

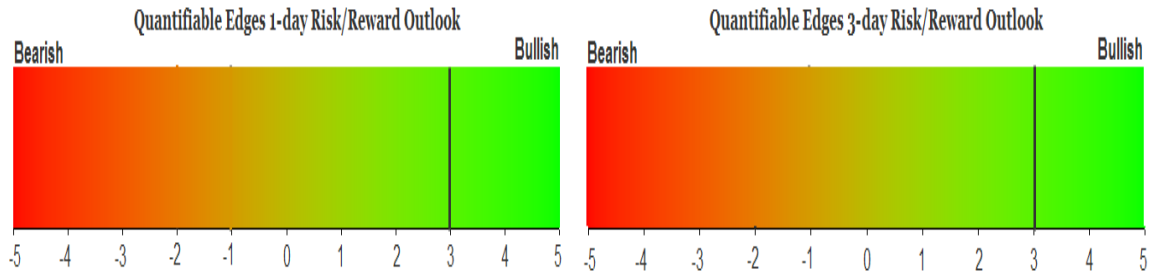
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 17, 2013

Volume 6 Issue 73

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 size of the bounce on Tuesday was the “right” size to suggest a continuation.
- The SPY pattern suggests we could first see a day of weakness.

Short-term Outlook

The Bottom Line

The bounce looks good so far. I am partially long and looking to hold for now.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 17, 2013	Unfill gap up with lower high	1 day	Bearish	
April 17, 2013	Sweet spot bounce	1-5 days	Bullish	2.90%
April 16, 2013	VIX > 25% above 10ma	1-2 days	Bullish	1.90%
April 16, 2013	2% drop. 10-low > 200. Close low in rng	1-3 days	Bullish	1.90%
April 15, 2013	April Opex / Tax Day bullsih	1-3 days	Bullish	1.90%
April 12, 2013	%b > 115 last 2 days	1-5 days	Bullish	1.80%
Active - Long Term				
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 market had a nice bounce-back session on Tuesday, making up for a decent portion of Monday's losses. The SPX rose 1.4%, the Nasdaq gained 1.5%, and the Russell 2000 rallied 1.8%. Breadth was strongly positive as the NYSE Up Issues % was 81% and the Up Volume % came in at 87%. Total NYSE volume declined from Monday's high level.

As often happens on Tuesdays, we saw a nice turnaround. And the reversal triggered a study suggesting Tuesday's bounce was the "right size" for a continuation higher. After a sizable drop, if the market puts in a very weak bounce that makes up for less than ¼ of the previous day's large loss, then that is often a bad sign. Stronger initial bounces like we saw Tuesday tend to fare much better. In the 2/27/13 Subscriber Letter I broke down the following days' performance based on the relative size of the day one bounce. Let's review those findings.

This first table below shows results for very weak bounces after strong 1-day drops. It was last updated in the 6/25/12 letter.

SPX falls at least 1.75% yesterday. Today it rises but it makes up less than 25% of yesterday's loss. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	-8,503.52	26	11	15	42.31	2,883.27	6,309.90	-2,681.30	-5,842.90	1.08	0.79	-327.06
9	-10,512.49	28	13	15	46.43	2,251.84	4,807.00	-2,652.43	-4,452.66	0.85	0.74	-375.45
8	-8,925.66	29	13	16	44.83	2,184.67	4,664.22	-2,332.90	-5,166.06	0.94	0.76	-307.78
7	-7,491.63	29	13	16	44.83	2,338.91	5,284.85	-2,368.59	-6,002.13	0.99	0.80	-258.33
6	-15,303.36	29	12	17	41.38	1,767.03	4,762.35	-2,147.51	-5,473.17	0.82	0.58	-527.70
5	-17,542.01	29	11	18	37.93	1,619.47	4,769.00	-1,964.23	-5,506.23	0.82	0.50	-604.90
4	-21,526.70	29	10	19	34.48	1,650.54	2,587.95	-2,001.69	-4,284.75	0.82	0.43	-742.30
3	-25,404.78	29	8	21	27.59	1,561.43	3,939.79	-1,804.58	-5,685.45	0.87	0.33	-876.03
2	-18,801.39	30	13	17	43.33	662.39	2,794.56	-1,612.50	-3,844.10	0.41	0.31	-626.71
1	-13,456.63	30	11	19	36.67	587.50	1,669.20	-1,048.38	-2,302.95	0.56	0.32	-448.55

As you can see these weak bounces don't often get very far before a new leg down ensues.

This next table examines very strong bounces after big drops. Results here have not changed since the 6/25/12 publication.

SPX falls at least 1.75% yesterday. Today it makes up more than 75% of yesterday's loss. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	10,065.10	11	6	5	54.55	2,695.45	-1,221.52	2.21	2.65	915.01
9	18,347.76	12	7	5	58.33	3,222.39	-841.79	3.83	5.36	1,528.98
8	13,458.35	12	8	4	66.67	2,717.76	-2,070.94	1.31	2.62	1,121.53
7	20,267.80	13	7	6	53.85	3,881.73	-1,150.72	3.37	3.94	1,559.06
6	21,024.09	13	9	4	69.23	3,062.40	-1,634.39	1.87	4.22	1,617.24
5	20,983.30	13	9	4	69.23	2,686.85	-799.58	3.36	7.56	1,614.10
4	15,131.28	13	8	5	61.54	2,696.96	-1,288.88	2.09	3.35	1,163.94
3	11,326.45	13	7	6	53.85	2,398.77	-910.83	2.63	3.07	871.27
2	8,507.74	13	8	5	61.54	1,872.31	-1,294.15	1.45	2.31	654.44
1	993.58	13	6	7	46.15	1,473.27	-1,120.87	1.31	1.13	76.43

12 of 13 instances closed above the entry price at some point in the next week. All of them did so within 6 days.

Instances are a bit low here but the results are a sharp contrast to the results from the "weak-bounce" test.

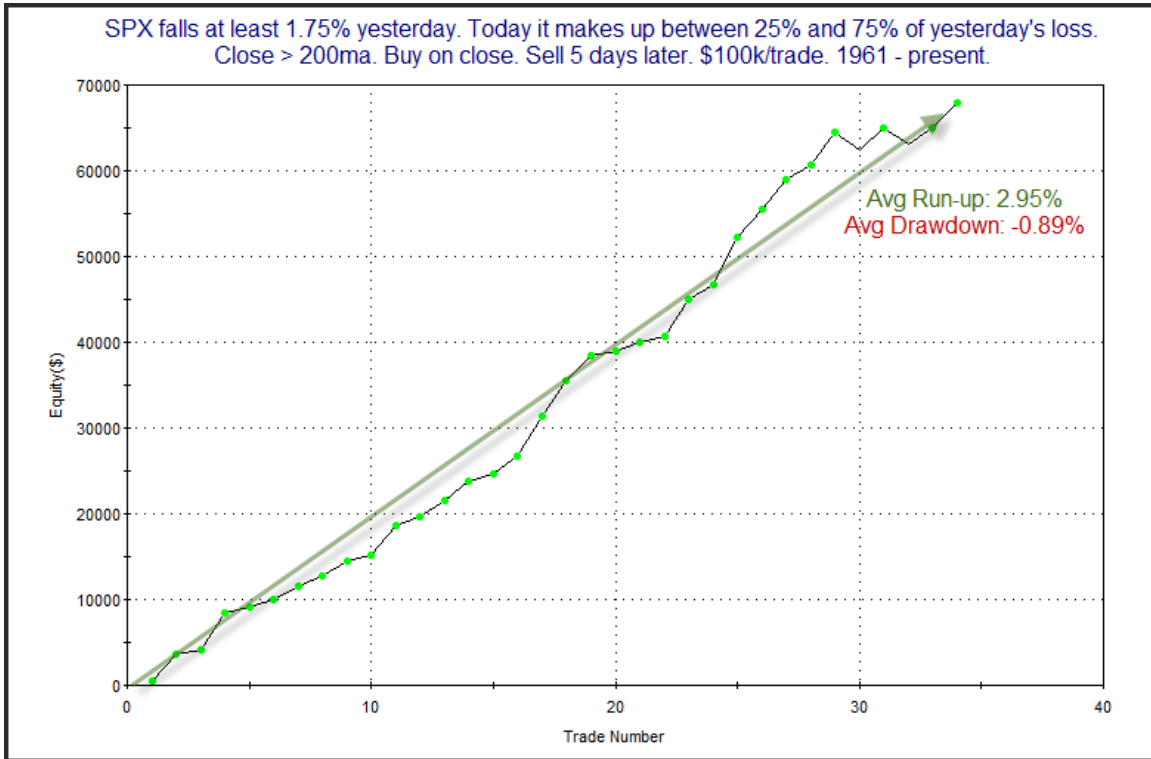
But the real sweet spot for the day 1 bounce is right between these two. That is where we fell Tuesday and I have updated that study below. Though rather than just go back to 1988 as those others did, I went all the way back to 1961.

SPX falls at least 1.75% yesterday. Today it makes up between 25% and 75% of yesterday's loss. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1961 - 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	67,874.17	34	32	2	94.12	2,246.72	5,396.71	-2,010.49	-2,115.67	1.12	17.88	1,996.30
4	54,272.65	35	30	5	85.71	1,975.42	4,989.22	-998.01	-2,322.56	1.98	11.88	1,550.65
3	49,917.22	35	32	3	91.43	1,704.25	3,876.62	-1,539.63	-3,602.40	1.11	11.81	1,426.21
2	34,190.47	35	24	11	68.57	1,817.55	4,001.40	-857.34	-2,136.90	2.12	4.63	976.87
1	27,575.87	35	26	9	74.29	1,220.52	2,937.71	-461.97	-1,576.20	2.64	7.63	787.88

Every instance closed above the entry price at some point in the next week except for 3/11/11 (which was immediately met with a Japanese earthquake followed by a tsunami, and then a nuclear disaster, so I'll forgive that one.

These results are very lopsided. Implications over the next week appear to be strongly bullish. Below is the 5-day equity curve.



The consistent upslope and strong risk/reward solidify the bearish case. Tuesday's reversal and bounce looks based on this study.

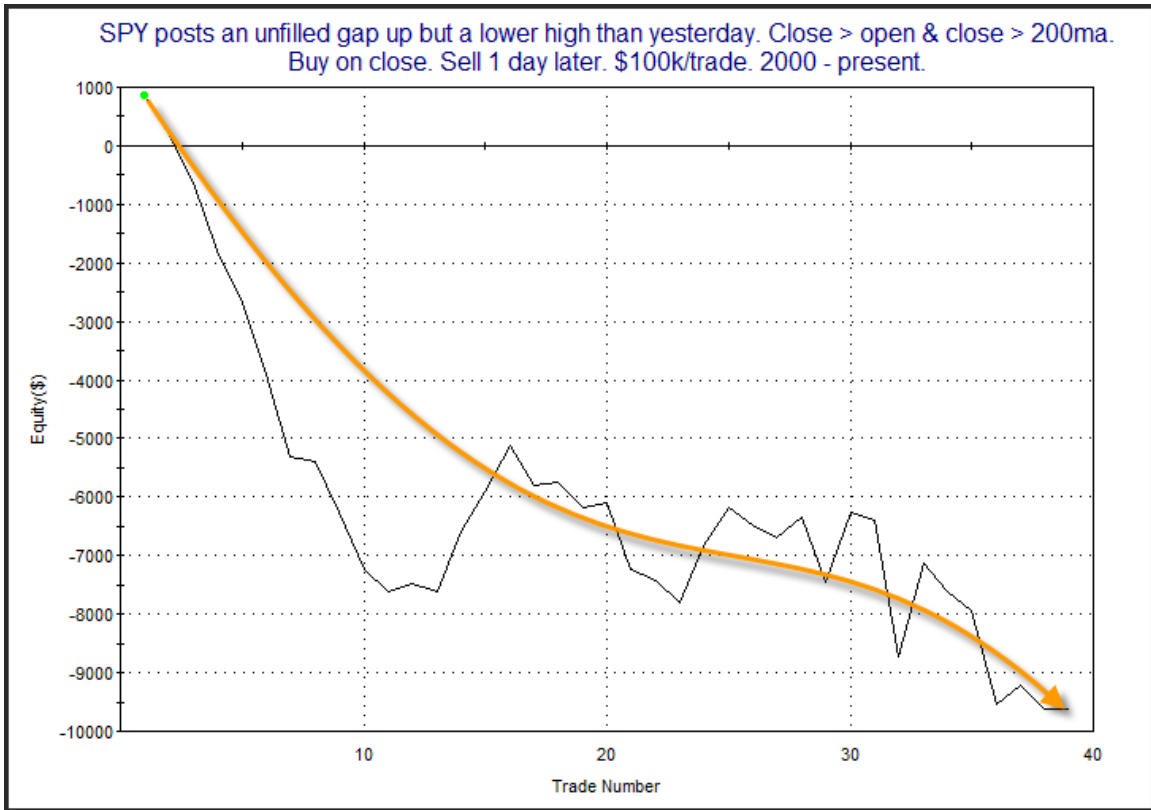
There was one bearish study that did seem worth some attention. It was one we last saw just 2 short days ago. It looks at days like Tuesday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results of that study below.

**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	-7,823.93	36	16	20	44.44	1,323.61	2,556.33	-1,450.09	-3,477.70	0.91	0.73	-217.33
4	-9,119.25	36	17	19	47.22	1,134.00	1,964.02	-1,494.59	-7,544.70	0.76	0.68	-253.31
3	-10,239.46	37	17	20	45.95	842.85	2,311.02	-1,228.40	-6,150.30	0.69	0.58	-276.74
2	-8,850.94	39	15	24	38.46	858.00	1,859.92	-905.04	-2,929.90	0.95	0.59	-226.95
1	-9,618.45	39	13	25	33.33	676.34	1,600.62	-736.43	-2,348.90	0.92	0.48	-246.63

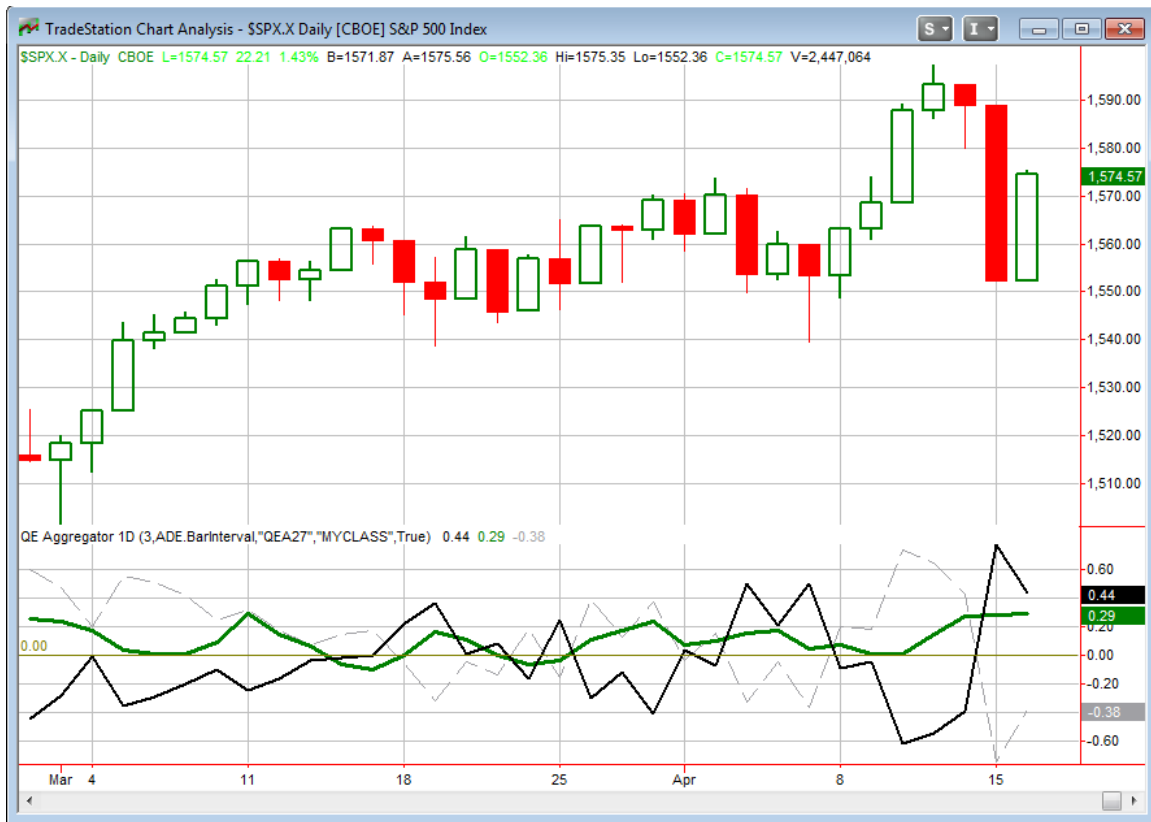
34 of 39 instances (87%) closed below the entry price at some point in the next week.

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 did include it on the active list again tonight.

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



With the new evidence discussed tonight the green Aggregator Line remained 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 remained well 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 stay long at the close.

Based on the current studies, expectations are slated to remain positive on Wednesday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 1,594.91 on Wednesday. This is a 1.3% above Tuesday's close. That is a bit of a tall order for one day. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

I have some long exposure and intend to let it ride here a little longer. The studies look good and there seems to be a decent chance that the bounce should have more to go. I do not intend to add more exposure at this time, but instead will simply manage my current position.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/15 – somewhat bullish

The intermediate-term outlook was last updated in the 4/15 letter. Link below:

[2013-04-15 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
SPY(1/4)	4/15/2013	\$155.12	\$157.41	1.48%		Aggregator

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