

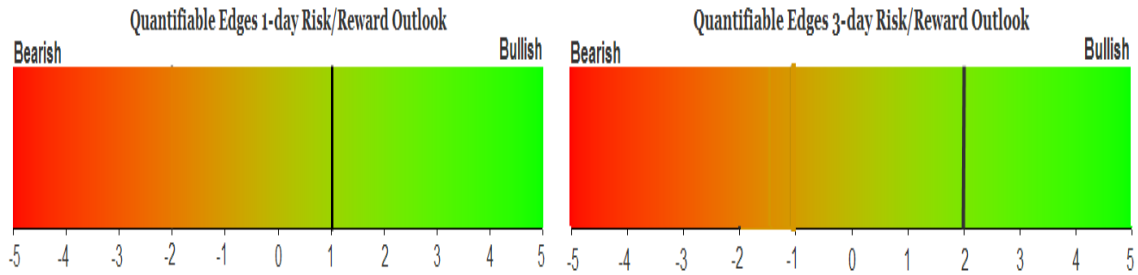
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 2, 2013

Volume 6 Issue 62

Market Overview



Signals Overview

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

Tonight's Research Points

- SPX down < 1% from 50-day high on 2:1 negative breadth has often led to 1-2 more days of selling.

Short-term Outlook

The Bottom Line

Despite a new bearish study emerging on Monday, the overall expectations remain bullish. And SPX now off its highs, there appears to be an upside edge.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 2, 2013	Broad but weak drop from 50-day high	1-2 days	Bearish	-1.60%
April 1, 2013	Early April strong	1-4 days	Bullish	2.00%
March 27, 2013	Low volume breakout	1-5 days	Bullish	
Active - Long Term				
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.

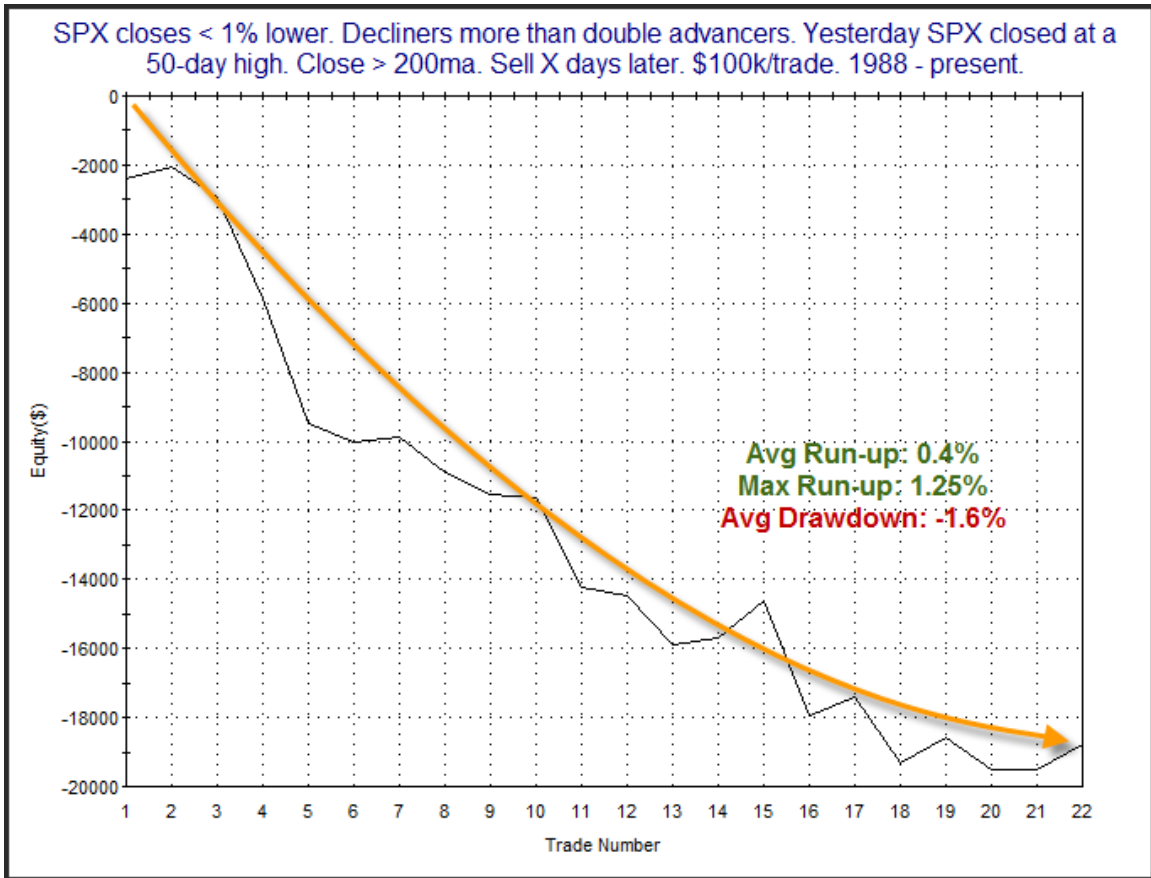
The Evidence

The market pulled back a little on Monday. The SPX dropped 0.5%, the Nasdaq fell 0.9% and the Russell 2000 declined 1.3%. Breadth was squarely negative as the NYSE Up Issues % was 30% and the Up Volume % came in at 24%. Total NYSE volume came quite a bit lower than Monday.

The Quantifinder showed some studies, but most were not overly compelling. But there was one worth a close look. Large-caps definitely held up better than the rest of the market today. Coming from a 50-day high, this caused the study below to trigger. It was last seen in the 9/18/12 letter. Stats are all updated.

SPX closes < 1% lower. Decliners more than double advancers. Yesterday SPX closed at a 50-day high. Close > 200ma. Sell X days later. \$100k/trade. 1988 - 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	-3,437.07	21	13	8	61.90	714.88	2,181.96	-1,591.31	-2,538.28	0.45	0.73	-163.67
4	-8,193.96	22	10	12	45.45	756.04	1,232.88	-1,312.86	-3,709.52	0.58	0.48	-372.45
3	-17,509.17	22	6	16	27.27	418.90	1,098.37	-1,251.41	-3,721.09	0.33	0.13	-795.87
2	-18,777.35	22	7	15	31.82	539.78	1,077.12	-1,503.72	-3,611.48	0.36	0.17	-853.52
1	-14,636.78	22	6	16	27.27	557.00	832.48	-1,123.67	-3,794.40	0.50	0.19	-665.31

The implication here is that when the SPX is coming off a high level and it holds up relatively well despite broad selling, it will often have further to drop. The selling in the broad market could spill over into the large caps. There's a chance they could even play catch-up to the downside. The good news for bulls here is that the bearish inclinations have only lasted a couple of days. In addition to the edges suggested by the “% profitable” and the “avg trade” columns, the win:loss ratio is also strongly skewed. Risks appears to far outweigh reward. Below is a profit curve using a two day exit strategy.



The downmove was fairly steady until the last few instances, which have caused the curve to flatten a bit. Still, this study appears worthy of consideration. The stats shown on the chart are especially impressive, with downside risks swamping upside reward as the results table seemed to imply.

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



Despite the bearish study being added tonight the green Aggregator Line managed to hold above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose sharply and also closed above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are bullish and the SPX is 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 turn long at the close.

Based on the current studies, expectations are slated to remain bullish on Tuesday. Of course that could change if more bearish evidence emerges. The Differential Pivot will be 1,566.78 on Tuesday. This is just 0.3% above Monday's close. So it would not take much of a rally to move SPX back into overbought territory.

I like the long side here. Of course with tonight's study, it suggests we could get a little more selling before we actually get a bounce. So I will wait until tomorrow to add SPX exposure. But there is something I like even more than SPX at the moment, and that is XIV. I had a quick XIV trade a couple of weeks ago that managed a small profit. Tonight I will look to again take on a partial position in XIV. Below are the reasons that I view XIV as favorable right now:

- 1) Front month futures contango is fairly strong, at about 8%.
- 2) The VIX is currently a little above its 10-day ma, leaving room for it to decline.
- 3) The Aggregator is suggesting a directional market edge, and if SPX does rally as expected, this will likely be accompanied by a decline in the VIX.

There are a number of presentations available on the Videos page of the website that look at trading VIX-based ETFs. I'd recommend subscribers check them out if this subject interests them. But for those that are not quite sure what I am referring to above, below are a few bullet points copied from the 3/18/13 letter:

- *XIV & VXX are ETNs that look to change price along with VIX futures. VXX trades in the direction of the VIX (or more specifically – VIX futures), while XIV trades inversely to it. From here out to keep the conversation simple, I will only refer to XIV (since that is where I am seeing opportunity currently).*
- *XIV's price is impacted by 2 factors: 1) Movement of VIX futures each day, and 2) The spread between the 1st and 2nd month futures.*
- *The spread between the futures is important because XIV seeks to maintain a constant maturity. So each day the portfolio is rolled. This means that 1/30th of XIV's futures holding are changed each day. 2nd month futures are shorted, and front month futures are covered.*
- *The larger the spread between the 2 months the more positive the impact on XIV – it is essentially buying low and selling high when 2nd month futures are priced high above the 1st month (also known as contango).*

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/1 – bullish

The intermediate-term outlook was last updated in the 4/1 letter. Link below:

[2013-04-01 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.

XIV – buy ½ position @ \$23.00 Limit. If filled – place a stop at \$20.75. This is based on the short-term outlook above. XIV trades can be especially volatile. I will use a stop with this one in case of a sharp move lower.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BRF	3/22/2013	\$40.38	\$40.18	-0.50%		sell @ \$40.38 limit on CLS

BRF will trigger an exit on a close \geq \$40.38.

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