

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 22, 2012

Volume 5 Issue 56

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

The market is no longer overbought, and expectations remain bullish. This suggests an upside edge and has me looking to take on long index exposure if I can get a favorable entry.

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 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	
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 16, 2012	SPX top of range. Op-ex tomorrow.	1-4 days	Bearish	-1.55%

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

The Evidence

Narrow trading left the market mixed on Wednesday. SPX lost 0.2%, while the Nasdaq and the Russell 2000 each sold off less than 0.1%. Breadth was mildly negative as the NYSE Up Issues % came in at 48% and the Up Volume % was 45%. Volume rose slightly from Tuesday's level.

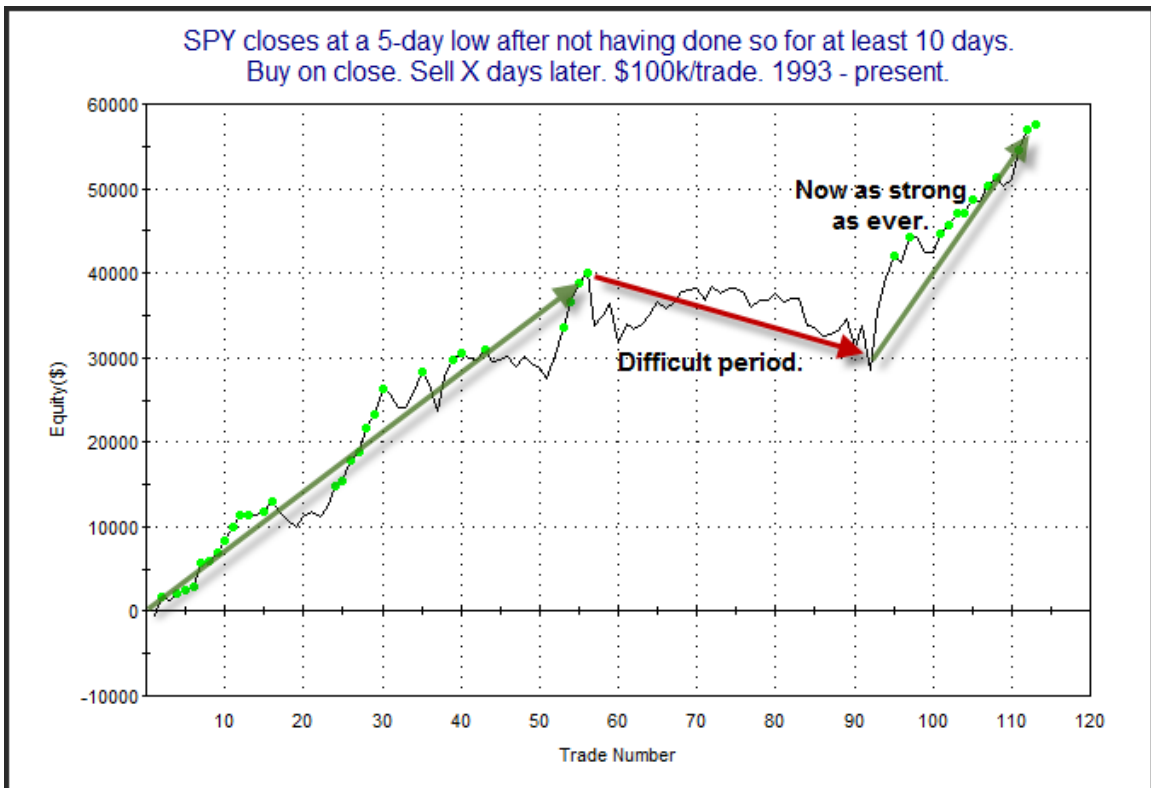
The market has strongly resisted pullbacks lately. And while this one isn't terribly impressive yet, Wednesday was the 1st time the SPY managed to close at a 5-day low in over two weeks. In the 3/6/12 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 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	87,601.96	113	75	38	66.37	2,169.78	8,925.10	-1,977.15	-8,623.54	1.10	2.17	775.24
9	74,080.91	113	74	39	65.49	1,981.97	8,933.76	-1,861.15	-6,709.56	1.06	2.02	655.58
8	71,275.98	113	74	38	65.49	1,922.39	8,908.38	-1,867.91	-7,113.48	1.03	2.00	630.76
7	57,402.65	113	73	40	64.60	1,854.87	6,851.52	-1,950.07	-7,790.40	0.95	1.74	507.99
6	46,760.49	113	71	42	62.83	1,691.68	6,523.92	-1,746.39	-9,559.44	0.97	1.64	413.81
5	47,982.95	113	71	41	62.83	1,623.79	6,103.89	-1,641.61	-4,906.44	0.99	1.71	424.63
4	57,640.23	113	74	39	65.49	1,484.70	6,941.43	-1,339.18	-6,244.56	1.11	2.10	510.09
3	37,118.27	113	70	43	61.95	1,319.40	5,888.16	-1,284.64	-5,295.84	1.03	1.67	328.48
2	24,217.52	113	63	49	55.75	1,151.21	3,809.72	-985.89	-3,737.28	1.17	1.50	214.31
1	12,161.51	113	63	50	55.75	858.00	2,812.20	-837.85	-3,909.03	1.02	1.29	107.62

99 of 113 instances (88%) closed below 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, rather than turn on a dime.

There is one big caveat with the current setup, though. SPY went ex-div on Friday. Had it not done so, Wednesday would not have marked a 5-day low. This is why SPX did not confirm with a 5-day low of its own. It is also why I am not including this study on the active list.

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



With two bearish studies expiring and coming off the short-term Active List, the green Aggregator Line inched up a bit more into positive territory. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line rose back above zero for the first time in several days. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are mildly bullish and the SPX is somewhat oversold versus recent expectations. This is considered a bullish configuration. Bullish configurations are

visible on the chart whenever both lines close above 0. This meant the Aggregator System changed from flat to long at the close. This was noted on the systems page before the bell.

Based on the current studies, expectations are scheduled to remain positive on Thursday. This could change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,417.11 on Thursday. This is over 1% above Wednesday's close. This means the SPX will need to close at least this much higher if it is going to move from oversold to overbought, and cause the Differential Line to close back below zero.

So we now have what appears to be a mild upside edge. The pullback to this point has been very shallow and has only lasted two days, so we aren't oversold to the point where the market is screaming "buy". And with action so quiet lately, it is certainly plausible that a sharp selloff could trigger any time. There was no real compelling evidence that emerged this evening, and open active studies, while net bullish, are mixed. So while the Aggregator did trigger a long signal tonight, I'm inclined only to start scaling in if I can get a favorable entry on Thursday. Details are in the trade ideas section near the bottom of the letter.

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.

SPY – buy ¼ index position @ \$140.00 LIMIT ON OPEN. If not filled at the open this trade should be canceled and reset to purchase @ \$140.21 LIMIT ON CLOSE. This is based on the short-term outlook above. I will look to enter if we get a moderate gap down, or if the market closes lower. This is a more conservative approach than using a straight limit order which would allow me to buy into an intraday selloff.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/6/2012	\$8.48	\$11.58	36.56%	\$9.49	Aggressive VIX

In Monday's letter (3/19) I discussed the state of contango across the first few months of the VIX futures curve. At the time April was trading well above March, which was providing a strong upside edge for XIV. The edge occurs due to the daily roll that XIV must execute in order to keep a constant average duration. But March futures settled on Wednesday. This means the front month is now April and the second month is now May. I noted in the 3/19 letter that May was trading less than 10% above April. In a move that was very favorable for our XIV position, April futures have dropped quite a bit more than May over the last three days. The net result is that May is now trading more than 17% above April. So while there has been the reduction in the edge due to March settlement, we are still seeing a very favorable term structure for XIV. With a directional edge also in our favor, I anticipate continuing to hold XIV for at least a few more days (and until either the contango or the directional edge is greatly reduced or eliminated).

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2012 Hanna Capital Management, LLC.