

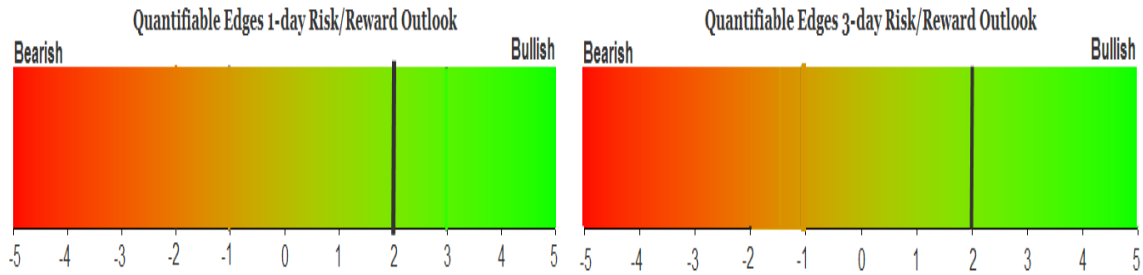
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 22, 2013

Volume 6 Issue 56

Market Overview



Signals Overview

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

Tonight's Research Points

- The unfilled gap up followed by the unfilled gap down could lead to more selling.

Short-term Outlook

The Bottom Line

Some bearish evidence tonight could not quite turn expectations. The Aggregator is bullish. I am leaning long and looking to add some small additional exposure on Friday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 22, 2013	Unfill gap up then gap dn	1-3 days	Bearish	
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%
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	
Dropped Tonight				
March 15, 2013	Top 10% 10-day range. Opex tmrw.	1-5 days	Bearish	-1.80%

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

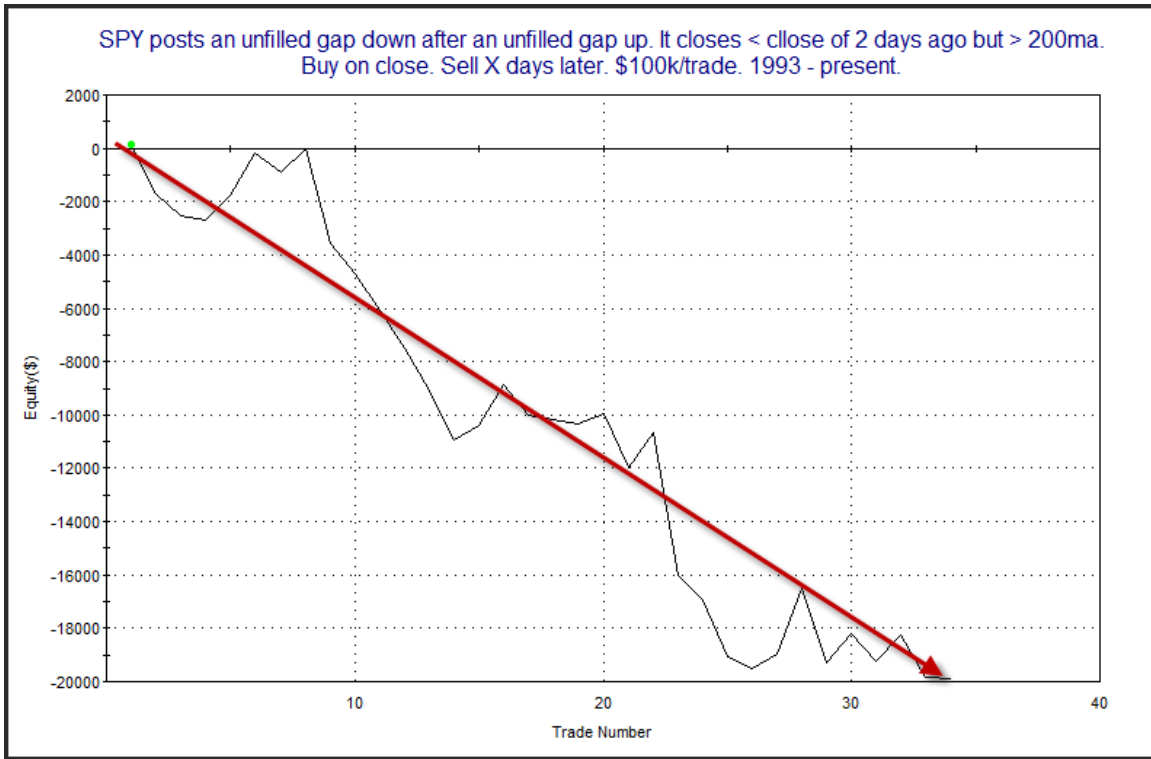
The Evidence

The market seems to be getting choppier by the day. Thursday saw selling. The SPX and Russell 2000 each lost 0.8% while the Nasdaq fell 1.0% Breadth was squarely negative as the NYSE Up Issues % was 34% and the Up Volume % came in at 23%. Total NYSE volume fell for the 2nd day in a row.

After posting an unfilled gap up Wednesday, Thursday's unfilled gap down triggered a study last seen in the 4/24/12 Subscriber Letter. I have updated that study below.

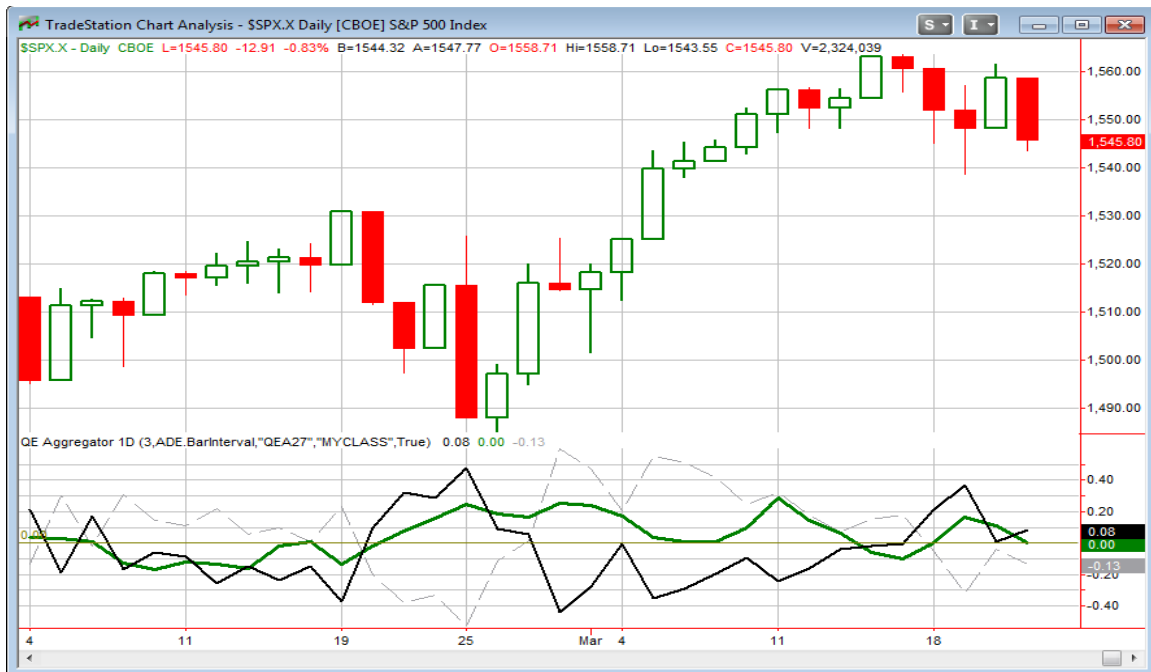
SPY posts an unfilled gap down after an unfilled gap up. It closes < cclose of 2 days ago but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-2,397.40	31	14	17	45.16	1,480.83	3,949.59	-1,360.53	-3,791.20	1.09	0.90	-77.34
4	-3,384.30	32	13	19	40.63	1,561.42	3,637.58	-1,246.46	-4,926.08	1.25	0.86	-105.76
3	-19,908.83	34	12	22	35.29	1,021.42	2,463.47	-1,462.08	-5,321.00	0.70	0.38	-585.55
2	-15,538.50	34	13	20	38.24	852.04	1,754.40	-1,330.75	-3,893.00	0.64	0.42	-457.01
1	-1,054.78	34	16	17	47.06	513.58	1,325.15	-545.41	-1,564.50	0.94	0.89	-31.02

These results suggests a short-term bearish edge that effectively exhausts itself after 3 days. Right now everyone that bought late on Wednesday is stuck in a losing position, and they had no chance to get out with a profit on Thursday. Additional pressure could get them to throw in the towel, an act that may have led to this apparent edge in the past. Below is a profit curve that assumes a 3-day exit strategy.



Certainly it has been choppy, but the trend has been down for a long time and it is currently at new lows. This study appears worthy of inclusion on the Active List.

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



Despite tonight's bearish study the green Aggregator Line held *just barely* above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held above 0. (I should note that I had a bad SPX price in my spreadsheet last night which caused the Differential Pivot to calculate wrong. I did not realize it until tonight when I ran this chart and then went back and fixed the spreadsheet. So apologies for any confusion with regards to the Differential Line. I was confused too until I realized my mistake.) The positive Differential Line means the SPX is still oversold versus recent expectations. So expectations are (barely) bullish and the SPX is again 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 *turn bearish* on Friday. Of course this could change if more bullish evidence emerges. The Differential Pivot will be 1,549.34 on Friday. This is just 0.2% above Thursday's close. So for SPX to move from oversold to overbought will only take a small rally on Friday.

The Aggregator is suggesting a bullish edge remains for the time being, but that edge could easily turn bearish on Friday if the market does rally. While a rally on Friday seems more likely, investors could get worried and bail ahead of the weekend with fear of Cyprus news on their minds. Should that happen, I will likely look to take on some long SPY exposure early next week, assuming some bullish studies arise. I did decide to look to the Triggers Sheet on the Systems page for a trade idea tonight. Details are in the trade ideas section below.

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.

BRF – buy @ \$40.38 limit. This was listed on the systems triggers spreadsheet. It is based on system 110524, which (re)triggered on Thursday. It has also closed down 9 days in a row and appears extremely overdue to bounce. I intend to manage it as a 110524 trade.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/18/2013	\$22.02	\$22.50	2.18%		Aggressive VIX
GOOG(1/3)	3/19/2013	\$807.79	\$811.26	0.43%		Catapult

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