

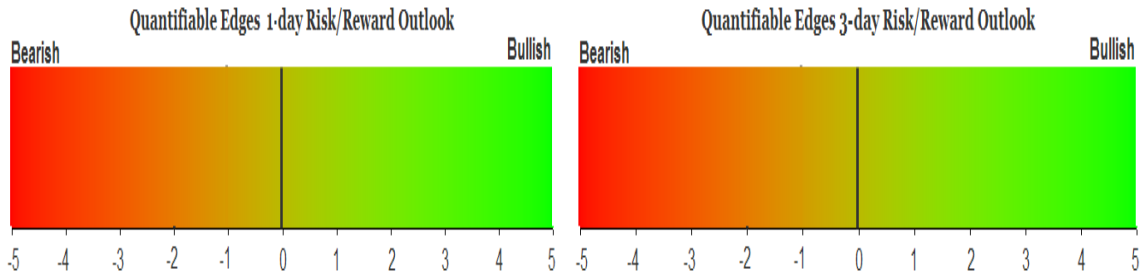
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 24, 2012

Volume 5 Issue 164

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY has closed at a 5-day for the 1st time in over 2 weeks. This suggests a short-term upside edge.

Short-term Outlook

The Bottom Line

Once again, there still doesn't appear to be a compelling short-term setup to me. I'm flat except for Catapults.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 24, 2012	SPY 1st 5-low in 10 days	1-4 days	Bullish	1.60%
August 23, 2012	SPX up on bad breadth	1-3 days	Bearish	-1.30%
August 23, 2012	Gap rvs dn then gap reverse up.	1-3 days	Bearish	-1.10%
Active - Long Term				
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	

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

The Evidence

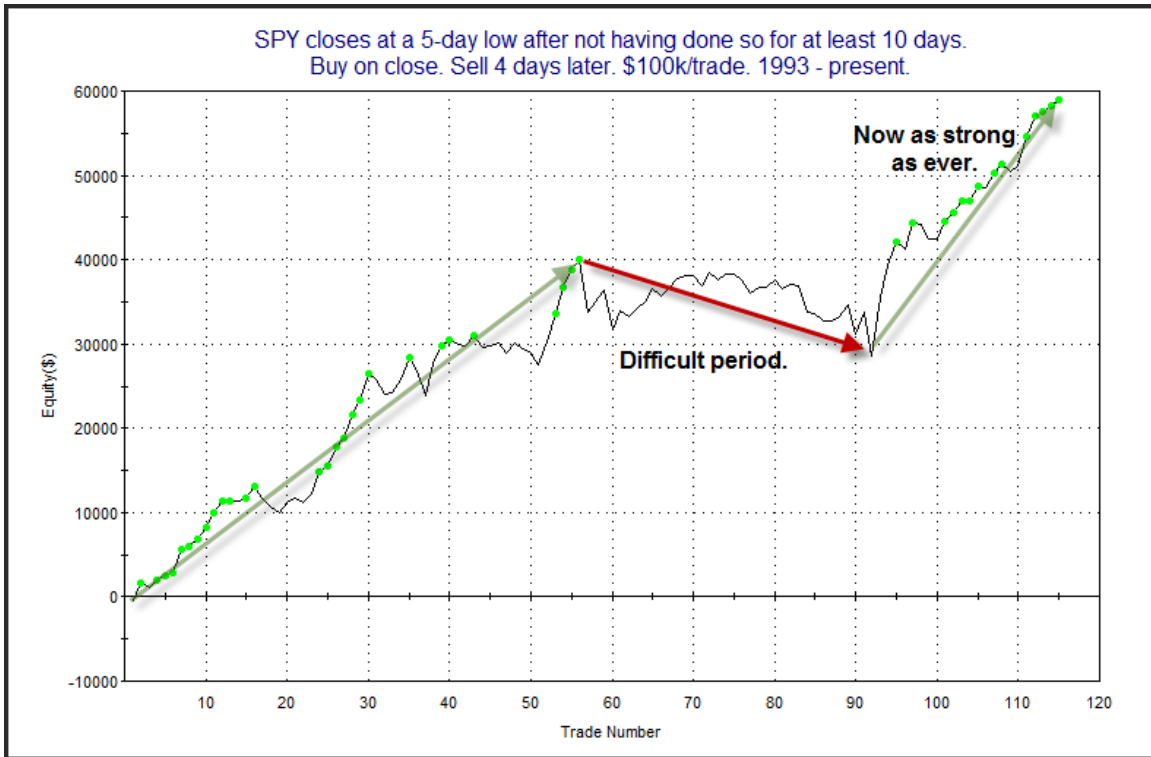
The market put in a move lower today as the SPX had its biggest drop in a month.. The SPX lost 0.8%, the Nasdaq fell 0.7%, and the Russell 2000 declined 0.8%. Breadth was strongly negative as the NYSE Up Issues % was 31% and Up Volume % came in at 22%. Total NYSE volume dipped some from Tuesday's level.

The market has gone with a pullbacks for a while. This one still isn't terribly impressive, but it also isn't surprising giving the short-term negative liquidity flows we are experiencing. Thursday was the 1st time the SPY managed to close at a 5-day low in nearly 3 weeks. In the 3/22/12 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

SPY closes at a 5-day low after not having done so for at least 10 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	89,655.16	115	76	39	66.09	2,171.53	8,925.10	-1,932.86	-8,623.54	1.12	2.19	779.61
9	78,113.82	115	76	39	66.09	1,982.88	8,933.76	-1,861.15	-6,709.56	1.07	2.08	679.25
8	76,160.33	115	76	38	66.09	1,936.06	8,908.38	-1,867.91	-7,113.48	1.04	2.07	662.26
7	60,903.29	115	75	40	65.22	1,852.08	6,851.52	-1,950.07	-7,790.40	0.95	1.78	529.59
6	49,538.05	115	73	42	63.48	1,683.38	6,523.92	-1,746.39	-9,559.44	0.96	1.68	430.77
5	48,432.58	115	73	41	63.48	1,585.46	6,103.89	-1,641.61	-4,906.44	0.97	1.72	421.15
4	58,875.85	115	76	39	66.09	1,461.89	6,941.43	-1,339.18	-6,244.56	1.09	2.13	511.96
3	37,769.17	115	71	44	61.74	1,314.87	5,888.16	-1,263.34	-5,295.84	1.04	1.68	328.43
2	22,972.63	115	63	51	54.78	1,151.21	3,809.72	-971.64	-3,737.28	1.18	1.46	199.76
1	12,211.48	115	64	51	55.65	856.63	2,812.20	-835.54	-3,909.03	1.03	1.29	106.19

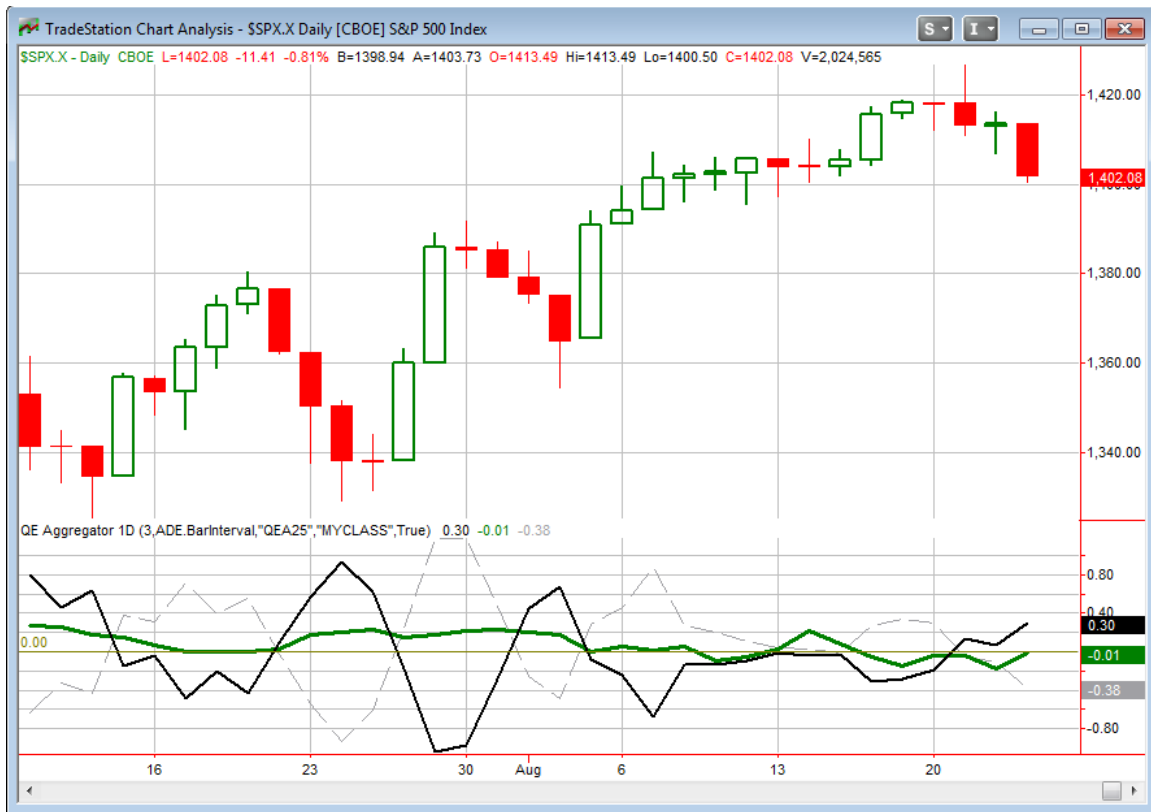
101 of 115 instances (88%) closed above the entry price at some point in the next week.

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 20 trades or so the edge seems to have reasserted itself. Persistent uptrends normally wither before they die, rather than turn on a dime.

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



Despite the bullish study tonight the green Aggregator Line remained slightly below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line moved a bit further above zero. This means the SPX is still 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 remain flat. This was indicated as likely on the systems page shortly before the bell.

Based on the current studies, expectations are scheduled to turn positive on Friday. Of course this could change if bearish studies arise. The Differential Pivot will be 1409.77 on Friday. This is about 0.5% above Thursday's close. So it will take a close higher of at least this much in order to move the SPX out of oversold territory and flip the Differential Line.

I was a little surprised that we didn't see stronger bullish evidence today, but I'm certainly okay with that. POMO flows are still weak, so stay sidelined another day or so may be the best thing anyway. The QE Buying Power Index is scheduled to rise to a bullish 3 on Tuesday and stay at least that high through the end of the month. So if we keep selling off then I suspect early next week could be a very good buying opportunity. I'm not looking to do anything on Friday.

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

ETR – 1/3 @ \$69.04 (bought at limit)

MRK – 1/3 @ \$42.91 (bought @ limit)

ETR – 1/3 @ \$68.65 (bought @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/2(ETR-2, MRK)

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
ETR(1/3)	8/22/2012	\$69.04	\$68.35	-1.00%		Catapult
ETR(1/3)	8/23/2012	\$68.65	\$68.35	-0.44%		Catapult
MRK(1/3)	8/23/2012	\$42.90	\$42.80	-0.23%		Catapult

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