

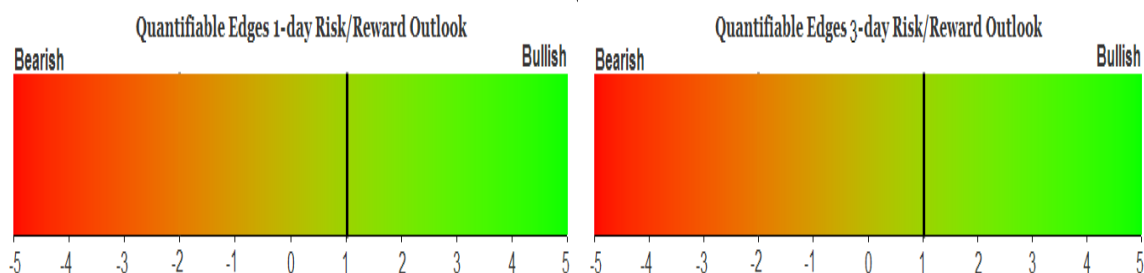
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 13, 2012

Volume 5 Issue 177

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Fed Days are generally bullish, but bullish inclinations no longer hold when the day before closes at a 20-day high and in the top 25% of its range.

## Short-term Outlook

### The Bottom Line

Like last night 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
<b>Active</b>				
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	%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	
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
September 6, 2012	20-day HV 20-day lows. No 20-hi SPX	1-5 days	Bearish	-2.60%
September 10, 2012	2 unfilled gap 50-high	1-3 days	Bullish	1.00%

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

### ***The Evidence***

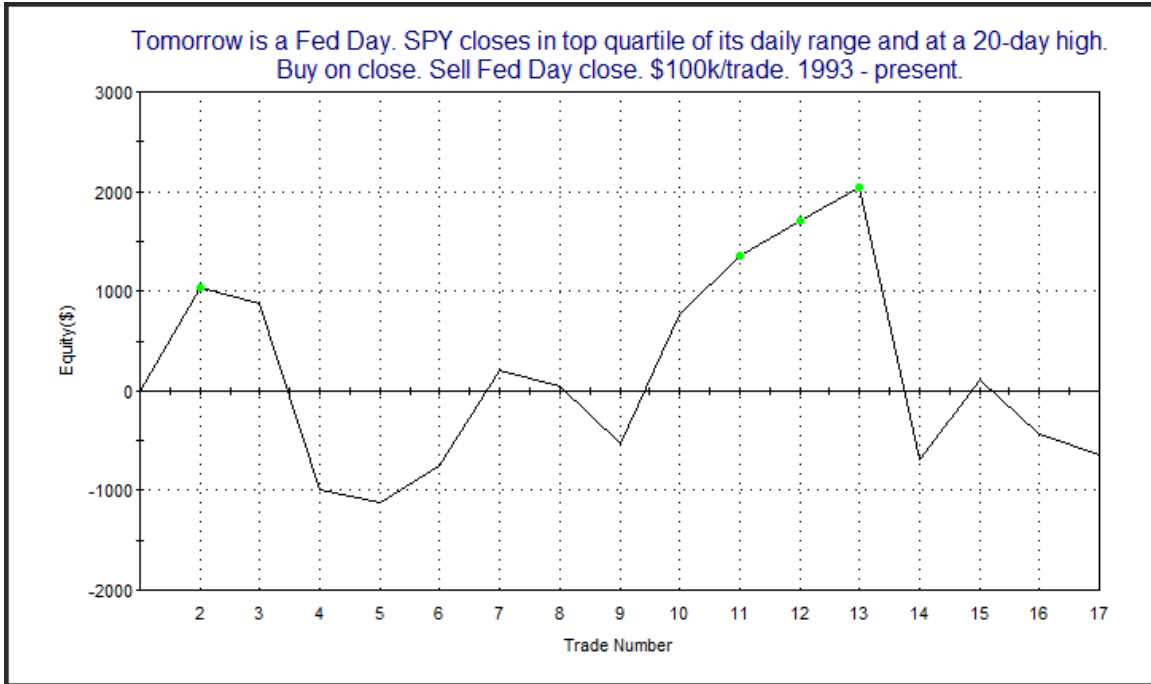
The market traded in a tight range but finished well with the major indices all higher. The SPX rose 0.2%, the NASDAQ gained 0.3%, and the Russell 2000 rallied 0.4%. Breadth was moderately positive as the NYSE Up Issues % was 58% and Up Volume % came in at 62%. Total NYSE volume rose a bit from Tuesday's level.

I mentioned last night that Thursday is a Fed Day. In general Fed Days have been strongly positive days. I also discussed last night that 2 things to watch out for were the closing level of the SPY within its daily range and whether or not SPX closed at a new 20-day high. Closes in the upper quartile of the daily range have led to a greatly reduced Fed Day edge, and 20-day highs the day before have led to no substantial edge. In the 4/27/11 subscriber letter I looked at the combination of a close in the upper end of the daily range along with a 20-day closing high. I should note that while SPX just barely missed closing at a new high, SPY and ES both did. So I updated the results of that 4/27/11 study below.

Tomorrow is a Fed Day. SPY closes in the top quartile of its daily range and at a 20-day high.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

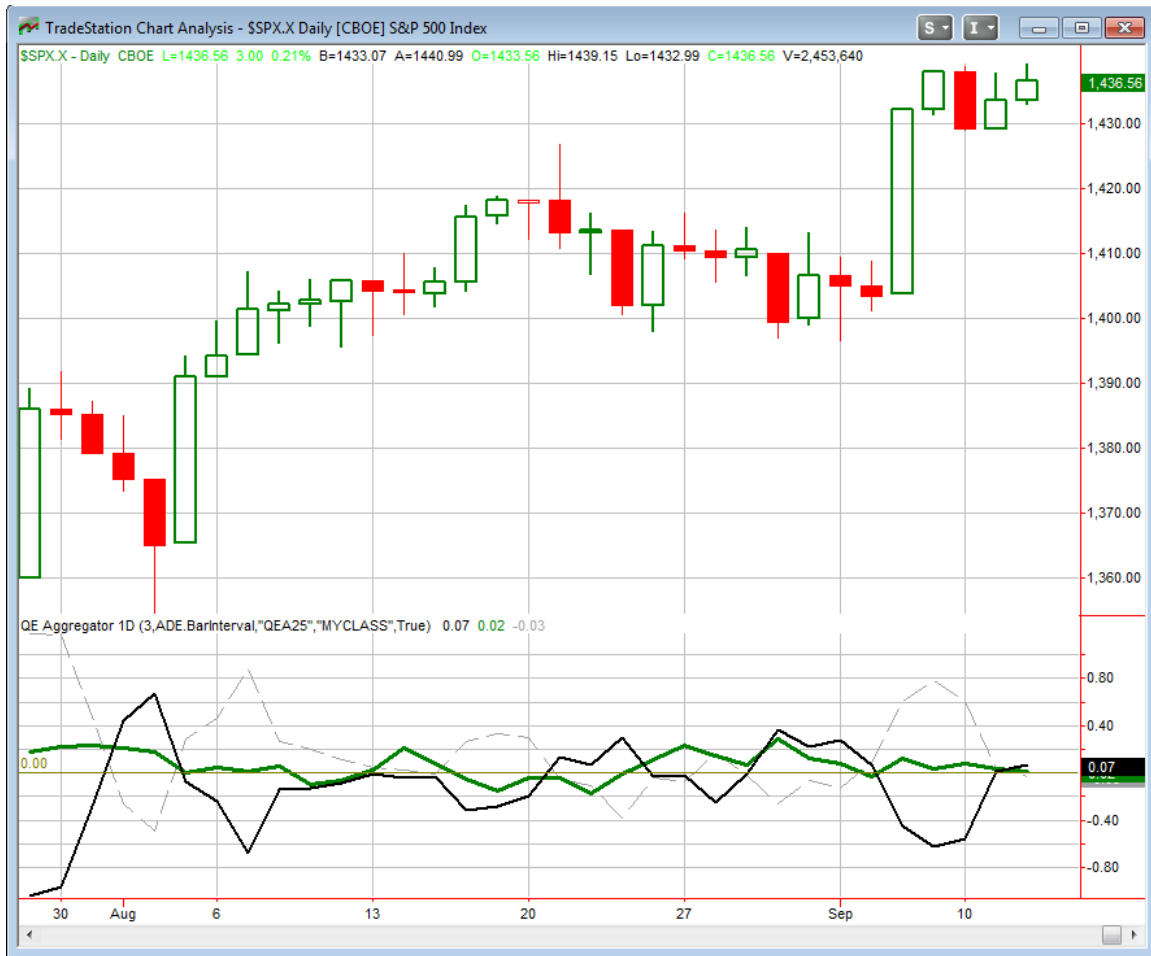
TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	\$15.00	Profit Factor	1.00
Gross Profit	\$6,386.05	Gross Loss	(\$6,371.05)
Total Number of Trades	18	Percent Profitable	50.00%
Winning Trades	9	Losing Trades	8
Even Trades	1		
Avg. Trade Net Profit	\$0.83	Ratio Avg. Win:Avg. Loss	0.89
Avg. Winning Trade	\$709.56	Avg. Losing Trade	(\$796.38)
Largest Winning Trade	\$1,294.72	Largest Losing Trade	(\$2,739.69)

Results here suggest no edge whatsoever. Below is the equity curve.



Fed Days under these conditions don't seem to provide the bullish edge they typically do otherwise.

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



The green Aggregator Line is again 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 also remained just above zero. This means the SPX is "oversold" versus recent expectations (despite basically being at new highs). 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 remain 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 Thursday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1,432.39 on Thursday. An inverted pivot means that a flat close will cause the Differential Line to move through zero. In this case that would mean the SPX would go from oversold to overbought on a flat close. To remain oversold it would need to decline about 0.3% from Wednesday's close.

So the aggregator is still suggesting a long side edge, but if it plays out tomorrow that will be the end of it. But the edge is tiny and so is the "oversold" condition. I don't find this to be a compelling long entry point. It will certainly be interesting to see how things play out tomorrow. I've mentioned it the last few days, but it is worth keeping in mind, that the QE Buying Power Index is slated to close at zero on Thursday. There are also many other Fed-based studies that could trigger. The announcement could bring about a sharp move in either direction. I have no interest in trying to anticipate the direction or the studies that could trigger as a result. Rather, I'll continue to stand aside, let the drama play out a little, and wait for a substantial edge to emerge.

***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 tonight.](#)*

**Current Open Trade Ideas**

None

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