

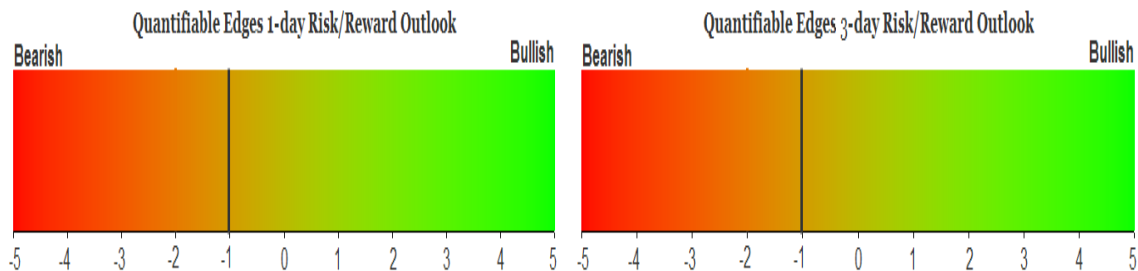
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 12, 2013

Volume 6 Issue 29

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr Swing | NDX Trend Timer |
|------------|----------------|------------------|-----------------|
| Short | 100% Short SPY | Flat | Flat |

Tonight's Research Points

- The low volume may be an issues for the bulls.

Short-term Outlook

The Bottom Line

The studies are still leaning bearish and the market remains overbought. This suggests a downside edge. But with both my intermediate-term outlook bullish and the QE Buying Power Index still bullish, I'm still not inclined to short.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---------------------------|--|-----------|---------|--------------|
| Active | | | | |
| February 12, 2013 | 2x low vol 20. Close > 10 & > 200. | 1-2 days | Bearish | |
| February 5, 2013 | Unfill gap up then gap dn from 20-high | 1-7 days | Bearish | -2.40% |
| Active - Long Term | | | | |
| January 29, 2013 | up 5 & 50-day high. Then down. | 1-10 days | Bullish | |
| January 14, 2013 | Breadth Divergence (from Tops Study) | int term | Bearish | |
| September 17, 2012 | QE3 | int term | Bullish | |
| February 1, 2012 | Golden Cross | int term | Bullish | |

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

The Evidence

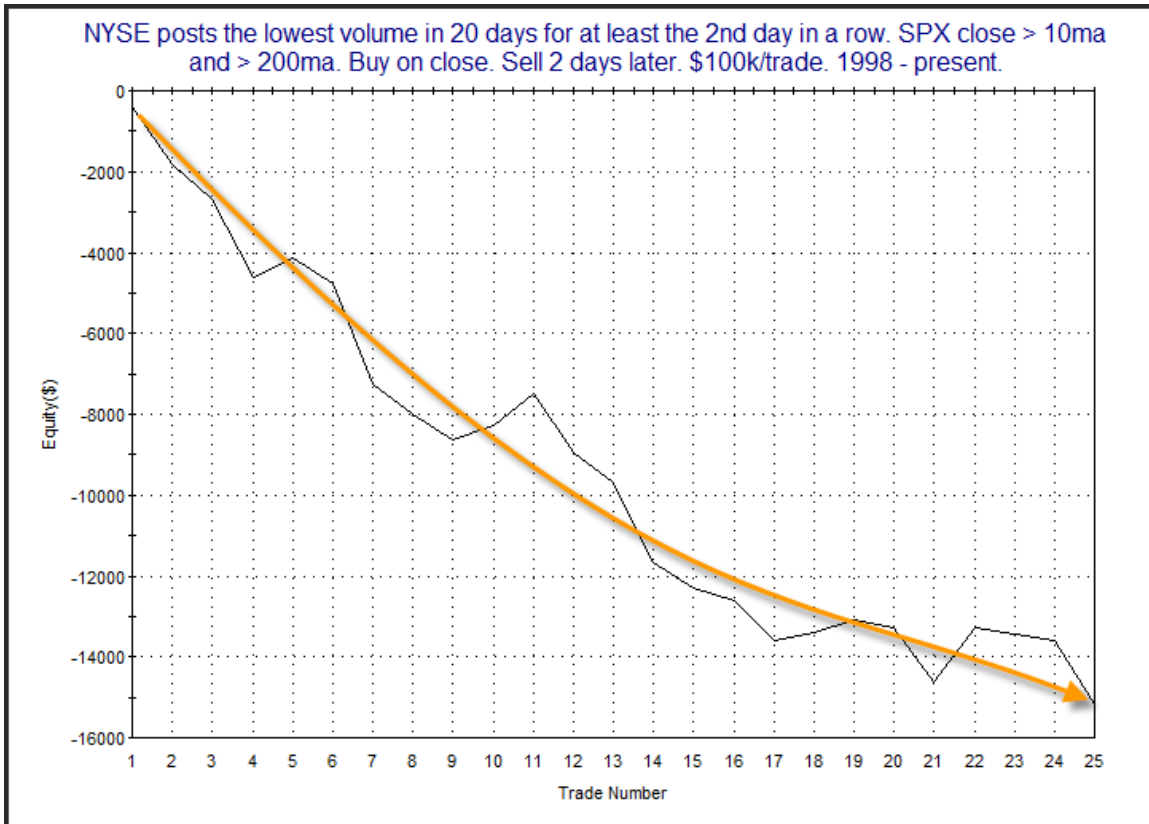
A quiet trading day resulted in small losses for the major indices. The SPX, Nasdaq, and Russell all declined less than 0.1%. Breadth was a little negative as the NYSE Up Issues % was 44% and the Up Volume % came in at 49%. Total NYSE volume was the lightest of the year for the 2nd day in a row.

There were 2 studies in the Quantifinder tonight that looked at the very low volume and a relatively high close. They were both last seen in the 8/14/12 Letter. I have updated results for both of them below. The first one looks at consecutive low volume days during uptrends.

| NYSE posts the lowest volume in 20 days for at least the 2nd day in a row. SPX close > 10ma and > 200ma. Buy on close. Sell 2 days later. \$100k/trade. 1998 - 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 |
| 5 | -2,622.95 | 24 | 13 | 11 | 54.17 | 1,444.23 | 3,654.90 | -1,945.27 | -6,793.38 | 0.74 | 0.88 | -109.29 |
| 4 | -10,329.21 | 24 | 13 | 11 | 54.17 | 950.13 | 2,450.55 | -2,061.90 | -9,797.04 | 0.46 | 0.54 | -430.38 |
| 3 | -14,123.91 | 25 | 10 | 15 | 40.00 | 723.76 | 1,269.45 | -1,424.10 | -4,565.52 | 0.51 | 0.34 | -564.96 |
| 2 | -15,180.49 | 25 | 6 | 19 | 24.00 | 583.98 | 1,373.32 | -983.39 | -2,459.82 | 0.59 | 0.19 | -607.22 |
| 1 | -12,384.26 | 29 | 12 | 17 | 41.38 | 431.59 | 1,120.48 | -1,033.14 | -2,378.78 | 0.42 | 0.29 | -427.04 |

88% of instances closed below the entry price at some point in the next week.

The numbers appear to suggest a substantial downside edge over the first couple of days. To get a better idea of how the edge has played out over time I generated the equity curve using a 2-day exit strategy.



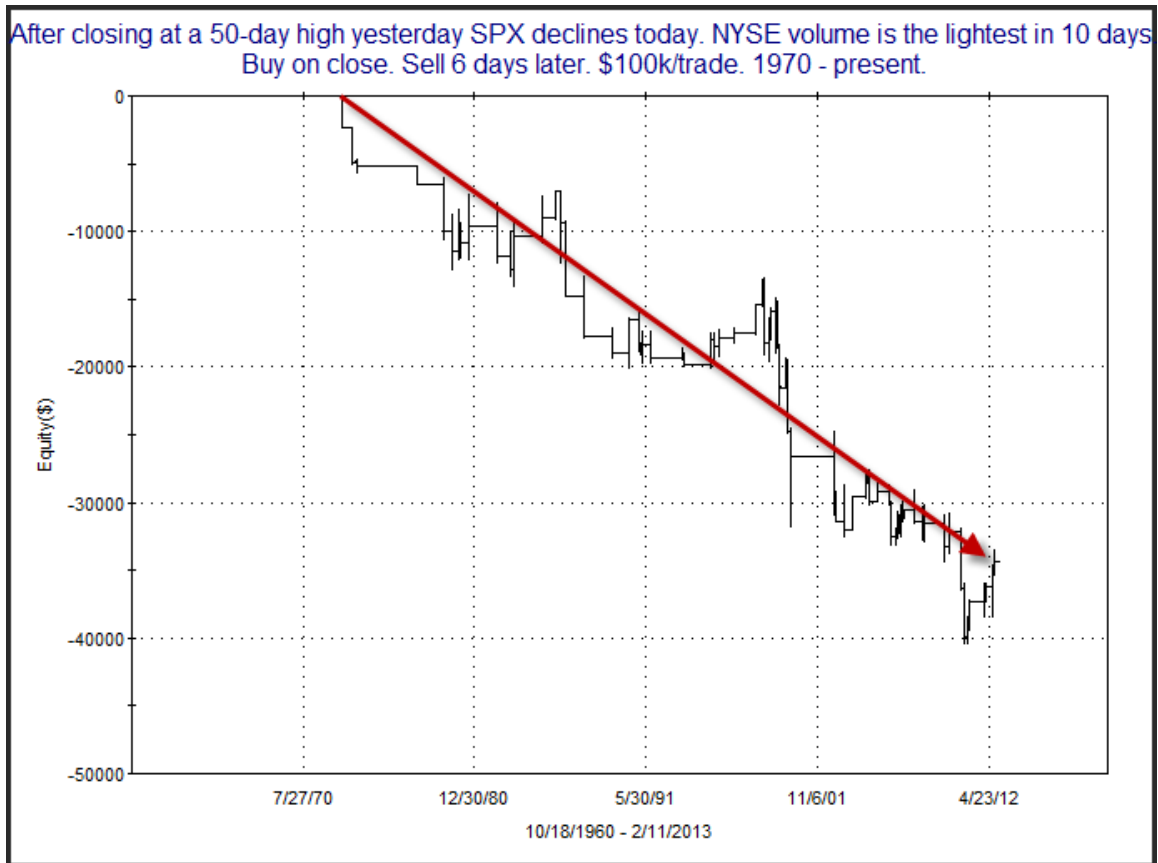
The persistent downslope acts as confirmation of the bearish edge suggested by the results table.

The 2nd study looked at low-volume pullbacks from 50-day highs. Results here have also been updated.

After closing at a 50-day high yesterday SPX declines today. NYSE volume is the lightest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1970 - present.

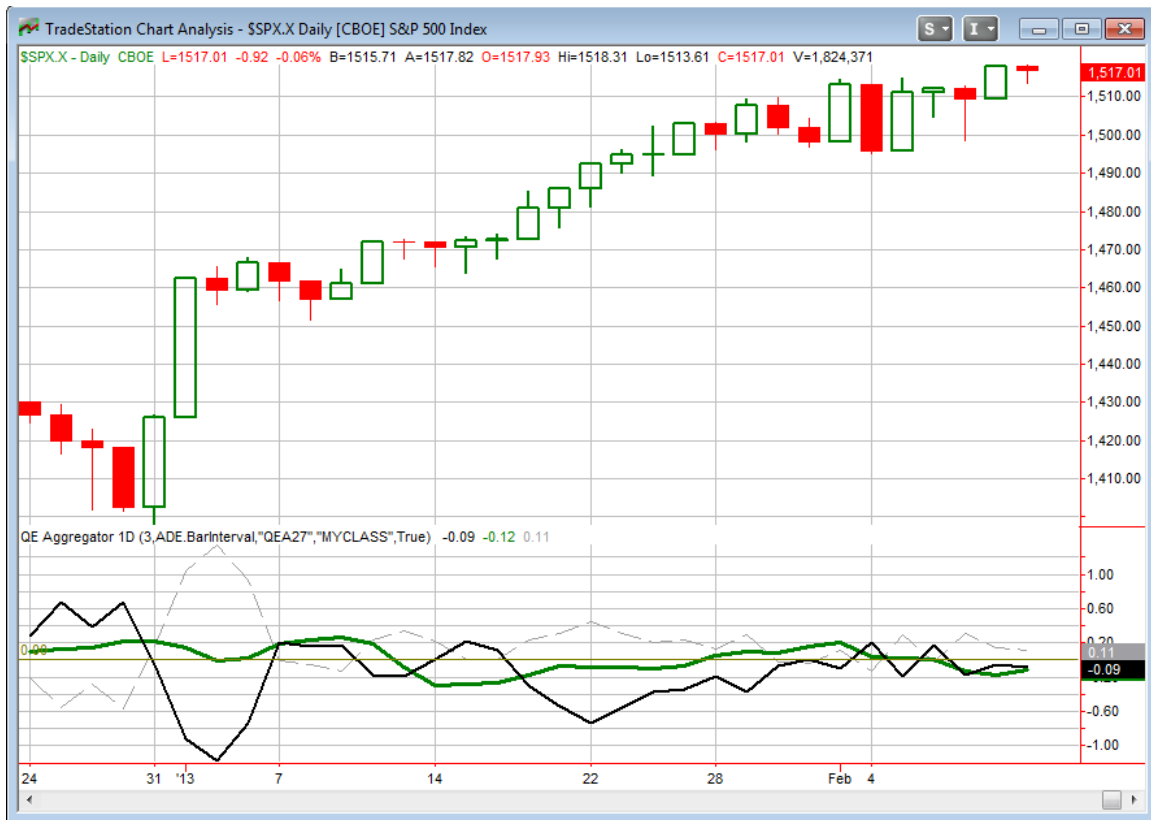
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | -16,820.85 | 61 | 34 | 27 | 55.74 | 1,731.07 | 5,104.00 | -2,802.86 | -6,121.74 | 0.62 | 0.78 | -275.75 |
| 9 | -13,085.93 | 62 | 34 | 28 | 54.84 | 1,725.02 | 3,955.23 | -2,562.02 | -6,236.87 | 0.67 | 0.82 | -211.06 |
| 8 | -24,410.10 | 62 | 31 | 31 | 50.00 | 1,515.34 | 3,521.07 | -2,302.76 | -6,661.66 | 0.66 | 0.66 | -393.71 |
| 7 | -33,905.46 | 62 | 30 | 32 | 48.39 | 1,317.29 | 3,732.48 | -2,294.50 | -7,193.64 | 0.57 | 0.54 | -546.86 |
| 6 | -34,395.76 | 63 | 30 | 33 | 47.62 | 1,115.35 | 2,563.47 | -2,056.25 | -5,426.99 | 0.54 | 0.49 | -545.96 |
| 5 | -23,589.04 | 64 | 31 | 33 | 48.44 | 954.66 | 2,273.04 | -1,611.62 | -4,288.68 | 0.59 | 0.56 | -368.58 |
| 4 | -18,938.03 | 66 | 33 | 33 | 50.00 | 889.79 | 2,457.84 | -1,463.67 | -4,263.60 | 0.61 | 0.61 | -286.94 |
| 3 | -3,978.71 | 67 | 37 | 30 | 55.22 | 876.23 | 2,169.48 | -1,213.31 | -3,726.24 | 0.72 | 0.89 | -59.38 |
| 2 | -1,455.30 | 67 | 35 | 32 | 52.24 | 747.73 | 2,328.05 | -863.30 | -4,049.40 | 0.87 | 0.95 | -21.72 |
| 1 | -4,004.08 | 67 | 34 | 33 | 50.75 | 535.70 | 2,235.13 | -673.27 | -3,068.81 | 0.80 | 0.82 | -59.76 |

The first few days don't show much of an edge, but once you get out 6-7 days there appears to be a possible downside inclination. To confirm this I took a look at the equity curve. In this case I decided to show time on the x-axis rather than instances to demonstrate how consistent the edge has been over the years.



For a study without strongly lopsided statistics, the steadiness is impressive. With no real edge appearing for the first several days, I decided not to include this study on the active list. Still, it may be worth keeping in mind.

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



With more bearish evidence emerging the green Aggregator line remained below zero again tonight. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is also still below 0. The negative reading means the SPX is overbought versus recent expectations. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator system to remain short at the close.

Based on the current studies expectations are set to remain bearish on Tuesday. Of course, this could easily change if additional bullish evidence emerges. The Differential Pivot will be 1,507.90 on Tuesday. This is 0.6% below Monday's close. So it would take a decline of this much in order to move the differential line back above zero and the SPX to an oversold state.

My outlook remains the same as it has the last several days. We are overbought. There is evidence suggesting a pullback. Yet the intermediate-term outlook is strong and liquidity flows are also strong and capable of aiding persistently overbought conditions. So shorting is dangerous, and even if I get the timing right, the downside rewards have not been much since 2012 ended. I'll remain sidelined. Perhaps Monday's pullback will accelerate and provide a longside opportunity in the coming days.

Intermediate-term Outlook (2 weeks – 2 months)– updated 2/11– bullish

The intermediate-term outlook was last updated in the 2/11/13 letter. Link below:

[2013-02-11 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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