

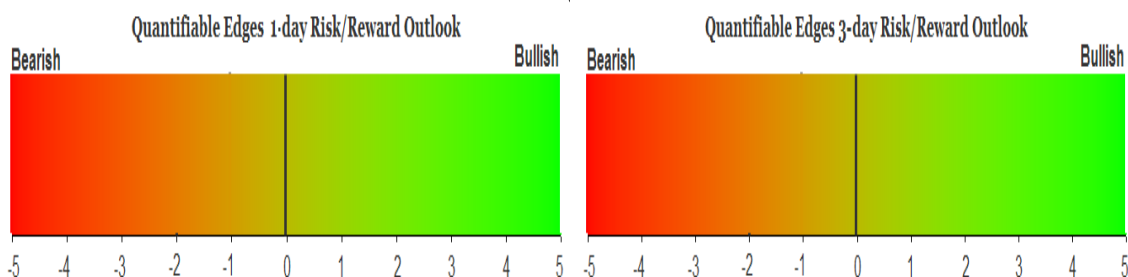
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 23, 2012

Volume 5 Issue 225

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 very tight closes after Tuesday's strong up day suggest a short-term edge for the bears.
- The Friday after Thanksgiving is seasonally bullish.
- Thursday's narrow range day in the move off the lows appears to have bullish implications.
- The VIX rising along with the SPX today triggered a short-term bearish study.

Short-term Outlook

The Bottom Line

Indications are mixed but still leaning short-term bullish. The SPX is overbought but may not be tomorrow. A real mixed bag, and nothing that has me interested in taking on index exposure just yet. The CBI remains elevated and another Catapult triggered on Wednesday that I'll look to enter.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
November 23, 2012	SPX up. VIX up. Wednesday.	1 day	Bearish	
November 23, 2012	Friday seasonally bullish.	1 day	Bullish	
November 23, 2012	Bounce from low then narrow range	1-3 days	Bullish	2.10%
November 23, 2012	Tight closes after big move day	1-5 days	Bearish	-2.30%
November 21, 2012	RSI jumps 85 points in 4 days	1-4 days	Bullish	
November 21, 2012	VIX < Bollinger Bnd 2 days	1-2 days	Bearish	
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	

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

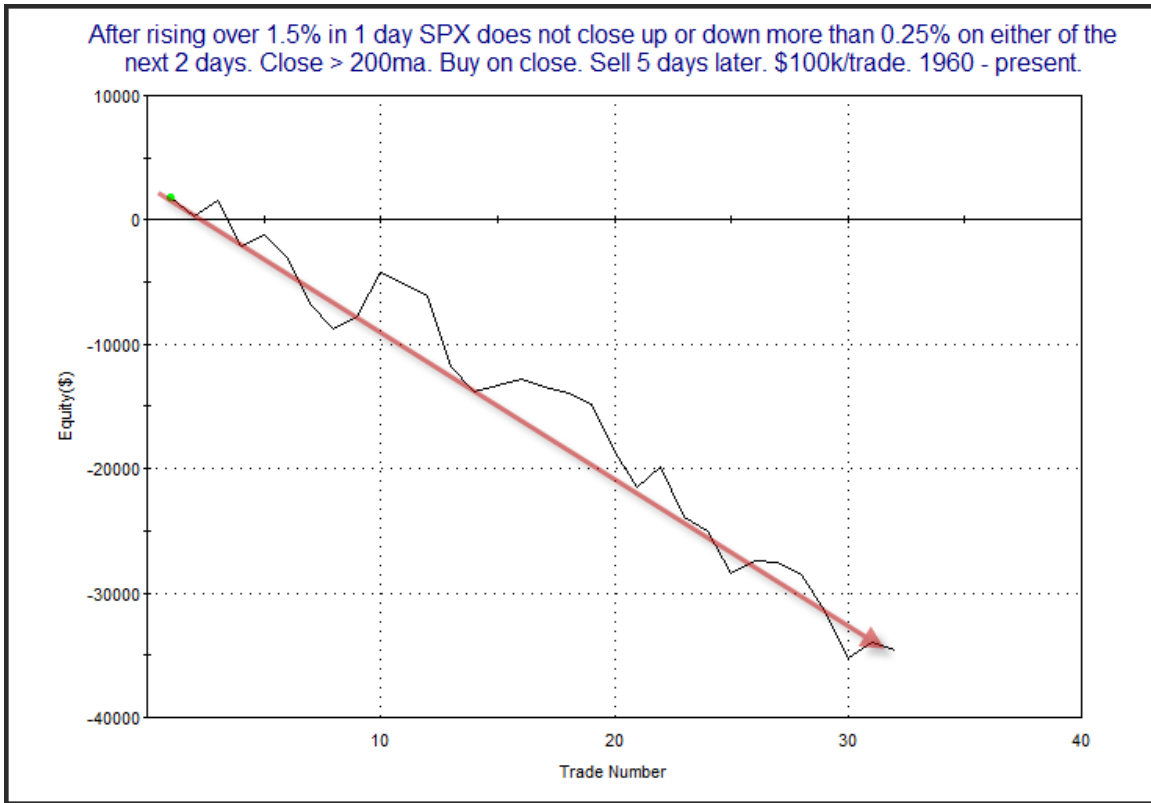
The Evidence

A quiet pre-holiday session on Wednesday saw the indices close moderately higher. The SPX rose 0.2%, the Nasdaq was up 0.3%, and the Russell 2000 gained 0.6%. Breadth was solidly positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 70%. Total NYSE volume came in light with many traders taking off early or not working at all.

Because of the holiday I am not concerned with studies that focus on volume, as several from the Quantifinder did. Other than those there were still a few interesting ones to discuss. Overall, they finished mixed. The 1st on below was from the 10/8/10 Letter. It looked at times that a big 1-day gain was followed by two days of sideways movement.

After rising over 1.5% in 1 day SPX does not close up or down more than 0.25% on either of the next 2 days. 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	-34,534.41	32	10	22	31.25	1,364.74	3,568.24	-2,190.08	-5,684.80	0.62	0.28	-1,079.20
4	-22,467.22	33	10	23	30.30	1,247.38	2,499.52	-1,519.18	-5,171.04	0.82	0.36	-680.82
3	-16,258.29	33	13	20	39.39	1,141.16	2,808.00	-1,554.67	-4,234.72	0.73	0.48	-492.68
2	-10,603.80	33	13	20	39.39	886.61	2,124.00	-1,106.49	-3,139.20	0.80	0.52	-321.33
1	-10,006.37	33	16	17	48.48	424.68	1,321.92	-988.31	-3,967.20	0.43	0.40	-303.22

Even with the 200ma filter in place results appear to be squarely negative. Below is an equity curve using a 5-day exit strategy.



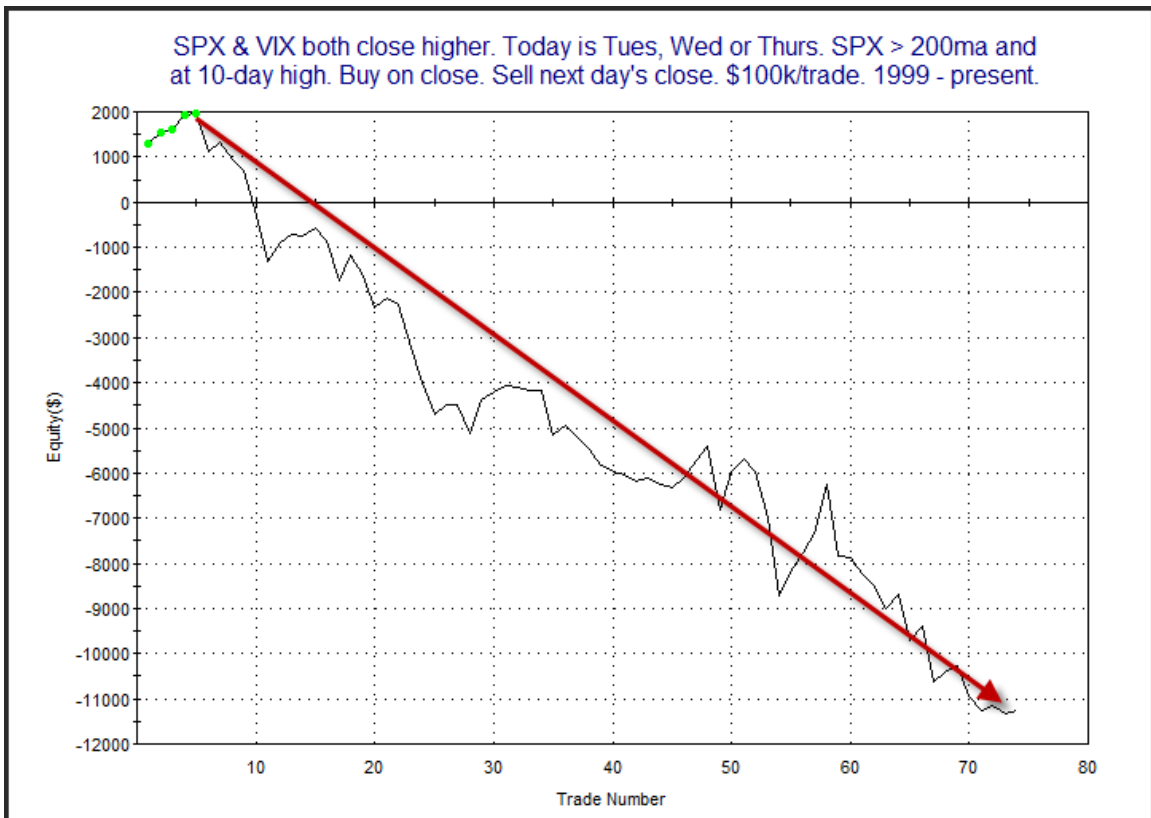
The steady downslope is impressive and seems to act as confirmation of the downside edge.

VIX action was also interesting. As most subscribers are no doubt aware, the VIX and the SPX will most often move opposite each other. But on Wednesday they both closed up. In the 6/20/12 Letter I showed one study that suggested a possible downside edge for the next day. Below I have updated the stats.

SPX & VIX both close higher. Today is Tues, Wed or Thurs. SPX > 200ma and at 10-day high. Buy on close. Sell next day's close. \$100k/trade. 1999 - present.

TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	(\$11,262.13)	Profit Factor	0.49
Gross Profit	\$10,922.09	Gross Loss	(\$22,184.22)
Total Number of Trades	74	Percent Profitable	44.59%
Winning Trades	33	Losing Trades	41
Even Trades	0		
Avg. Trade Net Profit	(\$152.19)	Ratio Avg. Win:Avg. Loss	0.61
Avg. Winning Trade	\$330.97	Avg. Losing Trade	(\$541.08)
Largest Winning Trade	\$1,281.75	Largest Losing Trade	(\$1,721.70)

Numbers here suggest a mild downside inclination. They are good enough to take a look at the profit curve.



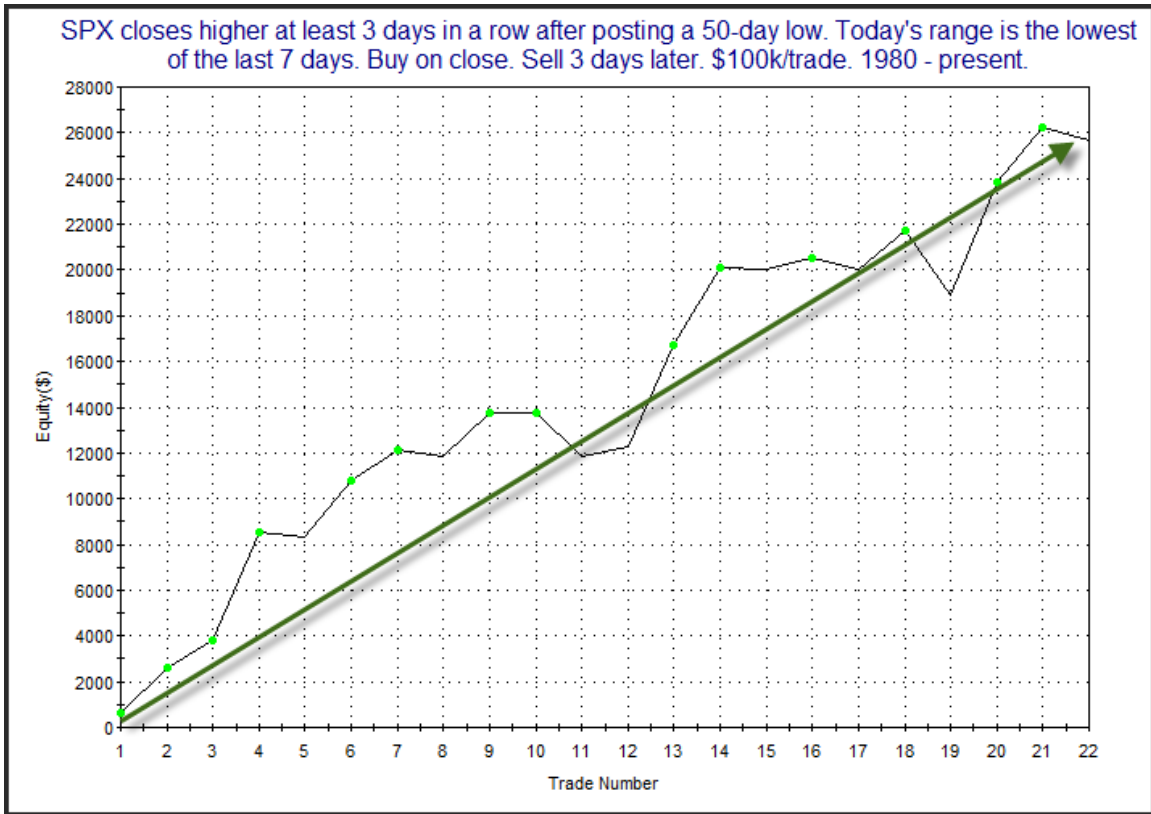
The steady downslope here is also impressive. I have therefore elected include this study on the Active List.

There was one new bullish study that appeared tonight. It was last seen in the 5/25/12 letter. I examined what happened other times the SPX moved off its 50-day low and underwent a volatility contraction.

SPX closes higher at least 3 days in a row after posting a 50-day low. Today's range is the lowest of the last 7 days. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	20,197.19	22	15	7	68.18	2,297.64	6,877.04	-2,038.20	-3,446.97	1.13	2.42	918.05
4	17,455.71	22	15	7	68.18	1,925.54	5,068.10	-1,632.49	-5,663.22	1.18	2.53	793.44
3	25,652.56	22	15	7	68.18	2,129.78	4,989.60	-899.15	-2,830.50	2.37	5.08	1,166.03
2	11,268.36	23	16	7	69.57	1,379.36	2,947.84	-1,543.05	-5,264.73	0.89	2.04	489.93
1	168.02	28	18	10	64.29	819.52	4,699.94	-1,458.34	-8,883.33	0.56	1.01	6.00

27 of 28 instances (96%) closed above the entry price at some point in the next week. All 28 did so within 6 trading days.

Results here appear quite compelling. The incredible consistency noted at the bottom of the table is especially impressive. Below is a profit curve that assumes a 3-day holding strategy.



The consistency of the curve serves as confirmation of the bullish edge.

Of course as I have discussed a few times this week, the Friday after Thanksgiving is seasonally bullish.

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

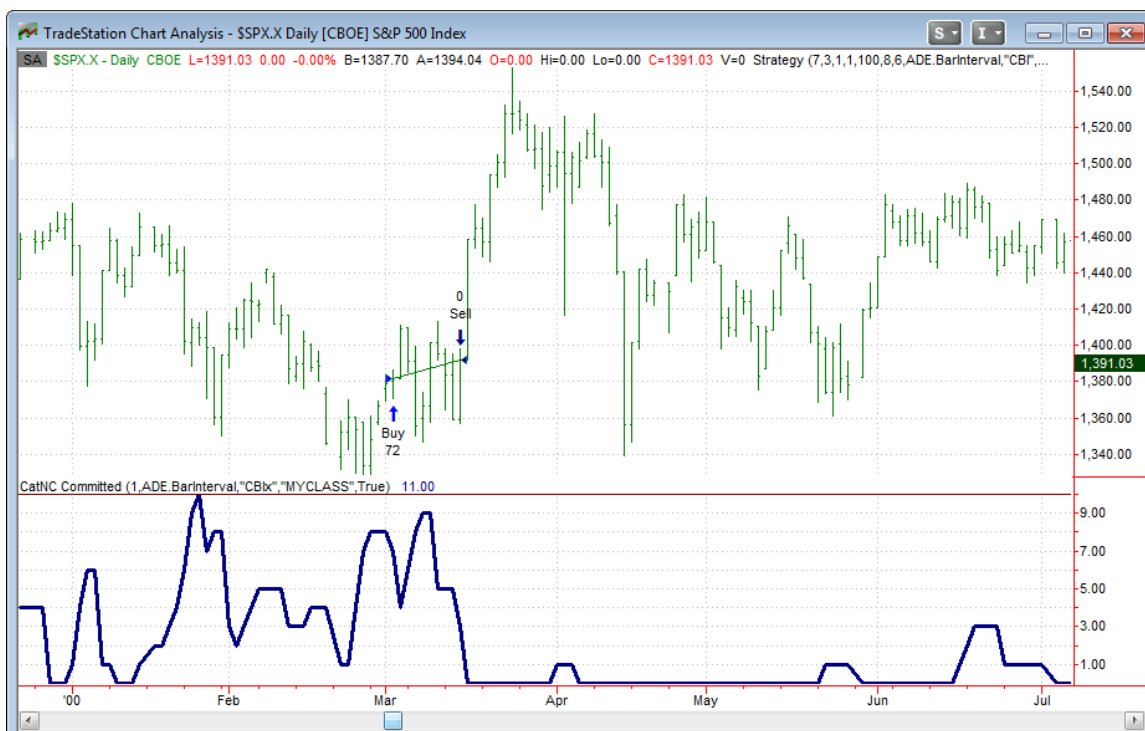


Tonight's studies kept the green Aggregator line above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still strongly negative. This means the SPX is quite overbought versus recent expectations. So net 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 Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *inverted* at 1,398.44 on Friday. An inverted pivot means that the Differential Line would cross zero on a flat close. This would signal the SPX moving from overbought to oversold versus expectations should it occur. For the SPX to remain overbought it will need to rise at least 0.5%.

So evidence is still pointing higher, the market remains overbought, but perhaps not for long. Risk/reward seems poor here for a long entry. I'll give it a day or 2 and see how things play out. I still have long exposure thanks to the active Catapult triggers. And one more triggered on Wednesday that I will be looking to enter on Friday. Details are in the Trade Ideas section down below.

In a very unusual move the CBI is still at 7 despite the SPX rising now for 4 days in a row. Typically 2-3 days is all it takes to see a sharp decline. This could be a good sign for the bulls, indicating more upside to come. Or it could just be a few rogue stocks that are acting poorly in this instance. I looked for other times the CBI was as high as 7 despite SPX rising 4 days in a row. There was only 1 other instance. It occurred on 3/2/00. I've shown it below.



As you can see it was followed by some strong chop back and forth before the CBI finally got down to a neutral 3 and the SPX rallied higher. I wouldn't try and read anything into just one instance, but I would not be surprised to see some back and forth here rather than a continuation straight up. On another note, I found it interesting that this instance in 2000 occurred at nearly the same price level the SPX is at today.

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)

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

New

ETR – (\$62.28) – buy 1/3 at limit (3rd lot)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 7(EXC-3, HPQ, ETR-3)

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– (\$62.28) – buy 1/3 Catapult position at limit (3rd lot)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
EXC(1/3)	11/15/2012	\$29.31	\$28.85	-1.57%		Catapult
EXC(1/3)	11/16/2012	\$29.24	\$28.85	-1.33%		Catapult
EXC(1/3)	11/19/2012	\$29.25	\$28.85	-1.37%		Catapult
ETR(1/3)	11/20/2012	\$62.55	\$62.28	-0.43%		Catapult
ETR(1/3)	11/20/2012	\$62.49	\$62.28	-0.34%		Catapult

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