

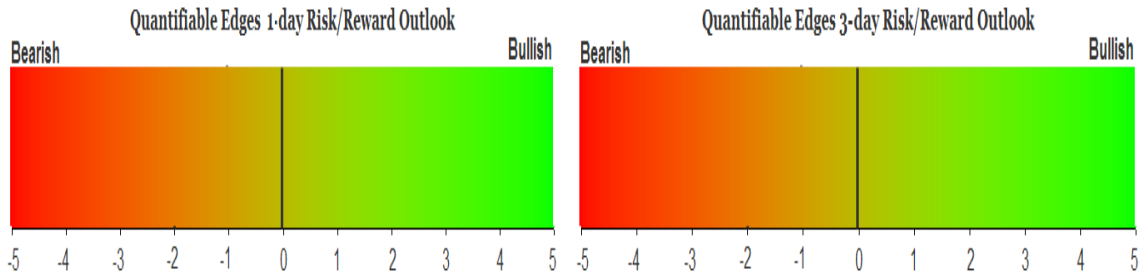
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 4, 2013

Volume 6 Issue 42

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- POMO flows appear likely to remain strong throughout March.

### *Short-term Outlook*

#### *The Bottom Line*

I do not see a strong edge over the next few days. Studies from a few days ago have not quite reached their typical magnitude, so there could be more upside to come. But SPX is mildly overbought for the moment. I'm sidelined and waiting for a more opportune entry.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
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%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
February 21, 2013	Unfill gap dn after unfill gap up to 20-hi	1-7 days	Bearish	
<b>February 26, 2013</b>	<b>Big drop. 20-low. Close &lt; 200</b>	<b>1-6 days</b>	<b>Bullish</b>	<b>2.20%</b>
March 1, 2013	1st of month tomorrow. SPX > 200ma	1 day	Bullish	

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

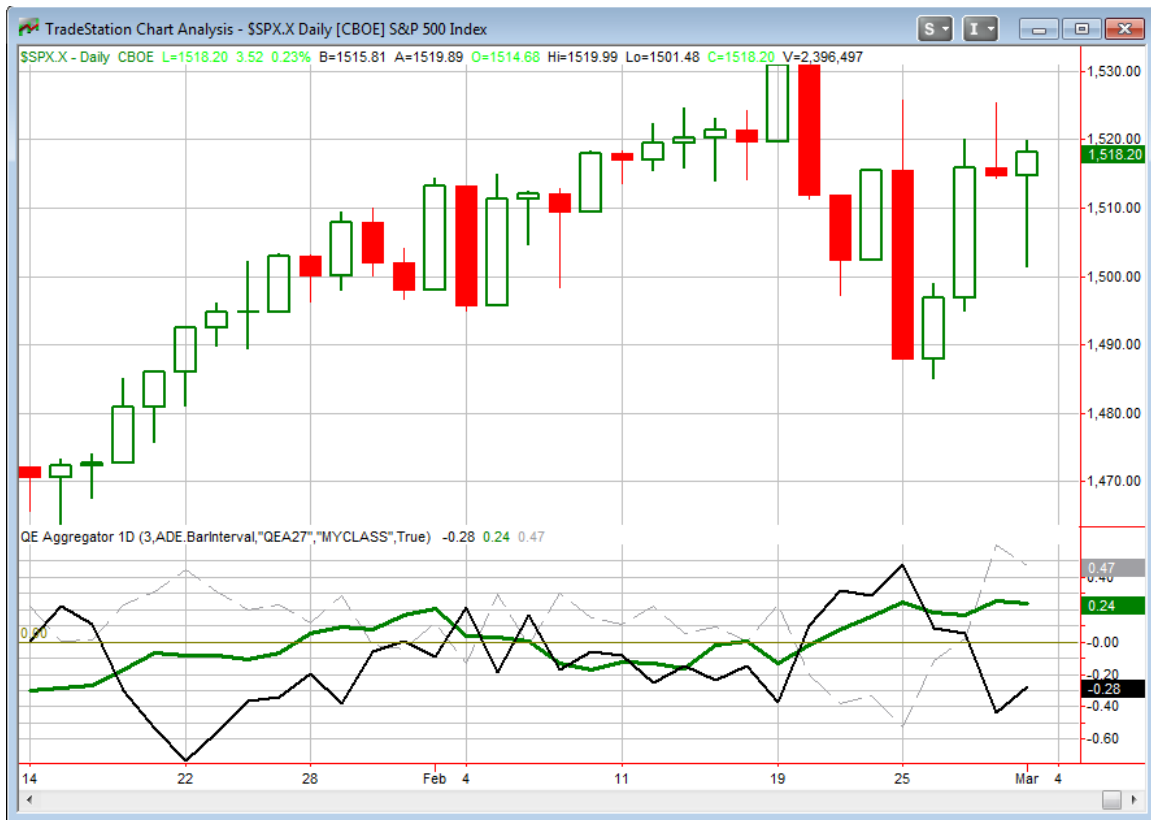
***The Evidence***

The market quickly recovered from a weak open on Friday and finished with small gains. The SPX rose 0.2%, the Nasdaq was up 0.3%, and the Russell 2000 gained 0.4%. Breadth was mildly positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 54%. Total NYSE volume fell some from Thursday's level.

The mild back and forth the last couple of days has done little to generate compelling Quantifinder studies. One study that appeared looked at the recent average daily range expansion and compared the 10-day average to the 100-day average. Often range and volatility expansions will happen near bottoms when participants are especially jittery. It is unusual to see it happen near a market top. So I use that study to look at all other times the SPY's 10-day average daily range expanded to more than 1.25x the 100-day while the SPY was within 1% of a 200-day high. There were 24 non-overlapping instances and unfortunately results were not compelling in the least. From short-term to long-term, all results were squarely mixed.

So there is nothing new from a short-term standpoint tonight. The strongly bullish studies from a few days ago have largely played out, though there may still be more upside to come.

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



With nothing bearish emerging on Friday the green Aggregator line remained 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 is still below 0. The negative reading means the SPX is 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 remain flat at the close.

Based on the current studies expectations are set remain bullish on Monday. This could easily change if compelling bearish evidence emerges. The Differential Pivot will be *inverted* at 1,525.00 on Monday. This is 0.45% *above* Friday's close. An inverted pivot means the Differential Line will cross 0 if SPX closes flat. So for SPX to remain overbought versus expectations on a short-term basis it will need to rise nearly 0.5% on Monday.

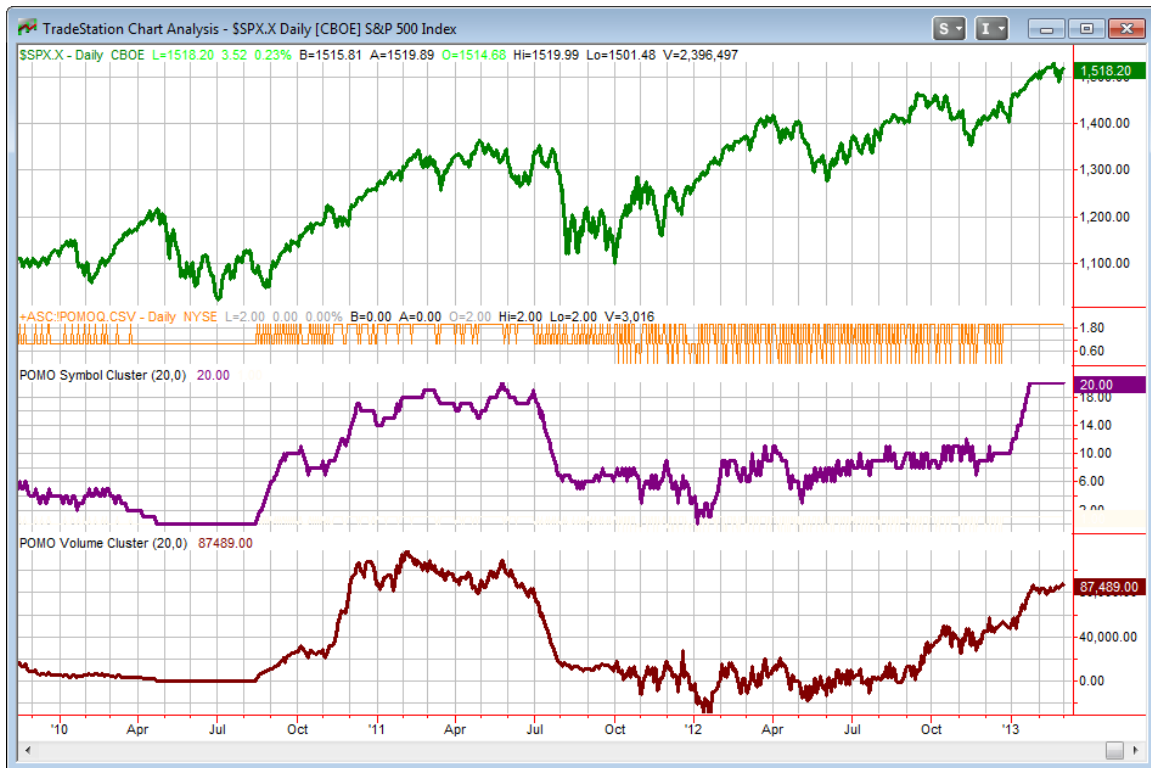
So expectations are bullish. But they are a bit weak since the 2 active short-term bullish studies have largely played out already. With the Differential Pivot inverted there is a good chance that the Aggregator will enter a bullish configuration on Monday if the market pulls back. I don't want to over-anticipate, though. Rather than put an order out there right now, I will wait to see how Monday unfolds and what new evidence may emerge.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 3/4 – bullish***

Though the week was somewhat volatile, it did finish higher with the small gain on Friday helping just enough. SPX is less than 1% away from a new 52-week high and the rally appears to still be intact. From an intermediate-term evidence standpoint, it was a slow week, with nothing new emerging. But the new POMO schedule was released on Thursday, and that always provides us a nice picture of liquidity flows for the coming month.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

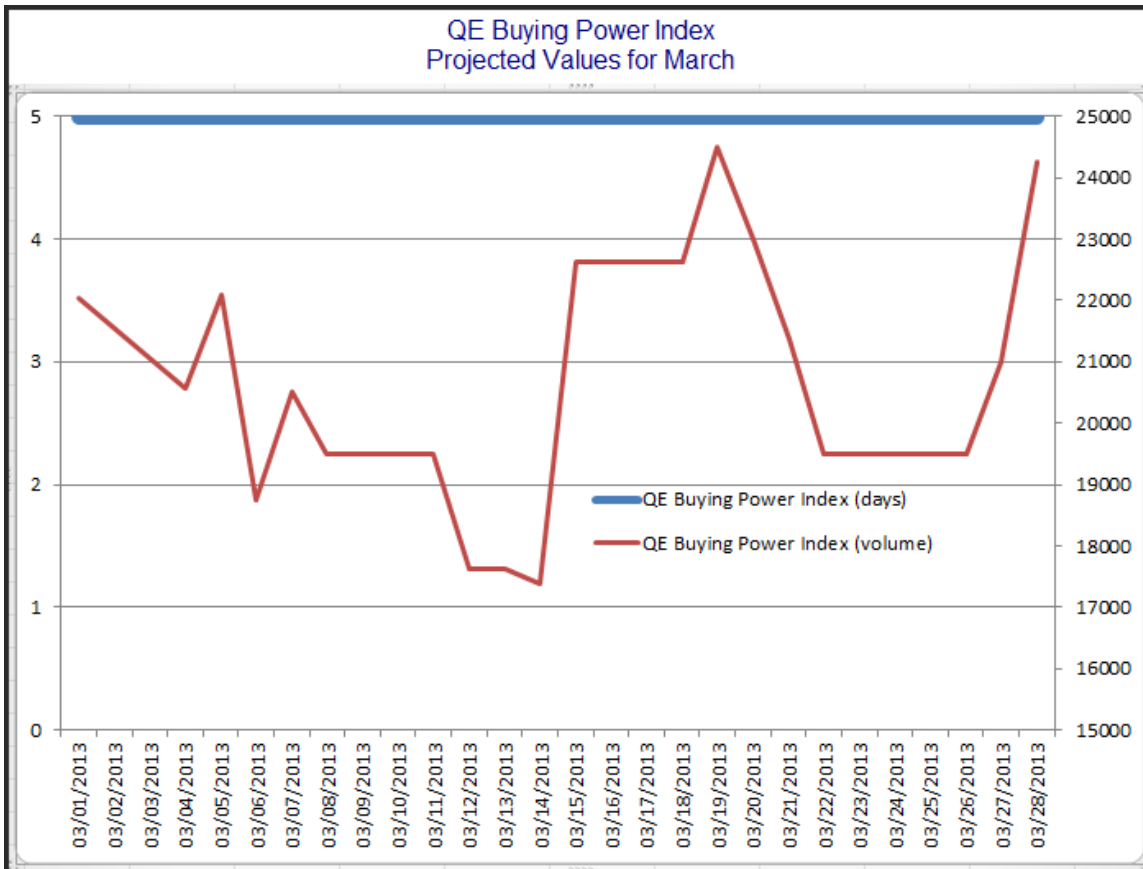
*POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed’s new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.*



The POMO/AMBS volume indicator is again near post-QE2 highs. And the days indicator is *still* maxed out at 20, which was a rarity even during QE2. We estimate net inflows this past week to have been a little over \$22.6 billion. That is a stronger than normal week, even lately. Strong numbers like this normally provide a nice bullish wind at the market's back in the following days.

This upcoming week is also expected to see strong liquidity again. Between POMO and AMBS we should see about a \$19.5 billion inflow. The liquidity environment continues to be one that is favorable for the bulls.

With the release of the March POMO schedule I was able to produce the projected QE Buying Power Index for March. The Fed did not update the AMBS numbers on their site yet. It still says they are planning on \$40 billion in purchases for *February*. The \$40 billion number has not changed in several months, so I don't anticipate it is going to change for March. I will keep an eye out though for any announcements or changes. For the time being I am using the \$40 billion assumption until I find otherwise. Below is the projected March index.



Of course the “days” indicator is going to be locked in at “5” again for the month, since buying of some kind is expected every day. The volume indicator shows the weakest flows will likely occur early in the month, and there should be some strong volume flows around mid-month and also near the end of March. If the bears are going to mount a scare, early-on may be the most likely time. The other option would be between the liquidity peaks about  $\frac{3}{4}$  the way through the month.

Fed policy and liquidity remain of paramount importance. While we all hope that one day the economy and the market can see strong growth without artificial stimulus, I don’t see evidence that day is yet here. So I’ll continue to closely monitor the stimulus policy since it has had a direct impact on market movement for the last several years.

Overall, intermediate-term evidence is mixed but leaning positive. The breadth divergence from the Study of Tops (available on the members download page) remains in place, but liquidity and momentum are both positive. And the market is not far from a new high. So it appears this rally may have further to go. I’ll continue to favor the long side.

## **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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
<i>MDT(1/3)</i>	<i>2/25/2013</i>	<i>\$44.72</i>	<i>\$44.83</i>	<i>0.25%</i>		<i>sold on open</i>

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