

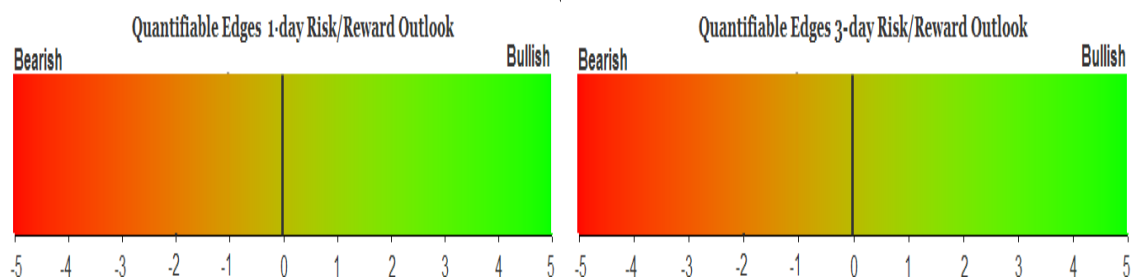
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 6, 2013

Volume 6 Issue 25

Market Overview



Signals Overview

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

Tonight's Research Points

- 1% up, 1% down, and another 1% up is often followed by more upside the next day.

Short-term Outlook

The Bottom Line

The back and forth action over the last few days is leaving the outlook a little confused. I'm neutral and waiting for a more clearly defined edge to emerge before taking on new exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
February 6, 2013	1% up, 1% down, 1% up	1 day	Bullish	
February 5, 2013	7-day high to 7-day low in 1 day	1-2 days	Bearish	
February 5, 2013	Unfill gap up then gap dn from 20-high	1-7 days	Bearish	-2.40%
February 1, 2013	1st 5 low in 2 weeks	1-4 days	Bullish	1.60%
February 1, 2013	Dn last 2 days of up month	1-5 days	Bullish	
Active - Long Term				
January 29, 2013	up 5 & 50-day high. The down.	1-10 days	Bullish	
January 14, 2013	Breadth Divergence (from Tops Study)	int term	Bearish	
January 3, 2013	50-day high breakout. 90% up vol	1-25 days	Bullish	
January 3, 2013	SPX & TNX high 50-day highs	1-20 days	Bearish	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
January 31, 2013	Biggest drop in 10 days from 50-high	1-4 days	Bullish	

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

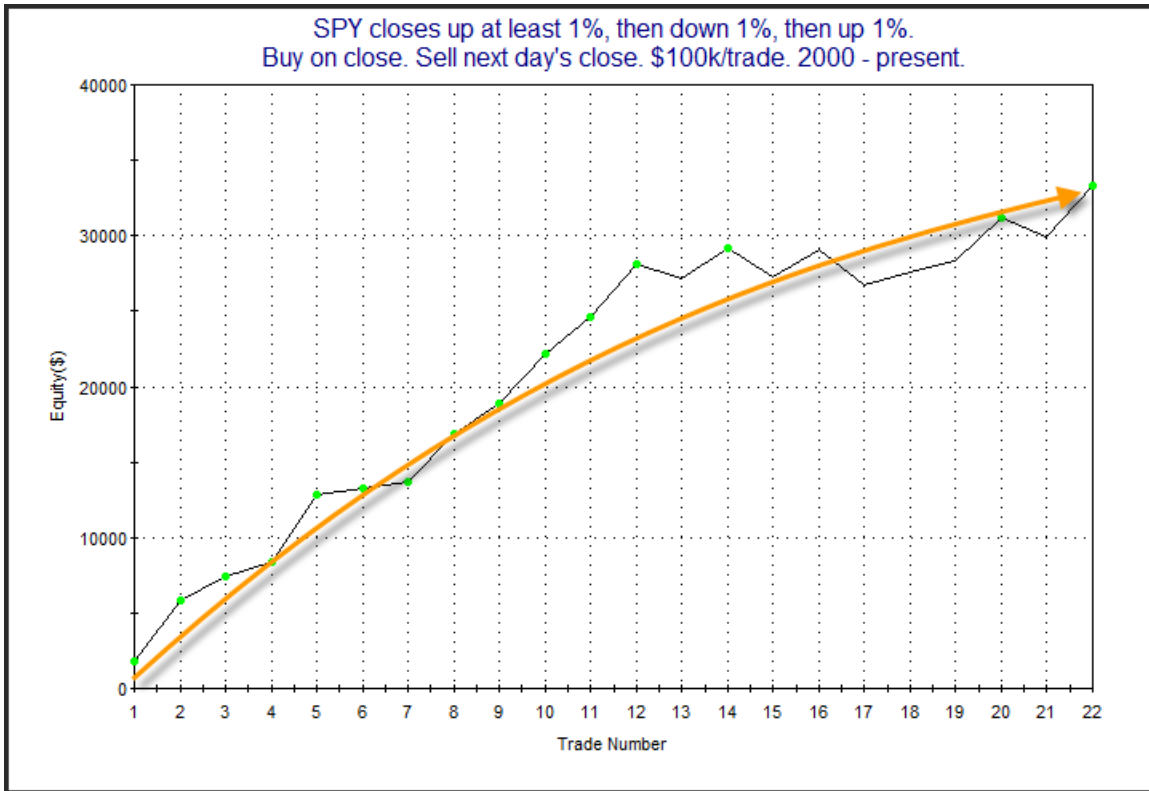
The Evidence

Market action is starting to look like an Olympic table tennis match. After a big up day on Friday, and a big down day Monday, we went back to big up on Tuesday. The SPX and Russell 2000 each gained 1.0%, while the NASDAQ rallied 1.2%. Breadth was strongly positive as the NYSE Up Issues % was 73% and the Up Volume % came in at 76%. Total NYSE volume rose some from Monday's level.

There was only one study in the Quantifinder that looked at all compelling tonight. It examined ping-pong activity like we have seen the last few days. It was last seen in the 10/27/11 subscriber letter. I have updated it below.

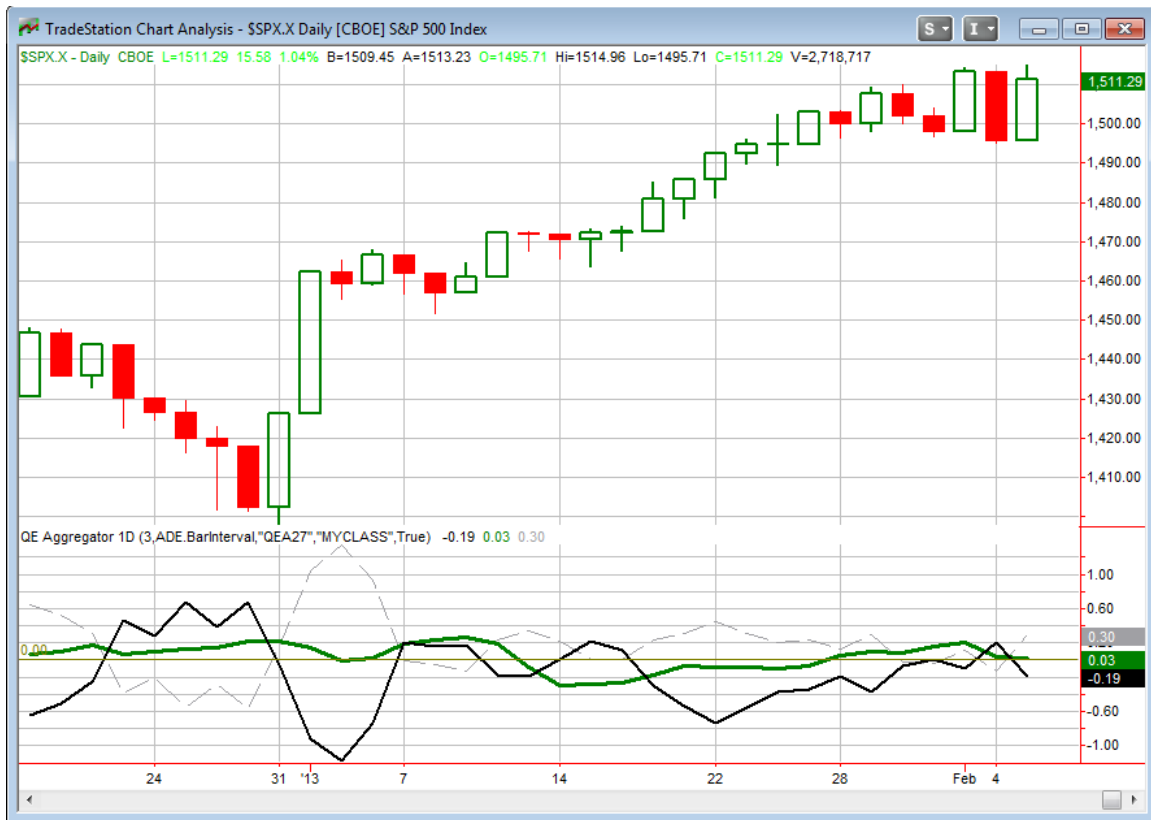
SPY closes up at least 1%, then down 1%, then up 1%. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.				
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$33,366.38	Profit Factor		6.24
Gross Profit	\$39,735.85	Gross Loss		(\$6,369.47)
Total Number of Trades	22	Percent Profitable		81.82%
Winning Trades	18	Losing Trades		4
Even Trades	0			
Avg. Trade Net Profit	\$1,516.65	Ratio Avg. Win:Avg. Loss		1.39
Avg. Winning Trade	\$2,207.55	Avg. Losing Trade		(\$1,592.37)
Largest Winning Trade	\$4,377.20	Largest Losing Trade		(\$2,348.90)

It is only a 1-day edge but the numbers look compelling. The profit curve is not quite as strong.



It appears there has been a bit of a deceleration lately but the odds are still pointing higher. I did try slicing this study a few other ways. Doing so left me with too few instances to take anything from. For instance, this is just the 3rd time this has happened while above the 200ma. The others were all below the 200ma. I did add this study to the active list tonight.

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



Tonight the green Aggregator line was again able to hold just barely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dove back down below 0. The negative reading means 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 caused the Aggregator system to change from long to flat at the close.

Based on the current studies expectations are set to turn bearish on Wednesday. This could change if additional bullish evidence emerges. The Differential Pivot will be *inverted* at 1,519.75 on Tuesday. This is 0.5% *above* Tuesday's close. An inverted pivot means the Aggregator line will cross through 0 on a flat close. In this case, in order to remain overbought SPX will need to close higher by about 0.5%. Otherwise it will be considered "oversold" versus recent expectations.

So expectations could flip from bullish to bearish while SPX moves from overbought to oversold if the market closes flat. It is an unusual situation. The bottom line is that we have mixed studies and very choppy market action. And this is leaving me without a clearly defined edge. So I'll wait another day and see if we get a bit more clarity from Wednesday's action.

Intermediate-term Outlook (2 weeks – 2 months)– updated 2/4– bullish

The intermediate-term outlook was last updated in the 2/4 letter. Link below:

[2013-02-04 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.

[None tonight.](#)

Current Open Trade Ideas

none

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