

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 12, 2012

Volume 5 Issue 176

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Long

Tonight's Research Points

- Inside days that leave an unfilled gap up during uptrends suggest a short-term downside edge.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but I'm taking it slow with crosswinds in play.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 12, 2012	Inside day with unfilled gap up	1-2 days	Bearish	
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. No 20-hi SPX	1-5 days	Bearish	-2.60%
Active - Long Term				
September 11, 2012	Key Reversal from high	1-12 days	Bullish	
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	

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

The Evidence

The market gapped up and headed higher early morning before closing weakly and in the lower end of its daily range. Still, most of the major indices managed to finish higher. The SPX and the Russell 2000 and each gained 0.3% while the NASDAQ moved up a mere 0.02%. Breadth was strongly positive as the NYSE Up Issues % was 66% and Up Volume % came in at 80%. Total NYSE volume rose a bit from Monday's level.

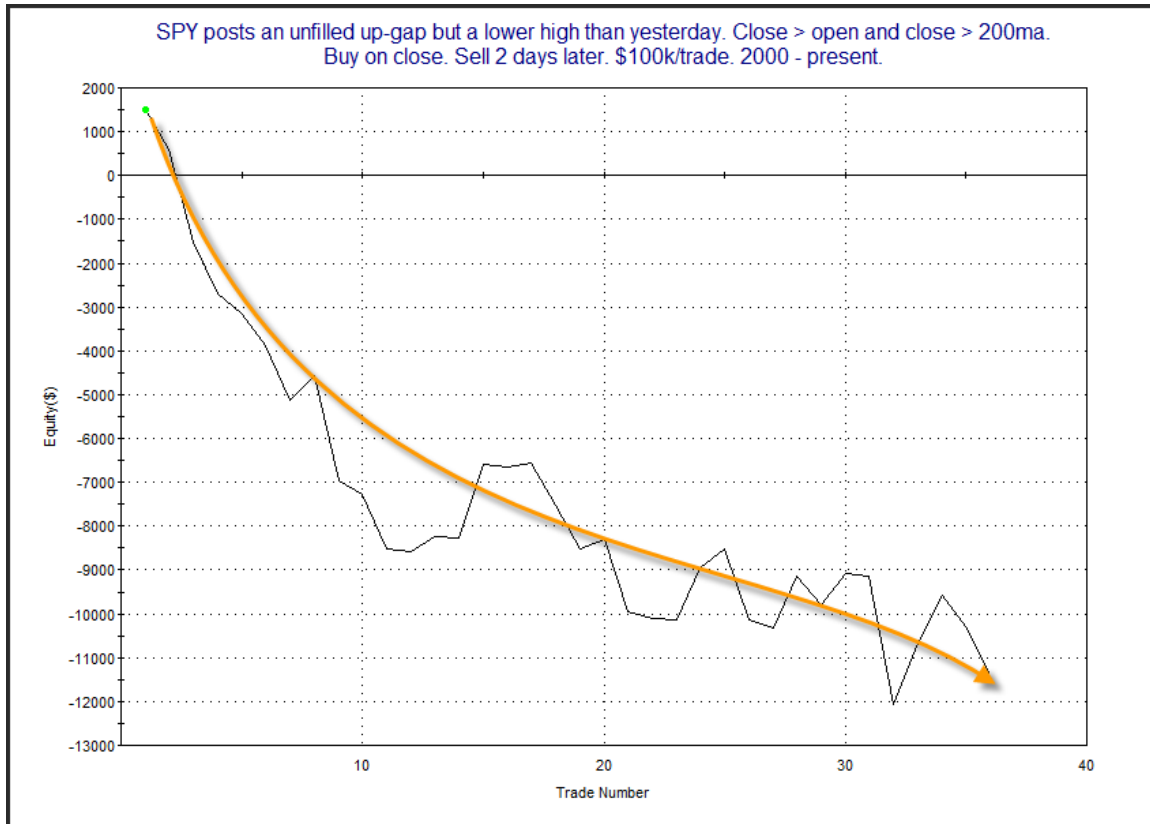
In the 12/30/11 letter I looked at inside days like Tuesday where the market gapped higher, never filled, and moved higher from open to close without making a higher high. I've updated those results below.

SPY posts an unfilled up-gap but a lower high than yesterday. Close > open and close > 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	-6,598.06	31	15	16	48.39	1,788.42	3,743.30	-2,089.02	-5,312.00	0.86	0.80	-212.84
9	-9,399.24	31	13	18	41.94	1,818.69	3,442.11	-1,835.68	-5,361.80	0.99	0.72	-303.20
8	-5,819.74	32	15	17	46.88	1,783.14	3,111.90	-1,915.70	-5,654.80	0.93	0.82	-181.87
7	-4,704.82	33	15	18	45.45	1,918.86	3,093.86	-1,860.43	-9,172.30	1.03	0.86	-142.57
6	-10,861.19	34	16	18	47.06	1,331.92	3,022.53	-1,787.32	-3,751.60	0.75	0.66	-319.45
5	-9,993.57	34	14	20	41.18	1,357.73	2,556.33	-1,450.09	-3,477.70	0.94	0.66	-293.93
4	-11,770.21	34	15	19	44.12	1,108.46	1,919.19	-1,494.59	-7,544.70	0.74	0.59	-346.18
3	-12,929.26	35	15	20	42.86	775.91	1,631.70	-1,228.40	-6,150.30	0.63	0.47	-369.41
2	-11,396.84	36	12	24	33.33	860.34	1,657.26	-905.04	-2,929.90	0.95	0.48	-316.58
1	-9,534.27	36	12	24	33.33	704.94	1,600.62	-749.73	-2,348.90	0.94	0.47	-264.84

32 of 36 instances (89%) closed below the entry price
at some point in the next week.

Implications here appear somewhat bearish, with most of the damage occurring within the 1st 2 days. Below is a profit curve that shows how the downside has played out over time.



The downslope is not as steep as it once was but it still appears to suggest a downside edge.

Of course Thursday is a Fed Day. I jumped the gun on discussing it last night, but in case you missed it have copied my commentary again below.

Another thing to keep in mind on Wednesday is that Thursday 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 Wednesday's range would appear to have positive implications for Thursday, 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 is now just slightly above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line shot higher and is now also above zero. This means the SPX is "oversold" versus recent expectations. So net expectations are bullish and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This led the Aggregator to change from flat to long at the close, as was indicated as likely on the systems page before the bell.

Based on the current open studies, expectations are scheduled to remain slightly positive on Wednesday. Of course this could change if more bearish evidence emerges. The

Differential Pivot will be 1,439.54 on Wednesday. This is 0.4% above Tuesday's close. So it would take a close higher of at least this much in order to move the SPX back into overbought territory.

We are looking at a very odd set up at the moment with several crosswinds. While the aggregator calculation is spitting out positive expectations, they are just slightly positive. And they don't yet include the fact that we are in the early stages of a short-term liquidity contraction. But it's not only expectations that are a little bit funky right now. The SPX as measured by the Differential is "oversold". Yet it closed in the top 15% of its 10-day range and within 4 1/2 points of a multiyear high. So expectations may be bullish, but they are not that bullish. And SPX may be oversold versus expectations, but it's not that oversold. I plan to tread lightly here, if at all. If we do get a down day on Wednesday, then I will look to take a small position - probably just for a one day trade. I'd be looking to take advantage of the combination of the long Aggregator signal and the bullish Fed Day tendency. But in all likelihood I will look to get out before the announcement on Thursday. Thursday is also the day that the QE Buying Power Index is slated to close at zero. This could potentially trigger a short signal for the QE Buying Power Swing System, not that I would necessarily be excited about a short position either.

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.

SPY – buy ¼ index position @ \$143.90 LIMIT ON CLOSE. Based on the short-term outlook above. I will probably look to exit this trade as quickly as Thursday.

Current Open Trade Ideas

None

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