

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 30, 2013

Volume 6 Issue 82

Market Overview



Signals Overview

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

Tonight's Research Points

- The breakout to a new 50-day high was accompanied by 1) lower volume and 2) an unfilled gap up in the SPY. Both are short-term positives.
- A rising VIX at a 50-day SPX high suggests a pullback.
- Wednesday should be strong seasonally between the Fed Day and the 1st of the month.

Short-term Outlook

The Bottom Line

SPX is back at a new closing high and now overbought. Expectations remain positive though and I will look to possibly buy into a pullback on Tuesday's close.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 30, 2013	Breakout. Unfilled Gap / Low Volume	1-5 days	Bullish	1.50%
April 30, 2013	VIX up SPX up 50-high. Monday	1-2 days	Bearish	
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

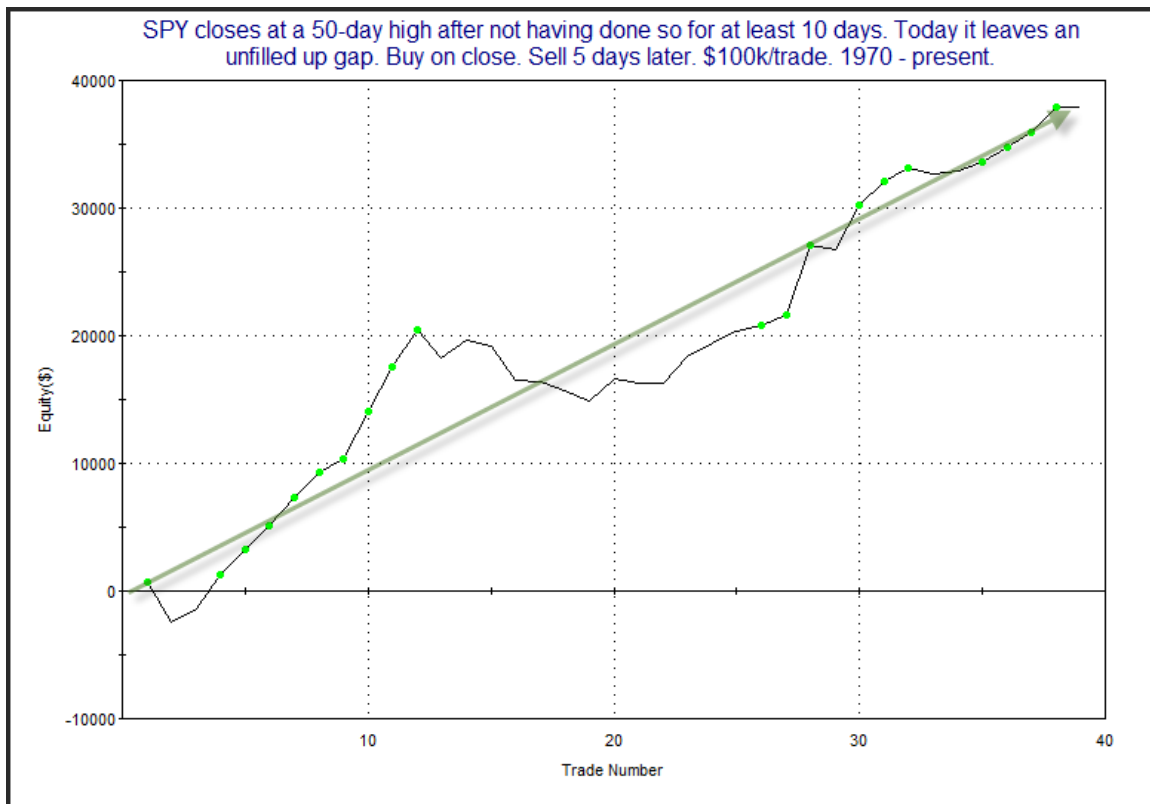
Buyers arrived early and stayed all day. The SPX gained 0.7%, the Nasdaq rose 0.9% and the Russell 2000 rallied 0.8%. Breadth was solidly positive as the NYSE Up Issues % was 72% and the Up Volume % came in at 78%. Total NYSE volume came in at the lowest level in a while.

The strong move up on Monday led to a new 50-day closing high and a breakout of the recent range. There were a number of positives associated with this breakout, including the unfilled gap up and the low volume.

In the 9/7/12 subscriber letter I looked at the importance of an unfilled upside gap. I have revisited that study below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled up gap. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	37,849.43	39	28	11	71.79	1,755.61	5,434.00	-1,027.96	-3,093.12	1.71	4.35	970.50
4	24,274.68	39	28	11	71.79	1,323.44	3,637.92	-1,161.96	-3,267.84	1.14	2.90	622.43
3	20,164.44	39	27	12	69.23	1,208.86	3,992.56	-1,039.55	-2,538.18	1.16	2.62	517.04
2	14,227.32	39	27	12	69.23	846.67	2,545.92	-719.40	-2,293.20	1.18	2.65	364.80
1	3,945.71	39	27	12	69.23	529.33	1,816.10	-862.18	-2,591.68	0.61	1.38	101.17
35 of 39 instances (90%) closed above the entry price at some point in the next 4 days												

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The nice upslope on the equity curve confirms the bullish inclinations.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was nearly the same. This study also appeared in the 9/7/12 Letter and is updated.

SPY closes at a 50-day high after not having done so for at least 10 days. No unfilled gap today.
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	3.13	38	22	16	57.89	1,035.77	2,671.20	-1,423.99	-4,285.26	0.73	1.00	0.08
4	-3,699.03	38	19	19	50.00	1,081.98	2,072.07	-1,276.67	-4,518.34	0.85	0.85	-97.34
3	1,615.79	38	20	18	52.63	1,091.84	2,927.90	-1,123.39	-5,133.72	0.97	1.08	42.52
2	-2,200.67	38	18	20	47.37	700.55	2,324.90	-740.53	-3,640.86	0.95	0.85	-57.91
1	657.06	38	20	17	52.63	475.49	1,586.97	-520.75	-2,448.72	0.91	1.07	17.29

As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.

Another factor to consider about Monday's breakout is that it is occurred on light volume. Textbooks often refer to this as a negative, but the study below, which was last seen in the 10/17/11 Letter shows it is actually a positive.

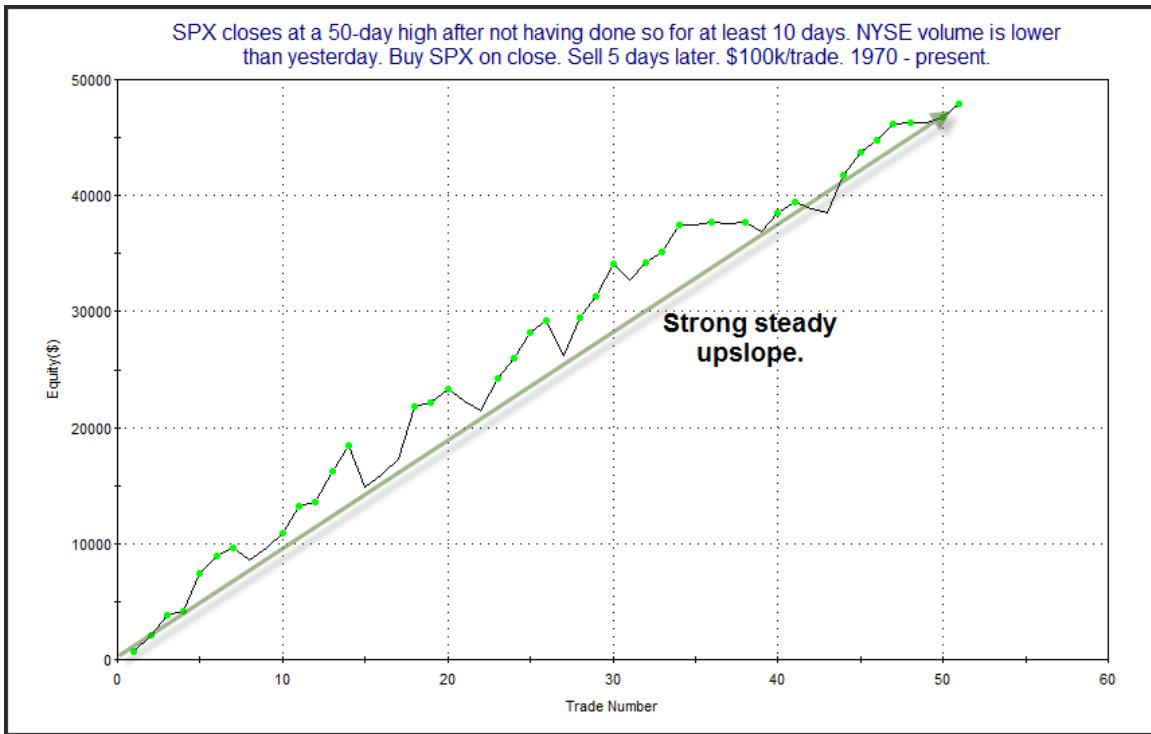
SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.

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	24,934.24	48	28	20	58.33	2,657.08	11,088.84	-2,473.20	-8,157.10	1.07	1.50	519.46
19	29,084.12	49	29	20	59.18	2,574.69	9,628.99	-2,279.10	-9,056.82	1.13	1.64	593.55
18	29,681.11	49	30	19	61.22	2,557.03	11,076.80	-2,475.25	-9,094.80	1.03	1.63	605.74
17	31,541.64	49	30	19	61.22	2,653.89	10,017.28	-2,530.27	-8,682.96	1.05	1.66	643.71
16	32,410.27	49	31	18	63.27	2,502.86	10,944.36	-2,509.92	-9,243.81	1.00	1.72	661.43
15	27,262.64	49	32	17	65.31	2,337.88	8,166.13	-2,797.04	-9,354.92	0.84	1.57	556.38
14	32,443.96	50	35	15	70.00	2,067.78	7,314.30	-2,661.90	-6,525.68	0.78	1.81	648.88
13	32,153.96	51	33	18	64.71	2,071.77	7,780.85	-2,011.91	-5,160.09	1.03	1.89	630.47
12	19,064.95	51	28	23	54.90	2,135.77	5,996.75	-1,771.15	-4,539.14	1.21	1.47	373.82
11	15,804.84	51	27	24	52.94	2,110.17	5,809.60	-1,715.40	-6,029.07	1.23	1.38	309.90
10	20,214.53	51	26	25	50.98	2,165.27	5,960.00	-1,443.30	-4,324.52	1.50	1.56	396.36
9	29,418.59	51	34	17	66.67	1,683.17	5,147.20	-1,635.83	-5,812.26	1.03	2.06	576.84
8	35,827.46	51	36	15	70.59	1,566.80	5,096.00	-1,371.82	-4,186.55	1.14	2.74	702.50
7	33,807.09	51	35	16	68.63	1,422.49	4,655.00	-998.76	-3,211.35	1.42	3.12	662.88
6	45,086.95	51	37	14	72.55	1,520.17	5,002.50	-797.10	-3,563.65	1.91	5.04	884.06
5	47,909.75	51	39	12	76.47	1,562.87	4,482.50	-1,086.84	-3,693.73	1.44	4.67	939.41
4	34,154.88	51	37	14	72.55	1,292.17	4,440.00	-975.39	-2,913.85	1.32	3.50	669.70
3	32,038.59	51	34	17	66.67	1,281.54	3,950.00	-678.45	-1,802.37	1.89	3.78	628.21
2	19,314.91	51	35	16	68.63	865.07	2,212.98	-685.17	-1,912.60	1.26	2.76	378.72
1	7,324.34	51	32	18	62.75	496.62	1,384.02	-475.98	-1,921.32	1.04	1.85	143.61

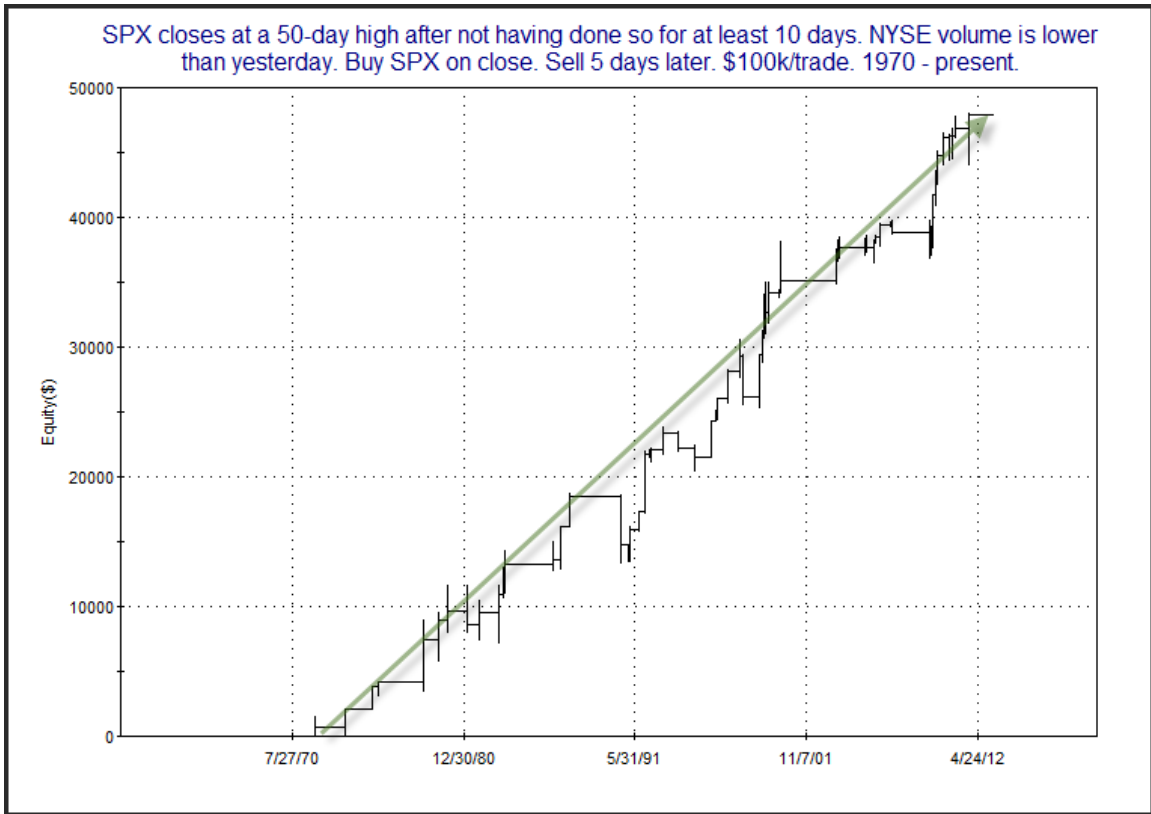
48 of 51 instances (94%) closed above the entry price at some point in the next 5 days.

Here we see that there appears to be a strong upside inclination over the first week. Beyond that there isn't much of an edge.

To see how the 1-week edge has played out over time I have produced a profit curve below.



Profit curves don't often get steadier and smoother than this one. I also ran it using time instead of instances in the x-axis.



This provides further illustration of the persistent upside edge.

For comparison, as I also did in that 10/17/11 letter, I ran the breakout stats when the breakout came on increased volume rather than lower volume. Those are updated below.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	11,902.75	120	59	61	49.17	3,583.82	13,393.77	-3,271.19	-11,548.62	1.10	1.06	99.19
19	28,143.02	122	65	57	53.28	3,337.11	9,135.36	-3,311.74	-11,862.36	1.01	1.15	230.68
18	39,362.06	122	65	57	53.28	3,328.12	9,613.50	-3,104.66	-10,293.66	1.07	1.22	322.64
17	30,853.42	122	67	55	54.92	3,081.42	9,953.84	-3,192.76	-9,419.67	0.97	1.18	252.90
16	32,030.05	124	68	56	54.84	2,984.27	8,910.72	-3,051.79	-8,244.85	0.98	1.19	258.31
15	35,087.66	125	66	59	52.80	2,980.85	8,150.48	-2,739.81	-8,621.45	1.09	1.22	280.70
14	22,854.67	125	69	56	55.20	2,707.30	8,128.38	-2,927.66	-8,338.45	0.92	1.14	182.84
13	26,914.72	125	67	58	53.60	2,688.75	7,911.80	-2,641.92	-8,251.55	1.02	1.18	215.32
12	17,100.67	125	68	57	54.40	2,426.17	10,197.98	-2,594.37	-8,757.15	0.94	1.12	136.81
11	19,919.08	128	68	60	53.13	2,476.79	10,372.44	-2,475.05	-9,482.88	1.00	1.13	155.62
10	13,803.45	128	64	64	50.00	2,371.60	10,507.25	-2,155.92	-8,683.66	1.10	1.10	107.84
9	15,504.62	128	62	65	48.44	2,282.51	8,413.73	-1,938.63	-6,878.68	1.18	1.12	121.13
8	12,819.63	128	68	60	53.13	1,912.62	8,524.75	-1,953.98	-7,085.22	0.98	1.11	100.15
7	30,337.12	128	67	61	52.34	1,903.35	6,337.26	-1,593.24	-7,255.84	1.19	1.31	237.01
6	31,541.16	128	74	54	57.81	1,602.72	6,819.80	-1,612.23	-7,103.18	0.99	1.36	246.42
5	23,142.23	128	65	63	50.78	1,638.45	8,516.82	-1,323.13	-6,088.44	1.24	1.28	180.80
4	6,999.47	128	69	59	53.91	1,269.56	6,716.71	-1,366.11	-5,585.56	0.93	1.09	54.68
3	17,208.01	128	73	55	57.03	1,143.88	6,740.50	-1,205.37	-5,361.06	0.95	1.26	134.44
2	22,881.05	128	77	50	60.16	895.18	4,028.44	-920.95	-4,276.16	0.97	1.50	178.76
1	21,296.59	128	78	50	60.94	579.04	2,755.52	-477.36	-2,722.61	1.21	1.89	166.38

As you can see, higher volume breaks to new highs do not carry the same bullish implications. These stats appear to be almost dead neutral. Of course volume wasn't just down from Friday, it was at the lowest level in quite a while. So I ran a study to what happens when the breakout occurs on the lightest volume in 10 days.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lowest in 10 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	16,595.51	11	7	4	63.64	2,864.97	5,960.00	-864.82	-1,939.50	3.31	5.80	1,508.68
9	19,680.49	11	10	1	90.91	1,981.62	5,147.20	-135.68	-135.68	14.61	146.05	1,789.14
8	18,633.61	11	10	1	90.91	1,935.87	5,096.00	-725.04	-725.04	2.67	26.70	1,693.96
7	13,967.45	11	9	2	81.82	1,645.45	4,655.00	-420.81	-633.88	3.91	17.60	1,269.77
6	17,849.15	11	10	1	90.91	1,862.29	5,002.50	-773.80	-773.80	2.41	24.07	1,622.65
5	16,751.58	11	10	1	90.91	1,783.28	4,482.50	-1,081.20	-1,081.20	1.65	16.49	1,522.87
4	10,912.32	11	8	3	72.73	1,649.25	4,440.00	-760.56	-867.08	2.17	5.78	992.03
3	13,101.08	11	7	4	63.64	2,158.10	3,950.00	-501.41	-1,190.70	4.30	7.53	1,191.01
2	11,208.04	11	10	1	90.91	1,146.50	1,888.00	-256.91	-256.91	4.46	44.63	1,018.91
1	3,479.34	11	8	3	72.73	734.72	1,384.02	-799.46	-1,921.32	0.92	2.45	316.30

All 11 instances closed above the entry price at some point in the next 5 days.

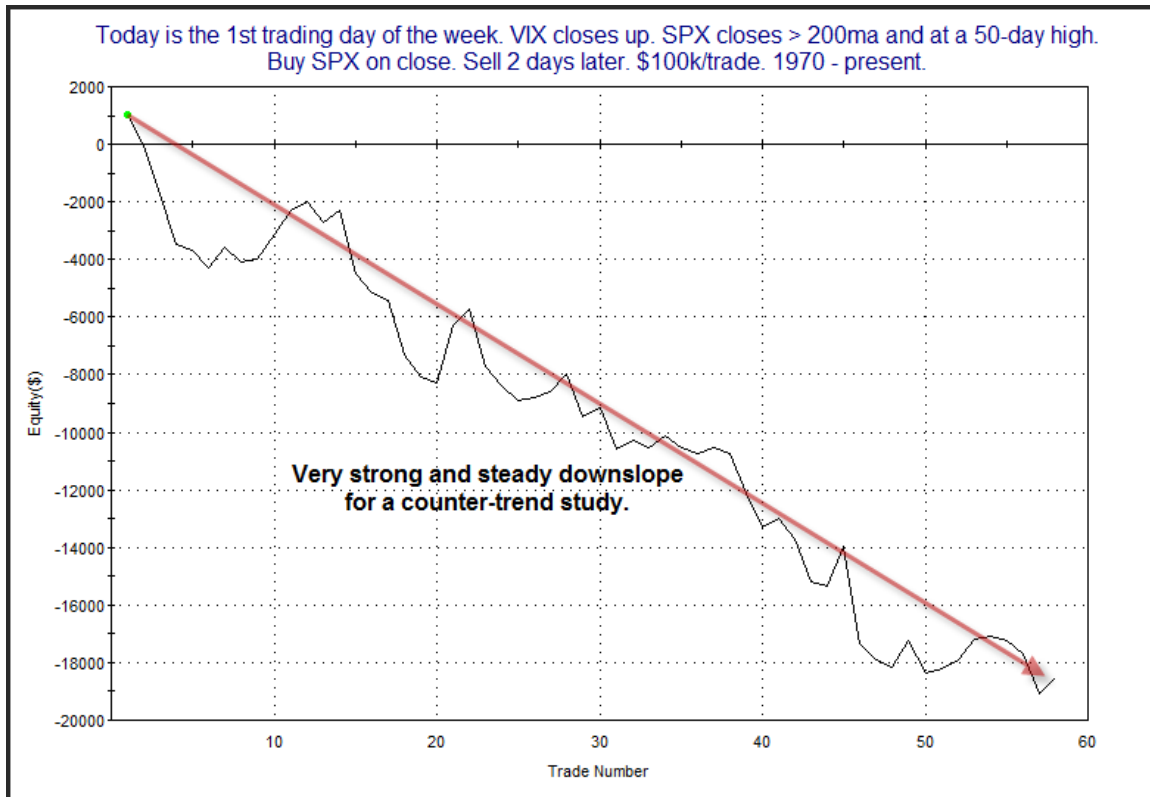
No matter how I slice it, the low volume does not appear to be a concern. Between the unfilled up gap and the low volume the breakout appears to be a solid and provide good evidence of short-term follow through.

On the bearish side, the rising VIX warned of short-term trouble. There were several VIX-related studies that triggered. The one below was from the 8/7/12 letter. It was the most compelling and best represented the current situation.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high.
Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	-8,450.70	53	23	30	43.40	1,310.75	3,565.00	-1,286.60	-5,048.68	1.02	0.78	-159.45
4	-3,218.23	58	27	31	46.55	1,092.20	3,489.10	-1,055.08	-4,271.52	1.04	0.90	-55.49
3	-8,066.18	58	25	33	43.10	876.07	2,641.80	-908.12	-3,887.84	0.96	0.73	-139.07
2	-18,527.38	58	24	34	41.38	559.25	1,981.72	-939.69	-3,372.16	0.60	0.42	-319.44
1	-8,350.53	58	20	38	34.48	384.23	1,222.23	-421.98	-1,580.04	0.91	0.48	-143.97

Results here appear squarely bearish. Below is a profit curve that assumes a 2-day exit strategy.



The strong steady downslope serves as confirmation of the bearish edge.

Also of note is that Wednesday is a Fed Day. Below is an excerpt from the 1/29/13 Letter in which I discuss some Fed Day tendencies (stats not updated).

One thing to keep in mind as we approach the close on Tuesday is that Wednesday is a Fed Day. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 10/23/12 letter. Below are the 4 quartiles from highest to lowest in the daily range (not updated tonight).

SPY closes in top 25% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

TradeStation Performance Summary

Collapse ^

All Trades

Total Net Profit	\$10,668.70	Profit Factor	1.61
Gross Profit	\$28,181.69	Gross Loss	(\$17,512.99)
Total Number of Trades	61	Percent Profitable	50.82%
Winning Trades	31	Losing Trades	28
Even Trades	2		
Avg. Trade Net Profit	\$174.90	Ratio Avg. Win:Avg. Loss	1.45
Avg. Winning Trade	\$909.09	Avg. Losing Trade	(\$625.46)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

SPY closes > 50% and <= 75% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

TradeStation Performance Summary

Collapse ^

All Trades

Total Net Profit	\$12,892.90	Profit Factor	2.01
Gross Profit	\$25,714.89	Gross Loss	(\$12,821.99)
Total Number of Trades	36	Percent Profitable	55.56%
Winning Trades	20	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	\$358.14	Ratio Avg. Win:Avg. Loss	1.50
Avg. Winning Trade	\$1,285.74	Avg. Losing Trade	(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

SPY closes > 25% and <= 50% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

TradeStation Performance Summary				Collapse 
All Trades				
Total Net Profit	\$10,501.80	Profit Factor		2.60
Gross Profit	\$17,070.96	Gross Loss	(\$6,569.16)	
Total Number of Trades	25	Percent Profitable		72.00%
Winning Trades	18	Losing Trades		7
Even Trades	0			
Avg. Trade Net Profit	\$420.07	Ratio Avg. Win:Avg. Loss		1.01
Avg. Winning Trade	\$948.39	Avg. Losing Trade	(\$938.45)	
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)	

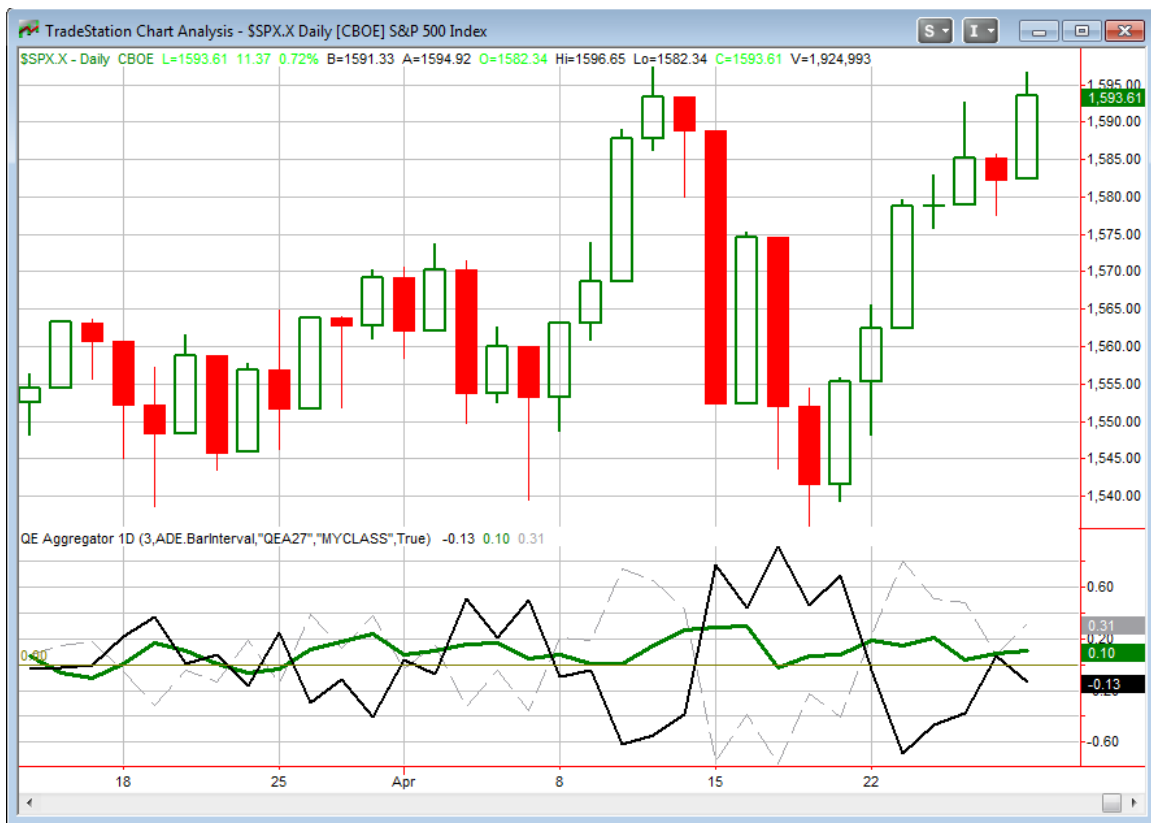
SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 2003 - 9/30/2012

TradeStation Performance Summary				Collapse 
All Trades				
Total Net Profit	\$20,552.27	Profit Factor		4.08
Gross Profit	\$27,234.96	Gross Loss	(\$6,682.69)	
Total Number of Trades	35	Percent Profitable		74.29%
Winning Trades	26	Losing Trades		9
Even Trades	0			
Avg. Trade Net Profit	\$587.21	Ratio Avg. Win:Avg. Loss		1.41
Avg. Winning Trade	\$1,047.50	Avg. Losing Trade	(\$742.52)	
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)	

What was true 2.5 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Traders that may look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

Lastly, Wednesday is the 1st day of the month. I have detailed numerous times in the past that the 1st day of the month has bullish tendencies. I'll go into more detail on these tendencies in tomorrow night's Letter.

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



With tonight's studies factored in 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 fell down below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are bullish but the SPX is now 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 turn flat.

Based on the current studies, expectations are slated to remain positive on Tuesday. Of course this could change if strongly compelling bearish evidence emerges. The Differential Pivot will be 1,591.24 on Tuesday. This is just 0.15% below Monday's close. So it would not take much of a drop to move the SPX back into oversold territory.

Monday's breakout appears bullish, and even prior to that we were seeing predominantly bullish indications. The VIX study provides some reason for caution, but most of what I am seeing is pointing higher, and we will have some bullish seasonality come into the picture on Wednesday. So while it was unfortunate that the gap up this morning kept me from getting filled on my SPY trade, I will consider going long near the close on

Tuesday. This may be a very short-term trade, and I could exit as early as just before the Fed announcement on Wednesday.

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

The intermediate-term outlook was last updated in the 4/29 letter. Link below:
[2013-04-29 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 IF IT CLOSES IN THE BOTTOM ½ OF IT'S DAILY RANGE AND @ A \$159.29 LIMIT ON CLOSE.

Based on the short-term outlook above, I will look take a small SPY position. In all likelihood I will exit this Wednesday before the Fed announcement.

Current Open Trade Ideas

None

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