

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 14, 2012

Volume 5 Issue 219

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The gap down to an intermediate-term low along with the partial reversal triggered a bullish study.
- When SPY has consistently closed in the lower end of its daily range for at least five days, that has typically been followed by a move up the next day.
- The tight range is likely to see a quick expansion in the next few days.

## *Short-term Outlook*

### *The Bottom Line*

Some short-term bullish studies quickly arrived on Tuesday and had turned expectations back to positive for now. The market remains oversold, as it has been for the last several days. I will look to reenter the lot I just sold on Tuesday if I can get a favorable entry price.

**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 14, 2012	50-low gap partial reversal	1-2 days	Bullish	
November 14, 2012	Close in bottom 1/2 of range 5 days	1 day	Bullish	
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	

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

***The Evidence***

After a large gap down to open the day, SPX rallied hard throughout the morning and moved strongly into positive territory. But traders lost that good feeling in the afternoon, giving back their gains and seeing yet another weak close. The SPX finished down 0.4%, the Nasdaq lost 0.7%, and the Russell 2000 dropped 0.6%. Breadth was weak as the NYSE Up Issues % was 31% and the Up Volume % also came in at 31%. Total NYSE volume rose from Monday's holiday levels, but was a bit light compared to the few days prior to that.

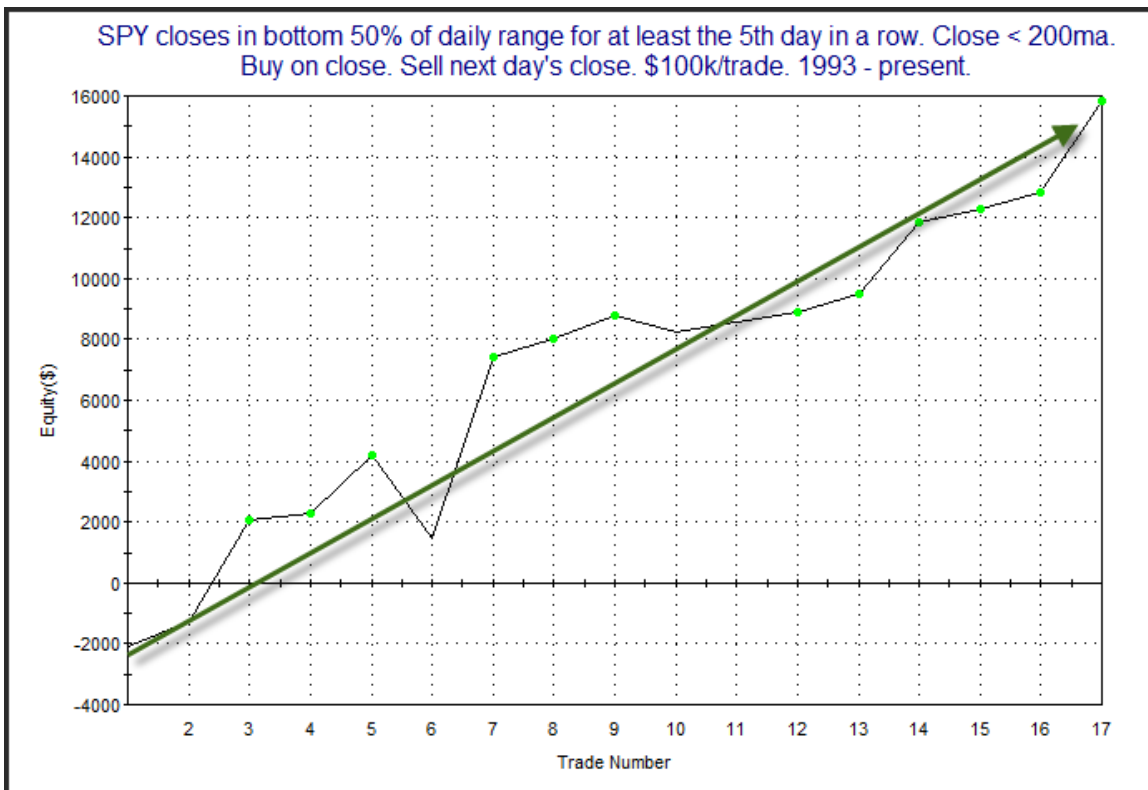
While the action may have appeared frustrating for bulls, the Quantifinder came up with a few studies suggesting the weak close should actually act in favor of the bulls over the next few days.

This first study was last shown in the 12/20/11 Subscriber Letter. It examined consistent closes in the lower half of the daily range. Where the market closes within its daily range can be an indicator of sentiment. Over the years I have shown studies indicating persistent closes in one direction often lead to a reversion. There have been examples of both overdone optimism and overdone pessimism. Tuesday was the fifth day in a row that SPY closed in the lower half of its daily range. Results below are updated and consider other instances where this has been the case and SPY has also been below its 200ma.

SPY closes in bottom 50% of daily range for at least the 5th day in a row. Close < 200ma.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$15,836.02	Profit Factor	3.95
Gross Profit	\$21,206.00	Gross Loss	(\$5,369.98)
Total Number of Trades	17	Percent Profitable	82.35%
Winning Trades	14	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$931.53	Ratio Avg. Win:Avg. Loss	0.85
Avg. Winning Trade	\$1,514.71	Avg. Losing Trade	(\$1,789.99)
Largest Winning Trade	\$5,962.50	Largest Losing Trade	(\$2,736.00)

The numbers here appear to be strongly compelling. Below is a profit curve to see how the edge has played out over time.



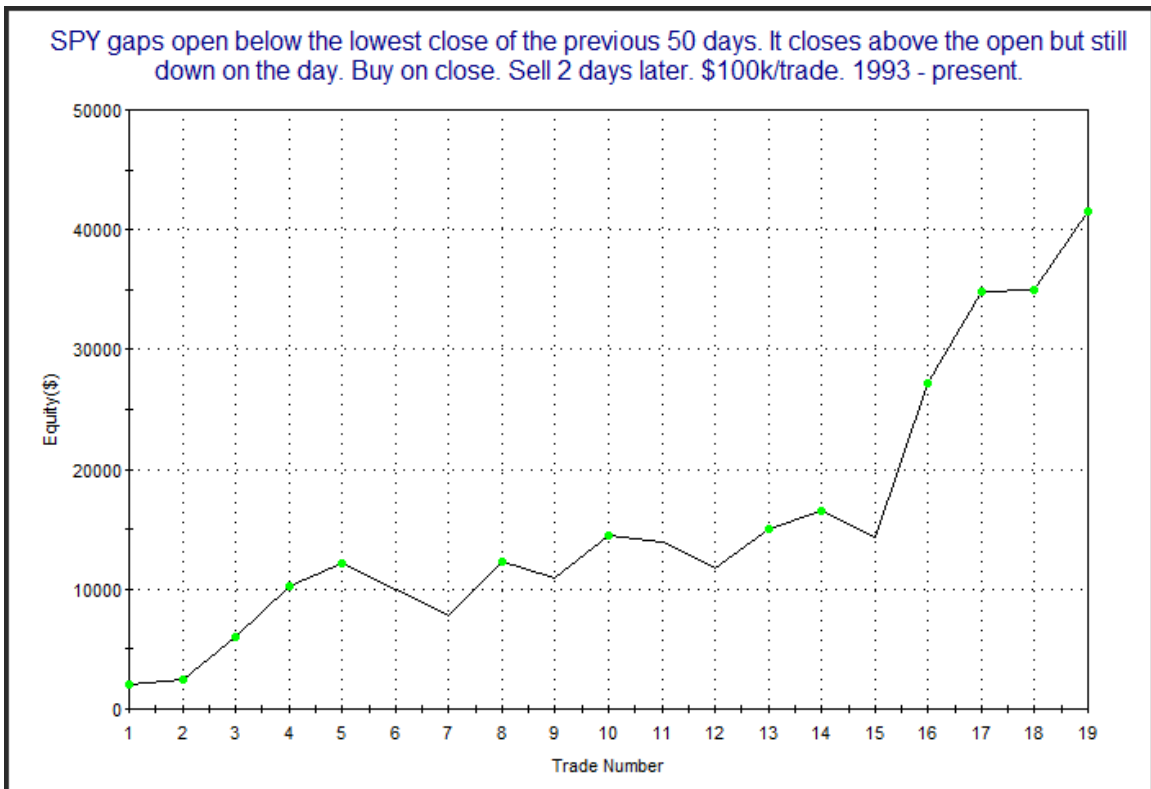
Nothing wrong here. The strong steady upslope appears to confirm the bullish edge.

The gap down and partial reversal from a 50 day low is also something that I have looked at in the past. This next study is one I have not shown since 2/23/09. Results are all updated.

SPY gaps open below the lowest close of the previous 50 days. It closes above the open but still down on the day. 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	32,560.36	18	10	8	55.56	5,388.68	11,377.00	-2,665.80	-4,576.11	2.02	2.53	1,808.91
4	36,170.54	19	11	8	57.89	5,088.24	11,714.64	-2,475.02	-6,725.16	2.06	2.83	1,903.71
3	30,304.18	19	11	8	57.89	3,875.71	10,848.52	-1,541.08	-5,355.22	2.51	3.46	1,594.96
2	41,574.32	19	13	6	68.42	4,032.67	12,814.15	-1,808.39	-2,255.52	2.23	4.83	2,188.12
1	34,634.31	19	14	5	73.68	3,180.35	14,507.65	-1,978.13	-3,576.07	1.61	4.50	1,822.86

I referred to this as a "partial reversal" because it closed above the open, but not high enough to actually close positive. Results appear to favor the longside, especially over the first two days. Below is a profit curve assuming a 2-day holding period.

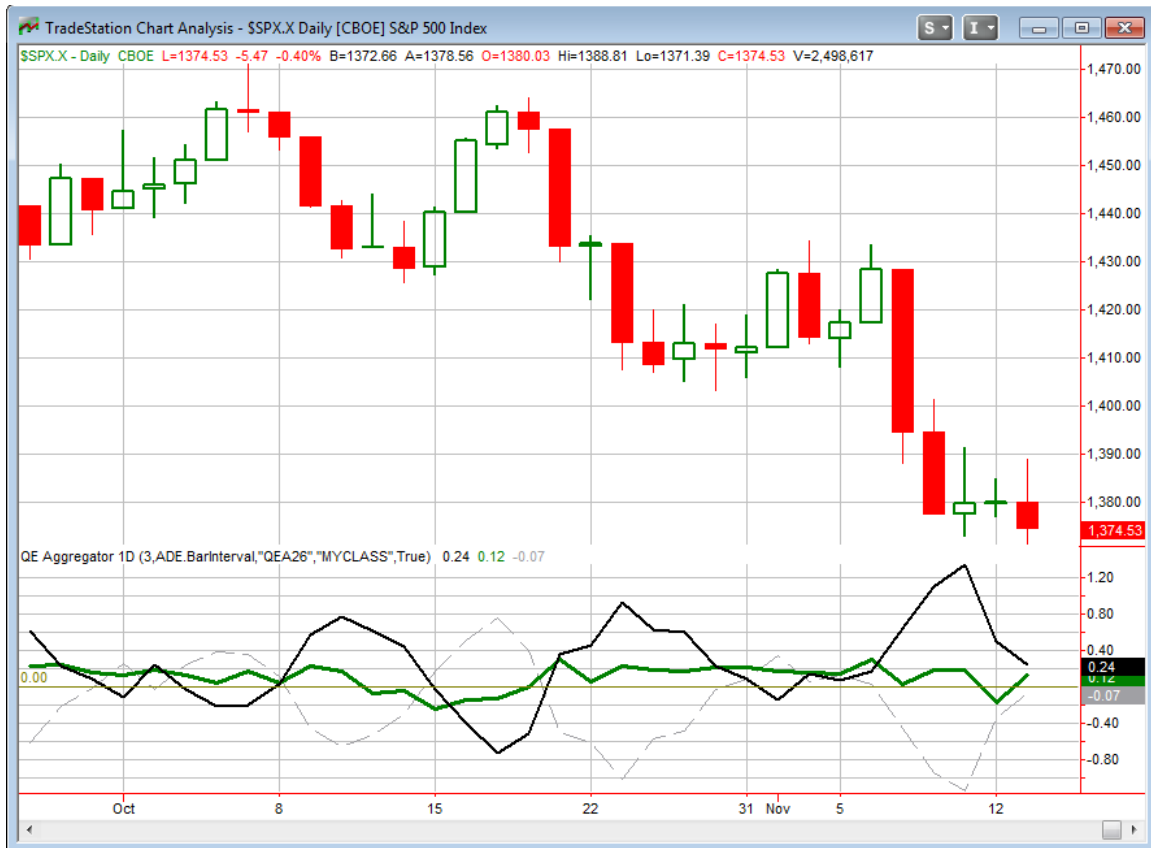


There were a few outsized gains which skewed the curve a bit, but the slope has been undeniably upwards throughout the entire time. I have therefore also included this study on the Short Term Active List.

One other observation is that the 3/10 Offset HV closed at a very low level on Tuesday. This suggests a volatility expansion could occur in the next few days. I last discussed this indicator in the 10/4/12 Letter. Below is a link for those who would like a refresher.

[2012-10-04 QE Subscriber Letter.pdf](#)

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



Tonight's bullish studies led to a quick rebound for the green Aggregator line, which is now back above zero. Positive readings mean net expectations from the Active List are for upside 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 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 change from flat to long at the close.

Based on the current studies, expectations are set to finish just barely negative on Wednesday. Of course this could easily change if more bullish evidence emerges. The Differential Pivot will be 1,385.43 on Wednesday. This is just 0.8% above Tuesday's close. So it would take a close higher of at least this much to move the SPX from oversold to overbought.

The aggregator has quickly flipped back to bullish, but evidence is very short-term in nature. While I took off some long exposure on Tuesday morning, I still have some remaining. Should the market gap down or close lower on Wednesday, I will look to reenter the lot that I exited on Tuesday. I am not interested in buying into an intraday selloff though. Therefore, I will look to execute either at the open or at the close if I can get a favorable price. Details are in the trade ideas section near the bottom of the letter.

***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)*

***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 @ \$137.78 LIMIT ON OPEN. If not filled on open, cancel order, and then use the same \$137.78 limit at the close.* This is based on the short-term outlook above.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)</i>	<i>10/22/2012</i>	<i>\$143.15</i>	<i>\$138.26</i>	<i>-3.42%</i>		<i>sold at limit</i>
ALL(1/3)	11/5/2012	\$38.21	\$38.09	-0.31%		Catapult
SPY(1/4)	11/8/2012	\$139.70	\$137.79	-1.37%		Aggregator
T(1/3)	11/9/2012	\$33.02	\$33.87	2.57%		<i>sell on open</i>

*T reached its exit trigger and will be sold at the open on Wednesday.*

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