

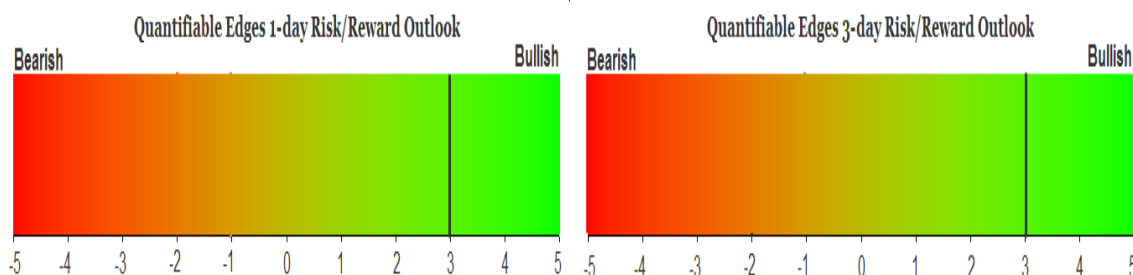
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 30, 2012

Volume 5 Issue 62

## 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.
- .

## Short-term Outlook

### The Bottom Line

With the SPX now oversold the Aggregator has triggered long. I'm already partially long and looking to add to my position if the market moves lower on Friday.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
March 23, 2012	3-day pullback from 50-high	1-6 days	Bullish	2.60%
<b>Active - Long Term</b>				
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	

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

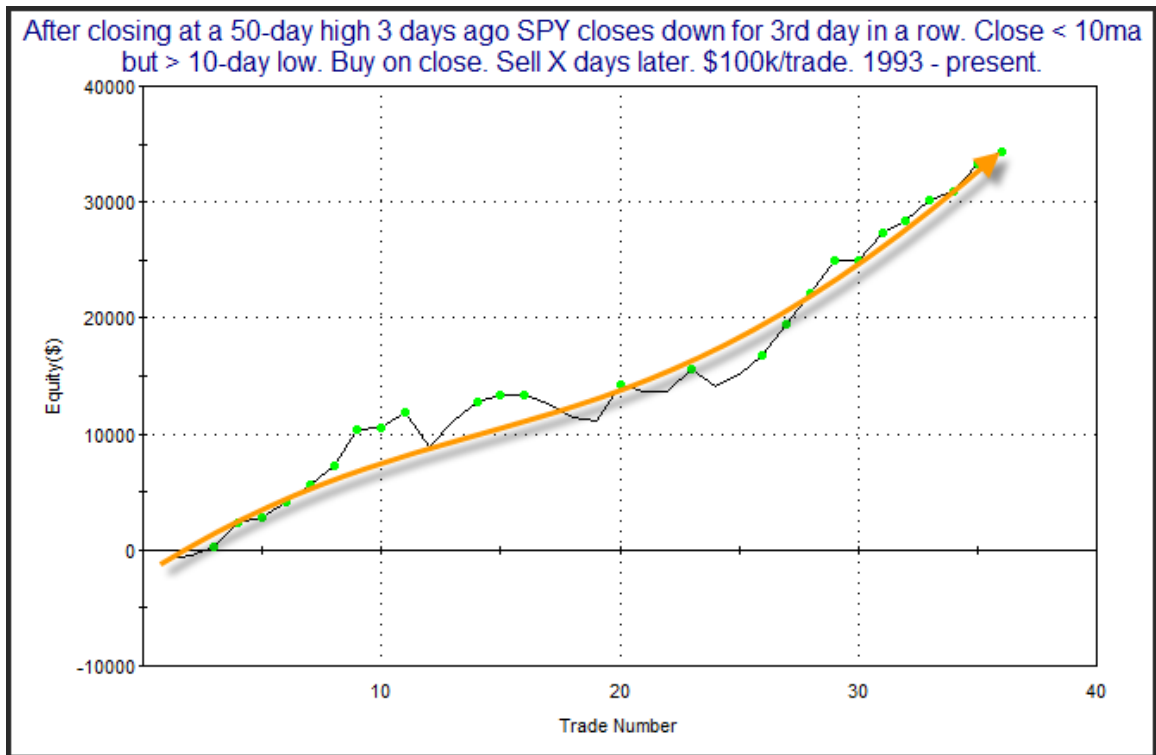
## The Evidence

Morning selling had the SPX down over 1%, but after lunch moods improved and the major indices fought back to just mild losses. The SPX finished down 0.2% while the NASDAQ and the Russell 2000 both dropped 0.3%. Breadth was mildly negative as the NYSE Up Issues % came in at 40% and the Up Volume % was also 40%. Volume dipped a little from Wednesday, but was not extreme.

The 3-day pullback attracted a few Quantifinder studies tonight. Perhaps the most compelling was one I just showed last week in the 3/23/12 Letter. In it I examined 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. Stats below are very similar to what we saw last week.

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: Max Winning Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	46,443.55	35	25	10	71.43	7,242.70	2,649.72	-1,979.95	-6,933.13	1.34	3.35	1,326.96
9	38,140.84	35	26	9	74.29	6,322.56	2,353.69	-2,561.67	-8,192.92	0.92	2.65	1,089.74
8	41,932.08	35	27	8	77.14	6,358.08	2,208.13	-2,210.92	-4,499.25	1.00	3.37	1,198.06
7	37,733.94	35	26	9	74.29	6,322.56	2,115.26	-1,918.08	-4,354.31	1.10	3.19	1,078.11
6	40,496.84	35	26	9	74.29	5,375.36	2,034.03	-1,376.44	-2,140.14	1.48	4.27	1,157.05
5	32,154.18	36	26	10	72.22	3,522.94	1,701.39	-1,208.19	-3,453.71	1.41	3.66	893.17
4	34,283.94	36	29	7	80.56	3,178.14	1,468.12	-1,184.52	-3,076.63	1.24	5.13	952.33
3	21,111.65	36	24	12	66.67	2,873.85	1,378.31	-997.32	-2,027.68	1.38	2.76	586.43
2	11,033.27	36	24	12	66.67	2,332.48	1,024.79	-1,130.14	-2,379.48	0.91	1.81	306.48
1	7,144.14	36	21	15	58.33	2,060.16	894.46	-775.96	-2,031.09	1.15	1.61	198.45

Under these circumstances, it appears bounces have been both reliable and powerful. I showed the 6-day exit stats last week, but with a nicer looking curve I decided to show the 4-day this week.



Overall, the curve appears to provide confirmation of the bullish tendency suggested by the stats table.

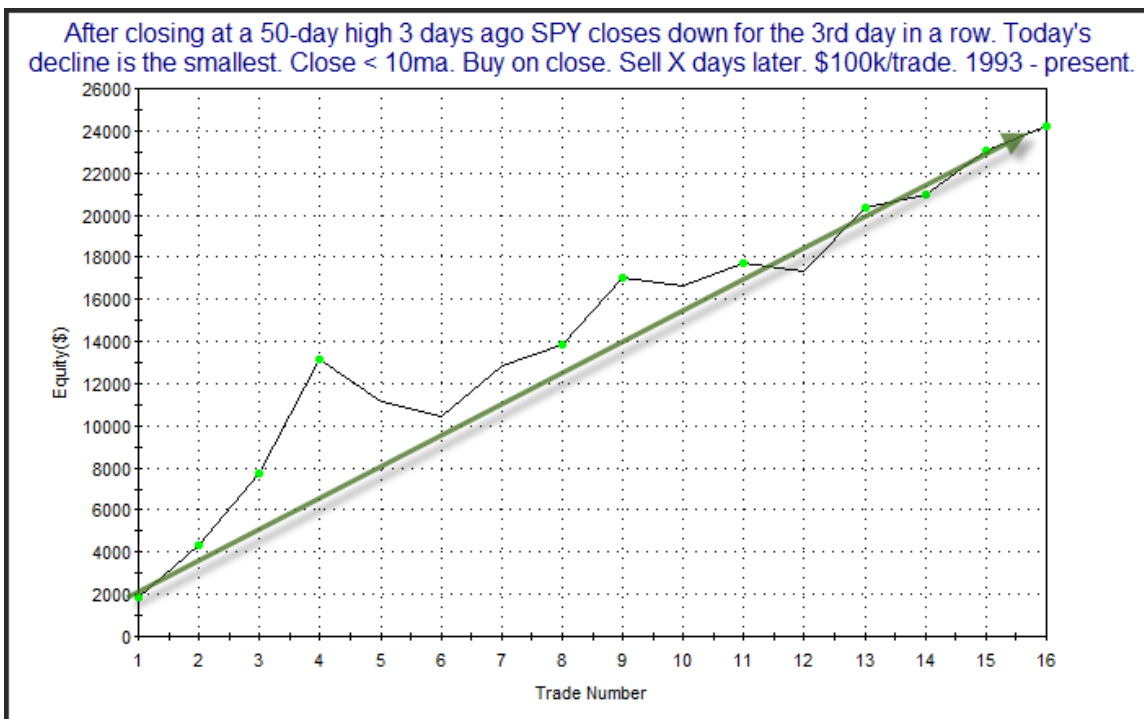
Some other pullback studies in the Quantifinder noted that Thursday was the smallest loss of the recent 3-day decline. That has often been a signal that the decline was losing steam and that it was readying for a bounce. So I took the above study and added this filter to it. I also removed the filter that required the close was not the lowest of the last 10-days in order to increase the number of instances. Results are below.

After closing at a 50-day high 3 days ago SPY closes down for the 3rd day in a row. Today's decline is the smallest. Close < 10ma. 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: Max Winning Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	22,902.26	16	12	4	75.00	7,242.70	2,636.95	-2,185.28	-6,933.13	1.21	3.62	1,431.39
9	22,311.58	16	14	2	87.50	6,322.56	2,189.37	-4,169.81	-8,192.92	0.53	3.68	1,394.47
8	23,328.32	16	13	3	81.25	6,358.08	2,238.19	-1,922.70	-4,499.25	1.16	5.04	1,458.02
7	20,813.06	16	13	3	81.25	6,322.56	2,044.55	-1,922.03	-4,096.46	1.06	4.61	1,300.82
6	24,217.62	16	12	4	75.00	5,375.36	2,304.56	-859.28	-2,005.38	2.68	8.05	1,513.60
5	17,109.29	16	12	4	75.00	3,470.01	1,983.98	-1,674.62	-3,453.71	1.18	3.55	1,069.33
4	14,407.25	16	13	3	81.25	3,178.14	1,545.81	-1,896.08	-3,076.63	0.82	3.53	900.45
3	10,088.33	16	12	4	75.00	2,841.60	1,261.83	-1,263.42	-2,478.84	1.00	3.00	630.52
2	9,208.62	16	13	3	81.25	2,332.48	1,087.01	-1,640.86	-2,379.48	0.66	2.87	575.54
1	2,835.21	16	12	4	75.00	1,122.18	646.16	-1,229.67	-2,031.09	0.53	1.58	177.20

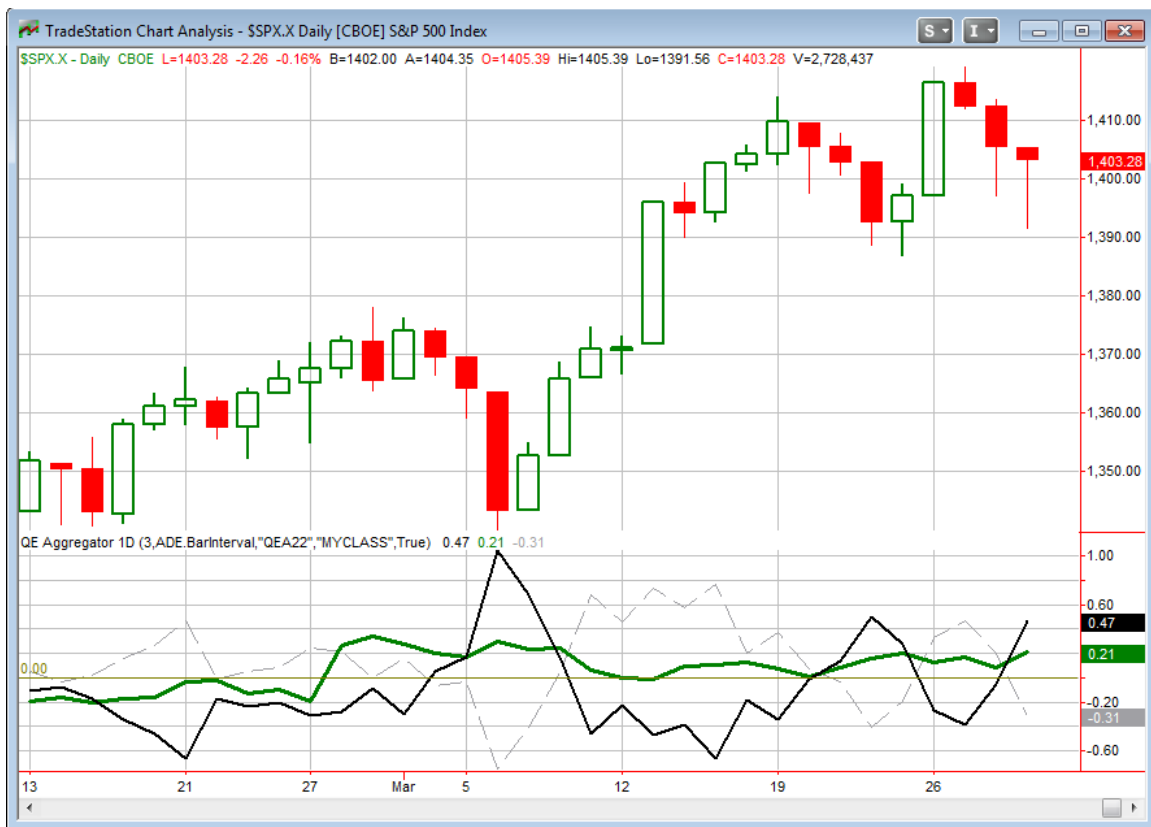
**The only instance that failed to post a close above the entry price at some point in the next 4 days was the one that triggered on 7/22/98.**

Results here are quite impressive and suggest an upside edge. Below is a profit curve for a 6-day exit strategy.



This equity curve is very appealing and confirms the upside edge.

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. With the SPX now closing down 3 days in a row the black Differential Line has flipped strongly above 0. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are bullish and the SPX is overbought 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 anticipated in last night's letter and noted on the systems page before the bell.

Based on the current studies, expectations are scheduled to remain positive on Friday. With only 1 short-term active study, this could change easily if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,419.45 on Friday. This is about 1.2% above Thursday's close. This means it would require a close up of at least this much on Friday to move the Differential Line back below zero.

With the Aggregator now bullish I am looking to take advantage of a bounce in the next few days. Having anticipated this in last night's letter, I took a small long position at the close Thursday.

Monday will be the 1<sup>st</sup> trading day of April. As I will discuss in this weekend's letter, the 1<sup>st</sup> of the month is typically bullish. The edge has been even more pronounced (and lasted more than 1 day) when the previous month has closed down several days in a row. So a down close again on Friday would undoubtedly trigger some bullish seasonal studies at the least. I'll be looking to add to my long position should this occur. More details are in the Trade Ideas section near the end of the letter.

One last thing to be aware of on Friday is the Fed will be releasing its POMO schedule for April around 2pm. Once this occurs we will be able to project the QE Buying Power Index. I will be sure to post the chart in this weekend's letter.

***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.

**SPY – buy ¼ index position @ \$140.23 limit ON CLOSE.** Based on the short-term outlook above.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/6/2012	\$8.48	\$11.98	41.27%	\$9.49	Aggressive VIX
HPQ(1/3)	3/23/2012	\$23.03	\$23.51	2.08%		Catapult
SPY(1/4)	3/29/2012	\$140.23	\$140.23	0.00%		Aggregator

**HPQ** – HPQ will trigger an exit for Monday morning if it manages to close  $\geq$  \$23.75.

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