

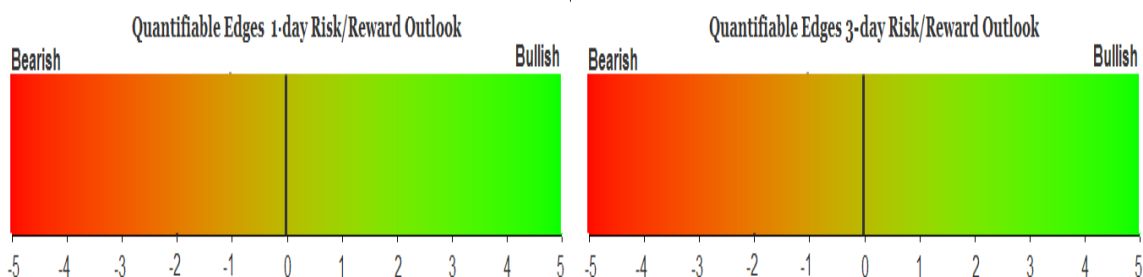
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 28, 2012

Volume 5 Issue 60

Market Overview



Signals Overview

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

Tonight's Research Points

- A 20-day high and poor close are often followed by a move up.

Short-term Outlook

The Bottom Line

The neutral outlook remains in place. I am playing the waiting game, looking for a more substantial edge.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 28, 2012	20-day high and poor close	1 day	Bullish	
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%
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 27, 2012	SPX 50-high. VIX:VXV < 0.85	1 day	Bearish	

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

The Evidence

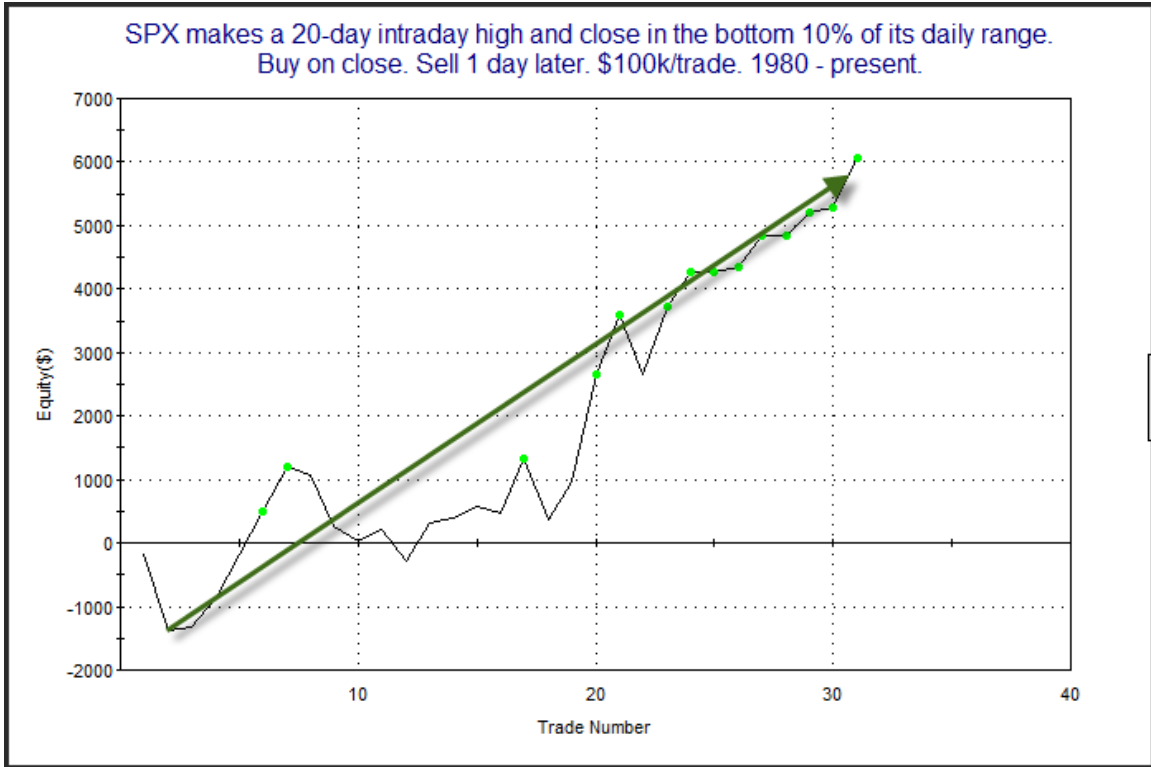
The market traded in a fairly tight range for most of the day before enduring a last hour bout of selling. The late swoon left the SPX down 0.3%, the NASDAQ fell 0.1%, and the Russell 2000 dropped 0.7%. Breadth was fairly weak as the NYSE Up Issues % came in at 42% and the Up Volume % was 29%. Volume was light once again, and just barely failed to reach the level achieved on Monday.

Mild price changes will often lead to no more than mild edges, and that is all we got today. The study below was last seen in the 12/8/10 subscriber letter. I have shortened the look back to only look at more recent instances, and have updated the results below.

SPX makes a 20-day intraday high and close in the bottom 10% of its daily range. 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
12	38,167.54	26	22	4	84.62	1,869.74	6,227.28	-741.70	-1,412.04	2.52	13.86	1,467.98
11	35,743.05	26	21	5	80.77	1,889.52	4,417.17	-787.35	-1,798.26	2.40	10.08	1,374.73
10	31,691.39	26	20	6	76.92	1,878.05	4,119.18	-978.27	-3,210.80	1.92	6.40	1,218.90
9	28,606.53	26	21	5	80.77	1,644.88	3,613.36	-1,187.17	-3,311.08	1.39	5.82	1,100.25
8	31,350.53	27	23	4	85.19	1,669.18	4,483.84	-1,760.14	-3,543.84	0.95	5.45	1,161.13
7	23,176.94	27	22	5	81.48	1,527.34	3,761.94	-2,084.90	-4,159.32	0.73	3.22	858.41
6	24,902.87	28	24	4	85.71	1,344.16	3,331.38	-1,839.23	-2,915.88	0.73	4.38	889.39
5	9,808.59	28	18	10	64.29	1,039.06	2,693.34	-889.44	-3,566.84	1.17	2.10	350.31
4	6,851.53	30	19	11	63.33	947.38	2,399.28	-1,013.52	-2,332.44	0.93	1.61	228.38
3	9,403.09	30	20	10	66.67	827.59	2,159.82	-714.88	-2,091.82	1.16	2.32	313.44
2	6,479.92	30	17	13	56.67	878.27	3,288.48	-650.05	-1,575.22	1.35	1.77	216.00
1	6,056.17	31	22	9	70.97	505.53	1,710.72	-562.83	-1,194.83	0.90	2.20	195.36

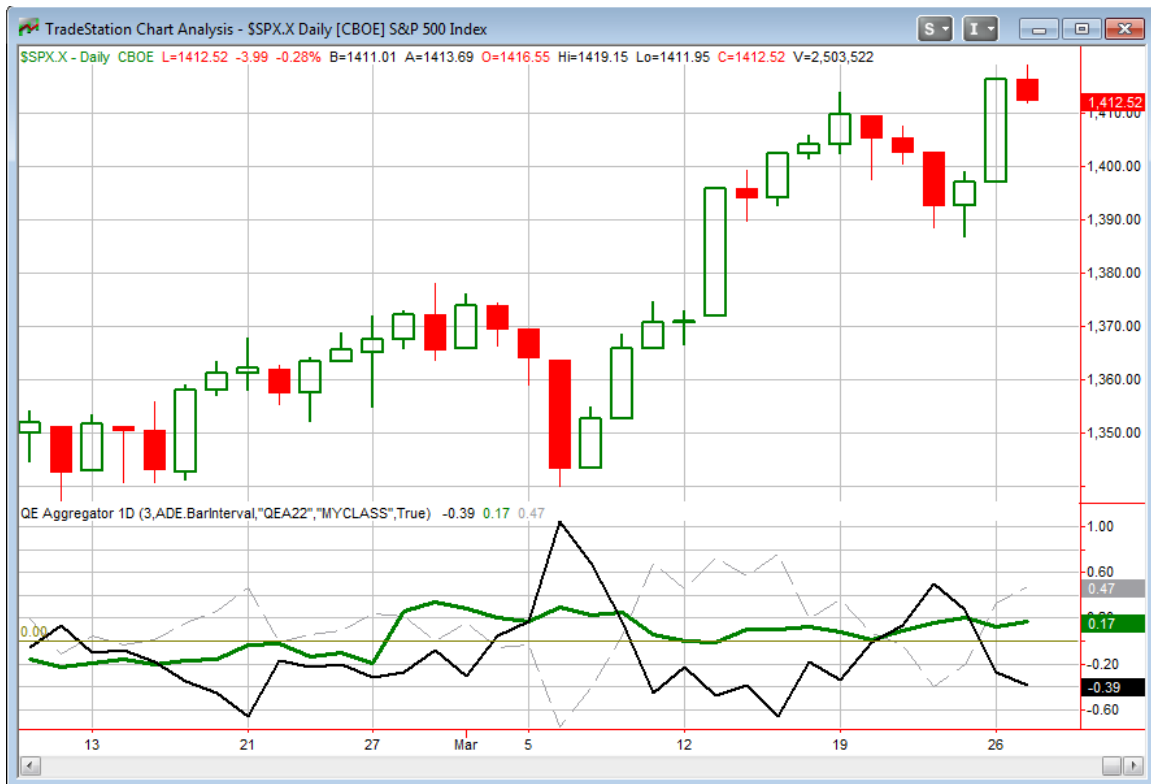
29 of 31 instances (94%) closed above the entry price at some point in the next week. The 2 that failed triggered on 12/30/2004 & 12/31/2004.

Day one seems to suggest an upside edge. After that the next four days look like a consolidation before the upside edge gets back on track. From my perspective I am most interested in the Day 1 edge, since that seems most useful in generating expectations. Below is a profit curve that shows how it has played out over time.



The line is a bit choppy but it has generally moved in the right direction, going from lower left to upper right on the chart.

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



The green Aggregator Line remained nicely positive again tonight. Readings above 0 mean net expectations from the Active List are for upside over the next few days. The black Differential Line fell a little further 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 meant the Aggregator System remained flat 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 Wednesday. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,403.16 on Wednesday. This is 0.7% below Tuesday's close. So it would take a drop of this magnitude to move the SPX into a short-term oversold position.

Tuesday really did nothing to change my outlook. I am still neutral on the market and awaiting a stronger edge to put capital to work. The Triggers Spreadsheet tonight was extremely light as well, with only one trigger showing up. When there are few or no triggers in individual stocks and ETFs, that often is a signal that there is not a strong market edge either. It seems to be the case here as well.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/26 – moderately bullish

The intermediate-term outlook was last updated in the 3/26 letter. You may view it using the link below:

[2012-03-26 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

HPQ – bought 1/3 @ \$23.03

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/6/2012	\$8.48	\$12.05	42.10%	\$9.49	Aggressive VIX
HPQ(1/3)	3/23/2012	\$23.03	\$23.62	2.56%		Catapult

XIV – One day after writing a long commentary declaring there is no way I will sell XIV right at the top it seemed hell-bent on proving me right and dropped 10%.

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