

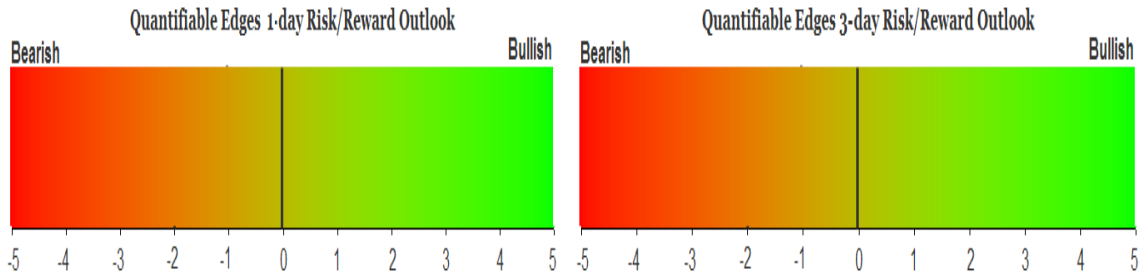
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 5, 2013

Volume 6 Issue 43

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 last 5 days have now closed within the previous day's range. After a 1% selloff in an uptrend this type of consolidation has often been followed by a pop.
- The tight range over the last few days suggests we could see a sharp move in the next few.

Short-term Outlook

The Bottom Line

I do not see a strong edge over the next few days. Marginal evidence still points higher but SPX is mildly overbought. 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
Active				
March 5, 2013	1% drop thrn 5-day inside that range	1-3 days	Bullish	1.30%
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%
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	

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

The Evidence

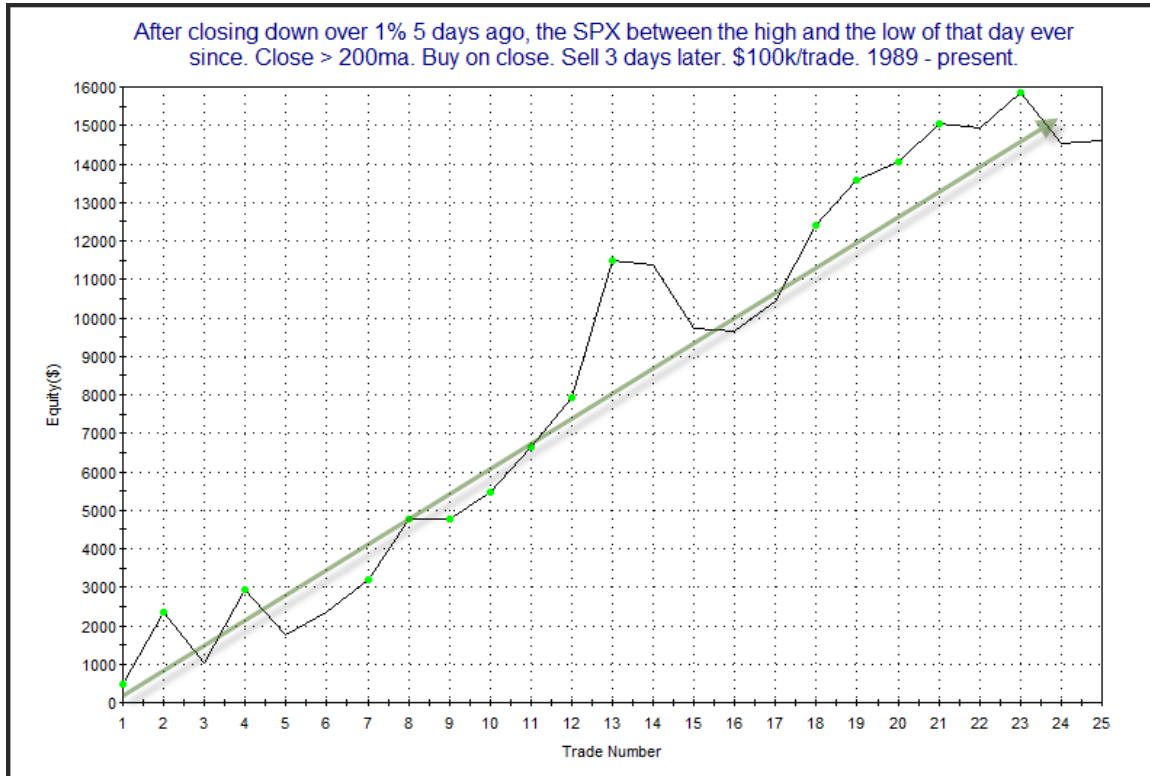
The market started weak but finished strong on Monday. The SPX rose 0.5%, the Nasdaq was up 0.4%, and the Russell 2000 gained 0.2%. Breadth was fairly positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 61%. Total NYSE volume came in at the lightest level in a little over 2 weeks.

After the big reversal down last Monday the market has recovered quite a bit. What is interesting though is that it has closed within the range of that 1 bar every day for the last week. The bears failed to follow through on that selloff, but the bulls have not managed to move the SPX back out of the range either. This triggered the study below, which I last discussed in the 3/9/11 Letter.

After closing down over 1% 5 days ago, the SPX between the high and the low of that day ever since. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1989 - 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	-4,847.06	25	12	13	48.00	2,017.39	3,757.60	-2,235.06	-5,937.53	0.90	0.83	-193.88
4	-1,055.99	25	15	10	60.00	1,235.10	3,706.56	-1,958.25	-3,003.89	0.63	0.95	-42.24
3	14,597.87	25	18	7	72.00	1,129.43	3,552.64	-818.84	-1,683.76	1.38	3.55	583.91
2	11,308.76	25	16	9	64.00	1,059.29	2,111.20	-626.66	-2,003.25	1.69	3.01	452.35
1	9,129.21	25	19	6	76.00	677.97	1,760.80	-625.38	-937.30	1.08	3.43	365.17

Over the last 24 years or so the SPX has burst higher out of this “failed selloff” and consolidation on a consistent basis. But the implications are only bullish for a few short days. After that there does not appear to be a decided edge for either the bulls or the bears.

Below I have produced an equity curve using a 3-day exit strategy.



This is a pretty steady equity curve and it appears to serve as confirmation of the edge.

I don't feel this study is greatly representative of current action, though. Technically, the current setup does qualify. But the last 5 days have been a fairly nice rally. SPX just barely has missed breaking out of the range, and it has not "felt" like a 5-day consolidation. On the other hand...

..The fairly tight trading range over the last 3 days caused the 3/10 Offset Historical Volatility Indicator to come in at a very low 0.24 on Monday. I first introduced this indicator in July of 2009. It essentially takes a short 3-day measure of Historical Volatility and compares that to the 10-day measure of 3-days ago. Low readings indicate there has been a contraction in volatility. High readings indicate there has been an expansion. Anything at or below 0.25 is regarded as extremely low. Often after sharp contractions like this we see a volatility expansion take place.

In August of 2009 I published a study that found this condition created a favorable environment for trading Opening Range Breakouts (ORBs). A link to that study is below:

[Quantifiable Edges ORBs Study.pdf](#)

For anyone who is interested in seeing some techniques for actually trading these ORBs, there is a webinar from October 2010 on the subject on the videos page (subscribers only).

<http://www.quantifiableedges.com/members/videos.php>

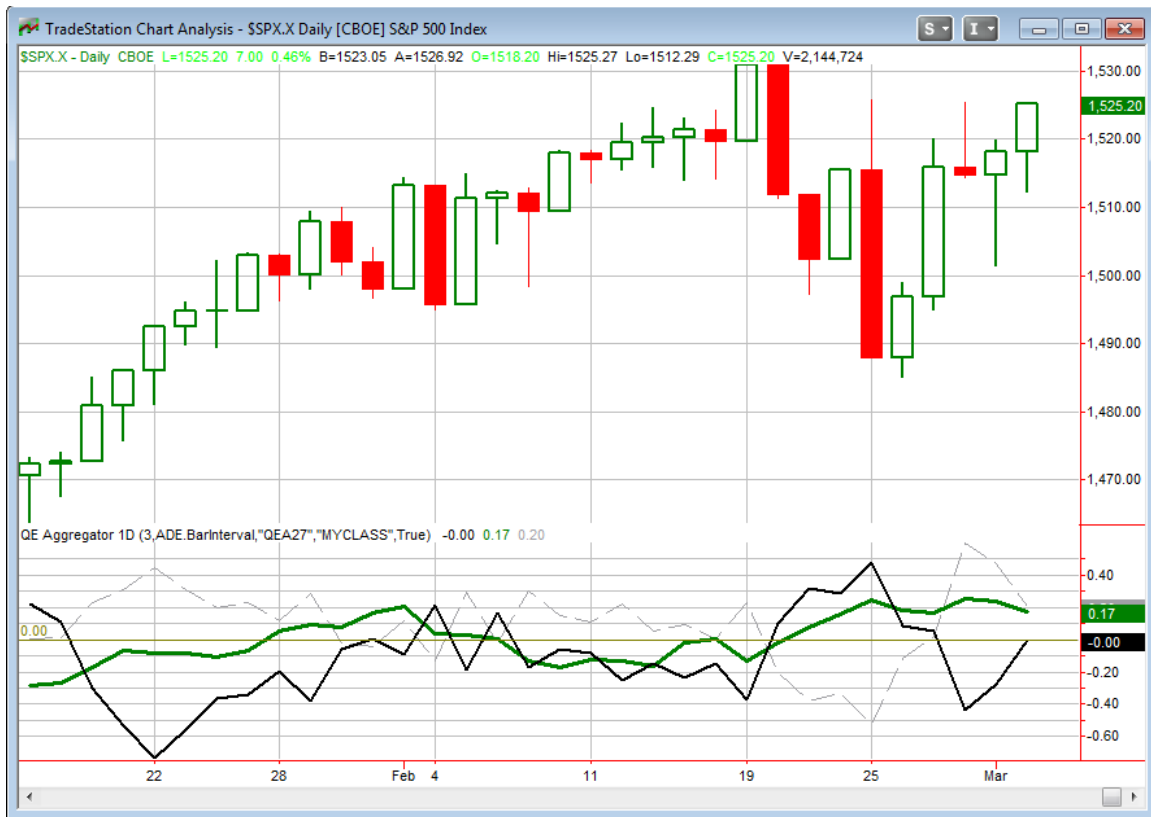
It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. The Aggregator is currently neutral. Under these circumstances I could consider ORB trades in either direction. This would just be for a possible daytrade and is not something I will be tracking in the subscriber letter as an official trade idea. But even if you don't have any interest in attempting a daytrade, the low 3/10 Offset HV is worth noting. Because a volatility expansion (in either direction) is now likely, that means risk is elevated in open swing trade positions.

Of further note, the 3/10 Offset HV Calculation is available as part of the "QE Indicators/Functions for Tradestation". Subscribers may download it to include on their own charts. A link to the Indicators page is below, where you may download the User Guide or the Tradestation ELD.

<http://www.quantifiableedges.com/members/qeindicators.php>

So we have both a study and an indicator suggesting the market could pop in the next few days. (And the study suggests the direction of the pop is likely up.) Let's see what the Aggregator says.

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



With all 3 short-term studies bullish 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 closed just barely below 0. The negative reading means the SPX is overbought versus recent expectations. So expectations are bullish but the SPX is still mildly 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 Tuesday. This could easily change if compelling bearish evidence emerges. The Differential Pivot will be 1,523.81 on Tuesday. This is just 0.1% below Monday's close. So it will not take much of a decline for SPX to change from overbought to oversold versus expectations.

Not much for me to do here. The Aggregator is neutral. And while all short-term evidence is currently bullish, it is either not overly compelling (tonight's study), or largely already realized (the 2/27 studies). The low 3/10 Offset HV suggests risks are higher than normal. If I wanted to bet long I might look to [the triggers sheet](#) on [the systems page](#). I noticed tonight that a few Asian ETFs are oversold and perhaps primed

for a bounce (FXI, RSX, TAO). The combination of their oversold setups along with a pop higher in the US could make for some nice short-term gains. But with the US overbought and the 3/10 Offset HV so low, I'll just wait for a setup with more favorable risk/reward.

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

The intermediate-term outlook was last updated in the 3/4/13 letter. Link below:

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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