

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 8, 2012

Volume 5 Issue 26

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- A 50-day high, an inside day, and then another 50-day high have often been followed by a pullback.
- High-volume outside days that close at a 50-day high also often lead to selling.

Short-term Outlook

The Bottom Line

The Aggregator is now bearish and I have a mild downside bias. I will look to take on some short exposure Wednesday at the right price.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
February 8, 2012	Outside day to a 50-high on volume	1-2 days	Bearish	
February 8, 2012	50-high. Inside day. 50 high	1-2 days	Bearish	
February 7, 2012	60-day low SPY range > 200ma	1-6 days	Bearish	
February 7, 2012	Low vol drop from 50-high	1-6 days	Bearish	
February 7, 2012	Unfill Gap Up 20-high then unfill gap dn	1-6 days	Bearish	
February 7, 2012	RSI(2) > 90 on down day > 200ma.	1-2 days	Bullish	
February 6, 2012	Up Issues % > 75% 2 of 3. 10 high.	1-6 days	Bullish	2.60%
Active - Long Term				
February 6, 2012	Up Issues % > 75% 2 of 3. 10 high.	1-16 days	Bullish	4.70%
February 2, 2012	50-high then 5-day consolidation	1-10 days	Bullish	2.30%
February 1, 2012	Golden Cross	int term	Bullish	
January 31, 2012	SPY 1st close < 10ma in over 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

A morning dip was followed by an afternoon rally and the indices finished mixed. The SPX rose 0.2% and the Nasdaq rose 0.1%, but the Russell 2000 declined 0.1%. Breadth was mildly positive as the NYSE Up Issues % came in at 56% and the Up Volume % was 53%. Total NYSE volume was somewhat light, but still higher than Monday.

After Friday’s move to a new high, Monday put in an inside day. With Tuesday closing at another new high the study below triggered. It was last seen in the 1/18/11 subscriber letter. I have updated all statistics.

After closing at a 50-day high 2 days ago, SPY posts an inside day yesterday and then closes at a new high again today. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-16,519.69	13	2	11	15.38	669.18	1,176.56	-1,623.46	-3,754.10	0.41	0.07	-1,270.75
4	-10,382.34	13	4	9	30.77	730.59	1,138.36	-1,478.30	-5,106.46	0.49	0.22	-798.64
3	-8,526.10	13	6	7	46.15	472.81	1,367.56	-1,623.28	-3,417.34	0.29	0.25	-655.85
2	-9,713.69	13	2	11	15.38	910.28	911.40	-1,048.57	-2,737.00	0.87	0.16	-747.21
1	-5,125.66	13	1	12	7.69	282.68	282.68	-450.69	-1,405.62	0.63	0.05	-394.28

Stats here suggest a bearish inclination following action similar to the last 3 days. One day later the market has declined 12 of 13 times. Below I have listed all 13 instances

After closing at a 50-day high 2 days ago, SPY posts an inside day yesterday and then closes at a new high again today.
Buy on close. Sell X days later. \$100k/trade. 1999 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/08/99	Buy	\$127.75	(0.95%)	\$0.00
01/11/99	Sell	\$126.53		(\$1,978.46)
03/15/99	Buy	\$131.22	(0.38%)	\$335.28
03/16/99	Sell	\$130.72		(\$571.50)
11/18/99	Buy	\$142.63	(0.09%)	\$238.34
11/19/99	Sell	\$142.50		(\$441.63)
08/28/00	Buy	\$151.77	(0.12%)	\$72.38
08/29/00	Sell	\$151.59		(\$565.88)
06/22/05	Buy	\$121.57	(1.41%)	\$24.66
06/23/05	Sell	\$119.86		(\$1,430.28)
07/14/05	Buy	\$122.91	(0.06%)	\$105.69
07/15/05	Sell	\$122.84		(\$447.15)
07/22/05	Buy	\$123.54	(0.28%)	\$331.69
07/25/05	Sell	\$123.19		(\$558.21)
05/09/06	Buy	\$132.62	(0.05%)	\$98.02
05/10/06	Sell	\$132.55		(\$550.42)
11/22/06	Buy	\$140.92	(0.40%)	\$0.00
11/24/06	Sell	\$140.35		(\$510.48)
10/09/07	Buy	\$156.48	(0.17%)	\$0.00
10/10/07	Sell	\$156.22		(\$683.73)
05/06/09	Buy	\$92.14	(1.39%)	\$1,095.85
05/07/09	Sell	\$90.86		(\$2,018.10)
08/04/10	Buy	\$112.97	(0.11%)	\$0.00
08/05/10	Sell	\$112.85		(\$787.65)
02/03/11	Buy	\$130.78	0.28%	\$320.88
02/04/11	Sell	\$131.15		(\$420.20)
Avg Run-up: 0.2% Avg Drawdown: -0.84%				

Risk/reward here heavily favors the short side. The average drawdown is over 4 times the size the average run-up. Also notable is that every instance saw drawdown of at least 0.4% the next day, but only 1 of the 13 instances saw run-up of at least 0.4%. With all this in mind I believe this study worthy of inclusion on the Active Studies List.

This next study was from the 2/4/11 subscriber letter. It takes into consideration a number of observations that many would consider bullish. This includes an outside day and a 50-day high on rising volume. All stats are updated.

SPY posts an outside day and closes at a 50-day high. Yesterday it closed < 50-day high.
Volume rises. 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	-12,253.15	20	10	10	50.00	1,026.40	2,590.50	-2,251.71	-4,473.36	0.46	0.46	-612.66
4	-5,876.60	20	10	10	50.00	1,187.34	2,371.65	-1,775.00	-4,518.34	0.67	0.67	-293.83
3	-8,014.46	20	9	11	45.00	1,180.94	2,927.90	-1,694.81	-5,133.72	0.70	0.57	-400.72
2	-7,568.65	20	6	14	30.00	803.30	2,324.90	-884.89	-3,640.86	0.91	0.39	-378.43
1	-5,125.05	20	8	12	40.00	480.85	918.96	-747.65	-2,448.72	0.64	0.43	-256.25

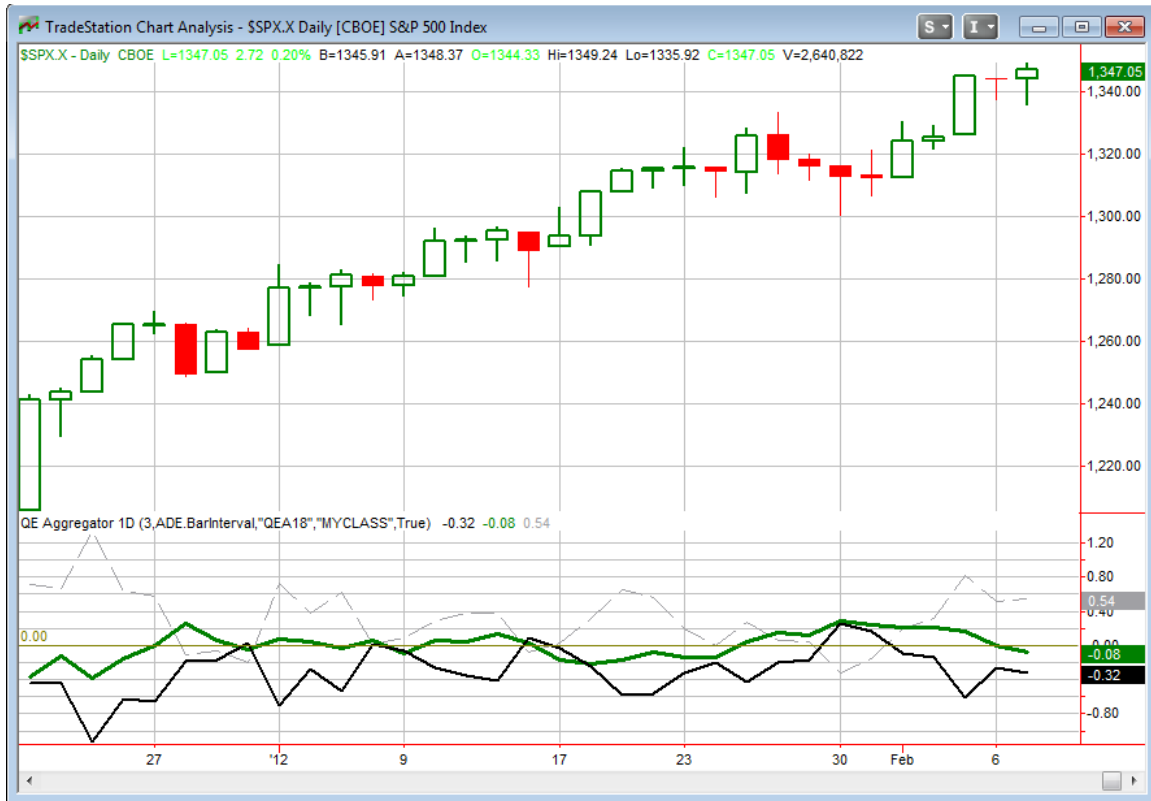
Rather than combining for a bullish edge it appears the scenario above has often been followed by brief downside. The most consistently bearish results occurred in the 2-day timeframe. I have listed below all instances using a 2-day exit.

SPY posts an outside day and closes at a 50-day high. Yesterday it closed < 50-day high. Volume rises. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/16/94	Buy	\$46.65	(0.43%)	\$192.87
08/18/94	Sell	\$46.45		(\$514.32)
11/28/95	Buy	\$60.57	0.56%	\$1,056.00
11/30/95	Sell	\$60.91		\$0.00
05/22/96	Buy	\$68.19	(0.03%)	\$366.50
05/24/96	Sell	\$68.17		(\$952.90)
01/21/97	Buy	\$78.28	(0.68%)	\$1,800.57
01/23/97	Sell	\$77.75		(\$1,749.49)
05/20/97	Buy	\$84.47	(0.56%)	\$603.33
05/22/97	Sell	\$84.00		(\$1,076.53)
05/30/97	Buy	\$85.28	(0.98%)	\$257.84
06/03/97	Sell	\$84.44		(\$1,101.68)
02/20/98	Buy	\$103.66	(0.40%)	\$568.76
02/24/98	Sell	\$103.25		(\$694.08)
07/16/98	Buy	\$118.53	(0.10%)	\$590.10
07/20/98	Sell	\$118.41		(\$497.37)
03/21/00	Buy	\$149.19	2.33%	\$2,867.60
03/23/00	Sell	\$152.66		(\$335.00)
05/16/01	Buy	\$128.95	0.61%	\$875.75
05/18/01	Sell	\$129.74		(\$658.75)
11/06/02	Buy	\$93.04	(3.64%)	\$0.00
11/08/02	Sell	\$89.65		(\$3,780.48)
04/22/03	Buy	\$91.34	0.02%	\$1,104.94
04/24/03	Sell	\$91.36		(\$415.72)
01/21/04	Buy	\$115.10	(0.58%)	\$243.04
01/23/04	Sell	\$114.43		(\$998.20)
03/05/04	Buy	\$116.38	(1.62%)	\$206.16
03/09/04	Sell	\$114.50		(\$1,838.26)
11/08/06	Buy	\$138.91	(0.48%)	\$165.37
11/10/06	Sell	\$138.24		(\$855.61)
02/20/07	Buy	\$146.04	(0.12%)	\$259.92
02/22/07	Sell	\$145.87		(\$595.08)
05/30/07	Buy	\$153.48	0.39%	\$598.92
06/01/07	Sell	\$154.08		(\$234.36)
05/06/08	Buy	\$142.05	(2.03%)	\$0.00
05/08/08	Sell	\$139.16		(\$2,158.21)
02/03/11	Buy	\$130.78	0.91%	\$1,237.68
02/07/11	Sell	\$131.97		(\$420.20)
10/18/11	Buy	\$122.58	(0.75%)	\$407.50
10/20/11	Sell	\$121.66		(\$2,249.40)

As was implied by the stats table, results here appear fairly consistent as well. So tonight's evidence all seems to be pointing downward.

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



With tonight's studies factored in the green Aggregator line dipped into negative territory. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line is still well below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are bearish and the SPX is overbought versus recent expectations. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator System to change from flat to short at the close.

Based on the current active studies, expectations are scheduled to remain negative on Wednesday. This could change if strong bullish evidence emerges. Meanwhile, the Differential Pivot will be inverted at 1,352.82 on Wednesday. An inverted pivot means that the Differential line will flip if the market closes flat the next day. So in the current

case, in order for the Differential line to remain negative the SPX will need to rise over 0.4%.

The inverted pivot makes the setup a little dicey. It is somewhat limiting on profits because any down close (and some up closes) will trigger an exit signal on Wednesday. Still, there is ample bearish evidence and the QE Buying Power Index will be turning negative at the close on Wednesday, which could lead to a further increase in bearish evidence. Trades like this could be handled a number of different ways. I plan to look for a short entry at a level above the Differential Pivot. This greatly reduces the chances that I would be quickly stopped out on Wednesday at a loss. And with the QE Buying Power Index turning negative Wednesday there is a chance I will look to add to this short position on Thursday. With this being both a counter-trend trade and counter to my intermediate-term outlook, it is unlikely I will build more than a ½ size position.

Intermediate-term Outlook (2 weeks – 2 months)– updated 2/6 – bullish

The intermediate-term outlook was last updated in the 2/6 letter. Use the link below to access it:

[2012-02-06 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.

SPY – short ¼ index position @ \$135.39 LIMIT. Based on short-term outlook above. I will look to take a small short position if the SPX trades to this level, which is around the Differential Pivot. .

Current Open Trade Ideas

None

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