

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 21, 2012

Volume 5 Issue 55

Market Overview



Signals Overview

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

Tonight's Research Points

- Mild drops from 50-day highs on very poor breadth have typically been followed by more selling.

Short-term Outlook

The Bottom Line

The outlook couldn't be more neutral. I am not looking to take on new exposure until I see a clear edge in one direction.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 21, 2012	50-high then weak dip on bad breadth	1-2 days	Bearish	-1.70%
March 20, 2012	SPX 50-high. VIX up Monday.	1-2 days	Bearish	
March 19, 2012	SPX > Upper Bollinger 4 days	1-8 days	Bullish	1.90%
March 16, 2012	SPX top of range. Op-ex tomorrow.	1-4 days	Bearish	-1.55%
March 14, 2012	100-day high on Fed Day	1-8 days	Bullish	2.00%
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 14, 2012	50-day high on strong breadth	1-5 days	Bullish	2.60%

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

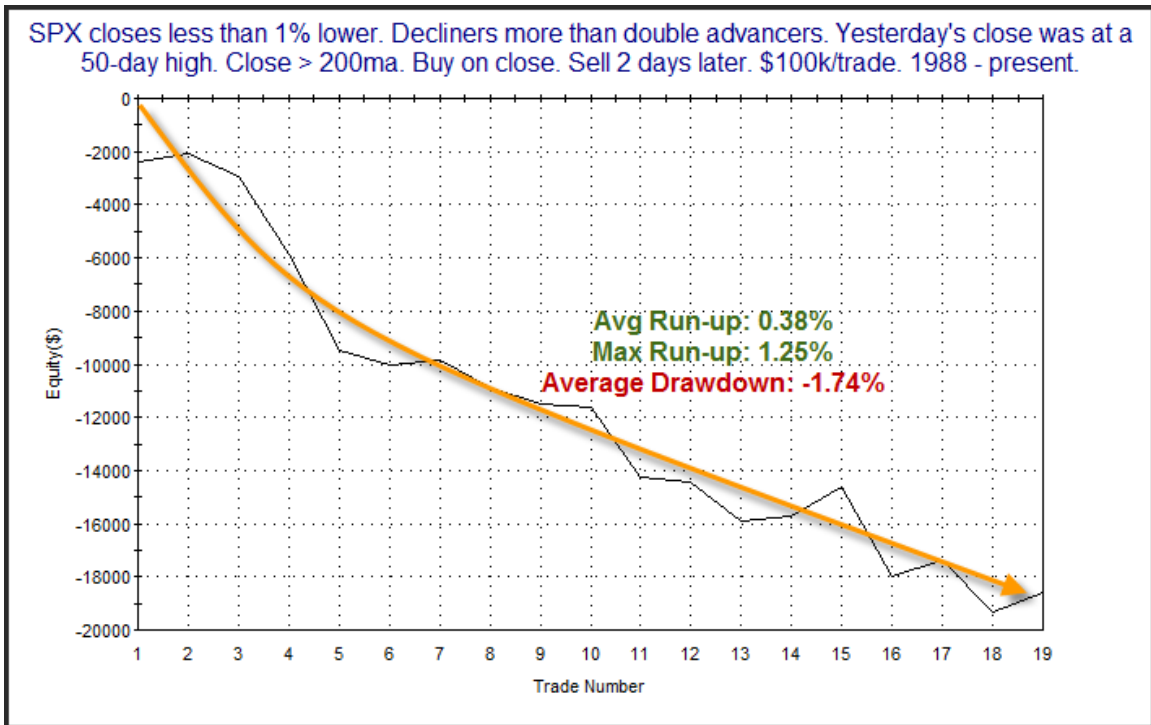
The Evidence

A scare at the open Tuesday never got scarier. Though it stabilized quickly, the market was not able to fully recoup its overnight losses. SPX lost 0.3%, the Nasdaq dropped 0.1% and the Russell 2000 and sold off 1.0%. Breadth was decidedly negative as the NYSE Up Issues % came in at 33% and the Up Volume % was 36%. Volume dropped again and came in very light.

The study below has been seen a few times in the last month or so – mostly recently in the 3/15/12 letter. The study and excerpt below are from that letter. Stats have been updated.

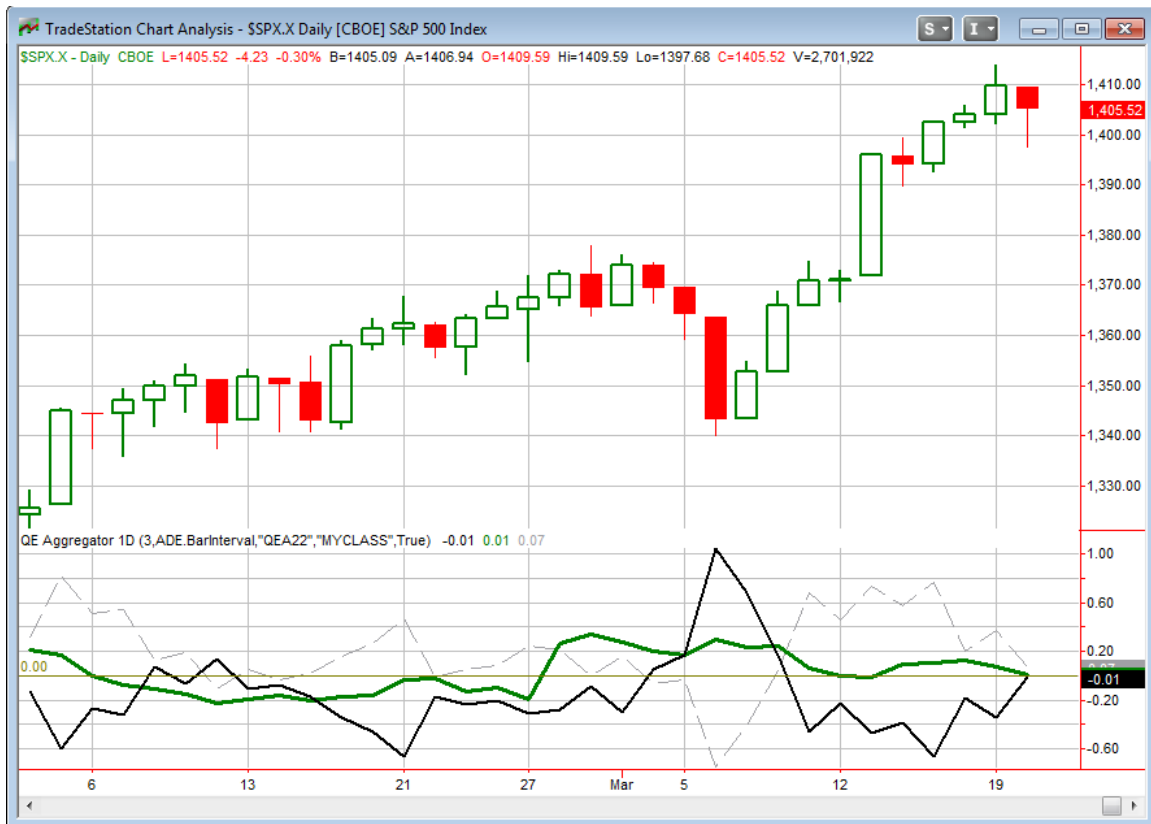
SPX closes less than 1% lower. Decliners more than double advancers. Yesterday's close was at a 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: 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	-4,426.54	18	11	7	61.11	728.32	2,181.96	-1,776.87	-2,538.28	0.41	0.64	-245.92
4	-9,519.31	19	8	11	42.11	770.54	1,232.88	-1,425.78	-3,709.52	0.54	0.39	-501.02
3	-16,436.32	19	6	13	31.58	418.90	1,098.37	-1,457.67	-3,721.09	0.29	0.13	-865.07
2	-18,603.15	19	6	13	31.58	506.44	1,077.12	-1,664.75	-3,611.48	0.30	0.14	-979.11
1	-14,068.79	19	6	13	31.58	557.00	832.48	-1,339.29	-3,794.40	0.42	0.19	-740.46

The implication here is that when the SPX is coming off a high level and it holds up relatively well despite broad selling, it will often have further to drop. The strong selling in the Russell 2000 could spill over into the large caps. There's a chance they could even play catch-up to the downside. The good news for bulls here is that the bearish inclinations have only lasted a couple of days. In addition to the edges suggested by the "% profitable" and the "avg trade" columns, the win:loss ratio is also strongly skewed. Risks appears to far outweigh reward. Below is a profit curve using a two day exit strategy.



We see here a fairly steady downmove. While instances are a little bit low this study appears well worthy of consideration. The stats shown on the chart are especially impressive, with downside risks swamping upside reward as the results table seemed to imply.

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



Results tonight couldn't get any more neutral. The green Aggregator Line is now just barely positive such a small amount is can't be deciphered with the naked eye. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is below 0 by an equally small reading. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are very slightly bullish but the SPX is just barely 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. In this case, even if they were on the same side of 0 by such small amounts, I would likely not consider it an edge strong enough to trade. This meant the Aggregator System remained flat at the close. It was noted on the systems page before the bell.

Based on the current studies, expectations are scheduled to remain positive on Wednesday. This could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be modestly *inverted* at 1,408.72 on Wednesday. This is 0.2% *above* Tuesday's close. An "inverted" pivot means the Differential Line will pass through 0 (in this case up), if the SPX closes flat. So it will take a rise of 0.2% or more to keep the SPX overbought versus expectations.

Readings this neutral make the decision to sit and wait an easy one. It appears the market could break in either direction short-term. There simply is not a compelling edge. I'll wait until one emerges.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/19 – moderately bullish

The intermediate-term outlook was last updated in the 3/19 letter. If you would like to review it you may use the link below:

[2012-03-19 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	\$11.05	30.31%	\$9.49	Aggressive VIX

I'm placing a stop just below the recent swing low to try and lock in some profits. It has gone our way so far, but XIV can move south incredibly fast. (See daily chart from last summer if you don't believe me.) Traders could also consider taking profits on a small portion of their trade at any time to lock in a profit. I'm still inclined to try and let the whole thing run at this point, but that could change depending on how the edges emerge over the next several days.

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