

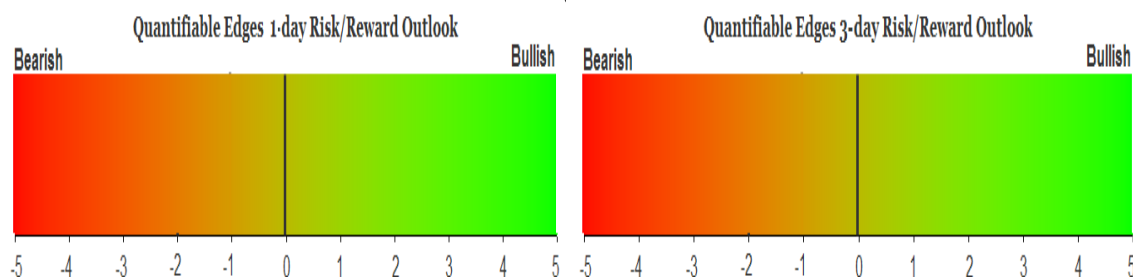
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 19, 2012

Volume 5 Issue 203

Market Overview



Signals Overview

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

Tonight's Research Points

- SPY put in a key reversal today. While they can be followed by further losses over the next few days, they rarely mark an intermediate-term top.
- The CBI is back to a neutral 3.

Short-term Outlook

The Bottom Line

Short-term evidence is lacking right now. I'm sidelined and awaiting the next strongly favorable opportunity.

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

Study Date	Description	Time span	Bias
Active			
Active - Long Term			
October 18, 2012	SPY key reversal	1-12 days	Bullish
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
Dropped Tonight			
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

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

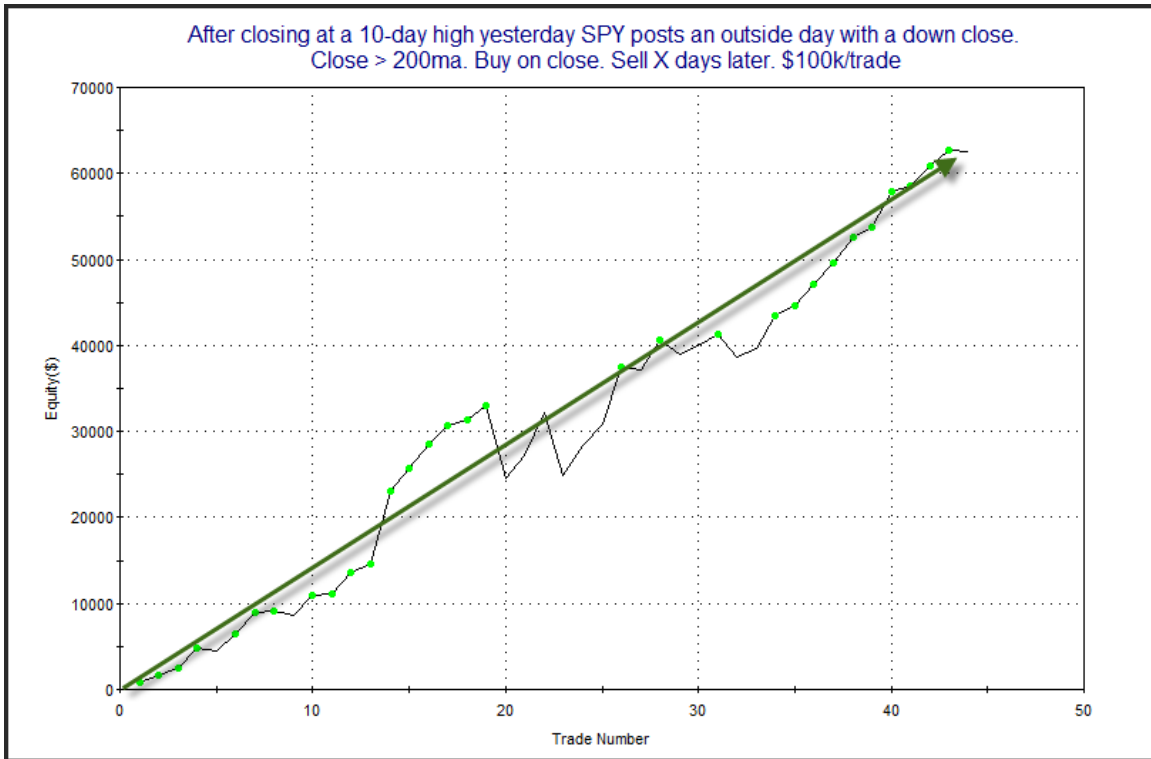
The Evidence

Thursday saw the market give back some of its recent gains. The SPX lost 0.2%, the Nasdaq declined 1.0% and the Russell 2000 fell 0.6%. Breadth was mixed as the NYSE Up Issues % was 48% and the Up Volume % came in at 56%. Total NYSE volume rose for the 4th day in a row.

In the 3/1/12 subscriber letter I examined the study below. It considered results following instances where SPY posted an outside day with a down close immediately following a short-term closing high during an uptrend. Results were interesting in that the outside day often lead to a small amount of additional selling over the next few days, but rarely did this “reversal signal” ever actually mark an intermediate-term high. I have updated the results table below.

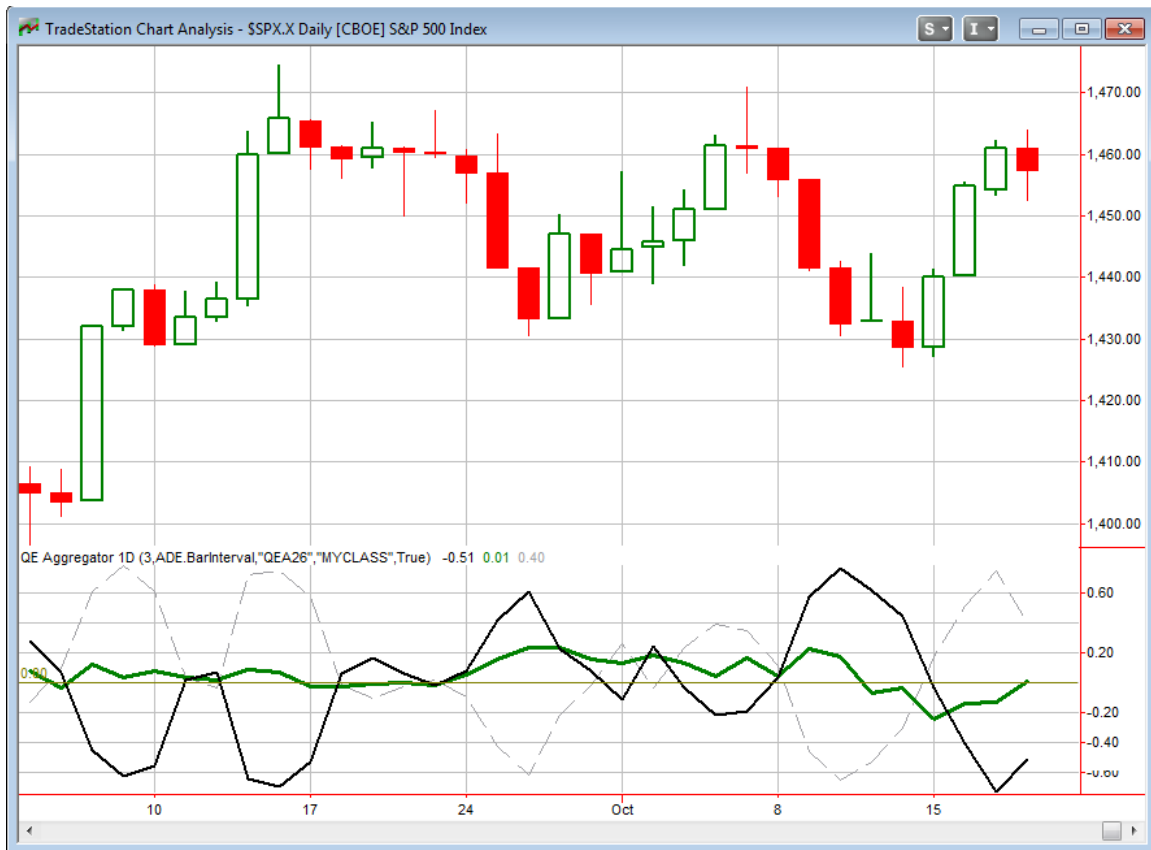
After closing at a 10-day high yesterday SPY posts an outside day with a down close. Close > 200ma. Buy on close. Sell X days later. \$100k/trade												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
12	62,609.46	44	36	8	81.82	2,334.34	8,494.78	-2,678.33	-8,389.36	0.87	3.92	1,422.94
11	54,378.76	44	36	8	81.82	2,065.35	6,726.11	-2,496.74	-9,630.04	0.83	3.72	1,235.88
10	45,557.05	45	34	10	75.56	1,869.42	5,990.24	-1,800.31	-5,992.40	1.04	3.53	1,012.38
9	37,886.75	46	32	14	69.57	1,883.75	5,267.28	-1,599.51	-5,764.17	1.18	2.69	823.63
8	43,918.50	47	32	15	68.09	2,052.67	7,603.99	-1,451.12	-4,587.23	1.41	3.02	934.44
7	39,096.89	48	31	17	64.58	1,981.56	7,694.36	-1,313.61	-4,962.72	1.51	2.75	814.52
6	36,237.08	49	33	16	67.35	1,774.61	5,189.82	-1,395.31	-4,591.36	1.27	2.62	739.53
5	26,523.17	53	33	20	62.26	1,493.07	4,428.81	-1,137.41	-4,346.17	1.31	2.17	500.44
4	7,208.85	53	27	26	50.94	1,500.78	3,915.78	-1,281.24	-4,228.43	1.17	1.22	136.02
3	-243.54	53	26	27	49.06	1,172.30	2,930.57	-1,137.90	-3,561.68	1.03	0.99	-4.60
2	-6,041.45	54	24	30	44.44	877.26	2,361.64	-903.19	-2,698.50	0.97	0.78	-111.88
1	-2,152.57	54	29	25	53.70	543.90	1,601.91	-717.03	-2,183.72	0.76	0.88	-39.86

In looking at the equity curves, the consistent edges were the ones that look out a couple of weeks. Below is an equity curve assuming a 12-day exit strategy.



The curve here is very appealing. I am not going to include this study on the short-term active list, but I have placed it on the intermediate-term list.

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



With the short-term bearish studies expiring the green Aggregator line inched 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 still well below. This means the SPX is overbought versus recent expectations. So net expectations are bullish but the SPX is already 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 flat the close.

With amazingly 0 short-term studies active at the moment expectations over the next few days will be largely dependent on what new studies emerge. The Differential Pivot will be 1,448.90 on Friday. This is 0.6% below Thursday's close. So SPX would need to close down at least this much in order to move from overbought to oversold versus expectations.

The Aggregator is neutral and basically so am I. I am not looking to take on any new exposure at the moment. But one notable bit of action from a trading standpoint today was that VZ rallied and hit its Catapult exit target. This brought the CBI back down to a neutral reading of 3. As you'll see in the Trade Ideas section below, I will be looking to exit VZ at the open.

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

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

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

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(CVS-3)

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	\$46.59	-1.00%		Catapult
VZ(1/3)	10/15/2012	\$44.48	\$45.78	2.92%		sell on open
CVS(1/3)	10/16/2012	\$47.07	\$46.59	-1.02%		Catapult
VZ(1/3)	10/16/2012	\$44.50	\$45.78	2.88%		sell on open
CVS(1/3)	10/17/2012	\$46.90	\$46.59	-0.66%		Catapult

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