

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 18, 2012

Volume 5 Issue 202

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- 3 days of strong Nasdaq breadth is hinting at a pullback.
- The QE Buying Power Index and CBI are still in bullish territory.

Short-term Outlook

The Bottom Line

The market is extremely overbought. And some studies still favor a pullback. But those studies will be expiring tomorrow. And

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 16, 2012	High vol bounce after RSI(2)<5.	1-3 days	Bearish	
October 12, 2012	HV low. SPX not high.	1-5 days	Bearish	
Active - Long Term				
October 15, 2012	Breadth not diverging at top	int term	Bullish	
September 17, 2012	QE3	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	

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

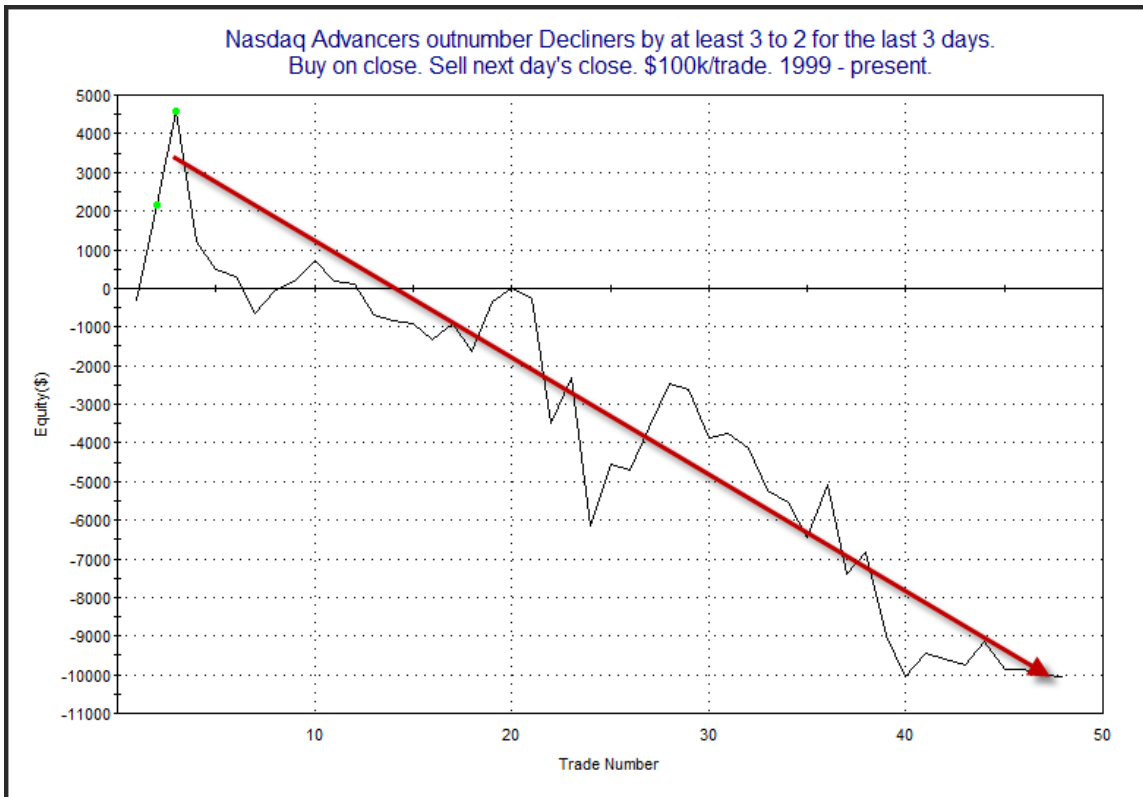
The Evidence

Thursday's results were mixed but mostly higher. The SPX rallied 0.4%, the Nasdaq rose 0.1% and the Russell 2000 gained 0.9%. Breadth was squarely positive as the NYSE Up Issues % was 68% and the Up Volume % came in at 73%. Total NYSE volume rose for the 3rd day in a row.

Once again the Quantifinder was a little bare. There was one study worth a mention that I have not reviewed since the 10/31/08 letter. It looked at other times Nasdaq advancers outnumbered decliners by more than 3:2 for 3 days in a row. It suggested a possible downside edge, which mostly played out the first day. I've updated the day-1 study results below.

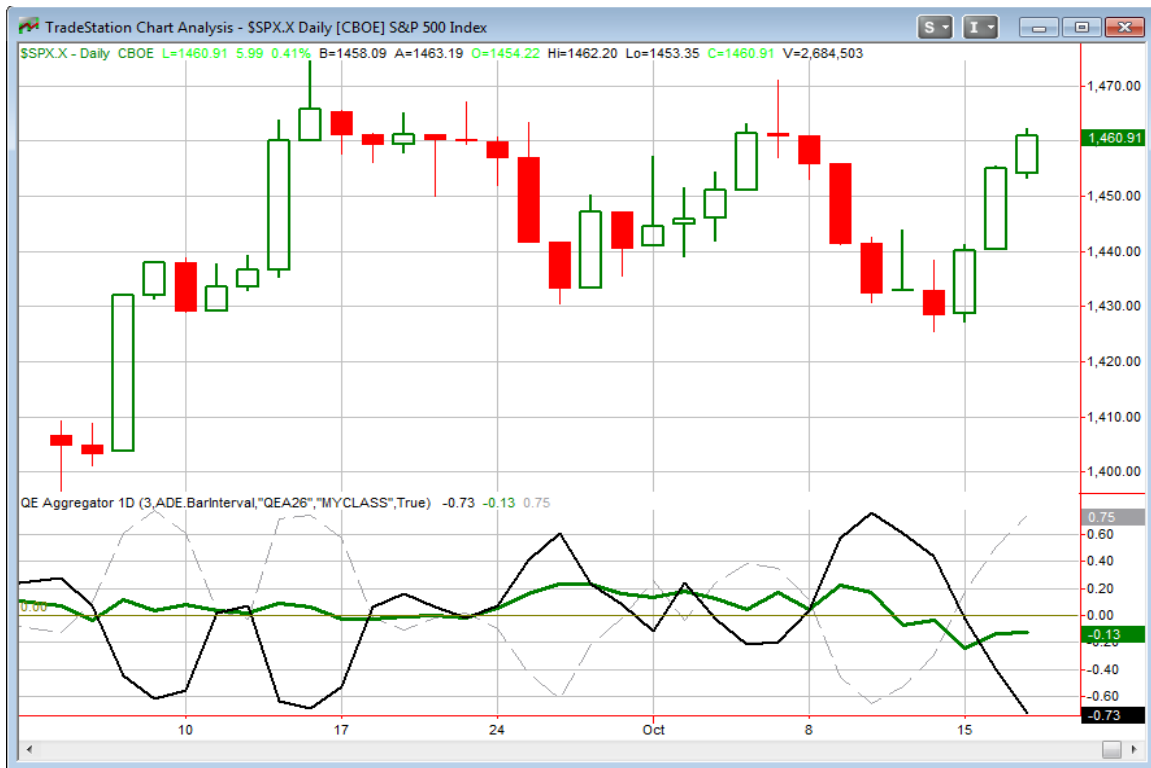
Nasdaq Advancers outnumber Decliners by at least 3 to 2 for the last 3 days. Buy on close. Sell next day's close. \$100k/trade. 1999 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$10,040.42)	Profit Factor	0.62
Gross Profit	\$16,441.89	Gross Loss	(\$26,482.31)
Total Number of Trades	48	Percent Profitable	37.50%
Winning Trades	18	Losing Trades	30
Even Trades	0		
Avg. Trade Net Profit	(\$209.18)	Ratio Avg. Win:Avg. Loss	1.03
Avg. Winning Trade	\$913.44	Avg. Losing Trade	(\$882.74)
Largest Winning Trade	\$2,459.74	Largest Losing Trade	(\$3,826.74)

The numbers imply a mild downside edge. I also produced an equity curve.



It's definitely choppy, but perhaps worth some small consideration when nothing more compelling seems to be triggering.

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



The green Aggregator Line is once again well below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is now as far below 0 as it has been in months. This means the SPX is extremely overbought versus recent expectations. So net expectations are bearish and the SPX is strongly overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator system to remain short at the close. This was indicated as likely on the systems page shortly before the bell.

All of the short-term bearish studies are set to expire on Thursday. This means that unless more bearish evidence emerges, expectations will turn positive. The Differential Pivot will be 1,434.81 on Thursday. This is 1.8% below Wednesday's close. That would be a very big 1-day drop in this environment. A more likely scenario would be either a multi-day pullback or consolidation to wear off the overbought condition.

Two indicators that have been keeping me from trying to short the last couple of days are the QE Buying Power Index and the CBI. Both can be found on [the charts page](#). The QE Buying Power Index remained at a bullish 3 today, and the CBI also remained bullish at 5. Additionally, my intermediate-term outlook is bullish, and short-term bearish evidence is expiring on Thursday. With the SPX more short-term overbought than it has been in months, a pullback seems likely. But with all the above considerations, risk/reward on a short play still appears unfavorable.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/15– bullish

The intermediate-term outlook was last updated in the 10/15 letter. Link below:

[2012-10-15 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

CVS – (\$47.06 close) – bought 1/3 position

VZ - (\$44.62 close) – bought 1/3 position

CVS – (\$47.07 close) – bought 1/3 position

VZ - (\$44.50 close) – bought 1/3 position

CVS – (\$46.90 close) – bought 1/3 position

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 5/2(CVS-3, VZ-2)

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
CVS(1/3)	10/15/2012	\$47.06	\$46.65	-0.87%		Catapult
VZ(1/3)	10/15/2012	\$44.48	\$44.72	0.54%		Catapult
CVS(1/3)	10/16/2012	\$47.07	\$46.65	-0.89%		Catapult
VZ(1/3)	10/16/2012	\$44.50	\$44.72	0.49%		Catapult
CVS(1/3)	10/17/2012	\$46.90	\$46.65	-0.53%		Catapult

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