

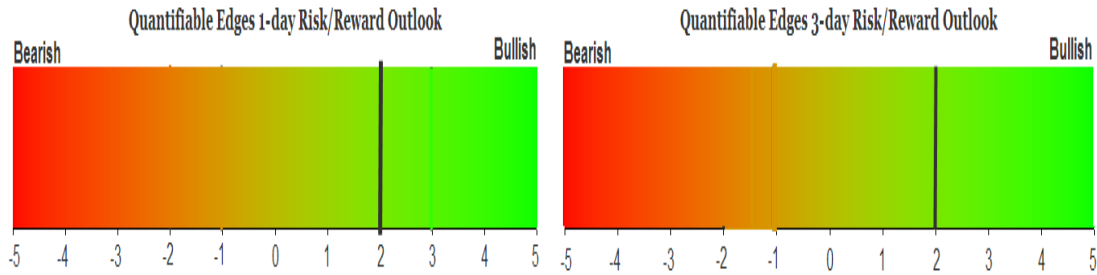
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 2, 2013

Volume 6 Issue 84

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX down < 1% from 50-day high on 2:1 negative breadth has often led to 1-2 more days of selling.
- Strong drops from 50-day highs have consistently been followed by bounces.

Short-term Outlook

The Bottom Line

The majority of the evidence is still bullish and SPX is now mildly oversold. I like the long side, and will look to begin scaling in to an index position if SPY continues lower.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
May 2, 2013	Bad breadth drop from high. < 1% dn.	1-2 days	Bearish	-1.60%
May 2, 2013	50-high yest. Biggest drop in 10 today.	1-4 days	Bullish	1.20%
May 1, 2013	End of month at high of month	1-5 days	Bullish	2.30%
April 30, 2013	Breakout. Unfilled Gap / Low Volume	1-5 days	Bullish	1.50%
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%
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	
Dropped Tonight				
April 30, 2013	VIX up SPX up 50-high. Monday	1-2 days	Bearish	
April 24, 2013	SPX up 2% in 3 days. 3/10OffHV < 0.25	1-6 days	Bullish	2.00%

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

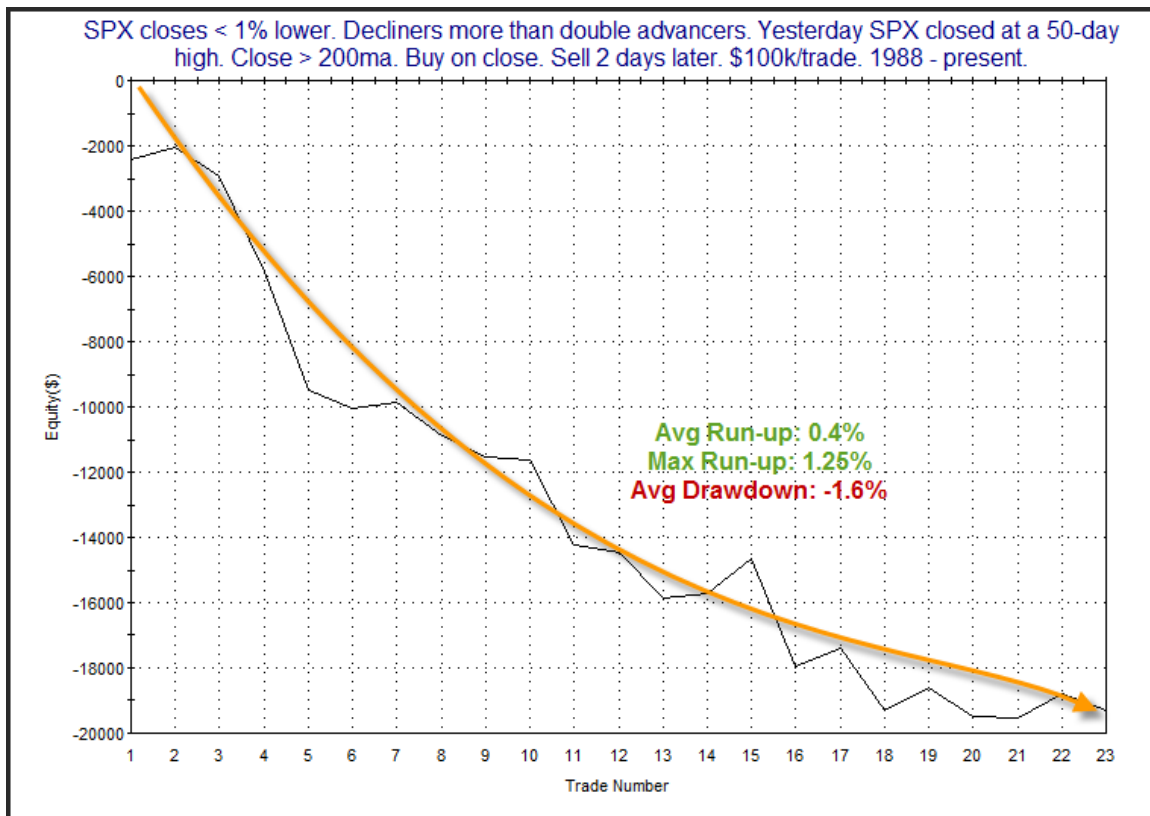
The Evidence

Wednesday showed the kind of weakness rarely seen on a Fed Day. In fact it was only the 5th Fed Day that posted an unfilled gap down since the inception of the SPY in 1993. The other 4 instances occurred 12/21/93, 9/24/02, 8/10/10, and 3/15/11. Results following these 4 instances were mixed. The SPX finished Wednesday with a 0.9% loss. Nasdaq also lost 0.9% while the Russell 2000 fell 2.4%. Breadth was strongly negative as the NYSE Up Issues % was 26% and the Up Volume % came in at 17%. Total NYSE volume fell from Tuesday's level.

A few studies triggered tonight in the Quantifinder. I have highlighted the 2 most compelling ones below. This first one was last seen in the 9/18/12 Letter. Stats are all updated.

SPX closes < 1% lower. Decliners more than double advancers. Yesterday SPX closed at a 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	-3,379.47	22	14	8	63.64	667.93	2,181.96	-1,591.31	-2,538.28	0.42	0.73	-153.61
4	-8,762.92	23	10	13	43.48	756.04	1,232.88	-1,255.64	-3,709.52	0.60	0.46	-381.00
3	-17,649.33	23	6	17	26.09	418.90	1,098.37	-1,186.04	-3,721.09	0.35	0.12	-767.36
2	-19,320.07	23	7	16	30.43	539.78	1,077.12	-1,443.66	-3,611.48	0.37	0.16	-840.00
1	-14,119.66	23	7	16	30.43	551.30	832.48	-1,123.67	-3,794.40	0.49	0.21	-613.90

The implication here is that when the SPX is coming off a high level and it holds up relatively well despite broad selling, it will often have further to drop. The selling in the broad market could spill over into the large caps. There's a chance they could even play catch-up to the downside. The good news for bulls here is that the bearish inclinations have only lasted a couple of days. In addition to the edges suggested by the “% profitable” and the “avg trade” columns, the win:loss ratio is also strongly skewed. Risks appears to far outweigh reward. Below is a profit curve using a two day exit strategy.



We see here a fairly steady downmove. This study appears well worthy of consideration. The stats shown on the chart are especially impressive, with downside risks swamping upside reward as the results table seemed to imply.

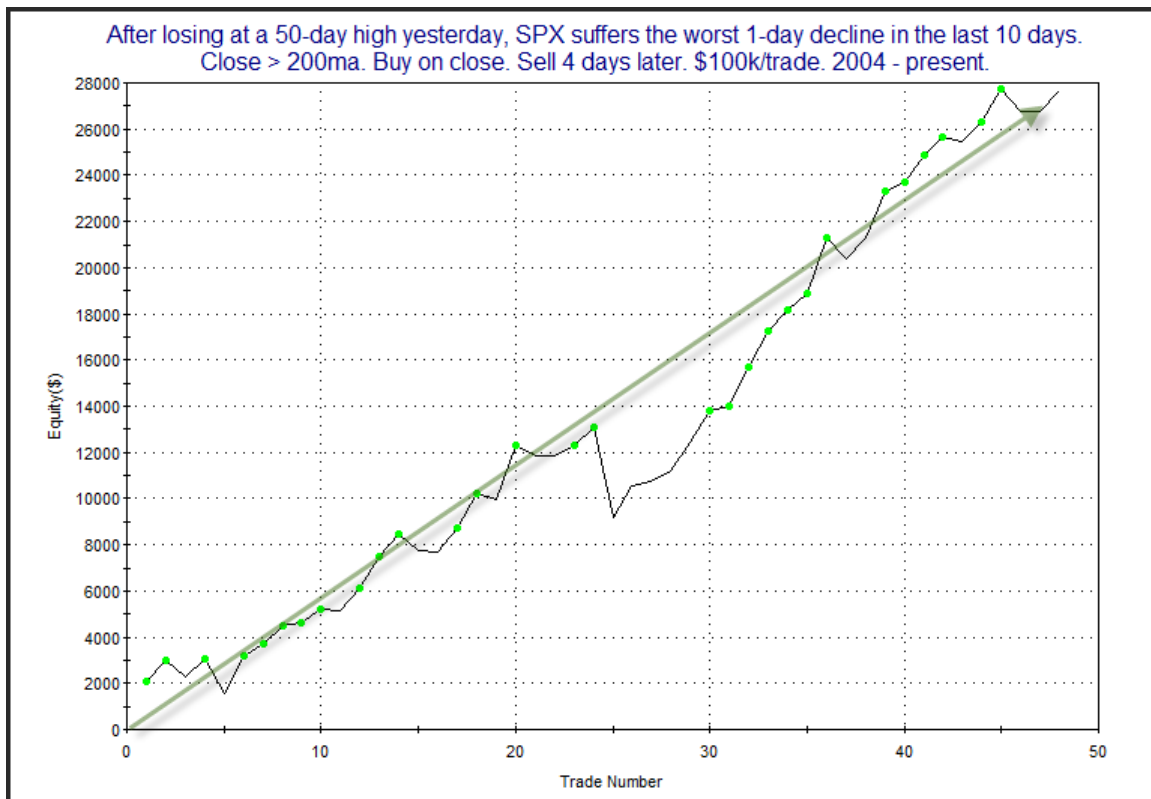
But there were also studies that suggested a bullish edge. The study below considers such factors as Tuesday's 50-day high, Wednesday's oversized drop, and the long-term trend. It was last seen in the 4/4/13 Letter. I have updated all the stats.

After losing at a 50-day high yesterday, SPX suffers the worst 1-day decline in the last 10 days.
 Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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	23,358.42	45	31	14	68.89	1,348.61	2,693.34	-1,317.74	-3,454.00	1.02	2.27	519.08
4	27,705.04	48	35	13	72.92	1,073.00	2,399.28	-757.68	-3,895.76	1.42	3.81	577.19
3	16,849.29	49	34	15	69.39	817.37	2,159.82	-729.41	-1,808.21	1.12	2.54	343.86
2	9,611.30	50	29	21	58.00	760.07	2,437.50	-591.95	-1,777.55	1.28	1.77	192.23
1	3,460.40	50	29	21	58.00	506.35	1,249.60	-534.46	-1,354.59	0.95	1.31	69.21

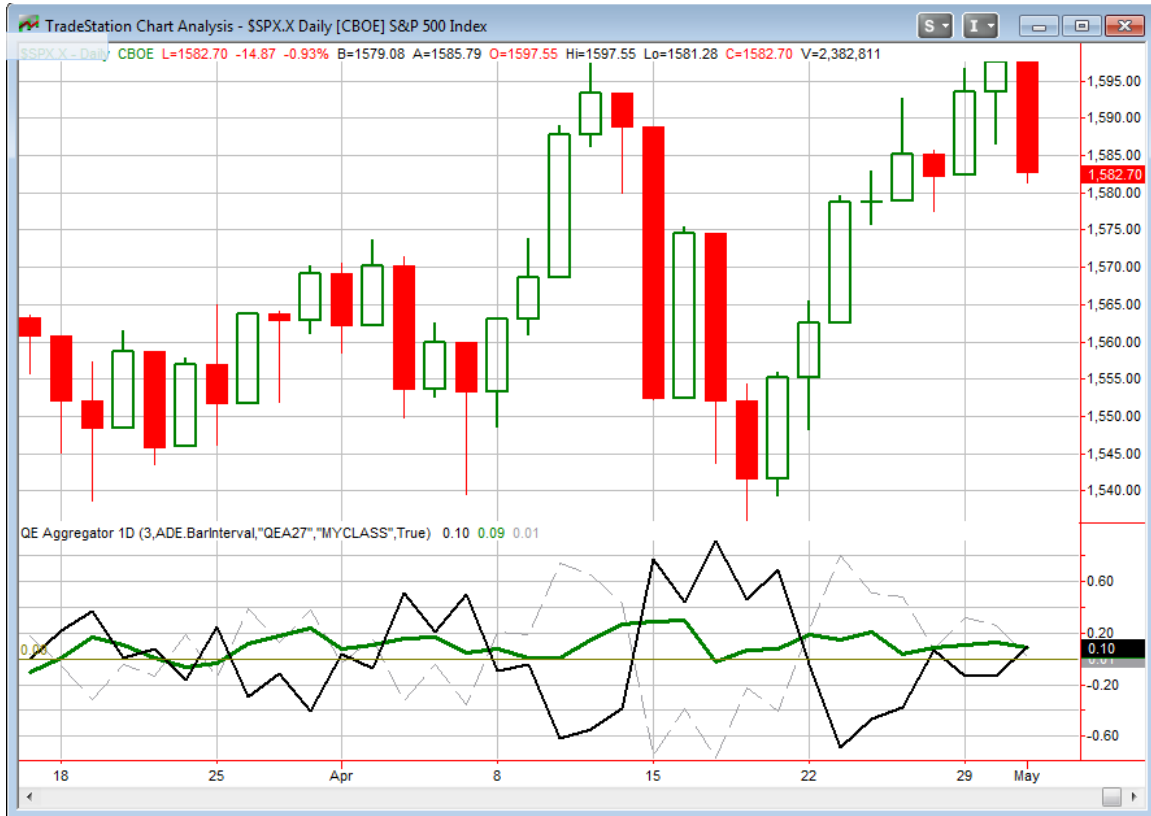
46 of 50 instances (92%) closed above the entry price at some point in the next 5 days.

Over the last 9 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



The steady upslope seems to confirm the bullish inclination. I've included this study on the active list.

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



With tonight's studies factored in the green Aggregator Line 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 rose 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 slightly 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.

Based on the current studies, expectations are slated to remain positive on Thursday. Of course this could change if strongly compelling bearish evidence emerges. The Differential Pivot will be 1,597.14 on Thursday. This is 0.9% above Wednesday's close. So it would take a close higher of at least this much to move the SPX back into "overbought" territory.

So we have some mixed evidence that is leaning bullish. And we have a market that is now mildly oversold. That all suggests a long-side edge, but not a terribly strong one.

The bearish study tonight really only suggests a downside edge for 1-2 days. So even if it holds true, we could very well see a bounce play out here soon. I'll look to start scaling in to a long index position on Thursday, but only if SPY closes down again.

On another note, there are no Catapults triggered at the moment, which is no surprise being that we are just coming off a high. But looking at the formation of many stocks in the S&P 100, if this selloff does accelerate and we get a few more days of strong selling, then the CBI (number of Catapults) could quickly spike. Nothing to really concern ourselves with just yet, but interesting to note that a selloff could garner strong support (via a high CBI) pretty quickly, and that would be fairly unusual so soon after a high. I'll keep close watch.

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 at \$158.27 LIMIT ON CLOSE.** Based on the short-term outlook above, if SPY closes down on Thursday, I will begin scaling in long.*

Current Open Trade Ideas

None

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