

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 15, 2013

Volume 6 Issue 93

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- VIX up mid-week while SPX hits a 50-day high used to suggest a 1-2 day bearish edge, but that has not been the case over the last year.

Short-term Outlook

The Bottom Line

The market is now overbought and expectations are for a pullback. But with trend, liquidity, and the intermediate-term outlook so bullish I have no intention of trying a short trade here. Aggressive or very agile traders could look to take advantage of the overbought condition, but I'll sit this one out.

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	
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	
Dropped Tonight				
May 10, 2013	Pullback from persistent upmove	1-4 days	Bullish	1.30%

If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

It was another strong Tuesday for the market as sizable gains were seen all around. The SPX gained 1.0%, the NASDAQ rose 0.7%, and the Russell 2000 rallied 1.3%. Breadth was very positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 78%. Total NYSE volume was higher than the last 3 days.

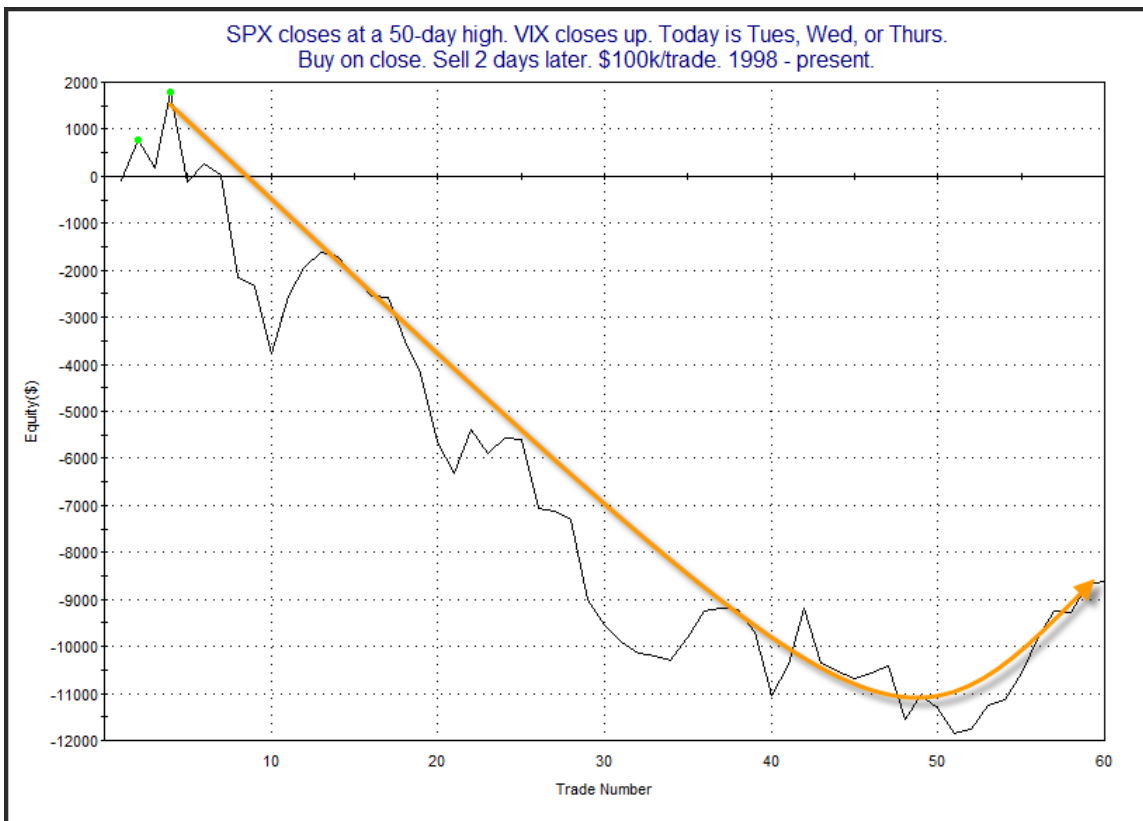
The Quantifinder is designed to color-code studies. So bearish studies are red, bullish studies are green, and if they are interesting or notable, but not necessarily bullish or bearish, then a study is colored black. We have been seeing a number of bearish (red) studies either turn black or be removed from the Quantifinder lately. The ones that this has happened to mostly all also use a long-term trend filter. The study below is one that was last seen in the 3/7/13 letter and fits under this category.

It looks at other times the VIX has risen while the SPX has closed at a 50-day high midweek. VIX action on Mondays and Fridays is influenced by the weekend so I commonly segregate midweek from Mondays and Fridays when I run VIX-based studies. I have updated the results.

SPX closes at a 50-day high. VIX closes up. Today is Tues, Wed, or Thurs.
Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-11,518.31	55	29	26	52.73	724.12	2,108.40	-1,250.68	-4,171.80	0.58	0.65	-209.42
4	-7,493.57	58	28	30	48.28	732.23	1,719.75	-933.20	-4,354.72	0.78	0.73	-129.20
3	-2,680.73	58	31	27	53.45	608.99	2,381.25	-798.49	-2,091.82	0.76	0.88	-46.22
2	-8,623.53	60	24	36	40.00	550.91	1,609.50	-606.82	-2,182.68	0.91	0.61	-143.73
1	-7,274.10	69	36	33	52.17	268.67	1,281.75	-513.52	-1,721.70	0.52	0.57	-105.42

The stats suggest a mild bearish inclination over the 1st few days. The profit curve below assumes a 2-day holding period.

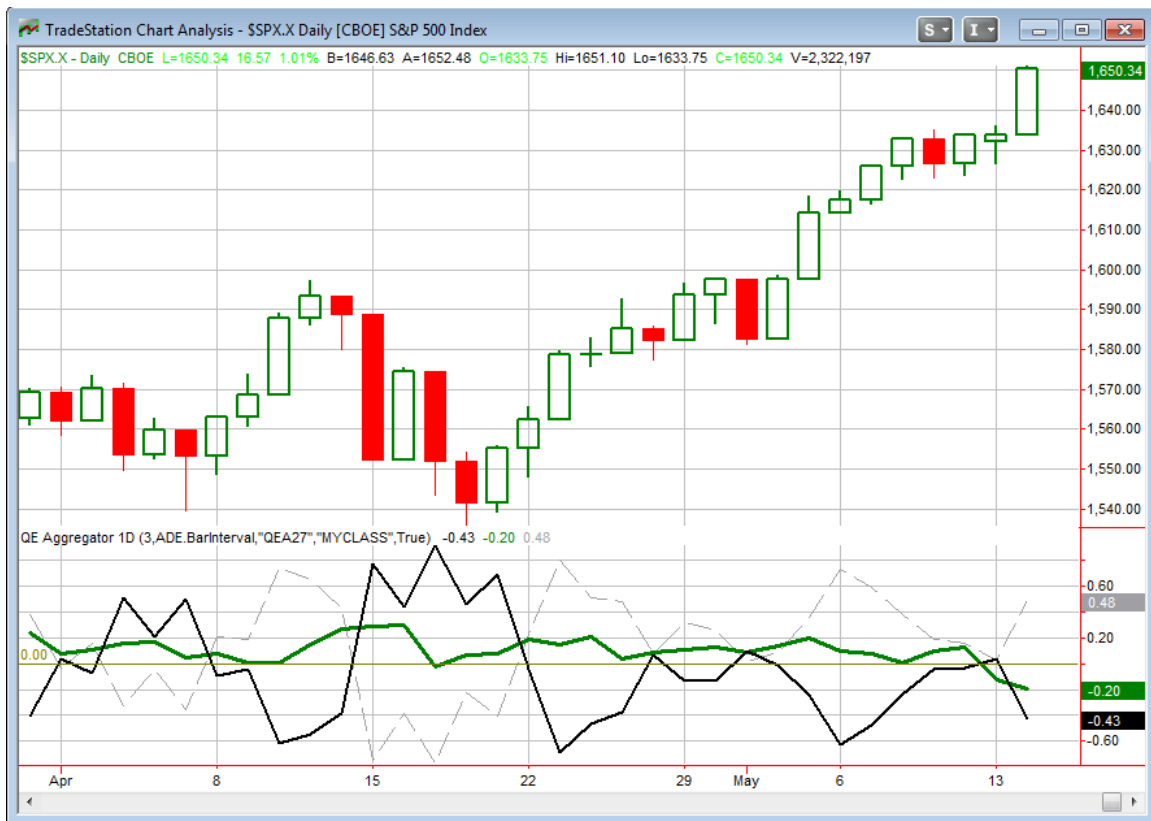


This equity curve bottomed out in Feb 2012. Over the last year-plus it has been a steady diet of gains following this setup. I suspect one reason for change in this formerly bearish study may be quantitative easing. In the last few years we have seen more and more rallies chug higher without pausing to pull back than we had previously. While I credit large inflows of liquidity as a possible reason, the reason really does not matter.

What matters is that we recognize changes in market dynamics so that we are able to adapt to them. In this case that means not giving this study the bearish “credit” I once afforded it. I will continue to keep it in the Aggregator and monitor it for the time being. I am especially interested in seeing if this kind of behavior persists at times the Fed is NOT pumping.

While we do not have any new studies being added to the Short-Term Active List tonight, the recent bullish one is being removed since the strong rally today caused it to meet its target price a day early.

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



The green Aggregator Line tonight remained well below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line took a big drop and is now also well below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are bearish and the SPX is now overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart

whenever both lines close below 0. This caused the Aggregator system to turn short at the close.

Based on the current studies, expectations are slated to remain negative on Wednesday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 1,637.31 on Wednesday. This is 0.8% below Tuesday's close. It would therefore take a decline of at least this much in order to move the SPX from overbought to oversold as measured by the Differential Line.

So the Aggregator is suggesting a short-side edge, but as subscribers may have presumed, I have no interest in shorting it. With the QE Buying Power Index locked at 5 since the beginning of January I have not attempted a short index trade yet in 2013. And I likely won't until there is a change in Fed policy. On top of that the intermediate-term evidence is so strongly bullish (as is the current trend), that it just does not seem worth trying to fight that for a quick short-side gain. Too many bears have been getting steamrolled by this rally. I have no desire to add myself to the list. So I will wait for a pullback (or something so incredibly bearish that I can't possibly resist taking a shot at a short trade).

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 – bought 1/3 @ \$67.00 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	\$35.00	-0.71%		Catapult
ETR(1/3)	5/10/2013	\$67.00	\$68.08	1.61%		Catapult

ETR will trigger an exit on virtually any up close on Wednesday. A moderate intraday spike would also get it there. Catapults are typically closed out the morning after the exit target is achieved. I may look to exit this one tomorrow instead if it reaches its target price, and will send out any strategy adjustment to gold subscribers intraday.

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