

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 5, 2012

Volume 5 Issue 193

Market Overview



Signals Overview

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

Tonight's Research Points

- The employment report could bring some interesting action tomorrow but it does not provide the kind of edge it once did.

Short-term Outlook

The Bottom Line

What small amount of short-term evidence is now available is pointing up. But after 4 days of buying the market is now clearly overbought. So until either bearish evidence emerges or the SPX pulls back and relieves its overbought condition, I am unlikely to put on new swing trades.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 1, 2012	Last Day of Month < 10ma > 200ma	1-5 days	Bullish	2.20%
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 3, 2012	2 up < 3 days ago	1-2 days	Bullish	1.00%

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

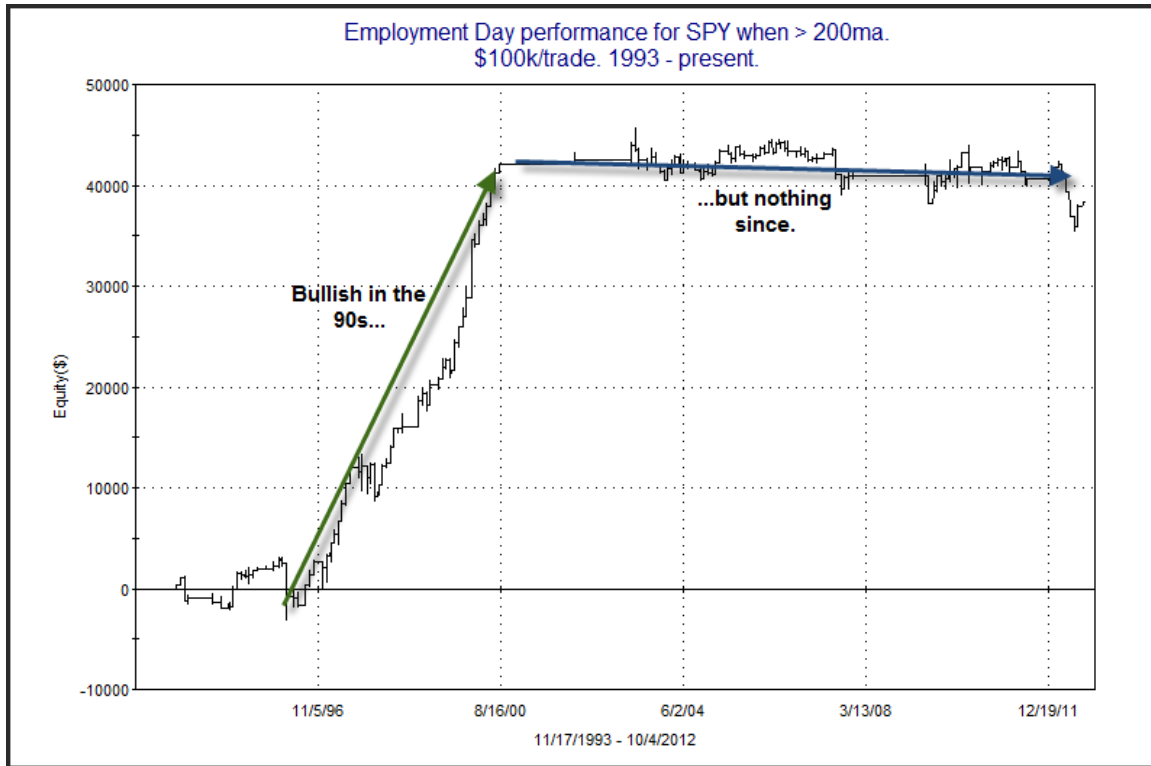
The Evidence

The “big move” alert last night was followed by a pretty big move to the upside on Thursday. The SPX and Russell 2000 each gained 0.7% while the Nasdaq rose 0.5%. Breadth was strongly positive as the NYSE Up Issues % was 72% and the Up Volume % came in at 82%. Total NYSE volume rose some from Wednesday’s level.

The SPX has risen now 4 days in a row, but evidence is not yet saying we are so overbought that a short would have a positive profit expectancy. But while there is no strong new evidence to discuss tonight, it is notable that tomorrow is an Employment Day. By that I mean that the Federal Employment Report will be released. This occurs once per month and is normally on the 1st Friday of the month. Subscribers that would like to study Employment Days on their own can find functions for them in the QE Indicators & Functions for Tradestation code available in the members section.

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

Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPY performance on Employment Days. I posted this chart in the 2/3/12 subscriber letter. For this equity curve I filtered to only include days where SPY was > its 200ma. Each trade was a fictional \$100k.



What I find so interesting about the chart is that for a long time Employment Days in uptrends showed a strong propensity for gains. But in 2000 this edge vanished. Since then there has been no apparent advantage – bullish or bearish. While it’s unusual to see such an abrupt change in market dynamics, it does serve as a nice reminder that such changes are always possible.

With the studies that have expired the last few days we are now down to just 1 short-term study (a bullish one from the 10/1 Letter). The last 2 days haven’t triggered anything compelling, and that sometimes happens when the market does these kind of slow-motion melt-ups.

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



With very little left to go on the green Aggregator Line is still mildly 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 again below. 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 remain flat at the close. This was indicated as likely on the systems page shortly before the bell.

There are no short-term studies with influence beyond Friday. With the intermediate-term outlook bullish, expectations would remain positive Friday if nothing new emerges. If new studies do emerge they will have a large influence on short-term expectations. The Differential Pivot will be 1,452.43 on Friday. This is about 0.6% below Thursday’s close. So the SPX would need to close down at least this much in order to turn from overbought to oversold.

There is really nothing for me to do but wait. The market is clearly overbought, but without compelling evidence suggesting a short-side edge, and with the [QE Buying Power Index](#) so strong, shorting just isn’t an option. And until we see a pullback or consolidation, neither is buying. So I am now sidelined and patiently awaiting the next favorable entry opportunity.

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.

[None tonight.](#)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)</i>	<i>9/25/2012</i>	<i>\$145.65</i>	<i>\$145.64</i>	<i>-0.01%</i>		<i>sold on open</i>

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2012 Hanna Capital Management, LLC.