

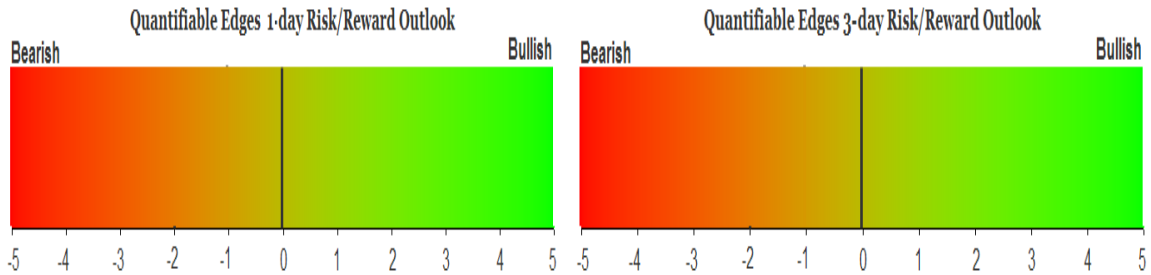
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 25, 2013

Volume 6 Issue 79

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- VIX up / SPX up is a bearish setup during long-term downtrends, but during uptrends it is not terribly predictive.

## *Short-term Outlook*

### *The Bottom Line*

Evidence still points to higher prices but SPX is quite overbought. This setup does not offer the kind of risk/reward I prefer. So I am sidelined awaiting the next trading opportunity.

*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 24, 2013	SPX up 2% in 3 days. 3/10OffHV<0.25	1-6 days	Bullish	2.00%
<b>Active - Long Term</b>				
April 24, 2013	SPX up 2% in 3 days. 3/10OffHV<0.25	1-19 days	Bullish	4.50%
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>				
April 17, 2013	Sweet spot bounce	1-5 days	Bullish	2.90%
<b>April 19, 2013</b>	<b>20-low &gt; 200ma.</b>	<b>1-7 days</b>	<b>Bullish</b>	<b>2.00%</b>

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

**The Evidence**

Wednesday was flatter than a pancake. SPX posted a gain of 0.01 points while the Nasdaq rose 0.01% and the Russell 2000 gained 0.5%. Breadth was strongly positive as the NYSE Up Issues % was 65% and the Up Volume % came in at 69%. Total NYSE volume rose some for the 2<sup>nd</sup> day in a row.

Another index that closed up today was the VIX. As many readers are likely aware, VIX is a volatility index. Typically VIX will trade counter to the SPX. So if SPX rises, VIX will sink and if SPX falls, VIX will most often rise. There are some calculation-induced tendencies around the weekend, so often when I show studies on VIX I will break them down by day of the week. What was interesting about VIX on Wednesday is that it rose nearly 1% while SPX rose slightly. In the 4/23/10 Subscriber Letter I studied other mid-week occurrences of SPX and VIX both closing higher. I found that the long-term trend played a big part in the short-term reaction to this setup. First I'll show VIX up & SPX up when the market is below the 200ma.

SPX and VIX both close higher on a Tues, Wed, or Thurs. Close < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	-32,433.88	30	10	20	33.33	1,809.48	5,674.40	-2,526.43	-7,204.80	0.72	0.36	-1,081.13
4	-53,725.84	31	8	23	25.81	1,335.16	3,696.70	-2,800.31	-7,745.95	0.48	0.17	-1,733.09
3	-38,097.73	31	9	22	29.03	1,236.71	2,587.14	-2,237.64	-5,299.32	0.55	0.23	-1,228.96
2	-29,272.16	32	10	22	31.25	1,582.34	3,181.60	-2,049.80	-6,672.34	0.77	0.35	-914.75
1	-11,260.93	34	16	18	47.06	1,025.40	3,644.16	-1,537.07	-3,035.25	0.67	0.59	-331.20

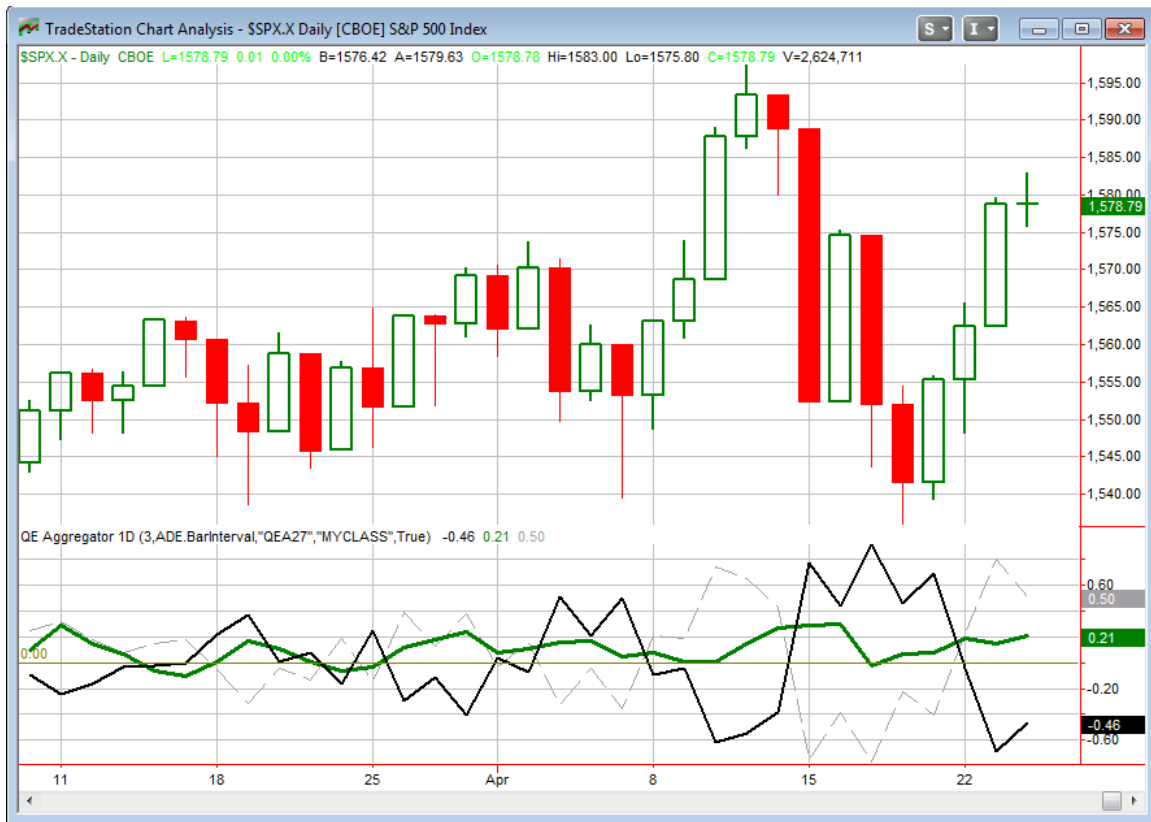
This obviously seems to suggest a downside edge.

Now let's look at occurrences above the 200ma.

SPX and VIX both close higher on a Tues, Wed, or Thurs. Close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	6,789.49	110	63	47	57.27	1,086.87	3,549.70	-1,312.42	-4,171.80	0.83	1.11	61.72
4	211.62	116	61	55	52.59	1,061.71	3,154.00	-1,173.69	-4,354.72	0.90	1.00	1.82
3	-1,907.43	121	66	55	54.55	865.17	3,288.60	-1,072.89	-3,671.32	0.81	0.97	-15.76
2	31.77	126	63	63	50.00	750.45	3,962.70	-749.95	-2,848.17	1.00	1.00	0.25
1	-6,183.43	137	71	66	51.82	472.72	1,970.50	-602.22	-2,079.70	0.78	0.84	-45.13

No discernible edge here. This is the kind of situation the market is currently dealing with. So while this is all interesting to me, it isn't terribly predictive today. And with the flat close nothing strongly compelling emerged, so I will not be adding any studies to the Active List tonight.

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



The green Aggregator Line remained squarely above zero tonight. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still far below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are bullish but the SPX is strongly 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.

Based on the current studies, expectations are slated to remain positive on Thursday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 1,567.55 on Thursday. This is 0.8% below Wednesday's close. So it would take a sizable drop on Thursday in order to move SPX back into oversold territory.

So the Aggregator is neutral and so am I. I have no intention of taking on new exposure until risk/reward improves. So for now I am in "wait and see" mode. This is a mode that never lasts long. The market rarely manages to go for extended periods without tipping its hand in one direction or the other. Therefore my mindset needs to be one where I am both patient and alert.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 4/22 – somewhat bullish***

The intermediate-term outlook was last updated in the 4/22 letter. Link below:

[2013-04-22 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.*

### **Current Open Trade Ideas**

*None*

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