

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 17, 2013

Volume 6 Issue 95

Market Overview



Signals Overview

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

Tonight's Research Points

- Strong drops from 50-day highs have consistently been followed by bounces.

Short-term Outlook

The Bottom Line

Evidence is back to slightly bullish but the market remains overbought. That makes for a neutral outlook. I'd like to see more of a dip in the next day or two before committing to the long side.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
May 17, 2013	Big drop from 50-high	1-4 days	Bullish	1.20%
May 16, 2013	SPY > 5ma for 10 days. 10-day high.	1-2 days	Bearish	
May 16, 2013	SPY 8-day avg closing range > 75%	1-2 days	Bearish	
May 16, 2013	VIX up. SPX up. Twice. SPX 50-high.	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 14, 2013	SPX up. Up Issues % < 40%. SPX > 200	1-3 days	Bearish	

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

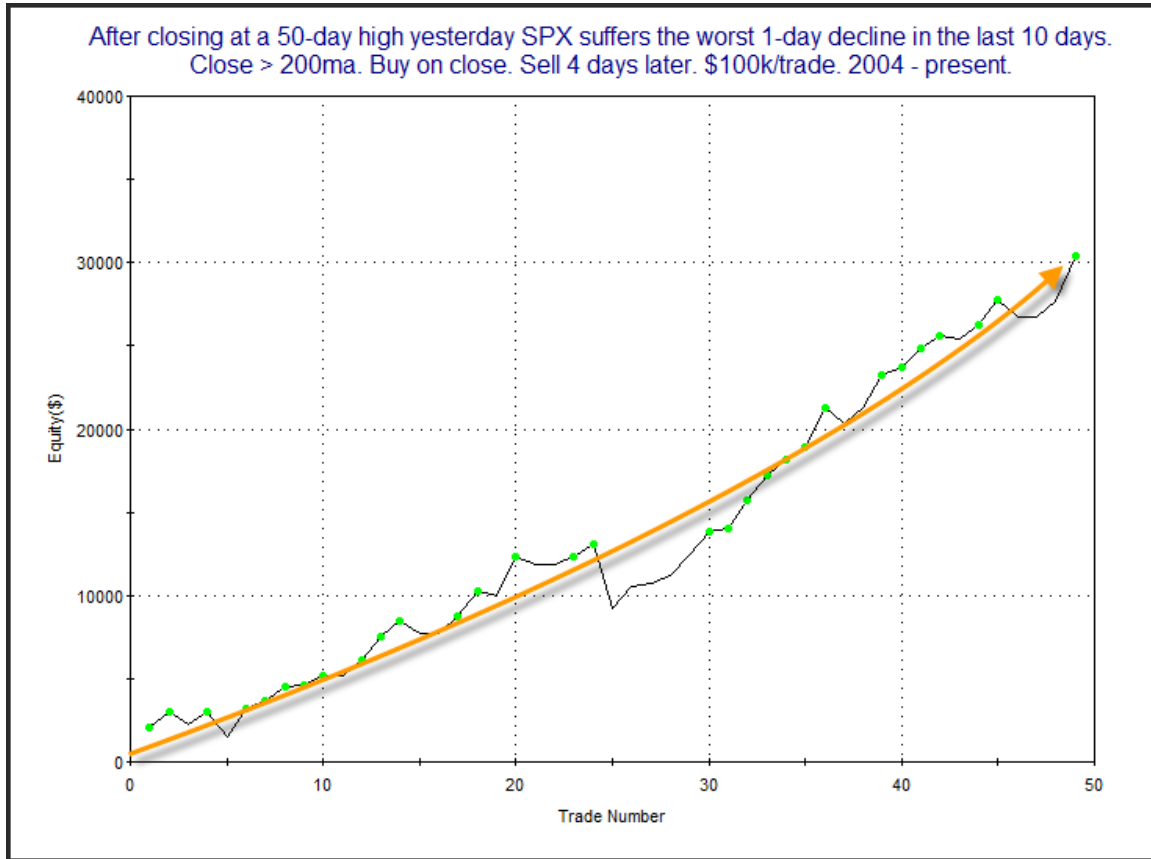
The Evidence

Afternoon selling Thursday left the market with a rare down day. The SPX lost 0.5%, the NASDAQ fell 0.2% and the Russell 2000 declined 0.3%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % came in at 29%. Total NYSE volume was a bit lighter than Wednesday.

The Quantifinder was fairly quiet, but there was one compelling study that appeared. The study below considers such factors as Wednesday's 50-day high, Thursday's relatively large drop, and the long-term trend. It was last seen just a couple of weeks ago in the 5/2/13 Letter. I have updated all the stats.

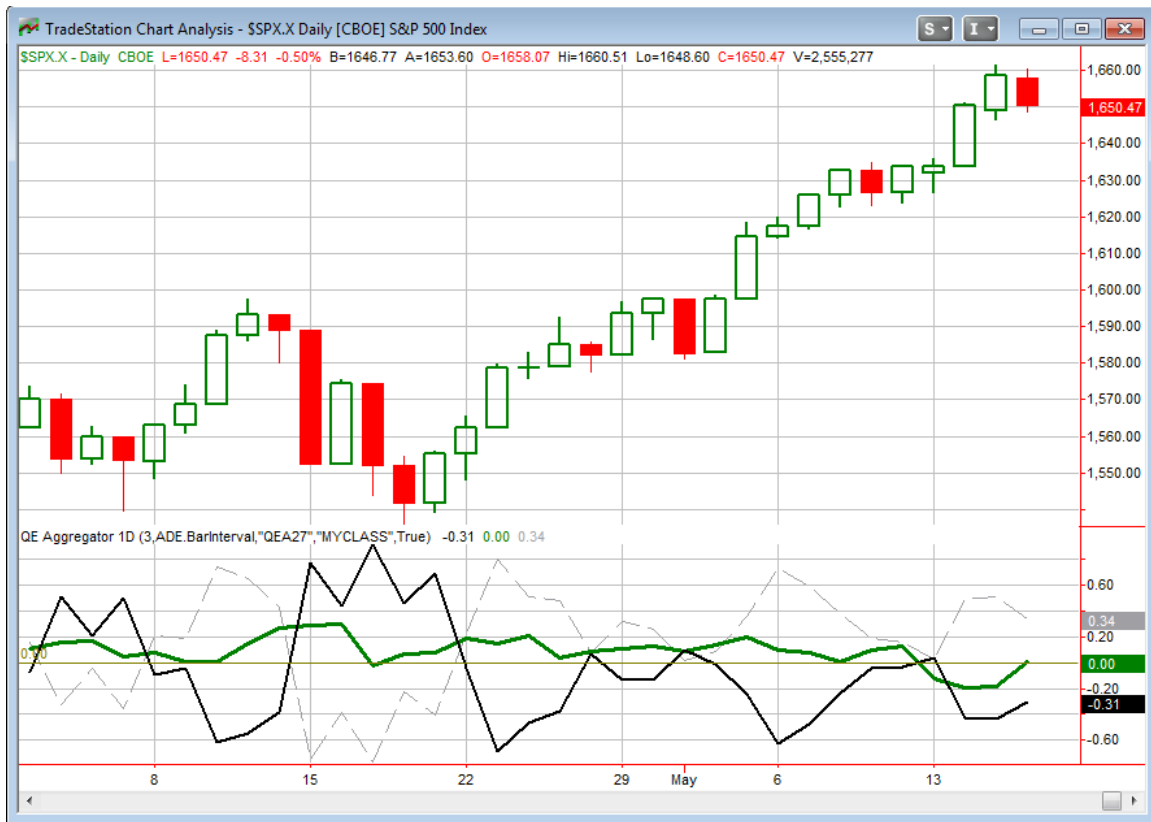
After closing at a 50-day high yesterday SPX suffers the worst 1-day decline in the last 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	26,507.79	46	32	14	69.57	1,404.88	3,149.37	-1,317.74	-3,454.00	1.07	2.44	576.26
4	30,430.42	49	36	13	73.47	1,118.90	2,725.38	-757.68	-3,895.76	1.48	4.09	621.03
3	19,041.69	50	35	15	70.00	856.65	2,192.40	-729.41	-1,808.21	1.17	2.74	380.83
2	11,609.66	51	30	21	58.82	801.35	2,437.50	-591.95	-1,777.55	1.35	1.93	227.64
1	4,398.47	51	30	21	58.82	520.74	1,249.60	-534.46	-1,354.59	0.97	1.39	86.24
47 of 51 instances (92%) closed above the entry price at some point in the next 5 days.												

Over the last 9 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



The steady upslope seems to confirm the bullish inclination. I've included this study on the active list.

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



Tonight's study helped turn the green Aggregator Line back to just barely above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained well below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are bullish and the SPX is still overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator system to turn flat at the close.

Based on the current studies, expectations are slated to remain positive on Friday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1,647.02 on Friday. This is just 0.2% below Thursday's close. So SPX won't have to close down too much in order for it to move from overbought to oversold versus expectations.

It did not take much for expectations to turn back to positive. And with SPX still overbought, the Aggregator is now neutral. That's basically where I am too. It won't take much of a drop on Friday to see SPX move back into oversold territory. But I am not going to set up a long trade yet. It has been nearly a month since SPX closed below its 10ma. I would like to see that line at least tested before looking to get long. We'll see if this pullback gets us there.

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

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.

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	\$34.77	-1.36%		Catapult
ETR(1/3)	5/10/2013	\$67.00	\$69.27	3.39%		<i>sold on open</i>

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