

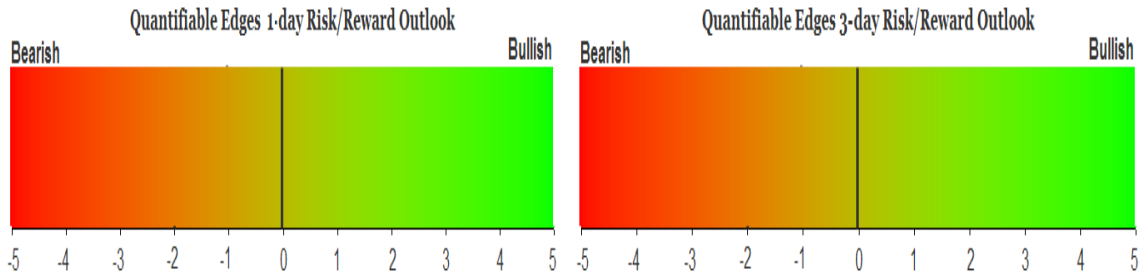
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 1, 2013

Volume 6 Issue 41

Market Overview



Signals Overview

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

Tonight's Research Points

- The first trading day of the month is typically bullish. This edge has been more prominent above the 200ma, but less prominent in March.

Short-term Outlook

The Bottom Line

I'm still seeing more evidence suggesting upside in the next few days, but the market is now squarely overbought. So it is time for me to back off and await a more compelling setup.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 1, 2013	1st of month tomorrow. SPX > 200ma	1 day	Bullish	
February 27, 2013	Double reversal > 200ma < 10ma	1-5 days	Bullish	1.90%
February 27, 2013	1.75% drop then bounce 0.25%-0.75%	1-5 days	Bullish	2.90%
February 21, 2013	Unfill gap dn after unfill gap up to 20-hi	1-7 days	Bearish	
Active - Long Term				
February 21, 2013	1st 5 low in 10 days. Yest 20-high.	1-11 days	Bullish	
February 14, 2013	SPX & TNX 50-day highs.	1-20 days	Bearish	
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 22, 2013	2 unfilled dn gaps & 5-low > 200ma	1-5 days	Bullish	2.00%
February 26, 2013	Big drop. 20-low. Close < 200	1-6 days	Bullish	2.20%

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

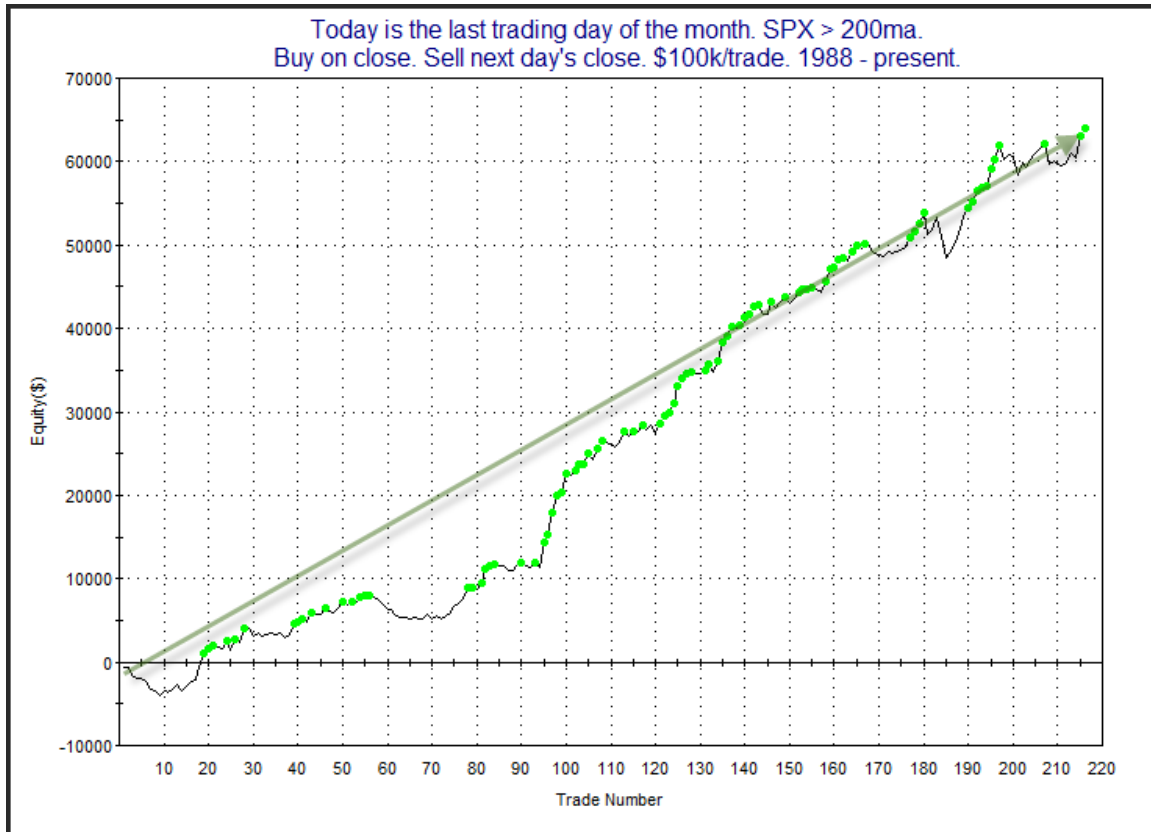
The Evidence

The market traded positive for almost the entire day, but some panic selling in the last 5 minutes saw the major indices finish mixed. The SPX and Nasdaq each closed down 0.1% but the Russell 2000 gained 0.2%. Breadth was also mixed as the NYSE Up Issues % was 51% and the Up Volume % came in at 48%. Total NYSE rose from the level of the last couple of days.

The near-flat closes did not help to trigger many studies tonight. Of course one edge to explore is the bullish seasonality that often occurs on the first day of a new month. In the 3/1/12 subscriber letter I showed that this bullish tendency primarily occurred during uptrends. I have updated the statistics for uptrends below.

TradeStation Performance Summary Collapse ^				
All Trades				
Total Net Profit	\$63,997.11	Profit Factor		2.50
Gross Profit	\$106,643.32	Gross Loss		(\$42,646.21)
Total Number of Trades	216	Percent Profitable		62.96%
Winning Trades	136	Losing Trades		80
Even Trades	0			
Avg. Trade Net Profit	\$296.28	Ratio Avg. Win:Avg. Loss		1.47
Avg. Winning Trade	\$784.14	Avg. Losing Trade		(\$533.08)
Largest Winning Trade	\$3,119.10	Largest Losing Trade		(\$2,617.60)

As you can see, the raw numbers appear quite encouraging. Below is a profit curve that shows how the edge has played out over time.



The strong steady upslope acts as confirmation of the upside edge. I've also shown in the past that the edge appears to be more prominent in some calendar months versus others. March historically has not shown a consistent upside edge. This can be seen in the study below.

Today is the last trading day of February.
Buy on close. Sell next day's close. \$100k/trade. 1988 - present.

TradeStation Performance Summary

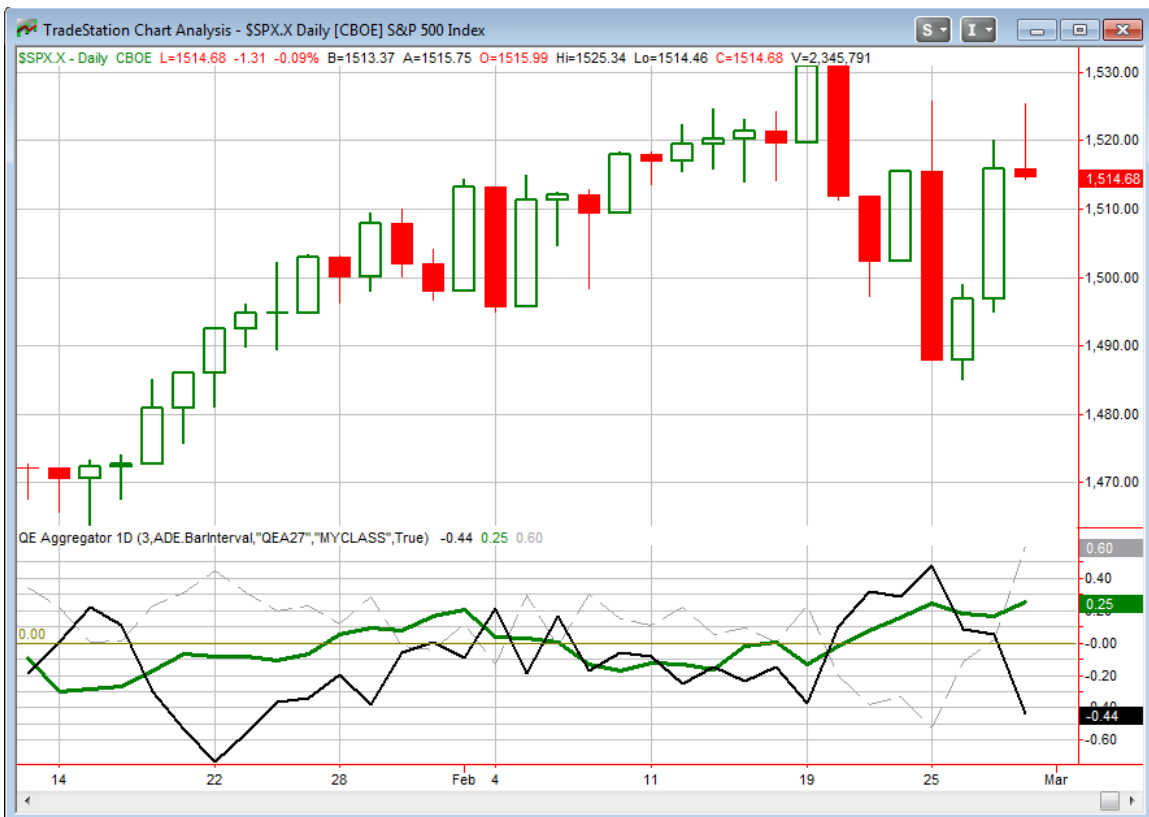
Collapse ^

All Trades

Total Net Profit	\$930.78	Profit Factor	1.10
Gross Profit	\$10,625.00	Gross Loss	(\$9,694.22)
Total Number of Trades	25	Percent Profitable	52.00%
Winning Trades	13	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$37.23	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	\$817.31	Avg. Losing Trade	(\$807.85)

So, first of the month is generally a good thing, and it has been even better when the SPX is in an uptrend, but those tendencies have generally not worked out as well in March. Personally, I believe seasonality is helping to provide an upside edge tomorrow, but that edge may be reduced versus other, more consistent months.

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



Friday's 1st of the month seasonality is helping to keep the green Aggregator line squarely above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line took the expected dive down below 0. The negative reading means the SPX is now overbought versus recent expectations. So expectations are bullish but the SPX is overbought. 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 remain bullish on Friday. Of course this could change if compelling bearish evidence emerged. The Differential Pivot will be 1,505.58 on Friday. This is 0.6% below Thursday's close. So it would take a decline of this much to flip the Differential Line and place the SPX in a short-term oversold state.

I have exited my index position and will be out of all my Catapult positions at the open on Friday. I don't love risk/reward here. While the studies say we could have further to rise, the market is fairly overbought on a short-term basis. I'm happy to simply take profits here and await a more favorable setup to re-enter with another short-term position.

Intermediate-term Outlook (2 weeks – 2 months)– updated 2/25 – bullish

The intermediate-term outlook was last updated in the 2/25 letter. Link below:

[2013-02-25 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>MDT(1/3)</i>	<i>2/21/2013</i>	<i>\$44.76</i>	<i>\$44.96</i>	<i>0.45%</i>		<i>sold on close</i>
<i>MDT(1/3)</i>	<i>2/22/2013</i>	<i>\$44.73</i>	<i>\$44.96</i>	<i>0.51%</i>		<i>sold on close</i>
MDT(1/3)	2/25/2013	\$44.72	\$44.96	0.54%		sell on open
<i>SPY(1/4)</i>	<i>2/26/2013</i>	<i>\$149.10</i>	<i>\$151.91</i>	<i>1.88%</i>		<i>sold @ limit</i>

2 lots of MDT were sold at the close as I indicated I would do in the intraday update sent to gold subscribers around 11:30am EST. The last lot will be sold at the open.

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