

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 18, 2013

Volume 6 Issue 74

Market Overview



Signals Overview

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

Tonight's Research Points

- An unfilled gap down right after an unfilled gap up can suggest short-term problems for the bulls, especially under circumstances like the last few days.

Short-term Outlook

The Bottom Line

Bearish evidence tonight has turned the overall outlook more neutral. But with the market so oversold and evidence likely to lean bullish starting tomorrow, I am looking to maintain my small long position.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 18, 2013	Breadth Divergence (from Tops Study)	int term	Bearish	
April 17, 2013	Sweet spot bounce	1-5 days	Bullish	2.90%
April 16, 2013	2% drop. 10-low > 200. Close low in rng	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	
Dropped Tonight				
April 17, 2013	Unfill gap up with lower high	1 day	Bearish	
April 15, 2013	April Opex / Tax Day bullsih	1-3 days	Bullish	1.90%
April 16, 2013	VIX > 25% above 10ma	1-2 days	Bullish	1.90%

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

The Evidence

The market took another drubbing on Wednesday as it has been a violent back and forth week so far. The SPX lost 1.4%, while the Nasdaq and the Russell 2000 each lost 1.8%. Breadth was strongly negative as the NYSE Up Issues % was 22% and the Up Volume % came in at 9%. Total NYSE volume rose from Tuesday's level.

Some new evidence tonight is making the short-term picture a bit murky. The study below was last seen in the 11/8/12 letter. It examines 2-day moves like SPY has just encountered.

After leaving an unfilled gap up yesterday, SPY leaves an unfilled gap down. It closes < the close 2 days ago 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	-2,544.83	32	14	18	43.75	1,480.83	3,949.59	-1,293.13	-3,791.20	1.15	0.89	-79.53
4	-2,200.29	33	14	19	42.42	1,534.46	3,637.58	-1,246.46	-4,926.08	1.23	0.91	-66.68
3	-18,724.82	35	13	22	37.14	1,033.92	2,463.47	-1,462.08	-5,321.00	0.71	0.42	-534.99
2	-15,156.77	35	14	20	40.00	818.44	1,754.40	-1,330.75	-3,893.00	0.62	0.43	-433.05
1	-252.50	35	17	17	48.57	530.56	1,325.15	-545.41	-1,564.50	0.97	0.97	-7.21

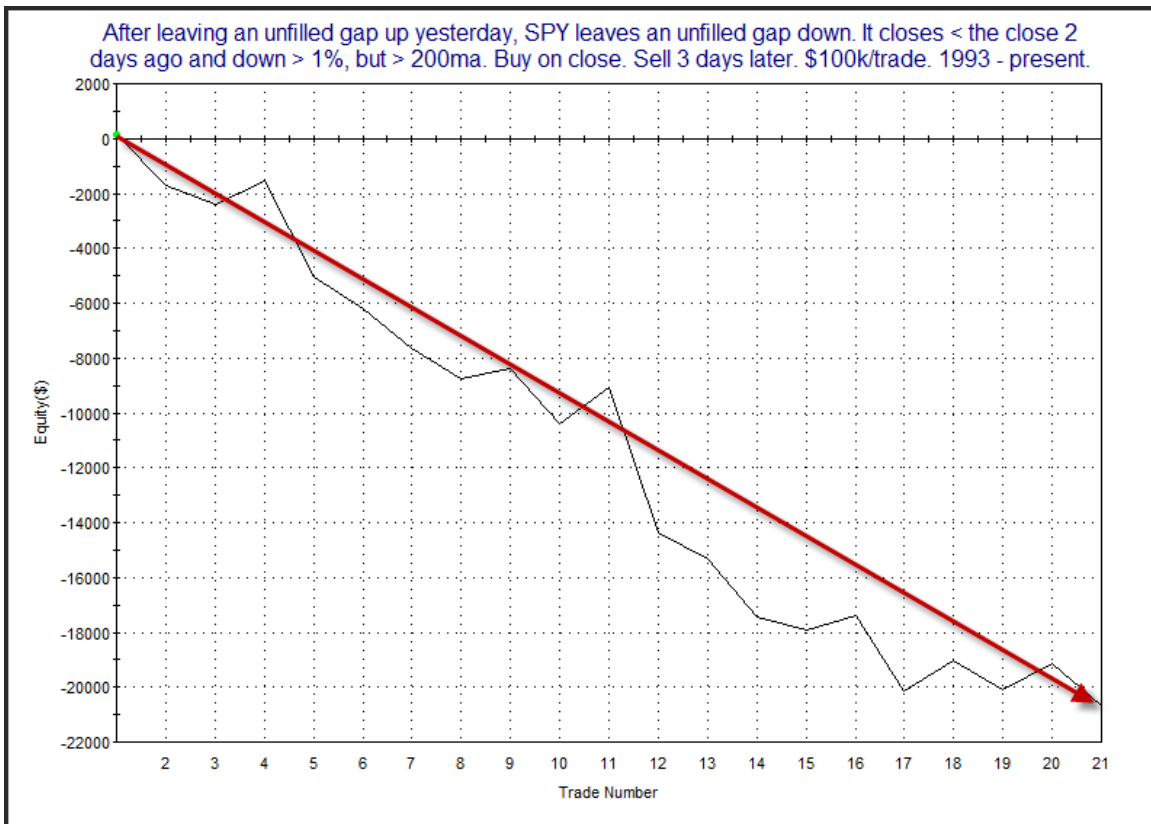
The suggestion here is that more downside appears likely over the next few days. But there was also a Quantifinder study that examined drops of over 1% with weak breadth, suggesting they might lead to an upside edge. Of course this 2nd study was very broad, so I decided to mix the two. Whether I included the breadth filter or not mattered very little,

so I went with the slightly broader results that looked at the above pattern, but also required a close down of > 1%.

After leaving an unfilled gap up yesterday, SPY leaves an unfilled gap down. It closes < the close 2 days ago and down > 1%, 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	-6,582.84	20	8	12	40.00	1,694.07	3,949.59	-1,677.95	-3,791.20	1.01	0.67	-329.14
4	-7,230.60	20	7	13	35.00	1,862.71	3,637.58	-1,559.20	-4,926.08	1.19	0.64	-361.53
3	-20,681.52	21	7	14	33.33	751.23	1,312.40	-1,852.86	-5,321.00	0.41	0.20	-984.83
2	-10,002.56	21	8	12	38.10	798.11	1,407.85	-1,365.62	-3,893.00	0.58	0.39	-476.31
1	-686.42	21	10	11	47.62	474.47	1,291.50	-493.74	-1,224.64	0.96	0.87	-32.69

The numbers here look especially bearish over the next 3 days. The added filter actually made the results more bearish, rather than less. Below is a profit curve.



The strong downslope appears to confirm the bearish edge.

Of course this flies in the face of last night's study that strongly suggested an upside edge over the next few days. So let's see how the Aggregator sorts them out.

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



With tonight's study factored in the green Aggregator Line dropped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is now further above 0 than it has been since November. The positive Differential Line reading means the SPX is extremely oversold versus recent expectations. So expectations are slightly bearish but the SPX is very strongly oversold. 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 turn flat at the close.

Based on the current studies, expectations are slated to turn positive on Thursday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1,562.93 on Thursday. This is a 0.7% above Tuesday's close. So it would take a

close higher of at least this much in order to move SPX from an oversold to an overbought state.

The Aggregator configuration is considered neutral, but I am still moderately bullish. The SPX is more oversold than it has been in months, and though expectations are currently slightly negative, they are set to turn bullish on Thursday. I have some long exposure from the other day. Most of the time when expectations turn negative, I exit immediately and then just re-enter if evidence changes back. But with evidence mixed and set to turn back to bullish, and the market so oversold, I am inclined to simply hold here and see how things unfold Thursday before making any decisions. Of course I won't be looking to add any exposure, but for now I will maintain.

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	\$155.11	-0.01%		Aggregator

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