

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 10, 2013

Volume 6 Issue 90

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days and weeks.

## *Short-term Outlook*

### *The Bottom Line*

The pullback looks bullish so far. Another down day tomorrow would turn SPX to short-term oversold and likely lead me to get long. But for now I am waiting to see how things unfold.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
May 10, 2013	Pullback from persistent upmove	1-4 days	Bullish	1.30%
<b>Active - Long Term</b>				
May 10, 2013	5 days up to 50-high, then 1 down	1-10 days	Bullish	2.00%
May 9, 2013	Breadth Confirms Rally (Study of Tops)	int term	Bullish	
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%
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.

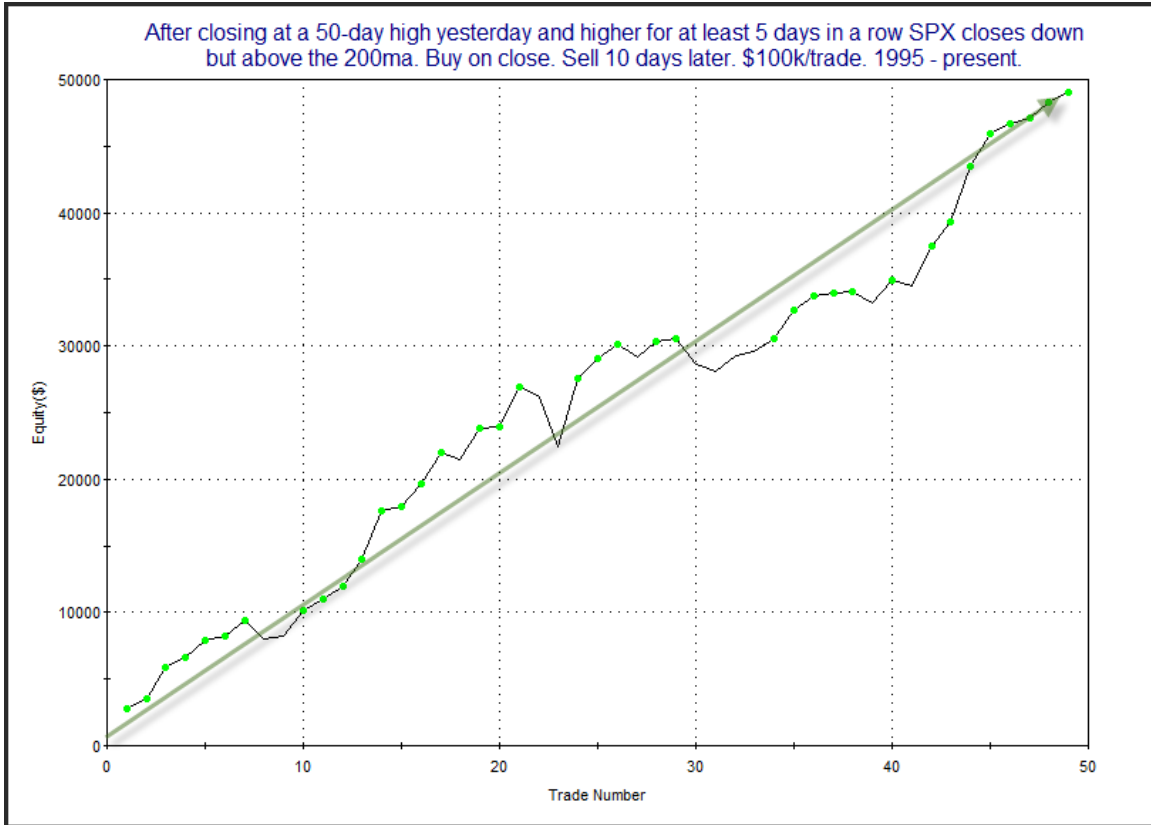
**The Evidence**

The market took a little break on Thursday and the major indices finally posted down days. The SPX fell 0.4%, the NASDAQ dropped 0.1%, and the Russell 2000 declined 0.4%. Breadth was solidly negative as the NYSE Up Issues % was 35% and the Up Volume % came in at 34%. Total NYSE volume sank from the levels of the last couple of days.

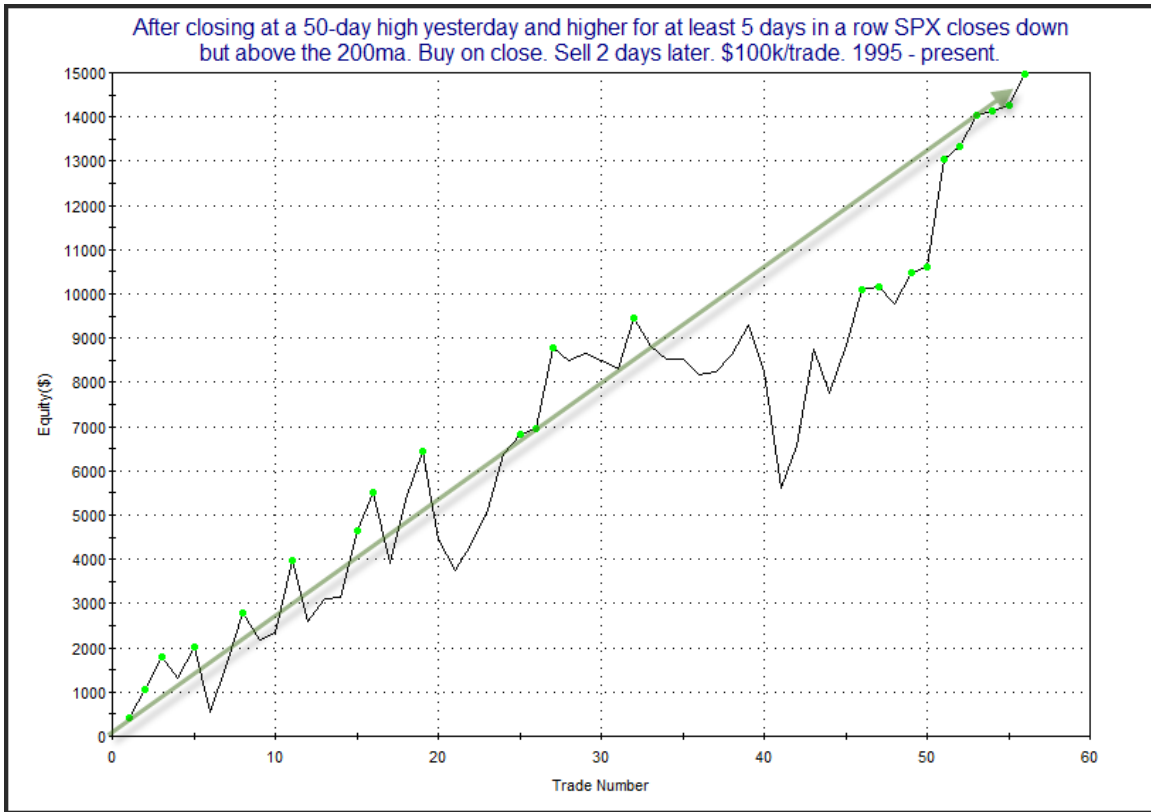
A few studies triggered tonight that suggested the recent persistent upmove is unlikely to abruptly end. The two I will discuss were both last seen in the 3/13/13 Letter. I have updated the stats for both of them. The first one examines pullbacks after 5+ day runs to new highs.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but above the 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	48,996.15	49	40	9	81.63	1,503.57	5,131.35	-1,238.51	-3,672.90	1.21	5.40	999.92
9	48,658.37	52	42	10	80.77	1,497.39	5,023.20	-1,423.22	-4,151.40	1.05	4.42	935.74
8	40,980.12	53	36	17	67.92	1,684.59	4,878.08	-1,156.77	-4,874.10	1.46	3.08	773.21
7	32,756.64	54	35	19	64.81	1,552.67	3,874.76	-1,136.15	-3,912.48	1.37	2.52	606.60
6	33,129.42	56	37	19	66.07	1,420.34	4,307.20	-1,022.26	-3,637.71	1.39	2.71	591.60
5	24,192.62	56	34	22	60.71	1,236.19	4,252.50	-810.80	-2,466.75	1.52	2.36	432.01
4	25,077.99	56	34	22	60.71	1,232.19	3,843.00	-764.39	-3,003.39	1.61	2.49	447.82
3	14,349.69	56	35	21	62.50	909.21	2,472.85	-832.03	-1,992.34	1.09	1.82	256.24
2	14,953.04	56	38	18	67.86	792.87	2,437.50	-843.10	-2,614.95	0.94	1.99	267.02
1	8,867.02	56	35	20	62.50	557.56	1,751.19	-532.39	-1,744.10	1.05	1.83	158.34

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a quick little boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 2-day curve.



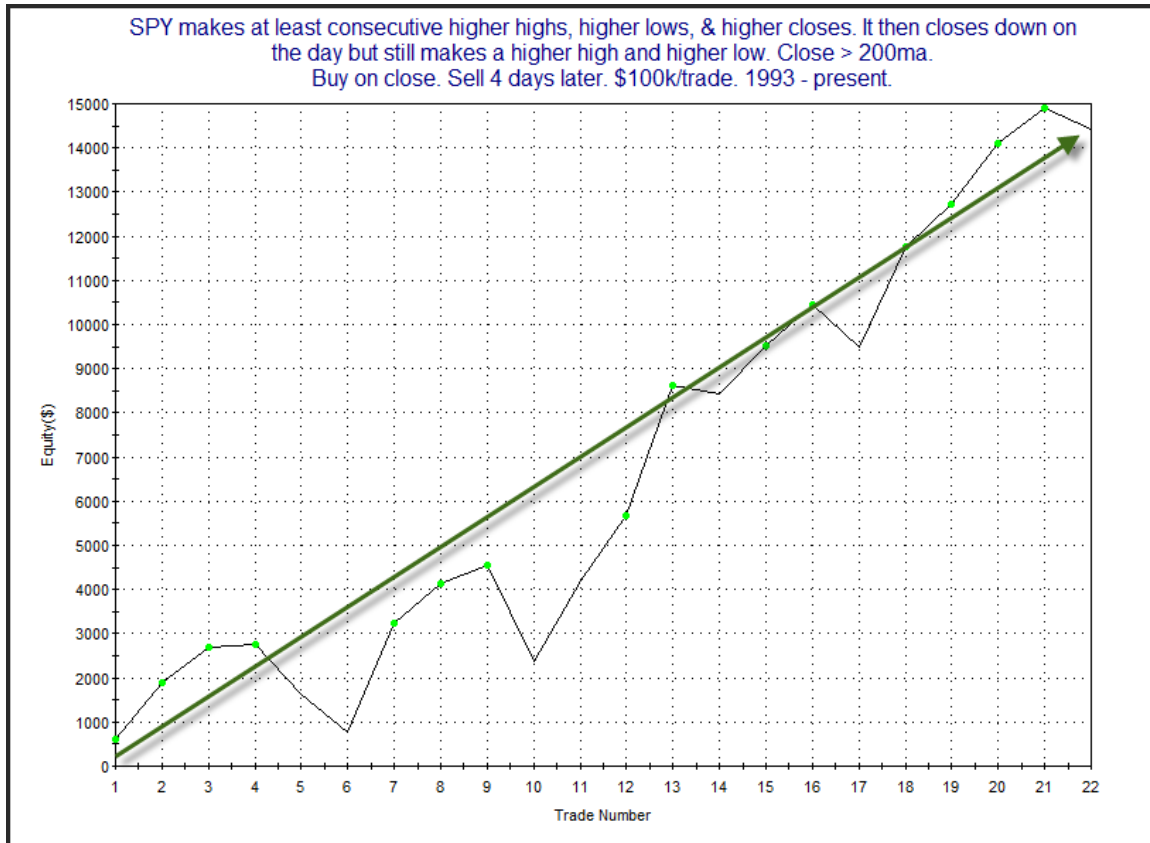
Results are choppy here but the curves look somewhat similar. And even with more whipsaws this one appears worthy of consideration.

While SPY pulled back Thursday and closed lower, it still made a higher high and a higher low. The 2<sup>nd</sup> study from the 3/13/13 letter examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

SPY makes at least consecutive higher highs, higher lows, & higher closes. It then closes down on the day but still makes a higher high and higher low. Close > 200ma. 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	9,519.59	22	13	9	59.09	1,441.49	3,602.64	-1,024.42	-2,800.26	1.41	2.03	432.71
4	14,438.81	22	16	6	72.73	1,262.64	2,958.05	-960.58	-2,191.22	1.31	3.51	656.31
3	6,991.63	22	15	7	68.18	895.34	2,432.70	-919.77	-2,640.33	0.97	2.09	317.80
2	5,696.02	22	17	4	77.27	621.54	2,004.60	-1,217.54	-1,804.67	0.51	2.17	258.91
1	3,898.88	22	14	8	63.64	473.67	1,002.03	-341.55	-1,137.92	1.39	2.43	177.22

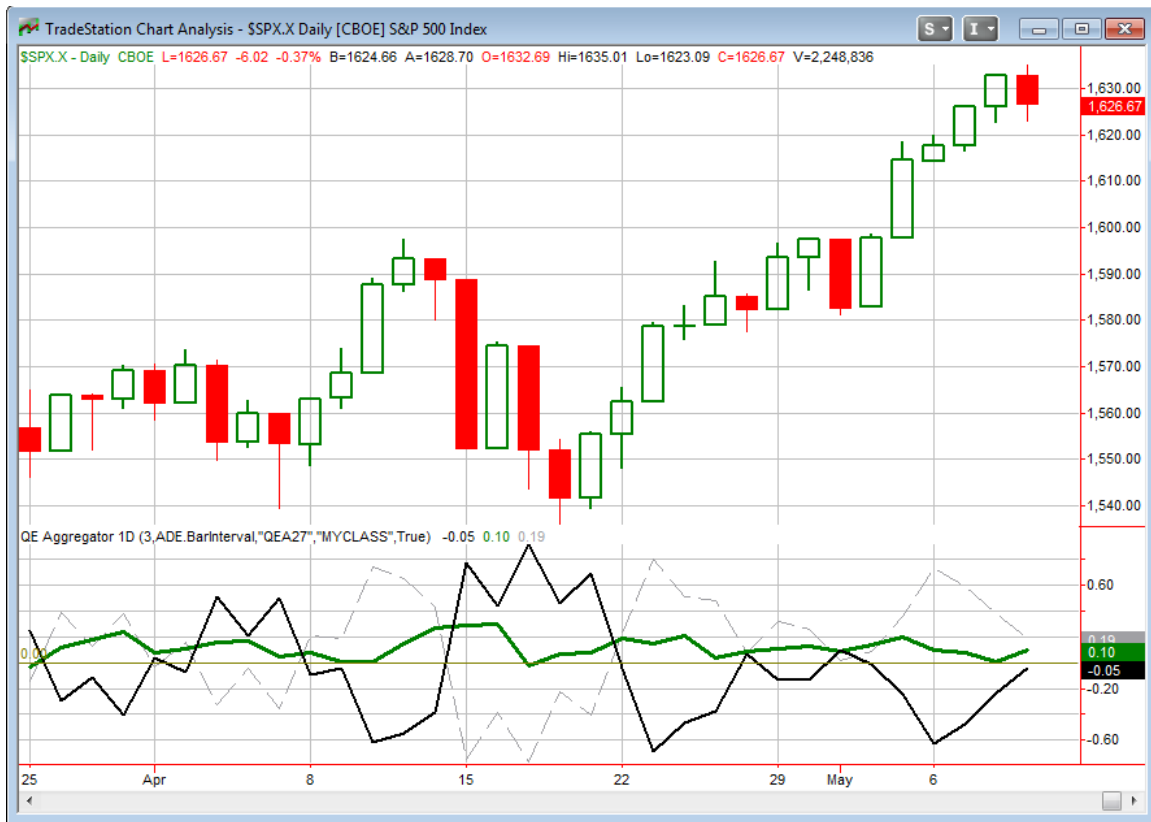
There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



The upslope is impressive. This study also appears worthy of consideration.

Both of these studies are similar in that they consider the persistent move higher prior to the 1<sup>st</sup> down day. Since they are so similar I have simply lumped them together as one study for purposes of inclusion in the Aggregator.

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



With tonight's studies factored in the green Aggregator Line moved higher 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 still below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are bullish but the SPX is 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 Friday. Of course this could easily change if compelling bearish evidence emerges. The Differential Pivot will be *inverted* at 1,632.00 on Friday. This is 0.3% *above* Thursday's close. An inverted pivot means that the Differential Line will move through 0 if SPX closes flat. In this case SPX will need to rise at least 0.3% in order to remain "overbought" versus expectations. Anything less than this and SPX will be considered "oversold".

I am still neutral for tonight, but with the inverted pivot it looks like there is a good chance the Aggregator will move into a bullish configuration tomorrow if SPX closes down. Should that happen, I will likely look to buy Monday morning. Interestingly, there was 1 more Catapult system trade that triggered Thursday afternoon. I have listed it in the Trade Ideas section down below.

**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- bought 1/3 @ \$35.25 limit

New

ETR – 1/3 @ \$67.00 (buy @ limit)

**Catapult for ETF's Trades**

None

**Broad Market Large Cap CBI – 2(EXC, ETR)**

**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.

**ETR – buy 1/3 Catapult position@ \$67.00 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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EXC(1/3)	5/7/2013	\$35.25	\$35.60	0.99%		Catapult

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