

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 2, 2012

Volume 5 Issue 211

Market Overview



Signals Overview

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

A strong move up to start the month gave us (at least some of) the move we have been looking for. I took partial profits. I believe there could still be more upside in the next few days and would prefer to sell the rest into further strength.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
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 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	
Active - Long Term				
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	
Dropped Tonight				
October 22, 2012	QE Buying Power Swing long	1-7 days	Bullish	3.10%
October 25, 2012	High vol from RSI(2)<5	1-3 days	Bearish	

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

The Evidence

The first day of the month did not disappoint as markets surged higher. The SPX rose 1.1%, the Nasdaq gained 1.4% and the Russell 2000 rallied 1.1%. Breadth was strongly positive as the NYSE Up Issues % was 76% and the Up Volume % came in at 80%. Total NYSE volume sank just a little from Wednesday's level.

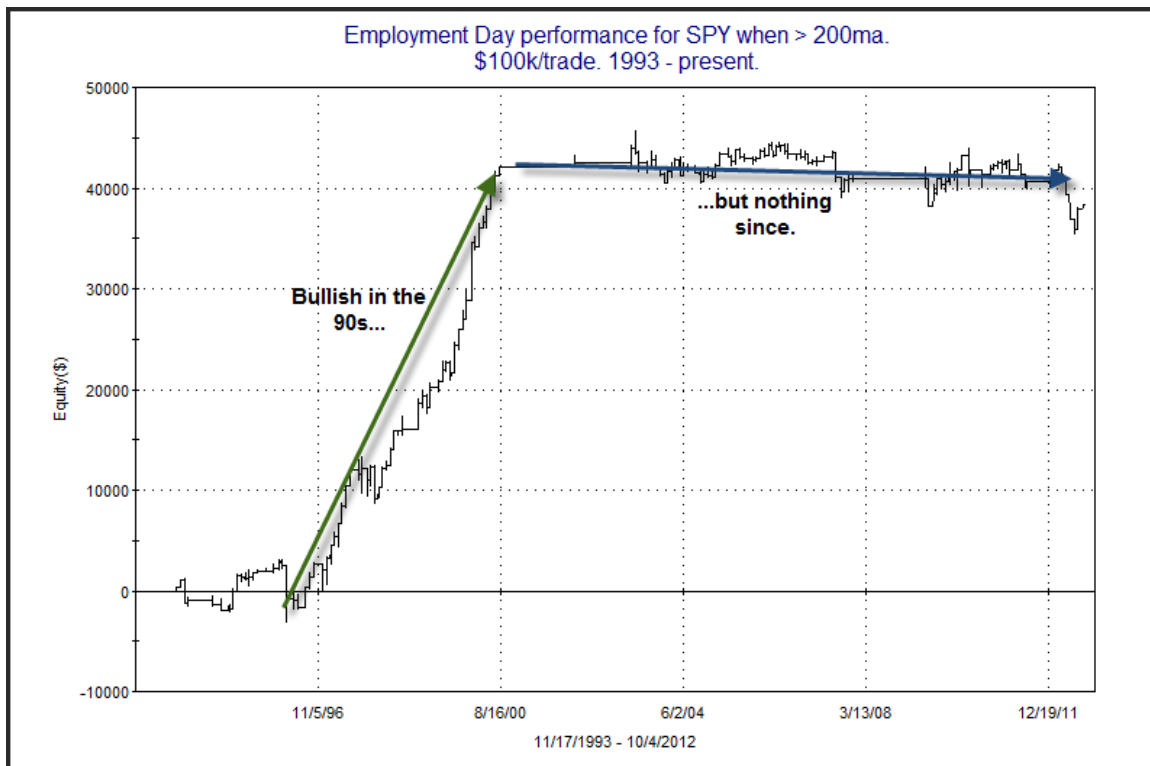
A few studies appeared in the Quantifinder tonight, but nothing very compelling. The most notable was from the 3/9/11 letter. It looked at other instances where a big down day (of > 1%) was followed by 5 closes within that day's range. This triggered in SPX tonight following the big down day on 10/23. As far as edges go, this one was somewhat weak. Additionally, while the current setup qualifies, I'm not sure it meets the spirit of the study. Thursday's rally put SPX well above the recent 4-day range, even if it didn't get above the 10/22 closing price (or the midpoint of the 10-day range). So in looking at the SPX chart it no longer looks like a tight range after a drop. It looks like a drop, a tight 4-day range, and then a quick break above that range.

But while there is no strong new evidence to discuss tonight, it is notable that tomorrow is an Employment Day. I discussed Employment Days in the 10/5/12 letter last month. Below is an excerpt.

By “Employment Day” 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...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.

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 more upside over the next few days. Meanwhile the black Differential Line took a drop below 0. 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 change from long to flat at the close.

Based on the current studies, expectations are set to remain bullish again on Friday. This is unlikely to change unless very bearish evidence emerges. The Differential Pivot will be 1,420.06 on Friday. This is 0.5% below Thursday's close. So it would take a close lower of at least this much to move the Differential Line into positive territory, signifying that SPX has moved from overbought to oversold.

The market finally bounced as I have been expecting. (Though it took longer than I anticipated.) While the short-term Differential reading has flipped and the SPX is now considered overbought versus short-term expectations, there still appears to be a little room to run here. You'll note the QE Buying Power Swing System is still long and

awaiting a close above the midpoint of the 10-day range. Friday that would mean a close \geq \$143.46. I took part of my long position off Thursday afternoon when the Aggregator turned neutral. I'll use the QE Buying Power Swing System target for the 2nd lot to see if I can capture a little more of this bounce. I am not looking to take on any further exposure at the moment, but will reassess both my current position and any new trade ideas on a nightly basis as I always do.

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	10/22/2012	\$143.15	\$142.83	-0.22%		sell on close >= \$143.46
SPY(1/4)	10/23/2012	\$141.42	\$142.83	1.00%		sold on close

Exit target is based on QE Buying Power Swing System exit of 10-day range midpoint.

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.