

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 3, 2012

Volume 5 Issue 191

Market Overview



Signals Overview

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

Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.

Short-term Outlook

The Bottom Line

The SPX got past Tuesday without damage. The bounce remains weaker than expected but the solid amount of pattern and seasonality-based evidence we've seen recently along with a strong liquidity push by the Fed should help it rally more in the coming days. I have a small long position and am looking to increase it on Wednesday if I can get a favorable entry.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 3, 2012	2 up < 3 days ago	1-2 days	Bullish	1.00%
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				
October 2, 2012	SPX up. VIX up on Monday.	1 day	Bearish	

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

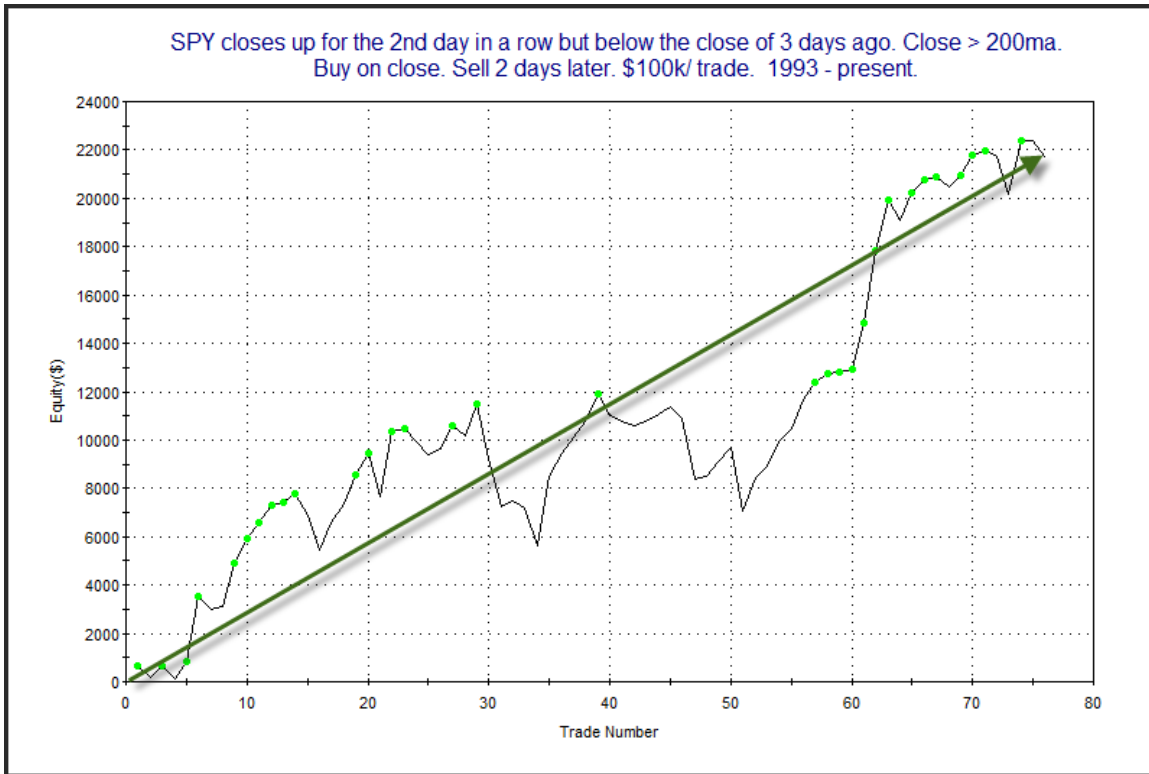
The Evidence

Tuesday saw another gap up that faded. This time a late-day rally left the indices mostly positive. The SPX gained 0.1% while the Nasdaq rose 0.2%, and the Russell 2000 closed up a mere 0.02%. Breadth was mixed as the NYSE Up Issues % was 53% and the Up Volume % came in at 49%. Total NYSE volume fell for the 2nd day.

The study below was last seen just recently in the 9/21/12 Letter. 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	12,940.42	74	43	30	58.11	1,491.78	4,717.70	-1,706.86	-6,549.84	0.87	1.25	174.87
4	15,974.72	75	46	29	61.33	1,392.27	4,698.60	-1,657.58	-4,384.89	0.84	1.33	213.00
3	11,254.53	76	45	31	59.21	1,243.71	3,000.00	-1,442.33	-4,092.24	0.86	1.25	148.09
2	21,648.32	76	51	25	67.11	892.40	3,010.00	-954.57	-2,673.44	0.93	1.91	284.85
1	3,570.09	76	44	30	57.89	569.63	2,173.64	-716.46	-1,777.90	0.80	1.17	46.97

The stats appear to suggest a mild 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.

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



The green Aggregator Line turned back up tonight and is still 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 quickly shot back above zero as anticipated last night. This means the SPX is “oversold” versus recent expectations. So net expectations are bullish and the SPX is now 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 turn from flat 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 Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,449.71 on Wednesday. So the SPX will need to rise about 0.3% to turn from oversold to overbought.

We continue to see signs that up is the more likely direction. And in addition to the active studies, we also need to keep in mind the QE Buying Power Index is at 3 and we are in a period of strong liquidity inflows. We would expect these inflows to be supportive of a bounce. I lightened up on Tuesday at the open. I was somewhat torn tonight between looking to jump back in Wednesday right away, or insisting on a down close before re-entering a 2nd lot of SPY. In the end I decided to take an early entry only if I can get a favorable price. Details are 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

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.

SPY – buy ¼ index position @ \$144.10 LIMIT ON OPEN. If not filled on open, cancel and look to buy @ \$144.50 LIMIT ON CLOSE. If I can get a gap down to buy into, I'll take it. Otherwise I'll wait until the close to try and increase my exposure.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/25/2012	\$145.65	\$144.50	-0.79%		Aggregator
SPY(1/4)	9/26/2012	\$144.07	\$144.92	0.59%		<i>sold on open</i>
MS(1/3)	9/26/2012	\$16.60	\$16.92	1.93%		<i>sold on open</i>
GS(1/3)	9/26/2012	\$113.18	\$117.70	3.99%		<i>sold on open</i>

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