

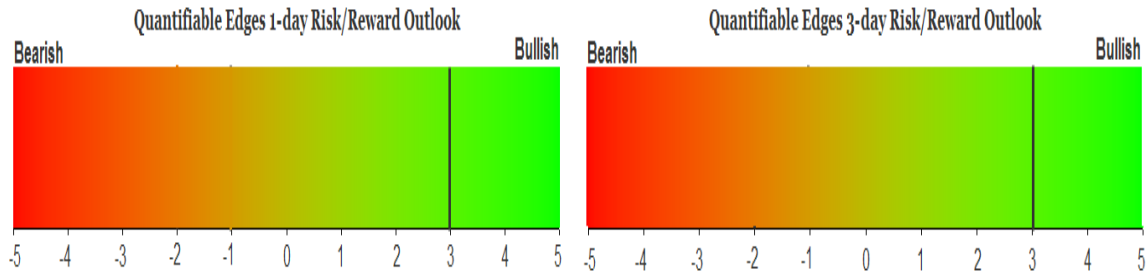
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 25, 2012

Volume 5 Issue 185

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 3-day pullbacks going into a Tuesday have been strongly prone to upside reversals.
- The persistently low 3/10 Offset HV near a high price level has led to short-term rallies most often over the years.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator flipped from negative to positive. I'm looking to take on long exposure.

**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 25, 2012	3/10 HV < 0.25 4 days > 10ma > 200ma	1-4 days	Bullish	1.00%
September 25, 2012	3 down Turnaround Tuesday	1-5 days	Bullish	2.60%
September 24, 2012	SPX dn. Up Issues > 55%	1-3 days	Bullish	
September 24, 2012	Weakest week	1-4 days	Bearish	
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%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
September 21, 2012	Up 2 days but < 3 ago	1-2 days	Bullish	

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

**The Evidence**

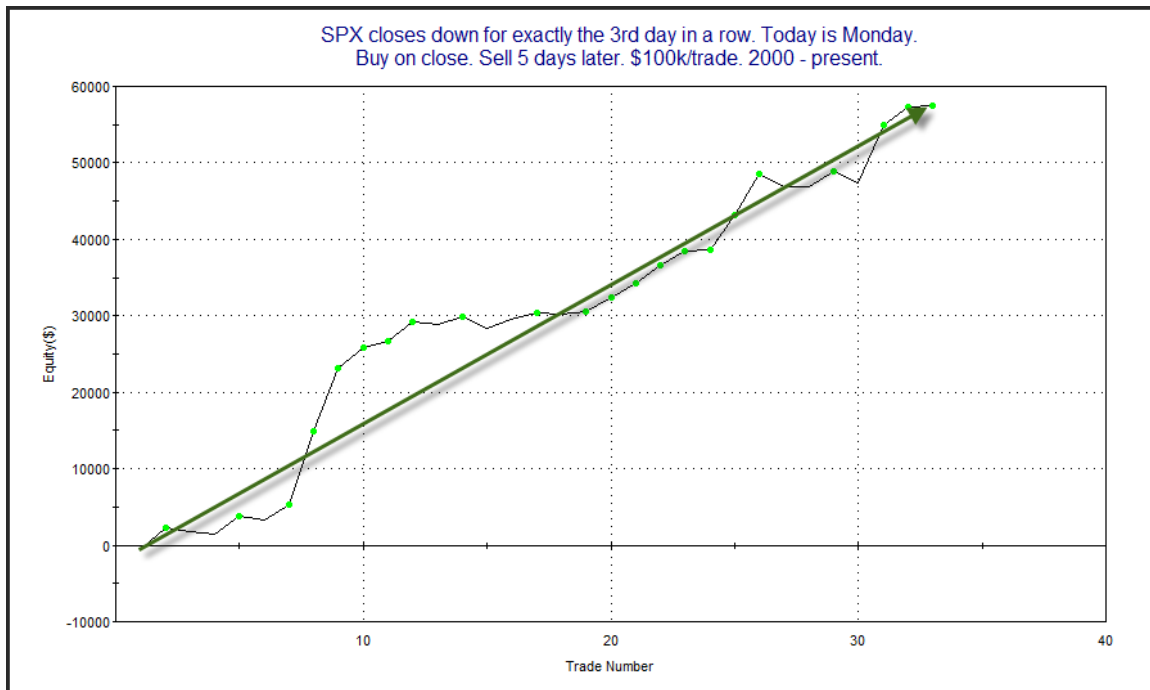
After gapping down on Monday the market fought it ay back. But then selling in the last hour left everything in the red. The SPX declined 0.2%, the NASDAQ dropped 0.6%, and the Russell 2000 declined 0.4%. Breadth was negative as the NYSE Up Issues % was 40% and the Up Volume % came in at 38%. Total NYSE volume was the lightest in about 2 weeks.

I've discussed many times in the past that Tuesdays have a well-earned reputation for being a day when the market will often halt a decline. The study below is one from the larger **Turnaround Tuesday study**. It was last published in the 7/10/12 Subscriber Letter. All statistics are updated.

SPX closes down for exactly the 3rd day in a row. Today is Monday. 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	60,746.64	32	25	7	78.13	2,854.72	13,815.90	-1,517.34	-4,387.46	1.88	6.72	1,898.33	
9	65,366.21	32	26	6	81.25	2,704.70	11,206.23	-825.98	-1,686.96	3.27	14.19	2,042.69	
8	64,562.88	32	26	5	81.25	2,706.09	11,382.35	-1,159.07	-2,031.30	2.33	12.14	2,017.59	
7	63,524.76	32	27	5	84.38	2,578.80	11,104.17	-1,220.59	-2,148.96	2.11	11.41	1,985.15	
6	51,393.67	32	24	8	75.00	2,433.36	10,034.53	-875.87	-1,676.79	2.78	8.33	1,606.05	
5	57,414.91	33	24	9	72.73	2,688.43	9,572.31	-789.72	-1,714.92	3.40	9.08	1,739.85	
4	45,998.27	33	27	6	81.82	1,946.48	8,810.76	-1,092.79	-2,964.25	1.78	8.02	1,393.89	
3	37,957.41	33	23	10	69.70	1,994.02	8,432.34	-790.51	-1,873.02	2.52	5.80	1,150.22	
2	26,578.76	33	25	8	75.76	1,323.28	5,018.23	-812.91	-1,590.28	1.63	5.09	805.42	
1	18,144.12	33	21	12	63.64	1,301.04	4,723.23	-764.80	-2,680.15	1.70	2.98	549.82	

**30 of 33 instances (91%) posted at least 1 close above the entry price at some point in the next week.**

As you can see the market has strongly favored a quick move higher. And when that move hasn't happened on Tuesday it has often happened in the next few days. Below is an equity curve showing a 4-day exit strategy.



While the strength of the edge has oscillated some it has provided fairly consistent results over time. Certainly this study seems to suggest an upside edge.

In the 12/15/11 letter I showed that 3-day pullbacks with a low 3/10 Offset HV reading tend to be more reliable than those with high readings. Monday's reading was again a very low 0.12. So tonight I decided to filter the above Turnaround Tuesday study to see other times it occurred in conjunction with a low 3/10 Offset HV. There were only 4 instances – so I wouldn't read much into it, but they were remarkably strong and I have listed them below.

SPX closes down for exactly the 3rd day in a row. Today is Monday.  
3/10 Offset HV<0.25. Buy on close. Sell 5 days later. \$100k/trade. 2000 - present

Date/Time	Signal	Price	% Profit	Run-up Drawdown
06/12/00	Buy	\$1,446.00	2.77%	\$2,962.17
06/19/00	Sell	\$1,486.00		(\$249.78)
08/05/02	Buy	\$834.60	8.29%	\$9,442.65
08/12/02	Sell	\$903.80		\$0.00
08/04/08	Buy	\$1,249.02	4.51%	\$5,130.40
08/11/08	Sell	\$1,305.31		\$0.00
01/10/11	Buy	\$1,269.75	1.99%	\$2,052.18
01/18/11	Sell	\$1,295.02		(\$10.14)

While it is only 4 instances, the early instances show incredible run-up/drawdown stats to go along with the large 5-day returns.

The 3/10 Offset HV indicator has continued to show extremely low readings. Historically a very low reading has commonly been followed by an expansion in volatility. Over the last 4 days though HV has remained very low. I've discussed this indicator and this tendency in the Subscriber Letter the last few days.

It's very rare to see low 3/10 Offset HV readings occur for 4 days in a row. I did study similar conditions in the 7/10/12 Subscriber Letter. I have updated that study below.

SPX 3/10 Offset HV < 0.3 for exactly the 4th day in a row. Close > 10ma & 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1961 - 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	13,638.57	23	18	5	78.26	1,153.68	3,131.52	-1,425.54	-3,082.28	0.81	2.91	592.98
4	13,157.19	23	19	3	82.61	901.60	4,018.24	-1,324.43	-2,088.32	0.68	4.31	572.05
3	6,817.14	23	15	8	65.22	864.00	3,405.76	-767.86	-2,168.64	1.13	2.11	296.40
2	3,366.52	23	15	8	65.22	504.74	2,681.92	-525.57	-1,244.96	0.96	1.80	146.37
1	2,595.19	23	15	8	65.22	335.18	1,187.84	-304.06	-621.18	1.10	2.07	112.83

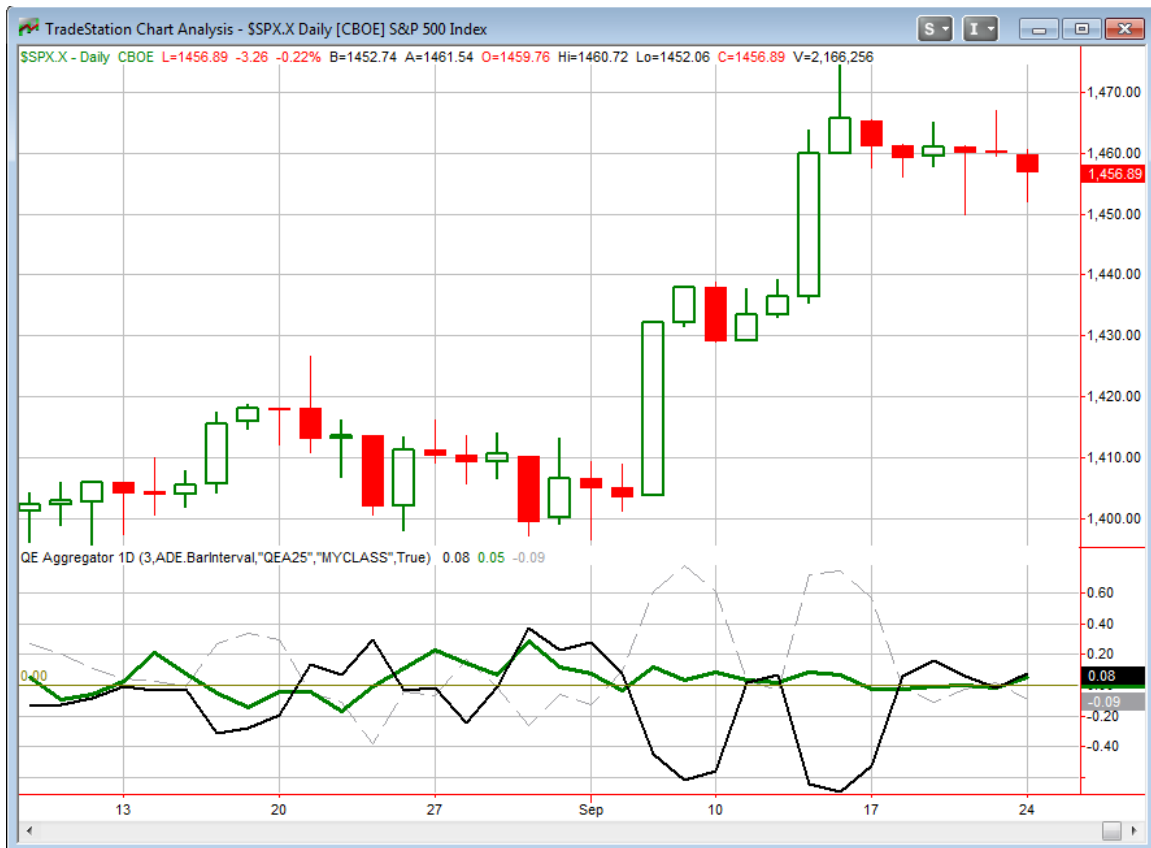
With the market trading above both its 10ma and 200ma such consistently low 3/10 Offset HV readings have been followed by an upside expansion very consistently. Below is a list of all instances using a 4-day exit strategy.

SPX 3/10 Offset HV < 0.3 for exactly the 4th day in a row. Close > 10ma & 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1961 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/11/61	Buy	\$66.39	1.51%	\$1,506.00
05/17/61	Sell	\$67.39		\$0.00
10/13/61	Buy	\$68.04	0.60%	\$602.29
10/19/61	Sell	\$68.45		(\$279.11)
11/22/61	Buy	\$71.70	0.00%	\$209.10
11/29/61	Sell	\$71.70		\$0.00
01/25/63	Buy	\$65.92	0.42%	\$485.12
01/31/63	Sell	\$66.20		(\$106.12)
12/09/63	Buy	\$73.96	0.14%	\$135.20
12/13/63	Sell	\$74.06		(\$81.12)
02/20/64	Buy	\$77.62	0.00%	\$322.00
02/27/64	Sell	\$77.62		\$0.00
09/10/64	Buy	\$83.10	0.17%	\$421.05
09/16/64	Sell	\$83.24		(\$120.30)
09/13/65	Buy	\$89.38	0.75%	\$749.06
09/17/65	Sell	\$90.05		(\$391.30)
12/17/65	Buy	\$92.08	0.12%	\$228.06
12/23/65	Sell	\$92.19		(\$466.98)
03/10/67	Buy	\$88.89	1.35%	\$1,348.80
03/16/67	Sell	\$90.09		(\$606.96)
05/01/68	Buy	\$97.97	0.95%	\$948.60
05/07/68	Sell	\$98.90		\$0.00
04/02/71	Buy	\$100.56	1.53%	\$1,530.76
04/08/71	Sell	\$102.10		\$0.00
07/09/71	Buy	\$100.69	(1.40%)	\$129.09
07/15/71	Sell	\$99.28		(\$1,459.71)
06/27/75	Buy	\$94.81	(0.49%)	\$400.52
07/03/75	Sell	\$94.35		(\$664.02)
06/13/78	Buy	\$99.57	(2.09%)	\$1,104.40
06/19/78	Sell	\$97.49		(\$3,062.20)
05/21/80	Buy	\$107.72	4.02%	\$4,640.00
05/28/80	Sell	\$112.05		(\$361.92)
09/13/88	Buy	\$267.42	0.52%	\$1,264.47
09/19/88	Sell	\$268.82		(\$33.57)
07/14/89	Buy	\$331.84	0.50%	\$1,670.55
07/20/89	Sell	\$333.51		(\$328.09)
03/26/96	Buy	\$652.97	0.12%	\$148.41
04/01/96	Sell	\$653.73		(\$1,236.24)
09/30/96	Buy	\$687.31	2.06%	\$2,092.35
10/04/96	Sell	\$701.46		(\$416.15)
10/28/10	Buy	\$1,183.78	1.20%	\$1,219.68
11/03/10	Sell	\$1,197.96		(\$514.92)
12/10/10	Buy	\$1,240.40	0.20%	\$506.40
12/16/10	Sell	\$1,242.87		(\$604.00)
08/13/12	Buy	\$1,404.11	1.00%	\$1,036.60
08/17/12	Sell	\$1,418.16		(\$249.21)

This study has shown very strong upside consistency. Oddly, it went 14 years without a single instance and now this marks the 4<sup>th</sup> in the last 2 years. I decided to include it among the active studies.

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



With the new studies tonight the green Aggregator Line popped above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also rose 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 caused the Aggregator system to flip from short to long at the close. This was indicated as likely on the systems page shortly before the bell.

Based on the current open studies, expectations are scheduled to remain positive on Tuesday. Of course this could easily change if more bearish evidence emerges. The Differential Pivot will near even at 1,459.78 on Tuesday. This is only 0.2% above

Monday's close. So it won't take much of a move up to turn the SPX back to overbought and close out the long Aggregator signal.

Despite the fact that the Aggregator signal could quickly close out here, I like this long signal. I considered scaling in with a standard index trade. Then I thought perhaps I would just pull an example from the "systems triggered" sheet tonight for a trade idea. When I pulled it up I noticed how many symbols were triggering system 11111. I then notice that SPY was one of the securities triggering 11111. So I ran a performance report to see how SPY had done over time with 11111. Those results are below.

List of trades triggering system 11111 for SPY. \$100k/trade. 1994 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/06/94	Buy	\$47.25	0.53%	\$655.03
09/08/94	Sell	\$47.50		(\$253.56)
04/03/95	Buy	\$50.12	0.58%	\$877.80
04/04/95	Sell	\$50.41		(\$99.75)
05/19/95	Buy	\$51.98	1.33%	\$1,468.39
05/22/95	Sell	\$52.67		(\$114.42)
02/16/96	Buy	\$65.06	0.06%	\$275.94
02/21/96	Sell	\$65.10		(\$1,808.94)
10/01/96	Buy	\$68.59	0.57%	\$670.22
10/01/96	Sell	\$68.98		(\$218.55)
12/04/96	Buy	\$74.83	0.73%	\$788.24
12/09/96	Sell	\$75.38		(\$2,899.12)
11/24/99	Buy	\$140.75	0.36%	\$1,508.04
12/02/99	Sell	\$141.25		(\$1,239.00)
11/02/06	Buy	\$136.51	1.15%	\$1,292.10
11/06/06	Sell	\$138.08		(\$226.30)
09/01/09	Buy	\$101.95	0.11%	\$1,257.75
09/04/09	Sell	\$102.06		(\$2,320.50)
03/23/12	Buy	\$139.20	1.73%	\$1,730.38
03/26/12	Sell	\$141.61		(\$466.70)
08/24/12	Buy	\$140.31	2.47%	\$2,463.70
09/06/12	Sell	\$143.77		(\$127.80)

11-0 is pretty impressive. So rather than take another security for the trade idea, I circled back and have decided to begin scaling in to an index trade. Details are in the trade ideas section.

Subscribers may find a link to system the 11111 page below:

<http://www.quantifiableedges.com/members/11111.php>

***Intermediate-term Outlook (2 weeks – 2 months)– updated 9/24– bullish***

The intermediate-term outlook was last updated in the 9/24 letter. A link is below:

[2012-09-24 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 –***

**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 @ \$145.65 limit.*** Based on short-term outlook and system 11111 from above.

**Current Open Trade Ideas**

None

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