

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 2, 2012

Volume 5 Issue 22

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Long

## Tonight's Research Points

- The tight consolidation after making a new high has the SPX set up for another leg higher.

## Short-term Outlook

### The Bottom Line

The Aggregator has moved to neutral but the evidence is suggesting we could see more upside. I've taken partial profits and will look to ride the rest.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
February 2, 2012	50-high then 5-day consolidation	1-3 days	Bullish	1.10%
February 1, 2012	Selloff at month end	1-5 days	Bullish	2.35%
February 1, 2012	SPX down. Up Issues % > 55%.	1-2 days	Bullish	
January 31, 2012	SPX 1st close < 10ma in under 25 days	1-4 days	Bullish	1.80%
January 31, 2012	SPY 3-day pullback. Today is Monday.	1-4 days	Bullish	2.30%
January 26, 2012	SPX 100-day high on Fed Day	1-6 days	Bullish	1.60%
<b>Active - Long Term</b>				
February 2, 2012	50-high then 5-day consolidation	1-10 days	Bullish	2.30%
January 31, 2012	SPX 1st close < 10ma in under 25 days	1-20 days	Bullish	4.70%
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	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

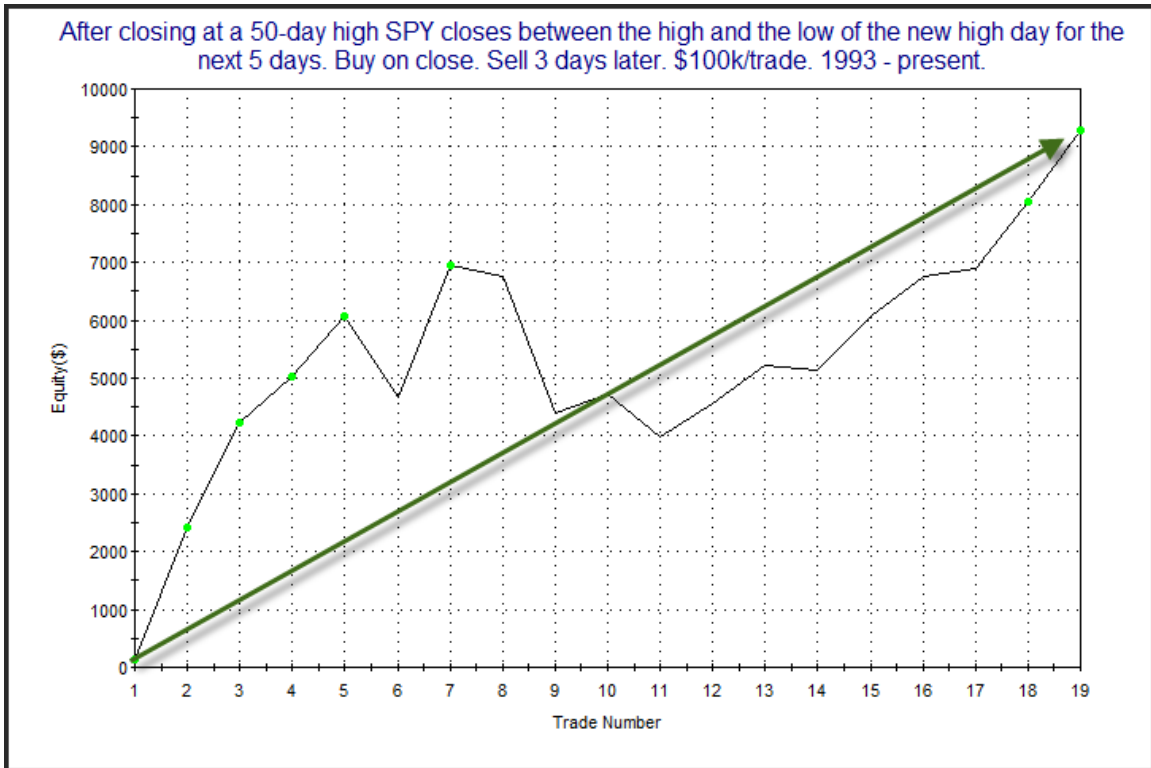
Over the last few days we've seen evidence related to breadth, seasonality, price action, momentum and the Fed all suggest a pop was likely. Wednesday we saw price react to all this buildup in a positive way. The market gapped up and continued to rally throughout the morning and early afternoon. Unfortunately some late-day selling cut into the gains. The SPX ended with a 0.9% gain, while the Nasdaq rallied 1.2% and the Russell 2000 rose 2.1%. Breadth was squarely positive as the NYSE Up Issues % came in at 82% and the Up Volume % was 84%. Total NYSE volume dipped a little from Tuesday's level.

After closing at a new high on the 1/25/12 Fed Day, the SPY has consolidated in a tight, sideways range. Every close in the 5 days since was within the daily range of that 1/25 bar. It is said that consolidations are often resolved in the direction of the trend. This guideline suggests that we're more likely to see another leg up from here than a breakdown. In the 10/4/10 subscriber letter I put this to the test. I have updated those results below.

After closing at a 50-day high SPY closes between the high and the low of the new high day for the next 5 days. 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
10	26,614.43	19	16	3	84.21	2,031.79	6,287.04	-1,964.71	-5,182.56	1.03	5.52	1,400.76
9	22,432.85	19	17	2	89.47	1,489.10	6,322.56	-1,440.95	-2,251.44	1.03	8.78	1,180.68
8	20,761.25	19	16	3	84.21	1,575.12	6,287.04	-1,480.21	-2,060.28	1.06	5.68	1,092.70
7	14,302.77	19	14	5	73.68	1,561.09	5,339.84	-1,510.50	-3,472.29	1.03	2.89	752.78
6	5,000.09	19	12	7	63.16	1,199.11	3,362.56	-1,341.32	-2,992.38	0.89	1.53	263.16
5	7,493.00	19	10	9	52.63	1,430.76	3,031.04	-757.17	-2,425.20	1.89	2.10	394.37
4	10,009.51	19	12	7	63.16	1,203.47	2,806.08	-633.16	-1,541.60	1.90	3.26	526.82
3	9,294.74	19	14	5	73.68	1,007.03	2,296.96	-960.73	-2,368.80	1.05	2.93	489.20
2	3,120.18	19	12	7	63.16	720.12	1,817.10	-788.75	-1,627.93	0.91	1.57	164.22
1	98.92	19	10	9	52.63	574.80	1,433.49	-627.68	-1,100.97	0.92	1.02	5.21

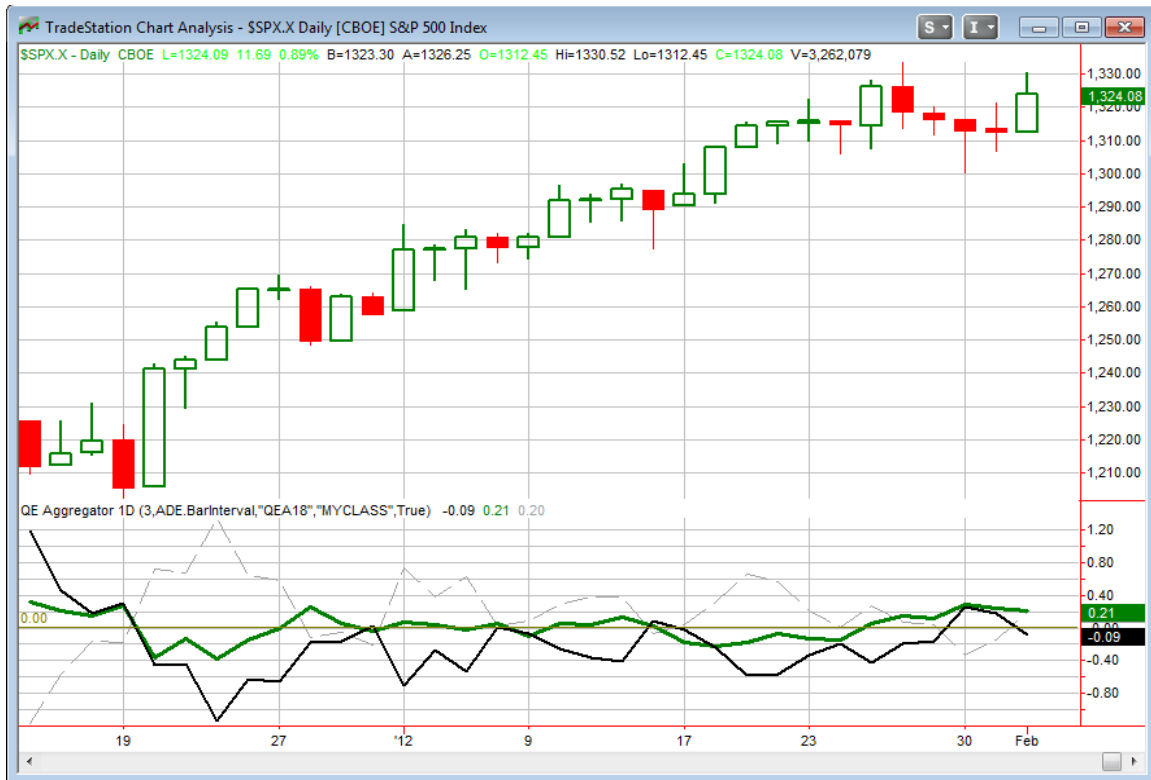
**- 16 of 19 instances (84%) closed above the entry price at some point in the next 3 days.**  
**- All instances closed above the entry price at some point in the next 2 weeks.**  
**- 16 of 19 instances also posted a new 50-day high at some point in the next 2 weeks.**

It certainly appears the old technical adage has some merit. Results favor the long side over the immediate 3-day period and they are even more impressive when looking out 8 to 10 days. And with 84% of instances seeing a new closing high within the next 2 weeks I'd say this past week's action seems to favor the bulls for the short-term. Below is an equity curve to see how the edge has played out over time.



While mostly up the curve is a bit choppy. Of the 5 losses, two of them were fairly large. This suggests perhaps a little more risk in this setup than in some others we examine. Over the 3-day period the average run-up was 1.1% and the average drawdown was 0.8%. That is a comparatively large drawdown. It isn't very surprising though. Risks tend to be higher when you are trading near the upper end of a range. And a tight consolidation near a 50-day high seems to qualify. All considered, I still find this study appealing and believe it is worth considering over both very short and intermediate-term timeframes.

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



With all the short-term evidence still bullish the green Aggregator line is strongly positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line dipped just slightly below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are bullish but the SPX is 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 change from long to flat at the close. This was indicated as likely on the systems page before the bell.

Based on the current active studies, expectations are scheduled to remain positive on Thursday. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,320.21 on Thursday. This means the SPX will need to drop about 0.3% in order to turn the Differential Line positive.

The market rallied just enough to work off the oversold condition, but not much more. This turned the Aggregator neutral. But with expectations positive, and all the short-term studies suggesting we should still see more of a rise, I think it is worth trying to ride what is left of my long position a little bit further. If it gets strongly overbought, or short-term evidence begins to turn, then I may quickly bail. But for now, let's see if this bounce is good for additional upside.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 1/30 – bullish***

The intermediate-term outlook was last updated in the 1/30/12 letter. A link is below:

[2012-01-30 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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/30/2012	\$131.37	\$132.47	0.84%	\$131.37	<i>sold 1/2 on close</i>

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