

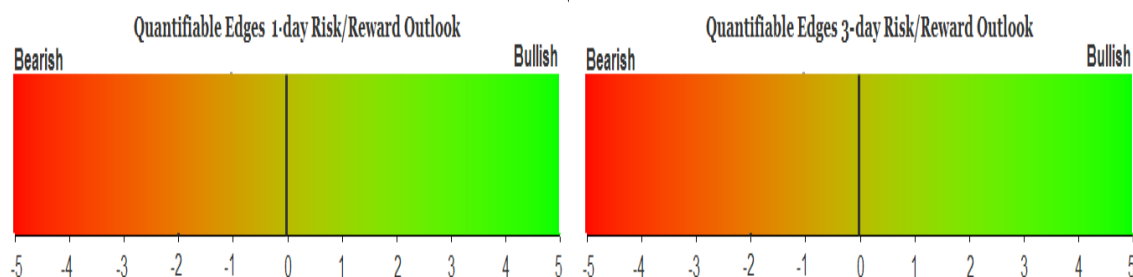
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 21, 2012

Volume 5 Issue 183

Market Overview



Signals Overview

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

Tonight's Research Points

- Opposing SPY studies are leaving us right near where we started.

Short-term Outlook

The Bottom Line

Still no substantial edge. I'm flat and plan to stay there.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 21, 2012	Up < 0.25% Top 10% Range	1 day	Bearish	
September 21, 2012	Up 2 days but < 3 ago	1-2 days	Bullish	
September 18, 2012	SPY unfilled gap up then down from 20h	1-7 days	Bearish	-2.40%
September 14, 2012	100 day high on Fed Day	1-8 days	Bullish	1.90%
Active - Long Term				
September 17, 2012	QE3	int term	Bullish	
September 17, 2012	SPX and TNX hit 50-day high	1-20 days	Bearish	
September 11, 2012	Key Reversal from high	1-12 days	Bullish	
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

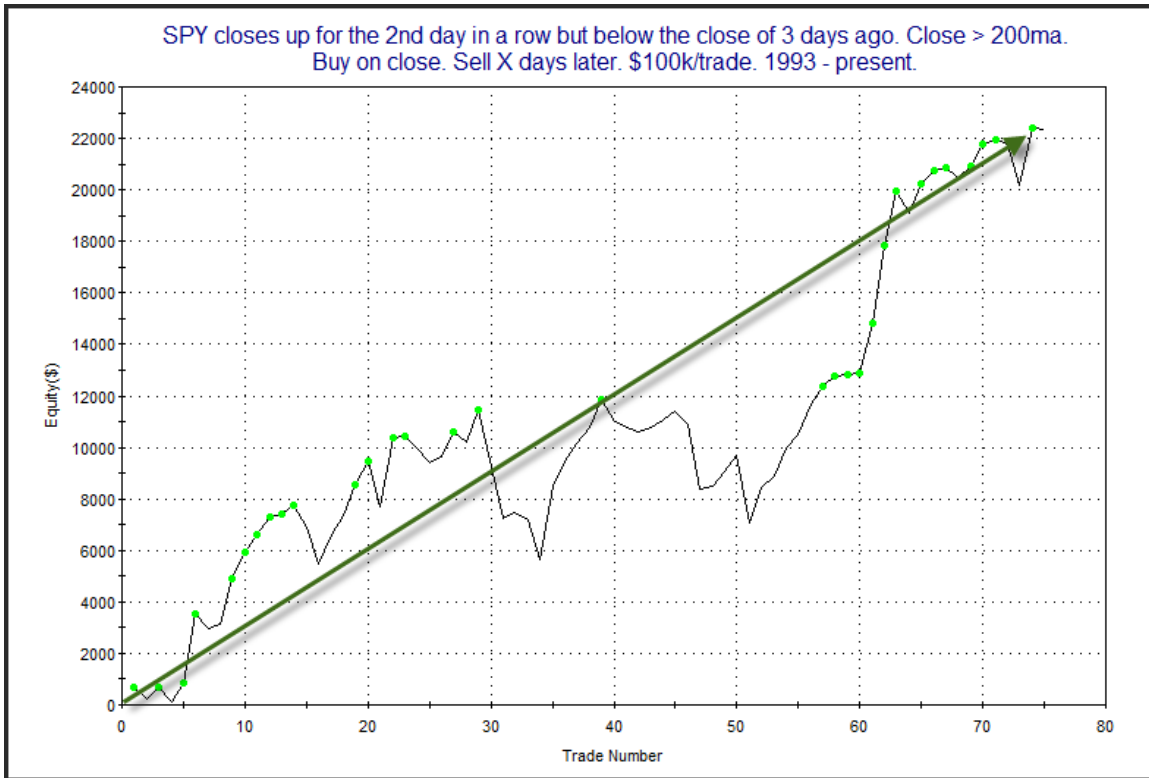
In the morning the market gave the illusion that it was actually going to move. By close, everything was back near where it finished on Wednesday. The SPX fell 0.05%, the NASDAQ was down 0.2%, and the Russell 2000 declined 0.5%. Breadth was moderately negative as the NYSE Up Issues % was 39% and Up Volume % came in at 36%. Total NYSE volume rose for the 2nd day in a row.

While SPX closed down just barely, SPY was up slightly (1 cent). This triggered a couple of moderately interesting (and largely offsetting) studies.

The first one, which tilted bullish, was last published in the 5/10/11 Letter and it looked at times the SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. I have updated that study below.

SPY closes up for the 2nd day in a row but below the close of 3 days ago. 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
5	14,350.09	73	43	29	58.90	1,491.78	4,717.70	-1,717.11	-6,549.84	0.87	1.29	196.58
4	18,303.74	74	46	28	62.16	1,392.27	4,698.60	-1,633.60	-4,384.89	0.85	1.40	247.35
3	13,031.94	75	45	30	60.00	1,243.71	3,000.00	-1,431.16	-4,092.24	0.87	1.30	173.76
2	22,370.18	75	51	24	68.00	892.40	3,010.00	-964.26	-2,673.44	0.93	1.97	298.27
1	4,142.13	75	44	29	58.67	569.63	2,173.64	-721.44	-1,777.90	0.79	1.20	55.23

The stats appear to suggest an upside edge over the 1st 2 days. Below is an equity curve using a 2-day exit strategy.



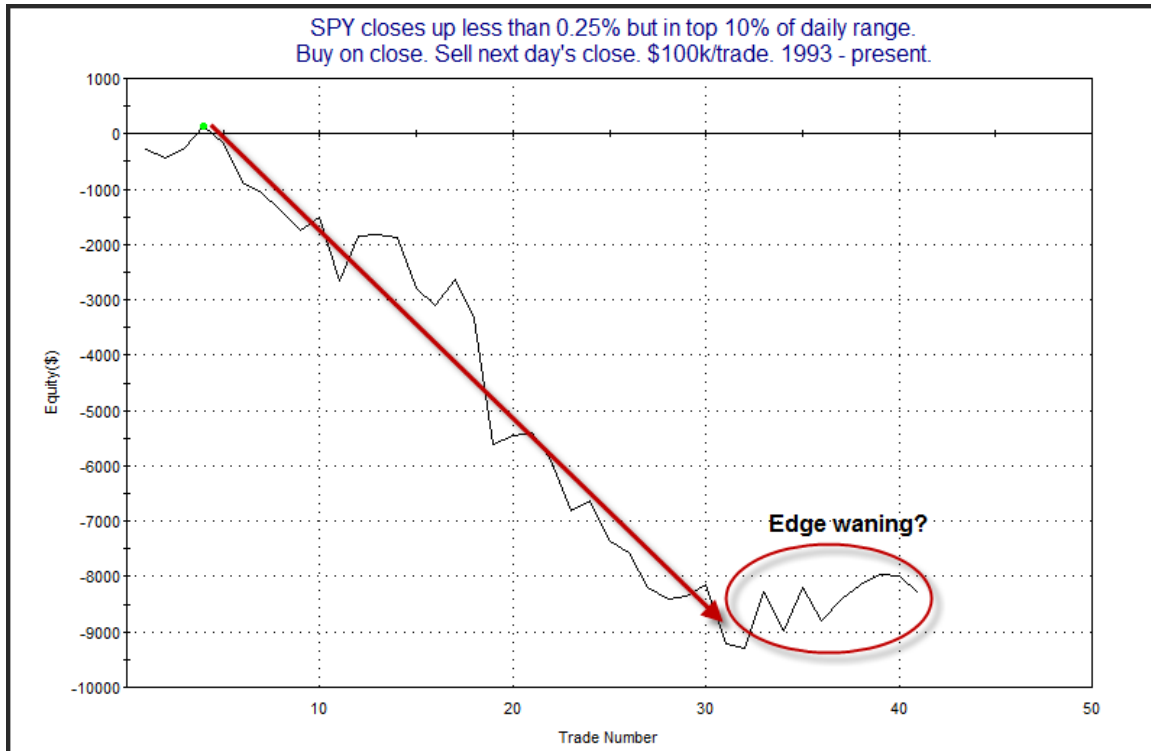
There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

On the bearish side is the next study, which was last seen in the 1/5/12 letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closes up less than 0.25% but in top 10% of daily range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$8,302.96)	Profit Factor	0.40
Gross Profit	\$5,448.06	Gross Loss	(\$13,751.02)
Total Number of Trades	41	Percent Profitable	39.02%
Winning Trades	16	Losing Trades	25
Even Trades	0		
Avg. Trade Net Profit	(\$202.51)	Ratio Avg. Win:Avg. Loss	0.62
Avg. Winning Trade	\$340.50	Avg. Losing Trade	(\$550.04)
Largest Winning Trade	\$1,015.84	Largest Losing Trade	(\$2,290.72)

The stats seem to suggest a mild bearish inclination. Below is a profit curve showing how the edge has played out over time.



For a long time there was an obvious downside inclination. Recent results have simply shown sideways chop, though. I'll still treat this as a bearish edge, but will keep a close eye on the right side of the chart.

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



Without any new studies tonight the green Aggregator Line remained very 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 remained slightly above zero. This means the SPX is “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. And with both of them so close to 0, it doesn’t get any more neutral than this. So the Aggregator System remained flat 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 turn slightly positive on Friday. Of course this could easily change if more bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1,459.53 on Friday. An inverted pivot means the Differential Line will cross 0 on a flat SPX close. In this case it would therefore take a drop of about 0.05% in order to keep the SPX oversold.

Sideways market are boring. And they rarely provide substantial edges. So it remains a waiting game. For those inclined to daytrade, the 3/10 Offset HV indicator is still very low. As I discussed last night, this normally indicates it could be an opportune time to play an Opening Range Breakout trade.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/17– bullish

The intermediate-term outlook was last updated in the 9/17 letter. A link is below:

[2012-09-17 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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