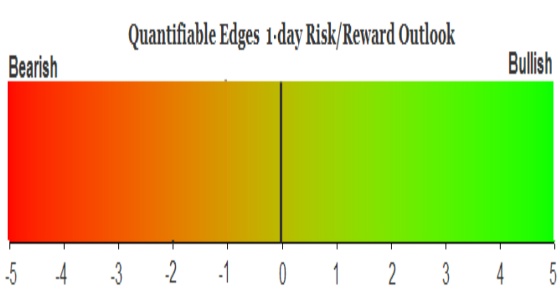
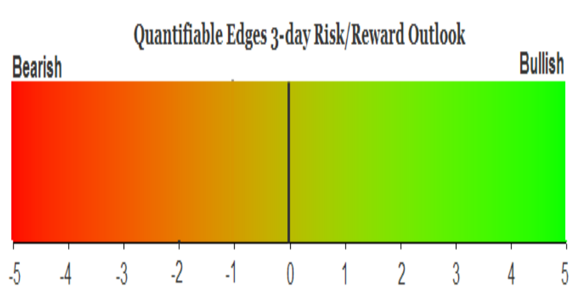
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 11, 2012 Volume 5 Issue 175

Market Overview





Signals Overview

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

Tonight's Research Points

- A 20-day high and poor close are often followed by a move up.
- Key reversal days near intermediate-term highs very rarely mark the final high.

Short-term Outlook

The Bottom Line

Not quite there, but more selling on Tuesday would almost certainly lead to a bullish signal. If that occurs, I'll be looking to start compiling a long position at the close.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 11, 2012	20-high poor close	1-8 days	Bullish	2.00%
September 10, 2012	2 unfilled gap 50-high	1-3 days	Bullish	1.00%
September 10, 2012	%b > 115 2 days	1-5 days	Bullish	1.80%
September 10, 2012	200-high on 1st Friday	1-6 days	Bearish	
September 7, 2012	50-high break strong breadth & vol	1-5 days	Bullish	
September 7, 2012	Breakout with unfilled gap up	1-5 days	Bullish	
September 6, 2012	20-day HV 20-day lows. No20-hi SPX	1-5 days	Bearish	-2.60%
Active - Long Term				
September 10, 2012	POMO liquidity temporarily contracting	int term	Bearish	
September 5, 2012	Russell up 1%. SPX down	1-10 days	Bearish	
August 20, 2012	Nasdaq leading SPX	int term	Bullish	
July 30, 2012	SPX 50-day high on 90% up vol	1-50 days	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
September 10, 2012	***SPX 50-high. VIX:VXV < 0.85***	***1 day***	***Bearish***	

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

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

The Evidence

Selling came into the market on Monday. The SPX fell 0.6%, the NASDAQ declined 1.0%, and Russell 2000 dropped 0.3%. Breadth was solidly negative as the NYSE Up Issues % was 40% and Up Volume % came in at 32%. Total NYSE volume dipped a little from Friday's level.

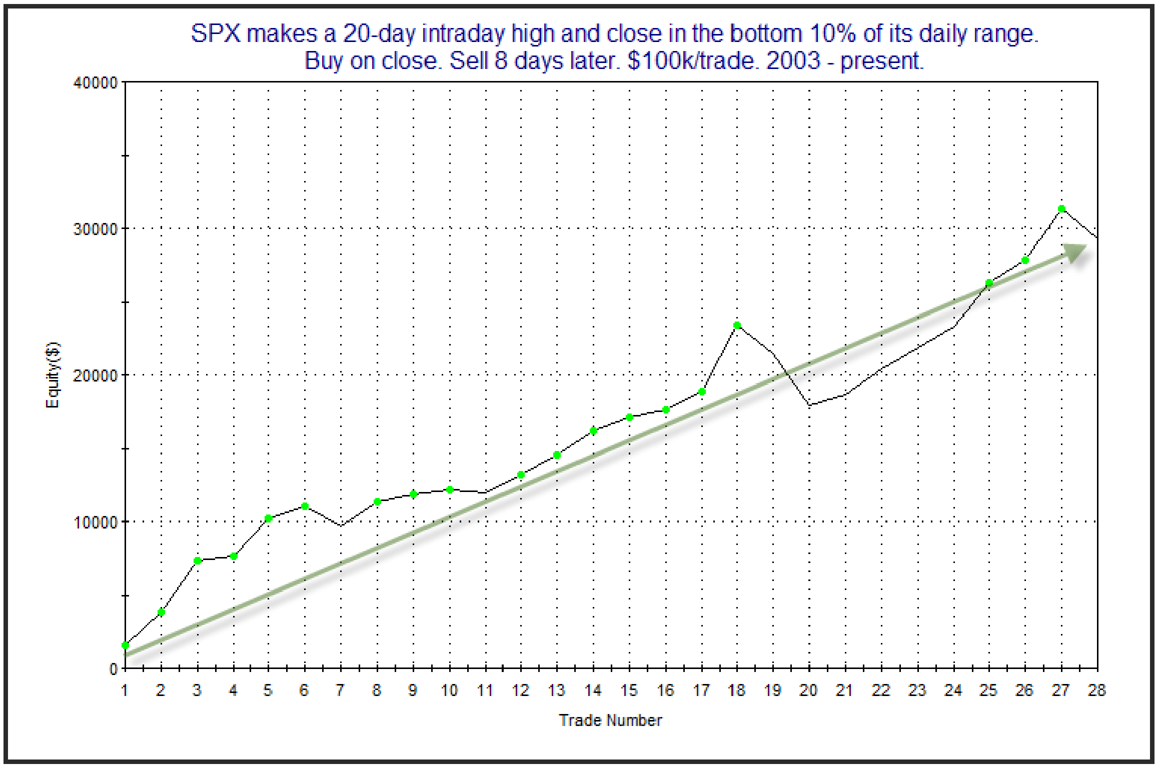
The new high followed by a poor and downward close triggered a few interesting studies. The one below was last seen in the 3/28/12 subscriber letter. Results are all updated.

SPX makes a 20-day intraday high and close in the bottom 10% of its daily range.
Buy on close. Sell X days later. $100k/trade. 2003 - 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	28,624.69	27	20	7	74.07	1,878.05	4,119.18	-1,276.62	-3,210.80	1.47	4.20	1,060.17
9	24,831.43	27	21	6	77.78	1,644.88	3,613.36	-1,618.49	-3,775.10	1.02	3.56	919.68
8	29,228.13	28	23	5	82.14	1,669.18	4,483.84	-1,832.59	-3,543.84	0.91	4.19	1,043.86
7	22,166.14	28	22	6	78.57	1,527.34	3,761.94	-1,905.89	-4,159.32	0.80	2.94	791.65
6	23,953.67	29	24	5	82.76	1,344.16	3,331.38	-1,661.23	-2,915.88	0.81	3.88	825.99
5	9,863.89	29	19	10	65.52	987.28	2,693.34	-889.44	-3,566.84	1.11	2.11	340.13
4	7,298.13	31	20	11	64.52	922.34	2,399.28	-1,013.52	-2,332.44	0.91	1.65	235.42
3	9,119.59	31	20	11	64.52	827.59	2,159.82	-675.66	-2,091.82	1.22	2.23	294.18
2	5,833.12	31	17	14	54.84	878.27	3,288.48	-649.81	-1,575.22	1.35	1.64	188.17
1	5,567.57	32	22	10	68.75	505.53	1,710.72	-555.41	-1,194.83	0.91	2.00	173.99

30 of 32 instances (94%) closed above the entry price at some point in the next week. The 2 that failed triggered on 12/30/04 & 12/31/04.

Results here seem to suggest an upside edge. The edge appears especially strong when looking out 6-8 days. Below is a profit curve assuming an 8-day holding period.



While the last instance turned out to be a loser, the smooth upslope appears to confirm the upside edge suggested by the statistics.

Another study that triggered on Monday is the one below, which was last seen just a few weeks ago in the 8/22/12 subscriber letter. The pattern described in the study definition is one of a key reversal day.

After closing at a 10-day high yesterday 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	61,309.60	43	35	8	81.40	2,379.54	8,494.78	-2,746.79	-8,389.36	0.87	3.79	1,425.80
11	54,631.53	43	35	8	81.40	2,131.58	6,726.11	-2,496.74	-9,630.04	0.85	3.74	1,270.50
10	43,657.60	44	34	10	77.27	1,833.08	5,990.24	-1,866.73	-5,992.40	0.98	3.34	992.22
9	37,229.18	45	32	13	71.11	1,865.26	5,267.28	-1,727.63	-5,764.17	1.08	2.66	827.32
8	42,072.73	46	31	15	67.39	2,047.03	7,603.99	-1,425.69	-4,587.23	1.44	2.97	914.62
7	34,526.49	47	30	17	63.83	1,973.60	7,694.36	-1,451.86	-4,962.72	1.36	2.40	734.61
6	33,491.21	48	32	16	66.67	1,762.42	5,189.82	-1,431.64	-4,591.36	1.23	2.46	697.73
5	24,939.01	52	33	19	63.46	1,441.81	4,428.81	-1,191.61	-4,346.17	1.21	2.10	479.60
4	5,363.00	52	27	25	51.92	1,412.52	3,915.78	-1,311.00	-4,228.43	1.08	1.16	103.13
3	-6,617.23	52	25	27	48.08	1,133.44	2,930.57	-1,294.57	-5,283.03	0.88	0.81	-127.25
2	-9,918.43	53	23	30	43.40	888.77	2,361.64	-1,012.00	-3,737.28	0.88	0.67	-187.14
1	-6,082.12	53	28	25	52.83	553.39	1,601.91	-863.08	-3,909.03	0.64	0.72	-114.76

There is a bit of a danger of further selling over the next few days according to this study. But once you get out about two weeks there appears to be a decided upside edge. Very rarely have these key reversal days marked an intermediate-term top. This study is going back on the intermediate-term Active List.

Another thing to keep in mind on Tuesday is that Wednesday is a Fed Day. Fed days overall have had a generally bullish inclination over a very long period of time - dating back to the early 80s. But the strength of this inclination is many times determined, partially, by the action leading up to and just before the Fed Day. Generally, the weaker the action heading up to the Fed Day, the better the reaction on the Fed Day. One way I measured this in "The Quantifiable Edges Guide To Fed Days" was by looking at the closing range the day before the Fed Day. I found that the lower the quartile the close occurred in, the better the market has performed on the Fed Day. So a close near the bottom of Tuesday's range would appear to have positive implications for Wednesday, whereas a close near the top of the range could move those implications near neutral. Another Fed Day study to keep in mind is that the Fed Day upside inclination has not held true when the SPX has closed at a 20-day high. So if Wednesday rallies and SPX closes at a new high, that could obliterate the Fed Day edge. I'll review whatever compelling Fed Day studies emerge tomorrow night, but these are a couple that you may want to keep in mind before that.

I have updated the Aggregator chart below.

With tonight's studies factored in the green Aggregator Line moved a little further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still below zero. This means the SPX is 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 at the close.

Based on the current open studies, expectations are scheduled to remain positive on Tuesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *inverted at* 1,434.35 on Tuesday. An inverted pivot means that if the SPX closes flat the Differential Line will cross through zero. So for the market to remain in an overbought state, SPX will need to rise nearly 0.4% on Tuesday. Otherwise, it will register as "oversold" versus expectations. With expectations slated to remain positive, that could easily trigger a long Aggregator signal.

As I mentioned above, Fed Days have typically had a bullish inclination. What's interesting is that much of the upside inclination has played out in the overnight session prior to the open on the Fed Day. For this reason, if I anticipate a possible long signal could occur, I will often look to take it at the close, rather than wait for confirmation and look to buy on the next day's open. That's what I intend to do tomorrow if SPX closes down again. Details are in the Trade Ideas section near the bottom of the letter. (Update: The Fed announcement has changed to Thursday and I will not be looking to enter at the close on Tuesday.)

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/10– slightly bullish

The intermediate-term outlook was last updated in the 9/10 Subscriber Letter. A link may be found below.

2012-09-10 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.

None.

Current Open Trade Ideas

None