

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 20, 2013

Volume 6 Issue 34

Market Overview



Signals Overview

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

Tonight's Research Points

- 10 days above the 5ma and a new 10-day high suggest the market is due for a brief pullback.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a downside edge. But bullish liquidity and momentum are hard to fight against, so I am standing aside for now.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
February 20, 2013	SPY > 5ma 10 days & 10 high.	1-2 days	Bearish	-1.10%
Active - Long Term				
February 14, 2013	SPX & TNX 50-day highs.	1-20 days	Bearish	
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	
Dropped Tonight				
February 13, 2013	SPY 50 high on 20-low vol	1-2 days	Bearish	

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

The Evidence

Monday saw the market move nicely higher. The SPX and Nasdaq each gained 0.7%, while the Russell 2000 rose 0.9%. Breadth was positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 69%. Total NYSE volume was down, but still higher than most days last week.

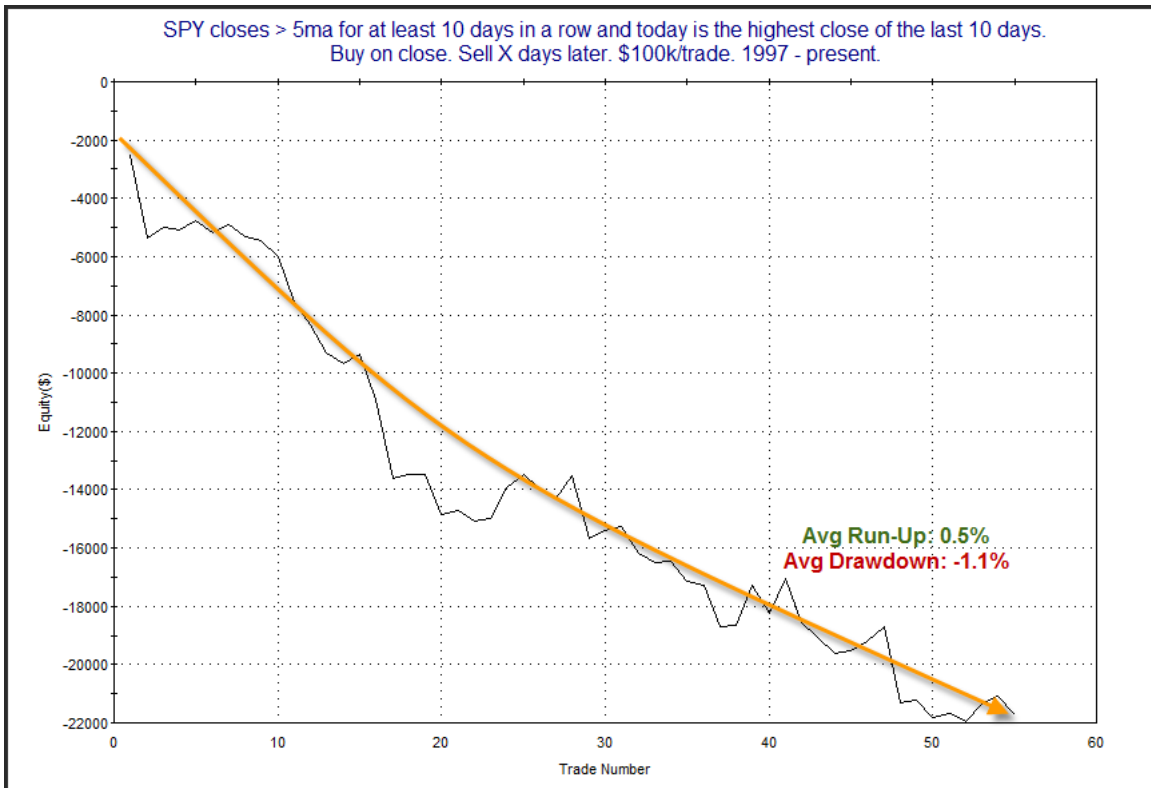
Yesterday the 3/10 Offset HV suggested a sharp move, and the studies suggested it could be higher, and that all played out nicely. Hopefully some nimble traders were able to take advantage of it. Unfortunately it was not a setup that a nightly subscriber letter could capitalize on.

SPY has now gone a full two weeks without closing below its 5ma. That's an unusually long period of time to hold above such a short-term moving average. The study below was last seen in the 8/17/12 subscriber letter. It looked at other instances in which the market had traded above the 5ma for so long and was now closing at a 10-day high. All results are updated.

SPY closes > 5ma for at least 10 days in a row and today is the highest close of the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-10,819.30	38	21	17	55.26	738.86	2,516.52	-1,549.14	-4,014.40	0.48	0.59	-284.72
4	-16,472.31	41	17	24	41.46	657.75	1,428.90	-1,152.26	-3,723.20	0.57	0.40	-401.76
3	-18,876.82	48	17	31	35.42	610.90	1,294.25	-943.94	-3,235.65	0.65	0.35	-393.27
2	-21,724.00	55	23	31	41.82	389.09	1,392.65	-989.45	-2,870.40	0.39	0.29	-394.98
1	-21,392.96	78	32	46	41.03	292.19	1,134.24	-668.32	-2,817.32	0.44	0.30	-274.27

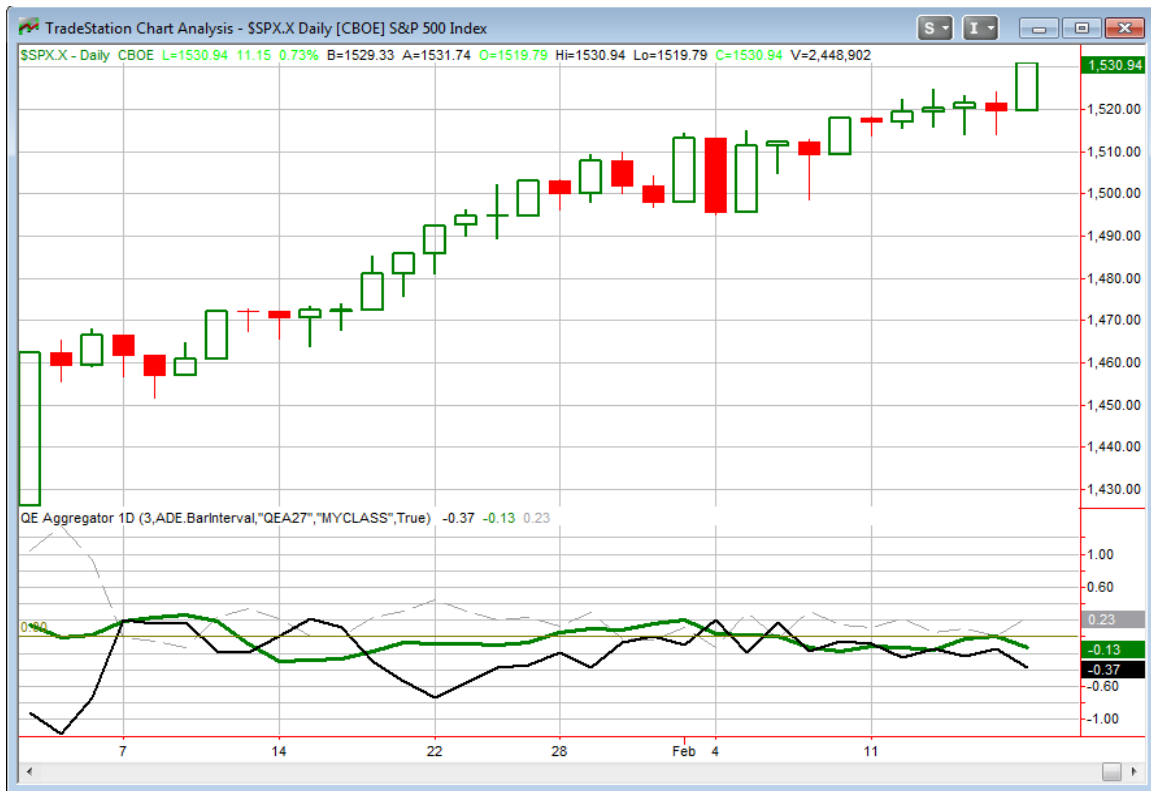
88% of instances closed below the entry price at some point in the next week.

In the past this setup has almost always been followed by a short-term pullback. The downside edge doesn't last long, though. It seems to pretty much play itself out over the first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



The strong downslope seems to confirm the bearish edge.

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



Tonight's bearish study helped push the green Aggregator line down below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is 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 turn short at the close.

Based on the current studies expectations are set remain bearish on Wednesday. Of course this could easily change if new bullish studies emerge. The Differential Pivot will be 1,516.50 on Wednesday. This is 0.9% below Tuesday's close. 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. Bullish studies could turn expectations negative but unless they are accompanied by this size decline then the Aggregator would turn neutral instead of long.

So the Aggregator is suggesting a downside edge. But my personal take is the same as it has been since the beginning of the year. I am just not interested in shorts while the Fed is pumping this much liquidity and momentum is this strong.

Intermediate-term Outlook (2 weeks – 2 months)– updated 2/19– bullish

The intermediate-term outlook was last updated in the 2/19 letter. Link below:

[2013-02-19 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

OXY – buy 1/3 position @ \$84.71 limit (not filled – now cancel order)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(OXY)

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.

OXY left an unfilled gap up and never provided a fill on the limit entry from last night. I will cancel the order for now, but may revisit it if OXY's rebound fails and it makes new swing lows.

Current Open Trade Ideas

none

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2012 Hanna Capital Management, LLC.