

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 15, 2013

Volume 6 Issue 51

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- 10 days above the 5ma and a new 10-day high suggest the market is due for a brief pullback.
- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.
- Opex Friday has done poorly over the years from open to close.

Short-term Outlook

The Bottom Line

A bearish case can be built. I'm not inclined to try and take advantage of it except for a day trade. Fighting such strong liquidity and momentum has been extremely difficult in this environment, so I won't take on anything with the intention of holding over the weekend.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 15, 2013	Top 10% 10-day range. Opex tmrw.	1-5 days	Bearish	-1.80%
March 15, 2013	SPY > 5ma 10 days. Today 10-high	1-2 days	Bearish	-1.10%
March 14, 2013	20 low volume and high close	1-3 days	Bearish	-1.30%
March 13, 2013	Pullback from persistent upmove	1-4 days	Bullish	1.30%
Active - Long Term				
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	
Dropped Tonight				
March 11, 2013	March OpEx seasonally strong	1-4 days	Bullish	1.70%

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

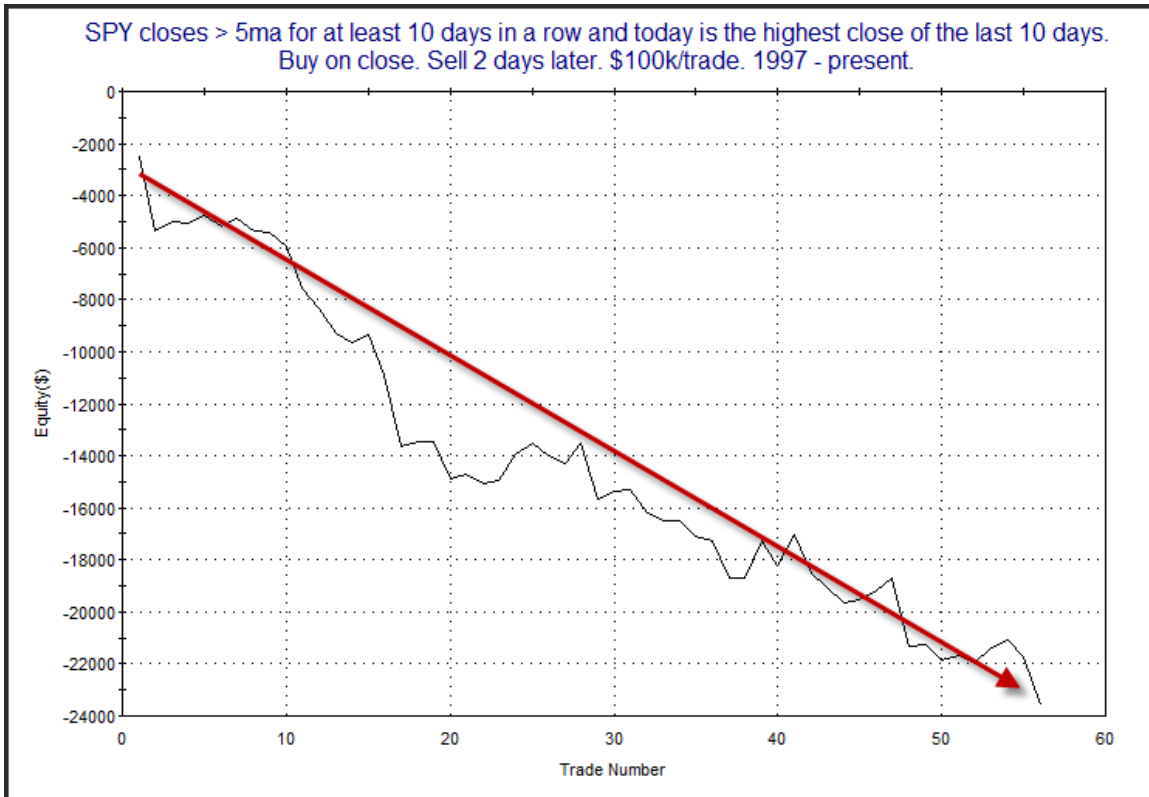
The Evidence

The grind up continues as new highs were posted again Thursday. The SPX gained 0.6%, the Nasdaq closed up 0.4%, and the Russell 2000 rose 1.0%. Breadth was positive as the NYSE Up Issues % was 66% and the Up Volume % came in at 74%. Total NYSE volume rose some from Wednesday's level.

SPY has now gone 12 days without closing below its 5ma. That's an unusually long period of time to hold above such a short-term moving average. The study below was last seen in the 8/17/12 subscriber letter. It looked at other instances in which the market had traded above the 5ma for at least 2 weeks and was now closing at a 10-day high. All results are updated.

SPY closes > 5ma for at least 10 days in a row and today is the highest close of the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-12,925.26	39	21	18	53.85	738.86	2,516.52	-1,580.07	-4,014.40	0.47	0.55	-331.42
4	-19,243.31	42	17	25	40.48	657.75	1,428.90	-1,217.01	-3,723.20	0.54	0.37	-458.17
3	-19,763.54	49	17	32	34.69	610.90	1,294.25	-942.15	-3,235.65	0.65	0.34	-403.34
2	-23,569.16	56	23	32	41.07	389.09	1,392.65	-1,016.19	-2,870.40	0.38	0.28	-420.88
1	-22,638.28	79	32	47	40.51	292.19	1,134.24	-680.60	-2,817.32	0.43	0.29	-286.56
88% of instances closed below the entry price at some point in the next week.												

In the past this setup has almost always been followed by a short-term pullback. The downside edge doesn't last long, though. It seems to pretty much play itself out over the first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



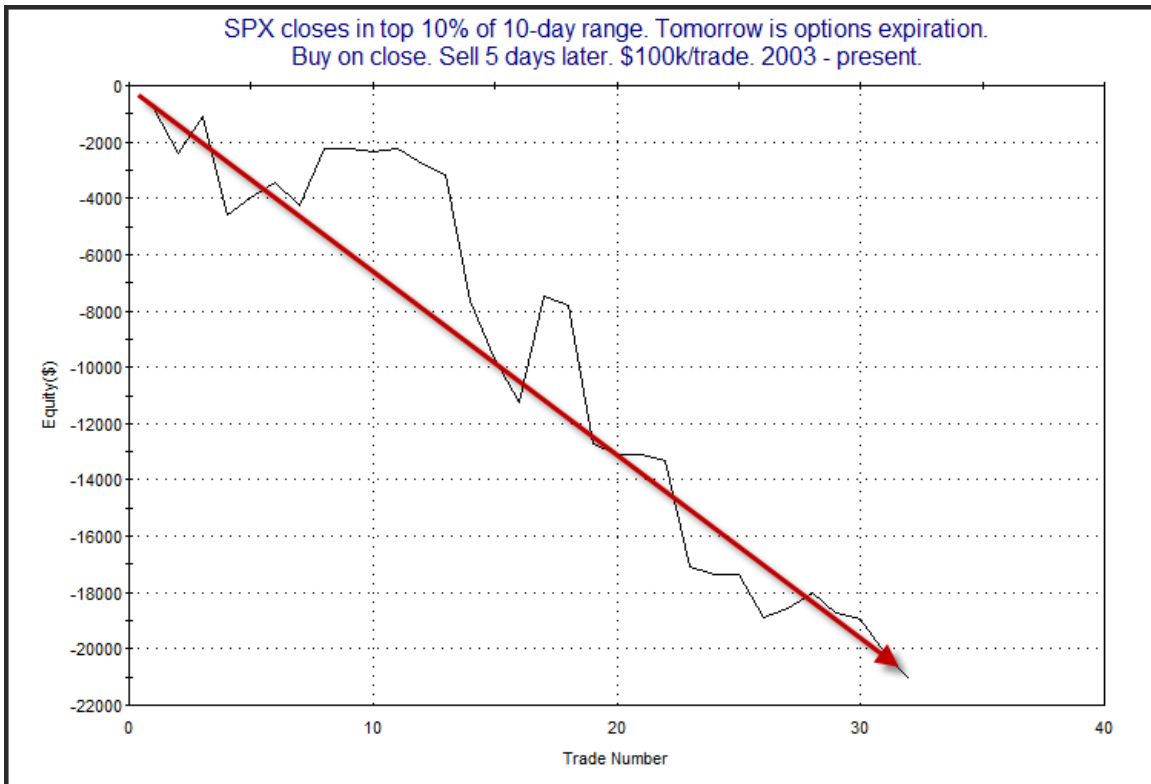
The strong steady downslope seems to confirm the bearish edge.

This next study also appeared in the 8/17/12 subscriber letter. It looks at times the market closed at a high level just before options expiration. It generally has been a bad time for an overbought market.

SPX closes in top 10% of 10-day range. Tomorrow is options expiration.
Buy on close. Sell X days later. \$100k/trade. 2003 - present.

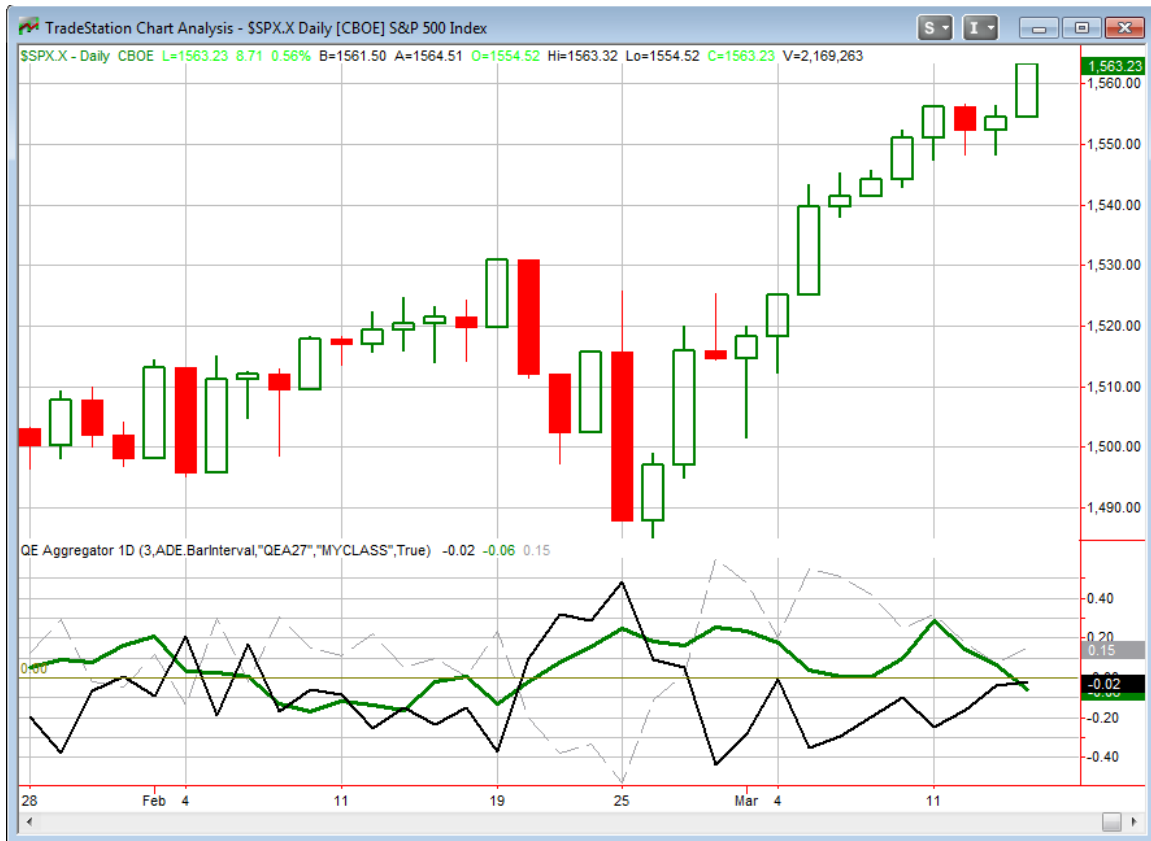
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-21,097.45	32	10	22	31.25	920.01	3,768.30	-1,377.16	-4,932.90	0.67	0.30	-659.30
4	-18,941.72	32	12	20	37.50	803.95	1,994.25	-1,429.46	-2,899.20	0.56	0.34	-591.93
3	-10,131.35	32	16	16	50.00	641.91	2,166.00	-1,275.12	-2,828.70	0.50	0.50	-316.60
2	-9,589.11	32	19	13	59.38	458.69	1,588.40	-1,408.01	-3,784.65	0.33	0.48	-299.66
1	-3,444.09	32	18	14	56.25	371.56	2,286.84	-723.73	-2,875.60	0.51	0.66	-107.63

The numbers here are fairly compelling. To confirm the downside edge, I also produced a profit curve. The profit curve is based on a 5-day holding strategy.



The curve would seem to confirm the downside edge and suggests we are entering a period of possible seasonal weakness.

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



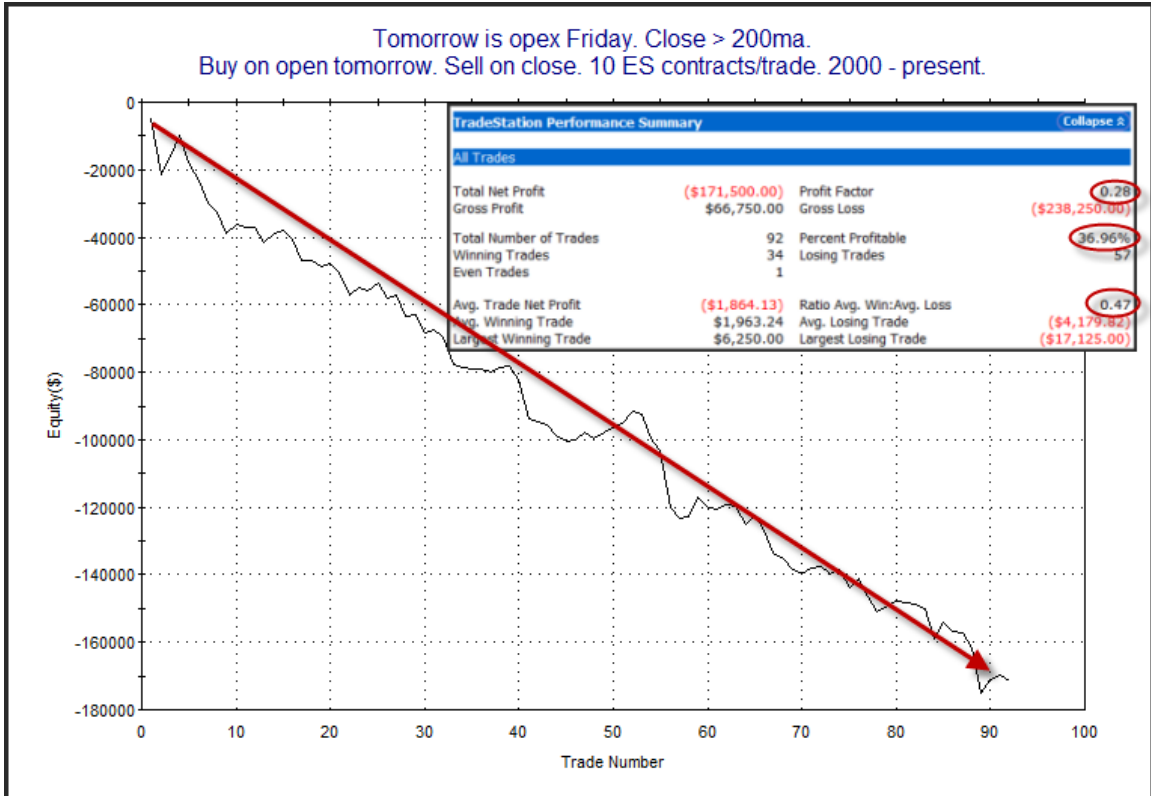
Tonight's bearish studies help drop the green Aggregator Line down below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remains slightly below 0. The negative reading means the SPX is overbought versus recent expectations. So expectations are bearish and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator system to change from flat to short at the close.

Based on the current short-term studies, expectations are set to remain bearish on Friday. Of course this could change if compelling bullish evidence emerges. The Differential Pivot will be 1,560.61 on Friday. This is just 0.2% below Thursday's close. So it would only take a small decline of this amount on Friday to turn the SPX from overbought to oversold.

The strong QE Buying Power Index has kept me from attempting swing short positions since 2013 began, and to this point that has been a very fortunate thing. But evidence here is getting tempting. I gave it a bit of thought tonight, and while I decided not to take a swing trade, I may look to daytrade short tomorrow if the market gaps up. This is not a trade I will list in the trade ideas section nor officially track, simply because that can

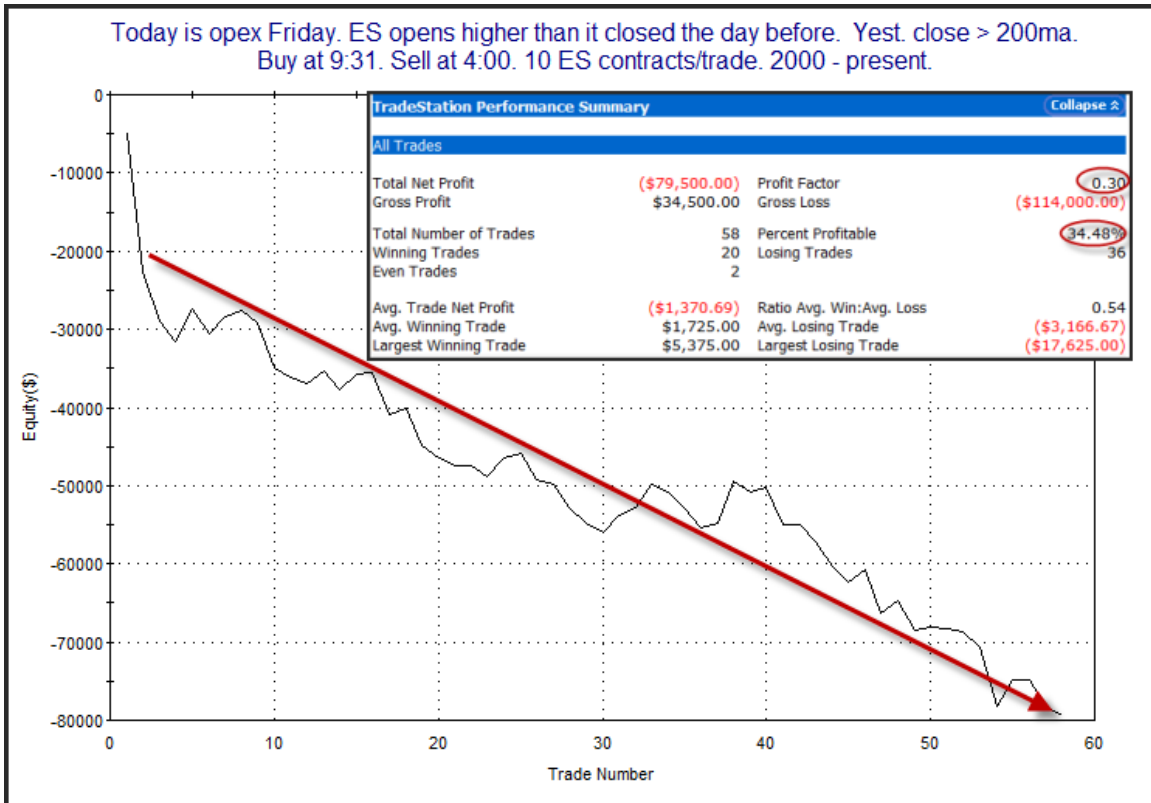
sometimes be difficult for a daytrade when using a subscriber letter as the primary means of communication. But there is a case to be made for a short trade on Friday.

In addition to the fact that the Aggregator is giving a bearish signal, opex Friday has historically performed very poor intraday. The chart below shows performance of buying the open and selling the close in ES for every opex Friday when Thursday closed above the 200ma.



Both the stats and the chart suggest a sizable downside edge.

And here is how it looks if you bought at 9:31 if it gapped up and then sold at 4pm;



Similar stats and curve to the previous study. So there may be a bit of a downside edge for Friday. I won't be tracking an "official" trade idea in the letter, since I anticipate a day trade. But I may personally take a short if the market gaps up.

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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