

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 20, 2012

Volume 5 Issue 223

Market Overview



Signals Overview

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

Tonight's Research Points

- The strong 2nd day up that fails to make a new 10-day high has often been a bullish sign,

Short-term Outlook

The Bottom Line

The bounce looks good so far but SPX is now overbought. I have begun to scale back on my long position.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
November 20, 2012	Strong up day 2 < 10 high	1 day	Bullish	
November 19, 2012	50-low reversal on high volume	1-4 days	Bullish	2.60%
November 19, 2012	CBI >= 10	1-4 days	Bullish	
Active - Long Term				
November 19, 2012	CBI >= 11	1-20 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 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

A strong start led to a trend day higher as the market put in some large gains. The SPX rose 2.0%, the Nasdaq gained 2.2%, and the Russell 2000 rallied 2.2%. Breadth was extremely positive as the NYSE Up Issues % was 88% and the Up Volume % came in at 93%. Total NYSE volume came in lower than the last few days.

Most of what appeared in the Quantifinder showed little or no edge. While we have seen two strong days of buying, and the market is now short-term overbought, coming from such an oversold condition it could certainly go higher. There were a number of shorts that were feeling pretty good as lately as midday Friday. And if they didn't cover then, they were treated with a large gap up this morning and persistent move higher. Many may have been forced to cover either well above where they desired, or are still holding and probably feeling pretty anxious. Trapped shorts can provide nice juice at the beginning of a rally, so it is often times like this where "overbought" does not suggest a downside edge.

While a few studies suggested no edge at all the one below showed mild upside inclinations. It was last seen in the 3/4/11 Subscriber Letter. Results are all updated.

SPX closes up for at least the 2nd day in a row. Today it gains at least 1.5%.
 It closes below the highest close of the last 10 days. Close > 200ma.
 Buy on close. Sell X days later. \$100k/trade. 1970 - 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	8,385.95	39	21	18	53.85	2,001.65	4,538.32	-1,869.37	-5,142.84	1.07	1.25	215.02
4	7,091.39	39	22	17	56.41	1,661.58	4,176.22	-1,733.13	-9,721.62	0.96	1.24	181.83
3	3,250.49	39	19	20	48.72	1,430.93	3,331.32	-1,196.86	-3,152.82	1.20	1.14	83.35
2	7,713.26	39	22	17	56.41	1,054.26	2,887.20	-910.62	-2,202.18	1.16	1.50	197.78
1	8,789.26	41	26	15	63.41	720.81	2,306.40	-663.45	-1,888.10	1.09	1.88	214.37

The apparent upside edge pretty much plays itself out on day one. Below is an equity curve assuming a 1-day holding period.



It's definitely choppy, and has struggled a bit of late, but without much else triggering tonight I thought it was worth adding to the Active List.

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



Tonight's study kept the green Aggregator line above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line took a sharp dive and is now strongly negative. This means the SPX is quite overbought versus recent expectations. So net expectations are bullish but the SPX is 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 finish positive again on Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,359.47 on Tuesday. That is nearly 2% below Monday's close. So it would take a close down of at least this much to move the SPX back into oversold territory. That is unlikely to happen in just one day. We will probably need to see a multi-day pullback or consolidation to work off the overbought condition.

So evidence is still pointing higher, but the market is now strongly overbought. After two strong days of buying, it may need a little rest here. I took off a fair amount of long exposure at the close on Monday as I indicated I would do in the intraday update. Several Catapult positions reached their exit targets. Some I sold at the close, and some I will look to exit on Tuesday's open. Also, in an unusual move for such a strong up day, one

additional Catapult triggered. The net result of Catapult activity was a move from 11 down to 5 in the CBI on Monday.

When the CBI hits double digits I typically like to hold part of my long position until it gets back to 3. I'm not sure I'll hold that long, but I will give my remaining lot a chance to move higher tomorrow before closing it out. Details for all Catapult and SPY trade ideas may be found in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/19– bullish

The intermediate-term outlook was last updated in the 11/19 letter. Link below:

[2012-11-19 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

EXC – (\$29.37) – (bought @ limit)

EXC – (\$29.37) – bought 1/3 at limit (2nd lot)

EXC – (\$29.25) – bought 1/3 at limit (3rd lot)

*HPQ – (\$12.85) – buy 1/3 at limit (1st lot) – **No Fill & Cancel Order***

New

ETR – (\$62.55) – buy 1/3 at limit (2nd lot)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 5(EXC-3, HPQ, ETR)

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.

ETR- (\$62.55) – buy 1/3 Catapult position at limit (1st lot)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>ALL(1/3)</i>	<i>11/5/2012</i>	<i>\$38.21</i>	<i>\$39.15</i>	<i>2.46%</i>		<i>sold on open</i>
SPY(1/4)	11/8/2012	\$139.70	\$139.13	-0.41%		See below for exit
<i>SPY(1/4)</i>	<i>11/14/2012</i>	<i>\$135.93</i>	<i>\$139.13</i>	<i>2.35%</i>		<i>sold on close</i>
CVX(1/3)	11/15/2012	\$101.99	\$104.35	2.31%		sell on open
<i>DD(1/3)</i>	<i>11/15/2012</i>	<i>\$42.25</i>	<i>\$42.93</i>	<i>1.61%</i>		<i>sold on close</i>
EXC(1/3)	11/15/2012	\$29.31	\$29.19	-0.41%		Catapult
<i>MDLZ(1/3)</i>	<i>11/15/2012</i>	<i>\$25.03</i>	<i>\$25.83</i>	<i>3.20%</i>		<i>sold on close</i>
CVX(1/3)	11/16/2012	\$101.56	\$104.35	2.75%		sell on open
<i>DD(1/3)</i>	<i>11/16/2012</i>	<i>\$42.10</i>	<i>\$42.93</i>	<i>1.97%</i>		<i>sold on close</i>
EXC(1/3)	11/16/2012	\$29.24	\$29.19	-0.17%		Catapult
<i>MDLZ(1/3)</i>	<i>11/16/2012</i>	<i>\$25.11</i>	<i>\$25.83</i>	<i>2.87%</i>		<i>sold on close</i>
EXC(1/3)	11/19/2012	\$29.25	\$29.19	-0.21%		Catapult

DD, MDLZ, and 1 lot of SPY were sold at the close as per the intraday update sent to subscribers around 3pm EST.

I will look to exit my remaining SPY lot if SPY gaps up and opens \geq \$139.75. Otherwise I will hold and look to sell at the close using a \$139.14 limit.

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