

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 21, 2013

Volume 6 Issue 55

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Flat

Tonight's Research Points

- Gap-n-go action on a Fed Day has often been followed by pullbacks.
- XIV's term structure remains favorable even after Wednesday's futures roll.

Short-term Outlook

The Bottom Line

The bounce on Wednesday came as expected. We could get more tomorrow, but the market will quickly become overbought if we do. I am not looking to add more exposure tonight, but simply manage the longs I already hold.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 21, 2013	Gap-n-go on a Fed Day	1-2 days	Bearish	-1.40%
March 20, 2013	3 dn. Tomorrow Fed Day	1-3 days	Bullish	2.00%
March 20, 2013	3 down from 50 < 10ma > 10-low	1-4 days	Bullish	1.80%
March 19, 2013	1st 5-day low in over 2 weeks	1-4 days	Bullish	1.60%
March 19, 2013	2 unfilled gaps dn. 5-low. Close > 200.	1-5 days	Bullish	1.80%
March 18, 2013	Unfill gap up then gap dn from 20-hi.	1-7 days	Bearish	-2.20%
March 15, 2013	Top 10% 10-day range. Opex tmrw.	1-5 days	Bearish	-1.80%
Active - Long Term				
March 13, 2013	5 days up to 50-high, then 1 down	1-10 days	Bullish	2.00%
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.

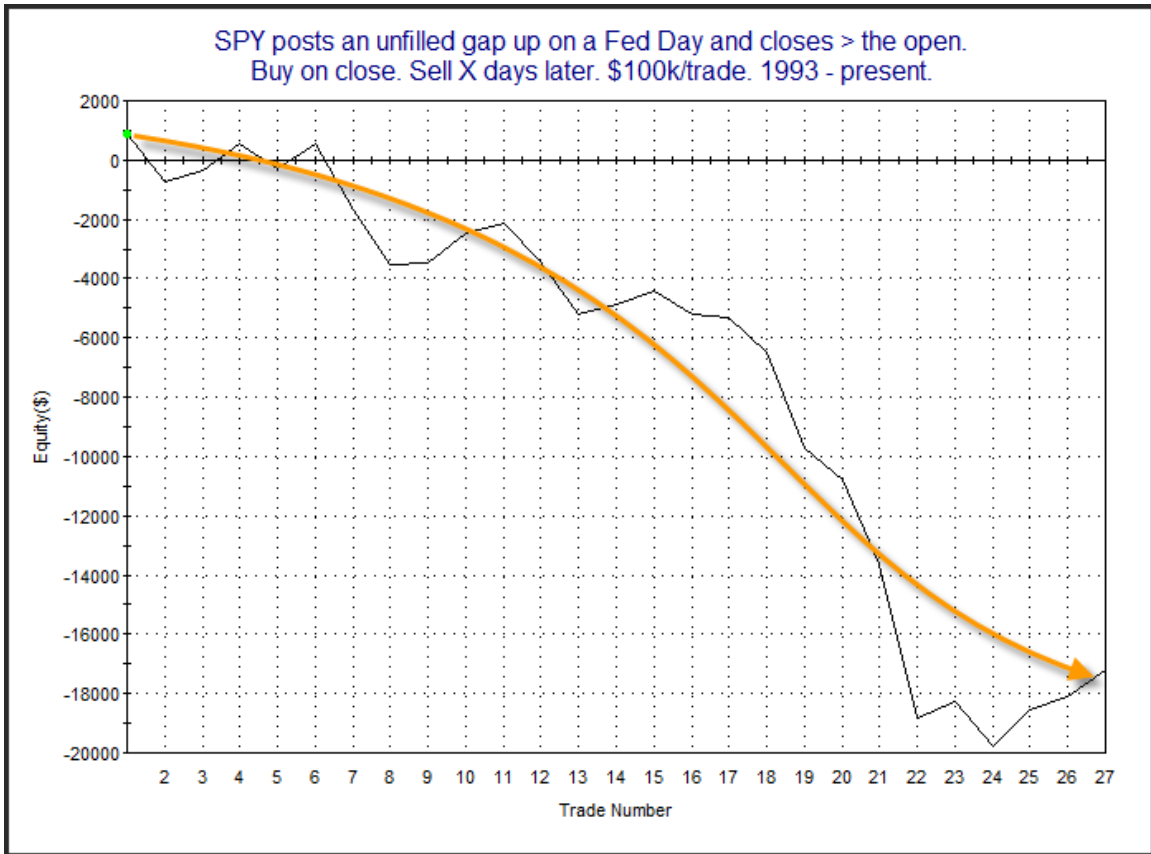
The Evidence

The market put in a fairly strong showing on Wednesday, bouncing back some from the losses of the last 2 days. The SPX gained 0.7%, the Nasdaq rose 0.8% and Russell 2000 rallied 1.0%. Breadth was strongly positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 76%. Total NYSE volume dipped a bit from Tuesday's level.

Not a lot triggered tonight from a studies standpoint. But action in SPY was notable because it gapped up to start the day and continued higher without ever filling that gap. When such action has occurred on a Fed Day in the past it has often been followed by a pullback. This is something I showed in the 4/26/12 subscriber letter. The results table below is updated.

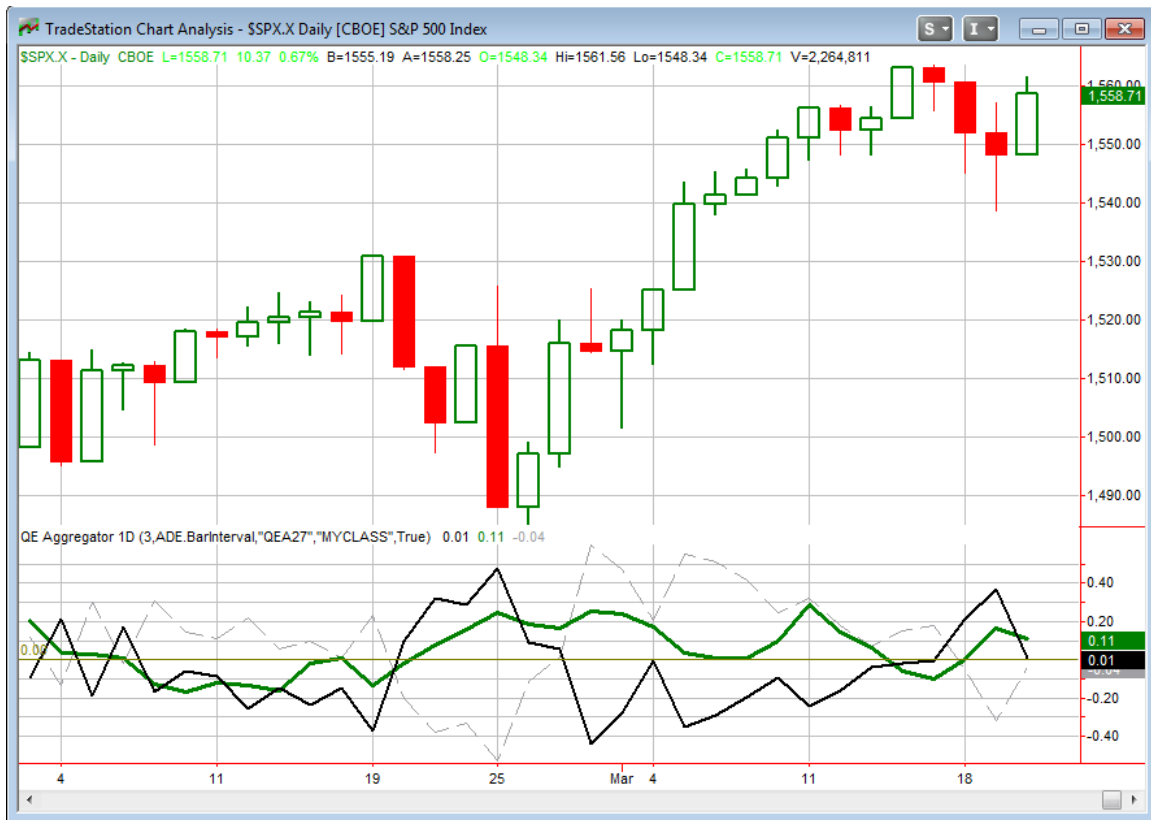
SPY posts an unfilled gap up on a Fed Day and closes > the open. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-23,132.45	27	11	16	40.74	1,095.65	5,434.00	-2,199.04	-6,223.36	0.50	0.34	-856.76
4	-9,216.53	27	15	12	55.56	1,254.66	3,637.92	-2,336.36	-5,244.16	0.54	0.67	-341.35
3	-17,848.39	27	11	15	40.74	930.24	3,992.56	-1,872.07	-5,502.64	0.50	0.36	-661.05
2	-17,224.22	27	13	14	48.15	637.38	1,200.94	-1,822.15	-5,216.64	0.35	0.32	-637.93
1	-9,771.01	27	11	16	40.74	525.71	1,821.56	-972.11	-3,248.96	0.54	0.37	-361.89

The statistics suggest a moderate 1-2 day downside edge. Below is a profit curve that assumes a 2-day holding period.



The last 3 trades have not been typical. I plan to keep a close eye on this study, but I'll keep it in the rotation for now and have included it on the Active List.

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



Despite tonight's bearish study the green Aggregator Line is holding firmly above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line just barely missed crossing down through 0. And if you were watching SPX at the close, you would have seen that the last few ticks were VERY close to the Differential Pivot of 1,559.10. But SPX closed just barely below there. The positive Differential Line means the SPX is still oversold versus recent expectations. So expectations are bullish and the SPX is (barely) oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator system to remain long at the close.

Based on the current short-term studies, expectations are set to remain bullish on Thursday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be inverted at 1,544.54 on Thursday. This is 0.9% *below* Wednesday's close. An inverted pivot means that the Differential Line will cross zero if SPX closes flat. So in this case, SPX will need to decline over 0.9% in order to remain oversold. Anything short of that would lead to an overbought reading.

If I am long with the Differential Pivot inverted it will normally mean I'll look to take profits at some point during the day. Unfortunately, neither of my SPY long entries the last 2 days were filled. So I have no need to worry about profit taking in SPY. But I am

long XIV and GOOG. GOOG is a simple Catapult trade and I will update targets on that in the Trade Ideas section at the bottom of the letter. But XIV is a little more interesting, so I'll discuss that a little bit here.

I talked in some detail in Sunday's letter about the reasons for buying XIV. Essentially, I felt 1) the market was getting primed for a bounce, and if it came that would likely mean a decline in the VIX. And 2) VIX futures term structure was very favorable, with an 18% contango between the 1st and 2nd month. (For more explanation on this please refer to Sunday's letter.).

Monday and Tuesday while the market was struggling with Cyprus and the upcoming Fed meeting the VIX rose and contango shrunk. But on Wednesday the term structure improved again. Contango generally steepens as VIX futures near expiration. Then when they roll it will often shrink quite a bit. Futures rolled Wednesday morning. And by Wednesday's close contango was back above 10%. That is a strong amount of contango for a new roll. It suggests to me that the term structure backdrop is still favorable for our long XIV position.

The Aggregator is still bullish. And the intermediate-term outlook is as well. (Of course with the Differential Pivot inverted we expect the Aggregator chart to turn neutral on Thursday.) So the environment seems favorable for our XIV position. Which means I may look to ride this trade for a while. I may take partial profits if we get a nice bump, and I may also look to incorporate a trailing stop. XIV trades sometimes need to be managed closely because of the extreme volatility the security is susceptible to. But to get out of the entire position at this point I will require *at least* one of the following 3 things to happen:

- 1) Contango shrinks below 7% or 8%.
- 2) The Aggregator turns short-term *bearish*. (Negative expectations and an overbought Differential reading.)
- 3) The intermediate-term outlook is no longer bullish.

Of course further deterioration of the situation in Cyprus could cause a sharp VIX spike. So in the next few days there is a good chance I will incorporate partial profit taking and trailing stops as I mentioned above.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/18 – bullish

The intermediate-term outlook was last updated in the 3/18 letter. Link below:

[2013-03-18 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

GOOG – 1/3 @ \$807.79 (filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(GOOG)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/18/2013	\$22.02	\$23.16	5.18%		Aggressive VIX
GOOG(1/3)	3/19/2013	\$807.79	\$814.71	0.86%		Catapult

GOOG has bounced mildly the last couple of days. It won't take much more for it to hit its target. A close higher of \$2.00 would do it on Thursday. I may send out an intraday update if it looks like it will trigger an exit. The standard exit is the morning after the exit trigger. Sometimes I like to get out at the close the day of the exit trigger. And that may be the case Thursday if the market and GOOG are both higher.

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