

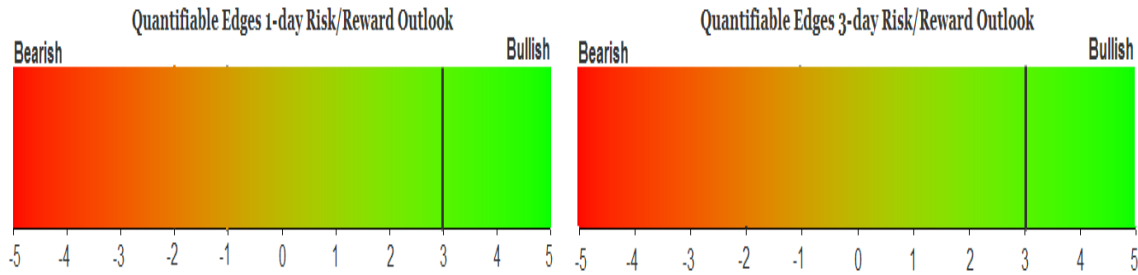
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 23, 2012

Volume 5 Issue 57

Market Overview



Signals Overview

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

Tonight's Research Points

- 3-day pullbacks similar to the current one from 50-day highs have suggested a strong upside edge over the years.
- POMO activity has been strong and suggests a short-term upside edge.

Short-term Outlook

The Bottom Line

Evidence is becoming more bullish and the SPX is getting more oversold. I am longer and looking to get longer on a further pullback.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 23, 2012	3-day pullback from 50-high	1-6 days	Bullish	2.30%
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%
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 21, 2012	50-high then weak dip on bad breadth	1-2 days	Bearish	-1.70%
March 13, 2012	VIX 10%high to 10% low in < week	1-8 days	Bullish	2.75%

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

The Evidence

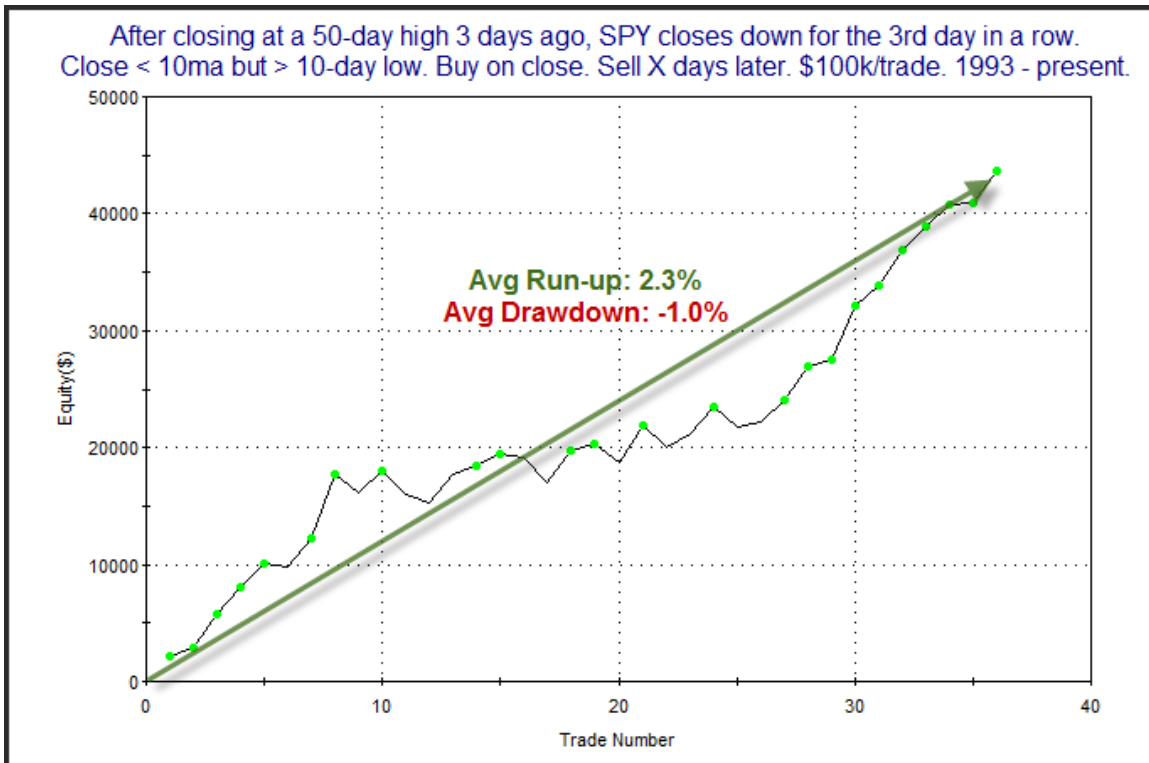
A big gap down was followed by basically nothing on Thursday. The indices did a lot of wiggling and ended up near the low levels where they started the day. The SPX lost 0.7%, the NASDAQ was down 0.4%, and the Russell 2000 sold off 1.0%. Breadth was strongly negative as the NYSE Up Issues % came in at 26% and the Up Volume % was 15%. Volume rose slightly from Wednesday's level.

The 3-day pullback attracted a few Quantifinder studies tonight. One interesting study used the 3/10 Offset HV as a filter. It found that times where the 3/10 Offset HV was extremely low 3-day pullbacks fared significantly better. Tonight's reading was very close to the filter value used, so I didn't think using that as a primary filter made much sense. Instead I decided to look at other times where the 3-day pullback was coming off a 50-day high and was strong enough to put SPY below its 10ma, but *not* strong enough to make it close at a 10-day low. These filters seem to fairly represent the current situation, and the results were quite compelling.

After closing at a 50-day high 3 days ago, SPY closes down for the 3rd day in a row. Close < 10ma but > 10-day low. 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	52,736.63	36	27	9	75.00	2,621.95	7,242.70	-2,006.22	-6,933.13	1.31	3.92	1,464.91
9	43,233.20	36	28	8	77.78	2,354.04	6,322.56	-2,834.98	-8,192.92	0.83	2.91	1,200.92
8	46,832.67	36	28	8	77.78	2,299.62	6,358.08	-2,194.59	-4,499.25	1.05	3.67	1,300.91
7	42,669.14	36	28	8	77.78	2,120.72	6,322.56	-2,088.88	-4,354.31	1.02	3.55	1,185.25
6	43,590.99	36	27	9	75.00	2,061.75	5,375.36	-1,341.82	-2,140.14	1.54	4.61	1,210.86
5	33,469.63	36	26	10	72.22	1,773.85	3,522.94	-1,265.04	-3,453.71	1.40	3.65	929.71
4	34,403.00	36	29	7	80.56	1,445.73	3,178.14	-1,074.72	-3,076.63	1.35	5.57	955.64
3	20,080.89	36	23	13	63.89	1,376.74	2,873.85	-891.09	-2,027.68	1.55	2.73	557.80
2	10,223.63	36	24	12	66.67	956.12	2,332.48	-1,060.27	-2,379.48	0.90	1.80	283.99
1	6,610.81	36	21	15	58.33	893.08	2,060.16	-809.59	-2,031.09	1.10	1.54	183.63

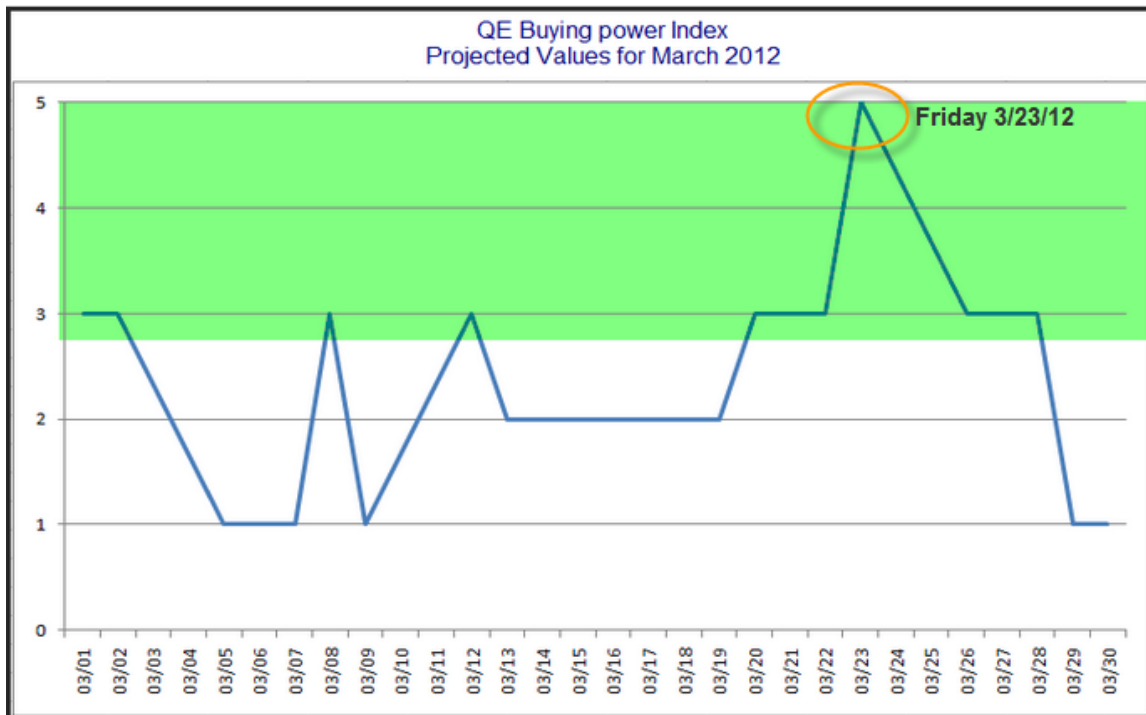
Under these circumstances, it appears bounces have been both reliable and powerful. Below is a profit curve using a 6-day exit strategy.



The curve is a bit wobbly, but the upward direction has remained intact throughout. Overall, the curve appears to provide confirmation of the bullish tendency suggested by the stats table.

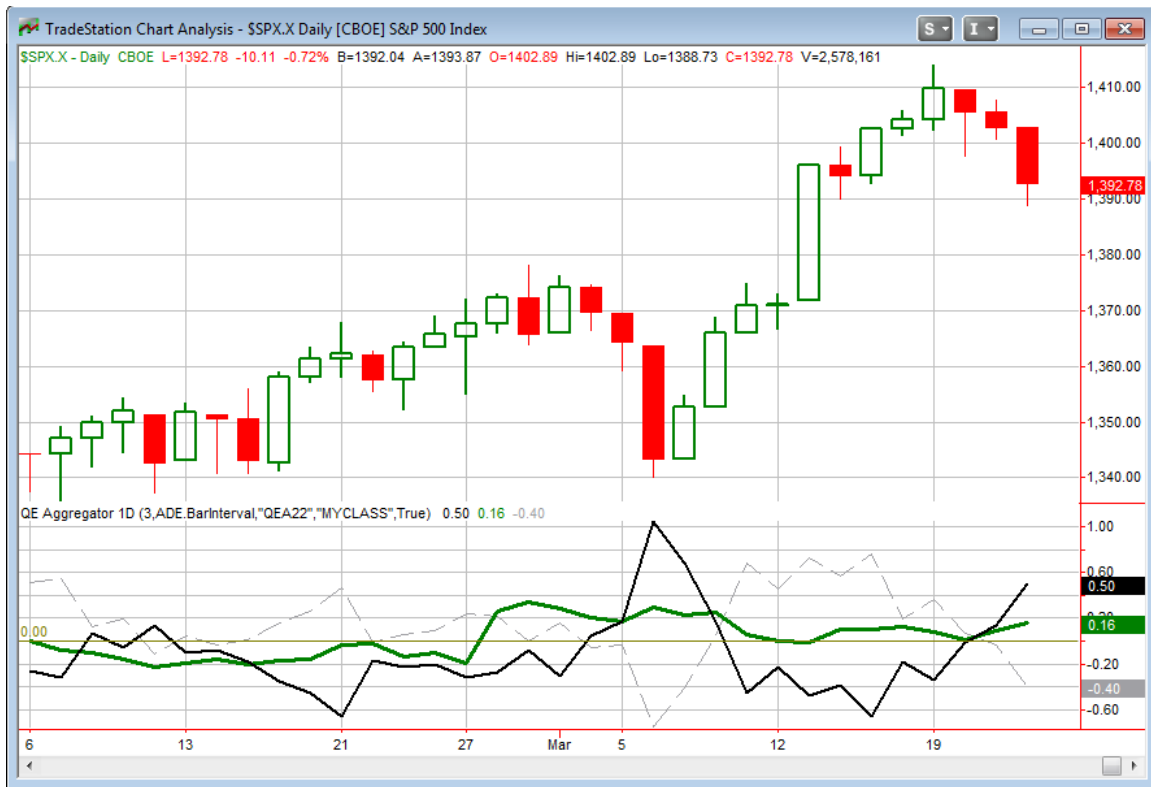
I also find it notable that Friday will mark the fifth day in a row of POMO buying. This will put the QE Buying Power Index at 5. This is the first time since QE2 at the end of June 2011 where the QE Buying Our Index will hit 5. This should help to provide a boost to the market over the next several days.

Below is the projected chart of the QE Buying Power Index, which was taken directly from the members section of the website.



It's going to be a quick visit to the 5 level since Monday is scheduled to see selling. It will stay at a still-bullish 3 for a couple of days before retreating back to neutral territory to close the month. The next operations schedule is set to be released on March 30th.

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



With tonight's bullish study included the green Aggregator Line rose a bit higher 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 is now further above 0 than it has been in a couple of weeks. 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 meant the Aggregator System remained 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 Friday. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,408.46 on Friday. This is 1.1% above Thursday'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.

Evidence is starting to look more compelling for the bullish case. A further drop on Friday combined with bullish evidence and strong POMO support would entice me to add to my long position.

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

NEW

HPQ – buy 1/3 @ \$23.03 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(HPQ)

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 @ \$137.92 LIMIT ON CLOSE. This is based on the short-term outlook above. A close down here would trigger a QE Buying Power System long entry, assuming the 10-day range does not expand. Either way, it would be enough of a selloff for me to look to enter a 2nd lot at the close.

HPQ– buy 1/3 Catapult position @ \$23.03 limit. This is based on the new Catapult trigger shown above. I am using a straight limit order here and will look for a fill any time during the day. Those new to Catapults are encouraged to review the Catapult & CBI presentation on the videos page or the Catapult Exit Designer on the Downloads page.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/6/2012	\$8.48	\$11.41	34.55%	\$9.49	Aggressive VIX
SPY(1/4)	3/22/2012	\$139.18	\$139.20	0.01%		bought on open

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