

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 27, 2012

Volume 5 Issue 227

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- The unfilled gap down following an unfilled gap up is potentially short-term bearish.
- After 5 days higher the market pulled back today. When the market has been in a similar position in the past the 1-2 week timeframe has been strong.

Short-term Outlook

The Bottom Line

Monday saw mixed action, with large-caps pulling back a little. Evidence is suggesting this pullback should continue another day or so. But strong liquidity is moving into the market and that makes shorting dangerous. Risk/reward simply doesn't seem strong enough for me to take a position.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
November 27, 2012	1 day dn after 5 up	1-9 days	Bullish	2.10%
November 27, 2012	Unfill gap dn after unfill gap up > 200	1-3 days	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	
Active - Long Term				
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	
Dropped Tonight				
November 26, 2012	Monday seasonally weak	1 day	Bearish	

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

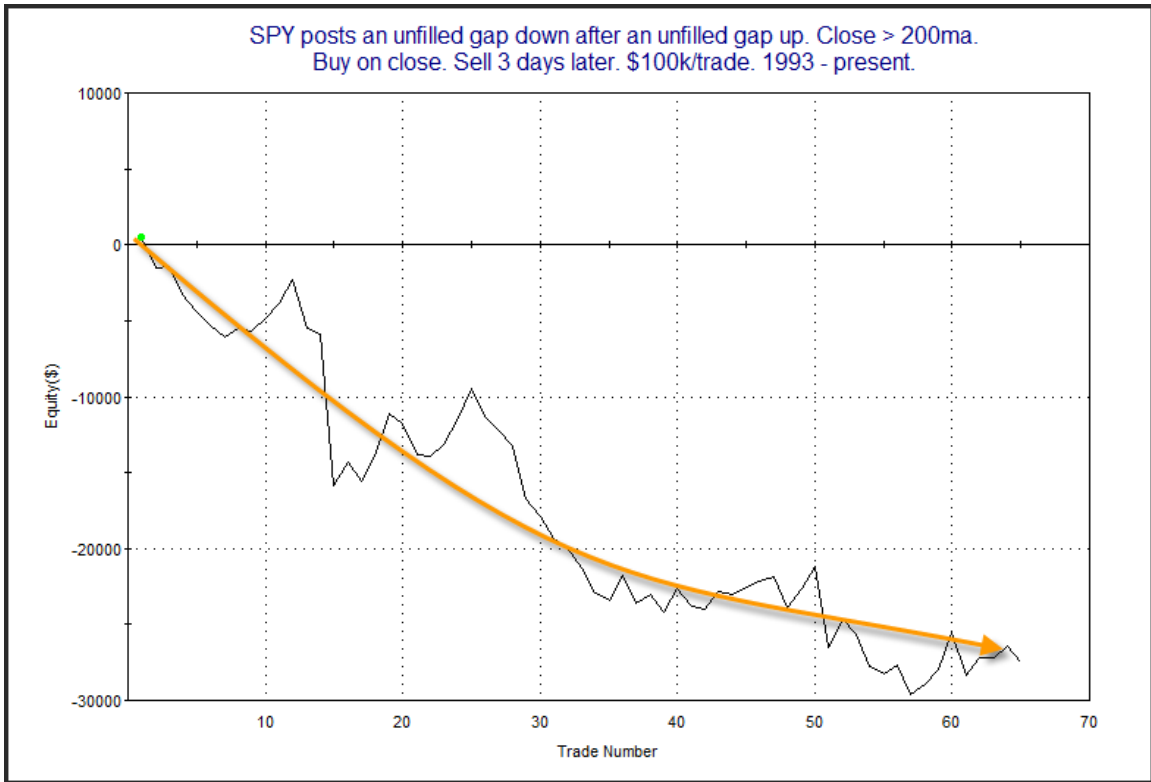
The Evidence

Monday saw moderate trading activity and prices changes. The SPX declined 0.2%, but the Nasdaq was up 0.3%, and the Russell 2000 gained 0.2%. Breadth was weak as the NYSE Up Issues % was 43% and the Up Volume % came in at 38%. Total NYSE volume would have been considered very light if it didn't have the last 2 holiday affected trading days to compare to.

There is a small mix of studies to discuss tonight. First, from the 10/1/12 Subscriber Letter is a study where I looked at other instances that SPY posted an unfilled gap down after an unfilled gap up. I also incorporated a 200ma filter. Updated results for this study can be seen in the table below.

SPY posts an unfilled gap down after an unfilled gap up. Close > 200ma. 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	-12,736.14	62	28	34	45.16	1,527.08	3,949.59	-1,632.19	-5,025.84	0.94	0.77	-205.42
4	-9,377.41	63	27	36	42.86	1,477.33	3,637.58	-1,368.48	-4,926.08	1.08	0.81	-148.85
3	-27,484.25	65	28	37	43.08	1,143.90	2,763.00	-1,608.47	-9,958.80	0.71	0.54	-422.83
2	-21,414.20	66	29	36	43.94	864.59	2,448.00	-1,291.31	-3,893.00	0.67	0.54	-324.46
1	-2,127.04	66	33	32	50.00	586.82	2,812.32	-671.63	-1,960.80	0.87	0.90	-32.23

Results here appear to suggest a short-term bearish edge. I also produced an equity curve.



The edge does not appear as prominent as it once was, but still seems to suggest a downside tendency.

Monday's moderately lower close also triggered some bullish studies that looked at pullbacks after at least 5 consecutive up days. The studies below were last seen in the 7/6/11 Subscriber Letter. I have updated the results.

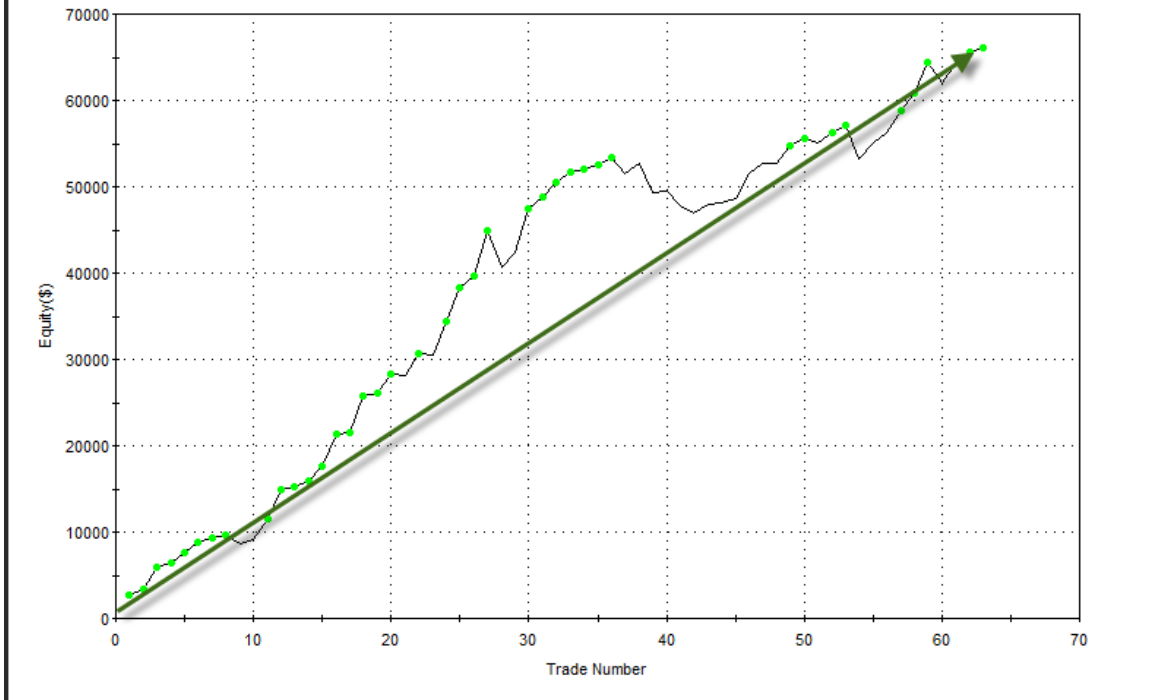
After closing higher for 5 days in a row SPX closes lower but above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1995 - present.

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
10	66,966.48	58	47	11	81.03	1,732.72	5,131.35	-1,315.56	-3,672.90	1.32	5.63	1,154.59
9	66,053.04	63	52	11	82.54	1,651.66	5,196.49	-1,803.04	-4,151.40	0.92	4.33	1,048.46
8	58,416.01	64	44	20	68.75	1,906.29	4,878.08	-1,273.05	-4,874.10	1.50	3.29	912.75
7	44,727.25	65	45	20	69.23	1,600.09	3,874.76	-1,363.84	-3,970.62	1.17	2.64	688.11
6	44,069.79	68	46	22	67.65	1,535.94	4,307.20	-1,208.35	-3,637.71	1.27	2.66	648.09
5	34,238.92	68	45	23	66.18	1,267.61	4,252.50	-991.46	-3,188.16	1.28	2.50	503.51
4	32,129.75	68	43	25	63.24	1,236.25	3,843.00	-841.15	-3,003.39	1.47	2.53	472.50
3	18,643.15	68	43	25	63.24	984.43	2,797.08	-947.49	-2,852.01	1.04	1.79	274.16
2	12,760.91	68	43	25	63.24	837.01	2,480.28	-929.23	-2,614.95	0.90	1.55	187.66
1	6,594.87	68	42	25	61.76	525.89	1,751.19	-619.69	-2,531.86	0.85	1.43	96.98

60 of 68 instances (88%) closed above the entry price at some point in the next week.

Initially there appears to be a moderate inclination for a move higher. Once you get out 9-10 days the upside edge appears very substantial. Below is an equity curve using a 9-day exit strategy.

After closing higher for 5 days in a row SPX closes lower but above the 200ma.
Buy on close. Sell 9 days later. \$100k/trade. 1995 - present.



There's some wiggle here but the periods of pullback have been short and mild. This appears to confirm the bullish edge.

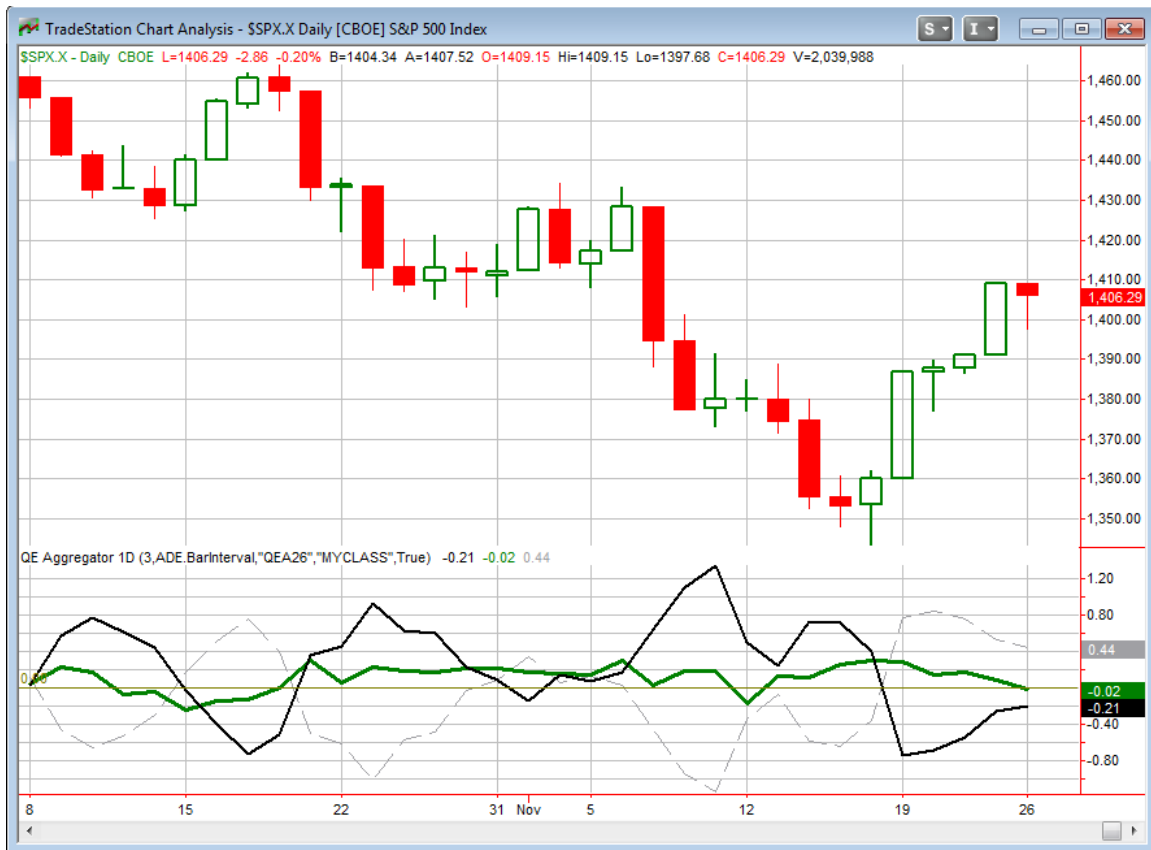
In the 7/6/11 letter I showed times SPX had accomplished the 5 up days without closing at a 50-day high. I have also updated those stats.

After closing higher for 5 days in a row but not at a 50-day high SPX closes lower but > 200ma.
Buy on close. Sell 9 days later. \$100k/trade. 1995 - 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
10	22,073.44	14	11	3	78.57	2,381.04	4,644.11	-1,372.67	-2,964.60	1.73	6.36	1,576.67
9	20,203.33	14	12	2	85.71	2,154.60	5,196.49	-2,825.95	-3,251.34	0.76	4.57	1,443.09
8	19,369.18	14	11	3	78.57	2,287.72	4,770.49	-1,931.92	-4,038.66	1.18	4.34	1,383.51
7	13,111.02	14	12	2	85.71	1,602.36	3,335.92	-3,058.68	-3,970.62	0.52	3.14	936.50
6	12,072.35	14	11	3	78.57	1,748.45	2,736.52	-2,386.86	-3,388.23	0.73	2.69	862.31
5	9,486.32	14	11	3	78.57	1,364.74	2,590.50	-1,841.93	-3,188.16	0.74	2.72	677.59
4	7,884.78	14	10	4	71.43	1,212.13	2,600.40	-1,059.13	-2,494.80	1.14	2.86	563.20
3	4,682.92	14	9	5	64.29	1,226.01	2,797.08	-1,270.24	-2,852.01	0.97	1.74	334.49
2	-1,386.65	14	7	7	50.00	952.60	2,480.28	-1,150.69	-2,455.11	0.83	0.83	-99.05
1	-1,636.03	14	9	5	64.29	356.51	654.48	-968.92	-2,531.86	0.37	0.66	-116.86

The 1st couple of days are iffy, but after that the upside edge appears even stronger than without the filter applied. Of course the number of instances is a bit low, but the market position doesn't appear to raise any red flags. The idea behind this study is that strong moves higher tend to weaken before they roll over. The five days up suggest the move is strong. Since they rarely turn on a dime, this 1st dip is not likely the end of the up move. And in this case the fact that we are not yet at a 50-day high suggests it is not long-term overextended either. I used the broader study to generate estimates for the Aggregator.

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



Tonight's mix of studies allowed the green Aggregator line to dip below zero. Negative readings mean net expectations from the Active List are for downside 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 negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator system to turn from flat to short at the close.

Based on the current studies, expectations are set to remain negative on Tuesday. Of course this could change if bullish evidence emerges. The Differential Pivot will be 1,399.00 on Tuesday. That is about 0.5% below Monday's close. So the SPX would need to close down at least this much in order to move from overbought to oversold versus expectations.

Last night I discussed that while there was a decent chance the Aggregator would trigger a short signal today, I did not have much interest in it. The 2 reasons for that were the high CBI and the [QE Buying Power Index](#), which is set to hit a bullish 3 on Tuesday. As you'll see below, the CBI is no longer high. It fell all the way down to a neutral 3 on Tuesday. Still, shorts have not fared well over the last 5 years when the QE Buying Power Index has been in bullish territory. And with a good amount of intermediate-term

evidence pointing higher, it seems the potential reward on a short right here isn't big enough to worry about the risk. So while I think we could see the market pull back for another day or so here, I'm not inclined to bet money on it.

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

The intermediate-term outlook was last updated in the 11/26 letter. Link below:

[2012-11-26 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

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

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

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

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/1(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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>EXC(1/3)</i>	<i>11/15/2012</i>	<i>\$29.31</i>	<i>\$29.35</i>	<i>0.14%</i>		<i>hit intraday stop</i>
<i>EXC(1/3)</i>	<i>11/16/2012</i>	<i>\$29.24</i>	<i>\$29.35</i>	<i>0.38%</i>		<i>hit intraday stop</i>
<i>EXC(1/3)</i>	<i>11/19/2012</i>	<i>\$29.25</i>	<i>\$29.35</i>	<i>0.34%</i>		<i>hit intraday stop</i>
ETR(1/3)	11/20/2012	\$62.55	\$62.50	-0.08%		Catapult
ETR(1/3)	11/21/2012	\$62.49	\$62.50	0.02%		Catapult
ETR(1/3)	11/23/2012	\$62.28	\$62.50	0.35%		Catapult

EXC was stopped out at the intraday level sent to gold subscribers via email on Tuesday late morning.

It won't take much for ETR to hit its exit target on Tuesday. A little over \$0.20 higher intraday or \$0.10 on a closing basis should do the trick.

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