

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 29, 2013

Volume 6 Issue 81

Market Overview



Signals Overview

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

Tonight's Research Points

- After 5 days higher the market pulled back today. When the market has been in a similar position in the past the 1-2 week timeframe has been strong.
- If April finishes positive it will mark the 6th month in a row – a positive sign.
- May – October has been seasonally weak – but not in years when the market has acted like this year through April.

Short-term Outlook

The Bottom Line

The mild pullback was enough so that SPX is now underperforming short-term expectations. And those expectations remain positive. So the outlook for the next few days has changed from neutral to fairly bullish.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 29, 2013	1 dn after 5 higher closes	1-9 days	Bullish	2.10%
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 29, 2013	Sell in May unless Jan-April strong	1-6 months	Bullish	6.80%
April 29, 2013	6 months higher in a row	1-10 months	Bullish	14.30%
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 market struggled for much of the day on Friday, but in the end losses were minimal. The SPX lost 0.2%, the Nasdaq fell 0.3% and the Russell 2000 declined 0.5%. Rather trivial amounts after 5 days of gains. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % came in at 36%. Total NYSE volume declined from Thursday's level.

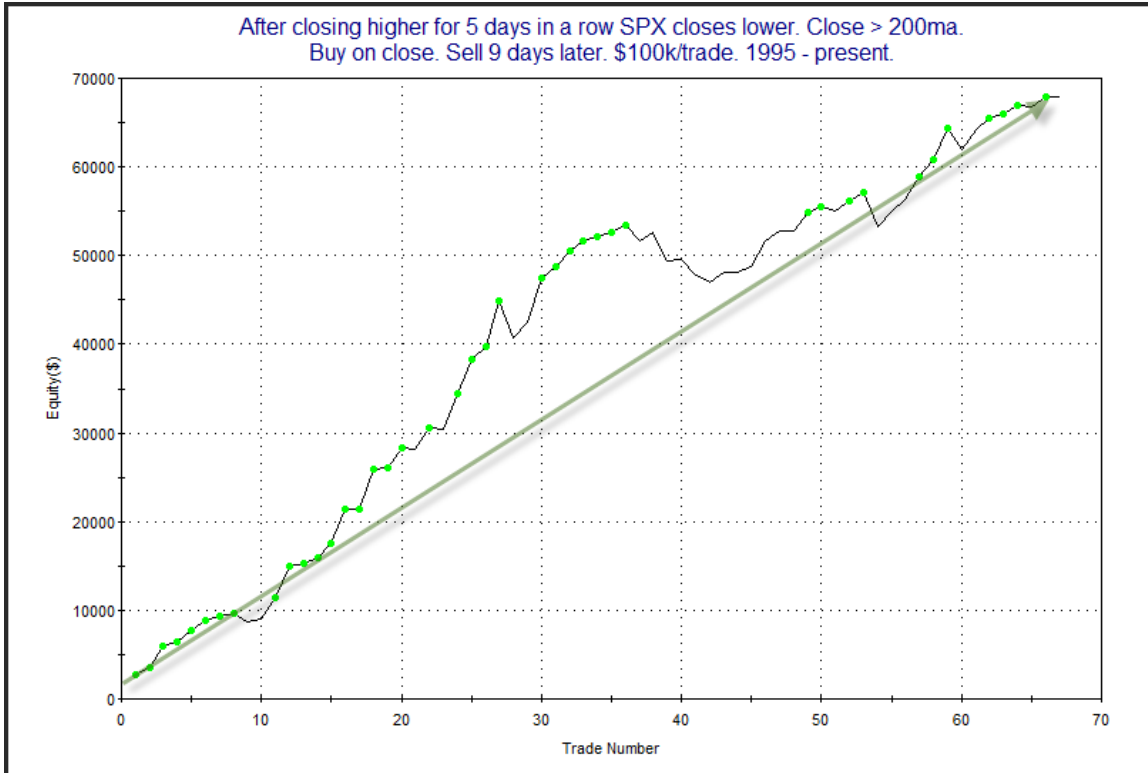
Last night I showed a study that examined SPX performance after it had made 5 higher highs. Friday's moderately lower close triggered some studies that looked at pullbacks after at least 5 consecutive up closes. The studies below were last seen in the 7/6/11 Subscriber Letter. I have updated the results.

After closing higher for 5 days in a row SPX closes lower. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	68,478.89	62	50	12	80.65	1,682.83	5,131.35	-1,305.21	-3,672.90	1.29	5.37	1,104.50
9	67,915.16	67	54	13	80.60	1,627.67	5,196.49	-1,536.87	-4,151.40	1.06	4.40	1,013.66
8	59,875.86	68	48	20	70.59	1,777.85	4,878.08	-1,273.05	-4,874.10	1.40	3.35	880.53
7	45,804.76	69	48	21	69.57	1,531.44	3,874.76	-1,319.25	-3,970.62	1.16	2.65	663.84
6	46,004.73	72	50	22	69.44	1,451.77	4,307.20	-1,208.35	-3,637.71	1.20	2.73	638.95
5	35,600.81	72	47	25	65.28	1,254.56	4,252.50	-934.54	-3,188.16	1.34	2.52	494.46
4	34,810.16	72	46	26	63.89	1,214.42	3,843.00	-809.74	-3,003.39	1.50	2.65	483.47
3	21,632.27	72	46	26	63.89	988.18	2,797.08	-916.30	-2,852.01	1.08	1.91	300.45
2	14,588.53	72	47	25	65.28	804.66	2,480.28	-929.23	-2,614.95	0.87	1.63	202.62
1	6,298.24	72	44	27	61.11	516.44	1,751.19	-608.34	-2,531.86	0.85	1.38	87.48

64 of 72 instances (89%) closed above the entry price at some point in the next week.

Initially there appears to be a moderate inclination for a move higher. Once you get out 9-10 days the upside edge appears very substantial. Below is an equity curve using a 9-day exit strategy.



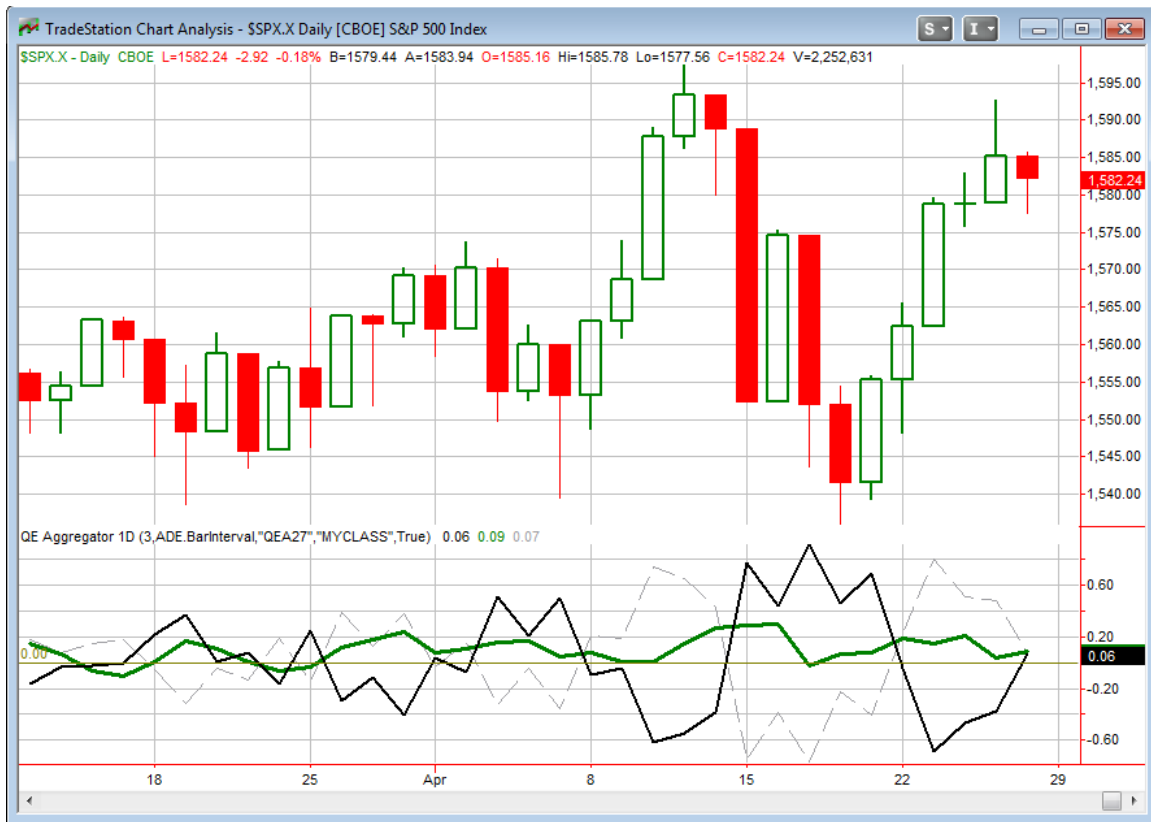
There's some wiggle here but the periods of pullback have been short and mild. This appears to confirm the bullish edge.

The next study, also from that 7/6/11 Letter, filtered on times where the pullback did NOT come directly after a 50-day high. I've also updated that study.

After closing higher for 5 days in a row but not at a 50-day high SPX closes lower. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	21,752.50	16	12	4	75.00	2,255.16	4,644.11	-1,327.35	-2,964.60	1.70	5.10	1,359.53
9	20,944.51	16	13	3	81.25	2,053.20	5,196.49	-1,915.70	-3,251.34	1.07	4.64	1,309.03
8	19,938.93	16	13	3	81.25	1,979.59	4,770.49	-1,931.92	-4,038.66	1.02	4.44	1,246.18
7	13,828.01	16	14	2	87.50	1,424.67	3,335.92	-3,058.68	-3,970.62	0.47	3.26	864.25
6	12,875.31	16	13	3	81.25	1,541.22	2,736.52	-2,386.86	-3,388.23	0.65	2.80	804.71
5	11,408.19	16	13	3	81.25	1,302.61	2,590.50	-1,841.93	-3,188.16	0.71	3.06	713.01
4	9,732.17	16	12	4	75.00	1,164.06	2,600.40	-1,059.13	-2,494.80	1.10	3.30	608.26
3	7,282.58	16	11	5	68.75	1,239.43	2,797.08	-1,270.24	-2,852.01	0.98	2.15	455.16
2	-364.51	16	9	7	56.25	854.48	2,480.28	-1,150.69	-2,455.11	0.74	0.95	-22.78
1	-2,568.78	16	9	7	56.25	356.51	654.48	-825.34	-2,531.86	0.43	0.56	-160.55

The 1st couple of days are iffy, but after that the upside edge appears even stronger than without the filter applied. Of course the number of instances is a bit low, but the market position doesn't appear to raise any real red flags. It seems worthwhile to take the 1-day drop after a 5-day rise under consideration.

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



With tonight's study the green Aggregator Line rose a little further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line popped back above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are bullish and the SPX is now 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 turn long.

Based on the current studies, expectations are slated to remain positive on Monday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 1,588.32 on Monday. This is about 0.4% above Friday's close. So it would take a move higher of this amount to move the SPX back into "overbought" territory, and cause the Differential Line to close below 0.

Evidence is pointing higher, and although it has only been a small, 1-day pullback, that may be enough for aggressive traders to consider taking on some short-term long exposure. I will look to start scaling into a long position on Monday, but only if I see further weakness to buy into.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/29 –bullish

The market put in another good week, rising every day except Friday and flirting with the recent highs from a couple of weeks ago. Intermediate-term bearish evidence remains scant. Meanwhile, we had a couple of studies trigger during the week that suggested the buying has been strong enough that SPX is more likely to continue to power higher than it is to falter.

The first of these studies was from the 4/24 Subscriber Letter. It noted that while the market had put in a strong move over the last 3 days, the 3/10 Offset HV was extremely low. For those that are unfamiliar with the 3/10 Offset HV indicator, a detailed description may be found in that 4/24/13 letter. (You should also note that it again is providing a low reading as of Friday’s close.)

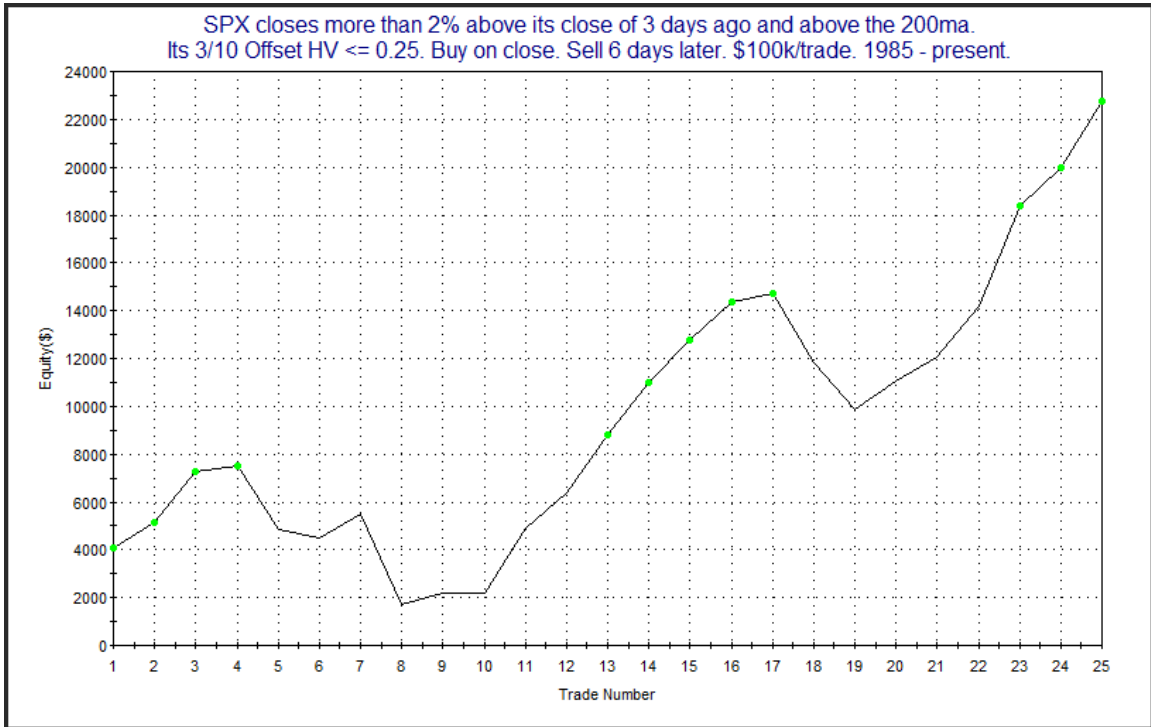
[2013-04-24 QE Subscriber Letter.pdf](#)

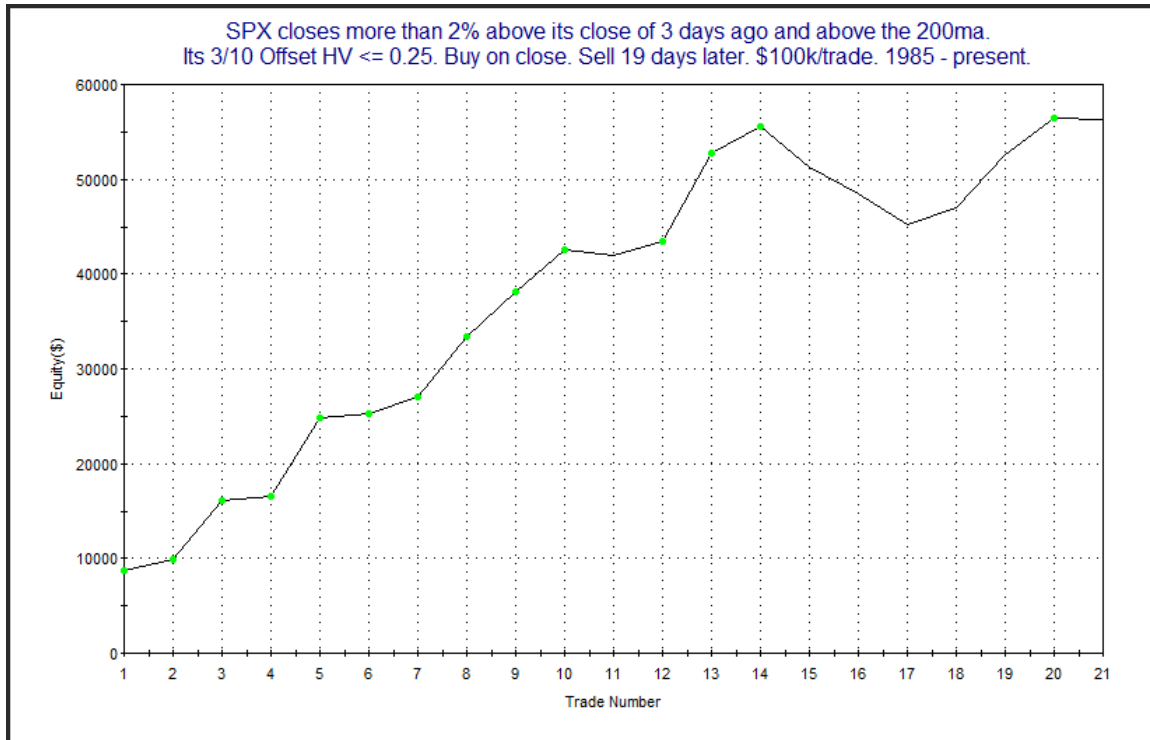
Below is an excerpt from the Letter that addresses the low 3/10 Offset HV in conjunction with the short-term market rally.

I found it particularly odd that the 3/10 Offset HV was so low considering we've seen a fairly strong move higher over the last three days. Wondering whether that meant downside risk is now greatly increased, I ran a study.

SPX closes more than 2% above its close of 3 days ago and above the 200ma. Its 3/10 Offset HV <= 0.25. Buy on close. Sell X days later. \$100k/trade. 1985 - 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
20	52,929.88	21	16	5	76.19	4,255.15	9,311.76	-3,030.50	-6,635.95	1.40	4.49	2,520.47
19	56,335.56	21	16	5	76.19	4,215.96	9,258.48	-2,223.95	-4,276.35	1.90	6.07	2,682.65
18	53,492.86	22	17	5	77.27	3,899.09	10,412.64	-2,558.34	-3,726.38	1.52	5.18	2,431.49
17	41,741.10	22	16	6	72.73	3,630.15	10,683.36	-2,723.54	-5,009.90	1.33	3.55	1,897.32
16	42,287.28	22	15	7	68.18	3,850.54	10,667.52	-2,210.13	-6,108.95	1.74	3.73	1,922.15
15	42,879.21	22	15	7	68.18	3,643.89	8,742.96	-1,682.74	-3,353.25	2.17	4.64	1,949.06
14	42,264.47	23	17	6	73.91	3,085.24	8,253.36	-1,697.43	-3,334.55	1.82	5.15	1,837.59
13	39,937.50	23	16	7	69.57	3,024.61	6,434.62	-1,208.05	-3,430.60	2.50	5.72	1,736.41
12	37,779.76	23	17	6	73.91	2,681.96	6,140.16	-1,302.25	-3,768.05	2.06	5.84	1,642.60
11	31,973.41	23	17	6	73.91	2,448.35	5,708.16	-1,608.10	-4,522.00	1.52	4.31	1,390.15
10	30,657.67	24	18	6	75.00	2,229.22	5,768.50	-1,578.04	-3,819.05	1.41	4.24	1,277.40
9	24,340.26	24	15	9	62.50	2,270.11	5,859.48	-1,079.05	-2,858.55	2.10	3.51	1,014.18
8	13,420.93	24	17	7	70.83	1,455.89	4,162.27	-1,618.46	-3,819.90	0.90	2.18	559.21
7	13,888.66	24	17	7	70.83	1,497.32	3,983.52	-1,652.26	-4,227.28	0.91	2.20	578.69
6	22,755.85	25	19	6	76.00	1,808.36	4,206.89	-1,933.84	-3,782.08	0.94	2.96	910.23
5	18,527.68	25	19	6	76.00	1,609.21	3,481.56	-2,007.90	-2,842.40	0.80	2.54	741.11
4	17,336.42	25	17	8	68.00	1,736.70	2,616.60	-1,523.43	-2,910.70	1.14	2.42	693.46
3	10,763.15	25	17	8	68.00	1,418.76	2,315.72	-1,669.48	-3,701.10	0.85	1.81	430.53
2	13,002.07	26	17	9	65.38	1,132.52	2,451.76	-694.52	-1,675.86	1.63	3.08	500.08
1	2,019.54	28	13	15	46.43	729.80	1,857.24	-497.86	-1,515.80	1.47	1.27	72.13

I found it quite interesting that the numbers here all seem to suggest an upside edge. I suppose to get the 3/10 Offset HV indicator that low while the market is rising so strongly would require some volatile activity prior to the bounce. Being above the 200ma, that scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below are curves assuming 6-day and 19-day holding periods.





Both of these curves look pretty solid. I have added this study to both the short and long-term active lists.

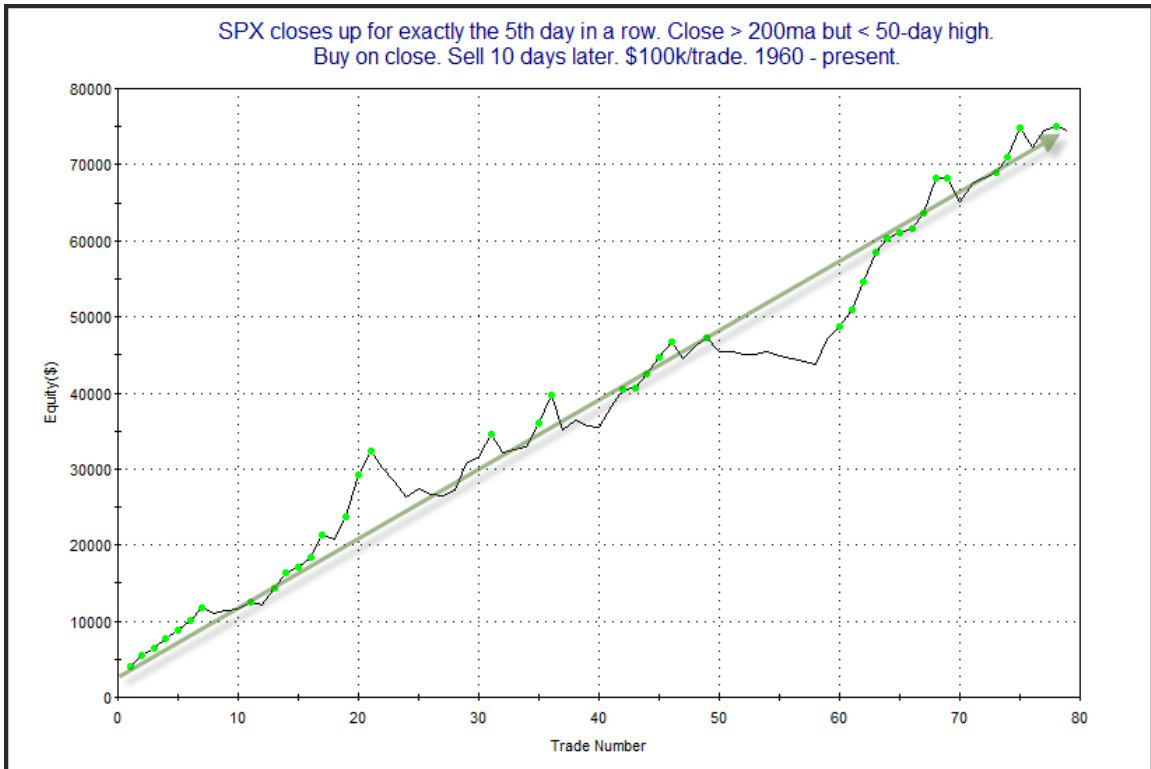
In Friday's letter I posted another study with seemingly bullish intermediate-term implications. It considered the fact that SPX was continually making higher highs (but still not closing at an intermediate-term high). I have re-posted that study below:

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

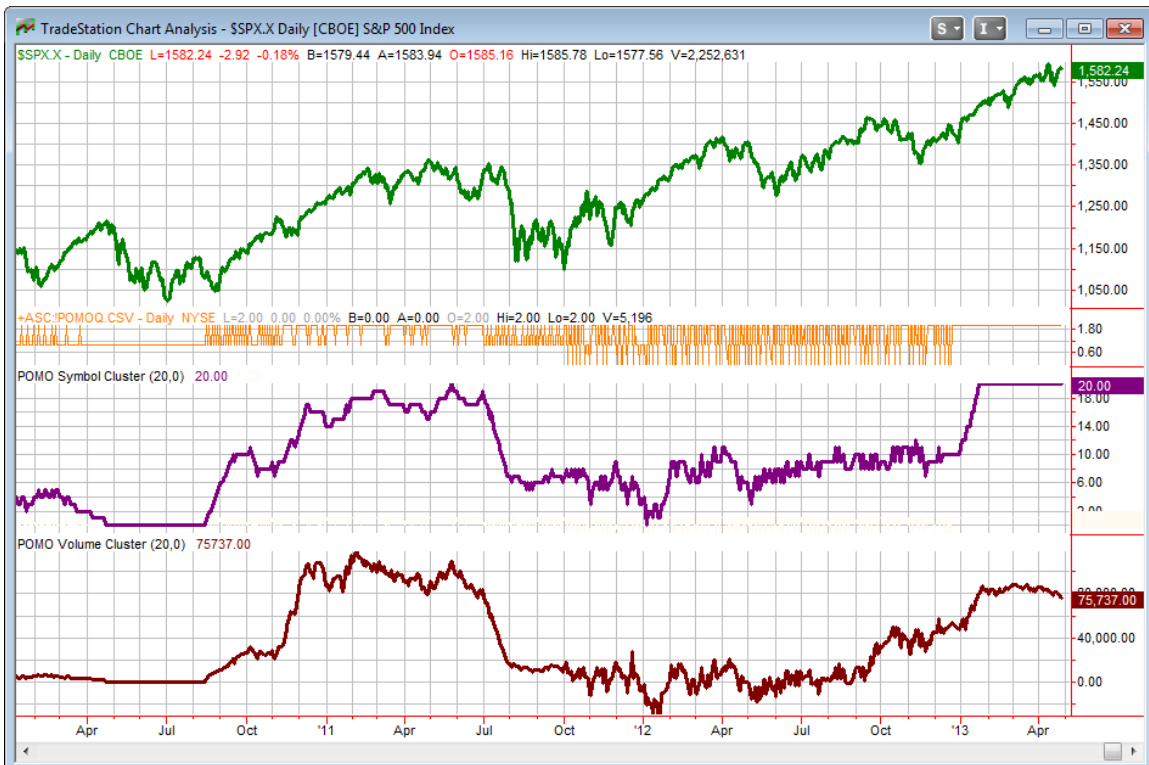
These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.



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 update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS volume indicator remained fairly elevated compared to past years, but it is now as low as it has been in 2013. The days indicator is *still* maxed out at 20, which was a rarity during past QE implementations, but has been the norm so far this year. We estimate net inflows this past week to have been about \$18.7 billion, which is about average for April. Inflows of this magnitude have typically been bullish.

With turn of the month this upcoming week, we can currently only see two days of the Fed schedule. Both Monday and Tuesday are currently set for sizable buying. The schedule for May is expected to be released around 2pm on Tuesday. At this point I expect to see liquidity flows remain around the status quo, with another \$85 billion purchases likely. Traders may use the link below if they wish to see the new schedule after the 2pm release on Tuesday.

http://www.newyorkfed.org/markets/tot_operation_schedule.html

There are 2 arguments I am seeing from bears about the current rally that I decided to explore and address this week. They are 1) April is the 6th month in a row that SPX is set to close higher. This suggests the rally has gone on for a long time and is overdue for a pullback. 2) We are entering a seasonally weak period. (Sell in May and go away.) So I ran some tests based on these schools of thought.

This first test just looked to buy on the close of any month where SPX had closed up for the 6th month in a row. It then holds for X number of months going forward.

SPX closes up for the 6th month in a row. Buy on close. Sell X months later. \$100k/trade. 1961 - present.												
X Months	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
12	115,242.40	13	11	2	84.62	11,529.41	25,381.51	-5,790.54	-7,404.13	1.99	10.95	8,864.80
11	133,931.16	14	12	2	85.71	11,533.49	22,583.99	-2,235.34	-2,334.72	5.16	30.96	9,566.51
10	135,866.06	14	14	0	100.00	9,704.72	20,960.83	0.00	0.00	100.00	100.00	9,704.72
9	119,497.73	14	13	1	92.86	9,192.87	20,060.96	-9.62	-9.62	955.60	12,422.80	8,535.55
8	122,382.98	14	13	1	92.86	9,551.72	19,186.20	-1,789.32	-1,789.32	5.34	69.40	8,741.64
7	97,820.74	14	12	2	85.71	8,953.29	15,631.68	-4,809.38	-9,581.52	1.86	11.17	6,987.20
6	69,079.47	14	10	4	71.43	8,801.03	13,556.07	-4,732.70	-9,350.64	1.86	4.65	4,934.25
5	51,665.63	14	11	3	78.57	6,330.75	15,693.28	-5,990.87	-8,428.30	1.06	3.87	3,690.40
4	26,903.94	14	9	5	64.29	5,923.69	11,751.04	-5,281.85	-13,723.80	1.12	2.02	1,921.71
3	29,310.13	14	11	3	78.57	4,673.73	13,147.68	-7,366.97	-11,886.00	0.63	2.33	2,093.58
2	22,446.41	14	9	5	64.29	4,338.31	12,002.82	-3,319.68	-8,725.50	1.31	2.35	1,603.32
1	836.51	14	8	6	57.14	2,299.68	3,851.68	-2,926.82	-6,762.00	0.79	1.05	59.75

The 1st month out of the gate looks to have about breakeven odds. After that everything points to the bullish case, with strongly positive stats across the board for the next 10

months or so. In fact, 10 months out all 14 instances were closed higher. Below I have listed the 14 instances.

SPX closes up for the 6th month in a row. Buy on close. Sell 10 months later. \$100k/trade. 1961 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
04/30/71	Buy	\$103.95	2.52%	\$2,520.44
02/29/72	Sell	\$106.57		(\$13,265.98)
05/31/72	Buy	\$109.53	1.82%	\$9,767.52
03/30/73	Sell	\$111.52		(\$3,392.64)
06/30/75	Buy	\$95.19	6.78%	\$8,736.00
04/30/76	Sell	\$101.64		(\$13,755.00)
09/30/80	Buy	\$125.46	4.34%	\$13,150.50
07/31/81	Sell	\$130.91		(\$900.61)
01/31/83	Buy	\$145.30	14.51%	\$19,126.40
11/30/83	Sell	\$166.39		(\$2,985.92)
03/31/86	Buy	\$238.89	14.73%	\$17,581.08
01/30/87	Sell	\$274.08		(\$5,262.62)
04/30/91	Buy	\$375.35	9.95%	\$12,188.12
02/28/92	Sell	\$412.69		(\$2,532.32)
02/26/93	Buy	\$443.37	5.21%	\$6,282.00
12/31/93	Sell	\$466.45		(\$2,490.75)
05/31/95	Buy	\$533.41	21.01%	\$24,463.34
03/29/96	Sell	\$645.50		(\$1,385.67)
04/30/96	Buy	\$654.18	20.89%	\$24,852.00
02/28/97	Sell	\$790.82		(\$7,341.60)
04/30/98	Buy	\$1,111.75	11.39%	\$15,322.24
02/26/99	Sell	\$1,238.33		(\$16,772.05)
08/29/03	Buy	\$1,008.01	13.17%	\$15,366.78
06/30/04	Sell	\$1,140.76		(\$1,747.35)
11/30/06	Buy	\$1,400.65	9.00%	\$11,022.75
09/28/07	Sell	\$1,526.75		(\$2,603.57)
08/31/09	Buy	\$1,020.62	0.99%	\$19,320.46
06/30/10	Sell	\$1,030.71		(\$2,779.05)

Some strong results here. Based on this, it appears that the bulls should be celebrating that 6-month rally, rather than the bears trying to use it as evidence for an overdue pullback.

Bears: “But Rob, May is coming! And the market has not even pulled back as much as 5% at any point so far this year! We are DUE! And it is MAY!”

Ok. So let’s look at that. “Sell in May and go away” is based on the idea that the period of May – October has not done very well over time. Most of the market’s gains over the years have come during the November – April period.

So I decided to look at this time period and filter it by whether the market has suffered a pullback at any point leading up to the end of April. To define “pullback” I started with a clean slate every year on January 1. The high of Jan 1 was the high for the year as of that date. Each time a new high was made I would measure pullback from the highest high to-date. I broke “Sell in May” down by years the SPX had a 5% pullback before May versus years it did not. Three-quarters of the time we have seen a 5% pullback. Let’s first look at times where there had been a pullback at some point before May.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$18,423.45)	Profit Factor	0.89
Gross Profit	\$144,585.97	Gross Loss	(\$163,009.42)
Total Number of Trades	39	Percent Profitable	56.41%
Winning Trades	22	Losing Trades	17
Even Trades	0		
Avg. Trade Net Profit	(\$472.40)	Ratio Avg. Win:Avg. Loss	0.69
Avg. Winning Trade	\$6,572.09	Avg. Losing Trade	(\$9,588.79)
Largest Winning Trade	\$19,918.60	Largest Losing Trade	(\$30,011.76)
Avg Run-up: 8.1% Avg Drawdown: -10.6%			
15 of 39 years saw a drawdown of at least 10%, and 7 of them finished with a loss of greater than 10%.			

Of the 39 years where this was the case, 15 of them saw the market drop more than 10% from its April closing price during the next 6 months. And 7 of them were more than 10% lower at the close of October. There were slightly more winning years than losing ones, but the losers were quite a bit bigger and the market has suffered substantial net losses during the May – October period for these 39 years.

Now let’s look at time where the market has been strong through April and it has not experienced a 5% pullback at any point.

It is the last day of April. SPX has not pulled back > 5% from high of year so far this year. Buy on close. Sell close on last day of October. \$100k/trade. 1961 - present.

TradeStation Performance Summary

[Collapse](#)

All Trades

Total Net Profit	\$51,537.67	Profit Factor	6.44
Gross Profit	\$61,005.24	Gross Loss	(\$9,467.57)
Total Number of Trades	13	Percent Profitable	84.62%
Winning Trades	11	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	\$3,964.44	Ratio Avg. Win:Avg. Loss	1.17
Avg. Winning Trade	\$5,545.93	Avg. Losing Trade	(\$4,733.78)
Largest Winning Trade	\$12,957.26	Largest Losing Trade	(\$9,350.64)

These stats look a LOT different. Eleven of thirteen years the market closed higher. And the profit factor was over 6! Let's take a closer look at the instances to learn a little more.

It is the last day of April. SPX has not pulled back > 5% from high of year so far this year. Buy on close. Sell close on last day of October. \$100k/trade. 1961 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
04/28/61	Buy	\$65.31	5.07%	\$5,067.61
10/31/61	Sell	\$68.62		(\$1,377.90)
04/30/63	Buy	\$69.80	6.03%	\$6,701.76
10/31/63	Sell	\$74.01		(\$2,720.80)
04/30/64	Buy	\$79.46	6.80%	\$7,271.24
10/30/64	Sell	\$84.86		(\$1,031.56)
04/30/65	Buy	\$89.11	3.71%	\$3,814.80
10/29/65	Sell	\$92.42		(\$8,426.22)
04/28/67	Buy	\$94.01	(0.12%)	\$3,805.54
10/31/67	Sell	\$93.90		(\$5,931.54)
04/30/71	Buy	\$103.95	(9.35%)	\$0.00
10/29/71	Sell	\$94.23		(\$10,024.04)
04/28/72	Buy	\$107.67	3.63%	\$4,528.64
10/31/72	Sell	\$111.58		(\$2,719.04)
04/30/76	Buy	\$101.64	1.24%	\$6,084.77
10/29/76	Sell	\$102.90		(\$2,958.83)
04/30/85	Buy	\$179.83	5.56%	\$9,029.44
10/31/85	Sell	\$189.82		(\$850.68)
04/28/89	Buy	\$309.63	9.92%	\$16,357.60
10/31/89	Sell	\$340.36		(\$1,793.54)
04/28/95	Buy	\$514.71	12.98%	\$14,734.30
10/31/95	Sell	\$581.50		(\$325.92)
04/28/06	Buy	\$1,310.62	5.14%	\$5,991.08
10/31/06	Sell	\$1,377.94		(\$6,941.08)
04/30/12	Buy	\$1,397.91	1.02%	\$5,438.60
10/31/12	Sell	\$1,412.16		(\$9,313.07)

Avg Run-up: 6.8% Avg Drawdown: -4.2%

We see here that 1 of the 2 losses was only a decline of 0.1%. In other words, 1971 was the only bad year of the bunch. And even 1971 closed with a loss of less than 10%. In fact its max drawdown was almost exactly 10%, and NO other year saw a 10% drawdown. The fact that May is coming and we have not yet had a 5% pullback appears to be a very good thing. And for those that want to see the breakdown looking out over a number of time periods, here you go.

It is the last day of April. SPX has not pulled back > 5% from high of year so far this year. 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
240	131,410.10	13	12	1	92.31	11,072.08	31,936.64	-1,454.84	-1,454.84	7.61	91.33	10,108.47
220	113,898.15	13	11	2	84.62	11,083.76	31,536.32	-4,011.59	-6,048.47	2.76	15.20	8,761.40
200	110,323.54	13	11	2	84.62	10,483.82	28,469.50	-2,499.26	-4,113.81	4.19	23.07	8,486.43
180	98,312.80	13	12	1	92.31	8,237.63	16,511.34	-538.72	-538.72	15.29	183.49	7,562.52
160	97,161.37	13	12	1	92.31	8,434.28	19,828.74	-4,050.02	-4,050.02	2.08	24.99	7,473.95
140	60,888.24	13	10	3	76.92	7,384.77	15,374.50	-4,319.82	-10,678.20	1.71	5.70	4,683.71
120	50,798.99	13	12	1	92.31	4,898.63	14,109.62	-7,984.60	-7,984.60	0.61	7.36	3,907.61
100	50,574.97	13	12	1	92.31	4,653.89	13,979.64	-5,271.76	-5,271.76	0.88	10.59	3,890.38
80	30,549.95	13	8	5	61.54	4,775.67	10,159.10	-1,531.08	-3,415.10	3.12	4.99	2,350.00
60	8,967.64	13	6	7	46.15	5,128.90	8,999.66	-3,115.10	-5,935.54	1.65	1.41	689.82
40	-7,907.56	13	5	8	38.46	4,225.94	5,707.48	-3,629.66	-8,426.22	1.16	0.73	-608.27
20	-671.38	13	7	6	53.85	2,268.49	4,359.04	-2,758.47	-4,649.79	0.82	0.96	-51.64

The 1st 3-4 months (20-80 days) you seen pretty breakeven numbers, but once you get out further than that, gains have been strong and consistent, with 1971 being the lone fly in the ointment.

So these extended rally / seasonality studies both seem to suggest that we could see a pause over the next month or two, but once we look out a few months there appears to be a very good chance the market will be higher than it is today (or the last day of April to be more precise).

So this week we are seeing more evidence that the bull market is likely to continue in the next several weeks and months. Breadth is still a concern, and it will be until we see a higher percentage of new highs achieved than we saw last September. (More details on this can be found in the Quantifiable Edges Study of Tops on the member download page.) But the bullish evidence is mounting. The “5 higher highs” study and the “sharp gain and low 3/10 Offset HV” study from above indicate a decent chance at higher prices over the next couple of weeks. If April finishes positive the “6 up months” study will trigger, as will the “Sell in May unless there hasn’t been a 5% pullback” study. These both suggest the next 6-10 months should see further gains. And of course, the factor I consider to be most important is liquidity flows. The Fed pump is still on. And as long as the Fed is pumping strongly it does not seem advisable to bet against the market. After

briefly being “somewhat bullish”, I have decided to move my intermediate-term outlook back to “bullish”. From a trading standpoint that simply means I will be more aggressive from the long side, and very conservative about shorting.

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 @ \$157.50 LIMIT. If not filled by end of day, raise limit to \$158.20 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to start scaling in to a long SPY position. I placed a limit order about 0.5% below Friday’s close. If not filled, I will be buying on nearly any down close here.

Current Open Trade Ideas

None

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