

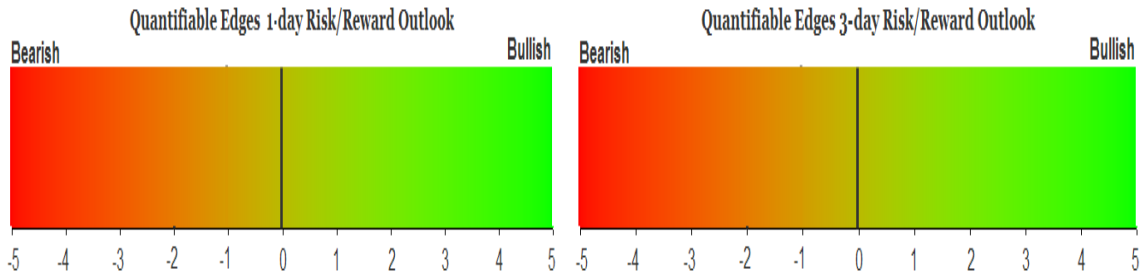
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 22, 2012

Volume 5 Issue 162

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Key reversal days near intermediate-term highs very rarely mark the final high.
- Back-to-back outside day for QQQ have commonly led to short-term rallies.

## Short-term Outlook

### The Bottom Line

The outlook is now neutral. I'm flat. There is one Catapult trigger I will be looking to enter.

## 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 21, 2012	8-day avg %R > 75	1-2 days	Bearish	
August 21, 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 22, 2012	Key Dowside Reversal from High	1-12 days	Bullish	
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	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
June 13, 2012	FTD with modest breadth & vol	int term	Bearish	

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

### *The Evidence*

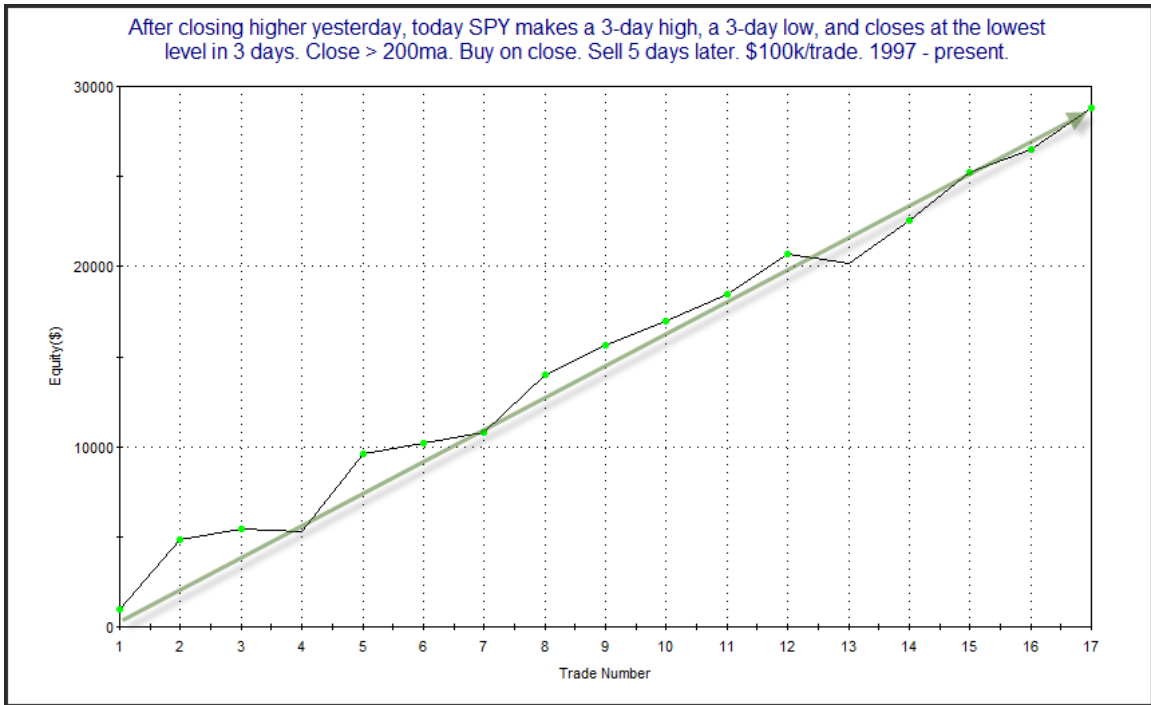
On a relative basis the stock market actually had some volatility and some volume today. But after making new highs for the year intraday, it turned tail and finished lower. The SPX lost 0.4%, the Nasdaq fell 0.3%, and the Russell 2000 declined 0.1%. Breadth was moderately negative as the NYSE Up Issues % was 45% and Up Volume % came in at 47%. Total NYSE volume was as high as it has been in the last couple of weeks, aside from Friday's options expiration day.

When price makes a new high as it did Tuesday, and then reverses down to form an outside day and closes negative, that is considered a "key reversal". I looked at reversals like this in number of times in the past. For the very short-term there rarely appears to be a substantial edge. Often test results will show churn or very mildly bearish numbers. But when you look out 1 to 2 weeks what you often see is that the uptrend most of the time will reassert itself. Let's look at two studies from the Quantifinder that exemplify this.

The study below was last shown in the 3/2/11 subscriber letter. It looks for the reversal day to engulf both of the last two days, close at a three day low, and still be above the 200ma. All results are updated.

After closing higher yesterday, today SPY makes a 3-day high, a 3-day low, and closes at the lowest level in 3 days. 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: ProfitFactor	All: Avg Trade
10	33,233.85	16	13	3	81.25	2,781.55	6,438.74	-975.43	-1,808.31	2.85	12.36	2,077.12
9	34,135.41	17	14	3	82.35	2,741.31	6,845.74	-1,414.30	-3,430.00	1.94	9.05	2,007.97
8	25,379.32	17	12	4	70.59	2,815.44	5,456.88	-2,101.49	-7,031.50	1.34	4.02	1,492.90
7	30,363.94	17	12	5	70.59	2,960.42	6,365.48	-1,032.21	-1,635.06	2.87	6.88	1,786.11
6	30,903.62	17	14	3	82.35	2,316.29	5,193.32	-508.15	-645.78	4.56	21.27	1,817.86
5	28,802.22	17	15	2	88.24	1,959.93	4,273.50	-298.33	-489.14	6.57	49.27	1,694.25
4	16,130.80	17	12	5	70.59	1,782.14	4,533.98	-1,050.98	-2,123.52	1.70	4.07	948.87
3	3,212.40	17	10	7	58.82	1,851.97	3,903.34	-2,186.75	-5,283.03	0.85	1.21	188.96
2	3,366.13	17	10	7	58.82	1,524.77	3,244.78	-1,697.36	-3,737.28	0.90	1.28	198.01
1	-170.76	17	11	6	64.71	673.38	2,359.84	-1,262.99	-3,909.03	0.53	0.98	-10.04

After the first three days or so, there appears to be a strong and consistent upside edge. Below is a profit curve that assumes a 5-day holding period.



Equity curves don't get much straighter than this. It appears to be a nice confirmation of the bullish suggestion by the stats table.

The other key reversal study required a 10 day high, but it only needed to engulf the last one day. It was last seen in the 3/1/12 letter. All results are updated.

After closing at a 10-day high, SPY posts an outside day with a down close. Close > 200ma. 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
12	60,249.89	43	35	8	81.40	2,349.26	8,494.78	-2,746.79	-8,389.36	0.86	3.74	1,401.16
11	53,622.79	43	35	8	81.40	2,102.76	6,726.11	-2,496.74	-9,630.04	0.84	3.68	1,247.04
10	44,256.85	44	34	9	77.27	1,833.08	5,990.24	-2,007.56	-5,992.40	0.91	3.45	1,005.84
9	37,485.95	45	32	13	71.11	1,865.26	5,267.28	-1,707.88	-5,764.17	1.09	2.69	833.02
8	42,087.42	46	31	15	67.39	2,047.03	7,603.99	-1,424.71	-4,587.23	1.44	2.97	914.94
7	34,970.54	47	30	17	63.83	1,973.60	7,694.36	-1,425.74	-4,962.72	1.38	2.44	744.05
6	33,602.99	48	32	16	66.67	1,762.42	5,189.82	-1,424.65	-4,591.36	1.24	2.47	700.06
5	25,085.36	52	33	19	63.46	1,441.81	4,428.81	-1,183.91	-4,346.17	1.22	2.12	482.41
4	4,980.85	52	27	25	51.92	1,412.52	3,915.78	-1,326.29	-4,228.43	1.07	1.15	95.79
3	-7,494.00	52	25	27	48.08	1,133.44	2,930.57	-1,327.04	-5,283.03	0.85	0.79	-144.12
2	-9,615.71	53	23	30	43.40	888.77	2,361.64	-1,001.91	-3,737.28	0.89	0.68	-181.43
1	-6,382.30	53	27	26	50.94	572.32	1,601.91	-839.80	-3,909.03	0.68	0.71	-120.42

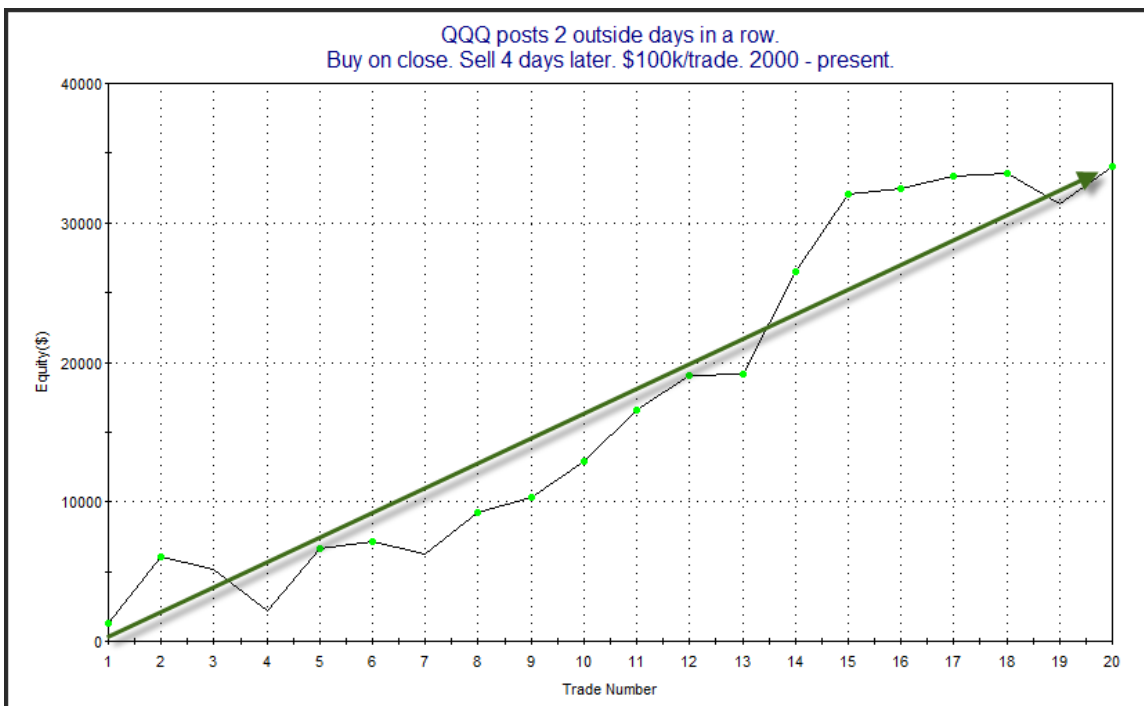
The story here is very much the same. After about three days of choppiness the upside edge appears to exert itself in a consistent way.

Another somewhat interesting study that triggered considered the fact that QQQ made an outside day for the second day in a row. When QQQ has made back-to-back outside days in the past, it has often led to a short-term rally. I last showed this in the 8/29/11 subscriber letter, and have also updated the study.

**QQQ posts 2 outside days in a row.**  
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	31,408.69	20	15	5	75.00	2,654.29	8,444.84	-1,681.13	-3,740.00	1.58	4.74	1,570.43
4	34,076.83	20	16	4	80.00	2,557.38	7,371.93	-1,710.30	-2,958.30	1.50	5.98	1,703.84
3	35,323.19	21	15	6	71.43	2,807.40	7,406.54	-1,131.29	-2,432.38	2.48	6.20	1,682.06
2	20,506.31	21	16	5	76.19	1,738.41	3,735.97	-1,461.63	-2,835.56	1.19	3.81	976.49
1	18,523.04	21	16	5	76.19	1,306.60	3,155.82	-476.50	-1,123.08	2.74	8.77	882.05

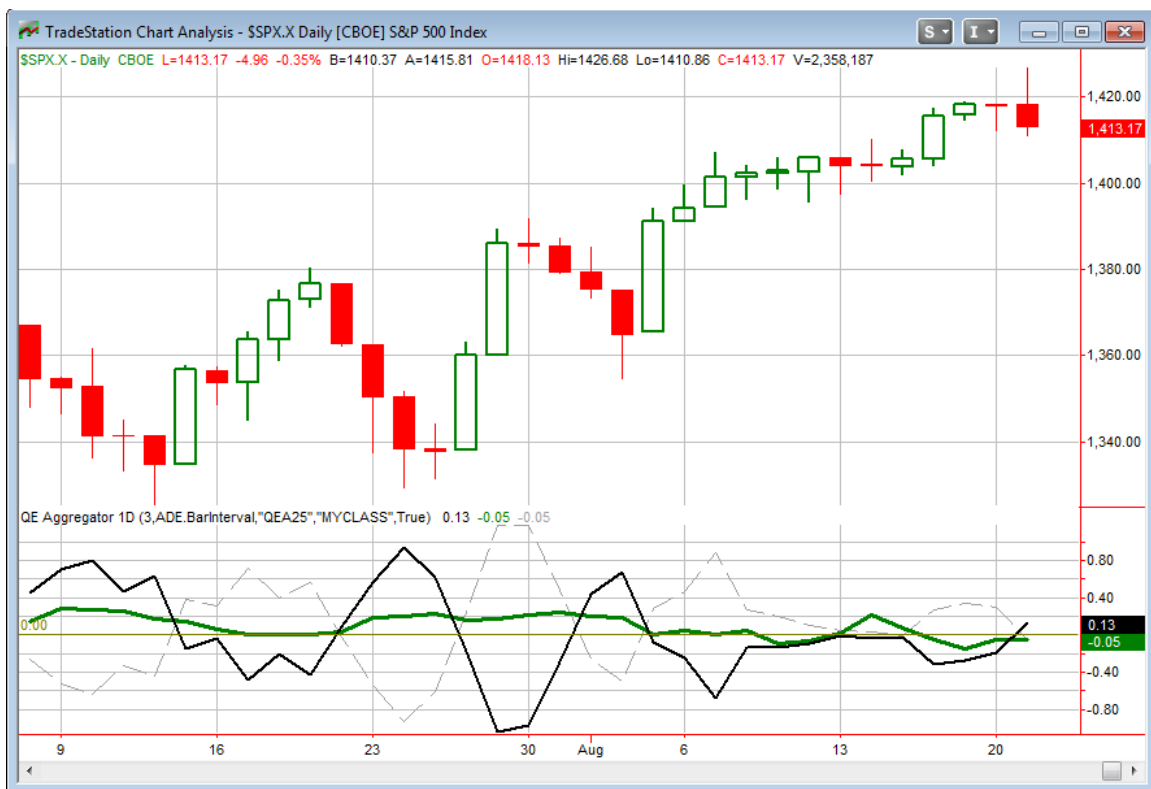
Results here also appear quite positive. Using the 4-day exit criteria, I generated the profit curve below.



Here again, we see a strong, steady upslope.

So while tonight's studies don't seem to have much of an implication on the next 1-3 days, they do suggest that an end to the intermediate-term rally has likely not occurred. I have therefore included the key reversal study on the intermediate-term active list.

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



The short-term studies remain tilted slightly bearish, leaving the green Aggregator Line a little below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line rose back above zero on Tuesday. This means the SPX is now oversold versus recent expectations. So net expectations are bearish but the SPX is already oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This lead the Aggregator to change from short to flat on Tuesday's close. This was indicated as likely on the systems page shortly before the bell.

All 3 studies on the short-term active list are scheduled to expire on Wednesday. This would cause expectations to turn slightly bullish based on the intermediate-term studies. Of course much will be dependent upon what studies emerge on Wednesday. The Differential Pivot will be 1,416.42 on Wednesday. This is only about 0.2% above Tuesday's close. So it wouldn't take much of a rally to put the SPX back into overbought territory and drop the Differential Line below zero.

As I indicated I would do in last night's letter, I covered my short SPY position at the close on Tuesday. While it was nice taking a profit, I was a little disappointed not to have the market close up today and trigger the first QE Buying Power Swing System short signal in a while. But the pullback is typical when short-term liquidity turns negative as it has done this past week. Though the pullback wasn't very large, after making new highs, SPX actually finished very close to the middle of its 10-day range - in the 56.5 percentile. So the market is mid-range, the Aggregator is neutral, and we are lacking very compelling short-term evidence. This combination makes it easy for me to sit on the sideline and wait for the next edge to emerge before attempting another index trade.

Interestingly though, a catapult did trigger. I have listed it in the Catapult & CBI section below and will track it in the trade ideas section as well.

***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***

***New!***

ETR – @ \$69.04 (buy 1/3 at limit)

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 1(ETR)***

### **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.*

***ETR – buy 1/3 Catapult position @ \$69.04 limit.*** This is a Catapult trade. Those unfamiliar with the catapult trades are encouraged to review the Catapult and CBI video, which can be found on the videos page. There is also a perma-link near the top of the catapult section above. Additional, and more recent information can also be found in the "Catapult Exit Designer" presentation and tools, which are available for subscribers on the downloads page. Bottom line with the Catapults is that while they have performed quite well as a whole over time, they can be very volatile and I rarely trade them with stops, so position sizing is critical for managing risk.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)(s)</i>	<i>8/18/2012</i>	<i>\$142.23</i>	<i>\$141.76</i>	<i>0.33%</i>		<i>covered on close</i>

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