

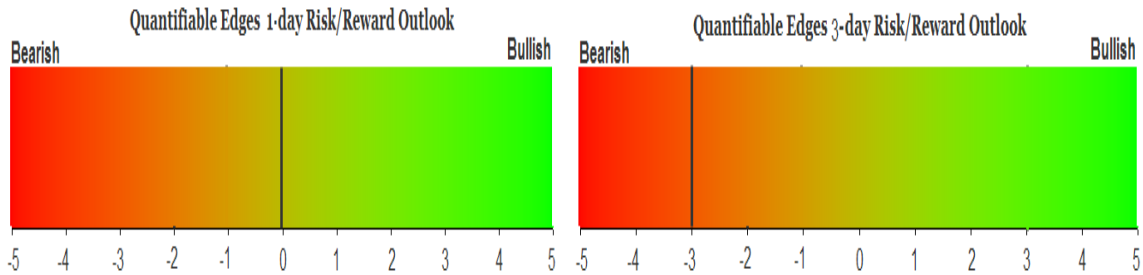
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 21, 2012

Volume 5 Issue 161

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Consistent closes near the upper end of the day's range have often led to downside over the next few days.
- When an overbought market pulled back as little as it did today, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.

## *Short-term Outlook*

### *The Bottom Line*

The outlook remains bearish. I have a small short position. I will add another small short position on Tuesday if the market closes even a point higher.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
August 20, 2012	8-day avg %R > 75	1-2 days	Bearish	
August 20, 2012	SPX lower but RSI(2) > 90	1-2 days	Bullish	
August 17, 2012	SPY high close before OpEx	1-5 days	Bearish	-1.80%
<b>Active - Long Term</b>				
August 16, 2012	SPY 50-high on 20-low vol	1-10 days	Bearish	
August 15, 2012	SPY 50-high then 5-day inside range	1-10 days	Bullish	
August 10, 2012	SPX & TNX 50-day highs.	1-20 days	Bearish	
July 30, 2012	SPX 50-day high on 90% up vol	1-50 days	Bullish	
July 16, 2012	POMO modestly bullish	int term	Bullish	
June 13, 2012	FTD with modest breadth & vol	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
August 18, 2012	VIX:VXV < 0.85. SPX 50-high	1 day	Bearish	
August 17, 2012	SPY > 5ma for 10 days. 10-high today.	1-2 days	Bearish	-1.20%

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

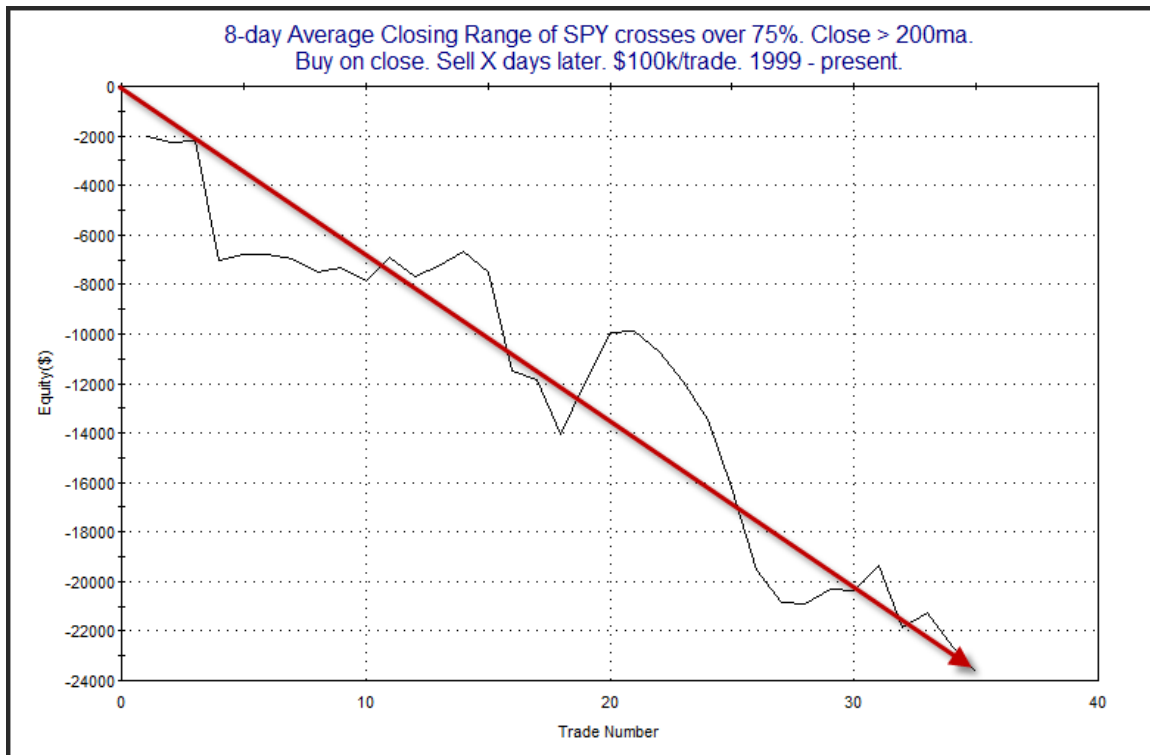
**The Evidence**

As it has done for most of the last 2 weeks the stock market imitated a statement savings account on Monday. The SPX lost 0.03 measly points (but SPY gained \$0.01), the Nasdaq fell 0.38 points (or -0.01%), and the Russell 2000 actually moved a little with a drop of 0.4%. Breadth was moderately negative as the NYSE Up Issues % was 43% and Up Volume % came in at 48%. Volume again came in very light.

The market has seen a lot of finishes near the top of its daily range lately. When the market consistently closes near the high of the day it suggests optimism on the part of traders. This end-of-day optimism is now at a level that suggests it is a bit overdone and there is a good chance of a pullback. The study below was last seen in the 2/13/12 subscriber letter and it exemplifies this concept. I have updated all of the statistics.

8-day Average Closing Range of SPY crosses over 75%. Close > 200ma. 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	-25,534.51	30	14	16	46.67	949.66	2,426.72	-2,426.86	-4,637.61	0.39	0.34	-851.15
4	-21,435.97	30	13	17	43.33	997.68	2,907.88	-2,023.87	-4,807.86	0.49	0.38	-714.53
3	-20,478.42	31	12	19	38.71	833.67	2,604.54	-1,604.34	-3,618.23	0.52	0.33	-660.59
2	-23,626.14	35	12	23	34.29	746.67	2,186.14	-1,416.79	-4,848.40	0.53	0.27	-675.03
1	-9,739.56	35	15	20	42.86	332.24	1,029.30	-736.16	-2,738.12	0.45	0.34	-278.27

While the downside edge appears to remain in place for a full week, most of the edge has been realized over the 1<sup>st</sup> 2 days. Below is an equity curve showing how the edge has played out using a 2-day exit strategy.



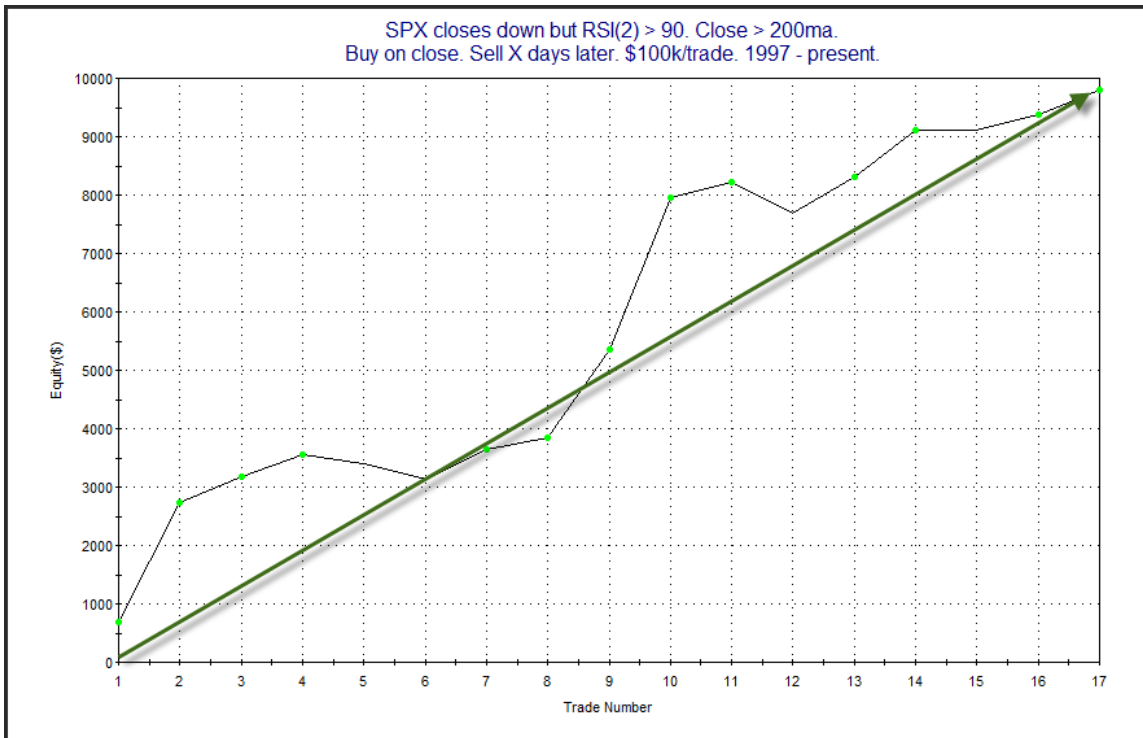
It hasn't always been a consistent edge but it has moved from upper left to lower right and it appears well worthy of consideration.

But for the first time in several days there was one study that triggered tonight that suggested bullish implications. The recent string of positive closes has some oscillators strongly overbought short-term. With such a small decline on Monday the SPX is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a very sensitive indicator so it would take a very small decline from a very overbought position in order for it to remain above 90 on a down day. This is what happened on Monday. It therefore triggered the below study from the 2/7/12 letter, which I have updated.

SPX closes down but RSI(2) > 90. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1997 - 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: Avg Trade
5	3,457.28	15	6	9	40.00	1,771.65	4,121.28	-796.96	-2,008.73	2.22	230.49
4	5,215.95	16	9	7	56.25	1,208.11	3,806.46	-808.15	-1,717.70	1.49	326.00
3	11,058.97	17	11	6	64.71	1,139.00	2,923.44	-245.01	-409.17	4.65	650.53
2	9,793.15	17	13	4	76.47	827.49	2,619.76	-241.05	-525.07	3.43	576.07
1	5,206.32	17	14	3	82.35	460.67	2,310.88	-414.34	-704.76	1.11	306.25

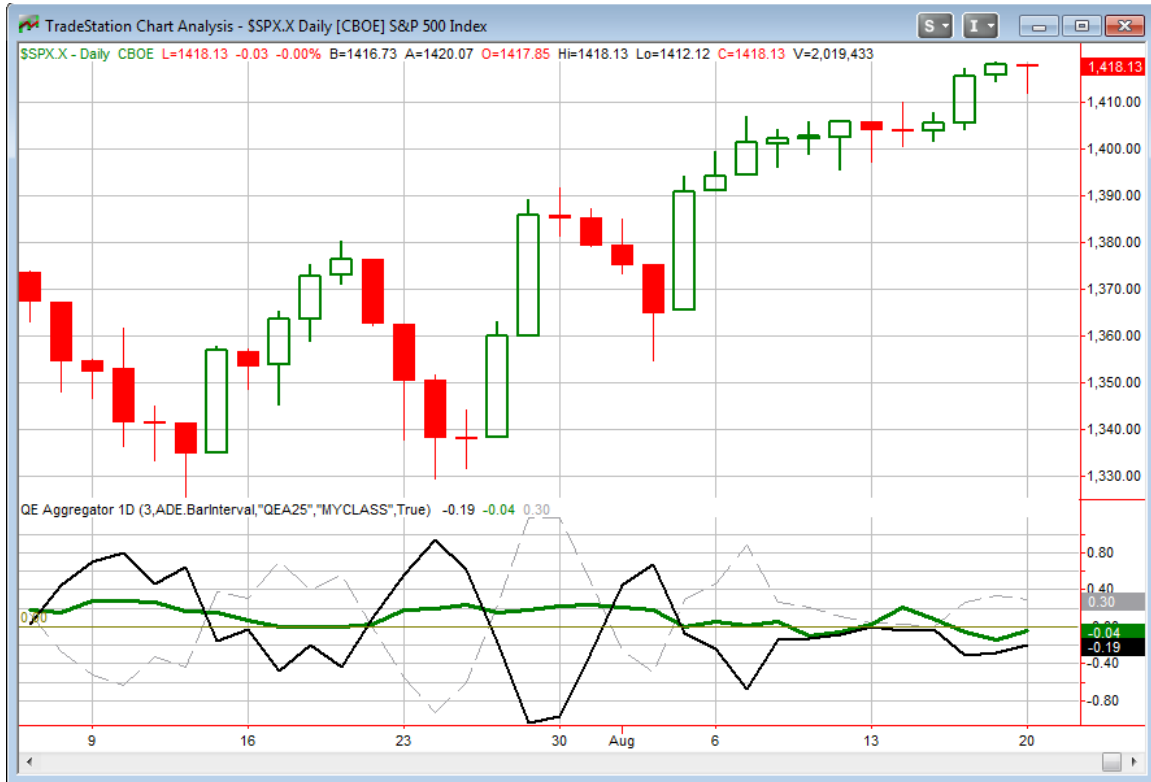
The stats here are all appealing over the 1-2 day period. Winning %, win/loss ratio, and profit factor all strongly favor the bulls. Below is a profit curve assuming a 2-day holding period.



Results here are impressive.

So while the majority of the studies continue to suggest a pullback, there is now some conflict to keep things interesting. No. Wait. I can't do that. Maybe we do have a little conflict among the studies...but there is still no way this market is interesting.

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



The studies remain tilted bearish and the green Aggregator Line is below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is also still below 0. This means the SPX is overbought versus recent expectations. So net expectations are bearish and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This lead the Aggregator to remain short on Monday's close. This was indicated as likely on the systems page before the bell.

Based on the current studies expectations will remain negative on Tuesday. This could easily change if solid bullish evidence emerges. The Differential Pivot will be *slightly inverted* at 1,418.87 on Tuesday. This is less than one point *above* Monday's close. An inverted pivot means that a flat close would cause the black Differential Line to cross zero. In this case that would mean the SPX would no longer be overbought. To maintain its "overbought" condition it would need to close positive by at least this much. So almost any positive close will mean the SPX will remain in overbought territory, and any down close would create an oversold reading.

With the QE Buying Power Index set to close at 0 on Tuesday and liquidity contracting, I've been talking about adding to my short position on Tuesday's close assuming the market remained overbought that long. I will still look to do that, but it will take a close above the Differential pivot. If I do add this second lot I may not look to add anymore. One thing that bothers me about trading a market this quiet is that the potential reward for being right seems pretty small.

While the Aggregator System would go flat (or long) on any lower close, the QE Buying Power Swing System could trigger a short on any close above the 1414 level. I'll look closer during the day tomorrow to see what studies are emerging, but for now my plan would be to remain in the short position unless we close below that 1414 level.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 8/20– slightly bullish***

The intermediate-term outlook was last updated in the 8/20/12 letter. A link is below:

[2012-08-20 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 1/4 index position on SPX close >= 1,419.** Based on short-term outlook above.*

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	8/18/2012	\$142.23	\$142.19	0.03%		cover close <= 1,414 Tues

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 © 2012 Hanna Capital Management, LLC.