

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 21, 2012

Volume 5 Issue 224

Market Overview



Signals Overview

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

Tonight's Research Points

- Wednesday and Friday of Thanksgiving week have been very strong seasonally.
- The stretched VIX could be suggesting a downside edge.
- Strong bounces from intermediate-term lows have a tendency to power through overbought and continue higher.

Short-term Outlook

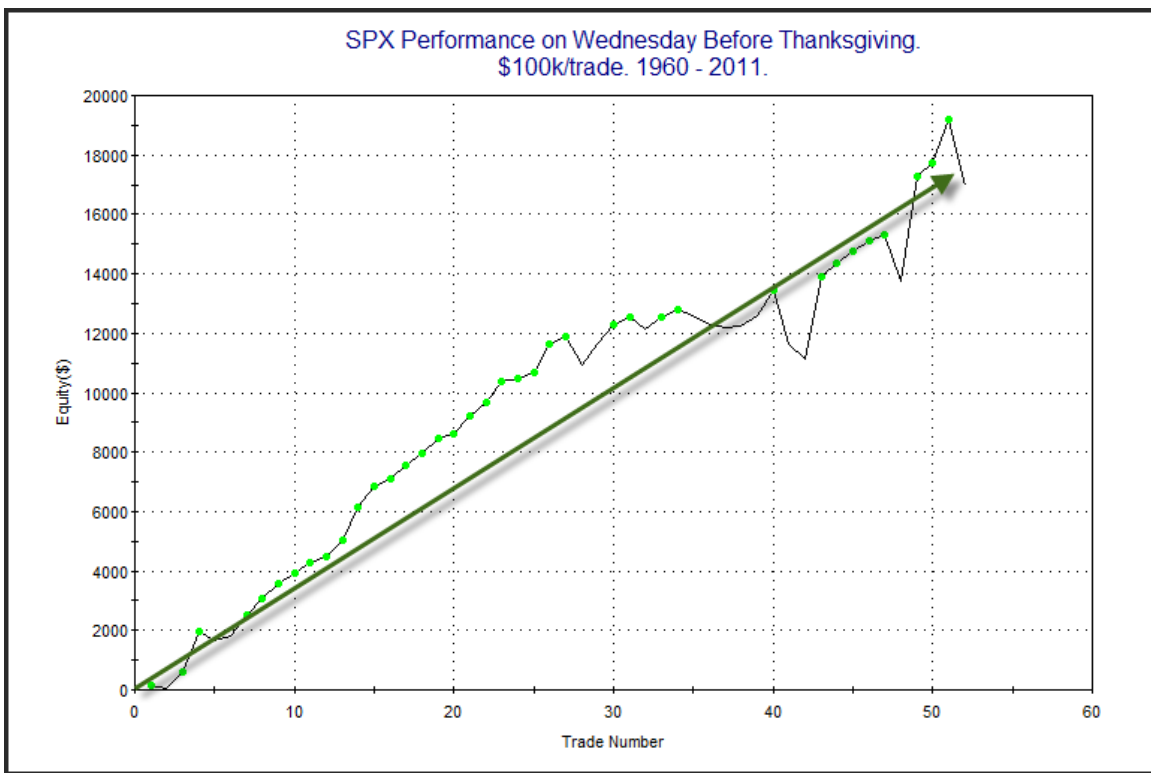
The Bottom Line

For the most part the bounce still looks good. Seasonality is also favorable for the next 2 days. But after 3 days up in a row the SPX is now strongly overbought. I've scaled back a bit more on my longs, and am completely flat on my index positions. I'll wait for a better risk/reward setup to re-enter.

The Evidence

A back and forth day finished near flat. The SPX, Nasdaq, and the Russell 2000 all finished positive by less than 0.1%. Breadth was also mildly positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 55%. Total NYSE volume came in light.

I discussed in Sunday night's letter that Wednesday and Friday surrounding Thanksgiving have traditionally been bullish. Below is the Wednesday profit curve from that letter.



As you can see the upside inclination has been very strong over the years. Friday was also shown to be strong. Below is a copy of the study that looked to buy Tuesday's close and sell Friday's close.

Buy SPX on close Tuesday before Thanksgiving and sell the close on Friday.
\$100k/trade. 1960 - 2011.

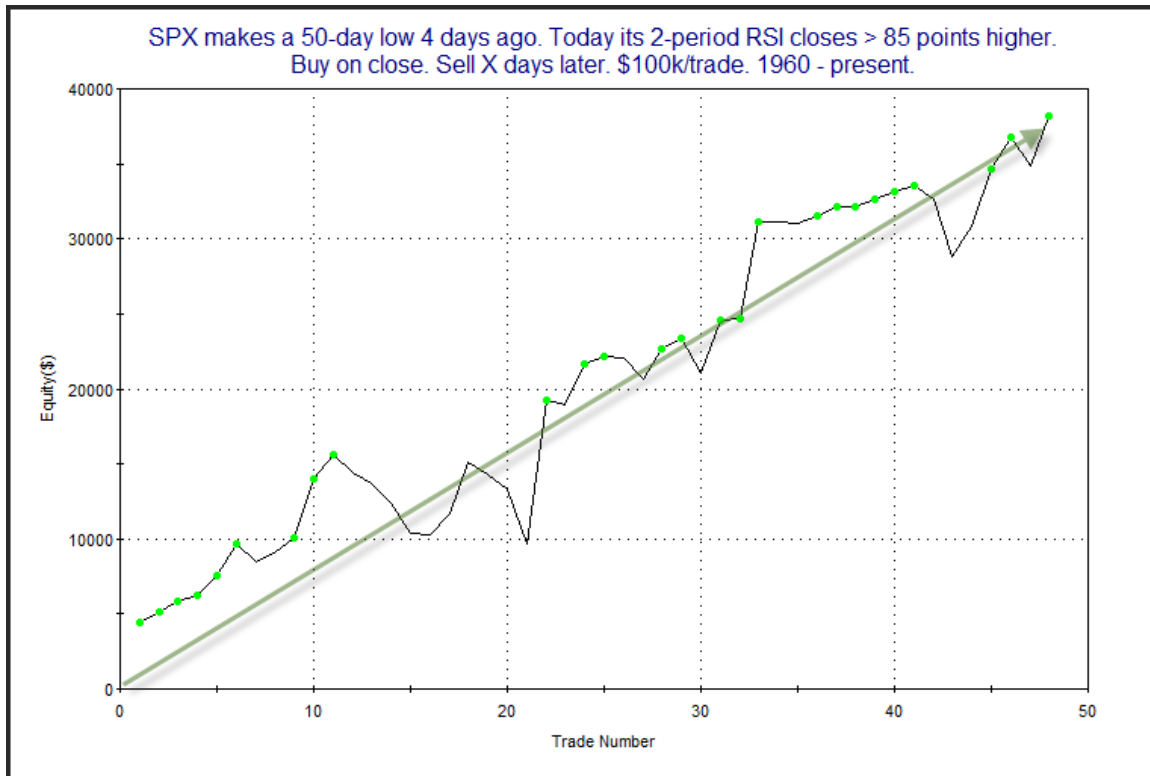
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$32,438.92	Profit Factor	4.94	
Gross Profit	\$40,675.94	Gross Loss	(\$8,237.02)	
Total Number of Trades	52	Percent Profitable	82.69%	
Winning Trades	43	Losing Trades	9	
Even Trades	0			
Avg. Trade Net Profit	\$623.83	Ratio Avg. Win:Avg. Loss	1.03	
Avg. Winning Trade	\$945.95	Avg. Losing Trade	(\$915.22)	
Largest Winning Trade	\$4,506.60	Largest Losing Trade	(\$2,467.08)	

Again we see strong numbers.

Also making a case for the bulls is a study I last discussed in the 11/28/08 letter nearly 4 years ago. It looked at other times that the market made a 50-day low, and then 4 days later its 2-day RSI was over 85 points higher. I have updated the results from that study below.

SPX makes a 50-day low 4 days ago. Today its 2-period RSI closes > 85 points higher. 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	15,992.48	48	26	22	54.17	2,130.71	11,988.81	-1,791.19	-7,143.96	1.19	1.41	333.18
4	38,140.82	48	30	18	62.50	2,033.06	9,526.41	-1,269.50	-3,853.92	1.60	2.67	794.60
3	24,517.07	48	31	17	64.58	1,408.49	7,448.76	-1,126.24	-4,353.44	1.25	2.28	510.77
2	21,933.68	51	34	17	66.67	1,241.49	4,893.68	-1,192.76	-8,004.64	1.04	2.08	430.07
1	17,943.19	60	35	24	58.33	881.43	2,903.78	-537.78	-1,687.84	1.64	2.39	299.05

Numbers here appear bullish. Below is an equity curve using a 4-day holding period.



The strong steady upslope serves as confirmation of the bullish tendency. When strong bounces occur from oversold intermediate-term lows it can often create a short-term overbought condition that becomes even more overbought in the following days. I've mentioned this the last couple of days and this study is a prime example.

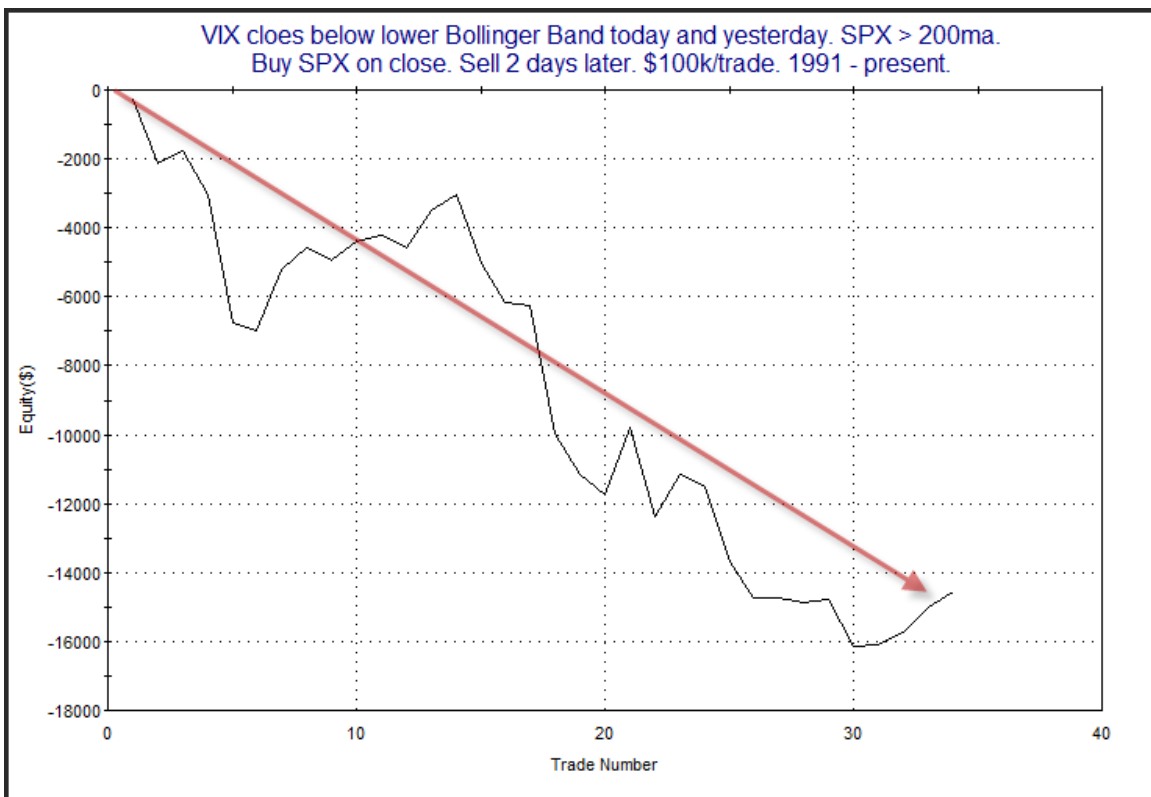
Not all is pointing towards more short-term upside though. The study below was last seen in the 3/14/12 Subscriber Letter. It looked at instances where the VIX closed below its lower Bollinger band for multiple days. It also included a long-term trend filter. Results have all been updated.

VIX closes below lower Bollinger Band today and yesterday. SPX > 200ma.
Buy SPX 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
5	-12,994.53	30	11	19	36.67	1,828.16	4,482.50	-1,742.33	-5,999.92	1.05	0.61	-433.15
4	-16,374.74	30	14	16	46.67	1,103.13	4,440.00	-1,988.66	-6,497.20	0.55	0.49	-545.82
3	-6,410.03	32	18	14	56.25	928.02	3,950.00	-1,651.02	-3,832.46	0.56	0.72	-200.31
2	-14,545.08	34	15	19	44.12	657.69	1,974.69	-1,284.76	-3,712.29	0.51	0.40	-427.80
1	-9,197.51	45	18	27	40.00	531.38	1,377.50	-694.90	-3,644.52	0.76	0.51	-204.39

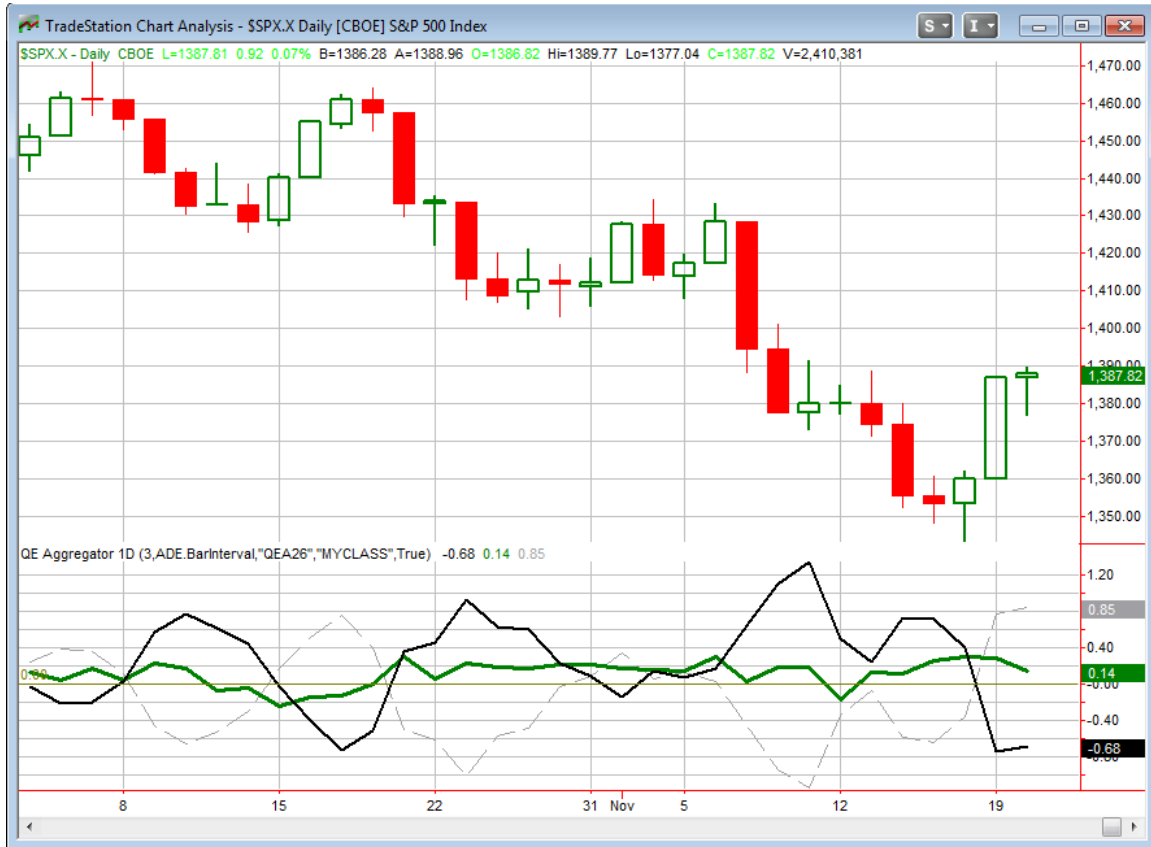
88% of instances posted a close below the entry price at some point in the next week.

The results spreadsheet appears to suggest a moderate downside edge, especially over the first 1-2 days. I took a look at a 2-day equity curve to confirm the possible downside edge.



While choppy, the negative slope still appears to suggest bearish inclinations. The last few instances have not led to a move lower, so that does bear watching, but the study still appears worthy of consideration.

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



Tonight's studies 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 is still 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 remain flat at the close.

Based on the current studies, expectations are set to finish positive again on Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,368.60 on Wednesday. That is nearly 1.5% below Tuesday'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 remains strongly overbought. The overbought condition hurts risk/reward. So I am now out of my index position and awaiting a better risk/reward setup. One more Catapult did trigger today and I will look to get into it on Wednesday.

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***

ETR – (\$62.55) – bought 1/3 at limit (1st lot)

New

ETR – (\$62.49) – buy 1/3 at limit (2nd lot)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6(EXC-3, HPQ, ETR-2)

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- (\$62.49) – buy 1/3 Catapult position at limit (2nd lot)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)</i>	<i>11/8/2012</i>	<i>\$139.70</i>	<i>\$139.19</i>	<i>-0.37%</i>		<i>sold on close</i>
<i>CVX(1/3)</i>	<i>11/15/2012</i>	<i>\$101.99</i>	<i>\$104.01</i>	<i>1.98%</i>		<i>sold on open</i>
EXC(1/3)	11/15/2012	\$29.31	\$28.98	-1.13%		Catapult
<i>CVX(1/3)</i>	<i>11/16/2012</i>	<i>\$101.56</i>	<i>\$104.01</i>	<i>2.41%</i>		<i>sold on open</i>
EXC(1/3)	11/16/2012	\$29.24	\$28.98	-0.89%		Catapult
EXC(1/3)	11/19/2012	\$29.25	\$28.98	-0.92%		Catapult
ETR(1/3)	11/20/2012	\$62.55	\$62.49	-0.10%		Catapult

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