

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 3, 2013

Volume 6 Issue 85

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 pattern of unfilled gaps suggests a possible downside edge, but the edge does not appear as strong as it once did.
- Friday's Employment Report could add volatility, but does not carry the substantial directional edge it once did.

Short-term Outlook

The Bottom Line

The evidence is still bullish, but the market is again at new highs and also mildly overbought. So I do not want to add long exposure at this point, and would prefer to wait for a better opportunity.

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. 3/10 OffHV < 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

Wednesday's selloff is already a distant memory. Strong gains were seen all around on Thursday. The SPX gained 0.9%, the Nasdaq rallied 1.3%, and the Russell 2000 rose 1.7%. Breadth was strongly positive as the NYSE Up Issues % was 75% and the Up Volume % came in at 76%. Total NYSE volume declined for the 2nd day in a row.

Action in SPY the last couple of days has been interesting as it has left unfilled gaps in both directions. The study below is from the 2/14/12 subscriber letter. It looks at other instances where you had a 20-day closing high, then an unfilled gap down, and then an unfilled gap up. All results are updated.

SPY closes at a 20-day high 2 days ago. It leaves an unfilled gap down yesterday. It leaves an unfilled gap up today. Buy on close. Sell X days later. \$100k/trade. 1994 - 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
6	-14,594.80	19	6	13	31.58	1,243.01	2,489.06	-1,696.38	-4,567.68	0.73	0.34	-768.15
5	-11,976.48	19	8	10	42.11	740.50	1,638.76	-1,790.04	-3,536.78	0.41	0.33	-630.34
4	-3,750.57	19	10	9	52.63	1,002.60	2,184.76	-1,530.72	-3,068.91	0.65	0.73	-197.40
3	-3,797.59	19	9	10	47.37	944.67	1,700.60	-1,229.96	-3,417.83	0.77	0.69	-199.87
2	-3,695.40	19	6	13	31.58	1,109.47	2,150.80	-796.32	-2,510.75	1.39	0.64	-194.49
1	-1,762.64	19	7	12	36.84	510.56	1,361.70	-444.72	-1,459.12	1.15	0.67	-92.77

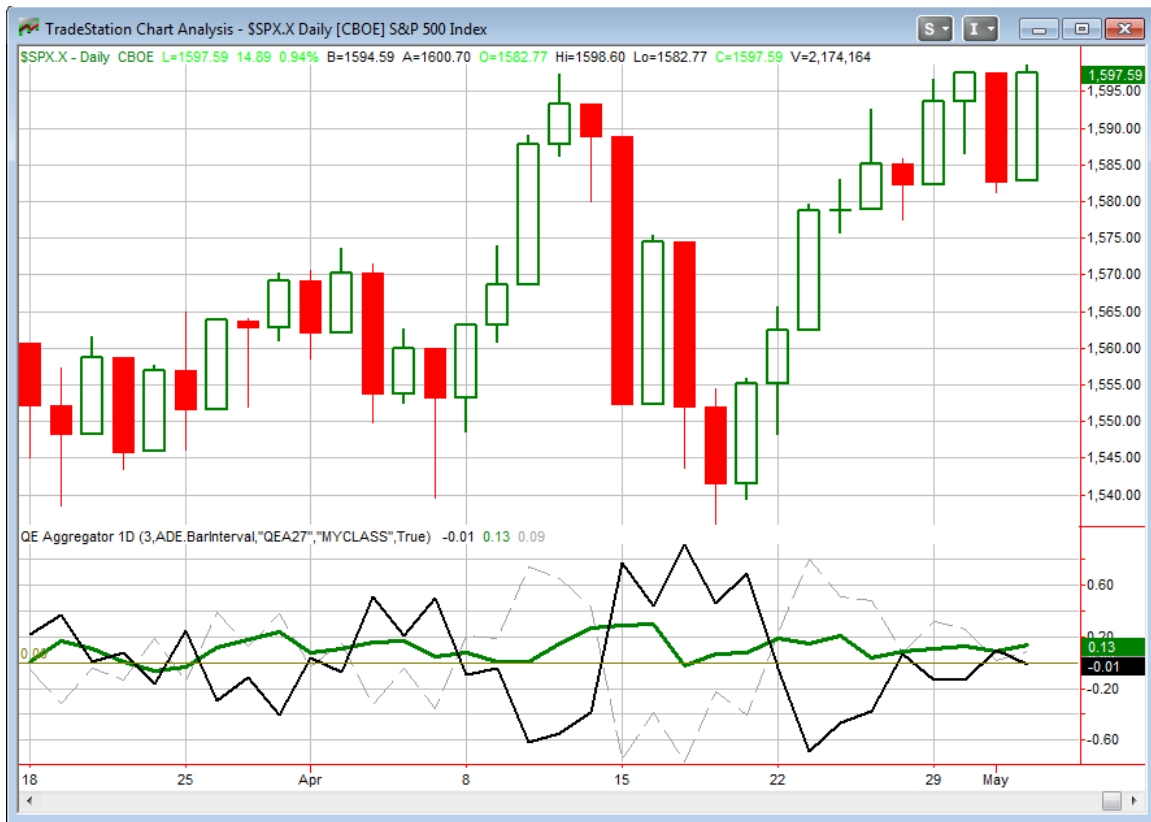
These results seem to suggest a mild downside edge over the next 6 days. But they are not nearly as compelling as they once looked. In fact, from 1-4 days out there is very

little edge at all. I examined all the profit curves, and the 6-day is the only one that is even remotely appealing...and the 6-day holding period has now seen 3 moves higher in a row (against the apparent bearish edge). With evidence not as compelling as it once was, I have decided not to include this study on the active list tonight. I will continue to keep an eye on it for a while, though to see if the bearish inclination begins to re-assert itself.

While there is nothing truly compelling standing out tonight, and I will not be adding any studies to the Active List, it is worth noting that Friday is an Employment Day. Employment Day's used to show strong seasonality, but that has not been the case in recent years. This is something I showed in the blog in November. You may use the link below if you wish to read the article.

<http://quantifiableedges.blogspot.com/2012/11/employment-days-just-aint-what-they.html>

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



Once again tonight the green Aggregator Line remained squarely above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dove down to just below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are bullish but the SPX is now slightly 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 change from long to flat at the close.

Based on the current studies, expectations are slated to remain positive on Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *inverted* at 1,602.55 on Friday. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. So for SPX to remain overbought will require a 0.3% higher close.

With the inverted pivot we could very easily see a bullish Aggregator configuration at the close on Friday. Aggressive traders could certainly anticipate this scenario and look to buy during the day or at the close on Friday if there is weakness. I'm not going to set up a potential trade just yet. I'd rather first see what new evidence emerges on Friday, and then take that into consideration for a possible entry on Monday.

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.

None tonight.

Current Open Trade Ideas

None

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