

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 8, 2012

Volume 5 Issue 215

Market Overview



Signals Overview

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

Tonight's Research Points

- 20-day lows above the 200ma have provided favorable buying opportunities over the last 20 years. The large percent drop and high-volume decline on Wednesday make the setup even more appealing.
- The 2-day gap pattern is potentially short-term bearish.
- Moving from a 7-day high to a 7-day low in just 1 day has led to additional selling in the past.

Short-term Outlook

The Bottom Line

Mixed studies emerged on Wednesday, but the net remains bullish. The market is now strongly oversold. I will view this as an opportunity to add some exposure at a better price, and look for a bounce in the next few days.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---------------------------|-------------------------------------|-----------|---------|--------------|
| Active | | | | |
| November 8, 2012 | 20-low big drop high vol > 200 | 1-5 days | Bullish | |
| November 8, 2012 | SPY unfill gap up then dn | 1-2 days | Bearish | |
| November 8, 2012 | 7 high to 7 low | 1-2 days | Bearish | |
| November 6, 2012 | Double big reversal days > 200 < 10 | 1-4 days | Bullish | 1.60% |
| 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 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 | | | | |
| November 1, 2012 | End of month < 10ma and > 200ma | 1-5 days | Bullish | 2.20% |

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

The Evidence

After Obama was elected president in 2008 the SPX fell 5.25% the next day. So Wednesday's decline of 2.4% was a marked improvement. Additionally, the Nasdaq fell 2.5%, and the Russell 2000 dropped 2.6%. Breadth was extremely negative as the NYSE Up Issues % was 18% and the Up Volume % came in at just 8%. Total NYSE volume spiked up to the highest level since October op-ex.

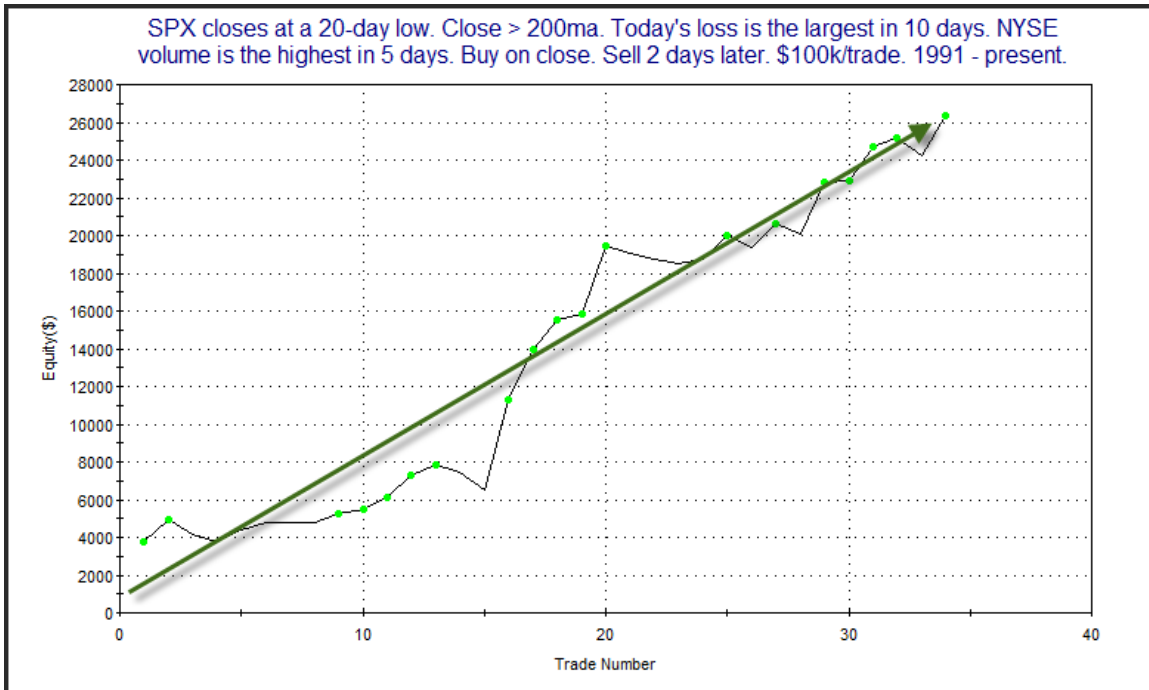
We saw a mix of studies trigger tonight in the Quantifinder. I'll go over the ones I found most compelling.

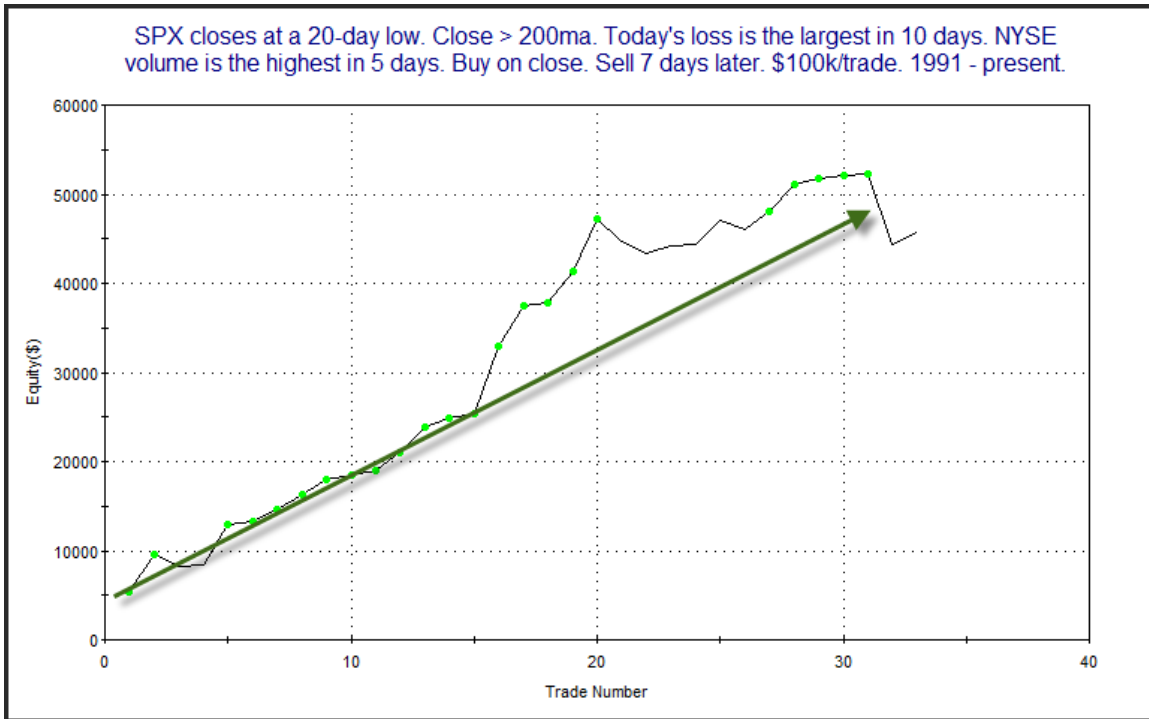
On the bullish side there were several that looked at sharp pullbacks that occurred at 20-day lows during long-term uptrends. The one below represented a good mix of criteria and offered compelling results. It was last seen in the 3/11/11 Letter, and has been updated.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days. NYSE volume is the highest in 5 days. Buy on close. Sell X days later. \$100k/trade. 1991 - 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 | 26,925.08 | 33 | 23 | 10 | 69.70 | 2,472.07 | 5,034.24 | -2,993.25 | -13,993.88 | 0.83 | 1.90 | 815.91 |
| 9 | 34,808.83 | 33 | 26 | 7 | 78.79 | 2,065.23 | 5,761.56 | -2,698.15 | -10,059.36 | 0.77 | 2.84 | 1,054.81 |
| 8 | 33,239.11 | 33 | 24 | 9 | 72.73 | 2,371.82 | 6,960.84 | -2,631.63 | -14,092.68 | 0.90 | 2.40 | 1,007.25 |
| 7 | 45,650.46 | 33 | 28 | 5 | 84.85 | 2,134.05 | 7,500.06 | -2,820.57 | -8,018.76 | 0.76 | 4.24 | 1,383.35 |
| 6 | 41,646.76 | 33 | 26 | 7 | 78.79 | 2,251.11 | 7,272.06 | -2,411.73 | -7,966.32 | 0.93 | 3.47 | 1,262.02 |
| 5 | 41,673.69 | 33 | 22 | 11 | 66.67 | 2,376.16 | 7,070.28 | -963.80 | -3,385.80 | 2.47 | 4.93 | 1,262.84 |
| 4 | 30,211.95 | 34 | 24 | 10 | 70.59 | 1,889.74 | 4,731.13 | -1,514.18 | -3,863.84 | 1.25 | 3.00 | 888.59 |
| 3 | 23,944.67 | 34 | 22 | 12 | 64.71 | 1,586.17 | 3,940.55 | -912.59 | -1,835.13 | 1.74 | 3.19 | 704.26 |
| 2 | 26,342.61 | 34 | 23 | 11 | 67.65 | 1,392.59 | 4,809.66 | -517.00 | -958.36 | 2.69 | 5.63 | 774.78 |
| 1 | 13,197.02 | 35 | 25 | 10 | 71.43 | 906.78 | 5,117.46 | -947.24 | -1,588.57 | 0.96 | 2.39 | 377.06 |

As you can see the numbers are all strongly positive. Much of the upside edge appears to play out in the first two days, but there still appears to be an upside tendency up through day 7. Below are profit curves for both the 2-day and 7-day holding periods.





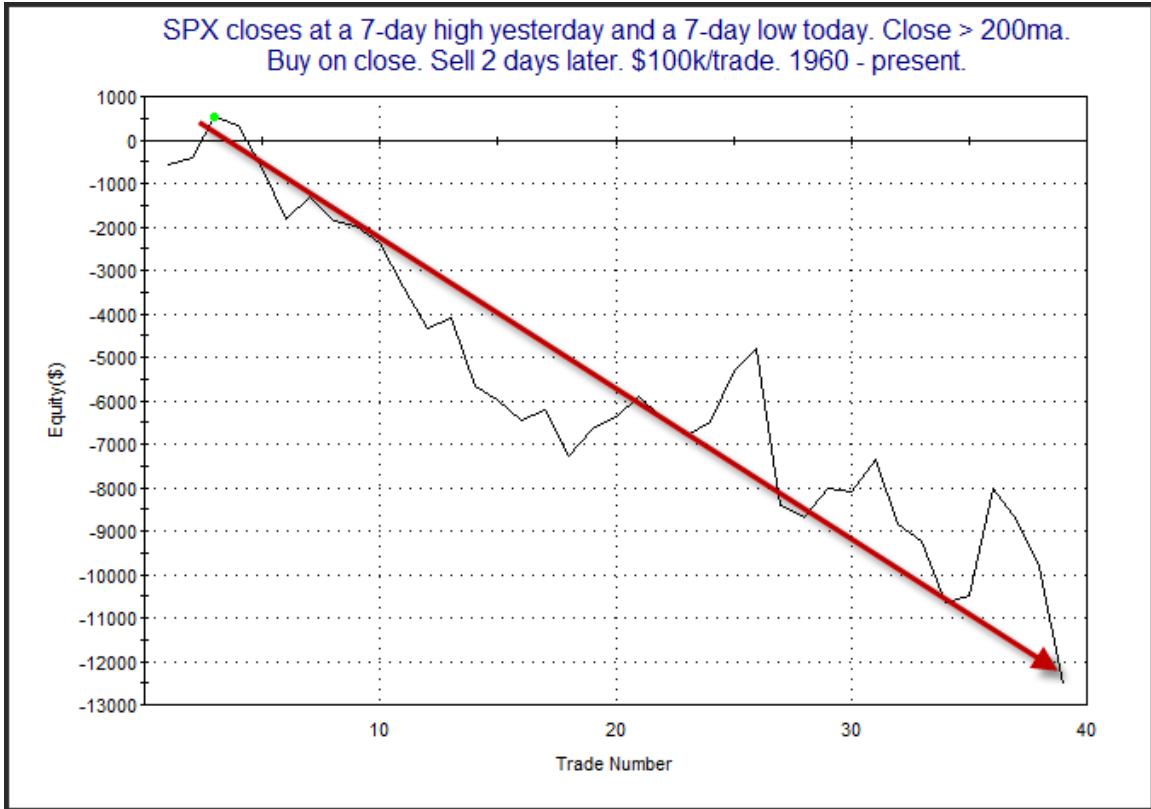
The strong upslopes appear to serve as confirmation of the potential upside edge.

But there were also some bearish indications. For one, the move from a 7-day high to a 7-day low is something that has been met with further selling in the past. This was last seen in the 1/19/10 letter. Results are updated.

SPX closes at a 7-day high yesterday and a 7-day low today. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - 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 | -9,894.68 | 38 | 17 | 21 | 44.74 | 1,391.25 | 3,594.32 | -1,597.42 | -4,884.75 | 0.87 | 0.71 | -260.39 |
| 4 | -10,770.04 | 39 | 16 | 23 | 41.03 | 1,402.51 | 2,873.88 | -1,443.93 | -3,895.76 | 0.97 | 0.68 | -276.15 |
| 3 | -12,476.51 | 39 | 17 | 22 | 43.59 | 695.06 | 2,159.82 | -1,104.21 | -3,520.36 | 0.63 | 0.49 | -319.91 |
| 2 | -12,523.29 | 39 | 15 | 24 | 38.46 | 640.21 | 2,437.50 | -921.94 | -3,611.48 | 0.69 | 0.43 | -321.11 |
| 1 | -5,688.89 | 39 | 17 | 22 | 43.59 | 567.52 | 2,002.36 | -697.12 | -3,794.40 | 0.81 | 0.63 | -145.87 |

Numbers here are still bearish. Below is the equity curve.



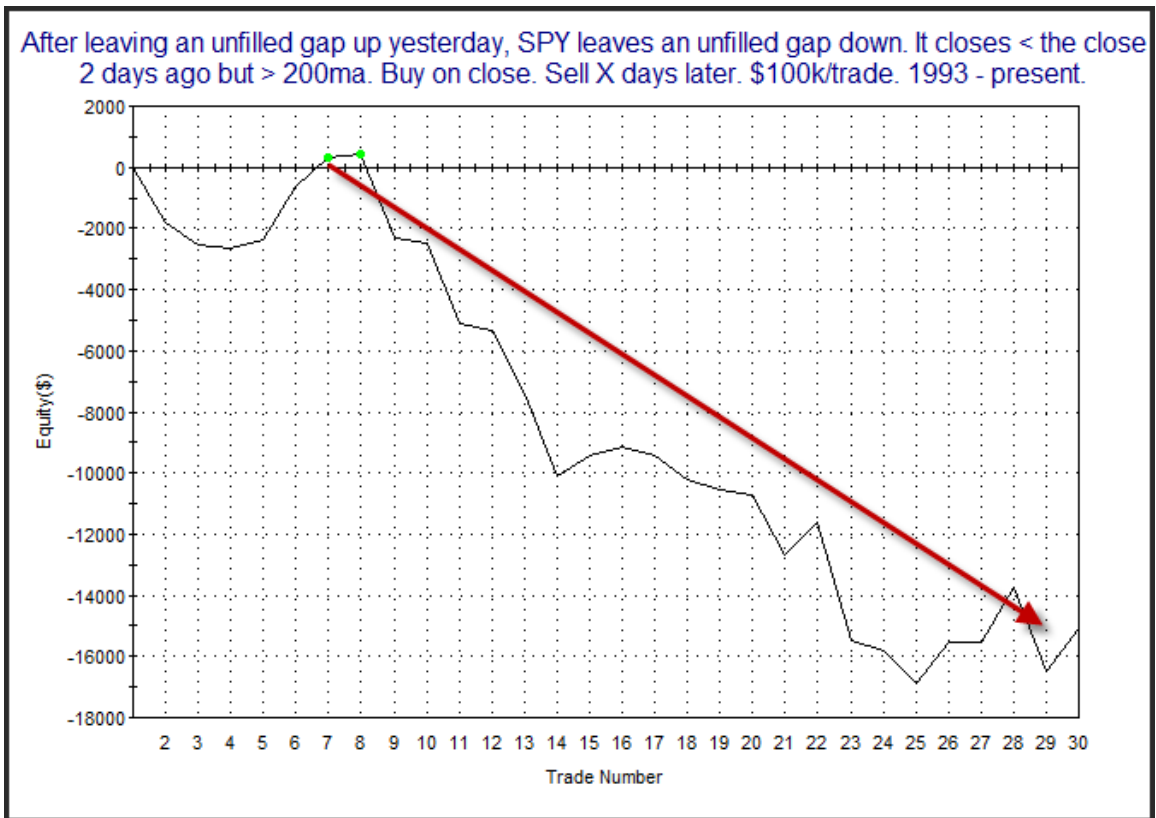
Pretty steady looking curve for a bearish edge in an uptrend.

Another bearish study that emerged was last seen in the 4/24/12 letter. I've updated it below.

After leaving an unfilled gap up yesterday, SPY leaves an unfilled gap down. It closes < the close 2 days ago but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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 | -1,553.39 | 28 | 12 | 16 | 42.86 | 1,572.15 | 3,949.59 | -1,276.20 | -3,791.20 | 1.23 | 0.92 | -55.48 |
| 4 | -1,700.56 | 28 | 12 | 16 | 42.86 | 1,565.73 | 3,637.58 | -1,280.59 | -4,926.08 | 1.22 | 0.92 | -60.73 |
| 3 | -18,179.35 | 30 | 11 | 19 | 36.67 | 1,028.04 | 2,463.47 | -1,551.99 | -5,321.00 | 0.66 | 0.38 | -605.98 |
| 2 | -15,086.24 | 30 | 11 | 18 | 36.67 | 875.57 | 1,754.40 | -1,373.20 | -3,893.00 | 0.64 | 0.39 | -502.87 |
| 1 | 296.20 | 30 | 15 | 14 | 50.00 | 480.57 | 1,325.15 | -493.74 | -1,564.50 | 0.97 | 1.04 | 9.87 |

The 2-day pattern shown here hints at more downside. Below is the curve.



So the strong selling on Wednesday led to mixed evidence.

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



The green Aggregator line remains 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 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 at the close.

Based on the current studies, expectations are set to remain bullish again on Thursday. Of course this could easily change if bearish evidence emerges. The Differential Pivot will be 1,423.27 on Thursday. This is 2% above Wednesday's close. That's a tall order for just 1 day. A more likely scenario is a multi-day rally or consolidation.

I've been in and out of a 2nd lot a few times over the last several days. I'll look to take that exposure back on Thursday in anticipation of a bounce. After adding this 2nd lot I will likely wait for a spike in the VIX or the CBI before adding a 3rd lot. Details are in the Trade Ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/5– bullish

The intermediate-term outlook was last updated in the 11/5 letter. Link below:

[2012-11-05 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

ALL – 1/3 @ \$38.56 (bought @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(ALL)

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 @ \\$139.72 LIMIT.](#) Based on the short-term section above. I will look to re-enter the lot I sold just before the election.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------|
| SPY(1/4) | 10/22/2012 | \$143.15 | \$139.72 | -2.40% | | Aggregator |
| ALL(1/3) | 11/5/2012 | \$38.21 | \$38.69 | 1.26% | | Catapult |
| | | | | | | |
| | | | | | | |
| | | | | | | |

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