

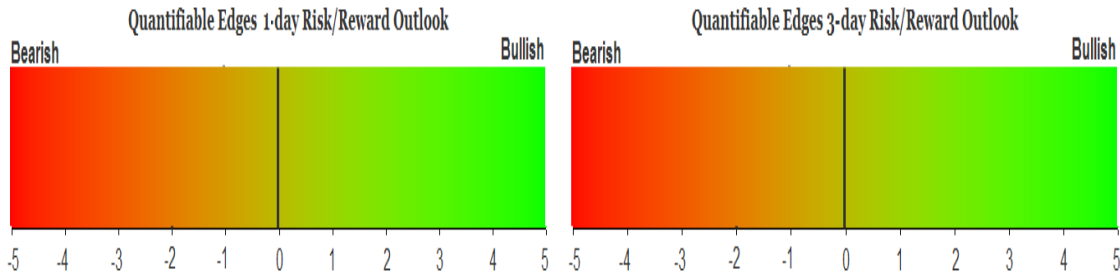
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 16, 2012

Volume 5 Issue 52

Market Overview



Signals Overview

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

Tonight's Research Points

- VIX up mid-week while SPX hits a 50-day high suggests 1-2 days of weakness.
- Closing near the top of its 10-day range just prior to op-ex has typically been followed by a pullback.

Short-term Outlook

The Bottom Line

The market remains overbought and despite some bearish evidence today, net expectations remain short-term bullish. This has the Aggregator neutral. I'm not looking to take on new exposure until a more favorable opportunity arises.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 16, 2012	SPX 50-high. VIX up midweek.	1-2 days	Bearish	
March 16, 2012	SPX top of range. Op-ex tomorrow.	1-4 days	Bearish	-1.55%
March 15, 2012	5+ up to 50-high then dip	1-2 days	Bullish	0.80%
March 15, 2012	50-high then weak dip on bad breadth	1-2 days	Bearish	-1.80%
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 13, 2012	VIX 10%high to 10% low in < week	1-8 days	Bullish	2.75%
Active - Long Term				
March 15, 2012	5+ up to 50-high then dip	1-10 days	Bullish	2.00%
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	8.00%
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 13, 2012	SPX up > 10ma > 200ma. Low vol 20.	1-3 days	Bearish	-1.30%
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	SPX up. Up Issues% & Up Vol% < 45%	1-3 days	Bearish	-1.80%

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

The Evidence

It's been a strong rally the last few months and Thursday we saw new highs once again. The SPX gained 0.6, the Nasdaq was up 0.5% and the Russell 2000 rose 1.0%. Breadth was moderately positive as the NYSE Up Issues % came in at 56% and the Up Volume % was 78%. Total NYSE volume dipped for the 2nd day in a row.

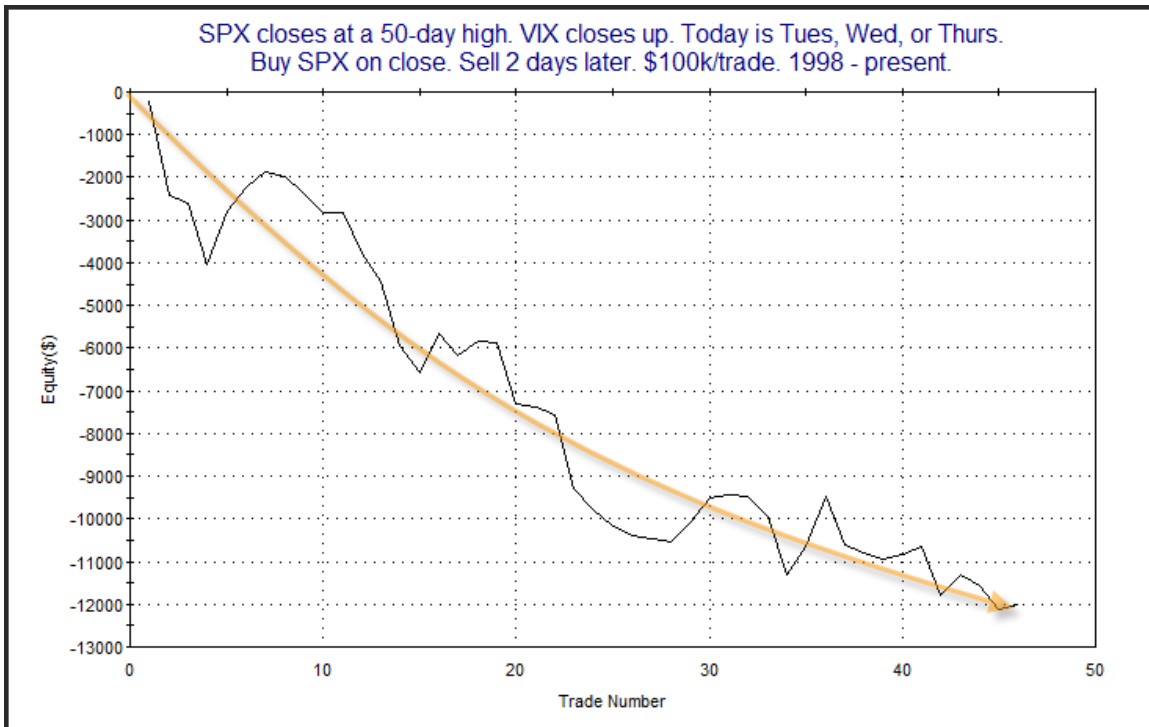
VIX action Thursday seemed to suggest a pullback in the next 1-2 days could be in the making. The study below was last seen in the 2/22/12 subscriber letter. I have updated the results.

SPX closes at a 50-day high. VIX closes up. Today is Tues, Wed, or Thurs.
Buy SPX on close. Sell X days later. 1998 - 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	-7,803.46	43	22	21	51.16	724.82	2,108.40	-1,130.92	-4,116.72	0.64	0.67	-181.48
4	-6,928.05	45	20	25	44.44	689.10	1,629.60	-828.40	-2,917.76	0.83	0.67	-153.96
3	-7,890.60	45	21	24	46.67	502.38	1,315.00	-768.36	-2,091.82	0.65	0.57	-175.35
2	-12,020.37	46	14	32	30.43	514.11	1,223.00	-600.56	-2,182.68	0.86	0.37	-261.31
1	-11,359.78	53	21	32	39.62	260.88	1,108.05	-526.20	-1,721.70	0.50	0.33	-214.34

96% of instances closed below the entry price at some point in the next week.

Pullbacks of some kind have been quite reliable, with most of the damage occurring in the 1st two days. Below is an equity curve that shows how the edge has played out over time.



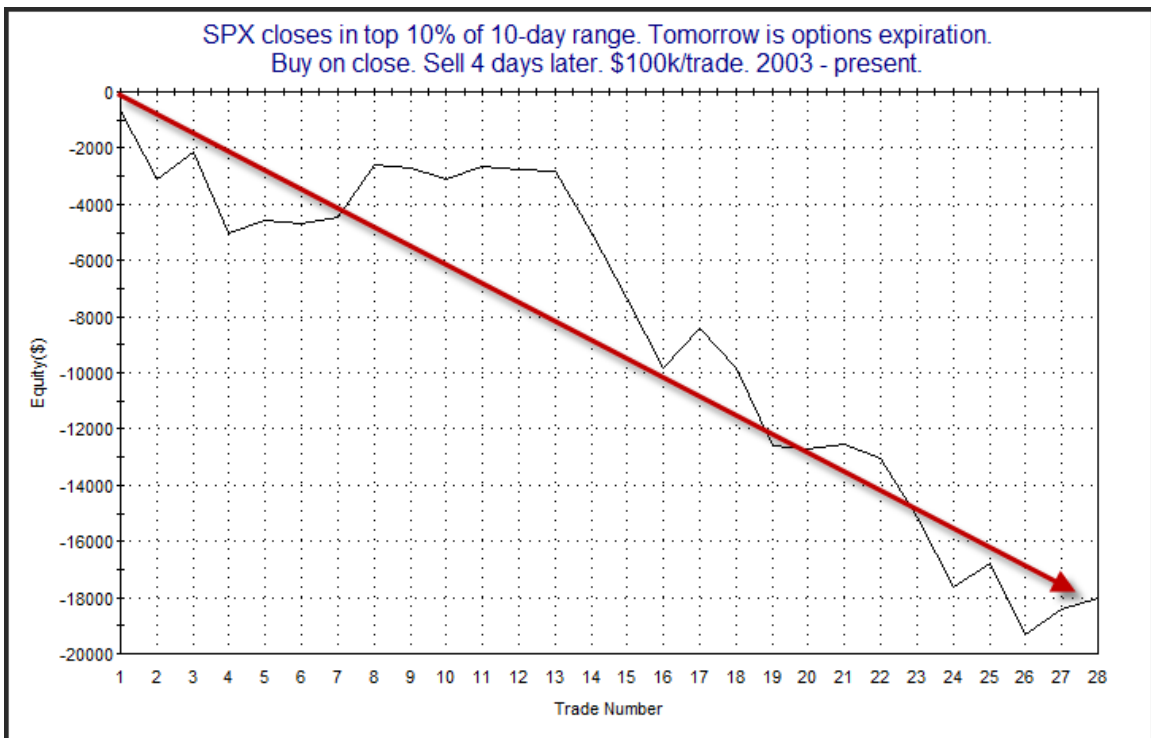
The fairly steady decline seems to support the idea of a short-term downside edge.

It is a little unusual to see the market close so strongly just ahead of options expiration. And when it has happened it has typically led to selling over the next few days. The study below shows this. It was last seen last month in the 2/17/12 subscriber letter. All stats have been updated.

**SPX closes in top 10% of 10-day range. Tomorrow is options expiration.
Buy on close. Sell X days later. \$100k/trade. 2003 - present.**

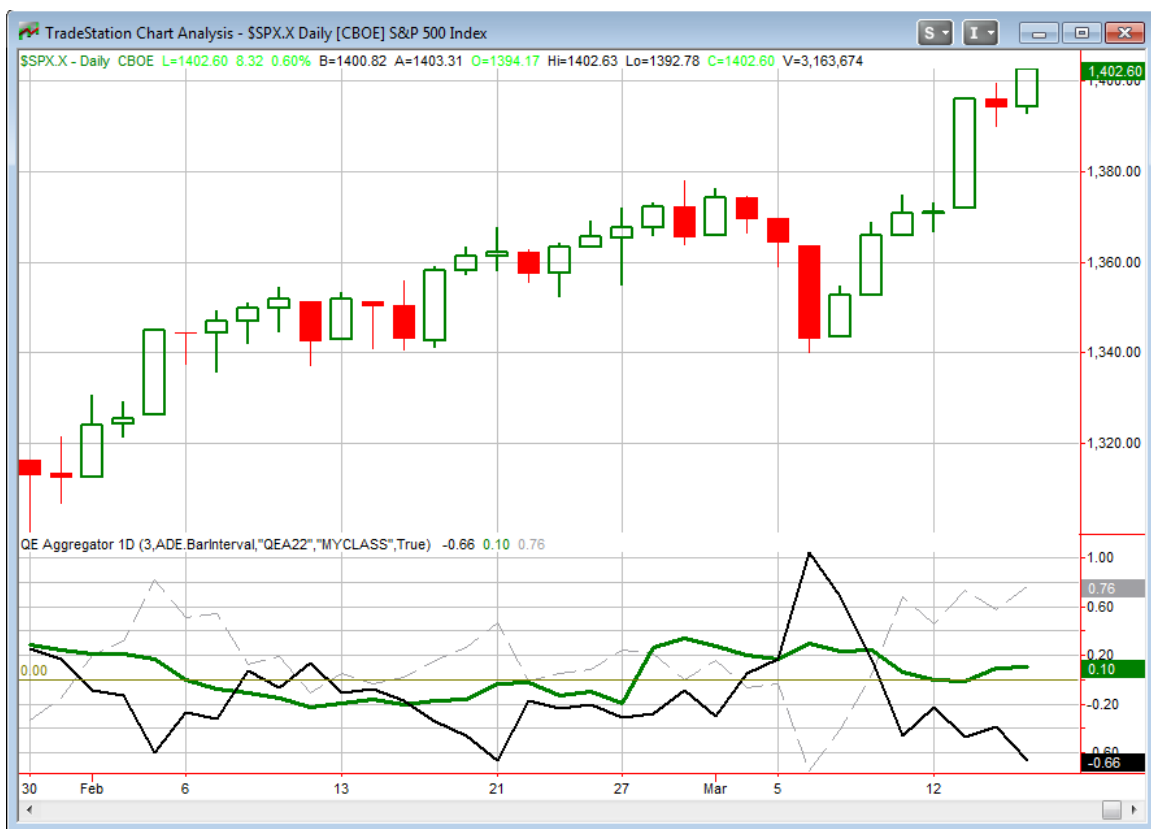
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-18,003.60	28	10	18	35.71	920.01	3,768.30	-1,511.32	-4,932.90	0.61	0.34	-642.99
4	-18,034.52	28	10	18	35.71	763.26	1,825.60	-1,425.95	-2,899.20	0.54	0.30	-644.09
3	-9,590.47	28	14	14	50.00	564.09	1,474.40	-1,249.12	-2,828.70	0.45	0.45	-342.52
2	-9,584.88	28	16	12	57.14	428.00	1,588.40	-1,369.41	-3,784.65	0.31	0.42	-342.32
1	-3,774.36	28	15	13	53.57	357.37	2,286.84	-702.69	-2,875.60	0.51	0.59	-134.80

Numbers here are moderately compelling. To confirm the downside edge, I also ran an equity curve. This curve is based on a 4-day exit strategy.



This curve would seem to confirm the downside edge suggested by the stats table.

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



Despite the bearish studies tonight the green Aggregator Line barely budged. This was largely due to 4 bearish studies expiring. Readings above 0 mean net expectations from the Active List are for upside 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 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. It was noted on the systems page shortly before the bell.

Based on the current studies, expectations are scheduled to remain positive on Friday. This could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,396.51 on Friday. This is just 0.4% below Thursday's close. An SPX close down of this amount or more would move the SPX into oversold territory and generate a positive Differential Line reading.

The Aggregator is still neutral. Though expectations are net positive we are seeing some evidence tonight that a few days of selling could be at hand. If that occurred it could set up a nice long opportunity. The QE Buying Power Index has been at a mildly positive “2” reading this week. On Tuesday it will move back up to a solidly bullish “3” and remain there or above for over a week. Pullbacks during this time would seem to be a high probability play. So I’ll exercise some patience here over the next day or so. And if the market does pull back as tonight’s studies suggested, I’ll be ready to pounce with both the current studies and the QE Buying Power Index on my side.

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
XIV(1/2)	3/6/2012	\$8.48	\$9.95	17.33%		Aggressive VIX

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