

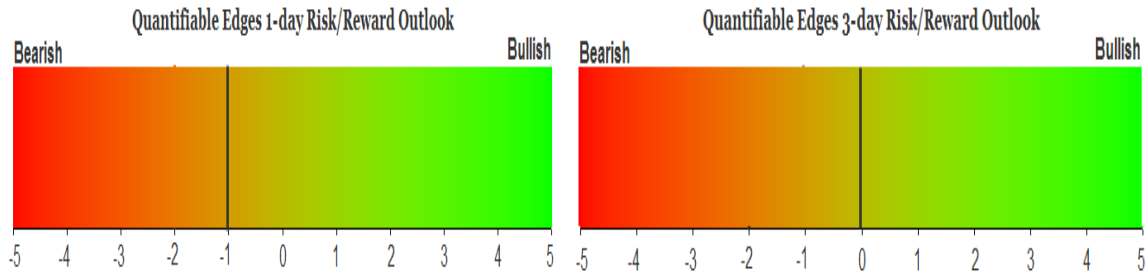
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 26, 2013

Volume 6 Issue 80

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 for the 2nd day in a row is potentially short-term bearish.
- 5 higher highs without closing at a 50-day high during a long-term uptrend has typically been followed by more gains.

Short-term Outlook

The Bottom Line

No real change from last night. 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
Active				
April 26, 2013	5 higher highs < 50-high.	1-10 days	Bullish	2.00%
April 26, 2013	VIX up SPX up 2 days in row/	1-2 days	Bearish	
April 24, 2013	SPX up 2% in 3 days. 3/10OffHV<0.25	1-6 days	Bullish	2.00%
Active - Long Term				
April 26, 2013	5 higher highs < 50-high.	1-15 days	Bullish	2.80%
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	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.

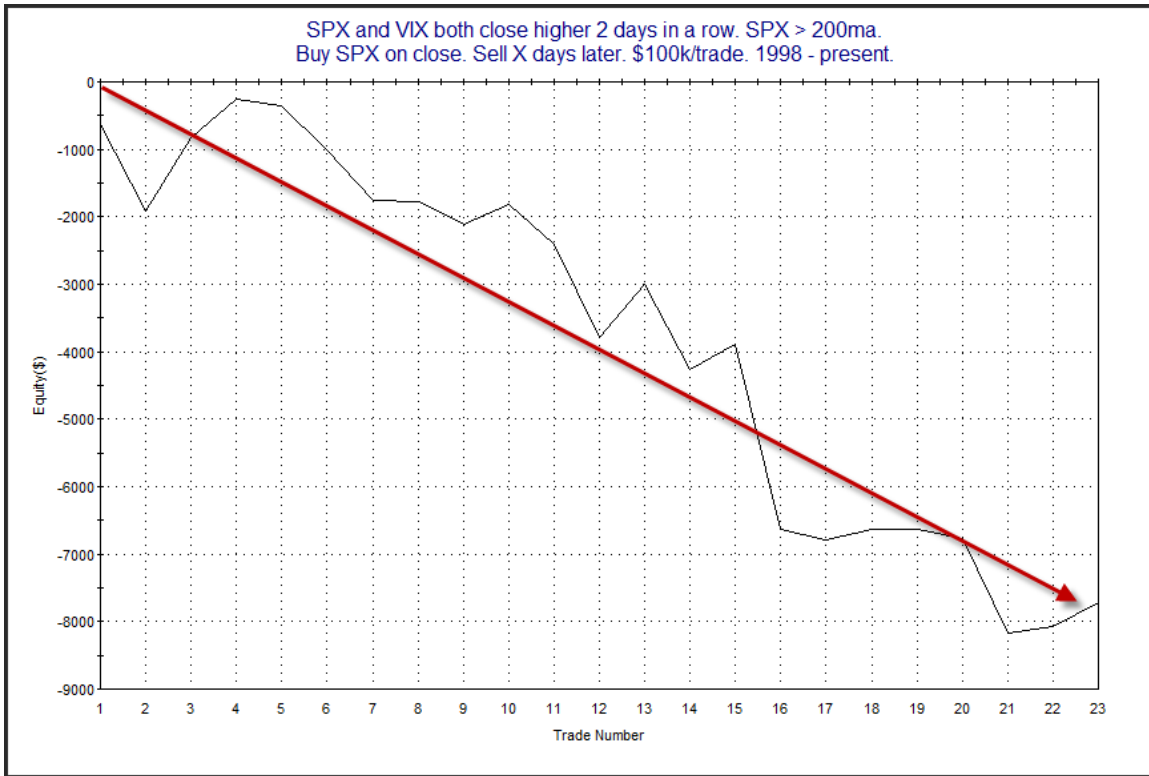
The Evidence

The rally continued on Thursday. The SPX posted a gain of 0.4% while the Nasdaq rose 0.6% and the Russell 2000 gained 0.7%. Breadth was squarely positive as the NYSE Up Issues % was 64% and the Up Volume % came in at 67%. Total NYSE volume rose for the 3rd day in a row.

In last night's Letter I looked at instances where both SPX and VIX rose on the same day. When that has happened mid-week while SPX is above its 200ma, then it has not been very predictive. Interestingly, it happened again today. And we have a study last seen in the 12/7/11 Letter that suggests back-to-back occurrences, even above the 200ma, have carried a downside edge. Below I have update that study.

SPX and VIX both close higher 2 days in a row. SPX > 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	-4,032.50	23	15	8	65.22	898.27	3,434.08	-2,188.31	-4,221.70	0.41	0.77	-175.33
4	-7,349.19	23	12	11	52.17	730.30	1,907.36	-1,464.80	-4,240.48	0.50	0.54	-319.53
3	-6,772.13	23	11	12	47.83	639.32	1,433.12	-1,150.39	-4,423.40	0.56	0.51	-294.44
2	-7,716.58	23	8	15	34.78	470.21	1,078.48	-765.22	-2,752.74	0.61	0.33	-335.50
1	-3,823.59	27	11	16	40.74	272.32	537.24	-426.20	-1,411.74	0.64	0.44	-141.61

The numbers here provide the bears some hope over the next 1-2 days. I also examined the 2-day profit curve and have included that below.



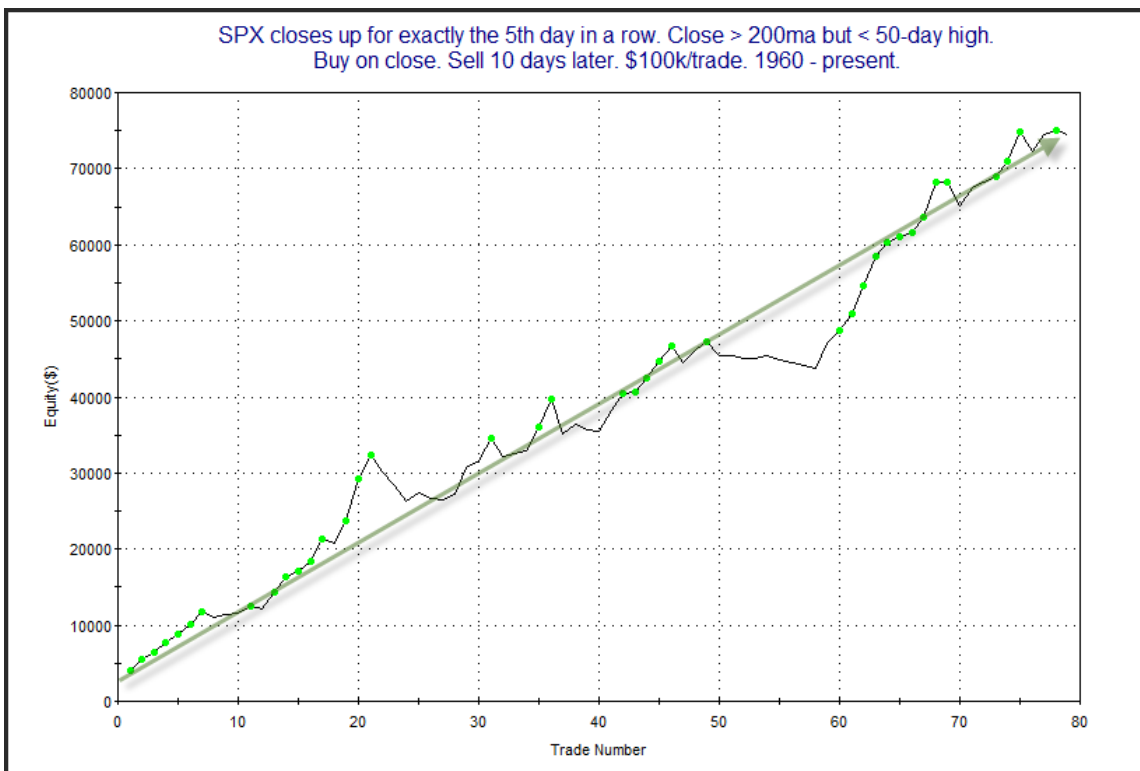
That is a fairly steady downslope, especially for a study that filters out instances below the 200ma. I find this study worth consideration and have included it on the Active List.

When the market begins to get overbought it will often suggest a pullback is likely. When overbought gets powered through then odds will sometimes shift from a pullback to a continuation of that move. The study below is one of those that suggests SPX is overbought, it is likely to continue moving higher. It was last seen in the 12/7/11 subscriber letter. All stats are updated.

SPX closes up for exactly the 5th day in a row. Close > 200ma but < 50-day high.
Buy on close. Sell X days later. \$100k/trade. 1960 - 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
15	109,116.86	76	52	24	68.42	2,804.22	8,288.00	-1,529.28	-4,879.10	1.83	3.97	1,435.75
14	96,119.36	76	51	25	67.11	2,649.70	8,272.60	-1,560.61	-4,738.50	1.70	3.46	1,264.73
13	96,153.92	76	56	20	73.68	2,404.44	6,401.50	-1,924.72	-3,773.44	1.25	3.50	1,265.18
12	86,426.13	78	56	22	71.79	2,226.79	5,925.50	-1,739.74	-3,661.77	1.28	3.26	1,108.03
11	72,885.77	79	53	26	67.09	2,078.38	6,110.00	-1,433.41	-4,887.00	1.45	2.96	922.60
10	74,492.16	79	56	23	70.89	1,857.70	5,675.25	-1,284.30	-4,684.28	1.45	3.52	942.94
9	70,022.69	79	52	27	65.82	1,925.17	5,228.75	-1,114.31	-4,910.55	1.73	3.33	886.36
8	62,653.72	80	56	24	70.00	1,598.47	5,146.50	-1,119.20	-3,376.64	1.43	3.33	783.17
7	55,580.96	80	52	28	65.00	1,657.77	5,698.75	-1,093.68	-3,500.70	1.52	2.82	694.76
6	47,110.21	80	57	23	71.25	1,371.21	5,134.75	-1,349.94	-3,359.36	1.02	2.52	588.88
5	40,221.36	80	56	24	70.00	1,227.81	4,476.75	-1,189.00	-3,716.53	1.03	2.41	502.77
4	29,052.60	80	54	26	67.50	1,031.22	3,983.25	-1,024.35	-3,494.78	1.01	2.09	363.16
3	24,842.54	80	52	28	65.00	1,002.81	2,796.50	-975.12	-3,359.36	1.03	1.91	310.53
2	11,934.84	80	50	30	62.50	773.77	2,479.25	-891.78	-3,748.50	0.87	1.45	149.19
1	7,104.62	80	49	31	61.25	508.32	2,211.54	-574.29	-2,193.72	0.89	1.40	88.81

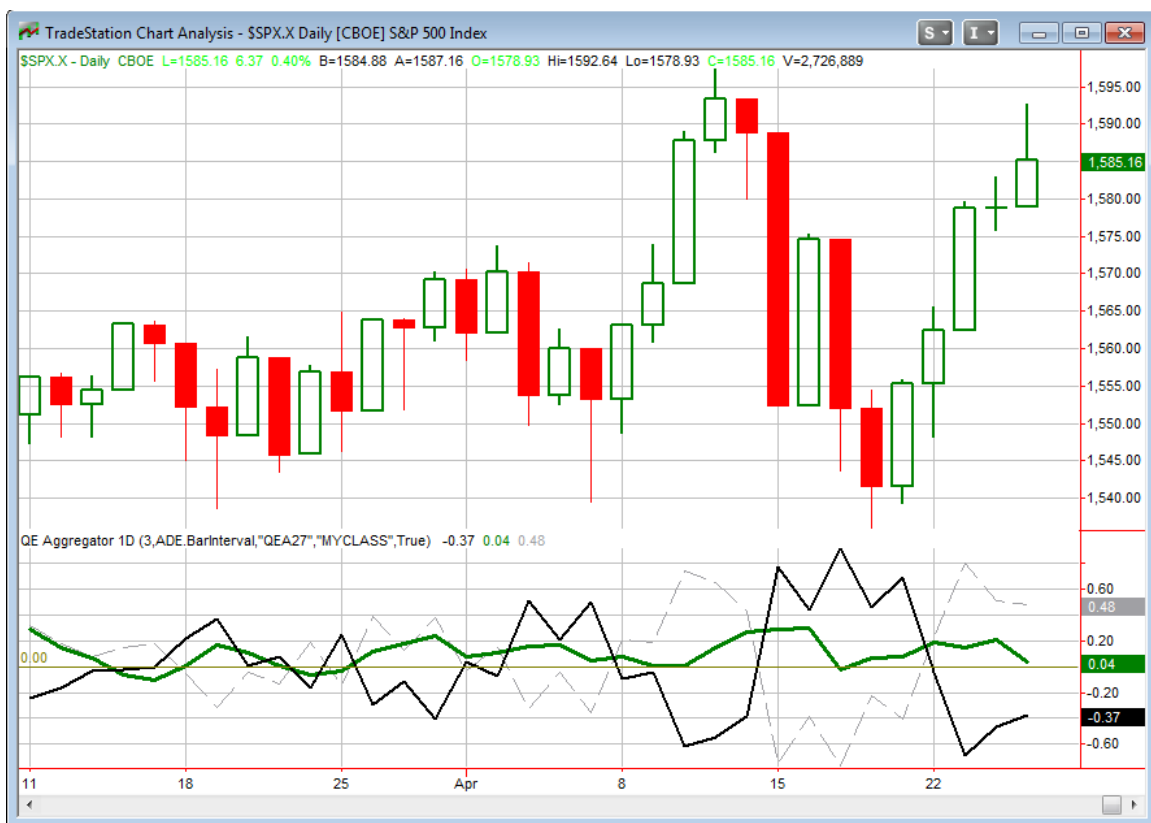
These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.



This appears to be quite a consistent curve and makes the study even more compelling. I have also added it to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.

I should also note here that another Quantifinder study appeared suggesting five higher highs and a close below a 20-day high is bearish. Upon closer examination, that only appears to be the case during long-term downtrends. That study was not relevant for tonight.

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



The green Aggregator Line fell a bit tonight, but still 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 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 Friday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1,587.27 on Friday. This is just 0.11 points above Thursday's close. An inverted pivot means that the differential line will cross zero if SPX closes flat. In this case, SPX will turn oversold with any down close on Friday, and will be considered overbought with just about any up close.

Short-term evidence is pointing higher over the next few days. But for Friday, expectations are actually slightly negative. This is reflected in the 1-day Risk/Reward outlook at the top of the letter. I am still not tempted to try a short here – even for a 1-day trade.

The last couple of days have been boring from a trading standpoint, but I'd rather be bored than take undue risks. So I will remain patient and await the next strong opportunity.

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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