

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 10, 2012

Volume 5 Issue 196

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 3 days lower, today being the biggest drop for the SPX, has suggested an upside edge over the next few days.

## Short-term Outlook

### The Bottom Line

I am seeing a bit more evidence suggesting a bounce, and after Tuesday's selloff the SPX is now quite oversold. So risk/reward seems to nicely favor the bull side. I am partially long and will look to get longer should the market endure another tough selloff on Wednesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
October 10, 2012	3 down. Big drop.	1-3 days	Bullish	1.60%
October 8, 2012	SPX dn. Up Issues % > 55%.	1-3 days	Bullish	1.20%
<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	
July 30, 2012	SPX 50-day high on 90% up vol	1-50 days	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	

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

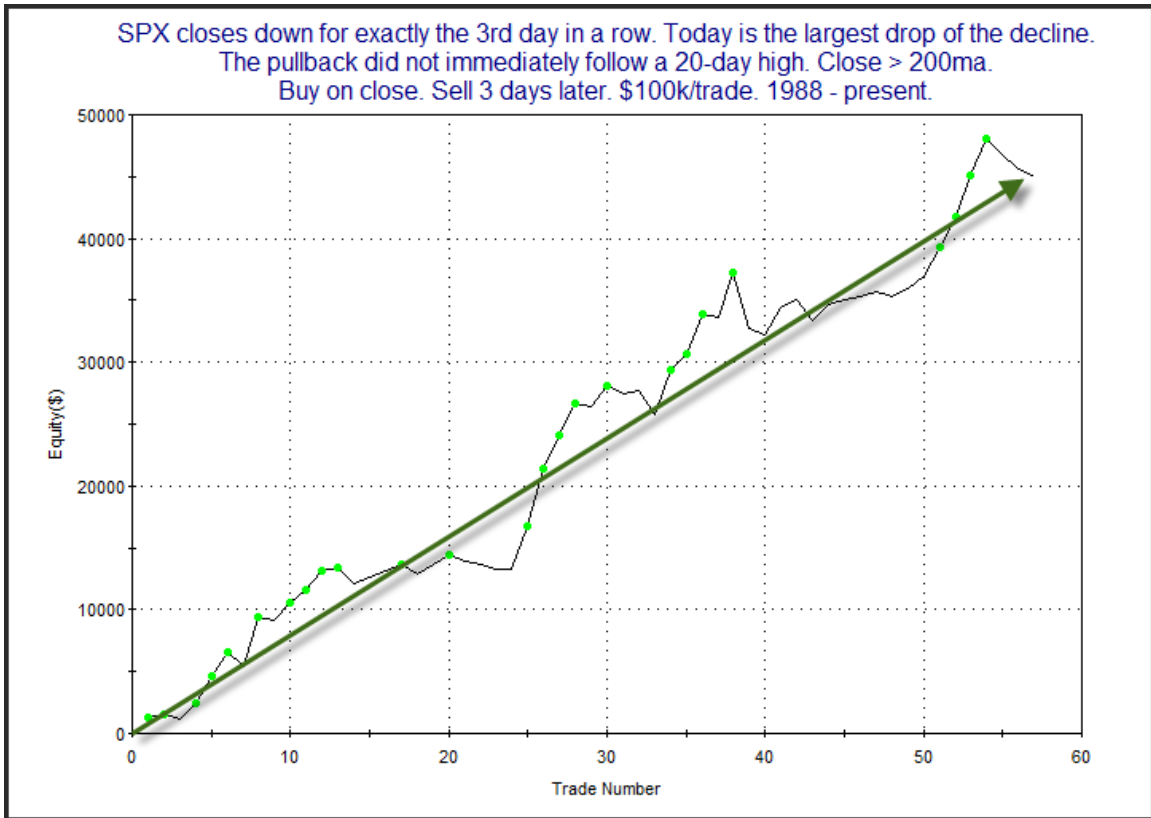
***The Evidence***

Tuesday was a tough day for the bulls, as the major indices all suffered sizable losses. The SPX fell 1.0%, the Nasdaq dropped 1.5% and the Russell 2000 lost 1.25%. Breadth was negative as the NYSE Up Issues % was 22% and the Up Volume % came in at 26%. Total NYSE volume was higher than the last couple of days, but still not very large.

The fact that Tuesday was the 3<sup>rd</sup> down day in a row was notable. I've discussed 3-day pullbacks many times before and a few studies associated with them came up tonight. They tend to provide a nice upside edge under the right conditions. The study below considers the fact that today's drop was especially large compared to the previous 2 days. It last appeared in the 5/7/12 letter. All information has been updated.

SPX closes down for exactly the 3 <sup>rd</sup> day in a row. Today is the largest drop of the decline. The pullback did not immediately follow a 20-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	43,757.75	53	36	17	67.92	2,718.16	7,724.60	-3,182.11	-13,993.88	0.85	1.81	825.62
9	58,986.96	53	40	13	75.47	2,475.19	7,138.30	-3,078.51	-10,059.36	0.80	2.47	1,112.96
8	53,745.57	54	41	13	75.93	2,328.31	6,612.06	-3,208.87	-14,092.68	0.73	2.29	995.29
7	42,979.19	54	37	17	68.52	2,204.37	8,110.70	-2,269.56	-8,018.76	0.97	2.11	795.91
6	35,067.37	55	38	17	69.09	2,090.74	8,427.90	-2,610.64	-11,373.96	0.80	1.79	637.59
5	51,132.99	56	35	21	62.50	2,119.76	6,188.00	-1,098.03	-4,961.56	1.93	3.22	913.09
4	40,364.41	57	38	19	66.67	1,700.36	4,731.13	-1,276.27	-3,863.84	1.33	2.66	708.15
3	45,015.86	57	38	19	66.67	1,669.30	4,676.10	-969.35	-4,464.88	1.72	3.44	789.75
2	31,317.80	57	37	20	64.91	1,366.21	3,744.45	-961.59	-7,559.56	1.42	2.63	549.44
1	15,283.45	57	38	19	66.67	730.98	2,503.90	-657.56	-1,814.24	1.11	2.22	268.13

Results here appear fairly impressive. Below is an equity curve that was created using a 3-day holding strategy.



The last few instances have struggled over the 3-day period. Still, the curve appears consistent enough to confirm the bullish tendency.

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



With tonight's study factored in, the green Aggregator Line moved much higher 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 now nearly as high as it has been in months. This means the SPX is strongly oversold versus recent expectations. So net expectations are bullish and the SPX is very 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.

Based on the current studies, expectations are set to remain positive on Wednesday. Of course this could change if bearish evidence emerges. The Differential Pivot will be 1,465.63 on Wednesday. This is 1.7% above Tuesday's close. A 1-day rise of that magnitude seems unlikely in this environment. A more likely scenario is that it would take a multi-day rally or consolidation to move the SPX from oversold to overbought.

Taking the more conservative approach and buying at the end of the day Tuesday rather than the beginning got me a better entry this time. So I am now partially long. I like the long-side better here than I did last night. Both lines on the Aggregator chart are quite a bit higher. This means that upside estimates are stronger and the SPX is substantially more oversold. Both help shift risk/reward toward the bulls. I'm still going to keep my position fairly light, though. [The QE Buying Power Index](#) is just at a mild 2 and expected to remain low the next few days. Additionally, the CBI is still 0. If we get

another sizable down day on Wednesday I'll scale in a bit more, but I won't increase my index position much higher than that until the CBI spikes or the QE Buying Power Index gets back up to 3+. Details on Wednesday's possible entry are in the Trade Ideas section below.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 10/8– bullish***

The intermediate-term outlook was last updated in the 10/8 letter. Link below:

[2012-10-08 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 @ \$143.00 LIMIT ON CLOSE.*** Based on short-term outlook above. I'll add another lot on a sizable drop again on Wednesday.

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	10/9/2012	\$144.20	\$144.20	0.00%		bought on close

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.