

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 14, 2012

Volume 5 Issue 50

Market Overview



Signals Overview

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

Tonight's Research Points

- The stretched VIX could be suggesting a downside edge.
- Gap-n-go action on a Fed Day has often been followed by pullbacks.
- New 100-day highs on Fed Days have consistently been followed by more gains over the next couple of weeks.
- Strong breadth with the market hitting a new intermediate-term high is a positive.
- When SPX and TNX have both closed at new intermediate-term highs it has often been followed by a difficult intermediate-term environment.

Short-term Outlook

The Bottom Line

I am again looking at what appears to be a mild downside edge with a tight time window in which to try and profit. With a favorable intermediate-term outlook I will not try and get cute here, and will instead wait for the next solid opportunity before taking on new exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 14, 2012	50-day high on strong breadth	1-5 days	Bullish	
March 14, 2012	100-day high on Fed Day	1-8 days	Bullish	
March 14, 2012	SPY Gap-n-Go on Fed Day	1-2 days	Bearish	
March 14, 2012	VIX < Bollinger 2 days	1-2 days	Bearish	
March 13, 2012	VIX 10%high to 10% low in < week	1-8 days	Bullish	2.75%
March 13, 2012	SPX up. Up Issues% & Up Vol% < 45%	1-3 days	Bearish	-1.80%
March 13, 2012	SPX up > 10ma > 200ma. Low vol 20.	1-3 days	Bearish	-1.30%
March 12, 2012	3 unfilled up gaps	1-3 days	Bearish	-1.40%
Active - Long Term				
March 14, 2012	SPX & TNX hit 50-day highs	1-50 days	Bearish	
March 14, 2012	50-day high on strong breadth	1-50 days	Bullish	
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 8, 2012	Unfilled gap from 10-low. Close < 1	1-4 days	Bullish	1.80%
March 8, 2012	McClellan Osc % Rank 4-day sum <	1-5 days	Bullish	2.20%
March 12, 2012	March Op-Ex bullish	1-4 days	Bullish	1.70%

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

The Evidence

The market exploded upwards on Tuesday as the major indices all posted very strong gains. The SPX rallied 1.8%, the Nasdaq rose 1.9% and the Russell 2000 tacked on 2.1%. Breadth was extremely positive as the NYSE Up Issues % came in at 76% and the Up Volume % was 91%. Total NYSE volume spiked up above the levels we've been seeing over the last several days.

Studies were mixed tonight, with the VIX action and gap patterns suggesting a short-term pullback is likely while breadth and trend suggest further gains. Let's first take a look at the bearish studies.

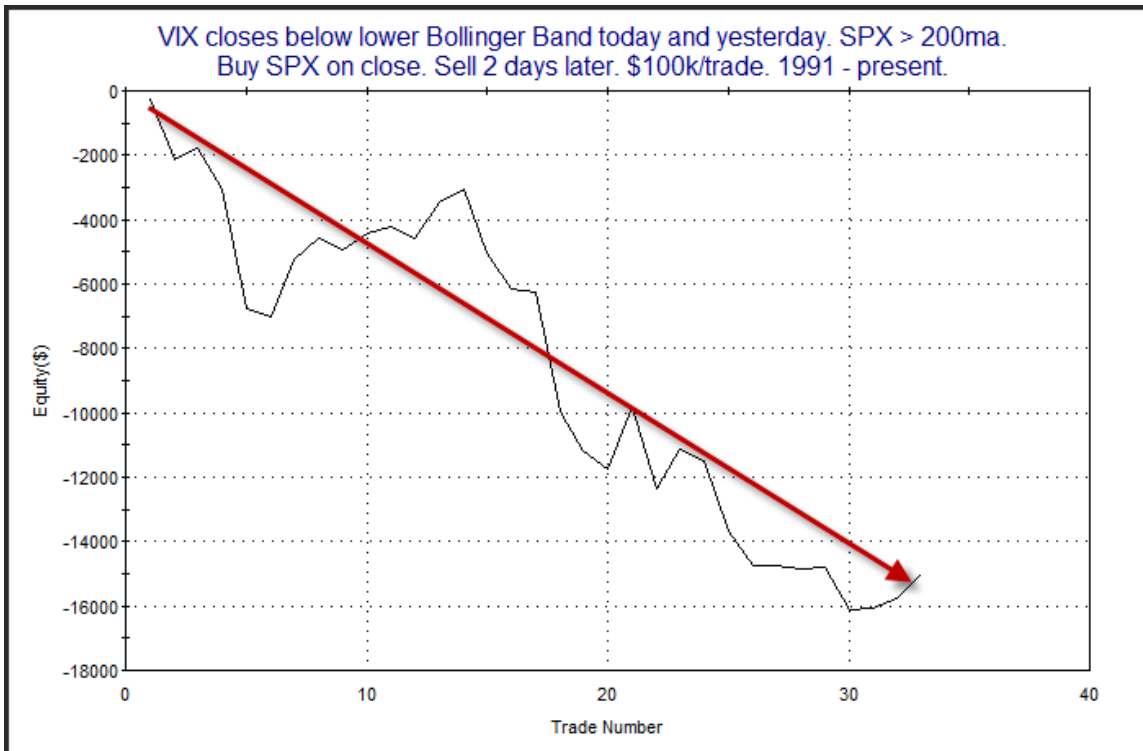
This first study below was last seen in the 4/25/11 Subscriber Letter. It looked at instances where the VIX closed below its lower Bollinger band for multiple days. It also included a long-term trend filter. Results have all been updated.

VIX closes below lower Bollinger Band today and yesterday. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1991 - 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	-13,673.29	29	10	19	34.48	1,943.10	4,482.50	-1,742.33	-5,999.92	1.12	0.59	-471.49
4	-17,353.83	29	13	16	44.83	1,112.67	4,440.00	-1,988.66	-6,497.20	0.56	0.45	-598.41
3	-6,992.94	31	17	14	54.84	948.32	3,950.00	-1,651.02	-3,832.46	0.57	0.70	-225.58
2	-15,016.52	33	14	19	42.42	671.00	1,974.69	-1,284.76	-3,712.29	0.52	0.38	-455.05
1	-9,078.23	44	18	26	40.91	531.38	1,377.50	-717.04	-3,644.52	0.74	0.51	-206.32

88% of instances closed below the entry price at some point in the next week.

The results spreadsheet appears to suggest a moderate downside edge, especially over the first 1-2 days. I took a look at a 2-day equity curve to confirm the possible downside edge.



While choppy, the negative slope still appears to suggest bearish inclinations.

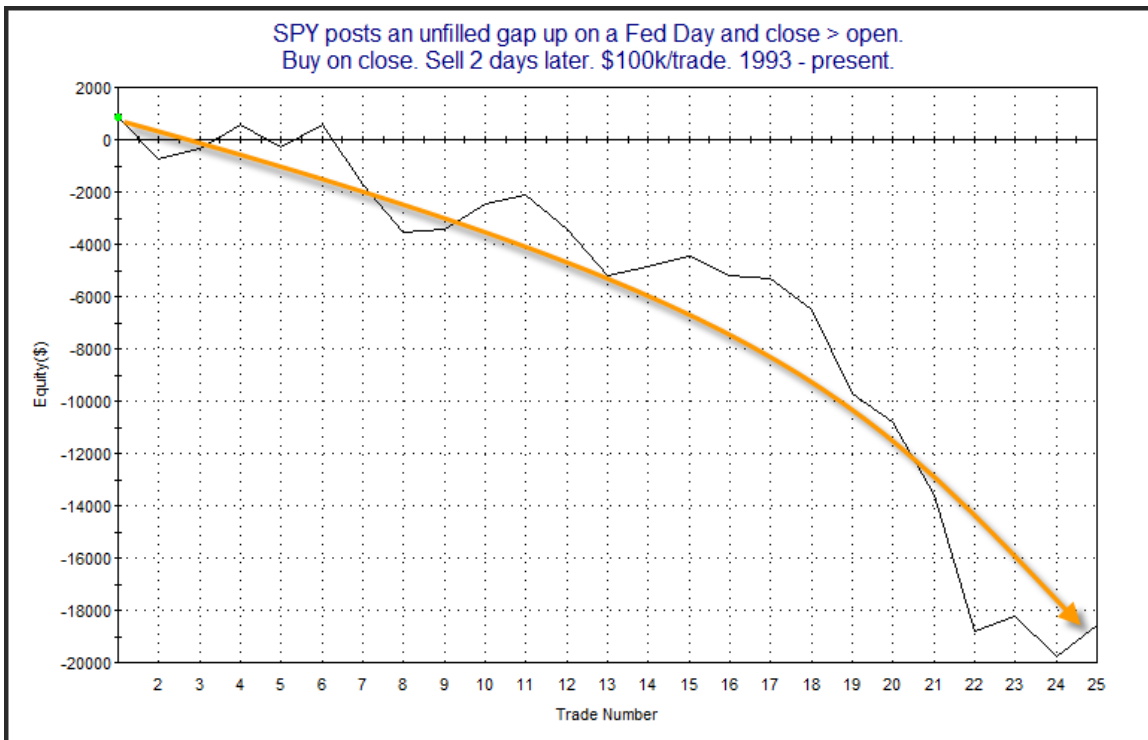
Action in SPY was notable because it gapped up to start the day and continued higher without ever filling that gap. When such action has occurred on a Fed Day in the past it has often been followed by a pullback. This is something I showed in the 11/3/11 subscriber letter. The results table below is updated.

**SPY posts an unfilled gap up on a Fed Day and close > open.
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
5	-24,214.73	25	9	16	36.00	1,218.88	5,434.00	-2,199.04	-6,223.36	0.55	0.31	-968.59
4	-10,892.70	25	13	12	52.00	1,318.74	3,637.92	-2,336.36	-5,244.16	0.56	0.61	-435.71
3	-18,507.75	25	9	15	36.00	1,063.69	3,992.56	-1,872.07	-5,502.64	0.57	0.34	-740.31
2	-18,556.40	25	11	14	44.00	632.15	1,200.94	-1,822.15	-5,216.64	0.35	0.27	-742.26
1	-10,360.52	25	10	15	40.00	508.63	1,821.56	-1,029.79	-3,248.96	0.49	0.33	-414.42

22 of 25 instances (88%) closed below the entry price at some point in the next week.

Here too, there appears to be a moderate 1-2 day downside edge. Below is a profit curve that assumes a 2-day holding period.



This curve appears to confirm the possible downside edge. But there was also a positive Fed Day study.

In “The Quantifiable Edges Guide to Fed Days” I discussed Fed Days that close at new highs. The basic finding was that when the market closed at a short-term high on a Fed Day, then it was likely to pull back over the next few days. But when it closed at a long-term high, then the rally was likely to continue. Below is a study from the guide that last appeared in the 1/26/12 Subscriber Letter.

SPX closes at a 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	25,037.12	24	18	6	75.00	1,833.81	5,492.11	-1,328.57	-2,161.08	1.38	4.14	1,043.21
9	26,705.30	24	19	5	79.17	1,834.04	5,708.74	-1,628.30	-2,346.69	1.13	4.28	1,112.72
8	29,105.62	24	20	4	83.33	1,541.84	3,995.65	-432.78	-854.00	3.56	17.81	1,212.73
7	22,428.62	24	20	4	83.33	1,273.68	3,198.09	-761.23	-1,290.24	1.67	8.37	934.53
6	21,659.27	24	20	4	83.33	1,223.85	3,147.85	-704.43	-1,500.88	1.74	8.69	902.47
5	18,251.68	24	19	5	79.17	1,117.44	2,353.88	-595.93	-1,077.30	1.88	7.13	760.49
4	15,185.91	24	17	7	70.83	1,171.96	3,173.92	-676.77	-1,024.50	1.73	4.21	632.75
3	8,217.05	24	15	9	62.50	910.00	2,227.50	-603.67	-978.00	1.51	2.51	342.38
2	9,468.63	24	15	9	62.50	989.29	2,314.87	-596.75	-1,562.33	1.66	2.76	394.53
1	5,567.98	24	16	8	66.67	617.08	2,073.34	-538.16	-1,393.26	1.15	2.29	232.00

The only instance not to close above the entry price within the next week was the most recent, 1/25/12 instance, which took 7 trading days.

This suggests further upside is likely over the next 1-2 weeks. Below I have listed all the instances assuming an 8-day exit strategy.

SPX closes at a 100-day high on a Fed Day.
Buy on close. Sell 8 days later. \$100k/trade. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/16/94	Buy	\$465.01	1.89%	\$2,072.60
08/26/94	Sell	\$473.81		(\$763.25)
03/28/95	Buy	\$503.90	0.50%	\$841.50
04/07/95	Sell	\$506.42		(\$1,623.60)
05/23/95	Buy	\$528.58	1.33%	\$1,729.35
06/05/95	Sell	\$535.62		(\$1,360.80)
07/06/95	Buy	\$553.99	0.81%	\$1,611.00
07/18/95	Sell	\$558.46		(\$169.20)
11/15/95	Buy	\$593.96	2.10%	\$2,098.32
11/28/95	Sell	\$606.45		(\$73.92)
01/31/96	Buy	\$636.01	4.00%	\$4,229.58
02/12/96	Sell	\$661.46		(\$361.10)
07/02/97	Buy	\$904.05	2.40%	\$2,431.00
07/15/97	Sell	\$925.78		(\$172.70)
02/04/98	Buy	\$1,006.90	1.58%	\$2,090.88
02/17/98	Sell	\$1,022.77		(\$656.37)
07/01/98	Buy	\$1,148.56	2.53%	\$2,714.40
07/14/98	Sell	\$1,177.59		(\$484.59)
12/22/98	Buy	\$1,203.56	3.42%	\$3,755.75
01/05/99	Sell	\$1,244.78		\$0.00
06/30/99	Buy	\$1,372.86	1.51%	\$2,460.96
07/13/99	Sell	\$1,393.56		(\$871.20)
11/16/99	Buy	\$1,420.03	(0.86%)	\$366.80
11/29/99	Sell	\$1,407.83		(\$1,460.20)
12/21/99	Buy	\$1,433.43	1.52%	\$3,075.33
01/03/00	Sell	\$1,455.22		(\$302.22)
03/21/00	Buy	\$1,493.82	0.32%	\$3,897.30
03/31/00	Sell	\$1,498.58		(\$1,266.54)
05/06/03	Buy	\$934.39	1.06%	\$1,525.82
05/16/03	Sell	\$944.30		(\$1,569.69)
12/14/04	Buy	\$1,203.38	0.13%	\$895.57
12/27/04	Sell	\$1,204.92		(\$831.66)
10/25/06	Buy	\$1,382.22	(0.18%)	\$520.56
11/06/06	Sell	\$1,379.78		(\$1,529.28)
05/09/07	Buy	\$1,512.58	0.83%	\$1,141.14
05/21/07	Sell	\$1,525.10		(\$1,396.56)
03/16/10	Buy	\$1,159.46	0.61%	\$1,825.78
03/26/10	Sell	\$1,166.59		(\$565.88)
11/03/10	Buy	\$1,197.96	(0.02%)	\$2,416.96
11/15/10	Sell	\$1,197.75		(\$322.04)
12/14/10	Buy	\$1,241.59	1.28%	\$1,424.00
12/27/10	Sell	\$1,257.54		(\$699.20)
01/26/11	Buy	\$1,296.63	1.73%	\$2,018.94
02/07/11	Sell	\$1,319.05		(\$1,657.81)
04/27/11	Buy	\$1,355.66	(0.69%)	\$1,089.16
05/09/11	Sell	\$1,346.29		(\$1,933.77)
01/25/12	Buy	\$1,326.06	1.38%	\$1,446.00
02/06/12	Sell	\$1,344.33		(\$1,917.75)

The **average** run-up (\$1,987) is larger than the **worst** drawdown (\$1,934).

In addition to the strong consistency, risk/reward also clearly favors the bulls.

Another positive about the day's move up to new highs was that it was accompanied by very strong breadth. The study below was last seen in the 10/19/11 subscriber letter. It considered what has transpired after other instances of the SPX making new intermediate-term highs on extremely strong breadth. Results are all up to date.

**SPX closes at a 50-day high. NYSE Up Volume % > 90%.
Buy on close. Sell X days later. \$100k/trade. 1970 - 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
50	92,670.89	16	16	0	100.00	5,791.93	19,845.80	0.00	0.00	100.00	100.00	5,791.93
45	90,236.29	17	16	1	94.12	5,830.07	17,945.20	-3,044.80	-3,044.80	1.91	30.64	5,308.02
40	86,258.34	18	15	3	83.33	5,989.19	20,950.80	-1,193.19	-1,558.77	5.02	25.10	4,792.13
35	86,156.84	18	15	3	83.33	6,045.17	18,961.80	-1,506.89	-2,194.86	4.01	20.06	4,786.49
30	74,584.53	18	17	1	94.44	4,411.97	11,920.74	-418.88	-418.88	10.53	179.06	4,143.59
25	64,022.17	19	15	4	78.95	4,883.16	12,045.67	-2,306.30	-3,024.54	2.12	7.94	3,369.59
20	58,926.89	20	15	5	75.00	4,843.63	13,393.77	-2,745.50	-6,770.72	1.76	5.29	2,946.34
15	46,565.42	20	15	5	75.00	4,209.70	8,150.48	-3,316.01	-6,277.02	1.27	3.81	2,328.27
10	30,785.16	22	13	9	59.09	3,564.52	10,507.25	-1,728.18	-4,090.24	2.06	2.98	1,399.33
9	25,792.55	22	14	7	63.64	3,062.16	8,413.73	-2,439.66	-5,207.55	1.26	2.51	1,172.39
8	27,187.39	22	14	8	63.64	3,273.43	8,524.75	-2,330.07	-4,082.16	1.40	2.46	1,235.79
7	25,305.88	23	15	8	65.22	2,964.28	6,026.80	-2,394.80	-3,954.60	1.24	2.32	1,100.26
6	25,478.47	23	15	8	65.22	2,456.26	6,819.80	-1,420.68	-4,106.70	1.73	3.24	1,107.76
5	28,529.29	24	18	6	75.00	2,011.58	8,516.82	-1,279.87	-3,295.50	1.57	4.72	1,188.72
4	22,451.15	25	19	6	76.00	1,800.31	6,716.71	-1,959.13	-4,894.50	0.92	2.91	898.05
3	15,028.81	25	16	9	64.00	1,644.86	6,740.50	-1,254.32	-5,105.87	1.31	2.33	601.15
2	16,747.30	25	18	7	72.00	1,198.37	4,028.44	-689.06	-2,409.33	1.74	4.47	669.89
1	10,972.38	26	15	11	57.69	1,047.07	2,755.52	-430.34	-1,255.50	2.43	3.32	422.01

23 of 25 instances (92%) closed above the entry price at some point in the next week. All within 8 trading days.

Implications appeared to be strongly positive both short and long-term. For those that would like to review examples, below is a list of instances assuming a 50-day exit criteria.

SPX closes at a 50-day high. NYSE Up Volume % > 90%.
Buy on close. Sell 50 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/30/70	Buy	\$87.20	11.69%	\$11,815.26
02/10/71	Sell	\$97.39		\$0.00
01/27/75	Buy	\$75.37	9.91%	\$14,108.64
04/09/75	Sell	\$82.84		\$0.00
01/05/76	Buy	\$92.58	9.01%	\$10,281.60
03/16/76	Sell	\$100.92		\$0.00
04/14/78	Buy	\$92.91	1.82%	\$9,597.92
06/26/78	Sell	\$94.60		(\$172.16)
08/02/78	Buy	\$102.91	1.91%	\$4,990.94
10/12/78	Sell	\$104.88		(\$2,184.75)
08/20/82	Buy	\$113.02	19.86%	\$27,722.24
11/01/82	Sell	\$135.47		(\$928.20)
11/03/82	Buy	\$142.86	2.65%	\$4,347.78
01/14/83	Sell	\$146.64		(\$7,535.22)
08/02/84	Buy	\$157.99	3.91%	\$7,362.80
10/12/84	Sell	\$164.17		\$0.00
01/04/88	Buy	\$255.94	3.98%	\$5,779.80
03/15/88	Sell	\$266.12		(\$6,154.20)
05/12/89	Buy	\$313.84	6.38%	\$7,488.90
07/25/89	Sell	\$333.87		\$0.00
05/11/90	Buy	\$352.00	1.08%	\$5,049.52
07/24/90	Sell	\$355.79		(\$542.44)
02/11/91	Buy	\$368.58	3.85%	\$6,146.28
04/24/91	Sell	\$382.76		(\$1,734.40)
05/04/09	Buy	\$907.24	2.80%	\$5,388.90
07/15/09	Sell	\$932.68		(\$4,171.20)
08/03/09	Buy	\$1,002.63	7.04%	\$7,674.48
10/13/09	Sell	\$1,073.19		(\$2,387.88)
08/02/10	Buy	\$1,125.86	3.90%	\$4,111.36
10/12/10	Sell	\$1,169.77		(\$7,582.08)
10/18/11	Buy	\$1,225.38	3.07%	\$5,449.68
12/29/11	Sell	\$1,263.02		(\$5,404.32)

The results are outstanding across the board. This study is included on both the short and intermediate-term active lists.

Even without being at a 50 day high, implications of such strong breadth nearing a short-term high in an uptrend appear quite positive. The study below was last seen in the 10/7/11 subscriber letter. It too has been updated.

SPX closes higher for at least the 3rd day in a row and NYSE Up Volume % > 90%.
Buy on close. Sell X days later. \$100k/trade. 10/20/87 - 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
20	40,344.89	18	12	6	66.67	4,693.29	14,074.06	-2,662.43	-5,866.30	1.76	3.53	2,241.38
19	30,708.68	18	13	5	72.22	3,635.90	9,897.86	-3,311.61	-7,086.20	1.10	2.85	1,706.04
18	32,686.07	18	14	4	77.78	3,385.97	8,619.73	-3,679.38	-4,913.70	0.92	3.22	1,815.89
17	41,054.22	18	13	5	72.22	4,096.05	11,270.42	-2,438.89	-5,553.90	1.68	4.37	2,280.79
16	45,234.57	18	14	4	77.78	3,871.03	12,204.08	-2,239.97	-6,770.50	1.73	6.05	2,513.03
15	43,074.60	19	13	6	68.42	4,168.55	11,124.12	-1,852.76	-5,239.30	2.25	4.87	2,267.08
14	41,622.57	19	16	3	84.21	2,937.15	8,025.22	-1,790.62	-2,533.16	1.64	8.75	2,190.66
13	30,722.70	20	15	5	75.00	2,552.31	7,484.65	-1,512.40	-3,373.70	1.69	5.06	1,536.14
12	29,909.31	20	15	5	75.00	2,548.20	7,583.70	-1,662.73	-2,355.10	1.53	4.60	1,495.47
11	26,877.77	20	12	8	60.00	2,842.28	8,671.60	-903.69	-2,496.80	3.15	4.72	1,343.89
10	26,405.79	20	14	6	70.00	2,729.94	10,921.96	-1,968.89	-2,811.20	1.39	3.24	1,320.29
9	23,906.09	20	14	6	70.00	2,371.00	8,397.62	-1,547.99	-2,298.27	1.53	3.57	1,195.30
8	19,986.80	20	14	6	70.00	2,355.73	7,394.80	-2,165.58	-3,753.26	1.09	2.54	999.34
7	24,697.88	20	14	6	70.00	2,361.86	9,599.94	-1,394.69	-2,724.73	1.69	3.95	1,234.89
6	16,798.10	20	12	8	60.00	2,424.31	5,066.85	-1,536.70	-3,497.62	1.58	2.37	839.91
5	12,514.12	20	15	5	75.00	1,851.11	4,428.90	-3,050.52	-6,695.61	0.61	1.82	625.71
4	10,980.20	20	15	5	75.00	1,555.35	5,800.13	-2,470.00	-6,719.68	0.63	1.89	549.01
3	2,435.49	20	13	7	65.00	1,400.84	3,641.54	-2,253.63	-5,298.72	0.62	1.15	121.77
2	4,365.16	20	15	5	75.00	933.72	4,479.84	-1,928.11	-8,004.64	0.48	1.45	218.26
1	5,234.13	20	9	11	45.00	961.74	2,860.08	-311.05	-1,140.30	3.09	2.53	261.71

Like the previous test, results here all point north. Below I have listed all the instances assuming a 14-day holding period.

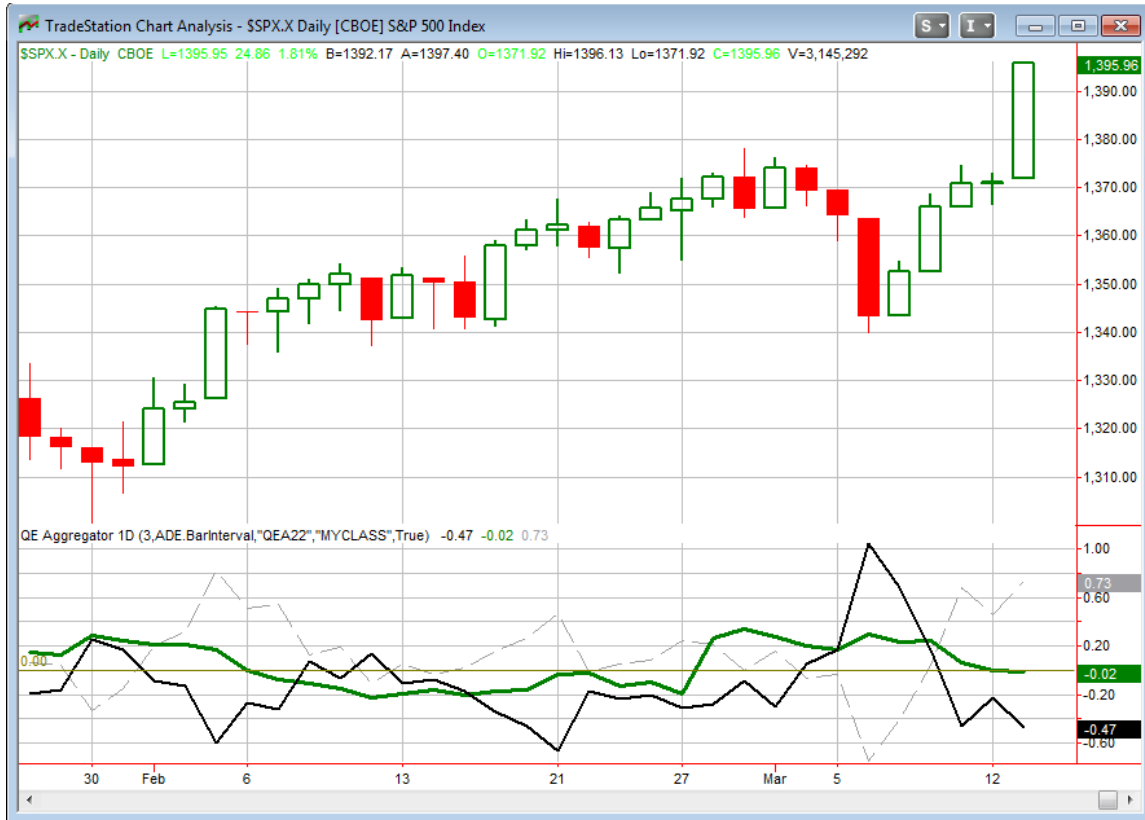
SPX closes higher for at least the 3rd day in a row. NYSE Up Volume % > 90%.
Buy on close. Sell 14 days later. \$100k/trade. 10/20/87 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/29/87	Buy	\$244.77	0.32%	\$5,071.44
11/18/87	Sell	\$245.55		(\$2,913.12)
05/12/89	Buy	\$313.84	3.72%	\$3,746.04
06/02/89	Sell	\$325.52		\$0.00
05/11/90	Buy	\$352.00	3.17%	\$3,271.68
06/01/90	Sell	\$363.15		(\$17.04)
01/02/03	Buy	\$909.03	(2.39%)	\$2,862.20
01/23/03	Sell	\$887.34		(\$3,535.40)
03/17/03	Buy	\$862.79	1.86%	\$3,807.65
04/04/03	Sell	\$878.85		(\$2,197.65)
03/21/07	Buy	\$1,435.04	0.27%	\$944.61
04/11/07	Sell	\$1,438.87		(\$1,803.66)
11/26/08	Buy	\$887.68	1.89%	\$3,491.04
12/17/08	Sell	\$904.42		(\$8,062.88)
03/12/09	Buy	\$750.74	8.04%	\$10,933.93
04/01/09	Sell	\$811.08		(\$1,101.24)
04/02/09	Buy	\$834.38	2.10%	\$4,908.75
04/23/09	Sell	\$851.92		(\$2,362.15)
07/15/09	Buy	\$932.68	7.82%	\$7,965.08
08/04/09	Sell	\$1,005.65		(\$559.61)
08/21/09	Buy	\$1,026.13	1.62%	\$2,138.85
09/11/09	Sell	\$1,042.73		(\$3,313.52)
11/09/09	Buy	\$1,093.08	0.23%	\$1,875.51
11/30/09	Sell	\$1,095.63		(\$849.94)
03/05/10	Buy	\$1,138.70	2.37%	\$3,653.13
03/25/10	Sell	\$1,165.73		(\$330.60)
07/13/10	Buy	\$1,095.34	2.79%	\$2,908.36
08/02/10	Sell	\$1,125.86		(\$3,499.86)
09/03/10	Buy	\$1,104.51	4.00%	\$3,995.10
09/24/10	Sell	\$1,148.67		(\$1,202.40)
07/01/11	Buy	\$1,339.67	0.40%	\$1,243.94
07/22/11	Sell	\$1,345.02		(\$3,237.50)
08/15/11	Buy	\$1,204.49	(2.53%)	\$2,176.26
09/02/11	Sell	\$1,173.97		(\$6,922.20)
10/06/11	Buy	\$1,164.97	6.61%	\$7,784.30
10/26/11	Sell	\$1,242.00		(\$1,250.35)
11/30/11	Buy	\$1,246.96	(0.45%)	\$1,608.00
12/20/11	Sell	\$1,241.30		(\$3,567.20)

Despite a couple of recent instances faltering, the upside edge still appears to be intact.

In addition to all these new studies triggering, several of the short-term bullish studies that were active reached their targets and have been removed from the Short-term Active List.

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



When I looked at the impact of the new studies this afternoon it appeared the green aggregator line was likely to rise above zero. What I neglected to account for was the fact that there were several short-term bullish studies that had hit their targets and were being removed from the active list. This had a substantial impact on the green Aggregator line which remains slightly negative. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line held firm 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.

Based on the current studies, expectations are scheduled to flip back to positive on Wednesday. This could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,377.97 on Wednesday. This is 1.2% below Tuesday's close.

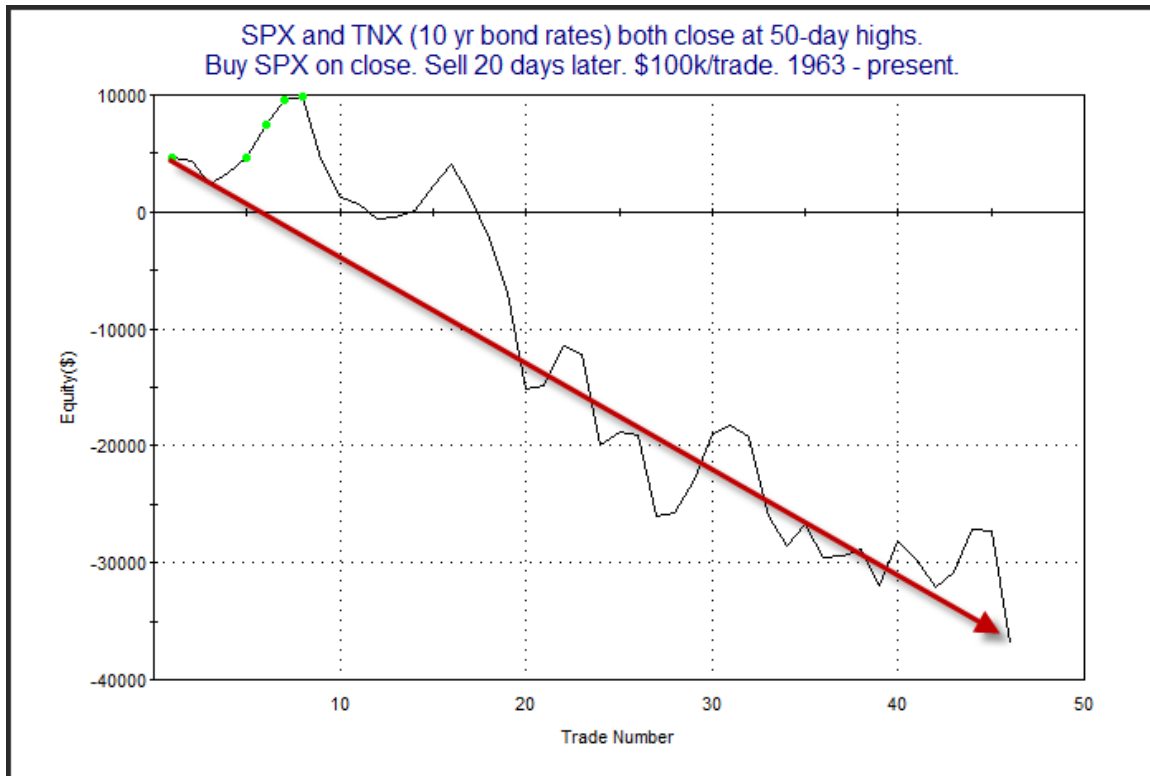
So it would take a drop of at least this much on Wednesday to move the SPX into oversold territory and generate a positive Differential Line reading.

I didn't love the short signal last night, which turned out to be a good thing. The edge wasn't terribly compelling and it appeared likely to expire after just one day. Tonight we are in a similar situation. Expectations are set to turn positive tomorrow unless more bearish studies emerge. So we have what appears to be a very short time window and a very mild downside edge. The only way I would consider playing a short trade tomorrow would be if the market were two gap up substantially in the morning I might look to get short near the open for a daytrade. As far as swing trades go, I intend to sit tight for at least another day until a more favorable opportunity emerges.

One other study that triggered and is worth mentioning only had intermediate-term implications. It noted the fact that 10-year bond rates hit new highs on Tuesday along with the SPX. It was last seen in the 10/31/11 subscriber letter and has been updated below.

SPX and TNX (10 yr bond rates) both close at 50-day highs. Buy SPX on close. Sell X days later. \$100k/trade. 1963 - 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
50	-35,672.95	37	17	20	45.95	3,406.25	9,293.13	-4,678.96	-11,866.50	0.73	0.62	-964.13
45	-31,810.41	38	16	22	42.11	4,061.53	8,170.47	-4,399.76	-11,540.20	0.92	0.67	-837.12
40	-19,094.95	40	19	21	47.50	3,794.28	7,101.51	-4,342.20	-10,971.10	0.87	0.79	-477.37
35	-31,559.89	42	18	24	42.86	3,350.00	9,093.59	-3,827.50	-9,558.36	0.88	0.66	-751.43
30	-18,938.52	43	17	26	39.53	3,582.60	8,122.50	-3,070.87	-6,689.55	1.17	0.76	-440.43
25	-7,364.05	44	19	25	43.18	2,969.29	7,845.48	-2,551.22	-6,261.07	1.16	0.88	-167.36
20	-36,936.63	46	23	23	50.00	1,781.90	4,616.92	-3,387.84	-9,695.84	0.53	0.53	-802.97
15	-29,133.07	46	24	22	52.17	1,680.97	3,500.32	-3,158.01	-9,608.60	0.53	0.58	-633.33
10	-8,833.84	51	30	21	58.82	1,326.33	3,263.44	-2,315.41	-8,683.66	0.57	0.82	-173.21
5	-5,607.13	67	36	31	53.73	1,038.59	5,231.46	-1,386.98	-6,088.44	0.75	0.87	-83.69

Generally it seems that higher interest rates have often made bonds an attractive investment. This may have lead people to forsake stocks in favor of lower risk returns with improved yield. Implications of this study appear to be longer-term in nature. To help visualize how this edge has played out over time I have pasted below equity curve using a 20-day exit strategy.



The most recent instance saw the curve hit new lows and kept the downslope squarely intact. I've included this study on the intermediate-term active list and will incorporate it into my next intermediate-term outlook update this weekend.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/12 – moderately bullish

The intermediate-term outlook was last updated in the 3/12 letter. Use the link below if you wish to review it.

[2012-03-12 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.

No new trade ideas tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CAT(1/3)	3/5/2012	\$111.55	\$111.56	0.01%		Catapult
CAT(1/3)	3/6/2012	\$106.57	\$111.56	4.68%		Catapult
XIV(1/2)	3/6/2012	\$8.48	\$10.15	19.69%		Aggressive VIX

CAT –I set my stop just a few cents to tight on Tuesday and was stopped out just before the rally continued and CAT went on to finish strong. Hopefully some of you didn't make your stops quite as tight and were able to benefit from the late afternoon rally. In either case CAT turned out to be another winning Catapult trade and another winning Catapult cluster.

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