

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 13, 2012

Volume 5 Issue 218

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Monday's weak breadth suggests a downside edge since SPX closed below the 200 MA.
- The bounce is still not compelling since it failed to close above close of 3 days ago and is < 200ma.

## *Short-term Outlook*

### *The Bottom Line*

Monday's trading was a wash, but it led to a few studies triggering that negatively impacted expectations. I intend to lighten up on my long position on Tuesday. There may still be a small upside edge but it does not appear worthy of a large 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 13, 2012	Up 2 from 20 low < 3 ago and < 200ma	1-2 days	Bearish	
November 13, 2012	SPX up. Up vol < 45%. SPX < 200ma.	1-3 days	Bearish	
November 12, 2012	QE Buying Power Swing Long	1-7 days	Bullish	3.00%
November 8, 2012	20-low big drop high vol > 200	1-5 days	Bullish	
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
November 9, 2012	SPX < Bollinger. VIX < 5% stretch	1-2 days	Bearish	
November 6, 2012	Double big reversal days > 200 < 10	1-4 days	Bullish	1.60%
November 9, 2012	33% Up Issue% 2x < 200ma	1-2 days	Bullish	

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

**The Evidence**

Monday's movement was very muted, but the end of trading triggered a few studies that impacted expectations in a negative way. The SPX finished up 0.01% while the Nasdaq closed down 0.02% and the Russell 2000 dropped 0.14%. Breadth finished negative as the NYSE Up Issues % was 46% and the Up Volume % came in just under 45%. Total NYSE volume was very light thanks to Veterans Day.

There were a number of studies that triggered that considered the low volume. I completely discounted them. The low volume was not due to complacency but to a holiday.

One indicator I was keeping an eye on was the 200ma – waiting to see if the SPX finished above or below it. In the end the SPX finished just fractionally below its 200ma. In the 6/6/12 letter I looked at scenarios where the SPX bounced from 20-day lows over a 2-day period but failed to make up for the losses of the day just previous to the 2-day bounce. I filtered this study by the 200ma and found a substantial difference in the results. Had the SPX managed to close above the 200ma the study below would have triggered. (Not updated).

After closing at a 20-day low 2 days ago SPX closes up the last 2 days but still below the close of 3 days ago. Close > 200ma. Buy on close. Sell X Days later. \$100k/trade. 2000 - present.

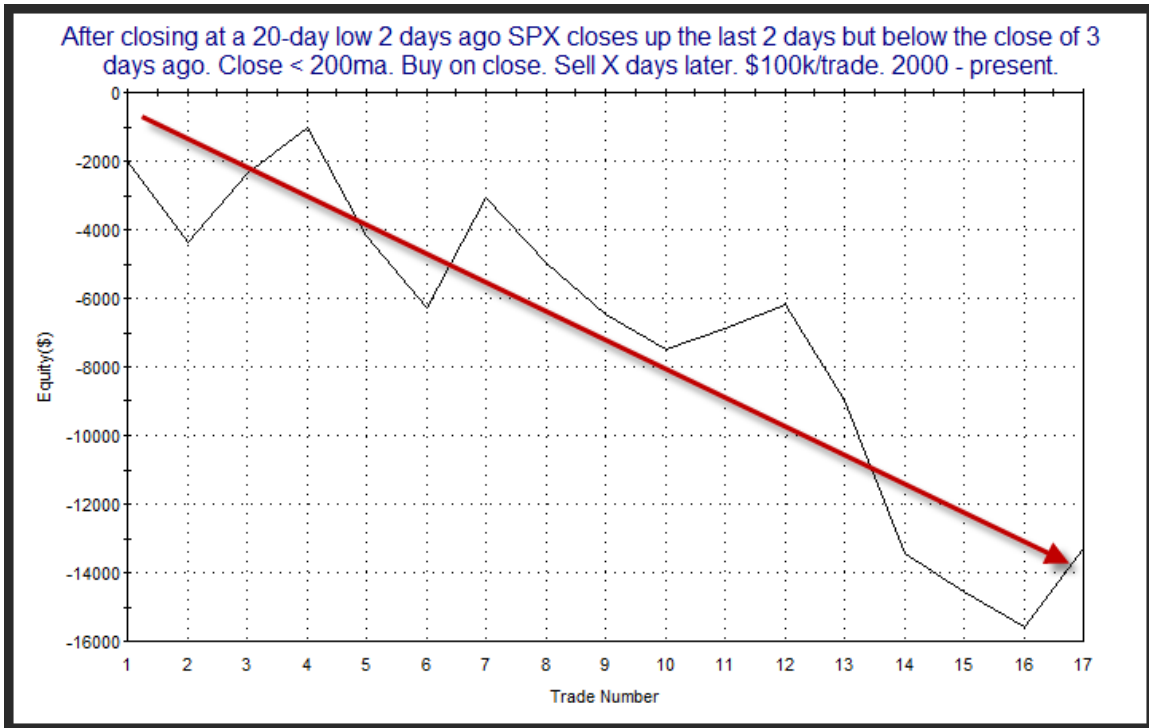
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	18,949.54	13	10	3	76.92	2,220.78	4,522.00	-1,086.07	-1,280.37	2.04	6.82	1,457.66
4	18,781.90	13	10	3	76.92	2,119.97	4,528.65	-805.94	-1,164.12	2.63	8.77	1,444.76
3	14,370.22	14	11	3	78.57	1,591.98	2,891.90	-1,047.20	-1,260.49	1.52	5.57	1,026.44
2	11,761.73	14	9	5	64.29	1,595.87	3,844.65	-520.23	-1,557.71	3.07	5.52	840.12
1	1,407.00	14	8	6	57.14	928.11	2,699.42	-1,002.98	-2,621.71	0.93	1.23	100.50

As you can see, implications of this setup when above the 200ma appear to be bullish. But the SPX missed the 200ma. And when we flip that filter the results have been substantially different.

After closing at a 20-day low 2 days ago SPX closes up the last 2 days but below the close of 3 days ago. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-16,535.41	16	7	9	43.75	2,129.49	4,138.50	-3,493.54	-7,353.33	0.61	0.47	-1,033.46
4	-9,164.12	16	8	8	50.00	1,736.03	4,871.43	-2,881.55	-4,944.54	0.60	0.60	-572.76
3	-10,274.91	17	5	12	29.41	2,188.49	5,558.47	-1,768.11	-3,535.84	1.24	0.52	-604.41
2	-13,314.81	17	6	11	35.29	1,689.65	3,251.01	-2,132.07	-4,424.00	0.79	0.43	-783.22
1	-5,703.35	17	7	10	41.18	1,713.45	3,863.25	-1,769.75	-5,253.30	0.97	0.68	-335.49

Instead of bullish implications the setup appears to suggest a bearish edge. I have included below an equity curve.



The downslope here is fairly consistent and seems to support the suggestion of a bearish edge.

Another study that emerged examined the weak breadth on an up day. That too was something I have shown above and below the 200ma in the past, and results were strongly different. I last showed this study in the 3/31/10 letter. Let's review it again. First are results above the 200ma.

NYSE Up Vol % < 45% and SPX closes up on the day. SPX > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1999 - 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	22,626.37	38	24	14	63.16	2,648.25	6,013.50	-2,923.68	-7,891.63	0.91	1.55	595.43
9	15,435.14	38	24	14	63.16	2,195.07	6,062.90	-2,660.47	-7,594.37	0.83	1.41	406.19
8	15,228.91	38	25	13	65.79	1,876.19	5,966.00	-2,436.61	-6,657.20	0.77	1.48	400.76
7	14,407.38	39	28	11	71.79	1,682.28	4,463.10	-2,972.40	-6,002.13	0.57	1.44	369.42
6	3,258.55	39	26	13	66.67	1,562.01	3,870.30	-2,873.36	-5,473.17	0.54	1.09	83.55
5	5,190.35	40	24	16	60.00	1,668.72	4,940.95	-2,178.69	-5,506.23	0.77	1.15	129.76
4	-521.45	41	22	19	53.66	1,369.54	4,418.45	-1,613.23	-4,284.75	0.85	0.98	-12.72
3	-5,188.79	42	21	21	50.00	1,226.39	4,425.10	-1,473.47	-5,685.45	0.83	0.83	-123.54
2	4,443.21	44	27	17	61.36	892.30	2,803.57	-1,155.82	-2,848.17	0.77	1.23	100.98
1	-1,951.73	44	23	21	52.27	722.97	1,912.35	-884.76	-2,079.70	0.82	0.89	-44.36

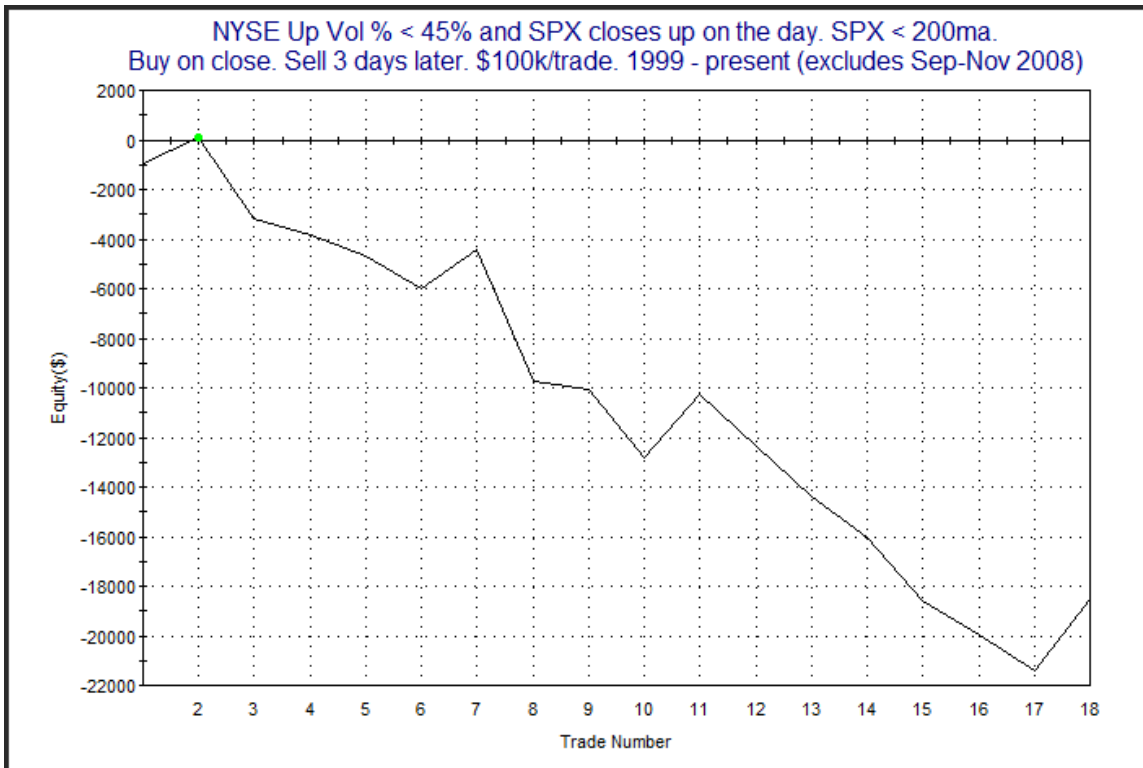
Results here don't suggest an edge. But now let's look at the same setup below the 200ma.

NYSE Up Vol % < 45% and SPX closes up on the day. SPX < 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-51,580.76	18	5	13	27.78	2,608.94	5,194.80	-4,971.19	-25,773.42	0.52	0.20	-2,865.60
9	-47,932.56	18	4	14	22.22	4,181.95	5,043.48	-4,618.60	-24,896.02	0.91	0.26	-2,662.92
8	-35,995.67	19	5	14	26.32	4,009.02	10,740.40	-4,002.91	-18,744.38	1.00	0.36	-1,894.51
7	-34,828.92	19	6	13	31.58	3,529.93	6,400.90	-4,308.34	-17,818.60	0.82	0.38	-1,833.10
6	-25,097.80	20	5	15	25.00	3,975.43	6,670.40	-2,998.33	-12,844.48	1.33	0.44	-1,254.89
5	-24,942.32	20	5	15	25.00	2,857.44	5,057.80	-2,615.30	-9,372.60	1.09	0.36	-1,247.12
4	-24,662.43	20	7	13	35.00	1,965.85	3,703.44	-2,955.64	-8,138.50	0.67	0.36	-1,233.12
3	-26,116.16	21	5	16	23.81	2,304.43	3,564.00	-2,352.40	-6,854.44	0.98	0.31	-1,243.63
2	-34,309.20	21	7	14	33.33	1,202.65	2,882.10	-3,051.98	-12,374.88	0.39	0.20	-1,633.77
1	-21,014.80	21	6	15	28.57	1,051.91	2,427.60	-1,821.75	-8,783.02	0.58	0.23	-1,000.70

These numbers are strongly negative. But when I looked in more detail at the results I found that much of the downside, especially in the first two days, was due to three trades between September and November of 2008. They seemed to skew the profit curves greatly. So I also reran the results excluding that wild period of time.

NYSE Up Vol % < 45% and SPX closes up on the day. SPX < 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - present (excludes Sep-Nov 2008)												
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	-26,799.96	15	4	11	26.67	2,924.20	5,194.80	-3,499.70	-8,491.84	0.84	0.30	-1,786.66
9	-26,753.18	15	3	12	20.00	3,938.40	5,043.48	-3,214.03	-7,137.76	1.23	0.31	-1,783.55
8	-23,014.13	16	4	12	25.00	2,326.18	3,971.76	-2,693.24	-4,134.00	0.86	0.29	-1,438.38
7	-27,717.14	16	4	12	25.00	2,618.19	3,887.10	-3,182.49	-5,761.28	0.82	0.27	-1,732.32
6	-22,236.68	17	3	14	17.65	3,297.94	4,767.70	-2,295.03	-8,042.72	1.44	0.31	-1,308.04
5	-20,426.84	17	4	13	23.53	2,307.35	3,586.80	-2,281.25	-6,428.80	1.01	0.31	-1,201.58
4	-18,093.77	17	6	11	35.29	1,890.53	3,703.44	-2,676.08	-5,119.52	0.71	0.39	-1,064.34
3	-18,523.18	18	4	14	22.22	1,989.54	2,871.18	-1,891.52	-5,351.36	1.05	0.30	-1,029.07
2	-11,555.48	18	7	11	38.89	1,202.65	2,882.10	-1,815.82	-2,840.84	0.66	0.42	-641.97
1	-2,689.74	18	6	12	33.33	1,051.91	2,427.60	-750.10	-1,968.96	1.40	0.70	-149.43

Even without those trades there appears to be a decided downside edge. Below is a profit curve showing how the edge has played out over time.



Despite the last instance finishing higher, the downside edge appears to be intact.

Both of the studies tonight are pretty black and white. But while results are obviously bearish they could be interpreted as gray. In order to qualify for both of the studies we needed to see 1) an up close 2) below the 200ma. For that to occur the SPX needed to close between 1379.86 and about 1381.3 - in other words, it needed to close within less than a 1.5 point range. And it did so. If it closed anywhere outside of this very small range neither of these bearish studies would have triggered, and the studies that would have triggered would have left expectations positive. So while I'm including the studies on the short-term Active List, others might be more inclined to simply throw them out.

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



The bearish studies tonight caused the green Aggregator line to drop 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 still squarely positive. This means the SPX is oversold versus recent expectations. So net expectations are bearish but the SPX is oversold. 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 bearish again on Tuesday. Of course this could easily change if more bullish evidence emerges. The Differential Pivot will be 1,384.66 on Tuesday. This is just 0.3% above Monday's close. So it won't take much of a bounce to work off the oversold condition.

The aggregator is more bearish than I am personally. That happens sometimes. While the results of the studies tonight were strongly bearish, it was very borderline that they triggered all. And while the aggregator system is now flat, the QE Buying Power System remained long. And no matter how I look at it, the market remains oversold. But with studies triggering that I would normally view as firmly bearish, it seems like a good idea to lighten up on my exposure some. So I will look to exit one of my two long index lots on Tuesday. I will hold the other one for now since the QE Buying Power System is still long. Details are in the trade ideas section below.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 11/12– bullish**

The intermediate-term outlook was last updated in the 11/12 letter. A link is below:

[2012-11-12 QE Subscriber Letter.pdf](#)

**Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

**Open Catapult Triggers**

ALL – 1/3 @ \$38.56 (bought @ limit)

T – 1/3 @ \$33.20 (bought at limit)

**Catapult for ETF's Trades**

None

**Broad Market Large Cap CBI – 2(ALL, T)**

**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	\$138.26	-3.42%		sell @ \$138.26 limit
ALL(1/3)	11/5/2012	\$38.21	\$38.55	0.89%		Catapult
SPY(1/4)	11/8/2012	\$139.70	\$138.26	-1.03%		Aggregator
T(1/3)	11/9/2012	\$33.02	\$33.87	2.57%		Catapult

*For now I will look to exit the one lot of SPY at a limit equal to Monday's closing price. If there is a gap down in the morning that consolidates but does not fill, I may place a stop under the consolidation.*

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