

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 14, 2013

Volume 6 Issue 92

Market Overview



Signals Overview

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

Tonight's Research Points

- Weak breadth on a day the SPX rises suggests a downside edge.

Short-term Outlook

The Bottom Line

Expectations are now slightly negative, but the SPX has underperformed expectations over the last few days. This again leave me without much of an edge, and in “wait and be ready to pounce” mode.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
May 14, 2013	SPX up. Up Issues % < 40%. SPX > 200	1-3 days	Bearish	
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.

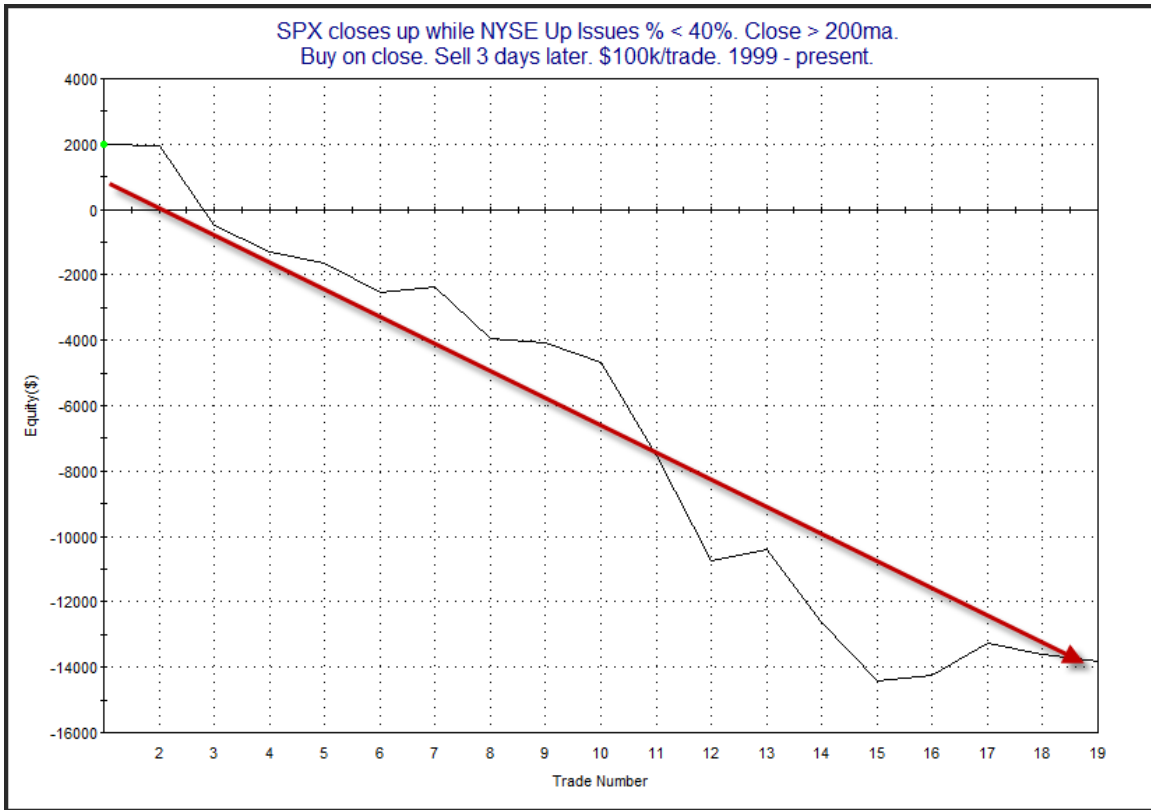
The Evidence

After spending much of the day in negative territory the market managed to close mixed. The SPX gained 0.07 points and the NASDAQ rose 0.1%, but the Russell 2000 fell 0.1%. Breadth was negative as the NYSE Up Issues % was 37% and the Up Volume % came in at 41%. Total NYSE volume came in at the lightest level in a long time.

Monday's weak breadth could imply negative ramifications moving forward. In the 8/23/12 Subscriber Letter I looked at other instances where the SPX closed higher while the Up Issues % came in under 40%. Results above the 200ma showed a steady and persistent downside edge. I have updated them below.

SPX closes up while NYSE Up Issues % < 40%. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-7,578.52	19	9	10	47.37	943.09	3,850.49	-1,606.63	-3,398.20	0.59	0.53	-398.87
4	-10,881.23	19	7	12	36.84	947.38	3,230.74	-1,459.41	-4,083.30	0.65	0.38	-572.70
3	-13,800.60	19	5	14	26.32	733.44	2,002.32	-1,247.70	-3,191.92	0.59	0.21	-726.35
2	-11,348.54	19	8	11	42.11	595.32	1,278.75	-1,464.64	-3,844.10	0.41	0.30	-597.29
1	-4,387.25	19	7	12	36.84	1,080.17	2,468.88	-995.70	-2,302.95	1.08	0.63	-230.91

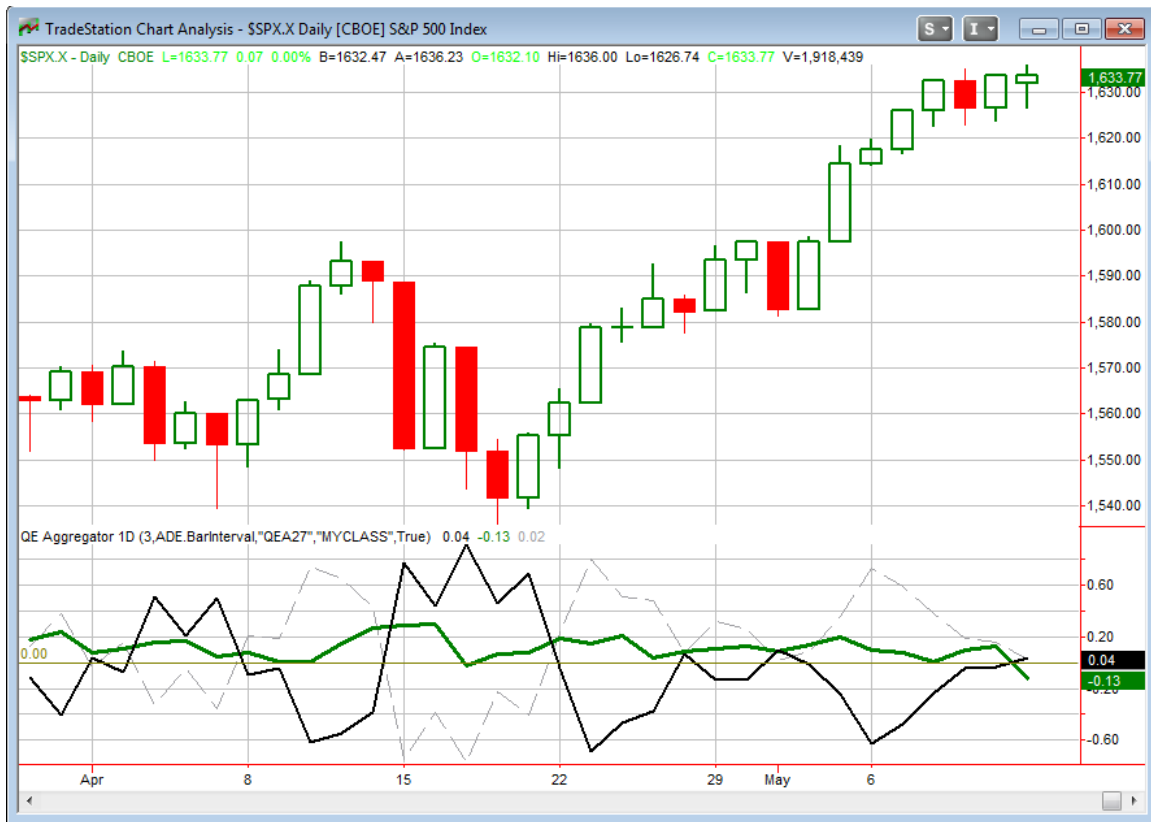
The numbers here appear to suggest a solid downside edge. Now let's take a peek at the equity curve assuming a 3-day holding period.



The downslope is fairly steady and impressive, especially considering that we are using a "bull market" filter.

There were also a number of volume studies that triggered in the Quantifinder Monday afternoon. Upon close examination, none of them seem to be showing the same kind of edge that they once did. Many of them showed profit curves that have been flattening out lately. So while I will leave many of them in the Quantifinder for now, I did not find them worthy of inclusion on the Active List tonight.

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



With tonight's bearish study the green Aggregator Line dropped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line rose above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. (Even though SPX is at new highs it has not risen as much over the last few days as the studies had suggested.) So expectations are bearish but the SPX is now oversold. 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 negative on Tuesday. Of course this could change if compelling bullish evidence emerges. The Differential Pivot will be slightly *inverted* at 1,629.49 on Tuesday. This is 0.3% *below* Monday'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 close down 0.3% in order to remain "oversold" versus expectations. Anything less than this and SPX will be considered "overbought".

With everything flipping tonight I am no closer to a high probability entry than I was last night. So once again I will give the market whatever time it needs to get into a position with a strongly favorable risk/reward opportunity. I still have a couple of Catapults active, but no index trades, and I will not be looking to take on new exposure on Tuesday.

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

The intermediate-term outlook was last updated in the 5/13 letter. Link below.

[2013-05-13 QE Subscriber Letter.pdf](#)

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	\$34.93	-0.91%		Catapult
ETR(1/3)	5/10/2013	\$67.00	\$67.43	0.64%		Catapult

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