

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 29, 2012

Volume 5 Issue 167

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 SPX down close on solid breadth suggests a short-term upside edge.

Short-term Outlook

The Bottom Line

Overbought with positive expectations again, and the market hasn't moved the last 2 days anyway. A move lower on Wednesday could trigger a long Aggregator signal just as POMO flows are turning strongly positive again.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 29, 2012	SPX dn. Up Issues % > 55%.	1-2 days	Bullish	1.00%
August 28, 2012	SPY up 2 < 3 ago	1-2 days	Bullish	
August 27, 2012	SPY reverse up from 10-low	1-4 days	Bullish	
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	
Dropped Tonight				
August 24, 2012	SPY 1st 5-low in 10 days	1-4 days	Bullish	1.60%

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

The Evidence

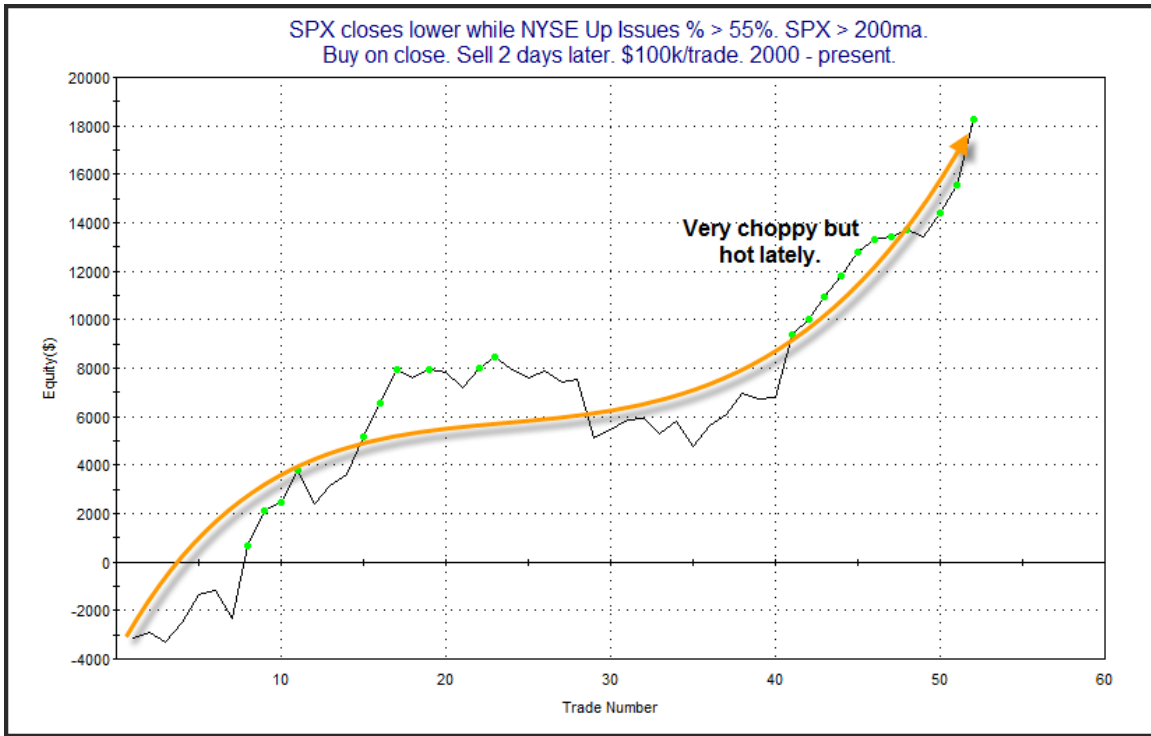
The 1st 2 days of the week have shown very little progress in either direction. Tuesday the SPX lost 0.1%, the Nasdaq gained 0.1%, and the Russell 2000 rallied 0.5%. Breadth was mixed as the NYSE Up Issues % was 56% but Up Volume % came in at 45%. Total NYSE volume rose slightly from Monday’s very low level.

The one interesting study noted by the Quantifinder is the one below, which suggests a bit of an upside edge. It considered the strong breadth on a day the SPX declined. It last appeared in the 6/29/12 letter. Results are updated.

SPX closes lower while NYSE Up Issues % > 55%. SPX > 200ma. 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
10	24,757.23	47	27	20	57.45	2,084.80	7,183.08	-1,576.62	-4,406.82	1.32	1.79	526.75
9	28,135.46	47	32	15	68.09	1,804.71	5,597.64	-1,974.36	-4,873.44	0.91	1.95	598.63
8	25,701.48	47	33	14	70.21	1,660.63	5,105.16	-2,078.53	-4,715.80	0.80	1.88	546.84
7	18,037.71	47	32	15	68.09	1,450.88	4,736.88	-1,892.69	-6,585.48	0.77	1.64	383.78
6	15,057.55	48	33	15	68.75	1,370.13	3,398.72	-2,010.45	-9,589.14	0.68	1.50	313.70
5	20,975.32	48	31	17	64.58	1,391.12	3,616.92	-1,302.91	-4,012.80	1.07	1.95	436.99
4	20,345.19	49	31	18	63.27	1,334.24	3,429.00	-1,167.57	-2,921.28	1.14	1.97	415.21
3	19,856.17	51	36	15	70.59	975.92	3,373.50	-1,018.46	-2,852.01	0.96	2.30	389.34
2	18,290.29	52	37	15	71.15	850.88	3,025.12	-879.49	-3,119.03	0.97	2.39	351.74
1	14,533.39	54	33	21	61.11	745.84	2,484.00	-479.97	-1,348.29	1.55	2.44	269.14

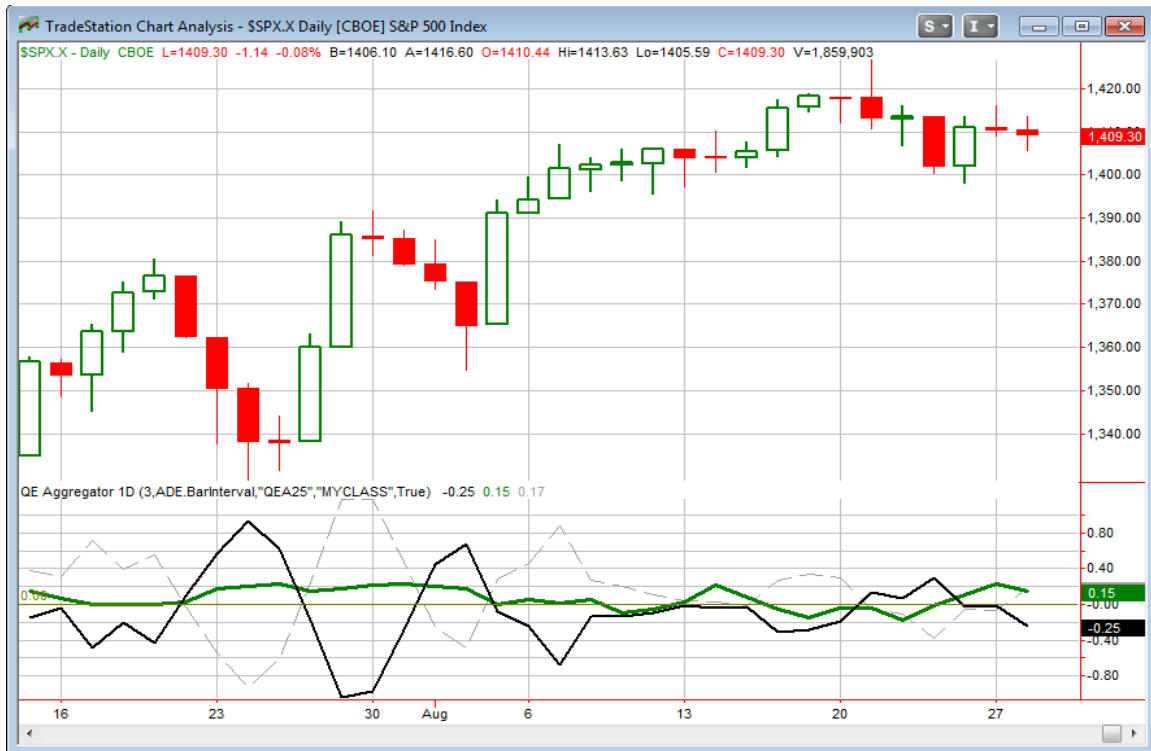
88% of instances closed above the entry price at some point in the next week.

The edge isn’t huge, but it does appear to be high-percentage. The equity curve below gives a better idea of how the edge has played out over time.



While the curve certainly appears choppy, the edge has been very strong lately. The 3-5 day charts don't see quite as pronounced of a dip in the middle, which also alleviates some concern. I believe this study is worth taking into consideration and I've included it among the active studies.

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



With tonight's research factored in, the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held below zero. This means the SPX is still overbought versus recent expectations. So net expectations are bullish but the SPX is already overbought. 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 remain positive on Wednesday. Of course this could change if bearish studies arise. The Differential Pivot will be *slightly inverted* at 1,410.13 on Wednesday. This is less than 1 point above Tuesday's close. An inverted pivot means the Differential Line will move through zero on a flat close. So it will take a rise of about 1 point in order to keep the SPX "overbought" versus expectations. Any worse than that and the Differential Line will move above 0, signaling an oversold condition.

While there is no telling what studies might emerge based off tomorrow's action, a down close would stand a pretty good chance of a long Aggregator signal. Should that happen I'd be looking to take at least a small piece of a long index position on Thursday – and perhaps more than just a small piece. For now I am content with my Catapult and XIV positions.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/27– bullish

The intermediate-term outlook was last updated in the 8/27 letter. A link is below:

[2012-08-27 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	\$68.57	-0.68%		Catapult
ETR(1/3)	8/23/2012	\$68.65	\$68.57	-0.12%		Catapult
MRK(1/3)	8/23/2012	\$42.90	\$42.83	-0.16%		Catapult
XIV(1/2)	8/28/2012	\$13.88	\$13.81	-0.50%		Aggressive VIX

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