

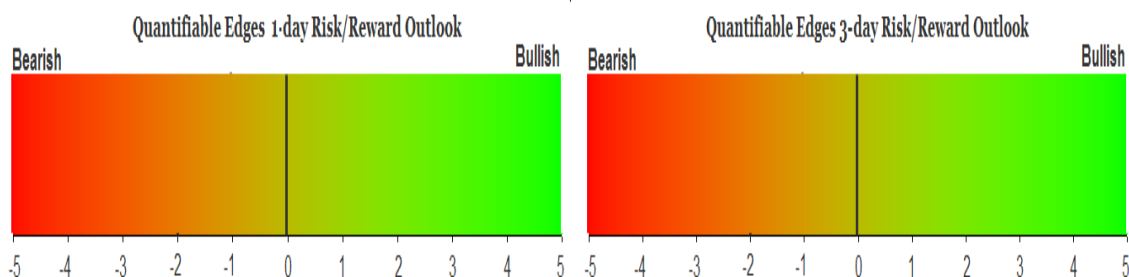
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 26, 2012

Volume 5 Issue 226

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Monday after Thanksgiving is seasonally bearish.
- Friday's strong breadth triggered a couple of intermediate-term bullish studies.
- Liquidity flows are expected to be especially strong this week.

## Short-term Outlook

### The Bottom Line

Indications are mixed but still leaning short-term bullish. This could change as early as Monday. The SPX is overbought. So an Aggregator short signal could trigger Monday afternoon. But with the CBI still elevated and the QE Buying Power Index set to rise into bullish territory on Tuesday, I am not inclined to take on a short 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 26, 2012	Monday seasonally weak	1 day	Bearish	
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	
<b>Active - Long Term</b>				
November 26, 2012	90% up vol studies.	1-15 days	Bullish	
November 19, 2012	CBI >= 11	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 23, 2012	SPX up. VIX up. Wednesday.	1 day	Bearish	
<b>November 23, 2012</b>	<b>Friday seasonally bullish.</b>	<b>1 day</b>	<b>Bullish</b>	
November 21, 2012	VIX < Bollinger Bnd 2 days	1-2 days	Bearish	
<b>November 19, 2012</b>	<b>50-low reversal on high volume</b>	<b>1-4 days</b>	<b>Bullish</b>	<b>2.60%</b>
November 19, 2012	CBI >= 10	1-4 days	Bullish	

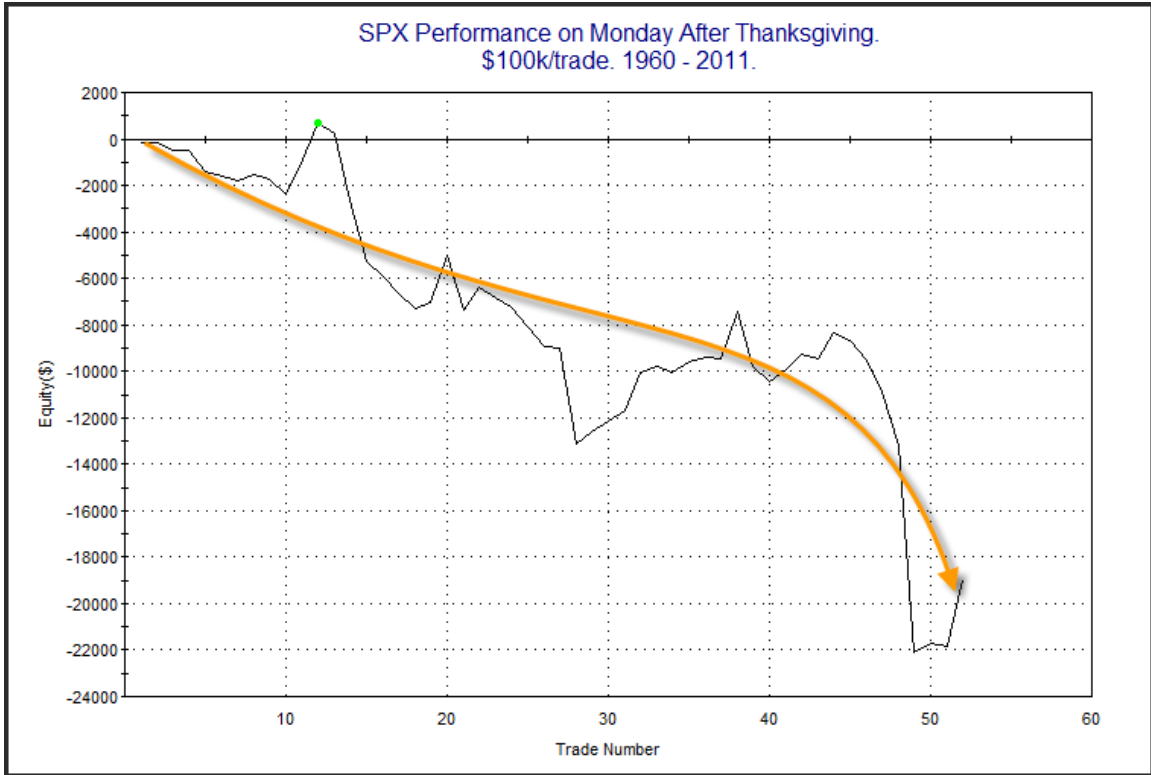
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

***The Evidence***

Friday was a shortened day with light trading, but that did not keep the market from embarking on a strong, broad advance. The SPX rose 1.3%, the Nasdaq was up 1.4%, and the Russell 2000 gained 1.1%. Breadth was extremely positive as the NYSE Up Issues % was 83% and the Up Volume % came in at 92%. Total NYSE volume came in light but the day was short and many traders were out.

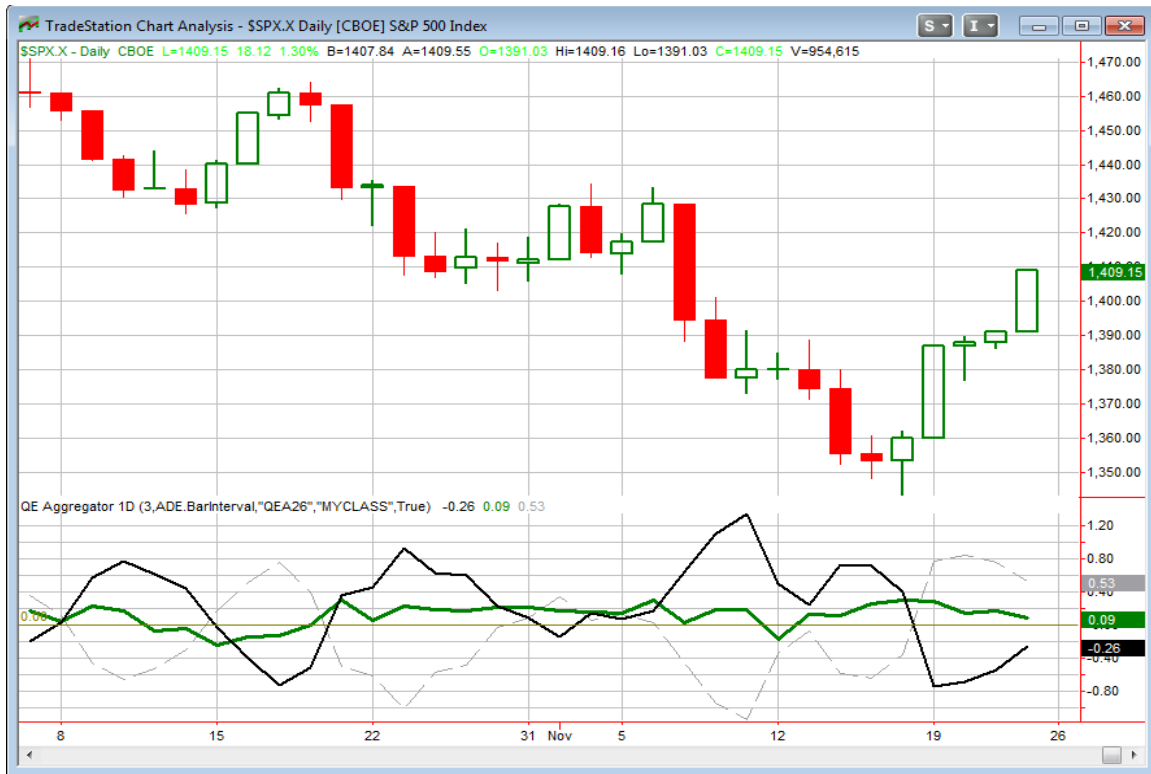
Several volume-related studies triggered in the Quantifinder. But with a half-day it is an unfair comparison. So I have found it is generally best to ignore volume-related studies under these circumstances.

I noted in the 11/19 Subscriber Letter last week when going over Thanksgiving seasonal edges that the Monday after Thanksgiving has struggled historically. Below is a copy of the equity curve shown last week.



As you can see while the Monday after has carried a bit of a downside edge for many years, the raw numbers are skewed quite a bit by the almost 9% drop in 2008. Without that the downside edge would appear much more modest. Still, there does appear to be one.

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



The green Aggregator line again remained 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 negative. This means the SPX is 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 flip to negative on Monday. Of course this could change if bullish evidence emerges. The Differential Pivot will be 1,397.59 on Monday. That is about 0.8% below Friday's close. So the SPX would need to close down at least this much in order to move from overbought to oversold versus expectations.

Evidence is set to possibly turn bearish on Monday and the market is quite overbought. A short setup could be about to trigger. I strongly considered possibly entering a short index position as early as Monday afternoon, but ultimately decided not to for 2 reasons: 1) The CBI is still at 7. I generally have found shorting with the CBI  $\geq 5$  to be a bad idea. 2) [The QE Buying Power Index](#) is set to rise to 3 as early as Tuesday. Shorts have not fared well over the last 5 years when the QE Buying Power Index has been this high. So while the Aggregator may well trigger a short on Monday afternoon, I'll wait for a more favorable setup before allocating new capital.

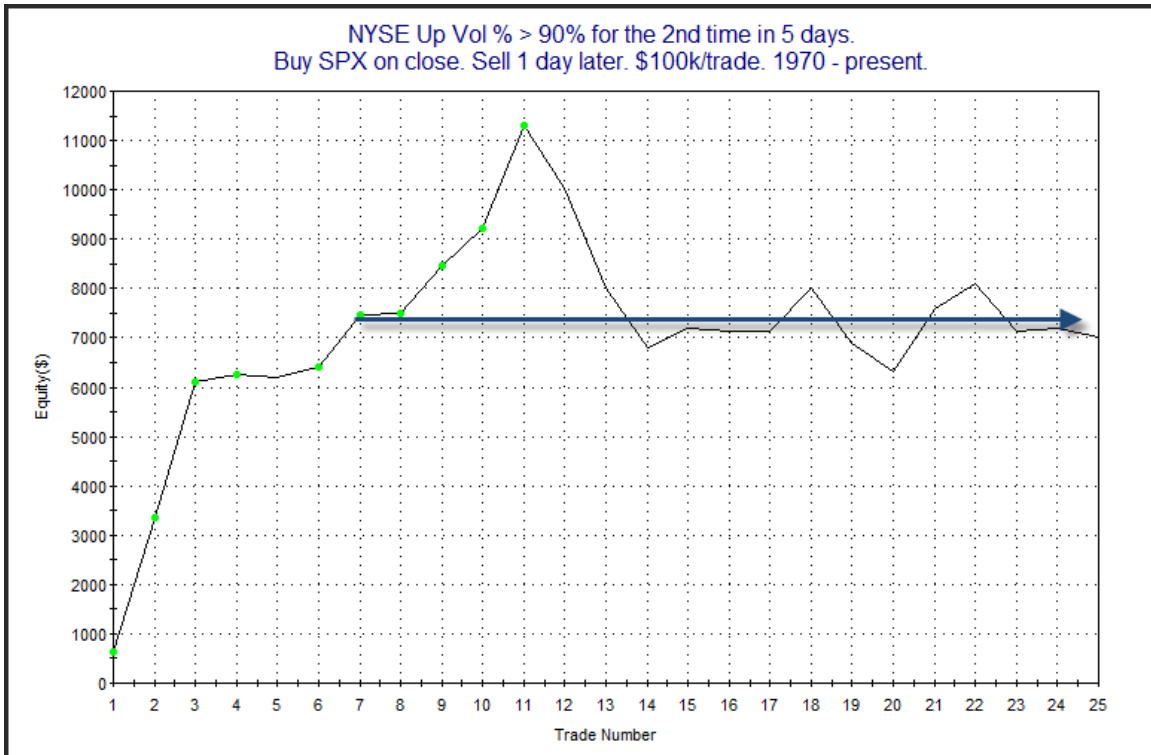
**Intermediate-term Outlook (2 weeks – 2 months)– updated 11/26– bullish**

This past week saw SPX rise every day, with Monday and Friday putting in especially strong gains. This led to a couple of breadth-based intermediate-term studies triggering on Friday.

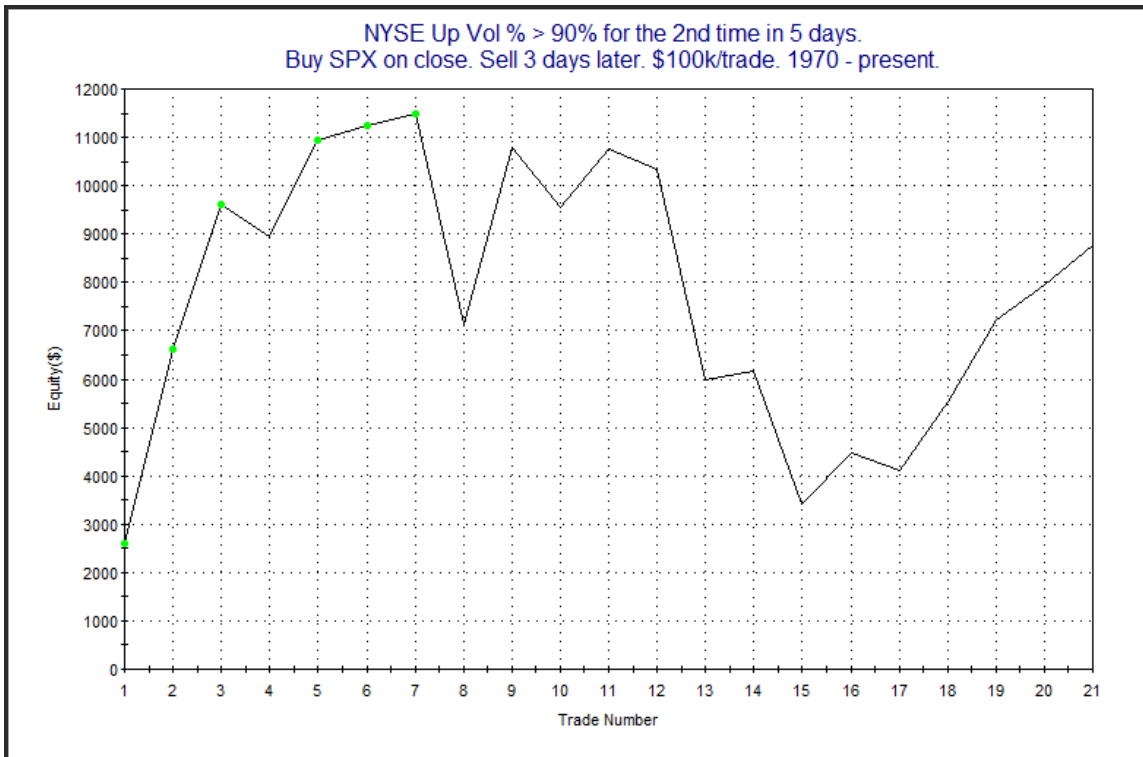
Friday was the 2<sup>nd</sup> 90% Up Volume day within 5 days. In the past this has been a positive sign for the intermediate-term. I've updated results from the 10/11/11 Subscriber Letter below.

NYSE Up Vol % > 90% for the 2nd time in 5 days. Buy SPX 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
20	65,400.86	15	12	3	80.00	5,916.61	14,074.06	-1,866.14	-2,367.00	3.17	12.68	4,360.06
19	60,937.96	15	13	2	86.67	5,059.13	9,897.86	-2,415.33	-2,643.30	2.09	13.61	4,062.53
18	64,688.06	15	13	2	86.67	5,263.55	9,503.00	-1,869.02	-2,746.24	2.82	18.31	4,312.54
17	63,165.56	15	12	3	80.00	5,524.14	11,270.42	-1,041.37	-1,797.60	5.30	21.22	4,211.04
16	66,970.76	16	15	1	93.75	4,505.02	12,204.08	-604.52	-604.52	7.45	111.78	4,185.67
15	63,914.59	16	13	3	81.25	5,040.92	11,124.12	-539.12	-1,089.36	9.35	40.52	3,994.66
14	65,632.34	16	14	2	87.50	4,788.56	8,025.22	-703.76	-954.72	6.80	47.63	4,102.02
13	60,598.92	16	14	2	87.50	4,678.47	8,597.16	-2,449.80	-3,328.80	1.91	13.37	3,787.43
12	39,982.33	17	13	4	76.47	4,015.25	8,106.28	-3,053.98	-7,819.54	1.31	4.27	2,351.90
11	36,228.73	17	13	4	76.47	3,718.99	8,671.60	-3,029.54	-7,522.28	1.23	3.99	2,131.10
10	37,520.54	17	12	5	70.59	4,221.90	10,921.96	-2,628.45	-6,585.11	1.61	3.85	2,207.09
9	37,456.24	17	14	3	82.35	3,159.51	8,397.62	-2,258.98	-3,618.74	1.40	6.53	2,203.31
8	29,631.95	17	13	4	76.47	3,002.53	7,394.80	-2,350.25	-4,263.30	1.28	4.15	1,743.06
7	29,110.85	18	12	6	66.67	3,533.37	9,599.94	-2,214.93	-4,149.70	1.60	3.19	1,617.27
6	8,132.13	18	9	9	50.00	3,107.45	4,689.44	-2,203.88	-4,733.10	1.41	1.41	451.78
5	5,251.15	19	10	9	52.63	2,606.42	4,765.28	-2,312.56	-4,755.52	1.13	1.25	276.38
4	21,022.60	19	11	8	57.89	2,673.15	5,800.13	-1,047.76	-2,192.19	2.55	3.51	1,106.45
3	8,770.34	21	14	7	66.67	1,637.30	4,031.04	-2,021.69	-4,359.81	0.81	1.62	417.64
2	1,217.45	23	13	10	56.52	1,395.64	2,913.52	-1,692.58	-8,004.64	0.82	1.07	52.93
1	6,998.46	25	15	10	60.00	969.05	2,755.52	-753.72	-2,006.18	1.29	1.93	279.94

Some traders might be inclined to believe that even the very short-term stats suggest an upside edge. I don't believe so. The reason is not in the stats. It is in the equity curve.



While the 1-day numbers are potentially bullish, the equity curve shows no consistency. Next is the 3-day curve.



More of the same here. Looking at these equity curves encourages me to avoid considering this setup as a short-term edge. But if you look out over a few weeks the bullish edge does appear to be squarely in place. Below is a list of all qualifying instances.

NYSE Up Vol % > 90% for the 2nd time in 5 days.  
Buy SPX on close. Sell 16 days later. \$100k/trade. 1970 - present.

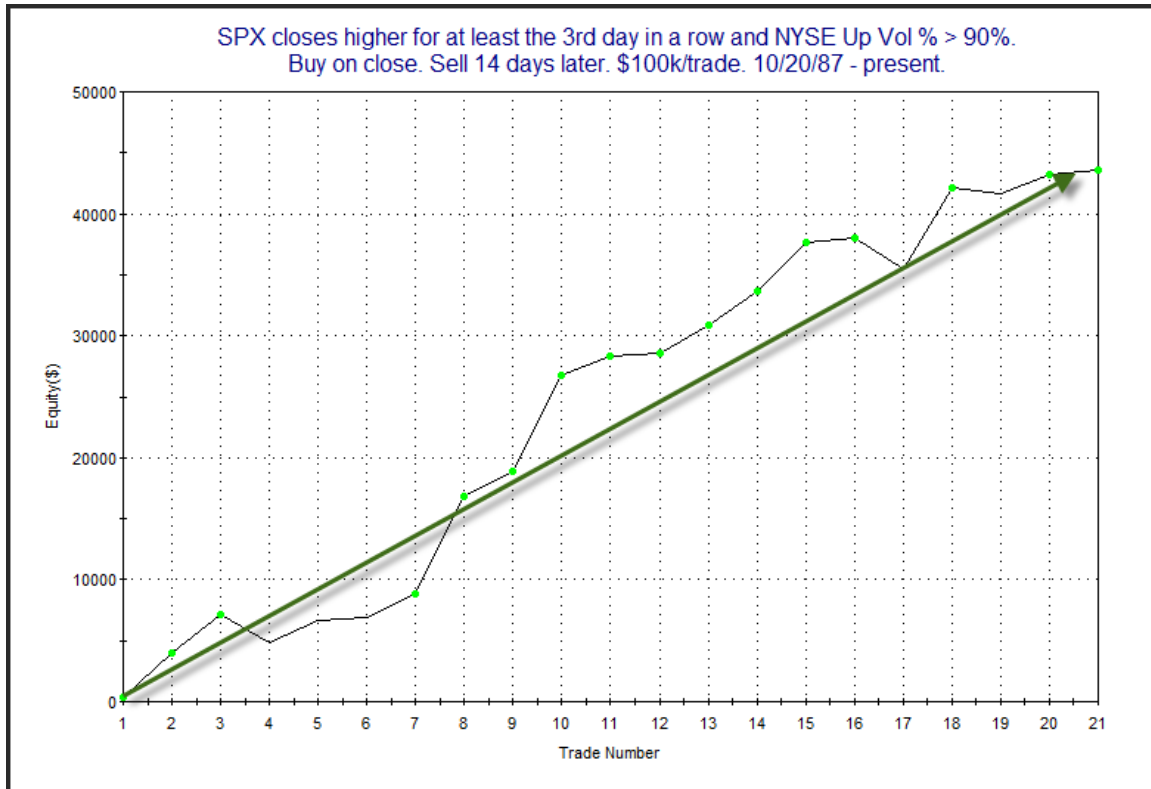
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/29/71	Buy	\$93.41	8.98%	\$8,977.30
12/21/71	Sell	\$101.80		\$0.00
08/20/82	Buy	\$113.02	8.92%	\$10,440.04
09/14/82	Sell	\$123.10		(\$928.20)
08/02/84	Buy	\$157.99	6.02%	\$6,831.92
08/24/84	Sell	\$167.50		\$0.00
01/05/87	Buy	\$252.19	8.55%	\$11,388.96
01/27/87	Sell	\$273.75		(\$23.76)
08/31/07	Buy	\$1,473.99	2.93%	\$4,338.25
09/25/07	Sell	\$1,517.21		(\$2,324.90)
11/28/07	Buy	\$1,469.01	(0.61%)	\$3,710.08
12/20/07	Sell	\$1,460.12		(\$2,268.48)
11/26/08	Buy	\$887.68	0.02%	\$3,491.04
12/19/08	Sell	\$887.88		(\$8,062.88)
03/12/09	Buy	\$750.74	12.22%	\$12,617.71
04/03/09	Sell	\$842.50		(\$1,101.24)
05/27/10	Buy	\$1,103.06	0.92%	\$2,535.30
06/21/10	Sell	\$1,113.20		(\$5,480.10)
07/13/10	Buy	\$1,095.34	2.91%	\$3,040.31
08/04/10	Sell	\$1,127.24		(\$3,499.86)
09/01/10	Buy	\$1,080.29	6.33%	\$6,312.12
09/24/10	Sell	\$1,148.67		\$0.00
09/24/10	Buy	\$1,148.67	3.14%	\$3,206.82
10/18/10	Sell	\$1,184.71		(\$1,461.60)
12/01/10	Buy	\$1,206.07	4.20%	\$4,372.24
12/23/10	Sell	\$1,256.77		\$0.00
08/11/11	Buy	\$1,172.64	0.11%	\$4,935.95
09/02/11	Sell	\$1,173.97		(\$4,381.75)
10/10/11	Buy	\$1,194.89	1.96%	\$8,114.91
11/01/11	Sell	\$1,218.28		(\$629.97)
11/30/11	Buy	\$1,246.96	0.56%	\$1,608.00
12/22/11	Sell	\$1,254.00		(\$3,567.20)

This looks very solid. And another breadth based study also triggered which seems to confirm the suggestion here. It looked at other times the SPX rose for at least 3 days in a row and the NYSE Up Volume % came in > 90%. It was last seen in the 6/7/12 letter. I have updated the results below.

SPX closes higher for at least the 3rd day in a row and NYSE Up Vol % > 90%.  
Buy on close. Sell X days later. \$100k/trade. 10/20/87 - 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
20	42,396.34	20	13	7	65.00	4,638.90	14,074.06	-2,558.48	-5,866.30	1.81	3.37	2,119.82
19	32,531.05	20	14	6	70.00	3,695.88	9,897.86	-3,201.89	-7,086.20	1.15	2.69	1,626.55
18	35,537.98	20	15	5	75.00	3,415.50	8,619.73	-3,138.90	-4,913.70	1.09	3.26	1,776.90
17	44,779.02	20	15	5	75.00	3,798.23	11,270.42	-2,438.89	-5,553.90	1.56	4.67	2,238.95
16	46,504.73	20	16	4	80.00	3,466.54	12,204.08	-2,239.97	-6,770.50	1.55	6.19	2,325.24
15	45,577.17	21	15	6	71.43	3,779.58	11,124.12	-1,852.76	-5,239.30	2.04	5.10	2,170.34
14	43,620.66	21	18	3	85.71	2,721.81	8,025.22	-1,790.62	-2,533.16	1.52	9.12	2,077.17
13	31,503.75	22	16	6	72.73	2,448.31	7,484.65	-1,278.19	-3,373.70	1.92	5.11	1,431.99
12	31,940.67	22	17	5	77.27	2,367.90	7,583.70	-1,662.73	-2,355.10	1.42	4.84	1,451.85
11	28,346.83	22	14	8	63.64	2,541.17	8,671.60	-903.69	-2,496.80	2.81	4.92	1,288.49
10	30,664.11	22	16	6	72.73	2,654.84	10,921.96	-1,968.89	-2,811.20	1.35	3.60	1,393.82
9	28,621.74	22	16	6	72.73	2,369.36	8,397.62	-1,547.99	-2,298.27	1.53	4.08	1,300.99
8	22,321.85	22	16	6	72.73	2,207.21	7,394.80	-2,165.58	-3,753.26	1.02	2.72	1,014.63
7	26,578.06	22	15	7	68.18	2,344.80	9,599.94	-1,227.71	-2,724.73	1.91	4.09	1,208.09
6	18,351.85	22	14	8	63.64	2,188.96	5,066.85	-1,536.70	-3,497.62	1.42	2.49	834.18
5	13,173.88	22	16	6	72.73	1,777.84	4,428.90	-2,545.27	-6,695.61	0.70	1.86	598.81
4	12,647.09	22	17	5	77.27	1,470.42	5,800.13	-2,470.00	-6,719.68	0.60	2.02	574.87
3	2,547.20	22	14	8	63.64	1,342.41	3,641.54	-2,030.82	-5,298.72	0.66	1.16	115.78
2	5,636.88	22	17	5	77.27	898.67	4,479.84	-1,928.11	-8,004.64	0.47	1.58	256.22
1	5,104.21	22	9	13	40.91	961.74	2,860.08	-273.19	-1,140.30	3.52	2.44	232.01

We again see mild results short-term but strong ones when you look out about 3 weeks. Below is an equity curve assuming a 14-day holding period.



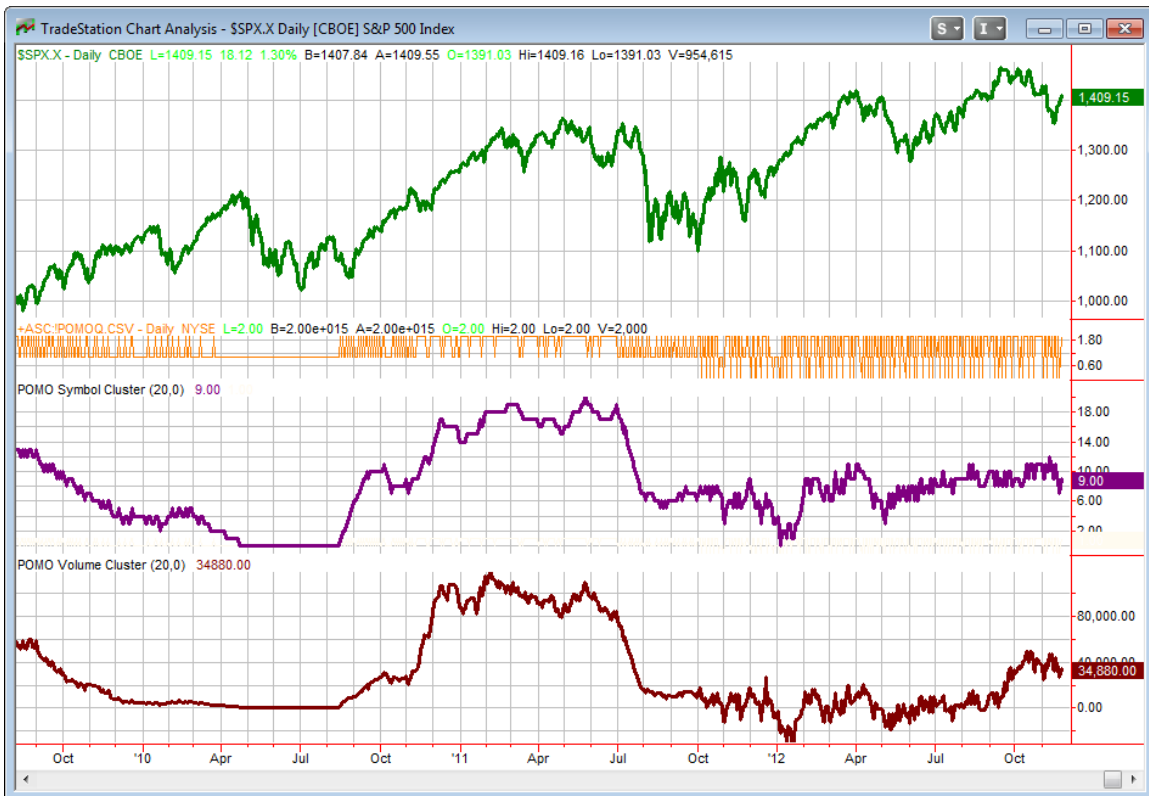
There certainly seems to be ample evidence that Friday's strong breadth is a positive sign for the intermediate-term. I have listed it as a factor on the Active Studies list.

Also interesting is that last week the downside breadth in the form of an elevated CBI triggered an intermediate-term bullish study looking out 4 weeks. Now we have that combined with upside breadth studies saying 3 weeks out we should see higher prices.

I update the intermediate-term POMO/QE3 chart each week. For those not familiar, below is a brief description.

*POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that*

date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS volume indicator is now in the lower half of its expected QE3 range, but still showing sizable inflows. While higher than Operation Twist, levels should remain below those of QE1 and QE2. We estimate there was a net *outflow* of about \$5 billion this past week.

This upcoming week should be especially interesting. Monday – Friday are all scheduled to see inflows. And the net will be a very strong \$25 billion. This will cause the QE Buying Power Index to rise to 3 on Tuesday and Wednesday, and then 5 on Thursday and Friday. Anything 3 or above is considered bullish over the following days.

On Friday the new POMO and the new AMBS schedules will be released. This will allow us to anticipate next month's liquidity flows and produce the QE Buying Power Index for December.

As usual, the Fed will post the new POMO schedule on the following web page:

[http://www.newyorkfed.org/markets/tot\\_operation\\_schedule.html](http://www.newyorkfed.org/markets/tot_operation_schedule.html)

December's scheduled AMBS purchase amount will be published to this web page:

[http://www.newyorkfed.org/markets/ambs/ambs\\_schedule.html](http://www.newyorkfed.org/markets/ambs/ambs_schedule.html)

SPX posted a bit of a turnaround this past week. While it is now overdone short-term, there is decent evidence that higher prices appear likely over the next several weeks. Breadth has provided a number of bullish clues. Liquidity is also anticipated to remain strong. Evidence can swing at any time, but I continue to favor the long side.

### **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 (2<sup>nd</sup> lot)*

*EXC – (\$29.25) – bought 1/3 at limit (3<sup>rd</sup> lot)*

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

*ETR – (\$62.55) – bought 1/3 at limit (1<sup>st</sup> lot)*

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

*ETR – (\$62.28) – buy 1/3 at limit (3<sup>rd</sup> 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.*

*None.*

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
EXC(1/3)	11/15/2012	\$29.31	\$28.57	-2.52%		Catapult
EXC(1/3)	11/16/2012	\$29.24	\$28.57	-2.29%		Catapult
EXC(1/3)	11/19/2012	\$29.25	\$28.57	-2.32%		Catapult
ETR(1/3)	11/20/2012	\$62.55	\$62.04	-0.82%		Catapult
ETR(1/3)	11/21/2012	\$62.49	\$62.04	-0.72%		Catapult
ETR(1/3)	11/23/2012	\$62.28	\$62.04	-0.39%		Catapult

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