

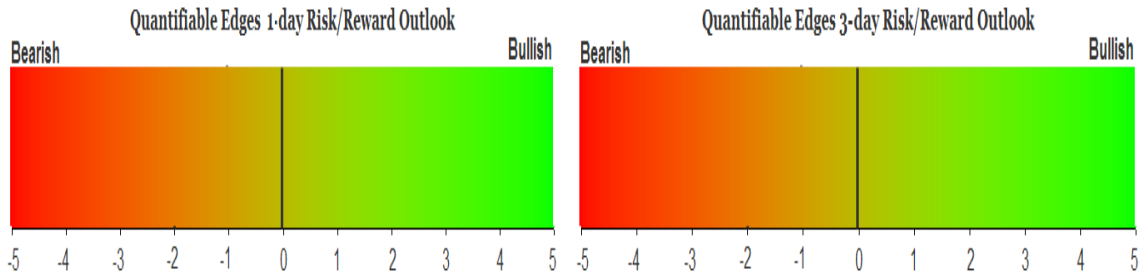
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 6, 2013

Volume 6 Issue 44

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 extremely low VXO is suggesting a market pullback.

Short-term Outlook

The Bottom Line

I do not see a strong edge over the next few days. Marginal evidence still leans higher but SPX is now strongly 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%
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 27, 2013	Double reversal > 200ma < 10ma	1-5 days	Bullish	1.90%
February 27, 2013	1.75% drop then bounce 0.25%-0.7%	1-5 days	Bullish	2.90%

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

The Evidence

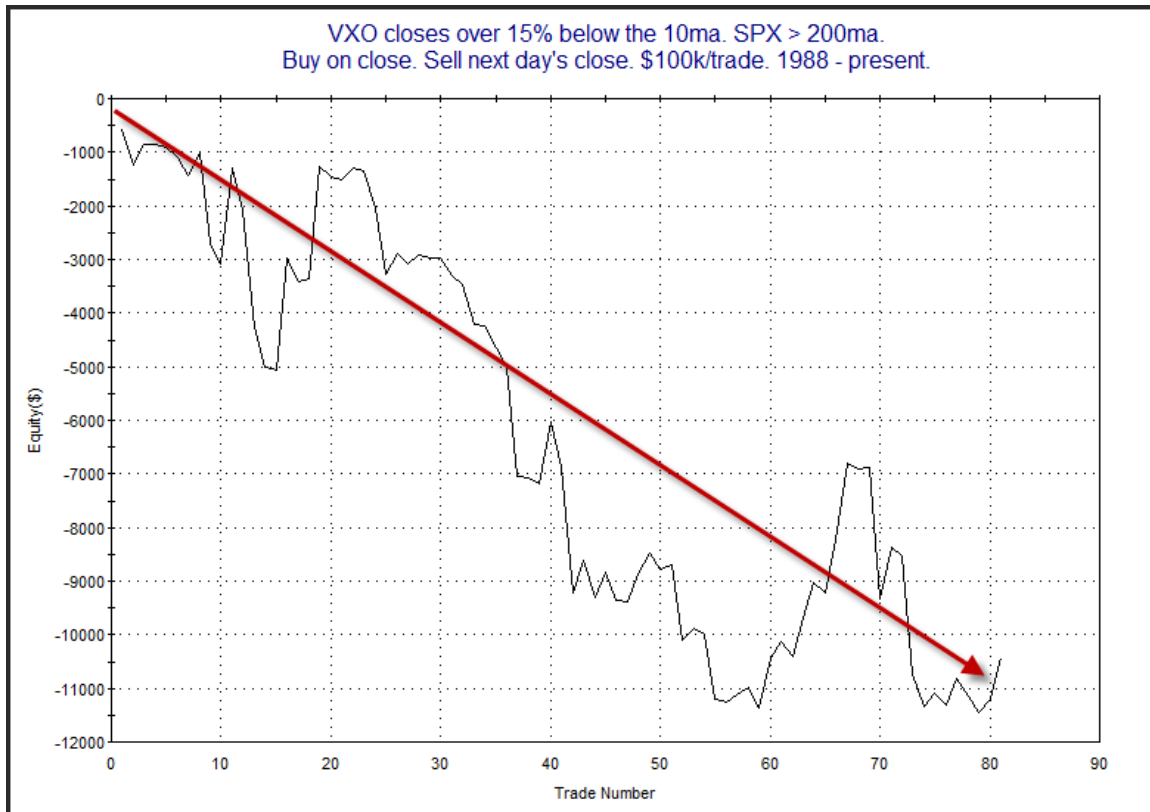
I discussed the 3/10 Offset HV last night and how its low reading suggested an explosive move could be setting up. Indications were that the move was more likely to be higher. And the market did not waste any time seeing those indications play out on Tuesday. The SPX rose 1% and hit new multi-year highs. The Nasdaq was up 1.3%, and the Russell 2000 gained 1.2%. Breadth was strongly positive as the NYSE Up Issues % was 73% and the Up Volume % came in at 81%. Total NYSE volume rose from Monday's light level.

There wasn't much today that appeared suggesting a strong directional edge. One indication suggesting the move is getting overdone and is likely to pull back is the extreme stretch in the VXO. It closed 16.5% below its 10ma. Such rapid drops in the VXO are often followed by a move lower in the SPX. In the 6/30/11 Subscriber Letter I showed a study that examined SPX performance following days when the VXO closed more than 15% below its 10ma while the SPX was trading above its own 200ma. I have updated that study below.

VXO closes over 15% below the 10ma. SPX > 200ma.
Buy on close. Sell next day's close. \$100k/trade. 1988 - present.

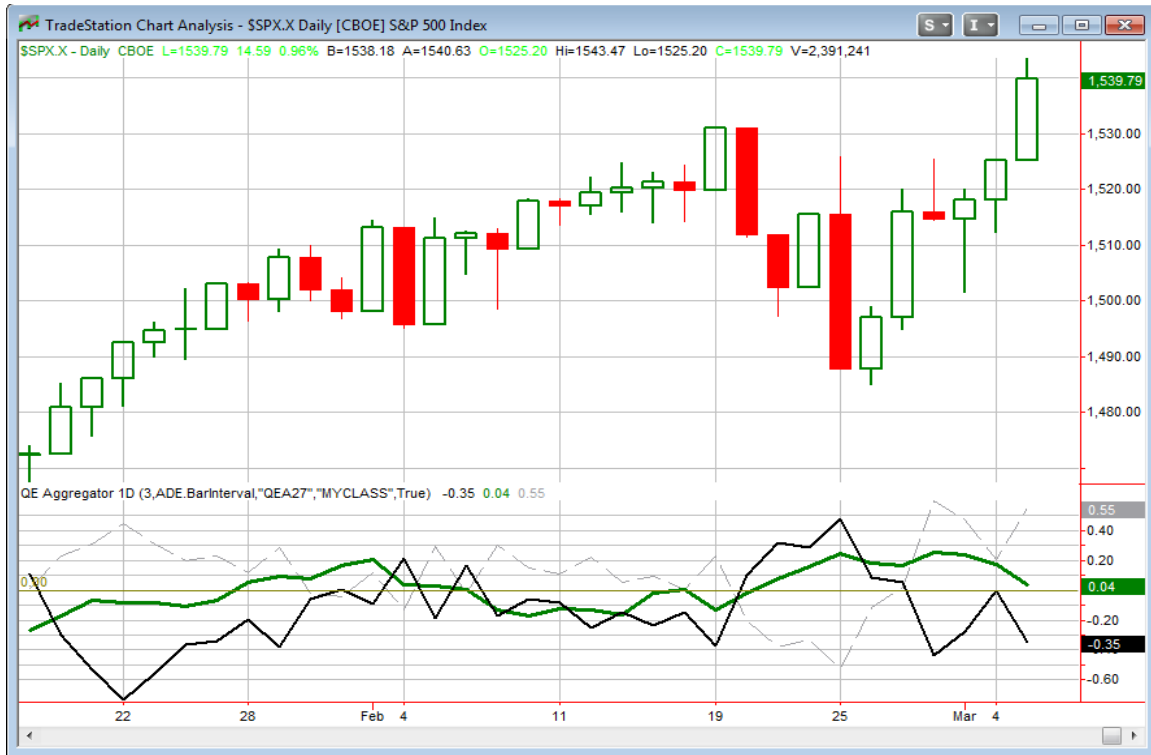
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	(\$10,443.68)	Profit Factor	0.65	
Gross Profit	\$19,107.90	Gross Loss	(\$29,551.58)	
Total Number of Trades	81	Percent Profitable	38.27%	
Winning Trades	31	Losing Trades	50	
Even Trades	0			
Avg. Trade Net Profit	(\$128.93)	Ratio Avg. Win:Avg. Loss	1.04	
Avg. Winning Trade	\$616.38	Avg. Losing Trade	(\$591.03)	
Largest Winning Trade	\$2,096.10	Largest Losing Trade	(\$2,447.06)	

Stats here seem to suggest a decent downside inclination. But that inclination has not always been consistent. To get a better idea of how this edge has played out over time I have produced an equity curve below.



A while back I was close to tossing this study out of the Quantifinder. But in recent times it seems to be attempting to reassert its downside tendency. I would certainly prefer a smoother profit curve. But without much else to go on tonight, I feel this study may be worth some consideration. So I have included it on the short-term Active List.

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



Tonight's bearish study turned the green Aggregator line down but it still remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line fell further 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 Wednesday. This could easily change if more bearish evidence emerges. The Differential Pivot will be 1,528.04 on Wednesday. This is about 0.7% below Tuesday's close. So it would need to take a close lower of at least this much for SPX to change from overbought to oversold versus expectations.

The break to new highs here is interesting. It came after just a 9-day basing period. I have found in the past that 10-12 days is typically necessary to build up enough energy to mount a successful breakout. This wasn't quite there, but it wasn't far off, either. So perhaps we will see some follow through on this breakout. In any case, we are strongly overbought and evidence is shaky. So I am not inclined to get aggressive here. Patience will pay eventually. I require compelling edges to put capital at risk, and the current setup is not compelling me.

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:

[2013-03-04 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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