

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 1, 2012

Volume 5 Issue 210

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Turn of the month should provide some positive seasonality.
- Liquidity flows for November are expected to remain strong, especially early and late in the month.

## *Short-term Outlook*

### *The Bottom Line*

Despite having a few days off the market failed to move much on Wednesday. So my outlook remains the same. I'm leaning bullish and maintaining my 2 (of a possible 4) lot position.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
November 1, 2012	End of month < 10ma and > 200ma	1-5 days	Bullish	2.20%
October 25, 2012	20-low reversal	1-6 days	Bullish	
October 25, 2012	2x outside days	1-5 days	Bullish	
October 25, 2012	High vol from RSI(2)<5	1-3 days	Bearish	
October 24, 2012	SPY dn 1% and SOX up	1-6 days	Bullish	
October 24, 2012	4 lower lows. 20-day low.	1-8 days	Bullish	
October 22, 2012	QE Buying Power Swing long	1-7 days	Bullish	3.10%
<b>Active - Long Term</b>				
October 25, 2012	20-low > 200ma on a Fed Day	1-9 days	Bullish	
October 24, 2012	SPY dn 1% and SOX up	1-20 days	Bullish	
October 19, 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	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
October 22, 2012	Oversized drop on Friday	1-6 days	Bullish	2.75%
October 25, 2012	Fed Day reversal down	1-3 days	Bullish	

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

**The Evidence**

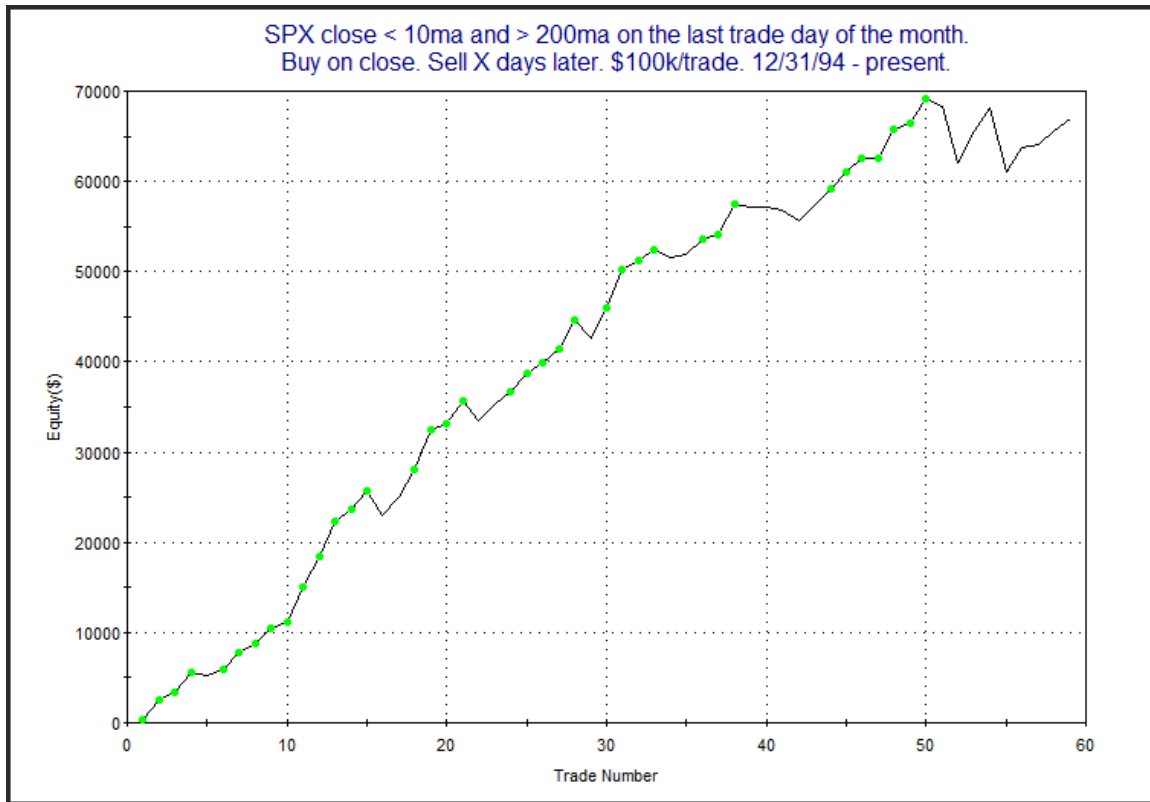
Markets re-opened Wednesday and saw a mixed reaction. The SPX rose 0.02%, the Nasdaq lost 0.4% and the Russell 2000 rallied 0.7%. Breadth was mildly positive as the NYSE Up Issues % was 56% and the Up Volume % also came in at 56%. Total NYSE volume was fairly high.

Several studies related to Thursday being the turn of the month triggered in the Quantifinder. Beginnings of new months often arrive with seasonal strength. This has especially been true 1) during long-term uptrends, and 2) when the market is not already short-term overbought. The study below was last seen in the 10/1/12 subscriber letter. It takes these concepts into account. All stats are updated.

SPX close < 10ma and > 200ma on the last trade day of the month. Buy on close. Sell X days later. \$100k/trade. 12/31/94 - 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	67,017.34	59	48	11	81.36	1,898.61	4,435.97	-2,192.35	-7,153.30	0.87	3.78	1,135.89
4	59,217.78	59	47	12	79.66	1,702.33	3,838.00	-1,732.64	-7,100.17	0.98	3.85	1,003.69
3	43,442.68	59	41	18	69.49	1,670.79	3,709.44	-1,392.21	-3,492.36	1.20	2.73	736.32
2	34,075.76	59	43	16	72.88	1,269.64	3,442.32	-1,282.41	-4,320.06	0.99	2.66	577.56
1	34,906.54	59	45	14	76.27	959.74	3,119.10	-591.56	-2,559.62	1.62	5.21	591.64

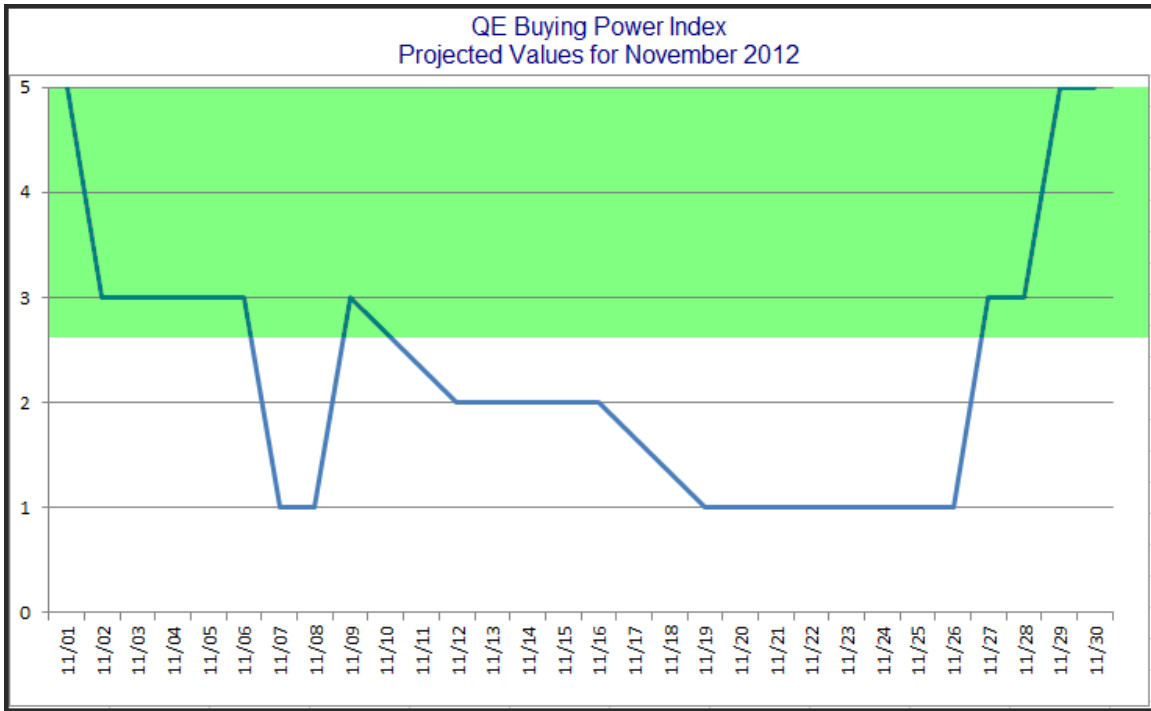
**54 of 59 instances (92%) closed above the entry price at some point in the next week.**

Day 1 has obviously provided strong numbers, but even beyond that there appears to be some follow through over the next few days. Below is a profit curve for the 5-day holding period.



There have been a couple of big drops fairly recently, but the last 4 instances (and 6 of the last 7) have all been higher, so this edge appears to be intact.

In other news today the Fed released its POMO and AMBS schedules for November. I'll discuss this more in depth in this weekend's letter. The bottom line is that liquidity flows are expected to remain strong. I've calculated the November QE Buying Power Index, which shows the expected ebbs and flows of the liquidity infusion. I will post it on the QE Buying Power Index page tomorrow. For now I have included it below.



The strongest positive influence from liquidity flows is expected to occur the first and last week of the month. In between the flows are less consistent. So the most likely times to see strong rallies in November appear to be early and late in the month.

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



The green Aggregator line remains well 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 also still positive. This means the SPX is oversold versus recent expectations. So net expectations are bullish and the SPX is 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 the close.

Based on the current studies, expectations are set to remain bullish again on Tuesday. This is unlikely to change unless very bearish evidence emerges. The Differential Pivot will be 1,421.46 on Tuesday. This is 0.7% above Monday's close. So it would take a close higher of at least this much to move the Differential Line into negative territory, signifying that SPX has moved from oversold to overbought.

The coil continues to tighten. The weight of the evidence suggests that the likely direction from here remains higher. But with the tight range we have seen over the last week, a break in either direction could lead to a fast move. So risk is a bit elevated. My current position has me 1/2 in on the long side. That still seems like a reasonable size to me. I don't want to get over aggressive in this tight range. Should the market rally above the Differential Pivot on Thursday, then I will take 1 of the 2 lots off the table.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 10/29– bullish***

The intermediate-term outlook was last updated in the 10/29 letter. Link below:

[2012-10-29 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.*

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	10/22/2012	\$143.15	\$141.35	-1.26%		Aggregator
SPY(1/4)	10/23/2012	\$141.42	\$141.35	-0.05%		sell as per below

*I'll look to close out 1 of the SPY lots if SPX closes  $\geq$  the Differential Pivot of 1,421.26.*

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