

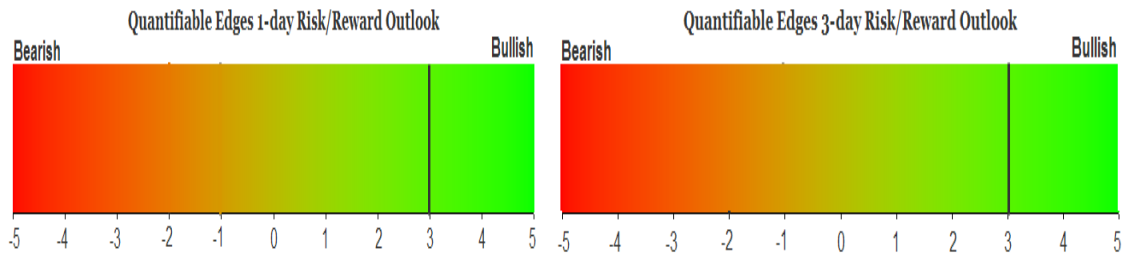
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 6, 2012

Volume 5 Issue 44

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Long

Tonight's Research Points

- SPY has closed at a 5-day for the 1st time in over 2 weeks. This suggests a short-term upside edge.

Short-term Outlook

The Bottom Line

More bullish evidence and a better risk/reward ratio has me looking for long exposure. For now I am looking to add that exposure via Catapult and VIX-based ETF trades. Traders could also consider using SPY or some other index proxy.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 6, 2012	SPY 5-day low 1st time in 10 days	1-4 days	Bullish	1.35%
March 5, 2012	Small drop from 50-high on bad breadth	1-2 days	Bearish	
February 29, 2012	Russell down 3 days. SPX 3-day high.	1-6 days	Bullish	3.95%
Active - Long Term				
March 5, 2012	Negative breadth divergences	int term	Bearish	
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	
Dropped Tonight				
March 5, 2012	Down 1st Fri of month. SPX > 200	1 day	Bullish	

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

The Evidence

A gap down never filled for SPY but the indices finished mixed. The SPX lost 0.4% and the Nasdaq declined 0.9% while the Russell 2000 managed a 0.1% gain. Breadth was negative as the NYSE Up Issues % came in at 39% and the Up Volume % was 33%. Total NYSE volume rose slightly from Friday's level.

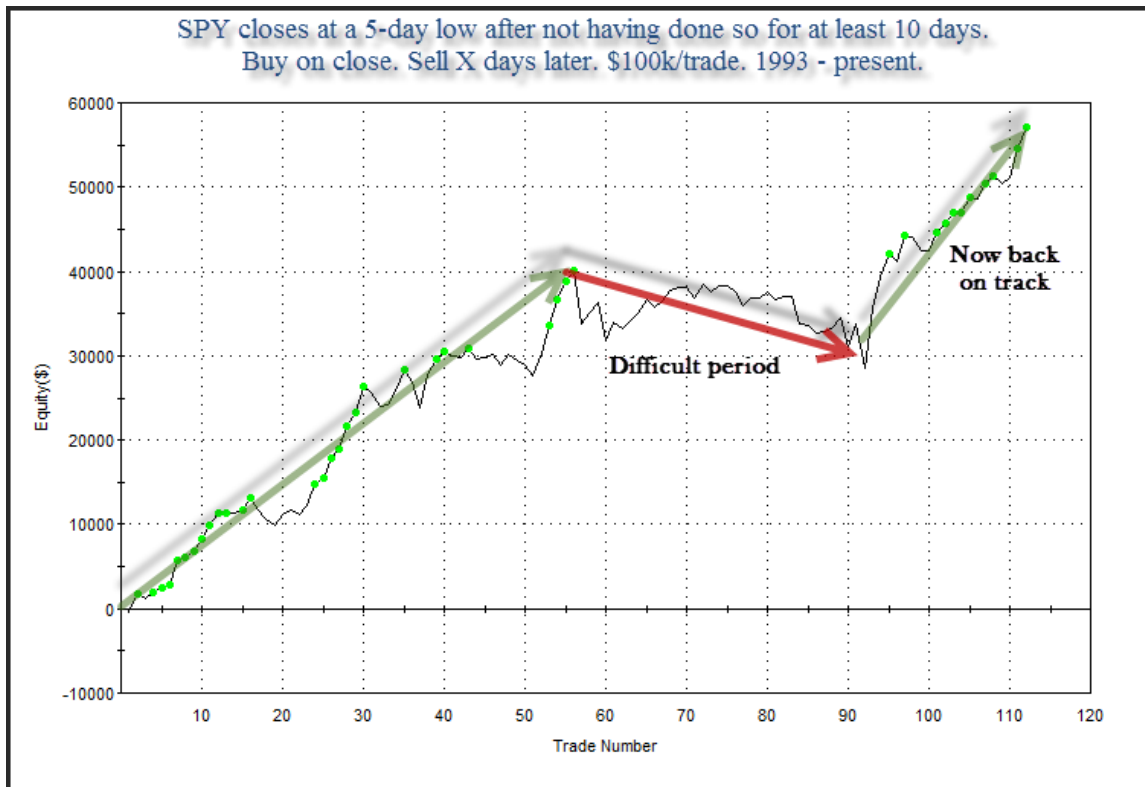
The market has strongly resisted pullbacks lately. And while this one isn't terribly impressive yet, Monday was the 1st time the SPY managed to close at a 5-day low in 15 trading days. In the 5/5/11 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

**SPY closes at a 5-day low after not having done so for at least 10 days.
Buy on close. Sell X days later. \$100k/trade. 1993 - 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
10	84,604.87	112	74	38	66.07	2,158.60	8,925.10	-1,977.15	-8,623.54	1.09	2.13	755.40
9	71,485.87	112	73	39	65.18	1,973.57	8,933.76	-1,861.15	-6,709.56	1.06	1.98	638.27
8	68,373.92	112	73	38	65.18	1,908.97	8,908.38	-1,867.91	-7,113.48	1.02	1.96	610.48
7	55,092.70	112	72	40	64.29	1,848.55	6,851.52	-1,950.07	-7,790.40	0.95	1.71	491.90
6	44,340.88	112	70	42	62.50	1,681.28	6,523.92	-1,746.39	-9,559.44	0.96	1.60	395.90
5	47,376.22	112	70	41	62.50	1,638.32	6,103.89	-1,641.61	-4,906.44	1.00	1.70	423.00
4	57,040.80	112	73	39	65.18	1,496.83	6,941.43	-1,339.18	-6,244.56	1.12	2.09	509.29
3	36,906.28	112	69	43	61.61	1,335.45	5,888.16	-1,284.64	-5,295.84	1.04	1.67	329.52
2	24,992.38	112	63	48	56.25	1,151.21	3,809.72	-990.29	-3,737.28	1.16	1.53	223.15
1	13,623.51	112	63	49	56.25	858.00	2,812.20	-825.11	-3,909.03	1.04	1.34	121.64

87.5% of instances posted a close above the entry price at some point in the next week.

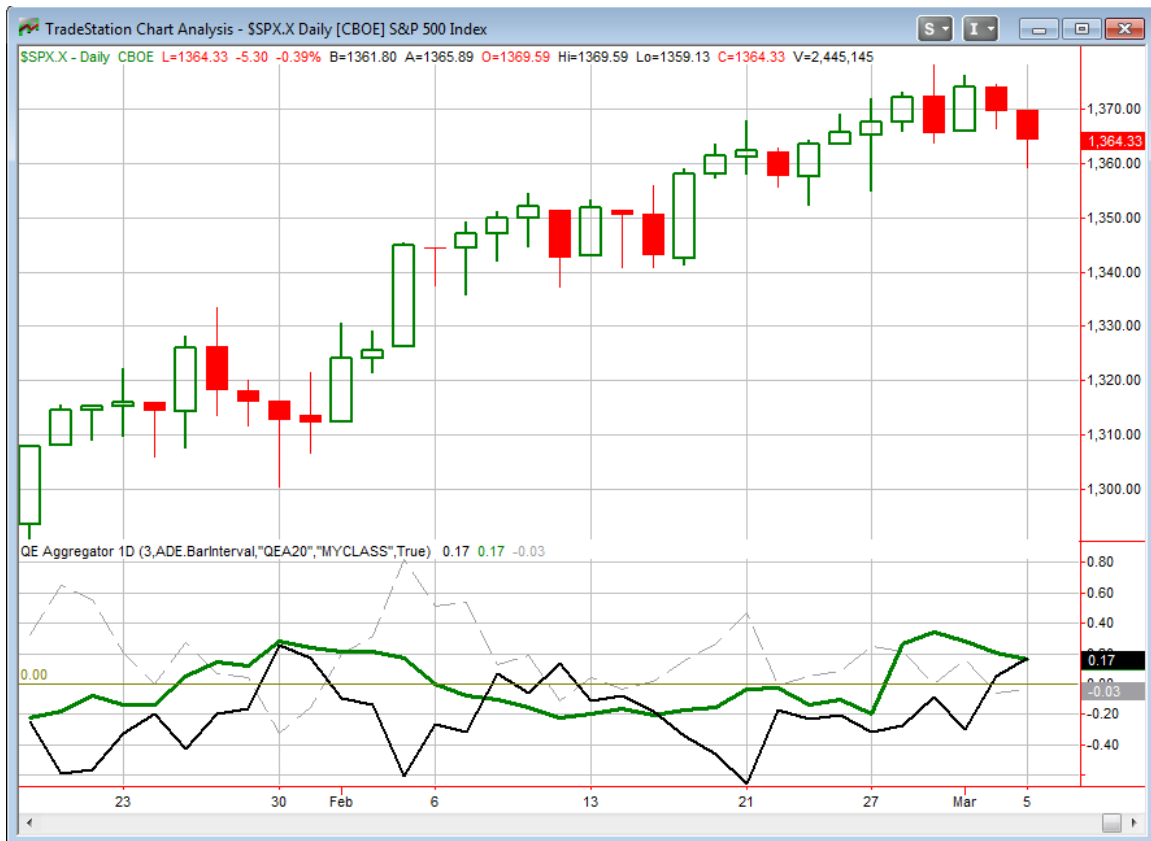
Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 20 trades or so the edge seems to have reasserted itself.

Strong uptrends normally wither before they die. This study seems to provide proof that a quick death is unlikely. We should likely bounce up at the least. I find this study worthy of consideration and have included it in the Aggregator.

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



With tonight's bullish study the green Aggregator line barely budged and remained positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line rose further above 0. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are bullish and the SPX is oversold versus recent expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator System to remain long 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 Tuesday. Of course this could change if solid bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,386.13 on Tuesday. This is 1.6% above Monday's close. This is a good distance above current levels. As opposed to last night, the potential upside in a long opportunity is now substantial. And with a move this large needed to flip the Differential Line to negative we are most likely looking at a multi-day rally.

I am more optimistic than I was last night. Evidence still is not overwhelming, but it is fairly solid and the potential reward appears quite a bit better. There was another Catapult trigger in CAT on Monday. In addition to that I will again look to take long

exposure in XIV. As I discussed in more detail last night, I prefer XIV because of the strong VIX futures contango that is currently present. Please refer to last night's letter for further elaboration. Traders that prefer SPY or some other SPX index proxy to an XIV trade could begin scaling in to an index trade instead.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/5 – moderately bullish

The intermediate-term outlook was last updated in the 3/5/12 letter. A link is below:

[2012-03-05 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

CAT – buy 1/3 position @ \$112.49 limit (filled at \$111.55)

New

CAT – buy 1/3 position @ \$110.09 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2/1(CAT-2)

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.

CAT – buy 1/3 position @ \$110.09 limit. This is a 2nd entry Catapult trade.

XIV – buy 1/2 position @ \$9.00 limit. This is based on the concepts in the Aggressive VIX system. We have steep contango and a long Aggregator signal. Since my short-term outlook is a bit more bullish tonight I will look for a more aggressive entry by using a straight limit order rather than a limit-on-close order. Since XIV can be very volatile it is likely that if filled, I will scale out of this position in parts even though it is already a small position. This will allow me to take some profits off the table if they materialize while still letting a portion of the trade run in a seemingly positive environment.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CAT(1/3)	3/5/2012	\$111.55	\$110.09	-1.31%		Catapult

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