

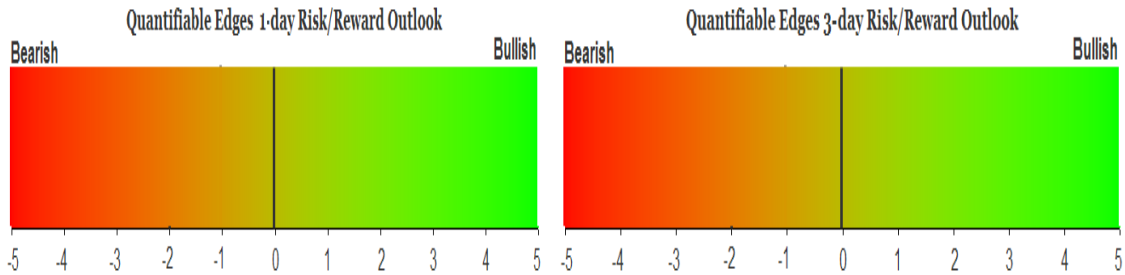
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 13, 2013

Volume 6 Issue 49

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days and weeks.

## *Short-term Outlook*

### *The Bottom Line*

The pullback looks bullish so far. Another down day tomorrow would turn SPX to short-term oversold and likely lead me to get long. But for now I am waiting to see how things unfold.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
March 13, 2013	Pullback from persistent upmove	1-4 days	Bullish	1.30%
March 11, 2013	March OpEx seasonally strong	1-4 days	Bullish	1.70%
<b>Active - Long Term</b>				
March 13, 2013	5 days up to 50-high, then 1 down	1-10 days	Bullish	2.00%
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.

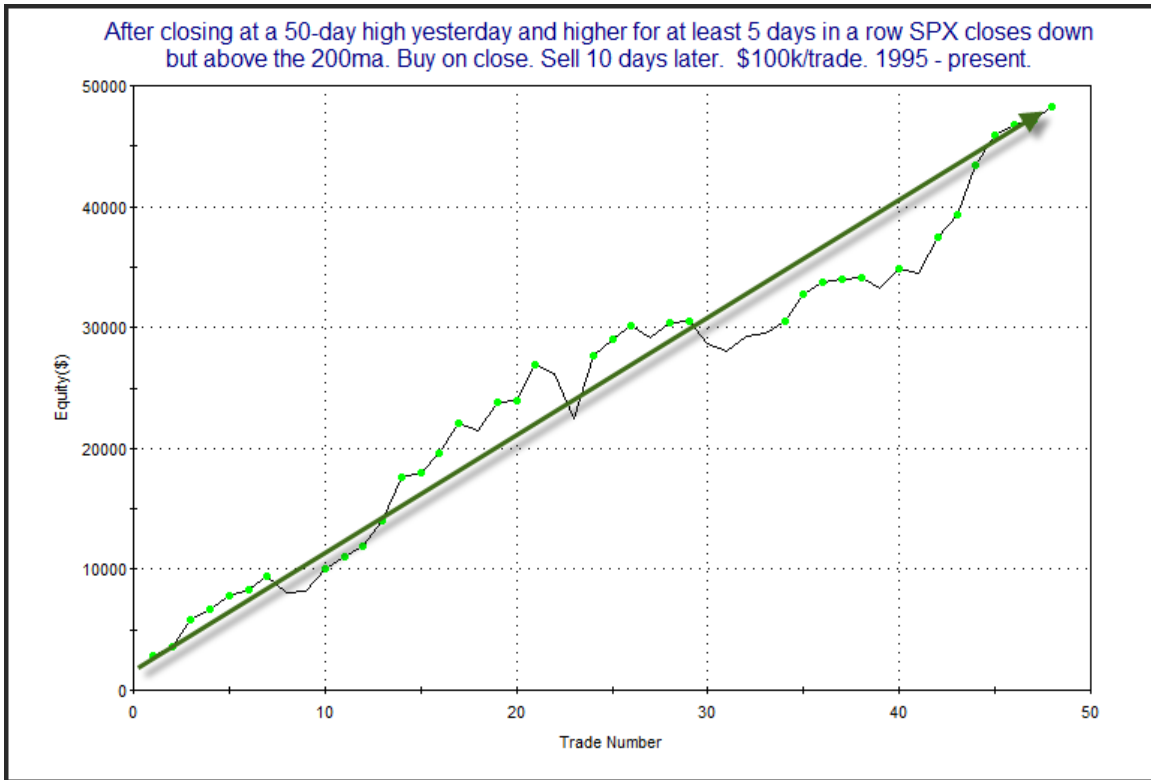
**The Evidence**

Most of the major indices sank on Tuesday, but the damage was fairly light. The SPX and Russell 2000 each lost 0.2%, while the Nasdaq declined 0.3%. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % came in at 42%. Total NYSE volume came just a little above Monday's light level.

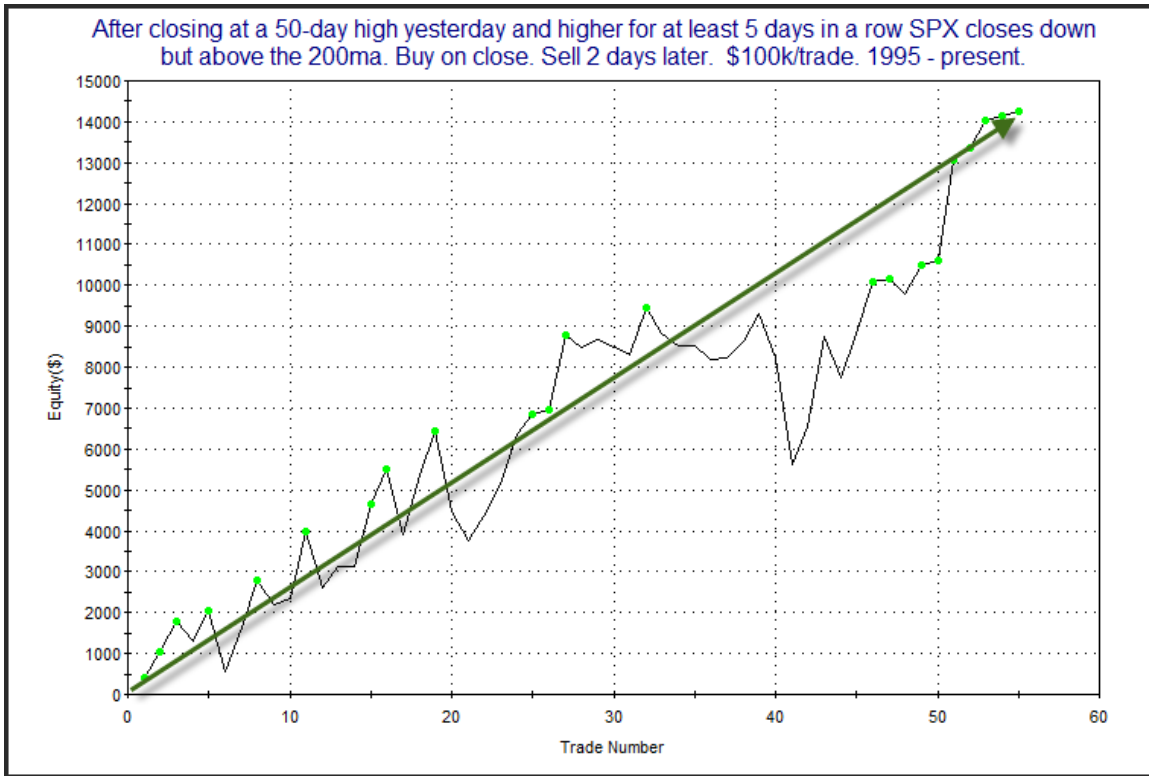
Several studies triggered tonight that suggested the recent persistent upmove is unlikely to abruptly end. I'll review a few studies that exemplify this concept. The first one below was last seen in the 8/14/12 subscriber letter.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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
10	48,273.60	48	39	9	81.25	1,523.59	5,131.35	-1,238.51	-3,672.90	1.23	5.33	1,005.70
9	48,708.93	51	42	9	82.35	1,497.39	5,023.20	-1,575.73	-4,151.40	0.95	4.43	955.08
8	40,697.88	52	35	17	67.31	1,724.66	4,878.08	-1,156.77	-4,874.10	1.49	3.07	782.65
7	33,184.16	53	35	18	66.04	1,552.67	3,874.76	-1,175.52	-3,912.48	1.32	2.57	626.12
6	32,730.70	55	36	19	65.45	1,448.71	4,307.20	-1,022.26	-3,637.71	1.42	2.69	595.10
5	24,457.58	55	34	21	61.82	1,236.19	4,252.50	-836.80	-2,466.75	1.48	2.39	444.68
4	25,102.31	55	34	21	61.82	1,232.19	3,843.00	-799.63	-3,003.39	1.54	2.49	456.41
3	13,823.61	55	34	21	61.82	920.48	2,472.85	-832.03	-1,992.34	1.11	1.79	251.34
2	14,265.04	55	37	18	67.27	795.70	2,437.50	-843.10	-2,614.95	0.94	1.94	259.36
1	8,736.46	55	34	20	61.82	570.12	1,751.19	-532.39	-1,744.10	1.07	1.82	158.84

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a quick little boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 2-day curve.



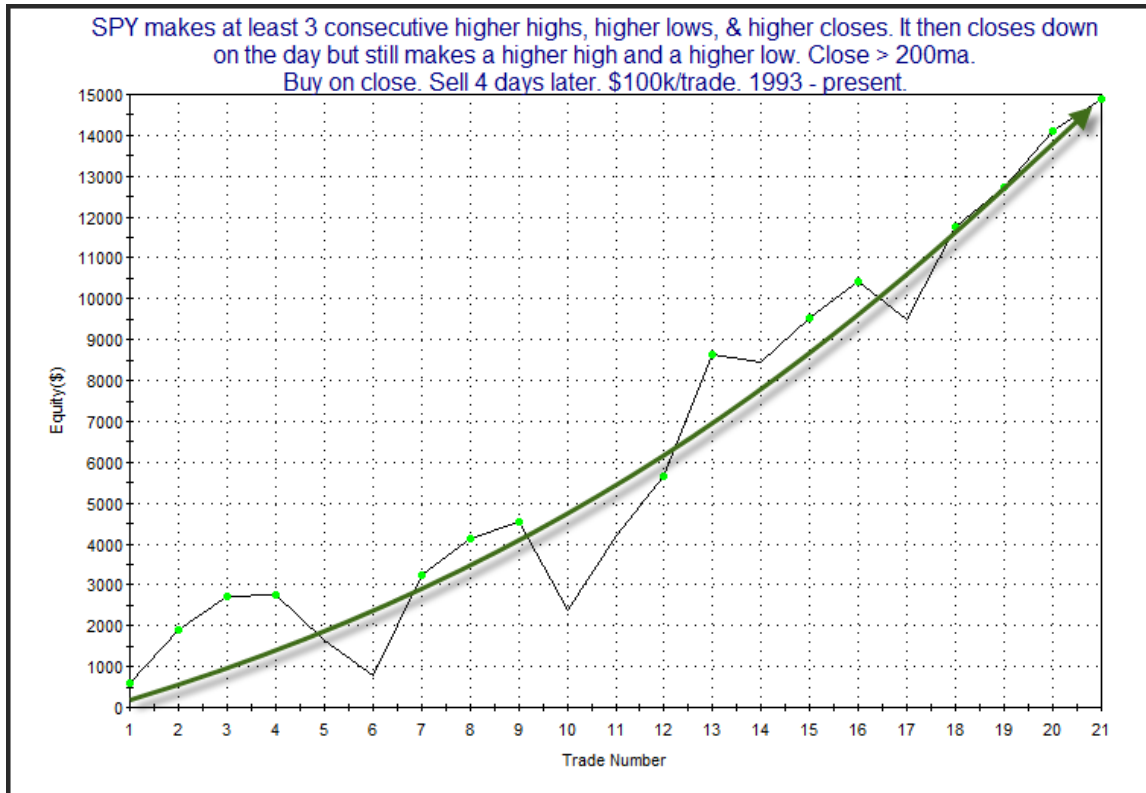
Results are choppier here but the curves look somewhat similar. And even with more whipsaws this one appears worthy of consideration.

While SPY pulled back Tuesday and closed lower, it still made a higher high and a higher low. The study below was last seen in the 1/29/13 Letter. It examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

SPY makes at least 3 consecutive higher highs, higher lows, & higher closes. It then closes down on the day but still makes a higher high and a higher low. Close > 200ma.  
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	10,206.53	21	13	8	61.90	1,441.49	3,602.64	-1,066.60	-2,800.26	1.35	2.20	486.03
4	14,894.63	21	16	5	76.19	1,262.64	2,958.05	-1,061.53	-2,191.22	1.19	3.81	709.27
3	6,895.33	21	14	7	66.67	952.41	2,432.70	-919.77	-2,640.33	1.04	2.07	328.35
2	5,021.92	21	16	4	76.19	618.26	2,004.60	-1,217.54	-1,804.67	0.51	2.03	239.14
1	3,757.64	21	13	8	61.90	499.24	1,002.03	-341.55	-1,137.92	1.46	2.38	178.94

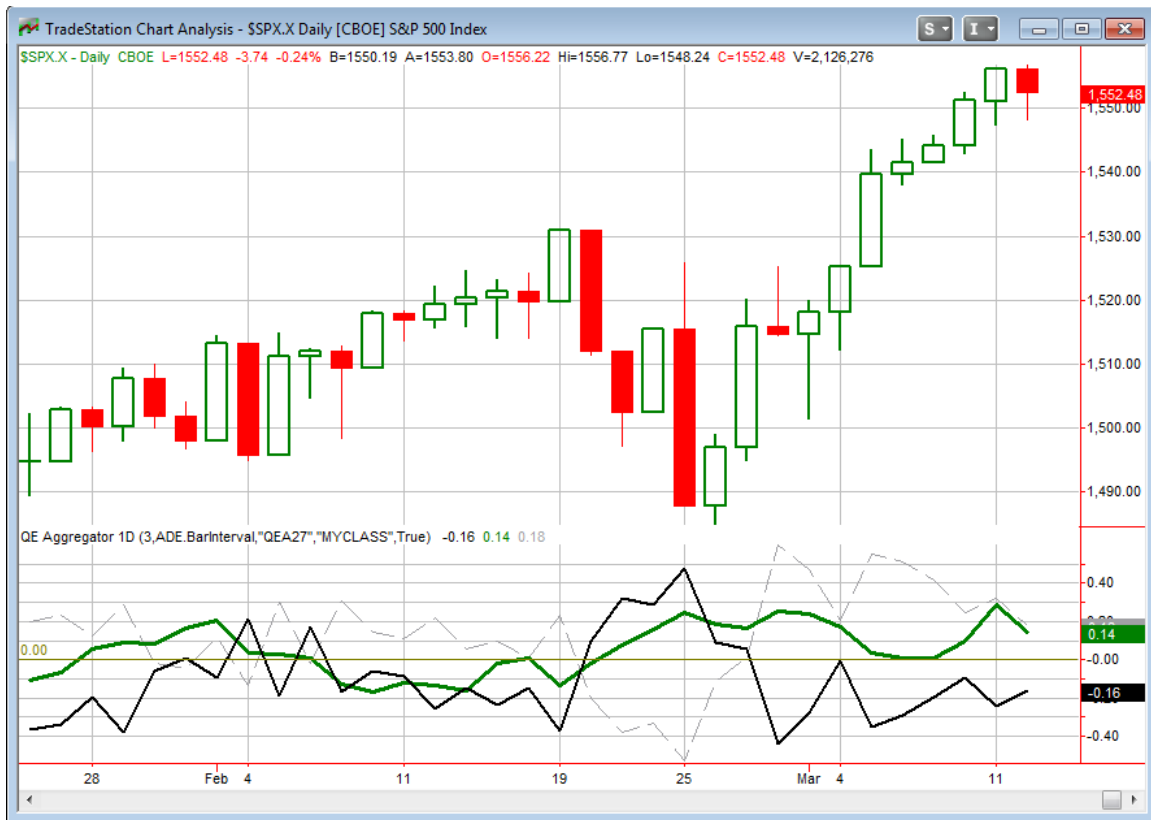
There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



The strong upslope has gotten even stronger lately. This study also appears worthy of consideration.

Both of these studies are similar in that they consider the persistent move higher prior to the 1<sup>st</sup> down day. Since they are so similar I have simply lumped them together as one study for purposes of inclusion in the Aggregator.

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



With nothing but bullish studies showing up for the short-term the green Aggregator Line is still strongly 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 short-term studies, expectations are set to remain bullish on Wednesday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1,552.83 on Wednesday. An inverted pivot means that the Differential Line will cross 0 if SPX closes flat. In this case the pivot is only 0.35 SPX points above Tuesday's close. So SPX will remain overbought on just about any close higher, and will turn oversold with any down close.

So with short-term studies pointing higher right now it appears that the Aggregator could produce a long signal tomorrow if it closes lower for a 2<sup>nd</sup> day. I won't anticipate too much here, but there stands a good chance I'll be considering long exposure in tomorrow's letter on a down close. Nothing yet, though.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 3/11 – bullish***

The Intermediate-term Outlook was last updated in the 3/11 Letter. Link below:

[2013-03-11 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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