

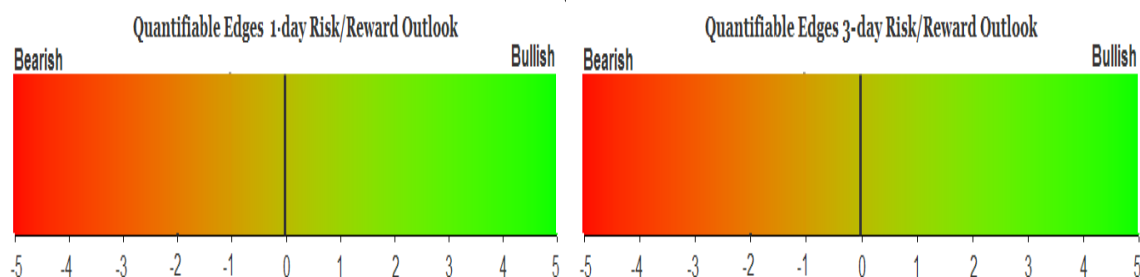
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 8, 2013

Volume 6 Issue 46

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY & SPX volume diverged, making for some conflicting signals.
- Friday is an Employment Day, which doesn't mean much anymore..

Short-term Outlook

The Bottom Line

No change. 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	

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

The Evidence

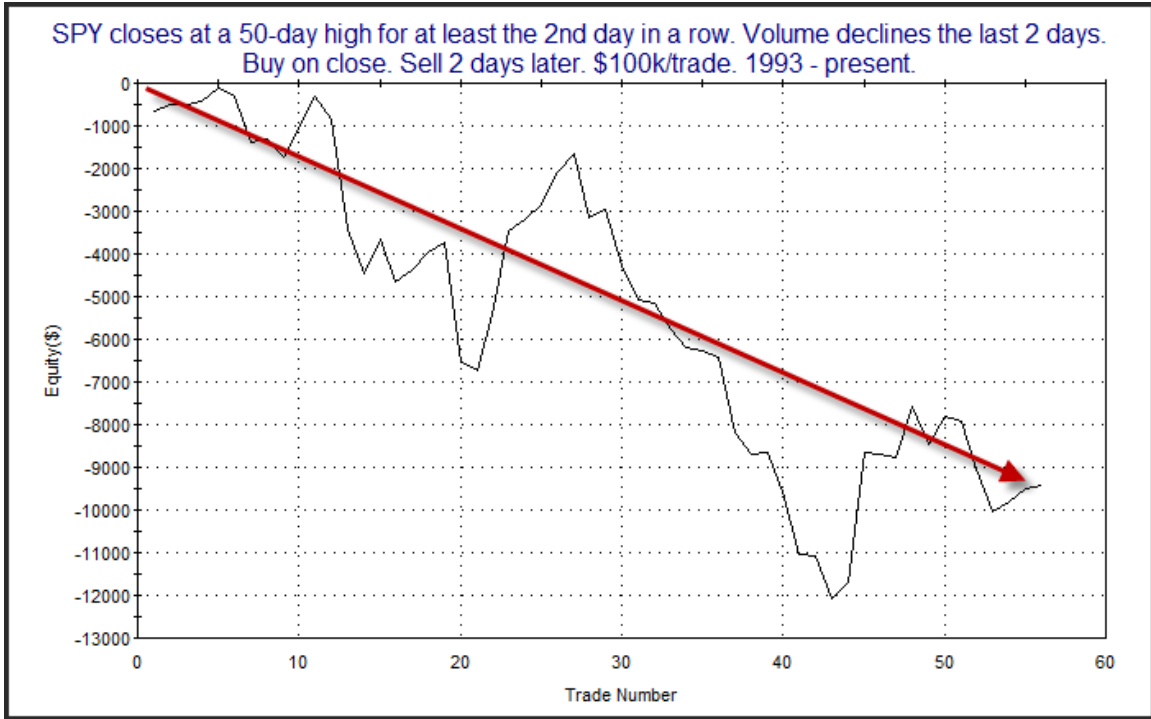
Thursday’s action was generally quiet as the major indices traded tightly and finished moderately higher. The SPX rose 0.2%, the Nasdaq rallied 0.3% and the Russell 2000 gained 0.5%. Breadth was moderately positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 63%. Total NYSE volume rose for the 3rd day in a row.

Volume was most curious on Thursday. The Quantifinder identified a few studies that related to volume. Most interesting about volume is that while NYSE volume was rising for the 3rd day in a row, SPY volume has declined the last 2 days. Most often they will move somewhat in unison, but that was not the case on Thursday. The studies we saw suggested that 1) the declining SPY volume while SPY was hitting new highs is a short-term negative, and 2) the rising SPX volume with SPX hitting new highs is a short-term positive. In the past I have found both measures of volume to be helpful. But frankly, tonight I do not know which one to trust. So I will trust neither. But below I have copied the studies mentioned above. (Neither has been updated.) First is the SPY one from the 2/21/12 Letter:

While SPY was making new highs the last couple of days, SPY volume declined. This triggered the study below...

SPY closes at a 50-day high for at least the 2nd day in a row. Volume declines the last 2 days. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-11,078.99	55	25	29	45.45	986.33	5,787.33	-1,232.32	-4,272.30	0.80	0.69	-201.44
4	-9,212.79	56	26	30	46.43	834.27	3,376.89	-1,030.13	-4,081.95	0.81	0.70	-164.51
3	-9,041.35	56	26	30	46.43	804.29	4,832.25	-998.43	-3,240.00	0.81	0.70	-161.45
2	-9,416.23	56	25	31	44.64	599.74	3,047.16	-787.41	-2,827.05	0.76	0.61	-168.15
1	-5,670.99	62	19	42	30.65	627.85	3,399.63	-419.05	-1,745.63	1.50	0.68	-91.47

The stats here appear to suggest a moderate downside edge over the next 1-2 days. Below is an equity curve using a 2-day exit strategy.



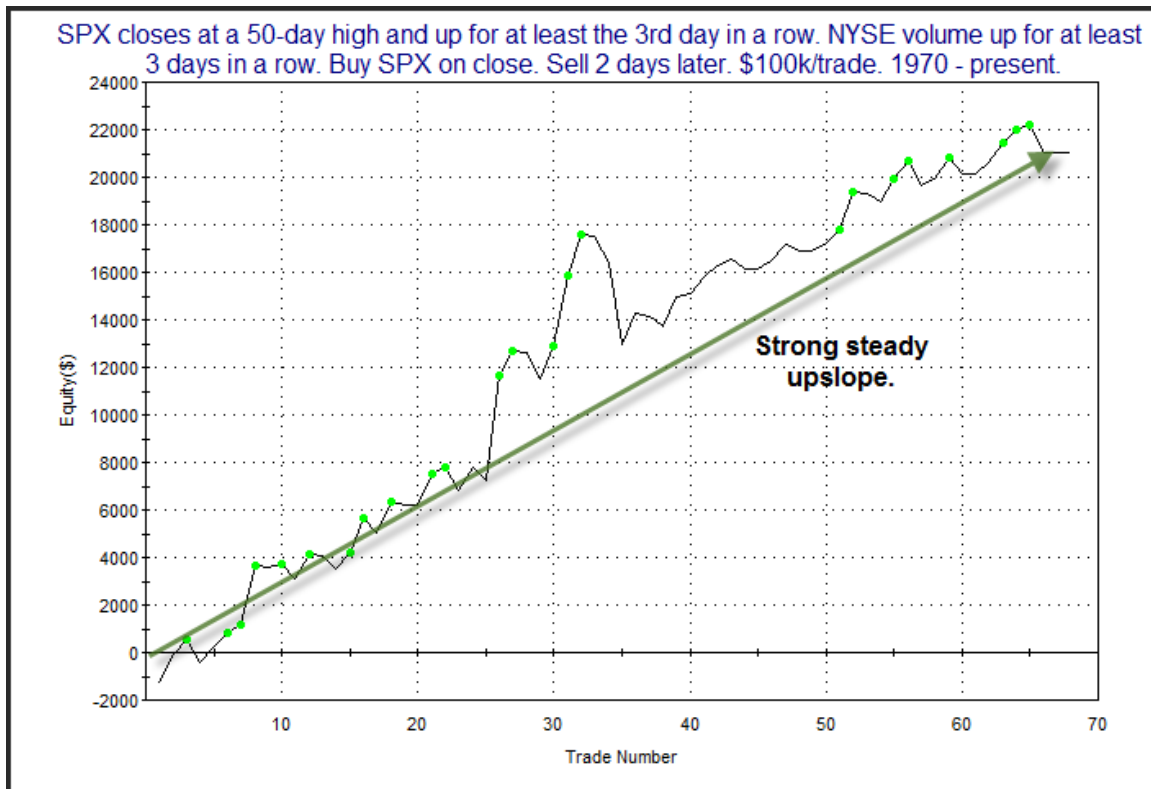
Definitely choppy but the series of lower highs and lower lows suggests a downtrend intact.

The SPX related study was from the 7/20/12 letter. I have copied it below:

SPX closes at a 50-day high and up for at least the 3rd day in a row. NYSE volume up for at least 3 days in a row. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	23,734.54	68	42	26	61.76	1,263.50	4,765.28	-1,128.17	-3,827.55	1.12	1.81	349.04
4	11,917.68	68	41	27	60.29	1,006.81	6,138.16	-1,087.47	-3,898.65	0.93	1.41	175.26
3	18,937.74	68	44	24	64.71	893.92	4,376.64	-849.78	-4,388.45	1.05	1.93	278.50
2	21,011.58	68	41	27	60.29	905.86	4,399.92	-597.36	-3,412.80	1.52	2.30	308.99
1	6,489.44	77	43	34	55.84	523.20	2,755.52	-470.83	-1,602.28	1.11	1.41	84.28

The bullish tendency here appears to largely play out in the first two days. Below is a profit curve assuming a 2-day exit strategy.



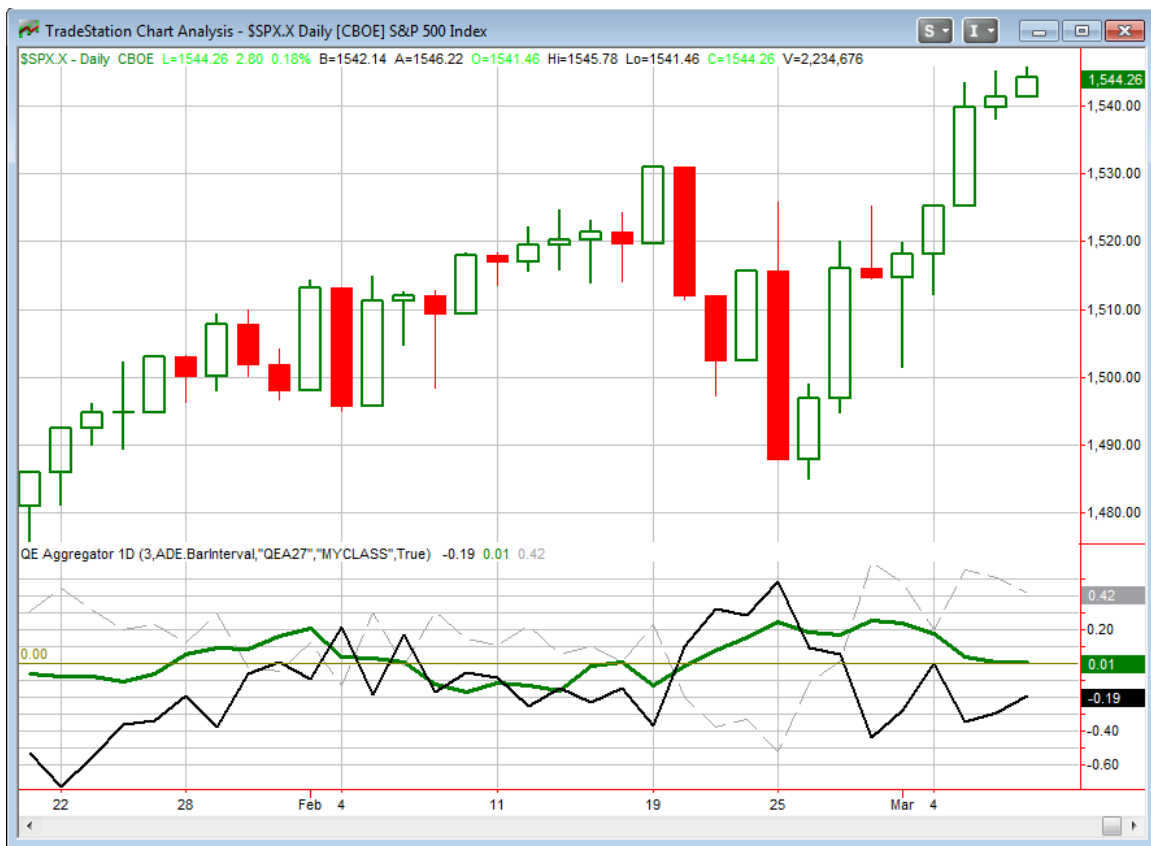
The upslope here is impressive, and the study certainly seems worthy of consideration.

So rising volume at new highs is generally a good thing. And declining volume at new highs is a bad thing. But since our measures of volume do not agree I'm not inclined to put faith in either.

On another note, Friday is an Employment Day, meaning the employment report is due out 1 hour before the open. The employment report will often add volatility to the early morning. During the 90s the stock market performed quite well on Employment Days when the SPX was in an uptrend. Since the turn of the century that has not been the case. For more details on this you may check out [this blog post from November](#).

Of course all of these indecisive indications are again leaving us without any studies on the Short-Term Active List. I cannot recall another time that the Active List has been empty 2 days in a row. So again tonight, it is the intermediate-term studies that are in charge of setting expectations.

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



With just intermediate-term studies to take into account the green Aggregator again 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 *inverted* at 1,546.69 on Friday. This is about 0.2% *above* Thursday's close. An inverted pivot means that the Differential Line will cross 0 on a flat SPX close. So in this case, for the SPX to remain overbought it will need to rise 0.2% on Friday. Anything short of that and it would be considered "oversold" versus recent expectations.

Nothing has changed from last night. This market remains one that demands patience. I will continue to wait until a setup with more favorable risk/reward emerges before putting new money to work.

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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