

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 16, 2012

Volume 5 Issue 32

Market Overview



Signals Overview

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

Tonight's Research Points

- Without any compelling short-term bullish evidence, more downside appears probable.

Short-term Outlook

The Bottom Line

The Aggregator is still short, but it won't be on Thursday if we get another down day. I think we may have a little further to fall before the market rebounds.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
February 15, 2012	Unfill gap up. 20-high. Unfill gap dn.	1-6 days	Bearish	-1.40%
February 14, 2012	20-high. Gap down. Gap up.	1-6 days	Bearish	-1.90%
February 13, 2012	60-day low SPY range. Close > 200ma	1-6 days	Bearish	-2.15%
Active - Long Term				
February 6, 2012	Up Issues % > 75% 2 of 3. 10 high.	1-16 days	Bullish	4.70%
February 1, 2012	Golden Cross	int term	Bullish	
January 31, 2012	SPY 1st close < 10ma in over 25 days	1-20 days	Bullish	4.70%
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
October 19, 2011	FTD on strong breadth/20day high	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

Wednesday was the opposite of what we have been seeing lately with the morning strong and the afternoon weak. The major indices all closed lower. The SPX lost 0.5%, the Nasdaq fell 0.6% and the Russell 2000 was down 0.8%. Breadth was negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 34%. Total NYSE volume came in at the highest level in over a week.

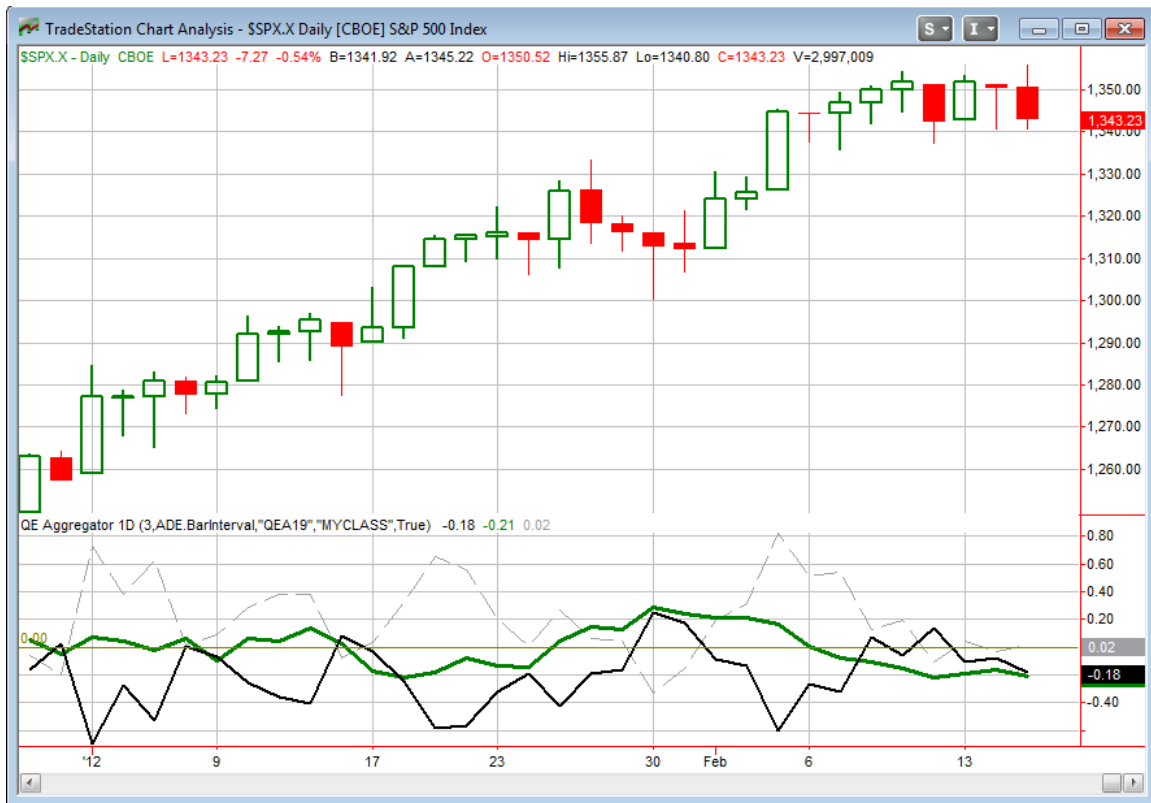
The selling the Aggregator has been suggesting was likely finally arrived. But action was not extreme and the Quantifinder came up with very little. The VIX action has been unusual lately, but after slicing it a few different ways tonight I was unable to come up with anything compelling from a directional standpoint.

When I say “unusual”, consider the following: The SPX is up over 1% in the last 10 days. The VIX, which normally trades opposite the SPX, is up over 13% in that same period. European debt seems to be on traders’ minds. And while the market hasn’t felt the worry yet, options premiums have felt it.

It appears this could be setting up a nice opportunity for a long XIV trade in the coming days. The Aggregator is still expecting more downside for the SPX. The VIX is already relatively overbought, and would spike further if the SPX takes a dive. This could push XIV prices lower. Further, despite the VIX spike recently, there is still a good amount of contango in the VIX futures. If we can get a situation where the Aggregator is posting a long signal, the VIX is overbought, and XIV doesn’t have to contend with backwardation, then I would jump at the opportunity to enter another XIV trade. We’ll see how it all plays out in the upcoming days.

Lastly, it is worth noting that Thursday is day 6 since the QE Buying Power Index swing system trade was entered. With the QE Buying Power Index now at 3 and scheduled to remain there Thursday that means the trade will be done at the close regardless of whether the SPX finishes below its 10-day midpoint or not.

So with no new studies to add tonight, I have updated the [Aggregator](#) chart below.



Not much change tonight. The green Aggregator line is again squarely negative. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line is also below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are bearish and the SPX is overbought versus recent expectations. 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 remain short at the close. This was indicated on the Systems page before the bell.

Still without any short-term bullish evidence, expectations are scheduled to remain negative on Thursday. This could change if solid bullish evidence emerges. Meanwhile, the Differential Pivot will be slightly inverted at 1,344.07 on Thursday. I consider a Differential Pivot to be “inverted” when the Differential Line would cross 0 on a breakeven close the next day. In fact Thursday’s pivot is almost even. The SPX will be considered underperforming versus expectations on any down close and outperforming on almost any up close. In a situation like this, if I had been filled and held a short position, I would be looking to trail a stop on any profits during the day tomorrow before exiting at the close.

Unfortunately, my entry criterion was too conservative the last 2 night and both trade ideas just missed filling - Wednesday near the open and Tuesday near the close. The Aggregator still suggests a short edge, and we very well may have further to fall, but the market is not at a place where I would attempt an entry right now.

There was one Catapult that triggered at the close today. New subscribers or those unfamiliar with Catapults are encouraged to learn about them before deciding to enter a trade. They tend to be quite volatile. Two places to start would be the Catapult & CBI presentation on the videos page and the Catapult Exit Designer on the Members Downloads page. More selling in the next few days could set up some additional long opportunities – in Catapults, and an Aggregator signal, and a possible XIV trade. So despite feeling dumb for not being more aggressive about shorting, I am still hoping for a little more selling here.

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

The intermediate-term outlook was last updated in the 2/13/12 letter. Below is a link to that letter.

[2012-02-13 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

New

FCX – buy 1/3 position @ \$42.40 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(FCX)

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.

FCX – buy 1/3 position @ \$42.40 limit. This is a Catapult trade as was listed above.

Current Open Trade Ideas

None.

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