

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 13, 2013

Volume 6 Issue 91

Market Overview



Signals Overview

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

Tonight's Research Points

- POMO flows continue strong and liquidity appears set to continue acting as a strong bullish wind at the markets back.

Short-term Outlook

The Bottom Line

New highs again on Friday kept the market overbought. But we are still not seeing evidence of an imminent pullback. I'll continue to wait for more favorable risk/reward before looking to take on index exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
May 10, 2013	Pullback from persistent upmove	1-4 days	Bullish	1.30%
Active - Long Term				
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

A late day surge on Friday helped the major indices all close at new highs. The SPX gained 0.4%, the NASDAQ rose 0.8%, and the Russell 2000 rallied 0.9%. Breadth was solidly positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 67%. Total NYSE volume came in at the lightest level in a few weeks.

Despite the new closing highs the Quantifinder did not reveal any studies with compelling directional edges. That is not unusual when the market is bumping along with mild gains and back and forth action near intermediate-term highs. I studied a few observations that I found interesting, such as Friday being both a long-term closing high and an inside day, but nothing proved fruitful. So with a long weekend of travel and business and personal obligations, I am going to keep it short and sweet tonight. Friday gave us nothing new to include for the short-term active list.

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



Without anything new tonight 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 remains 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 Monday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be slightly *inverted* at 1,635.58 on Monday. This is 0.1% *above* Friday'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 0.1% in order to remain "overbought" versus expectations. Anything less than this and SPX will be considered "oversold".

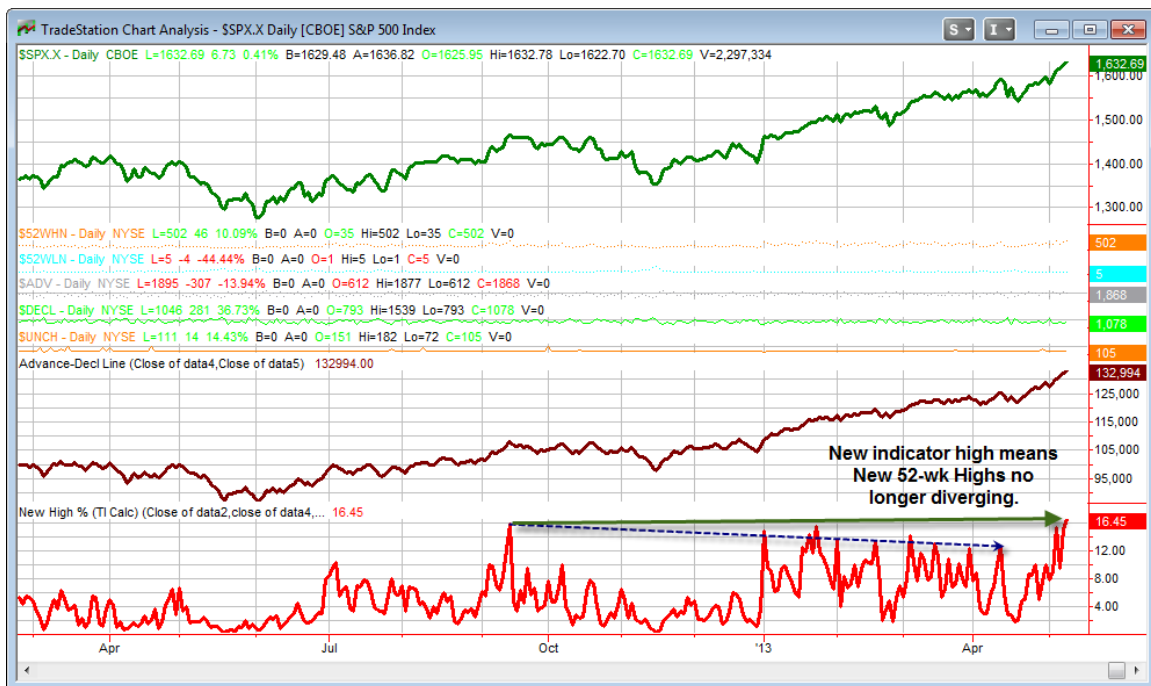
For short-term traders looking for a low-risk entry this past week could have been frustrating. But thankfully the studies have continued to point north and though I have not had any index swing opportunities, I have not been tempted to try and short this overbought market either. Bears are having the worst time of all. Patience is key, and I only play when the odds are in my favor. Right now, risk/reward is not strong enough for me to try and take on a new index position. So I'll continue to wait and evaluate each day, looking for the next favorable opportunity.

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/13 –bullish

The market put in another strong week, and is again at new highs, erasing any doubt of an uptrend. The persistent move higher has been impressive, and we have seen more bullish evidence build for the intermediate-term.

There was one very positive sign given by the market on Wednesday, and that was the expansion in the number of stocks hitting new 52-week highs. Despite repeated new highs for the SPX, the % of stocks hitting new 52-week highs had faltered since last September. That changed on Wednesday as 16.5% of NYSE issues made new 52-week highs.

In the Quantifiable Edges Study of Tops (always available on the Downloads page for subscribers) I went through every major top since 1970. For purposes of that study I defined a “major top” as any top that was followed by a decline of at least 20%. I found that in every case, there was a divergence in % of NYSE issues hitting new 52 week highs, and that the divergence was in effect for at least 2 months before any market top. Here is an updated chart with that indicator.



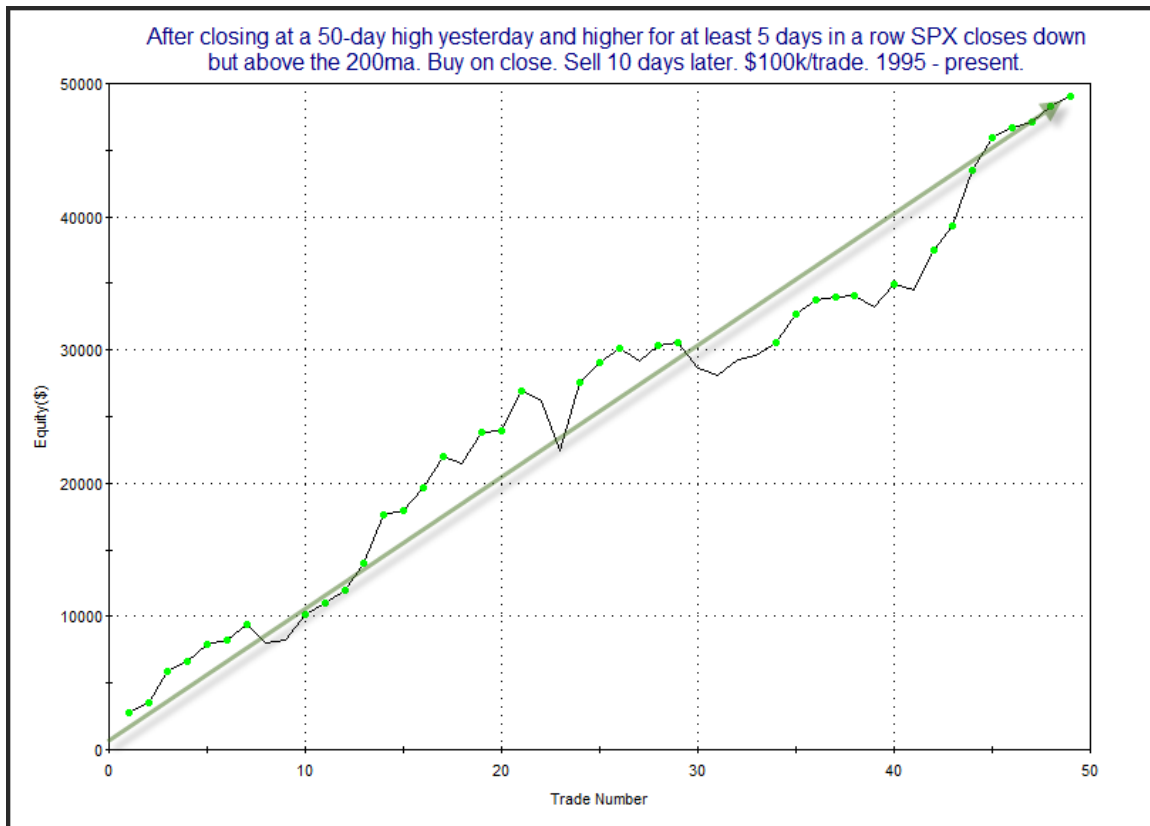
Of course the market can always do something it never has before. (We’ve seen several of those over the years.) But Wednesday’s accomplishment appears to greatly reduce the risk of a bear market beginning any time in the next 2 months. For a view of all tops since 1970, please refer to the Study of Tops. Here is a link for your convenience.

[QEStudyOfTops.pdf](#)

Another study with intermediate-term significance that triggered this week was the one below, which I have copied from the 5/10/13 Letter.

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

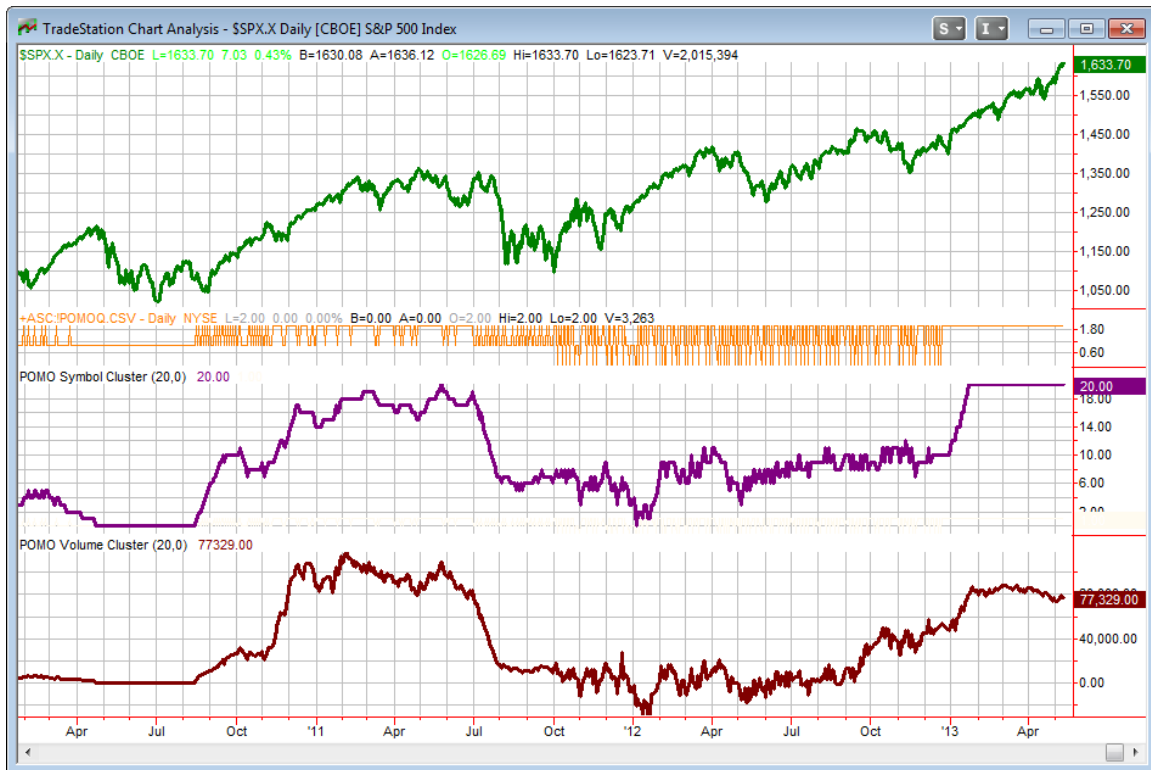
We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. Here is a look at the profit curve with a 10-day exit strategy.



The strong upslope appears to confirm the bullish edge suggested by the stats table.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS volume indicator curled back up a little this week. The days indicator is *still* maxed out at 20, which was a rarity during past QE implementations, but has been the norm so far this year. We estimate net inflows this past week to have been about \$20.3 billion, which is an impressive amount. In the past, inflows of this magnitude have typically been bullish.

This upcoming week we expect to see liquidity flows of about \$19.8 billion. This should continue to keep the liquidity environment positive.

We continue to see a buildup of bullish indications. And with the expansion of New Highs on Wednesday, all of the studies on the intermediate-term active list are now pointing higher. The leading Nasdaq, the strong run to new highs, the “6 up months” study and the “Sell in May unless there hasn’t been a 5% pullback” study, and more are on our list. And of course, the factor I consider to be most important is liquidity flows. The Fed pump is still on. And as long as the Fed is pumping strongly it does not seem advisable to bet against the market. So my intermediate-term outlook remains bullish again this week. From a trading standpoint that generally means I will be more aggressive from the long side, and very conservative about shorting.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

EXC- bought 1/3 @ \$35.25 limit

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EXC(1/3)	5/7/2013	\$35.25	\$35.75	1.42%		Catapult
EXC(1/3)	5/10/2013	\$67.00	\$67.49	0.73%		Catapult

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2013 Hanna Capital Management, LLC.