

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 5, 2012

Volume 5 Issue 3

Market Overview



Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Flat	50% Long XIV	Flat	Flat

Tonight's Research Points

- When SPY has closed up just slightly but in the top of the day's range that has suggested a downside tendency the next day.

Short-term Outlook

The Bottom Line

While there appears to be a slight downside edge for Thursday, it's just a 1-day edge. I'm overall neutral for the short-term and not looking to take on index exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
January 5, 2012	SPY up < 0.25%. Close in top 10%.	1 day	Bearish	
January 4, 2012	SPY strong day but weak finish	1-3 days	Bullish	
January 4, 2012	2 of 3 days Up Issue %>75. 10-high.	1-6 days	Bullish	2.50%
January 3, 2012	Overbought w/out POMO support	1-5 days	Bearish	-2.70%
December 28, 2011	5 Days Up > 200 no 50-high	1-10 days	Bullish	2.00%
Active - Long Term				
January 4, 2012	2 of 3 days Up Issue %>75. 10-high.	1-18 days	Bullish	
December 28, 2011	5 Days Up > 200 no 50-high	1-15 days	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
October 30, 2011	SPX & bond yields hit 50-day highs	1-50 days	Bearish	
October 19, 2011	FTD on strong breadth/20day high	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

Bears made an effort Wednesday morning but the market bottomed out around 10:45am and then drifted higher for the rest of the day. In the end indices were mixed. The SPX closed up a very mild 0.02% while the Nasdaq fell 0.01% and the Russell 2000 lost 0.7%. Breadth was also mixed as the NYSE Up Issues % came in at 49% and the Up Volume % was 50.5%. Total NYSE volume dipped from Tuesday’s level.

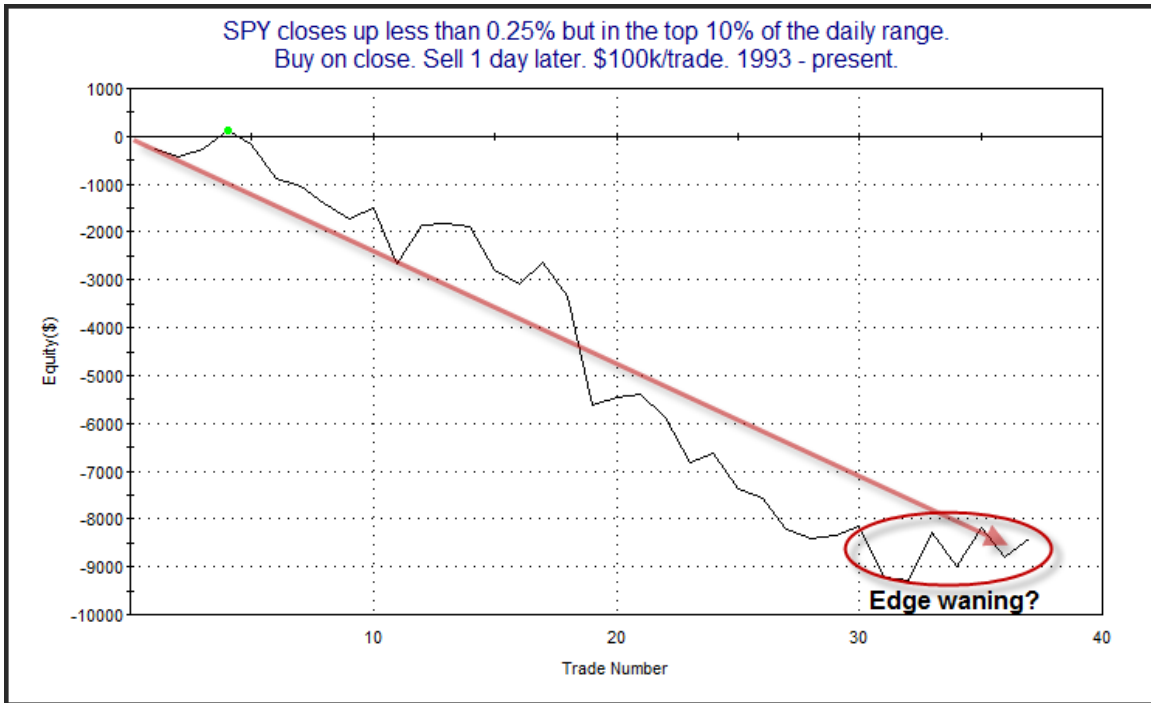
The non-action didn’t spark much research tonight but there was one notable study worth reviewing.

Last night I showed some studies that suggested a poor finish to the day can often be a short-term bullish omen. Tonight I’ll review a study that shows the inverse is also true. Under certain circumstances a strong finish will suggest short-term weakness.

The study below was last seen in the 1/26/11 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closes up less than 0.25% but in the top 10% of the daily range. 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	-1,307.78	35	19	16	54.29	1,655.76	4,981.25	-2,047.95	-7,456.80	0.81	0.96	-37.37
4	-4,222.92	35	18	17	51.43	1,204.31	3,458.98	-1,523.56	-6,548.60	0.79	0.84	-120.65
3	-7,031.64	35	20	15	57.14	898.94	2,988.75	-1,667.37	-5,771.28	0.54	0.72	-200.90
2	-3,487.47	36	17	17	47.22	840.19	2,829.35	-1,045.33	-5,305.80	0.80	0.80	-96.87
1	-8,413.75	37	14	23	37.84	356.09	1,015.84	-582.57	-2,290.72	0.61	0.37	-227.40

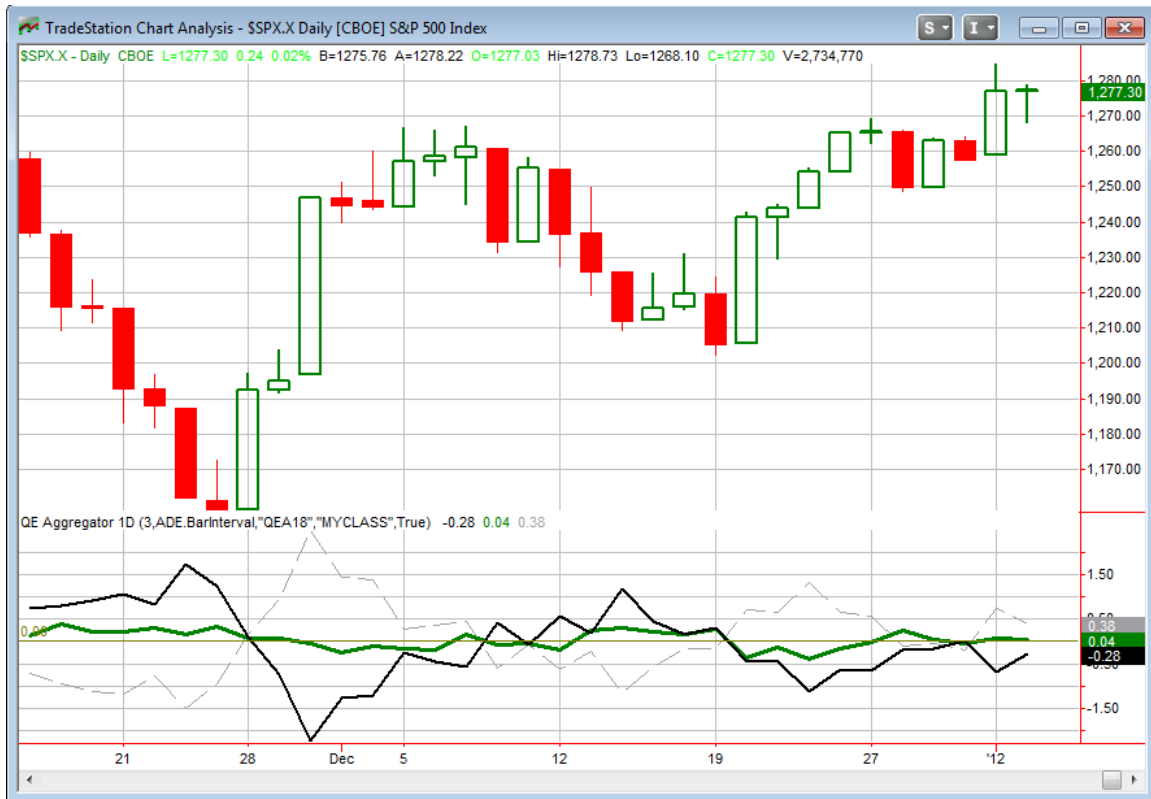
As you can see, the bearish inclination appears to max out after just 1 day. Below is a profit curve showing how the edge has played out over time.



While a bit choppy there has always been a bit of a downside inclination. Recent results have simply shown sideways chop, though. I'll still treat this as a bearish edge, but will keep a close eye on the right side of the chart.

So tonight's mildly bearish study is being added to the mix of studies already in the Active List from the last few days.

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



Despite tonight's bearish study the green Aggregator Line remained positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line held firm below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are still bullish but the SPX remains overbought versus recent expectations. 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. This was indicated on the systems page before the bell.

Based on the current active studies, expectations are scheduled to remain positive on Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,260.66 on Thursday. This is 1.3% below Wednesday's close. So the SPX will need close down quite a bit on Thursday for the Differential line to rise back into positive territory.

Bullish and bearish evidence played to a draw on Wednesday, and the studies remain mixed with a bullish lean. But with the SPX overbought and the Aggregator System still neutral I am not looking to trade here. It is worth noting that the 1-day Risk/Reward Reading at the top of the letter is negative. This is because, while 3-day expectations are positive, expectations for just tomorrow are moderately negative. It's not a substantial

enough (or lengthy enough) edge for me to want to play it, though. I'll continue to exercise patience before taking on new index exposure.

There was one Catapult signal that triggered on Wednesday. I have listed it below in the Catapult & CBI section. It's a little unusual to see this happen with the market hitting new short-term highs. I don't expect this is going to expand into a large cluster of signals anytime soon.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/3 – neutral

The intermediate-term outlook was last updated in the 1/3/12 letter. It may be accessed using the link below:

[2012-01-03 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

MO – buy 1/3 @ \$28.40 limit

Catapult for ETF's Trades

None.

Broad Market Large Cap CBI – 1 (MO)

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.

***MO – buy 1/3 Catapult position @ \$28.40 limit.** This is from the Catapult section above. For those that are new to Catapults, you may want to check out the Catapult & CBI Presentation (linked to in that section). Catapults tend to be very volatile. The exit parameters are not public, but I will alert subscribers when the exit trigger is hit and the trade idea will be closed out the next day. Those that would rather design their own exit strategy (or use an alternate exit strategy that I lay out) should check out the Catapult Exit Designer on the “Downloads” page.*

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	11/21/2011	\$4.91	\$6.99	42.36%	\$6.25	may exit if Agg "short"

Note on individual membership privileges and Quantifiable Edges copyrighted material, as well as a NEW REWARDS PROGRAM

I would also like to offer a brief reminder to subscribers that the Subscriber Letter and the information contained on the Quantifiable Edges website is copyrighted material. Unless you own a corporate subscription, membership privileges are for a single person only. They are not to be shared among friends, co-workers, or trading buddies. If you find information in a certain letter to be especially interesting or think it may appeal to someone you know, please shoot me a quick note asking if it is ok to forward it. I don't believe I have ever denied such a request, and will be happy to oblige as long as it is not something that is occurring with frequency. Subscribers who are found to be forwarding the letter without permission or providing login and password information to others will have their subscription privileges revoked without refund. (Yes, I can see the IP addresses of the computer each time a user logs in.)

Free trials have always been available on Quantifiable Edges and if you know someone who you believe would have an interest in the work done here, all they need to do is sign up at the website and they can get a trial that would include some sample letters.

I am always happy to answer questions from subscribers and trial subscribers, but this does take a large amount of time and effort on my part. I will NOT spend time answering questions from people who ask about copyrighted information that do not have a subscription.

I am sorry for wasting many of your time with this reminder. I would much prefer spending my time researching trading ideas and improving the website rather than researching copyright violations and writing reminders such as this. But an occasional reminder is necessary.

The Quantifiable Edges subscriber base on the whole is wonderful, and a good portion of trialers and new subscribers say they were referred by a friend. I don't want to discourage subscribers from sharing a good piece of information every once in a while that might attract a new subscriber. I do want to discourage abuse of membership privileges. So on a positive note, I'd like to announce a new program designed to encourage permissible sharing.

Referral Rewards Program

The way it works is simple. If someone signs up for a gold subscription (monthly or annual) and they name you as the person who referred them to Quantifiable Edges, you will be refunded back your next monthly payment (if you are a monthly subscriber). Annual subscribers will either get a refund of a 1-month equivalent or they will have their membership extended 1 month. I will put a detailed description of this policy in the members site so that people may be reminded and refer to it at any time.

Feel free to contact me with any questions/comments.

Best,
Rob

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2011 Hanna Capital Management, LLC.