

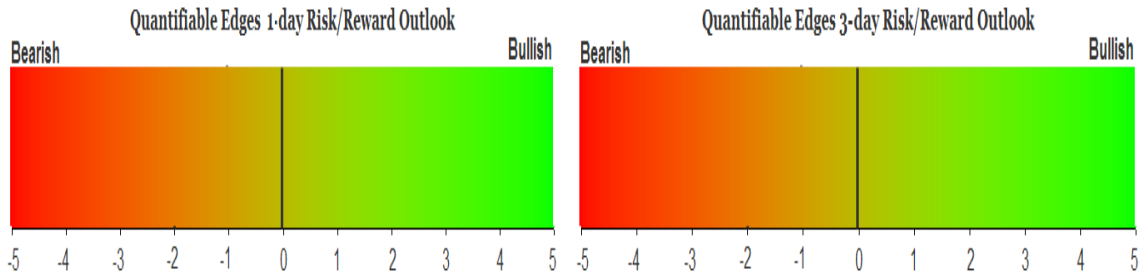
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 7, 2013

Volume 6 Issue 45

Market Overview



Signals Overview

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

Tonight's Research Points

- VIX up mid-week while SPX hits a 50-day high suggests 1-2 days of weakness.

Short-term Outlook

The Bottom Line

I remain void of a compelling edge with which to take a position. This kind of situation never lasts long, so with a little patience I should be able to find a trading opportunity with more favorable risk/reward than I am seeing now.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
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				
March 5, 2013	1% drop thru 5-day inside that ran	1-3 days	Bullish	1.30%

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

The Evidence

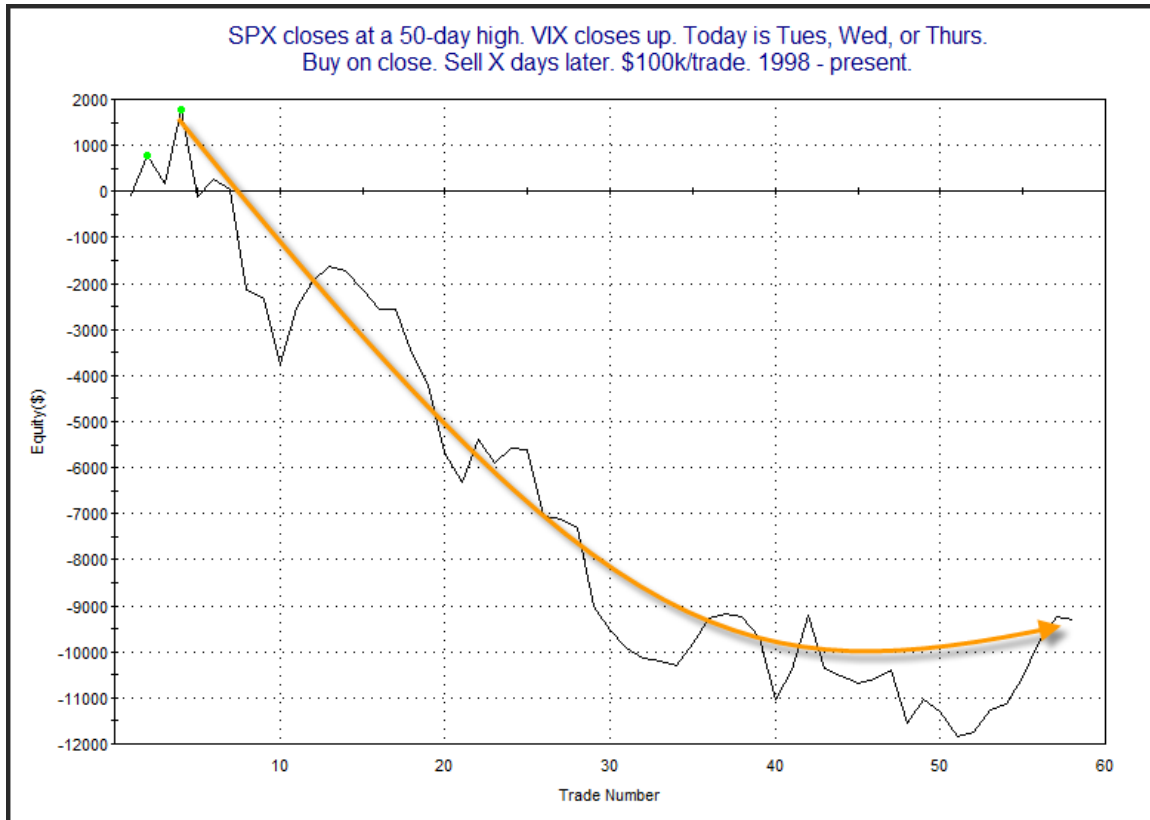
The market gapped up fairly strongly on Wednesday, but was never able to add on to those gains. It headed lower for most of the morning and the chopped around all afternoon. In the end the indices finished mixed. The SPX rose 0.1% and the Russell 2000 gained 0.3%, but the Nasdaq dropped 0.1%. Breadth was squarely positive as the NYSE Up Issues % was 54% and the Up Volume % came in at 66%. Total NYSE volume rose for the 2nd day in a row..

Also for the 2nd day in a row, we saw studies triggered by unusual action in VIX (or VXO). The study below was last seen in the 1/24/13 subscriber letter. It looks at other times the VIX has risen while the SPX has closed at a 50-day high midweek. VIX action on Mondays and Fridays is influenced by the weekend so I commonly segregate midweek from Mondays and Fridays when I run VIX-based studies. I have updated the results.

SPX closes at 50-day high. VIX closes up. Today is Tues, Wed, or Thurs. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-11,663.88	52	27	25	51.92	729.25	2,108.40	-1,254.15	-4,171.80	0.58	0.63	-224.31
4	-8,992.52	54	25	29	46.30	738.36	1,719.75	-946.60	-4,354.72	0.78	0.67	-166.53
3	-5,143.56	54	27	27	50.00	607.99	2,381.25	-798.49	-2,091.82	0.76	0.76	-95.25
2	-9,793.70	56	21	35	37.50	572.22	1,609.50	-623.15	-2,182.68	0.92	0.55	-174.89
1	-8,471.96	64	31	33	48.44	273.37	1,281.75	-513.52	-1,721.70	0.53	0.50	-132.37

89% of instances closed below the entry price at some point in the next week.

Pullbacks of some kind have occurred at a fairly high rate, with most of the damage occurring in the 1st two days. The profit curve below assumes a 2-day holding period..

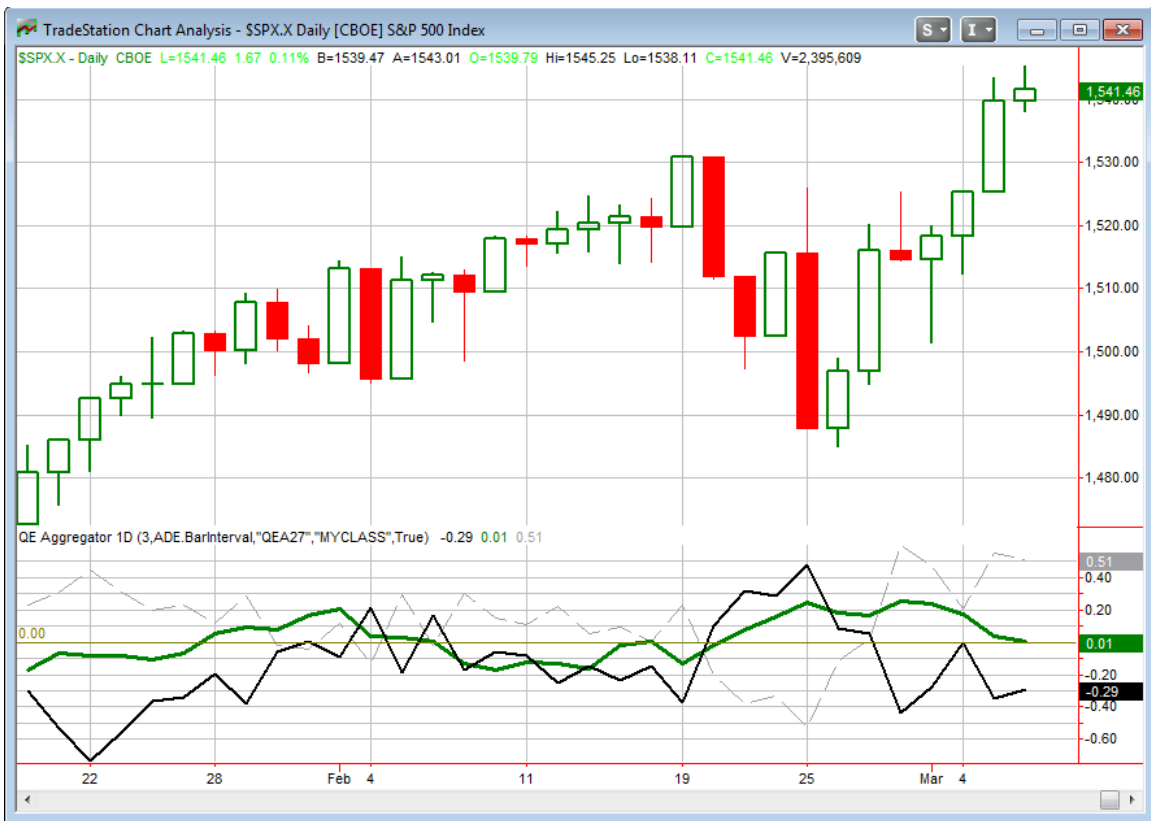


Though the last instance was down slightly, the 6 before that all closed up. This has made the equity curve much less appealing than it once was. I suspect a reason for the weak showing recently of this formerly bearish study may be quantitative easing. In the last few years we have seen more and more rallies chug higher without pausing to pull back than we had previously. While I credit large inflows of liquidity as a possible reason, the reason really does not matter. What matters is that we recognize changes in market dynamics so that we are able to adapt to them. In this case that means not giving this study the bearish “credit” I once afforded it. I will continue to keep it in the Aggregator and monitor it over time. I am especially interested in seeing if this kind of behavior persists at times the Fed is NOT pumping.

One thing today’s rally accomplished was that it caused the open bullish study from a couple of days ago to reach its profit target. When that happens the study is removed from the Active List. The logic behind this is simply that if a study suggests the market

is likely to move up a certain amount, and that level is reached, then any further gains in the next several days are likely due to forces other than those identified by the study. Therefore, it is retired early. With the early retirement of that March 5 study the short-term active list is now empty. This means the Aggregator is only looking at intermediate-term studies.

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



With just intermediate-term studies to take into account the green Aggregator held just 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 well below 0. The negative reading means the SPX is overbought versus recent expectations. So expectations are slightly 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.

Without any active short-term studies, expectations will be largely dependent on what new studies emerge in the days ahead. The Differential Pivot will be 1,535.30 on

Thursday. This is about 0.4% below Wednesday's close. So it would take a close lower of at least this much for SPX to change from overbought to oversold versus expectations.

If I had included the VIX study discussed above on the Short-Term Active List, then expectations would have finished bearish and the Aggregator would be short. This only matters if you trade the Aggregator mechanically, which I don't. When the QE Buying Power Index is 3 or higher I almost never consider short trades. And I wouldn't consider one now. Liquidity and momentum are so strong at present that trying to squeeze short-side profits out of the market using swing techniques is unlikely to be very fruitful. That doesn't mean I believe the market will never pull back. In fact, I think we are at a point where a pullback may be likely. Liquidity will be lower over the next few days than we will see for the rest of the month. And there is no doubt that the market is strongly overbought. So a pullback could happen at any time. But risk/reward for playing shorts simply isn't there and hasn't been for all of 2013 so far. (It will return at some point.) So there is nothing for me to do except wait, observe, and study.

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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