

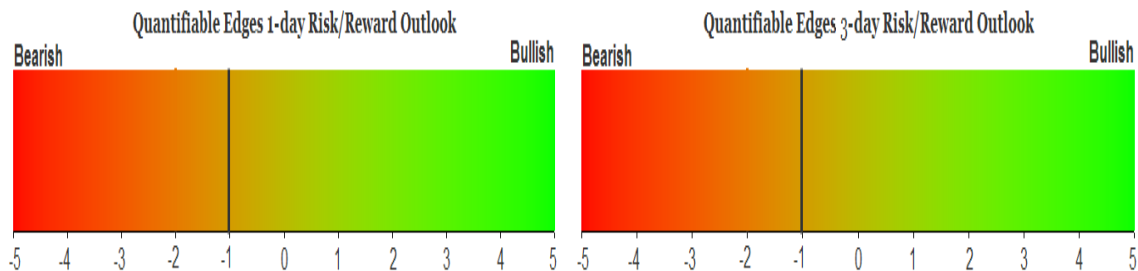
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 13, 2013

Volume 6 Issue 30

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 SPY volume on Tuesday is adding to the bearish evidence.

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 13, 2013	SPY 50 high on 20-low vol	1-2 days	Bearish	
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	-178.00%

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

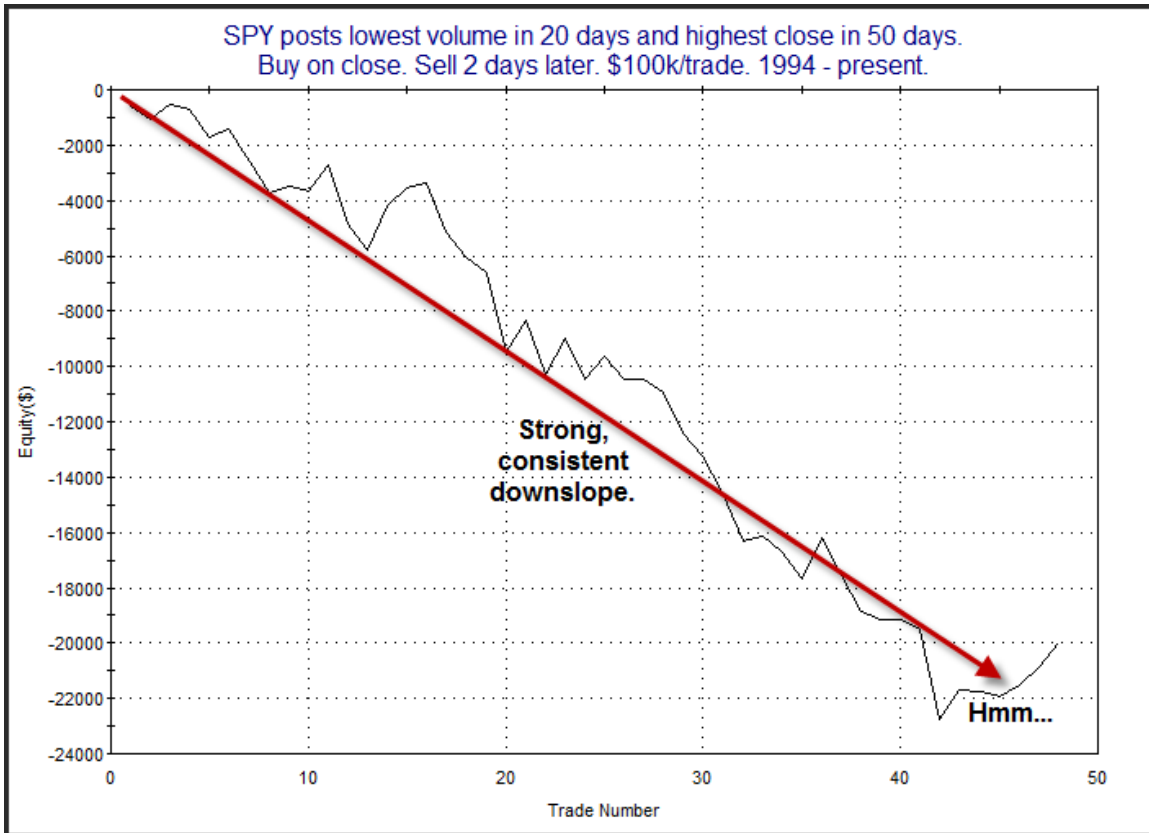
The Evidence

Another quiet day on Tuesday led to mixed results for the indices. The SPX rose 0.2%, the Nasdaq declined 0.2%, and Russell 2000 rallied 0.5%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 68%. Total NYSE volume rose slightly from the low levels of the last 2 days.

In the 8/16/12 Subscriber Letter I showed a study that demonstrated the bearish inclinations suggested by very low SPY volume combined with an intermediate-term high. Over the years I have found SPY volume to every bit as useful as NYSE volume under many circumstances. Low SPY volume often happens when volatility dies down. SPY is incredibly liquid and is often used as a hedging instrument. And there is no desire to hedge in a low volatility environment where the market is hitting new highs and never looks like it is going to go down again. So without the desire to hedge, SPY volume drops. I've updated the results of that 8/16/12 study below.

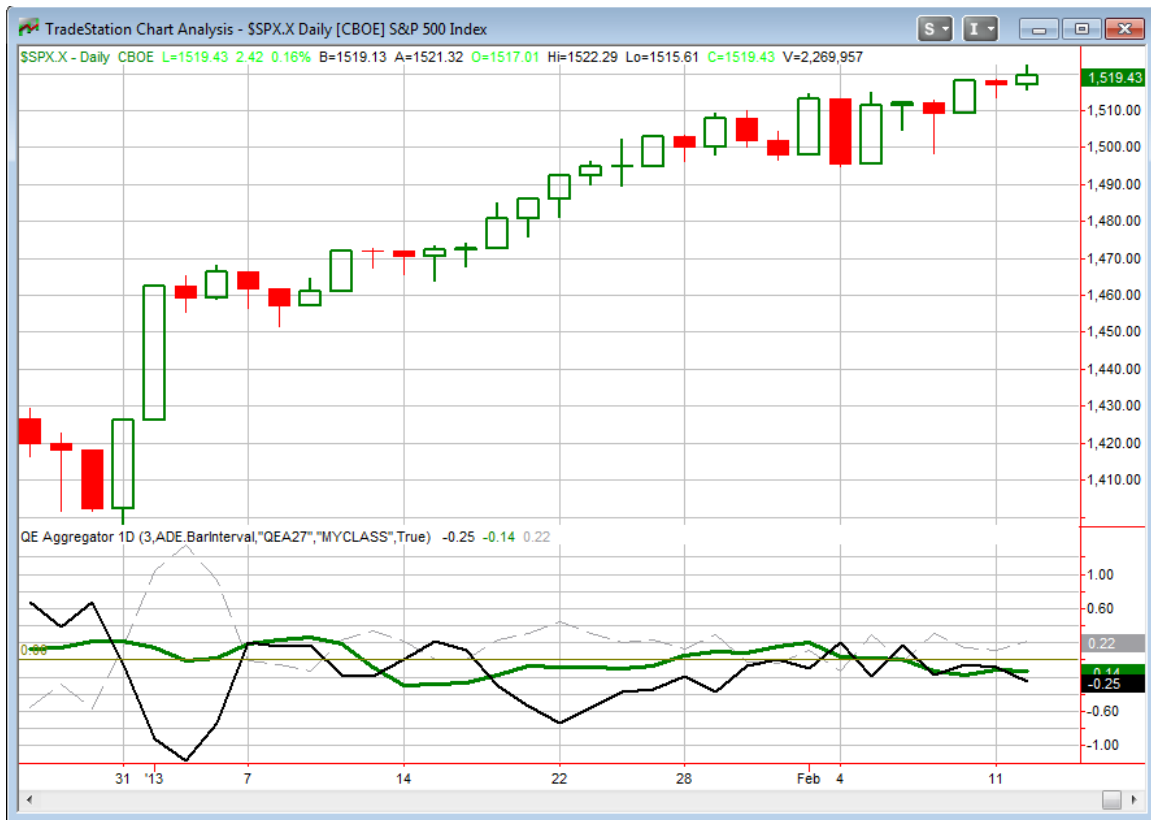
SPY posts lowest volume in 20 days and highest close in 50 days. Buy on close. Sell X days later. \$100k/trade. 1994 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-8,427.26	47	23	24	48.94	1,023.23	3,379.48	-1,331.73	-4,272.30	0.77	0.74	-179.30
4	-14,469.00	47	23	24	48.94	900.58	3,379.48	-1,465.93	-4,141.80	0.61	0.59	-307.85
3	-18,291.47	47	20	27	42.55	844.26	4,032.73	-1,302.84	-4,581.36	0.65	0.48	-389.18
2	-19,993.44	48	16	31	33.33	775.16	1,637.48	-1,045.03	-3,265.65	0.74	0.38	-416.53
1	-8,761.68	49	18	31	36.73	534.61	1,470.70	-593.06	-1,935.36	0.90	0.52	-178.81

The numbers here suggest a solid downside edge over the next few days. A good part of the edge plays out in the 1st 2 days. So below is a curve for a 2-day holding period.



The curve has basically been a consistent downslope for a long time. But the last few trades haven't panned out as well. At this point, you are only looking at 3 instances that didn't comply (and 4 of the last 6), so I'm not going to get too worked up about this little upturn yet. But I'm taking notice, and will suspend this study if this type of action continues.

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



With bearish evidence emerging again the green Aggregator line remained below zero 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 Wednesday. Of course, this could easily change if bullish evidence emerges. The Differential Pivot will be 1,513.48 on Wednesday. This is 0.4% below Tuesday'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.

Nothing has changed so I will repeat my comments from yesterday... *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.*

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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