

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 2, 2012

Volume 5 Issue 190

Market Overview



Signals Overview

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

Tonight's Research Points

- When the VIX and SPX both rise on a Monday and the SPX is above the 200ma, Tuesday has often faltered.

Short-term Outlook

The Bottom Line

Evidence is mixed and the bounce has not quite played out according to plan. While I believe we should still get more upside in the coming days, I am now seeing short-term signs suggesting caution. Therefore, I am looking to take partial profits while maintaining a small long position. Of course I'll re-evaluate my exposure tomorrow night as I do every night.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 2, 2012	SPX up. VIX up on Monday.	1 day	Bearish	
October 1, 2012	Last Day of Month < 10ma > 200ma	1-5 days	Bullish	2.20%
October 1, 2012	Unfilled gap up. Unfilled gap down.	1-3 days	Bearish	-1.60%
September 28, 2012	Unfill gap up from 10-low > 200	1-4 days	Bullish	1.90%
September 26, 2012	4 down on Tuesday	1-6 days	Bullish	2.65%
Active - Long Term				
September 17, 2012	QE3	int term	Bullish	
September 17, 2012	SPX and TNX hit 50-day high	1-20 days	Bearish	
July 30, 2012	SPX 50-day high on 90% up vol	1-50 days	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
September 27, 2012	QE Buying Power Swing signal	1-3 days	Bullish	1.80%

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

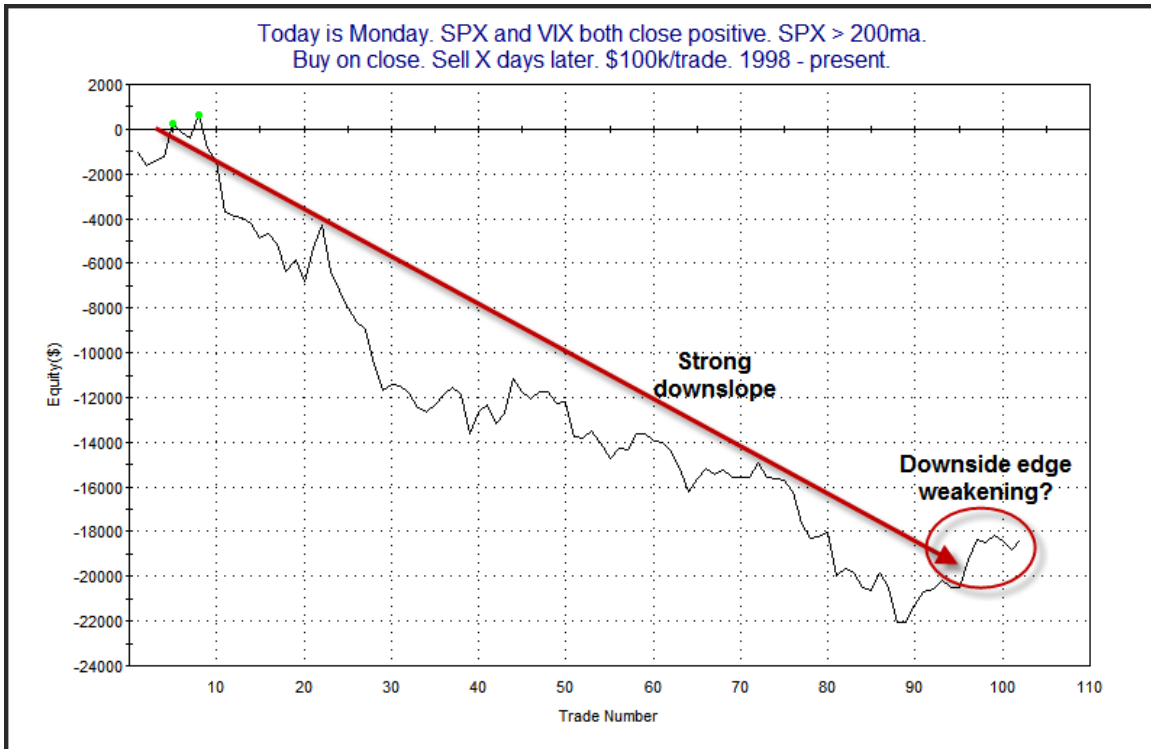
The Evidence

After trading strongly higher in the morning the market reversed course in the afternoon and finished mixed. The SPX and Russell 2000 each gained 0.3% while the Nasdaq lost 0.1%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % also came in at 62%. Total NYSE volume came in a bit lower than Friday.

Strange about the rise in the SPX Monday was that it was accompanied by a rise in the VIX as well. Most of the time they mirror each other. One quirk with the VIX is that it has a tendency to fall on Fridays and rise on Mondays. Therefore this setup is more common on Mondays than any other day of the week. This condition was last present and discussed in the 1/10/12 subscriber letter. There I found it to suggest a 1-day bearish edge. I've again updated the 1-day results below.

TradeStation Performance Summary Collapse ↕				
All Trades				
Total Net Profit	(\$18,333.57)	Profit Factor		0.53
Gross Profit	\$20,804.64	Gross Loss		(\$39,138.21)
Total Number of Trades	102	Percent Profitable		41.18%
Winning Trades	42	Losing Trades		60
Even Trades	0			
Avg. Trade Net Profit	(\$179.74)	Ratio Avg. Win:Avg. Loss		0.76
Avg. Winning Trade	\$495.35	Avg. Losing Trade		(\$652.30)
Largest Winning Trade	\$1,507.50	Largest Losing Trade		(\$2,210.40)

This still appears to suggest a 1-day edge. Below is the equity curve so you can see how it has played out over time.



The edge here has been pretty consistent over the years, but has weakened lately. It's too early to declare it dead. The general slope still remains lower. So while I think it bears watching closely, I have still included on the Active List for the time being.

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



With tonight's study included the green Aggregator Line dipped a little but still stayed squarely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dropped down below zero. This means the SPX is "overbought" versus recent expectations. So net expectations are bullish but the SPX is now overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator system to turn from long to flat 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 change if strong bearish evidence emerges. The Differential Pivot will be *strongly inverted* at 1,456.21 on Tuesday. An inverted pivot means the Differential Line will cross 0 on a flat close. In this case the SPX will need to *rise about 0.8% if it is going to remain overbought*. Otherwise, it will be considered oversold.

This has been a very weak bounce and a little discouraging. Historical precedent suggests the bounce over the last few days *should* have been better. Since the market isn't acting the quite the way it is supposed to I am comfortable lightening up a little bit. Looking at the short-term risk/reward at the top of the letter you'll note that the 1-day is

at -1. This is because although net expectations over the next 3 day are positive, the 1-day expectations are actually negative. I will be taking profits on the Catapults that triggered exits Monday. I will also take off 1 of the 2 SPY lots. If the market does fall on Tuesday as tonight's study suggests, then that could set up another index buying opportunity. I may look to buy the 2nd lot back on Wednesday depending on how the decline occurs and what studies emerge Tuesday. For now I'll simply look to lighten up a bit as detailed in the trade ideas section.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/1– bullish

The intermediate-term outlook was last updated in the 10/1 letter. A link is below:

[2012-10-01 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

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

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/25/2012	\$145.65	\$144.35	-0.89%		Aggregator
SPY(1/4)	9/26/2012	\$144.07	\$144.35	0.19%		sell on open
MS(1/3)	9/26/2012	\$16.60	\$16.79	1.14%		sell on open
GS(1/3)	9/26/2012	\$113.18	\$116.86	3.25%		sell on open

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