

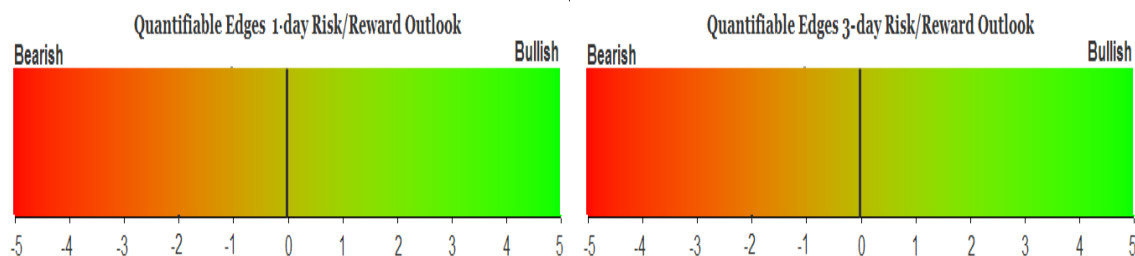
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 2, 2012

Volume 5 Issue 42

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 50-day highs and a low VIX:VXV ratio suggest increased risk.

## Short-term Outlook

### The Bottom Line

Still overbought. While my expectations are positive, risk/reward isn't great. So I am sidelined and awaiting the next opportunity.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
March 2, 2012	SPX 50-high. VIX:VXV < 0.85	1 day	Bearish	
February 29, 2012	Russell down 3 days. SPX 3-day high.	1-6 days	Bullish	3.95%
<b>Active - Long Term</b>				
March 1, 2012	10-high then outside day down > 200	1-12 days	Bullish	2.70%
February 29, 2012	Russell dn 3 days. SPX 3-day high.	1-10 days	Bullish	5.10%
February 1, 2012	Golden Cross	int term	Bullish	
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
<b>Dropped Tonight</b>				
<b>March 1, 2012</b>	<b>1st Day of Month</b>	<b>1 day</b>	<b>Bullish</b>	
February 28, 2012	SPX & VIX up 2 in a row	1-3 days	Bearish	-1.35%

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

## The Evidence

The bullish studies we've seen over the last couple of days won out on Thursday as the market put in some decent gains. The SPX rallied 0.6%, the Nasdaq rose 0.7%, and the Russell 2000 closed up 0.5%. Breadth was solidly positive as the NYSE Up Issues % came in at 65% and the Up Volume % was 70%. Total NYSE volume dipped a little from Wednesday's level.

The moderate chop back and forth over the last few days isn't providing much in the way of edges for me to discuss tonight. The study below has appeared numerous times lately and popped up again tonight. I have updated results once again.

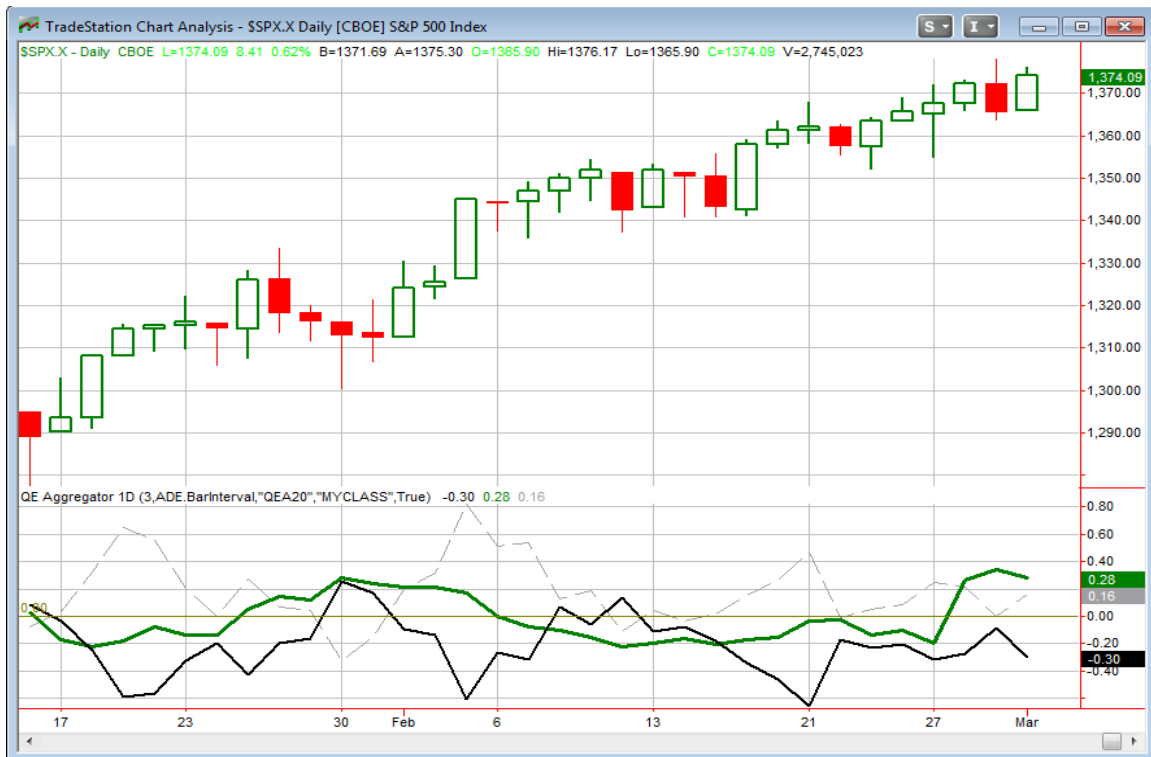
VIX:VXV Ratio closes < 0.85. SPX closes at a 50-day high. Buy SPX on close. Sell next day's close. \$100k/trade. 2004 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$5,902.89)	Profit Factor	0.47
Gross Profit	\$5,201.46	Gross Loss	(\$11,104.35)
Total Number of Trades	47	Percent Profitable	53.19%
Winning Trades	25	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	(\$125.59)	Ratio Avg. Win:Avg. Loss	0.41
Avg. Winning Trade	\$208.06	Avg. Losing Trade	(\$504.74)
Largest Winning Trade	\$708.05	Largest Losing Trade	(\$1,602.28)

Odds are about 50/50. The possible downside edge lies in the size of the losses versus the winners. The profit curve is below.



The low VIX:VXV ratio suggests complacency. Complacency often sets in when the market is making small and persistent gains like it is now. Environments like this can persist, but when a selloff occurs it can be shocking and the drops are often relatively large. Though the curve has been flattening I did include this study on the Active List again tonight. We could see that downward shock at any time.

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



The green Aggregator line is still quite positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remains below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are bullish but the SPX is overbought versus recent expectations. 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. This was indicated on the Systems page before the bell.

Based on the current evidence, expectations are scheduled to remain positive on Friday. Of course this could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,371.71 on Friday. This is just 0.2% below Thursday's close. So SPX would only need to close down a small amount in order for a long signal to be possible.

My outlook remains the same as last night. While there still appears to be a bit of an upside edge, the SPX is overbought and risk/reward is poor. One security I have been watching lately is XIV (the inverse VIX etf). Contango is very steep right now, which is a very positive situation for XIV, since it will make money off the futures roll as it rolls its portfolio over the course of the month. Contango is so steep between the front and 2<sup>nd</sup> month VIX futures that XIV should do very well even in a flat market. Still, I am wary of a pullback. So I would prefer waiting for at least a small market pullback to provide a more favorable entry point rather than jumping right in.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 2/27 – bullish***

The intermediate-term outlook was last updated in the 2/27/12 Letter. You may use the link below to access it.

[2012-02-27 QE Subscriber Letter.pdf](#)

**Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

***Open Catapult Triggers***

*None*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 0***

**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**

*None.*

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