

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 19, 2013

Volume 6 Issue 75

Market Overview



Signals Overview

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

Tonight's Research Points

- A 20-day closing low in an uptrend often marks a decent buying area.

Short-term Outlook

The Bottom Line

Evidence is back to leaning bullish and the SPX remains strongly oversold. I am long may get longer on Friday.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---------------------------|--|-----------|---------|--------------|
| Active | | | | |
| April 19, 2013 | 20-low > 200ma | 1-7 days | Bullish | 2.00% |
| April 18, 2013 | Unfill gp dn after unfill up. Close < 2 ago. | 1-3 days | Bearish | |
| April 17, 2013 | Sweet spot bounce | 1-5 days | Bullish | 2.90% |
| 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 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% |

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

The Evidence

In the intermediate-term outlook the last 2 weekends I noted that liquidity pumping was notably lower in April than in the 3 previous months, and that there were some lulls that bears could take advantage of to cause a market pullback. It appears they have taken that opportunity. On Thursday SPX closed at the lowest level since early March. The SPX lost 0.7% while the Nasdaq declined 1.2% and the Russell 2000 fell 0.6%. Breadth was mildly negative as the NYSE Up Issues % was 44% and the Up Volume % came in at 43%. Total NYSE volume sank some from Wednesday's level.

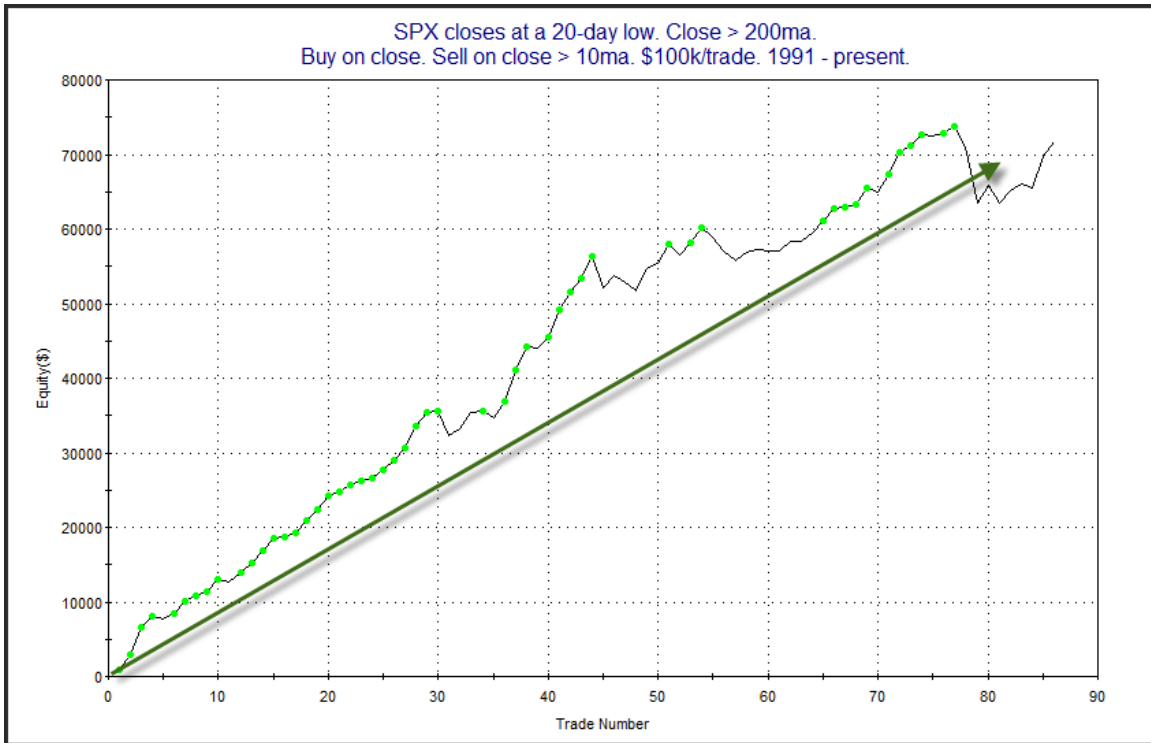
One study that triggered in the Quantifinder was from the 5/9/12 Subscriber Letter. It looked at times the SPX closed at a 20-day low, but still above the 200ma. I have updated the results table below.

| SPX closes at a 20-day low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1991 - 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 | 59,421.80 | 85 | 55 | 30 | 64.71 | 2,353.77 | 5,656.16 | -2,334.51 | -13,993.88 | 1.01 | 1.85 | 699.08 |
| 9 | 69,793.51 | 86 | 57 | 29 | 66.28 | 2,230.69 | 5,167.64 | -1,977.79 | -10,059.36 | 1.13 | 2.22 | 811.55 |
| 8 | 73,570.28 | 92 | 63 | 29 | 68.48 | 2,192.57 | 5,982.72 | -2,226.27 | -14,092.68 | 0.98 | 2.14 | 799.68 |
| 7 | 80,459.26 | 94 | 66 | 28 | 70.21 | 2,030.32 | 5,454.72 | -1,912.22 | -8,018.76 | 1.06 | 2.50 | 855.95 |
| 6 | 68,893.83 | 96 | 61 | 35 | 63.54 | 2,027.26 | 5,461.44 | -1,564.83 | -7,966.32 | 1.30 | 2.26 | 717.64 |
| 5 | 65,556.80 | 103 | 60 | 43 | 58.25 | 1,920.91 | 4,608.35 | -1,155.76 | -5,114.56 | 1.66 | 2.32 | 636.47 |
| 4 | 39,857.17 | 111 | 65 | 46 | 58.56 | 1,543.03 | 4,690.50 | -1,313.90 | -3,994.08 | 1.17 | 1.66 | 359.07 |
| 3 | 36,667.86 | 126 | 77 | 49 | 61.11 | 1,264.64 | 5,471.10 | -1,238.97 | -6,688.99 | 1.02 | 1.60 | 291.01 |
| 2 | 42,697.54 | 146 | 89 | 57 | 60.96 | 1,088.24 | 4,259.29 | -950.10 | -4,320.06 | 1.15 | 1.79 | 292.45 |
| 1 | 16,468.28 | 204 | 120 | 83 | 58.82 | 772.57 | 5,117.46 | -918.56 | -6,826.40 | 0.84 | 1.22 | 80.73 |

The stats since 1991 all appear to suggest an upside edge. The edge seems to persist for between 1-2 weeks. Another thing I did in that letter was to examine results using a reversion-based exit rather than a time-based exit. To do this I simply said that the trade would be held until SPX closed above its 10ma. Results of this "system" are below.

| SPX closes at a 20-day low. Close > 200ma. Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present. | | | |
|---|--------------|--------------------------|---------------|
| TradeStation Performance Summary | | | Collapse ^ |
| All Trades | | | |
| Total Net Profit | \$71,686.58 | Profit Factor | 3.30 |
| Gross Profit | \$102,882.20 | Gross Loss | (\$31,195.62) |
| Total Number of Trades | 86 | Percent Profitable | 77.91% |
| Winning Trades | 67 | Losing Trades | 19 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$833.56 | Ratio Avg. Win:Avg. Loss | 0.94 |
| Avg. Winning Trade | \$1,535.56 | Avg. Losing Trade | (\$1,641.87) |
| Largest Winning Trade | \$4,277.94 | Largest Losing Trade | (\$7,630.40) |

The winning percentage and profit factor are both impressive, and with the average trade making over 0.8% this study appears worth further consideration. Below is an equity curve showing how the edge has played out over time.



What I see here is a curve that suggests a strong, persistent edge over a long period of time. But there was a big dip a few trades ago. This dip occurred at the time of the US debt downgrade in the summer of 2011. That losing instance cost 7.6% and was the largest loss of the entire period.

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



With tonight's study factored in the green Aggregator Line is back above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still strongly above 0. The positive Differential Line reading means the SPX is very oversold versus recent expectations. So expectations are bullish and the SPX is strongly 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 at the close.

Based on the current studies, expectations are slated to remain positive on Friday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1,587.08 on Friday. This is a whopping 3% above Thursday's close. That is a huge longshot to happen in 1 day. A more likely scenario is a multi-day rally or consolidation to work off the oversold condition.

I think the market is getting primed for a bounce here. But while evidence is fairly solid it is not overwhelming. One noticeably absent bit of evidence is the CBI, which is tracked in the Catapult & CBI section below. Despite the strong selling the last couple of days it remains at 0. I don't like to get too heavily long without some confirmation from the CBI. But with only a ¼ index position at the moment I will look to add a bit more exposure on Friday if we close down again. That would mark the 3rd down day in a row, and would certainly trigger studies looking at both the multiple down days and the intermediate-term low. So I will look to up my exposure as outlined in the Trade Ideas section below if SPX closes down again on Friday.

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.

SPY – buy ¼ index position at \$153.75 LIMIT ON CLOSE. This is based on the short-term outlook above. It would up my exposure to a ½ position.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| SPY(1/4) | 4/15/2013 | \$155.12 | \$154.14 | -0.63% | | Aggregator |
| | | | | | | |
| | | | | | | |

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