45 of 49 instances (92%) closed above the entry price at some point in the next week.

Over the last 9 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



The steady upslope seems to confirm the bullish inclination. I've included this study on the active list.

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



The “Big Drop from a 50-Day High” study tonight helped the green Aggregator Line move further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the big market drop caused the black Differential Line to spike way up and close strongly above 0. The positive Differential Line 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 long.

Based on the current studies, expectations are slated to remain bullish on Thursday. Of course that could change if strong bearish evidence emerges. The Differential Pivot will be 1,569.64 on Thursday. This is 1.0% above Wednesday’s close. That is a bit of a stretch for a 1-day bounce back. A more likely scenario is that we see a multi-day bounce or consolidation to work off the oversold condition.

I like the long side here. But I do not want to overreact to just 1 down day. So I will look to scale in to some positions. While the odds suggest a bounce, we could certainly get a bit of a pullback here. It has been a while since we've had one, and I want to have plenty of cash in reserve if the selling continues for a few more days. Still, there appears to be an upside edge, so I'll start getting long in hopes of taking advantage of it. Details are in the trade ideas section below.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 4/1 – bullish***

The intermediate-term outlook was last updated in the 4/1 letter. Link below:

[2013-04-01 QE Subscriber Letter.pdf](#)

**Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

***Open Catapult Triggers***

*New*

*CAT – 1/3 @ \$84.12 (buy at limit)*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 1(CAT)***

### **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 @ \$155.23 limit.** Based in the short-term outlook above, I will start scaling into an index position.

**XIV – buy ½ position @ \$23.00 LIMIT ON CLOSE.** I like XIV for all the same reasons I did the other night – 1) The futures term structure is favorable, 2) The Aggregator suggests a directional edge, and 3) The VIX is short-term extended upwards. For further elaboration check out my comments in the 4/2/13 Letter:

[2013-04-02 QE Subscriber Letter.pdf](#)

**CAT – buy 1/3 Catapult position @ \$84.12 LIMIT.** This is based on the Catapult system. Those that are new to Catapults should be aware that they are volatile and I always scale in using up to 3 lots. Detail on the Catapults can be found using the [Catapult & CBI Presentation Link](#)

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BRF	3/22/2013	\$40.38	\$39.62	-1.88%		sell @ \$40.06 limit on CLS

*BRF will trigger an exit on a close  $\geq$  \$40.06.*

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