

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 28, 2012

Volume 5 Issue 188

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The unfilled gap up in SPY helped create a bullish pattern.

## Short-term Outlook

### The Bottom Line

The bounce looks good so far. I am looking to hold on a little longer.

## 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 28, 2012	Unfill gap up from 10-low > 200	1-4 days	Bullish	1.90%
September 27, 2012	QE Buying Power Swing signal	1-3 days	Bullish	1.80%
September 26, 2012	4 down on Tuesday	1-6 days	Bullish	2.65%
September 26, 2012	4 down. Biggest today. > 200ma	1-3 days	Bullish	1.80%
September 25, 2012	3/10 HV < 0.25 4 days > 10ma > 200ma	1-4 days	Bullish	1.00%
<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	
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 24, 2012	Weakest week	1-4 days	Bearish	

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

**The Evidence**

Thursday saw a strong bounce off the oversold conditions with all the indices posting solid gains. The SPX rose just under 1.0%, the NASDAQ gained 1.4%, and the Russell 2000 rallied 1.2%. Breadth was strongly positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 82%. Total NYSE volume was low, coming in at nearly the lowest level in a month.

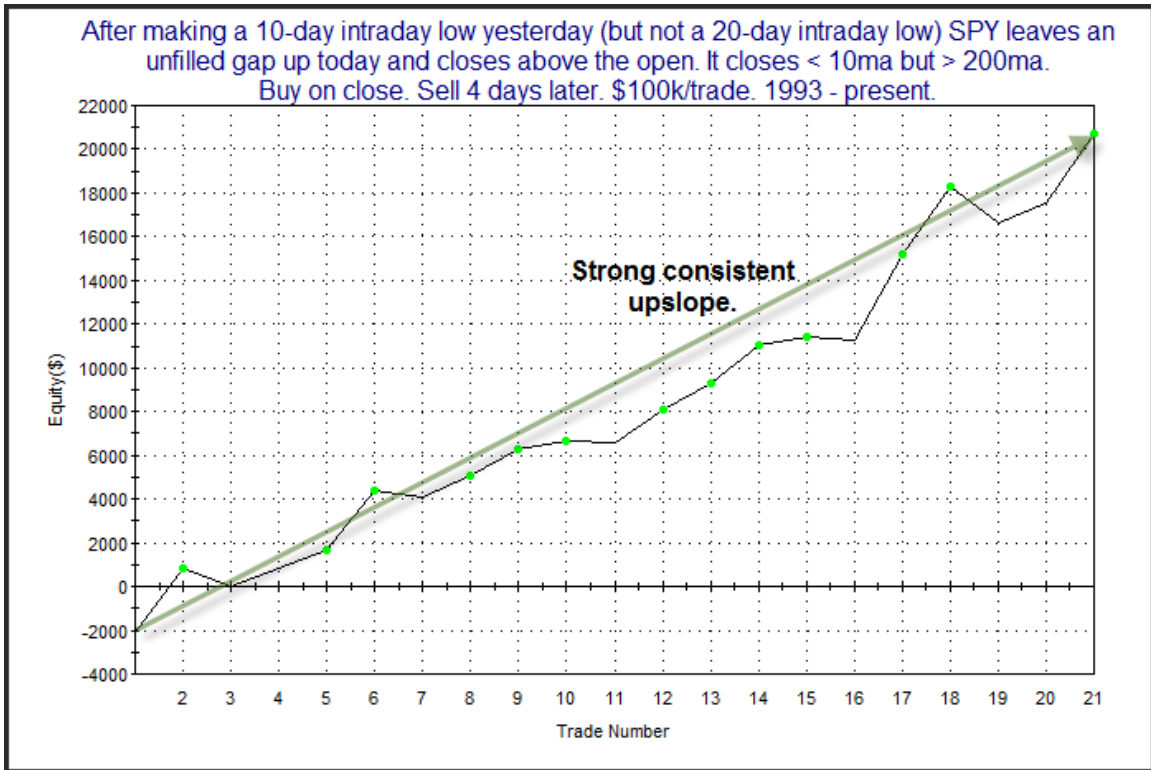
There were a few studies that triggered in the Quantifinder today. The only one that was strongly compelling examined SPY's move. The price action in SPY showed some real strength in that it gapped up, never filled, and closed above the open. When the market is coming off an oversold level in an uptrend and is still not overbought, this pattern will often be followed by further gains. This was demonstrated in the 3/8/12 letter. And in the 5/22/12 letter I also showed that when the SPY pattern occurs following a short-term low it appears to provide a bullish edge, but when it occurs after an intermediate-term low then the bullish inclinations no longer hold true. The current setup is bullish and I have updated the stats below.

After making a 10-day intraday low yesterday (but not a 20-day intraday low) SPY leaves an unfilled gap up today and closes above the open. It closes < 10ma but > 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
10	19,526.04	21	14	7	66.67	2,358.32	5,666.72	-1,927.20	-4,060.20	1.22	2.45	929.81
9	24,055.98	21	12	9	57.14	2,927.78	6,522.72	-1,230.82	-3,329.90	2.38	3.17	1,145.52
8	26,594.29	21	15	6	71.43	2,424.44	5,468.09	-1,628.73	-5,654.80	1.49	3.72	1,266.39
7	25,074.83	21	15	5	71.43	2,452.99	5,136.00	-2,344.00	-9,172.30	1.05	3.14	1,194.04
6	21,025.08	21	14	7	66.67	2,147.49	5,589.68	-1,291.40	-3,309.80	1.66	3.33	1,001.19
5	20,537.88	21	16	5	76.19	1,560.18	4,106.63	-885.01	-1,949.70	1.76	5.64	977.99
4	20,744.55	21	15	6	71.43	1,722.11	3,904.83	-847.84	-2,096.99	2.03	5.08	987.84
3	13,162.06	22	14	8	63.64	1,414.84	3,914.92	-830.71	-1,874.00	1.70	2.98	598.28
2	9,481.89	22	14	8	63.64	1,238.54	2,828.00	-982.21	-2,183.21	1.26	2.21	430.99
1	801.62	22	11	10	50.00	805.08	1,431.89	-805.42	-2,895.33	1.00	1.10	36.44

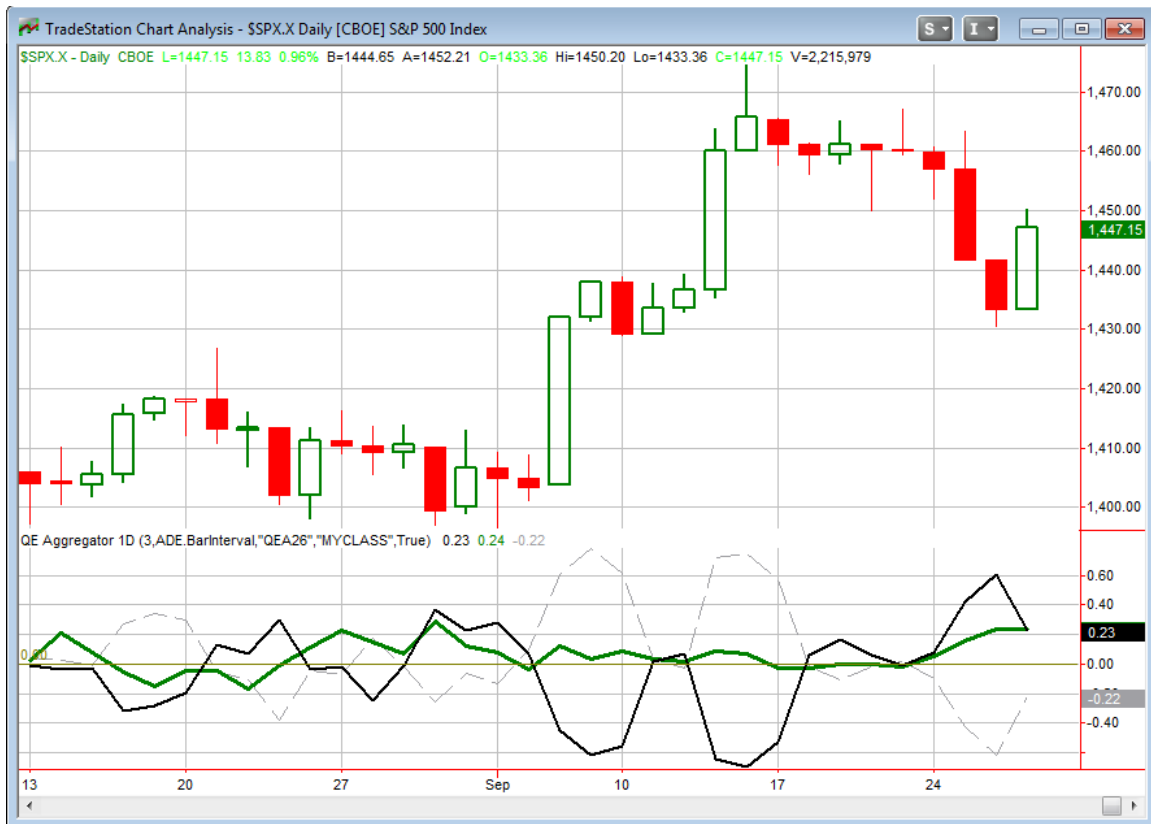
**All 22 instances closed above the entry price at some point in the next week.**

100% reliability is comforting and the size of the moves are impressive as well. Below is an equity curve that assumes a 4-day holding strategy.



The upslope appears very consistent as well. This study is very compelling and I have included it on the Active List.

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



The green Aggregator Line tonight stayed strongly above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also well 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 remain long at the close. This was indicated as likely on the systems page shortly before the bell.

With all the current short-term studies bullish, expectations are scheduled to remain positive on Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be mildly inverted at 1,444.24 on Friday. An inverted pivot means the Differential Line will cross 0 on a flat close. In this case the SPX will need to decline 0.2% if it is going to remain oversold. Otherwise, it will be considered overbought. So the Aggregator system will close out its long signal on a close above this inverted pivot.

The unfilled gap up was unfortunate from the standpoint of not being able to get a fill on last night’s trade ideas. I am not going to add any more exposure on Friday but will instead just look to manage my open positions. Among the Catapults, INTC did hit its exit target and will be sold at the open.

**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**

MS @ \$16.60 (buy 1/3 @ limit)

GS @ \$113.50 (buy 1/3 @ limit)

C @ \$32.51 (buy 1/3 @ limit) – *not filled*

BAC @ \$8.81 (buy 1/3 @ limit) – *not filled*

MS @ \$16.43 (buy 1/3 @ limit) – *not filled*

GS @ \$113.08 (buy 1/3 @ limit) – *not filled*

**Catapult for ETF's Trades**

*None*

**Broad Market Large Cap CBI – 6/4(MS-2, GS-2, C, BAC)**

**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. ALL ORDERS FROM LAST NIGHT ARE NOW CANCELED.***

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/25/2012	\$145.65	\$144.64	-0.69%		Aggregator
SPY(1/4)	9/26/2012	\$144.07	\$144.64	0.40%		Aggregator
INTC(1/3)	9/26/2012	\$22.53	\$23.08	2.44%		<b>sell on open</b>
MS(1/3)	9/26/2012	\$16.60	\$16.84	1.45%		Catapult
GS(1/3)	9/26/2012	\$113.18	\$115.23	1.81%		Catapult

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