

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 7, 2013

Volume 6 Issue 87

Market Overview



Signals Overview

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

Tonight's Research Points

- 3 unfilled up gaps has often been followed by losses the next day.

Short-term Outlook

The Bottom Line

Nothing really changed tonight. The evidence is still bullish, but the market is again at new highs and also quite overbought. So I do not want to add long index 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 7, 2013	3 unfilled up gaps	1 day	Bearish	
May 6, 2013	2 Unfilled Up Gaps. 50-day high.	1-3 days	Bullish	0.90%
May 1, 2013	End of month at high of month	1-5 days	Bullish	2.30%
Active - Long Term				
May 6, 2013	Nasdaq leading SPX	int term	Bullish	
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

More gains on Monday and new highs once again. The SPX closed up 0.2%, the NASDAQ gained 0.4%, and the Russell 2000 rose 0.6%. Breadth was positive as the NYSE Up Issues % was 59% and the Up Volume % came in at 66%. Total NYSE volume was very light.

One notable about Monday was that it marked the 3rd day in a row that the SPY posted an unfilled up gap. This has rarely happened since the SPY began trading in 1993. The study below examined other instances and was last seen in the 8/8/12 letter. Results are updated.

SPY leaves an unfilled up gap for the 3rd day in a row. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.			
TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	(\$3,652.90)	Profit Factor	0.06
Gross Profit	\$215.30	Gross Loss	(\$3,868.20)
Total Number of Trades	12	Percent Profitable	25.00%
Winning Trades	3	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	(\$304.41)	Ratio Avg. Win:Avg. Loss	0.17
Avg. Winning Trade	\$71.77	Avg. Losing Trade	(\$429.80)
Largest Winning Trade	\$121.04	Largest Losing Trade	(\$1,126.25)

On average we've only seen this occur about once every 2 years. Statistics strongly favor the downside. I listed below all 12 instances along with their day 1 returns.

SPY leaves an unfilled up gap for the 3rd day in a row. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/31/94	Buy	\$48.22	(0.52%)	\$0.00
02/01/94	Sell	\$47.97		(\$642.63)
04/06/95	Buy	\$50.75	(0.08%)	\$236.40
04/07/95	Sell	\$50.71		(\$551.60)
05/14/96	Buy	\$66.77	(0.12%)	\$808.38
05/15/96	Sell	\$66.69		(\$179.64)
09/16/96	Buy	\$68.80	(0.23%)	\$261.54
09/17/96	Sell	\$68.64		(\$828.21)
12/01/97	Buy	\$98.09	(0.60%)	\$0.00
12/02/97	Sell	\$97.50		(\$1,559.07)
10/29/99	Buy	\$137.00	(1.05%)	\$0.00
11/01/99	Sell	\$135.56		(\$1,049.76)
11/05/99	Buy	\$137.88	0.09%	\$362.50
11/08/99	Sell	\$138.00		(\$819.25)
07/02/01	Buy	\$124.13	(0.02%)	\$0.00
07/03/01	Sell	\$124.10		(\$869.40)
06/15/07	Buy	\$153.07	(0.12%)	\$208.96
06/18/07	Sell	\$152.89		(\$267.73)
09/03/10	Buy	\$110.89	(1.13%)	\$0.00
09/07/10	Sell	\$109.64		(\$1,207.34)
03/09/12	Buy	\$137.57	0.01%	\$137.94
03/12/12	Sell	\$137.58		(\$348.48)
08/07/12	Buy	\$140.32	0.12%	\$234.96
08/08/12	Sell	\$140.49		(\$363.12)

5 of 12 instances posted unfilled gaps down the next day.

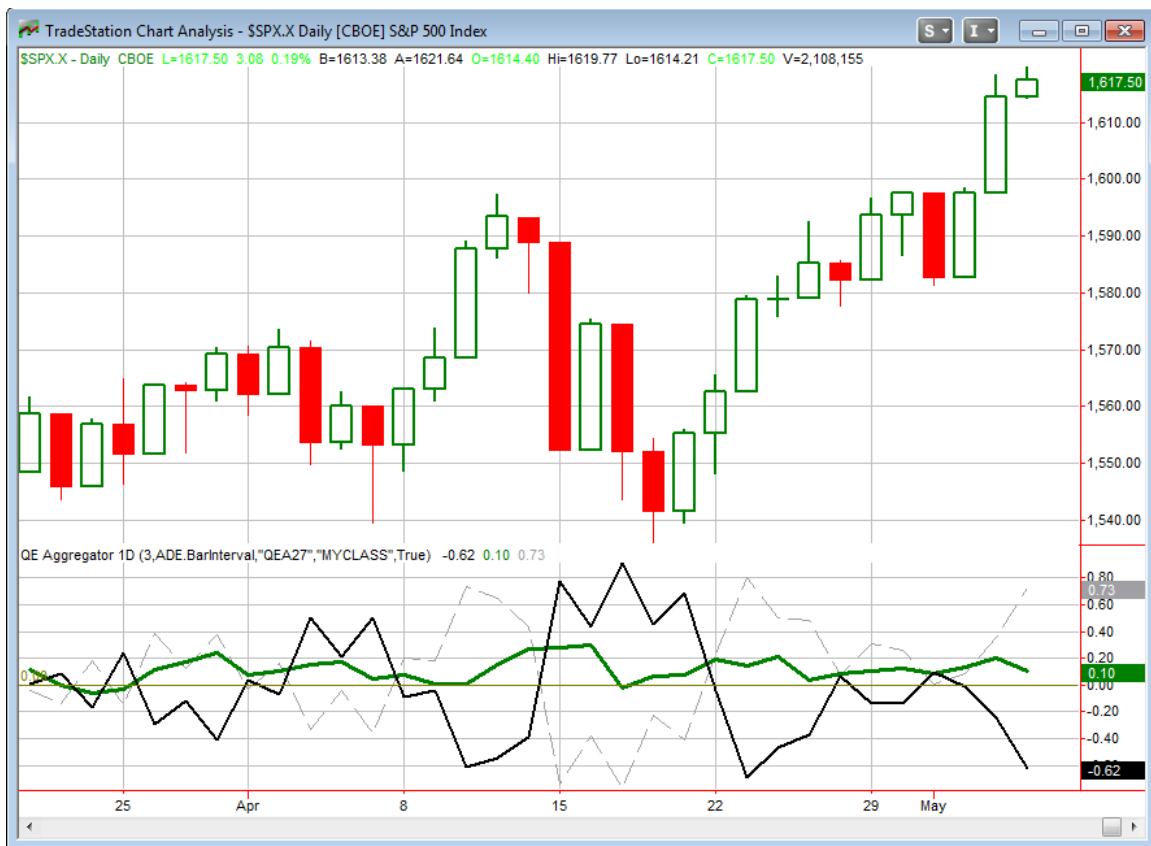
I find it especially interesting that so many instances gapped down and never filled the next day after 3 consecutive unfilled up-gaps. The 3 instances that did manage to close higher only squeaked out a gain of less than 0.25% - and in those cases the intraday drawdowns were all larger than the intraday runups.

There were a few other bearish Quantifinder studies that appeared that I elected not to include in my analysis tonight. One examined the high close and the very low SPY volume. While the setup had been followed by a pullback on a consistent basis over a long time, it had not fared as well in recent years. The last 2 times I included in the letter I warned that I may suspend it if it continued to act counter to history. And so tonight I

have suspended that study, though I will continue to keep an eye on it. Some other studies looked at the tight range on Monday. But when examining them more closely, I found they simply were not bearish during strong uptrends. So they also were not included.

Therefore, only the one study above qualified for the active list tonight.

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



With tonight's study factored in the green Aggregator Line 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 now 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 Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,602.95 on Tuesday. That is 0.9% below Monday's close. So it will take a close lower of at least this much in order for the SPX to change from overbought to oversold versus expectations.

Expectations continue to favor the bulls, but the market is so stretched short-term that it could snap back at any time. I prefer to wait and observe in situations like this. The overbought market would carry too much risk for new index positions. So I am mostly sidelined.

Interestingly, there was 1 Catapult that triggered on Monday. So I have listed that below and I will look to start scaling into a position there on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/6 –bullish

The intermediate-term outlook was last updated in the 5/6 letter. Link below:

[2013-05-06 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

EXC- buy 1/3 @ \$35.25 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(EXC)

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.

***EXC – buy 1/3 Catapult position @ \$35.25 LIMIT.** This is a Catapult trade that I will start scaling into. Catapults have been very volatile over the years. I would encourage anyone interested in trading them to first explore them further. Past performance is available on the Trade Idea Results sheet, which can be found on either the downloads page or the systems page. More information can also be found using the [Catapult & CBI Presentation Link](#)*

Current Open Trade Ideas

None

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